

# NATIONAL DEVELOPMENT CHARGES POLICY FRAMEWORK

National Treasury: 09 March 2016



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# OUTLINE OF THE PRESENTATION

- Economic growth and infrastructure
- Financing of economic infrastructure
- Need for development charges
- Legal framework and principles
- Development charges application
- Way forward- processes of finalising the draft policy

# Economic growth and infrastructure needs

## NDP

- Key objectives are Inclusive economic growth, job creation and poverty
- 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 demanding 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

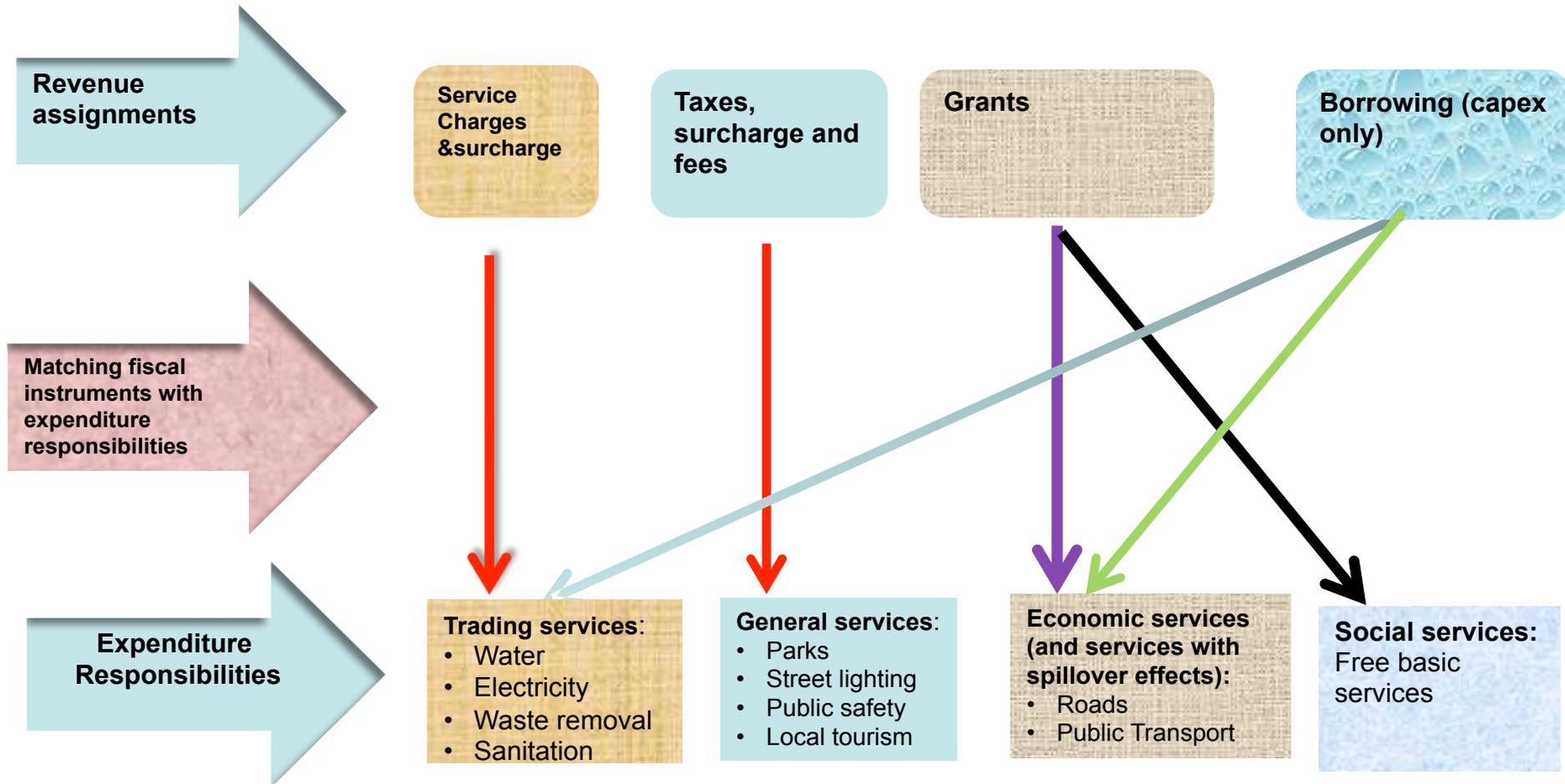
## Infrastructure Investment

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

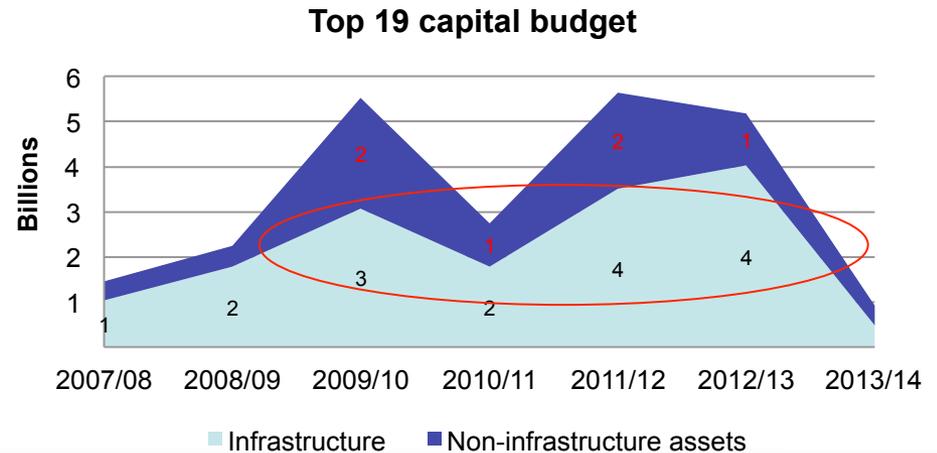
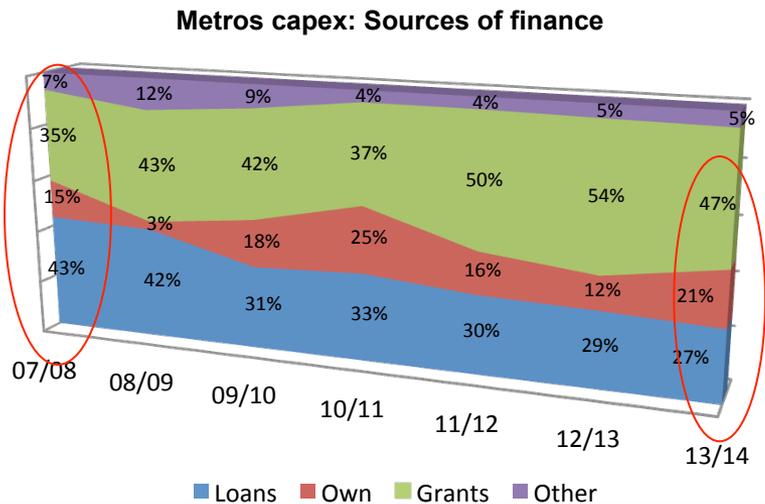
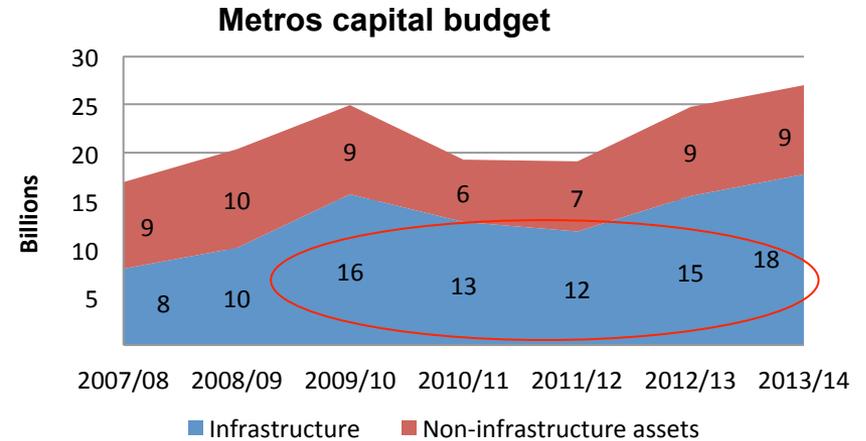
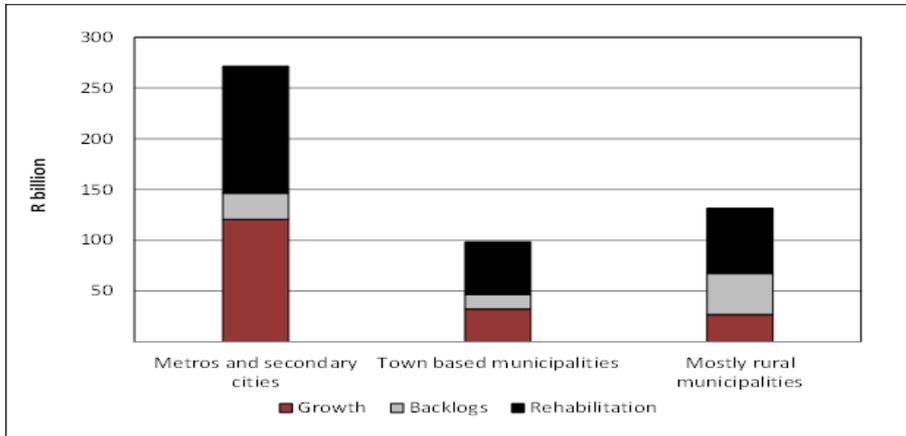
## Infrastructure needs

