


MUNICIPAL FISCAL POWERS AND FUNCTIONS AMENDMENT BILL (FAQs)



<p>What is a Development Charge?</p> <p>A development charge is a once off charge levied by a municipality on the land owner as a condition for approving land development application. They are imposed to cover the costs incurred by the municipality when installing new infrastructure or upgrading an existing infrastructure.</p> <p>Why does South Africa need a national framework for levying municipal development charges?</p> <p>The Bill seeks to regulate the power of municipalities to levy development charges in respect of a land development application submitted to the municipality in terms of the Spatial Planning and Land Use Management Act, 2013, or a municipal planning by-law. The Bill serves to bring about a more standardised, equitable and sustainable framework for financing the strategic municipal infrastructure, based on the benefit principle.</p> <p>What are the challenges with the application of development charges currently?</p> <p>Development charges are not effectively used as a source of capital finance by many municipalities due to uncertainty on their legal status; basis for calculation; and usage of associated revenues.</p> <p>These challenges result in profound negative economic impacts such as under-investment in municipal infrastructure and unfair charging of existing residents for the expansion of infrastructure networks while providing a windfall benefit to property land owners who don't pay.</p> <p>Is development charge a new tax?</p> <p>No, a development charge is neither a tax nor a new revenue source for municipalities but rather an existing charge levied to recover costs incurred by the municipality when providing infrastructure services.</p>	<p>How is a development charge imposed and who is liable for paying development charge and what is the payment method?</p> <p>Development charge is imposed by the municipality on the land owner in order to recover the cost associated with providing external engineering services (i.e. both bulk and link engineering services) required for the proposed land development.</p> <p>The land owner is liable for the payment of a development charge as a condition of getting the land development application approval.</p> <p>The payment for development charges can be made either as a monetary contribution or in-kind payment where the land owner installs infrastructure on behalf of the municipality.</p> <p>Will the poor be liable for the payment of development charges?</p> <p>The infrastructure for servicing poor households is funded from by the fiscus through conditional grants transfers. Therefore, development charges will not have impact on the poor.</p> <p>How is development charge calculated?</p> <p>A development charge is calculated to approximate the actual costs of the related external engineering services. Although there are different</p>	<p>Which municipal engineering services are funded from development charges</p> <p>Development charges cover costs associated with the provision of municipal engineering services outlined in SPLUMA such as:</p> <ul style="list-style-type: none"> the provision of water, sewerage, electricity, municipal roads, storm water drainage, gas and solid waste collection and removal. <p>What will the revenue received from development charges be utilised for?</p> <p>The revenue derived from development charges must be used to cover the actual costs associated with the provision of essential engineering services to a land development.</p> 	<p>Can development charges be used to pay for operating costs or costs associated with maintenance, repairs or rehabilitation of infrastructure?</p> <p>No, development charges are limited to capital costs for new infrastructure and upgrading of existing infrastructure.</p> <p>Do development charges cover both the cost of internal and external engineering services?</p> <p>No, development charges cover the cost of external engineering services (i.e. bulk & link engineering services).</p> <p>NB: Provision and operation of external engineering services lies with the municipality. NB: Provision and operation of internal engineering services lies with the land owner.</p> <p>Who benefits from development charges?</p> <p>Municipalities: Given the significant demand for municipalities to prioritise investment in economic infrastructure and taking into account that operating surpluses together with fiscal transfers are not sufficient to support growth and urban spatial transformation, the development charges policy framework will enhance the revenue streams for financing strategic municipal infrastructure which will enable municipalities to contribute towards the strategic priorities of government by providing infrastructure in a timely and sufficient manner.</p> <p>The Land owners: Due to various legislation currently regulating development charges, (e.g. provincial planning ordinances) there are different interpretations with regard to variables that must be considered when calculating the development charges liability. Therefore, having a national policy framework for development charges will ensure that the development charge liability is imposed in a predictable, fair and transparent manner.</p>
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How will municipalities be supported to implement the MFPFAB?

Once the draft MFPFA Bill is enacted, National Treasury will develop regulations and implementation guidelines with regard to development charges intended to assist municipalities with the implementation of the legislation once it's finalised and approved. National Treasury will also provide training to municipalities (through capacity building initiatives) to ensure that they are equipped with the necessary skills and tools to successfully implement the MFPFAB.

When will the MFPFAB take effect

A municipality which levies development charges in terms of a pre-existing policy or by-law, as at the date of commencement of this Act, must ensure that it complies with this Act by no later than the date which falls 12 months after the date of coming into effect of this Act.

methods for calculating development charges such as the marginal costing, current replacement cost and the future growth. The preferred method to calculate the development charges liability is the future growth.

Are there any exemptions or rebates granted for the payment of a development charge?

Yes, provided that they are granted in line with an approved municipal policy framework and by-law for exemptions and rebates that is applicable to development charges

For example, the development charges by-law must establish categories of land owners, or categories of properties, for the purpose of granting rebates and exemptions

Where an exemption is granted, the municipality must identify an alternative source of revenue for providing external engineering services.



- *Predictability*- They enable land owners to accurately estimate their liabilities and hold municipalities to account for the timely delivery of required infrastructure.
- *Fairness*- Ensures that the land owners pay 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.

The labour sector: Development charges policy serves to promote a sustainable municipal infrastructure investment finance to allow municipalities to meet the required strategic infrastructure need to promote economic growth that creates jobs and reduce poverty.

The Property owners: The development charges policy ensures that the burden of payment is shifted from the tax payers in general to the land owners, who in turn will pass it on to their customers – the users (new land owners) of the new infrastructure. Thus the costs/liability of development charges are borne fully by the land owner and/property owners.

The impact of development charges on the poor households

The imposition of development charges has no direct impact on the poor as it is their human right to be provided with basic municipal services (which are funded from the equitable share and other conditional grant allocations received by each municipality from their share of nationally collected revenue). However, the revenues that municipalities derive from development charges will release pressure on municipal balance sheets, allowing pro-poor investment programmes to achieve universal access to basic services, while also expending investment in infrastructure that support growth to those who can afford to pay.