COLLABORATION WITH PRIVATE-SECTOR DEVELOPERS FOR THE PROMOTION OF LOCAL ECONOMIC DEVELOPMENT

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Abstract

Municipalities are mandated to improve the quality of livelihood of its citizens. Despite the best efforts, Local Economic Development remains a challenge in South Africa due to lack of budget for new infrastructure investment. Private-sector investment is needed to develop skills during construction, promote employment during construction, create sustainable jobs upon completion of projects, and finally grow the local economy in a sustained manner.

Developers are often uncertain about where in SA to invest their money, for maximum return on investment. They are also uncertain about which municipality to invest their money in, due to differing policies. The ease of doing business in a particular municipality is an important determinant on which municipality to invest in. Policy certainty and availability of support during implementation, will give confidence to investors when they are making these huge financial commitments. Developers want to know the expected financial contributions that they need to make towards the establishment of bulk infrastructure.

This paper will evaluate the relevant legislation and the policies of a sample of municipalities and for the application of Developer Contributions.

1. BACKGROUND

Municipalities play a key role in the provision of infrastructure to support Local Economic Development (LED) and universal access to services. However, with declining revenue generated from rates and sales, it is becoming increasingly difficult to finance new infrastructure projects, or to refurbish existing assets. The introduction of Development Charges (DC) as an additional source of revenue to be used as front-end financing to fund investment in municipal infrastructure, has become an attractive option if incorporated into the land use management process. It reduces the need for the municipality to incur additional borrowing. The amendment to the Municipal Fiscal Powers and Functions Act (MFPFA) was intended to regulate DC and to provide investors and developers with more certainty and predictability when making investment decisions. The calculation of DC may not be equal in all municipalities, but the principle for calculation must ensure consistency and uniformity in the calculation.

It is important to note that DC is not a tax, but rather a tariff based on the cost of service to be provided by the municipality for the purposes of spatial transformation. Due to the growing financial constraints of municipalities, DC allocates the cost to beneficiaries of the new service to be provided, rather than burden the existing ratepayers, or put pressure on the municipal balance sheet. In other words, it transfers the costs to property owners in affair and transparent manner. The principle is that those that benefit, must pay for the service.

Table 1 below illustrates the benefits of adopting the DC approach to financing of new infrastructure projects.

BENEFITS TO THE MUNICIPALITY	BENEFITS TO APPLICANTAPPLICANTS	BENEFITS TO OTHER RATE PAYERS
• Enhanced revenue streams for financing strategic municipal infrastructure • Ability to provide infrastructure in a timely and sufficient manner to support land development • Uniformity in application of DCs eliminates unfair competition/and or treatment of applicants.	• *Predictability* - can accurately estimate liabilities • *Certainty* - can hold municipalities to account for the timely delivery of required infrastructure • Equity – all applicants are treated equally according to the same set of rules. • *Transparency* - transparent allocation of the costs of the infrastructure installed and its quality. • *Timing* - DCs speed up the provision of infrastructure to unlock development.	• Will not bear the cost of infrastructure serving new developments through increased rates and tariffs. • Will provide additional funding so as to not divert existing municipal capital funding away from planned renewal and upgrading projects for existing consumers.

Table 1: Benefits of Development Charges
Adapted from South Africa 2023. ***Guidelines for implementation of development charges in South Africa*.** South Africa.

The Institute of Transport Studies at Leeds University stated that the imposing of DC may be a concern that imposing a levy on development will encourage developers to locate elsewhere, but one has to consider whether imposing the DC would deter investment despite the benefits of the infrastructure or whether it would dis-benefit the economy overall if some businesses were deterred in this way (Institute of Transport Studies, University of Leeds).

2. LEGISLATIVE REQUIREMENTS

2.1 The Constitution

In terms of the Section 152(1) and (2) of the Constitution, the municipality has a responsibility to provide services to communities in a sustainable manner, to promote social and economic development. This places the onus on municipalities to develop policies and mechanisms to drive and promote the growth of the local economy. Section 229(1) of the Constitution, empower municipalities to impose property rates and surcharges on fees for services provided by or on behalf of the municipality. These surcharges could be in the form of DC or developer contributions towards the provision of bulk services. However, in doing so there must be synergy between the policies at national, provincial, and local government level, if there is to be policy certainty for investors and developers.

