

Municipal Revenue Generation and Informal Settlements: The Case of the Chief Albert Luthuli Local Municipality

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ABSTRACT

Local Municipalities, primarily found in semi-urban and rural areas, traditionally face a very low or non-existent property rate and tax base. This is because of many informal settlements in rural villages, which disempower local municipalities to value the occupied individual land parcels for property rates and tax billing purposes. This paper aimed to assess whether the value created from the formalised properties can translate into property rates that the municipality can bill to generate revenue. The case study approach was adopted, and a case of the former Kangwane homeland and informal village areas in Chief Albert Luthuli Local Municipality was used. Data were collected over eleven months from January to November 2024 through key informant interviews and document analysis. Key informants were purposively selected from Chief Albert Luthuli Local Municipality employees from the Town Planning and Finance Departments and chosen beneficiaries. It was concluded that formalisation does not always translate into increased revenue from property rates generated from upgraded previously informal settlements. This is because most upgraded properties do not qualify to be valued and rated within the prescriptions of the existing municipal property rates legislation and policies.

Keywords: Future trends, Informal settlements, Property rates, ROI

INTRODUCTION

Like in other countries, local authorities have a constitutional mandate in South Africa to provide local public services (Koma, 2010; Madumo, 2015; Ndevu & Muller, 2017). The services included roads, housing, health facilities, water, educational facilities, refuse removal, recreational facilities, and public lighting (Department of Corporate Government and Traditional Affairs, 2009; Ramakhula, 2010; Reddy, 2016; Kgoete, 2022). The same constitution empowers them to raise money to meet this constitutional mandate from residents through several means, but chief among them is property rates (Reddy, 2016).

However, despite the potential of property rates as a lucrative source of revenue for local authorities, collecting these property taxes has been a challenge for many local governments in developing countries (Franzsen & Olima, 2003; Mascagni, Moore & McCluskey, 2014). Accordingly, the inability to maximise revenue collection from property tax is attributed to tax gaps, which include tax evasion (Mascagni, Moore & McCluskey, 2014).

South African local authorities receive a substantial percentage of their revenue from property rates (Bell and Bowman, 1997; Bahl, 2001), but many authors have concluded that they are facing the same situation of failing to fully convert the potential property tax into revenue (De Visser, 2013; Molobela, 2016; Shava, 2020; Kgoete, 2022).

De Visser (2013) and Shava (2020) explained further that some rural authorities are expected to collect property tax from rural communities experiencing high poverty levels. Kingwill et al. (2006) report that increased unemployment and poverty characterise informal settlements in South Africa. Some households in most African countries live below the poverty datum line, and as they are struggling to make ends meet, expecting them to pay property tax might be asking too much (Department of Corporate Government and Traditional Affairs, 2009; Moore, 2013; Masuku and Jili, 2019).

As Molobela (2016) noted, South African local authorities are also faced with property tax aversion. The author mentioned that some residents who can afford to pay rates are not paying, as they take advantage of the weak local governance system, which fails to enforce tax laws.

De Visser (2013) explains that withholding property tax is a protest behaviour. According to Ramakhula (2010), in some South African local authorities, some property taxpayers have expressed their dissatisfaction with the continued failure of local authorities to provide sustainable living environments. De Visser (2013) and Reddy (2016) further explain that service delivery protests have increased recently, some of which have turned violent. Residents protest the poor delivery state of service, as some local authorities fail to provide basic services like water (De Visser, 2013; Shava, 2020).

Venter et al. (2025) concluded that local authorities were losing a lot of property tax revenue because of a lack of synchronisation of spatial data from the survey, deeds registry, and valuation rolls. As a result, the author argued that some properties were not captured in the property databases of the local authorities and, as a result, were not levied for property taxes.

