

NATIONAL DEVELOPMENT CHARGES POLICY FRAMEWORK

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

OUTLINE OF THE PRESENTATION

- Economic growth and infrastructure
- Financing of economic infrastructure

Development charges

- *Legal framework and principles*
- *Processes of developing DC policy framework*
- *Proposed new approach*
- *Timelines of finalising the process*

Economic growth and infrastructure needs

NDP

- Key objectives are Inclusive economic growth, job creation and poverty eradication
- This require that municipalities play critical role of providing functioning infrastructure

Economic Growth

- Large urban areas/cities play critical role in facilitating inclusive growth and agent of spatial transformation- they are therefore the engine of growth

Challenges faced by cities

- Disproportionate population growth resulting in increased demand for services
- Cities also have historic service backlogs
- The infrastructure are ageing, overloaded and often congested

Infrastructure Impact

- Maintenance and expansion of infrastructure has failed to keep pace with the demand
- To ensure sustainable growth & development, investment in new infrastructure and replacement of ageing ones is critical

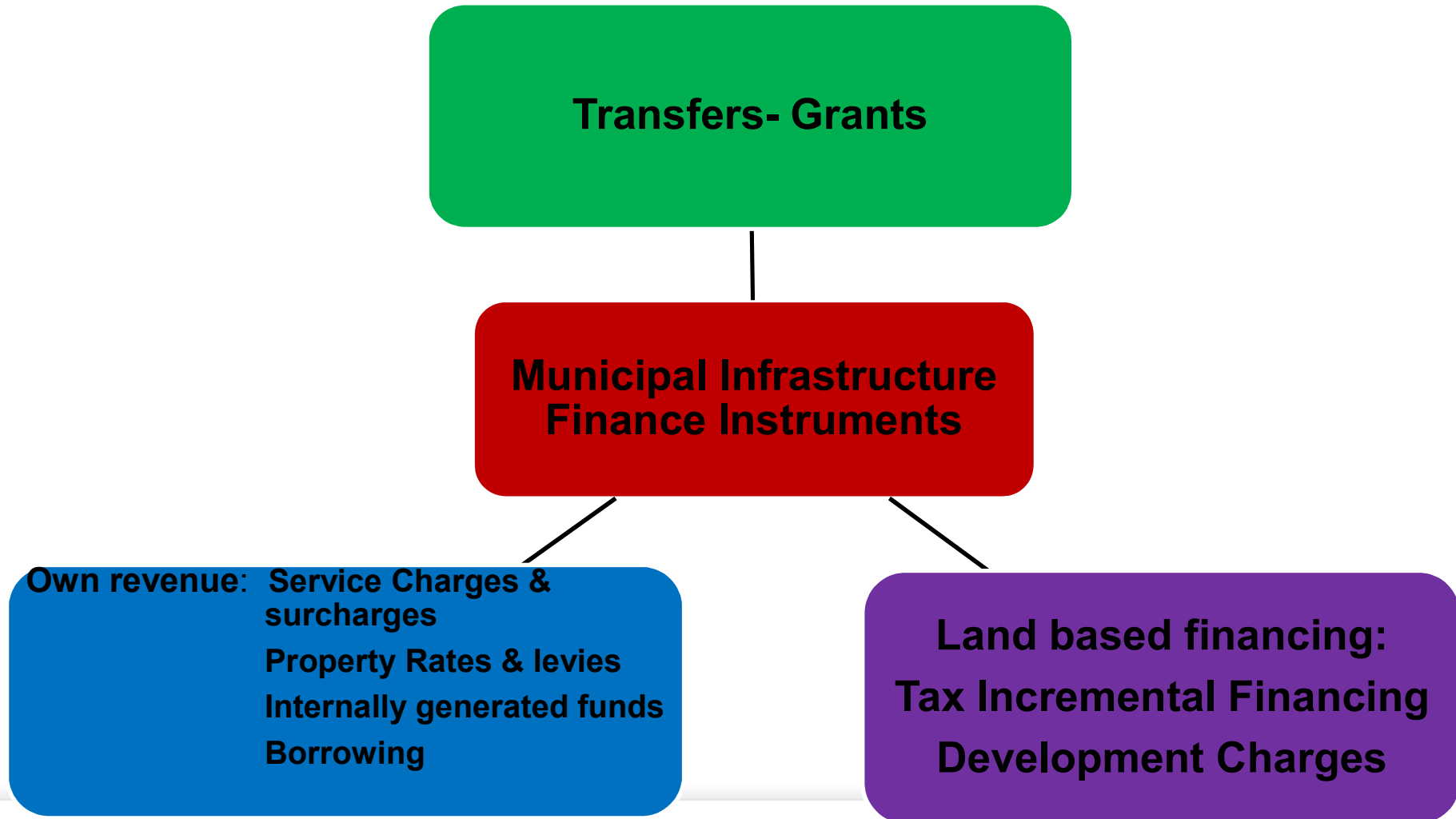
Infrastructure Investment

- Economic infrastructure to support growth and urban spatial transformation cannot be funded by government grants alone
- Investment partnerships with private sector is therefore critical