2.2 Municipal Systems Act

The Systems Act (MSA) provides regulations applicable to tariffs charged by municipalities for services rendered. In order to manage income and expenditure, the municipality has the authority to impose levies, subject to provisions envisaged in terms of Section 75A of the MSA.

Section 74 of the Act requires that the municipal council adopt and implement a tariff policy on the levying of fees for municipal services provided. The provision of electricity, water, sanitation, streetlighting and roads, are typical of such services that benefit the local community.

In terms of enforcement of the tariff policy, Section 75 of the MSA requires the municipal council to adopt by-laws for enforcement of the implementation of the tariff policy. DC forming part of the tariff policy must be recovered when such services as the provision of new infrastructure as a consequence of development, are rendered.

2.3 Spatial Planning and Land Use Management Act

Section 49 of the Spatial Planning and Land Use Management Act (SPLUMA) states that 'An applicant is responsible for the provision and installation of internal engineering services' and that 'A municipality is responsible for the provision of external engineering services'. This means that when a municipality is processing and application for land development, the municipality must consider the responsibilities and charges applicable to such land development application. The provision of the external engineering services would come at a cost to the applicant or developer.

Section 40(7) the SPLUMA states that a municipal planning tribunal may during the approval of an application decide on DC and the timing of such payment. It may occur that a municipality decides to construct infrastructure beyond the applicant's current requirements. This would be a reasonable engineering decision based on future load projections and/or minimum substation capacity design. If this does occur, then then the developer will be charged a pro-rated amount as a proportion of the capacity.

2.4 Municipal Financial Management Act

As an alternate to paying the DC, a developer may upon agreement with the municipality, agree to provide such services or assets which will then be transferred to the municipality. Even though the Municipal Finance Management Act (MFMA) prescribes that whenever a municipality procures services from an outside body it must do so through the prescribed supply chain management system, sub-section 49(5) of the SPLUMA specifically excludes the provision of services as an alternate to paying for Development Charges from the MFMA requirements.

2.5 Municipal Fiscal Powers and Functions Act

Municipal Fiscal Powers and Functions Act (MFPFA) is intended to promote DC as a source of revenue, while at the same time creating predictability and certainty to developers and investors on the costs of infrastructure to be covered by the users. The MFPFA empowers the municipalities to implement DC to cover the cost of bulk infrastructure when processing land development applications. The MFPFA provides the principles for the calculation of DC. Municipalities are required to have by-laws and a policy pertaining to DC. The Act also requires that there must be an engineering services agreement where bulk infrastructure is required to be installed, either by the municipality or by the applicant. Such an agreement must specify the details of the infrastructure, the required timeframes, and the specifications for the infrastructure. The Act requires that if a municipality decides to provide a rebate, the municipality is still required to calculate the full cost of the DC as if it were payable.

Section 9A(3)(a) of MFPFA states that revenue generated from DC 'must be used for purposes of funding or acquiring capital infrastructure assets in a timely and sufficient manner and to support current and projected land development in the municipal area'. This means that as much as the DC is an additional form of revenue, it must only be used for the intended purpose.

Section 9B(2)(c) of the Act stipulates the methods to be used for calculation of the DC. The municipal policy must stipulate either the Growth Costing method, or the Current Replacement Cost method, or a method compliant with the provisions of the Act.

Section 9G of the Act allows for the developer to install the external engineering services, however there are prerequisites in terms of the municipality's involvement in the implementation of this option. The developer is required to consult with specified municipal officials prior to appointing a contractor to verify the fairness and reasonableness of the costs of installation. Further, the municipality may appoint an appropriately qualified independent third party to assess the bid process. Upon completion of the installation, all the external engineering services assets that have been installed to offset the DC must be transferred to the municipality. The municipality must also be allowed uninterrupted access to such assets, and any servitude upon which the asset is constructed must be registered in favour of the municipality.