This view tends to ignore the socio-economic realities of residents of informal settlements. Yet, the inefficiency of property collection rates in these areas raises critical questions about governance and public service delivery. Some scholars believe that upgrading informal settlements is the answer to this challenge, as it can increase municipal rates (Kingwill et al., 2006; Byamugisha, 2013; Magina et al., 2020). However, it must be noted that informal settlements, especially in rural local authorities in South Africa, are characterised by increased levels of unemployment and poverty (Kingwill et al., 2006).

LITERATURE REVIEW

Upgrading of formal settlements involves the facilitation of legal representation in the form of title deeds, licenses, permits or contracts to individual property owners, and this process must be provided for in the legal frameworks of national governments (Kingwill, 2006; Ali et al., 2017; Magina et al., 2020).

The main aim of formalisation in informal settlements is to formalise the existing informal rights to the land occupied by existing occupants as well as to ensure the security of tenure (Kingwill, 2006; Ali et al., 2017; Magina et al., 2020; Valkonen, 2021). Amongst other significant factors that come about because of formalisation is the increase or creation of value in property (Byamugisha, 2013). Based on the above, one can therefore argue that this value creation phenomenon in property enables local municipalities to charge property rates.

Historically and recently, many scholars have based their arguments for or against the formalisation of informal settlement areas, which has had some implications on how occupants or individuals relate to property or land. Kingwill (2006), Bromley (2008) and Magina et al. (2020) all derive their arguments and debates from the work of Hernando de Soto in his book, 'The Mystery of Capital'.

According to de Soto as cited in Gilbert (2002), Kingwill (2006), Bromley (2008) and Magina et al. (2020), the formalisation of land, as well as informal property rights can be leveraged as a form of wealth creation vehicle for the poor in the form of land, houses and small businesses as a form of livelihood. In other words, Bromley (2008) interprets De Soto's argument that formalisation results in the security of tenure, resulting in the title beneficiaries' improved financial and economic means. This is one of the oldest-held economic arguments advanced as a case for the advantages of formalising informal settlements and property relations in poverty-stricken contexts.

It is argued that beneficiaries of title to their property will be able to gain access to official sources of credit from financial institutions, as this allows them to utilise their property as a form of collateral to either start a small business as a form of livelihood, upgrade their property and to channel their credit access to other wealth creation streams (Bromley, 2008). In other words, the above-mentioned situation allows owners of title to alleviate poverty and access financial vehicle sources for their subsistence (Bromley, 2008).

However, Bromley (2008) cautions against the stance that the formalisation of tenure, which requires the issuing of title deeds to those who are informal occupants such as squatters, slum dwellers and occupants under communal tenure, will automatically result in the creation of wealth as envisaged by De Soto. Based on the above, one theoretical fact remains true as far as property is concerned, the possession of a title deed or ownership of property only has value when exchanged (Bromley, 2008).

According to Bromley (2008) and Magina et al. (2020), formalisation of informal settlements, including providing title deeds to occupiers, does not guarantee access to credit from financial institutions. This is true even if their properties are used as collateral against the value created. Furthermore, Bromley (2008) emphasises the traditional requirements of the global finance

and credit lending system by arguing that a secure income stream and a clean and positive credit record are key qualifying prerequisites to accessing credit finance.

As argued before, formalisation does not always achieve economic and financial empowerment for the poor occupiers who become beneficiaries of title deeds (Kingwill, 2006; Bromley, 2008; Magina et al., 2020). According to Bromley (2008) and Magina et al. (2020), formalisation threatens the existing social networks and flexible living arrangements, which offer some form of security to the occupants, no matter how informal.

Proponents of this school of thought argue that formalisation is not the only solution and will not always yield beneficial outcomes for the beneficiaries of such programmes if such context-specific social networks and arrangements are poorly understood (Bromley, 2008). Based on this notion of the public interests, providing room for the involvement and active participation of the affected community should take precedence when it comes to formalisation or regularisation programmes.