- 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

# Financing of municipal services



# Need for development charges



# Need for 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 charges 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
- To deal with these challenges, National Treasury developed a National Policy Framework on Development Charges

# Legal framework of development charges

## Constitution of the republic of South Africa

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

## Municipal System Act

- In terms of section 75A of the Municipal Systems Act, municipalities have the power to levy and recover fees, charges or tariffs in respect of any function or service provided by municipality

## Spatial Planning and Land Use Management Act

- SPLUMA assumes the existence of development charges in sections 49(4) and (5).
- Section 43 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

- Chapter 3A of the draft MFPP Amendment Bill to provide regulations for development charges

# Development charges draft framework contents

## ***Are development charges a new tax***

- Development charge is not a tax but a once-off infrastructure access fee imposed by a municipality on the developer as a condition of approval of a land development that will result in an intensification of land use and an increase in the use of or need for municipal engineering services infrastructure
- They are designed to reflect as closely as possible a user charge
- They are only associated with the development process, covering the costs of the initial installation of bulk infrastructure for economic growth (social infrastructure if funded through grants)
- They do not cover the on-going operating costs of associated services or the costs of the rehabilitation or replacement of this infrastructure

## ***How are development charges imposed and who is liable for payment***

- Development charges are imposed by a municipality to recover the cost of providing external engineering services
- The developer is liable for the payment of development charges as a condition of getting the land development application approval

***NB: the installation of internal engineering services is the responsibility of the developer***

# Principles of the Development Charges draft 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 urban infrastructure. They should be determined on identifiable and measurable costs

## **Administrative ease and uniformity**

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

# Benefits of development charges

- Development charges 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.
  - **Timeous** provision of infrastructure
  - Development charges unlocks development

# Scope and extend of development charges

- Development charges should be limited to infrastructure that a municipality has a direct responsibility to provide
- To ensure that municipalities are able to administer this source of revenue, the initial targeted key services are:
  - Potable water provision
  - Sewerage collection and treatment
  - Electricity distribution
  - Municipal roads and associated infrastructure
  - Solid waste disposal (landfills, transit stations)
- Development charges do not include costs of assessing development application and costs of environmental compensation that may be determined through EIAs

# Calculation of development charges

- Development charges are calculated to approximate the actual costs of the related external engineering service infrastructure
- The following principles will apply:
  - *DC is based on the estimated share of the municipal network design capacity to be utilised by the developer/applicant*
  - *Total impact of development must be expressed in terms of the unit cost per relevant infrastructure unit*
  - *DC quantifies the once-off capital cost of the infrastructure capacity required by the development*
- Detailed guidelines on the principles of calculating DC will be issued in terms of the Municipal Fiscal Powers and Functions Act
- Appropriate methodology of calculating DC for each engineering service will also be clarified in the **implementation** guidelines **to be issued by National Treasury**

# Development charges contribution and method of payment

- The payment for development charges can be made either as a monetary contribution or
- In-kind payment where the developer installs infrastructure on behalf of the municipality- this must be done in line with the norms and standards to be determined by a municipality
- Where the developer makes in-kind contribution- must adhere to the technical norms and standards set by the municipality.
- To ensure transparency and accountability, a municipality that impose development charge must create a development charge fund to manage the revenue from this source

## ***Other provisions***

- Municipality must develop a by-law and development policy for imposing development charges
- Municipality may provide exemption and rebates for certain types of development/developers- in line with the municipal policy on development charges

# Issues raised by key stakeholders during informal consultation

- The major concerns that have been raised with the DC calculation can be divided into three issues:
  - *the treatment of 'non-bulk' external infrastructure;*
  - *the treatment of loan-funded infrastructure; and*
  - *the calculation formula*