Section 10 of MFPFA, stipulated that when calculating the DC associated with bulk engineering services, the municipality must not include the cost of infrastructure that has been included in previous DC or paid from donations. If the municipality elects to use the Current Replacement Cost method to calculate the unit cost for any municipal engineering service, it must estimate the maximum demand for the engineering service that can be supplied from the existing bulk engineering services of the entire municipal area or a reasonable representative portion of the municipal area.

3. PRIVATE SECTOR ROLE IN LOCAL ECONOMIC DEVELOPEMENT

National Treasury has identified the DC is an important infrastructure financing mechanism within municipal financing mix (Republic of South Africa 2023). DC is not new as a financing mechanism provided by the private sector in LED, however, is has been inconsistently applied. This inconsistent approach between municipalities

that are tasked with driving LED, has led to uncertainty and mistrust between developers and municipalities, because different municipalities apply DC differently, and even worst that different developers are treated differently within the same municipality. Developers will be more willing to contribute to LED if there is certainty, predictability, and consistency in application.

With the introduction of various legislative requirements for the introduction of DCs, it has brought about more policy certainty to investors and developers. Legislation has also made it easier for investors to decide on where to invest the money in among the various municipalities. Consistent and fair application of DCs has become beneficial to both the municipality and the developer. For the high value projects, the Province of KwaZulu Natal has taken a position to give these projects special attention and have recognised these projects as catalytic projects. The province has articulated that 'Catalytic Projects will receive preferential facilitation support and guidance, in recognition of the contribution such a project can make to achieve the growth targets of the Province' (Province of KwaZulu Natal 2019). The Department of Cooperative Governance has developed the District Development Model for giving catalytic projects special attention by creating a competitive edge that attracts domestic and foreign investment thereby resulting in job creation (Department of Cooperative Governance, 2019).

The application of a fair and transparent DCs policy by municipalities will attract private sector investment in financing and the required expertise. The Department of National Treasury had stated that in a shift to building both quantity and quality infrastructure, private sector investment must be brought into the approach (Department of National Treasury 2024). Figure 1 below shows the extent of private sector investment in South Africa as a percentage of GDP. From the graph we can see that there must be policy certainty if South Africa intends to continue to attract this significant private sector investment.

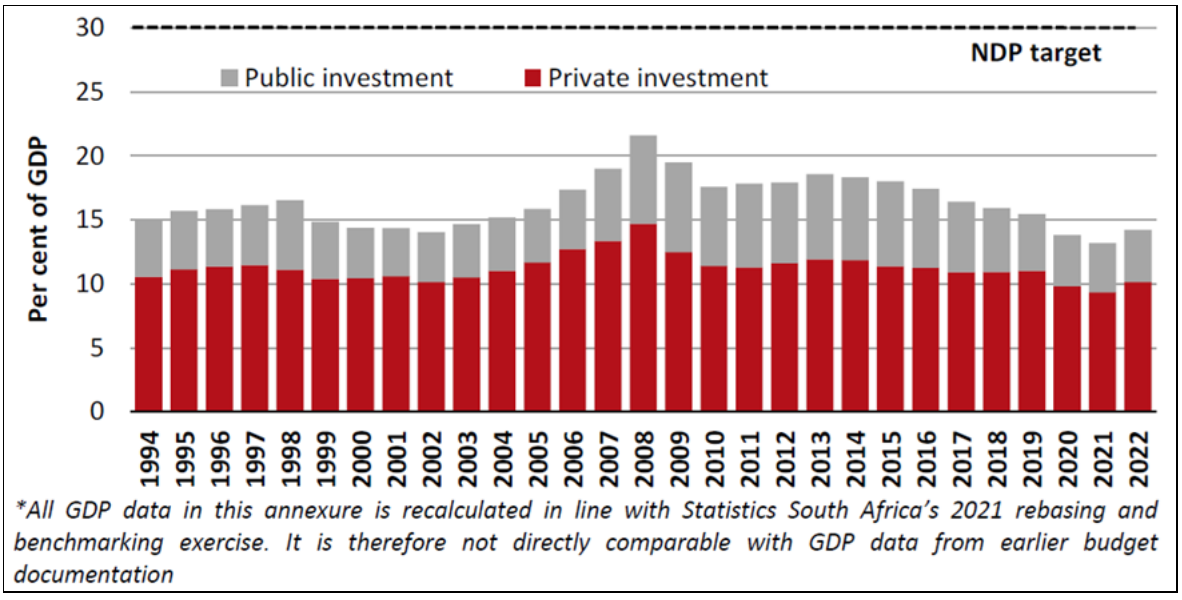

Figure 1 Public and private sector investment as a percentage of GDP
Adapted from Department of National Treasure. 2024. **Budget Review Public-sector infrastructure and public-private partnership update**. South Africa.