Kingwill et al. (2006) and other anti-formalisation proponents argue that tenure security due to formalisation is only valuable for the elite and middle-income groups who can afford to leverage financial shocks or risks and participate in the property market. For the poor and financially vulnerable residents, on the other hand, it is asserted that formalisation may have the opposite and negative effect by plunging them further into poverty (Kingwill et al., 2006).

METHODOLOGY

The paper adopted a case study of Elukwatini Extension 4, situated within the former Kangwane Homeland, under the Chief Albert Luthuli Local Municipality. This area is an upgraded former informal settlement which was formalised by the Local Municipality and registered in 2004. This settlement comprises of two types or categories of households, those who are unemployed nor economically active and who form part of the municipality's Indigent Register as per the Chief Albert Luthuli Local Municipality's Indigent Policy, as well as those who are employed or economically active and who can afford to pay for rates and services provided by the municipality.

Data were collected through key informant interviews and document analysis. Two key informants were purposively selected from Chief Albert Luthuli Local Municipality employees from the Town Planning and Finance Departments. This was augmented with data collected through the archival approach. These included the township General Plan for Elukwatini-G-Extension 1 obtained from the web-based cadastral document repository of the Mpumalanga Chief Surveyor General's Office. Furthermore, township registers were obtained from the Deeds Registry Office through email, representing a database of the individual title ownership of all the erven (stand/plot) within the study area. Also, the rate payers' account registers as well as the indigent register were requested from the local authority.

Content analysis was used to analyse data from the literature survey, and thematic analysis was used to analyse data collected through key informant interviews.

RESULTS

It was established that the municipality can only levy property rates in formally established and proclaimed settlements, which are classified as rateable properties in terms of the Local Government: Municipal Property Rates Act, No. 6 of 2004 (MPRA). On the other hand, the land parcels within informal rural settlements are classified as unrateable properties, which means that municipal property rates and taxes cannot be levied. This is where the differences in the municipal rates billing of both informal rural settlements and formal urban settlements come in, hence the emphasis on the formalisation and proclamation of informal settlements to the latter, as in the case of Elukwatini-G Extension 1.

Furthermore, it was established from KI1 that informally subdivided, and sometimes surveyed erven cannot be registered with the Deeds Registries Office. This, in turn, means that these properties can neither be assessed nor billed for rates and taxes by the local municipality.

Another key informant highlighted that potential revenue from property rates is often not realised due to most of the population being impoverished and unemployed, and therefore not able to pay property rates billed by the municipality. This supports the findings of Kingwill et al. (2006), who concluded that some residents cannot afford rates and taxes due to unemployment and high poverty. As such, the local authority often does not recover the cost of providing basic services, such as water, road repairs, and sanitation.

Figure 1 presents the realised revenue and the outstanding debt from defaulting account holders.

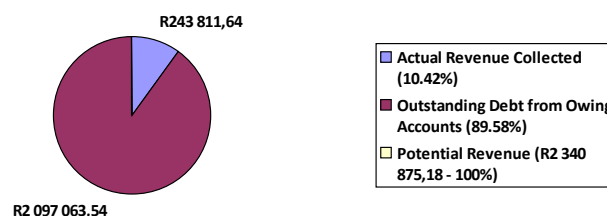


Figure 1: Revenue collection rate against unpaid rates at the end of October 2024.

Concerning Figure 1, the actual revenue of R243 811.64 collected against the outstanding debt from owing accounts of R2 097 063.54 as at October 2024, when compared with the potential revenue of R2 340 875.18, this means that the municipality is significantly under-collecting in this study area.

KI2 believed that the non-payment of municipal property rates and service charges might be attributed to the fact that most residents do not have municipal accounts. The same key informant elaborated that most properties are still within the municipality's ownership and therefore have no individual ownership title registered in the names of the residents.

The MPRA clearly states that legal property ownership is an essential prerequisite for levying municipal property rates. However, the fact that the municipality can collect some revenue, as presented in Figure 1, indicates that the formalisation of Elukwatini-G Extension 1 has created some form of revenue base for the municipality.