Infrastructure needs

- 2009 World Bank study revealed that R270bn was required over 10 years for backlog, rehabilitation and growth infrastructure
- Of this amount R120 was required for growth

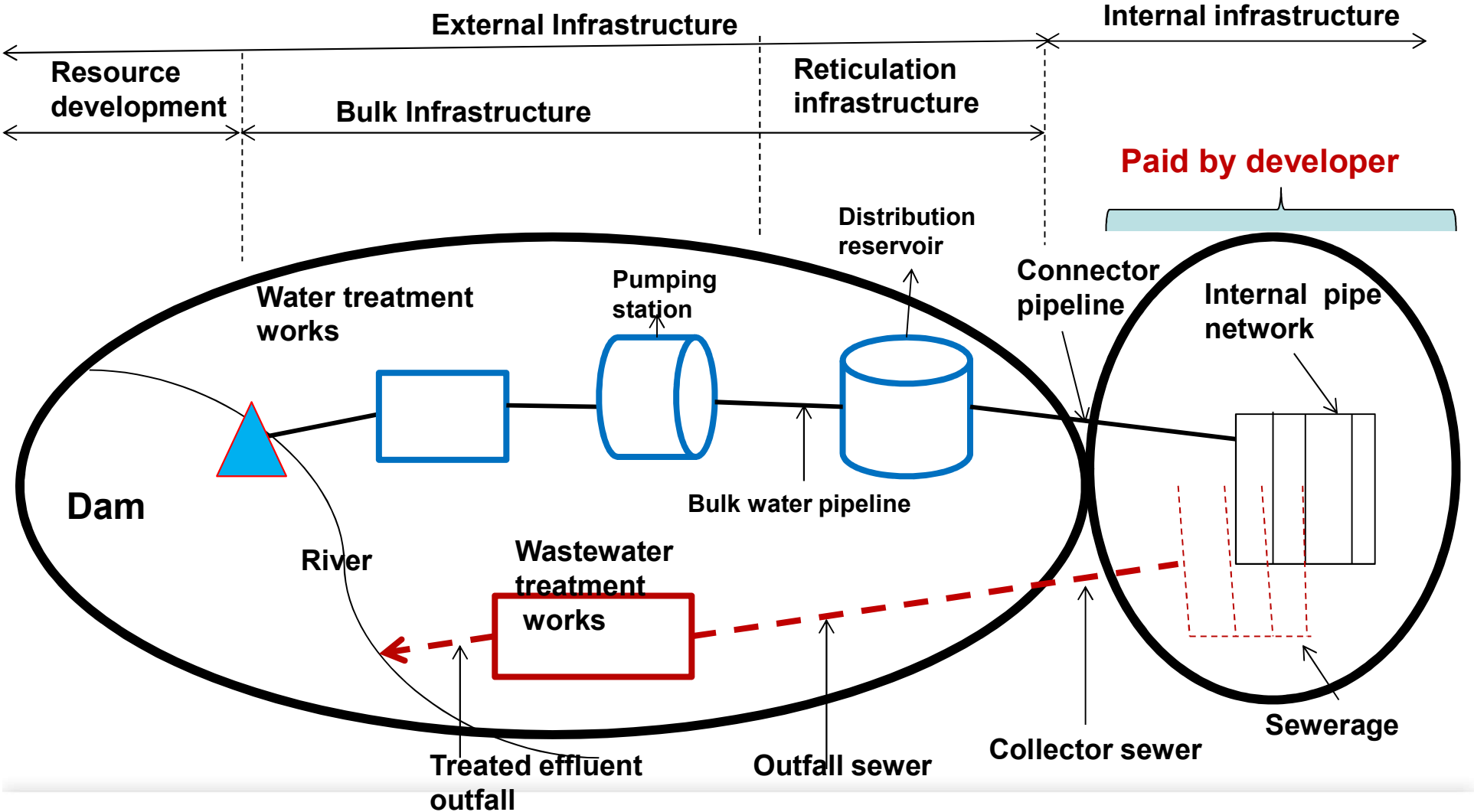
Municipal infrastructure financing instruments



Development charges

- While government continues to support municipal infrastructure development eradication through grants, municipalities must mobilise own resources to rehabilitate existing infrastructure and development of new infrastructure to unlock economic growth
- Development charge is one instrument that can be used by municipalities to finance strategic infrastructure
- Although they have been introduced in SA in 1980s, they have not been effectively used by municipalities due to :
 - Uncertainty on their legal status
 - Basis of calculation
 - Usage of associated revenues

Development charges components/principle (example of water and waste water treatment works)