In 2022, the National Treasury began to review the Public-Private Partnership (PPP) regulatory framework to improve policy, legal and regulatory framework; and to strengthen institutional arrangements. The intention was to improve investor confidence and encourage greater private-sector participation. However, there must be a limit to which LED is private sector driven. Moyo stated that 'while recognizing the important role and contribution which the private sector can play in increasing local economic growth, there is also the danger that a wholesale private-sector driven LED may, in the end, focus on pro-growth strategies at the expense of developmental goals' (Moyo). It must be appreciated that private sector is largely profit driven and may not always support governments' role for sustainable development.

The World Bank has been promoting the concept of Development Policy Financing (DPF). The World Bank states that in a tight fiscal space, when government create an environment conducive to private sector investment, it spurs economic growth, creates quality jobs and in turn reduces poverty (The World Bank 2021).

4. CALCULATION OF DEVELOPMENT CHARGE

Section 9A(4) of the MFPFA states that there are two guiding principles for the calculation of DC. The DC must be proportional to the extent of the demand that the land development as projected to create from the existing or planned bulk engineering services. Secondly, it must be calculated based on a reasonable assessment of the costs of providing existing or planned bulk engineering services.

4.1 Current Replacement Cost method

The MFMP provides permits the use of the Current Replacement Cost method. Figure 2 below illustrates the calculation of DC using this method.