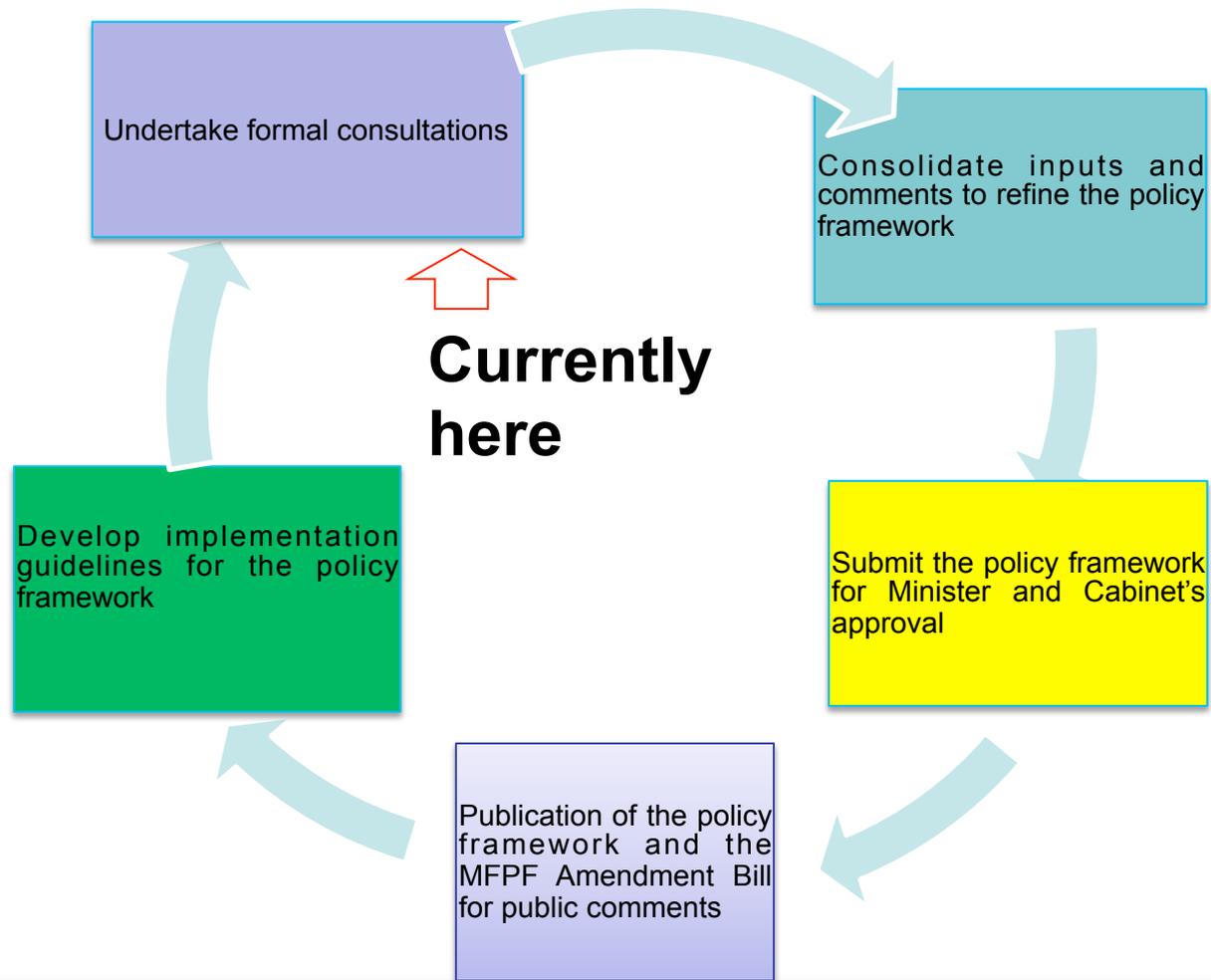
## ***Non-bulk external infrastructure***

- What is the difference between bulk and link and who decides?
- What if the (minimum required) link infrastructure will serve more than one development in future?
- What if the municipality requires link services in excess of the minimum requirement?

## ***Calculation of the formula***

- Proposed generic methodology for a municipality to follow

# Process of finalising the draft policy framework



# Process towards the finalisation of the DC policy

Activities to be undertaken	Stakeholders to be consulted	Timeframes
Submitting the 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)	Currently busy with completing the SEIAS  June-July 2016
Requesting approval from Cabinet to publish the draft policy and Amendment Bill for public comments	Municipalities Developers Sector Departments NEDLAC General Public Other interested stakeholders	August- September 2016
Consolidation of inputs and comments received to refine the policy	NT and our project partners	September 2016
Request approval from Cabinet to submit the policy and Amendment Bill for Parliament approval	NT	September 2016
Tabling in Parliament		September- October 2016

# Conclusions

- Questions and discussion