

Definitely the right Brand of thinking

FORMER City Engineer, Jan Brand, has been doing a lot of thinking since he retired from municipal service a few years ago and after reading the Steyn report on a new rating system for Cape Town he has done his own report.

He admits that he got carried away by the task and the result is a long and detailed document which I found fascinating. Every Councillor should read it.

His views are much closer to those in the Steyn Report (which the present Council and its bureaucracy is doing its damndest to ignore) than to those prevailing at present.

He and Steyn both agree that site rating is the fairest and most efficient way of raising revenue for local authorities but there are differences in their approach. Brand favours going all the way to site rating while Steyn favoured a ratio of 10 to one.

And both of them favour user charges for municipal services and for similar reasons - they want to see a relationship between the cost of a service and the benefits in order to enhance the accountability of the elected councillors.

Both are strong supporters of privatisation and both voiced their concern about the municipal bureaucracy.

On several points Brand goes much further than the Steyn Commission which was, to some extent, bound by its terms of reference. And there are points on which they disagree.

The Steyn report favoured building up a huge capital development fund as Durban has done. Brand argues that this does not make good economic sense as the potential investment returns would be much higher if these resources were in the hands of the private sector.

He has a point. Running a revolving fund to provide for a municipality's own needs is one thing, but simply putting money in the bank to earn interest is another.

He is also concerned that big subsidies from the earnings of the capital fund could lead to the public becoming unaware of the real costs of running their municipality. "Past payments are forgotten and accountability is reduced," he says.

Brand does not favour using profits on the trading services such as electricity and water to subsidise rates because these profits will be subject to VAT

TONY ROBINSON, Editor in Chief of a group of South African newspapers including the Atlantic Sun, urges the Cape Town authorities to re-examine the merits of site value rating.

and put many millions of extra rands into the government's pocket.

This issue was not dealt with in the pre-VAT days of the Steyn Commission but Brand is right. If the money is paid in rates it is not subject to VAT.

(Johannesburg has just realised this and reduced its electricity tariff by 10 percent).

He also appears to accept the argument that essential services like water and electricity should be kept as cheap as possible. This will improve the Cape's attractiveness to industry and help the local economy.

An additional point - and perhaps the most important - is that profits on electricity become a tax substitute and an irresponsible Council could end up treating an essential service like electricity as a cash cow.

The main thrust of the Brand argument however, is directed at moving the rate burden from residential properties to the commercial ones.

At present residential property owners enjoy a healthy rebate on their rates while the owners of commercial properties pay the full whack. But, says Brand, rates are a legitimate business expense and tax deductible in the hands of business. This means that with company tax of 40 percent or more, the Receiver helps to pay a substantial portion of the rates.

In fact, Brand describes this contribution from the Government as a hidden subsidy with no strings attached. It's a nice idea but I have two problems with it. Governments have a terrible history of changing the rules and I feel that if commerce has to carry a bigger burden then they deserve more say in the running of the city.

Brand and Steyn also agree that the present valuations are hopelessly obsolete and that the system is bad. It is both "inefficient and unfair" he says.

But the City Council doesn't care a damn. It's using the same bad old system for the revaluation in the field at present. It's as if they are determined not to learn.