KI1 and KI2 concurred that some residents are paying, while most are not. This corroborates data from documents showing the collection rate is 10.42%, far below the acceptable benchmark of 50.3% as prescribed by the National Treasury. KI1 pointed out that the municipality has the potential to collect between 30% to 40%. However, the same key informant lamented that the local authority is currently struggling to realise this potential revenue.

Figure 2 presents the total rateable and unrateable properties in the study area.

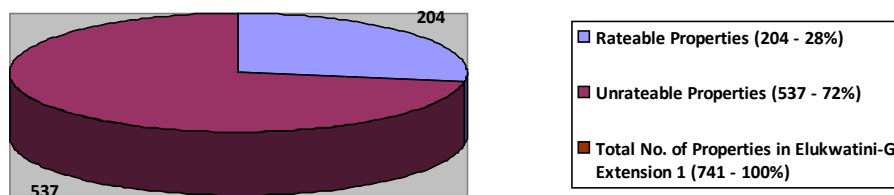


Figure 2: Extent of rateable against unrateable properties in Elukwatini G-Extension 1.

As shown in Figure 2, Elukwatini-G Extension 1 comprises 741 erven/properties. Contrary to the findings of Venter et al. (2025), it was established that there was a synchronisation between data from the local authority, Surveyor General's and the Deeds Registry offices. However, from the billing accounts data obtained from the municipality, only 204 properties, 28% of these properties, were rateable. This, therefore, means that there are 537 unrateable properties, approximately 72% of the properties consisting of the settlement.

Figure 3 presents the rate-paying households and registered indigent households that cannot afford to pay their rates within Elukwatini-G Extension 1, as a percentage of the number of registered account holders.

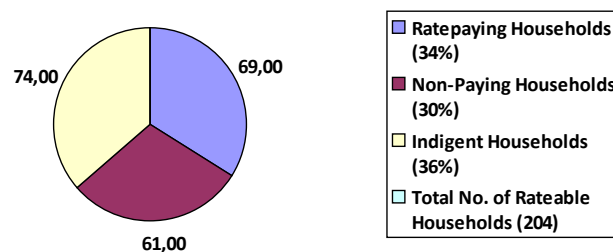


Figure 3: Extent of ratepaying households against registered account holders.

Regarding Figure 3, 74 of the households, which represent 14% of the unrateable properties, are registered indigents who cannot afford to pay for municipal rates and taxes regarding the Chief Albert Luthuli Indigent Policy 2024/2025. This confirms the findings of the Department of Corporate Government and Traditional Affairs (2009), Moore (2013), and Masuku and Jili (2019), who pointed out that affordability is a challenge due to high poverty in rural municipalities.

Furthermore, out of the 204 rateable properties in the study area, only 69 households are regular payers, representing 34% of the rateable properties. This can be attributed to a protest by rate payers for lack of some basic services as noted by Ramakhula (2010), Reddy (2016), De Visser (2013) and Shava (2020). Both key informants confirmed that the municipality only supplies water to the community of Elukwatini-G Extension 1.

Another possible explanation is that non-paying qualified rate payers are just maximising on existing gaps caused by weak local governance system and evading paying rates as pointed out by Molobela (2016) and Mascagni, Moore & McCluskey (2014).

CONCLUSION

It was concluded that formalisation does not always translate into increased revenue from property rates generated from upgraded previously informal settlements. This is because most upgraded properties do not qualify to be valued and rated within the prescriptions of the existing municipal property rates legislation and policies. Due to the complexity of the subject under study, it is recommended that further research be done which include other key governmental and parastatal institutions such as the office of the Auditor General of South Africa, the National Department of Treasury, the Department of Land Reform and Rural Development, the Department of Cooperative Governance and Traditional Affairs, the National House of Traditional Leaders, the Chief Surveyor General's Office, as well as the National Deeds Registries Office.

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