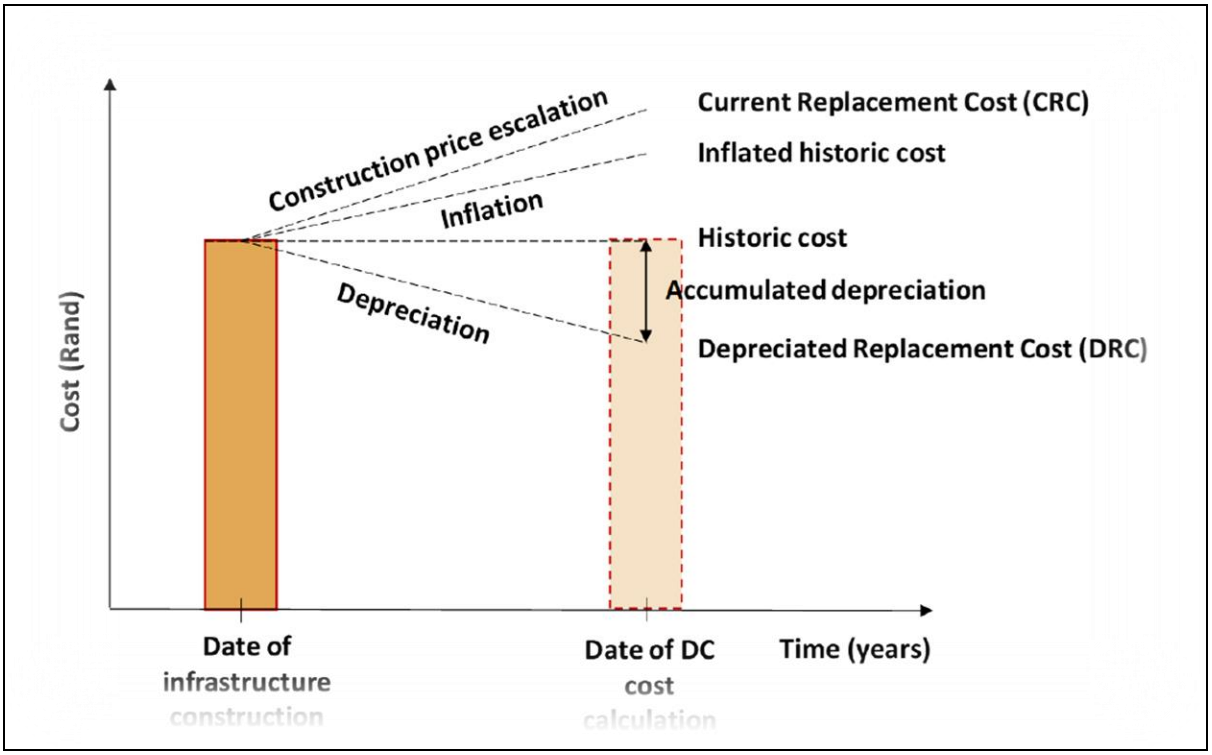

Figure 2 Current Replacement Cost method
Adapted from Municipal Fiscal Powers and Functions Act. 2024. South Africa.

The Current Replacement Cost method requires the municipality uses the cost of the existing infrastructure as the pro-rated historic cost of the assets. This method assumes that the municipality has built up a cash reserve from the depreciation of the asset over time. Over the useful life of the asset the depreciation figure would approximate to investment interest rate. This would then make it possible for the municipality to provide a discount to developers. The Current Replacement Cost method is not justified in instances when there is spare capacity in the existing infrastructure and no new infrastructure needs to be built.

4.2 Growth Costing method

Figure 3 represents the Growth Costing method. Using this method, the municipality as part of the network expansion plans, may choose to build a network beyond the capacity of the requirements of the developer. In this instance the DC must be pro-rated according to the proportion of the capacity of the infrastructure that will be taken up within the growth period of the developer.

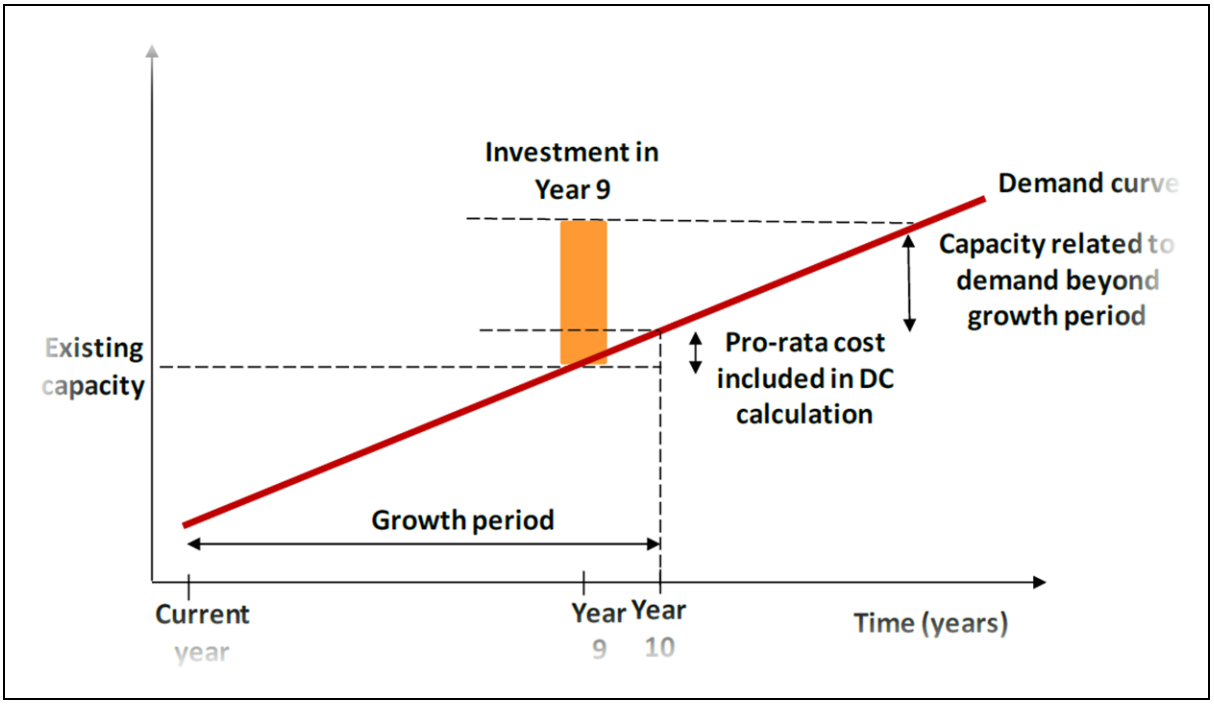

Figure 3 Growth Costing method
Adapted from Municipal Fiscal Powers and Functions Act. 2024. South Africa.