Legal framework of development charges

Constitution of the republic of South Africa

- Section 229 of the Constitution empowers municipalities to impose rates on property, charges and surcharges on fees provided by or on behalf of the municipality

Provincial Ordinances

- Various Provincial Ordinances make provision for the levying of development charges
- Reporting and accountability for the proceeds proved to be challenging- usually recorded as contribution

Spatial Planning and Land Use Management Act

- SPLUMA assumes the existence of development charges in sections 49(4) and (5).
- Section 40(7)(b) of SPLUMA specifically empowers municipalities to approve land development applications subject to conditions, one of which is that development charge be paid

Municipal Fiscal Powers and Functions Act

- Is being amended to regulate the levying of development charges

NB: the existing legislation do not take into consideration the unique nature of DCs (they have characteristics of both a charge and a tax) and do not provide details on how they should be levied, hence the amendment to the MFPFA

Principles of the Development Charges draft policy framework

Equity and Fairness

- Development charges should be reasonable, balanced and practical so as to be equitable to all stakeholders

Predictability

- Development charges should be a predictable, legally certain and reliable source of revenue to the municipality for providing the necessary infrastructure

Spatial and economic neutrality

- A primary role of a system of development charges is to ensure the timely, sustainable financing of required infrastructure. They should be determined on identifiable and measurable costs to avoid distortions in the economy and patterns of spatial development

Administrative ease and uniformity

- The determination, calculation and operation of development charges should be administratively simple and transparent

Processes of amending the MFPFA

Development Charges Policy framework process

- To deal with legislative challenges, National Treasury in consultation with metros developed a National Policy Framework on Development Charges
- Draft Policy Framework was extensively consulted with stakeholders such as sector departments (Transport, Dept of Environmental Affairs, DCoG, DWAS), SALGA, FFC and SAPOA
- The consultation processes and interactions with municipalities that are already levying DCs revealed that the DC concept is complex and that further work was required to inform the draft policy updates
- A study was commissioned and the policy was updated. Parallel to the policy update a draft MFPF Amendment Bill was also developed
- In terms of the new Cabinet resolution- SOCIO impact analysis was done and report was submitted to DPME for consideration
- DPME raised concerns with regard to running two parallel processes (development of the policy and amendment of the MFPFA)

What is new in the new Amendment Bill

Clearly define DC *irt* external and internal bulk infrastructure

- The current legislation (SPLUMA) distinguish between the two. This may be subjected to municipalities' description to decide and further perpetuate challenges of transparency

Set out the principles for calculation of the DC

- Further guidelines on specific sector infrastructure are being developed- other sectors (such as transport and energy) are well advanced with the methodologies of calculating DC.
- Ensure that the existing methodologies are in line with the broader principles of DC

Provide flexibility on payment of the DC

- Monetary contribution
- In-kind: a developer installs infrastructure on behalf of the municipality based on the norms and standards to be determined by a municipality. This includes setting out principles to be followed

Provide flexibility for municipalities to provide rebates and exemptions

- Based on the municipal DC policy and by-law

Clarify the reporting and accounting principles of the proceeds from the DC contributions

Benefits resulting from a new Framework on development charges

Benefits to municipalities

- Enhance the revenue streams for financing strategic municipal infrastructure which will enable municipalities to contribute towards the strategic priorities of government.
- Uniformity across municipalities on the application of development charges which will eliminate unfair competition/and or treatment of developers.
- Minimise litigations in the administration of development charges.
- Municipalities are able to provide infrastructure in a timely and sufficient manner to support land development.

Benefits to developers

- Development charges are managed in a manner that promotes:
 - ✓ *Predictability*- They enable developers to accurately estimate their liabilities and hold municipalities to account for the timely delivery of required infrastructure.
 - ✓ *Fairness*- ensure that the developers pays only for the infrastructure investments which they benefit from.
 - ✓ *Transparency*- They ensure equitable and transparent allocation of the costs of the infrastructure installed and its quality.
- Development charges unlocks development

Timelines for finalisation of the amendment of the MFPFA

Activities to be undertaken	Stakeholders to be consulted	Timeframes
Refine the draft MFPF Amendment Bill, Memorandum of Objects and submit the Final Socio-Economic Impact Assessment to the Department of Monitoring and Evaluation	Clusters: Governance and Administration(G & A cluster) The Economic Sectors, Employment and Infrastructure Development (ESEID cluster)	July 2017- October 2017 <i>This process is on track</i>
Requesting approval from Cabinet to publish the Amendment Bill for public comments	Municipalities Developers Sector Departments NEDLAC General Public Other interested stakeholders	November 2017- January 2017
Consolidation of inputs and comments received to refine the draft MFPF Amendment Bill	NT	February 2018
Request approval from Cabinet to submit MFPF Amendment Bill for Parliament approval	NT	March– April 2018
Tabling in Parliament		May 2018

Conclusions

THANK YOU