5. METHODOLOGY RECOMMENDED BY NRS 069:2018 EDITION 2

NRS is an association comprising of all municipalities, metros, South African Bureau of Standards (SABS) and National Energy Regulator of South Africa (NERSA). The association develops voluntary specifications via various Work Groups. These voluntary specifications could become legislative specifications if adopted by SABS or NERSA. NRS has developed a document numbered NRS 069:2018, to provide some guidance on the calculation of DC for the electrical component.

The document states that capital costs of electrical networks are recoverable from customers through the tariffs and through connection charges, as is required by Section 229(1) of the Constitution. As with the Growth Costing method, the document acknowledges the apportioned share of incremental costs, and requires that the calculation be based on the pro-rating of the incremental costs by the additional capacity required by the individual developer over the total increase in capacity. NRS 069 does permit the processing of rebates for work done or materials provided by a developer, as is permissible in terms of the MFPFA.

The document does promote the principle of equity. It states that ‘there must be a fair balance between a deep and shallow connection charge approach so as to equitably share costs between customers, developers and distributors’. The depth of connection charge reduces the burden on existing customers but provide barriers to entry for new applicants. Since the DC is calculated as part of the SPLUMA application and is communicated early to the potential developer, the DC is payable upfront as a condition to proceeding with the. NRS 069 also permits the implementation of feasibility and quotation fees to determine the technical and financial aspects upfront.

6. APPLICATION OF DEVELOPER CHARGES

This section evaluates the application of DC internationally and across a sample of municipalities in South Africa. This evaluation of look at the consistency of the manner in which DC is applied, as well as the positives from each case study. In particular each case will be evaluated for equity and fairness in application because DC should be reasonable, balanced, and practical. In order, to give comfort to developers and investors, the DC needed to be predictable and should be clearly and transparently accounted for. Lastly the calculation of DC should be administratively simple.

6.1 Aukland New Zealand

The concept of DC is not unique to South Africa or the developing countries. DC has been acknowledged as a source of revenue for local for local government generated from property owners. Aukland imposes DC as a tax on developers who change the land use to more intensive usage than what it was planned for. The DC is then used to fund the infrastructure required to support the urban growth and accelerate development. In New Zealand this tax is imposed upon application of the change in land use and as part of the building consent approval. According to Murray and Helm (2022) in 2018 the New Zealand councils raised 11% of total revenue from DC (Murray and Helm 2022).

6.2 Australia

In Australia the budgets of government have become increasingly constrained, thereby ‘putting pressure on governments to find other ways to fund new infrastructure that meets community expectations’ Australian Government 2021). Australia has also identified DC as an additional source of revenue beyond rates, to be used for the construction of essential infrastructure. The National Housing Finance and Investment Corporation identified DC ‘as part of a suite of broader (value capture) regulations that help determine who pays for what in the development process’ (Australian Government 2021). This concept of value capture means that the person who gets the value from the development, must pay for the infrastructure cost associate with the development, or in other words is a user-pays model. Unpredictable, poorly scoped, or insufficiently administered DC could impede development and also has the risk of causing land value to decline.

6.3 City of Cape Town

The City of Cape Town defines DC as ‘a once-off capital charge imposed by the City of Cape Town on a developer in order to cover the cost of municipal engineering services required as a result of the intensification of land use’ City of Cape Town brochure). The City of Cape Town imposes DC when processing a land development application. In the City of Cape Town model for DC it is evident that the developer who creates an additional impact on municipal infrastructure is liable to contribute towards the building of the external engineering services. The city also permits the developer to install bulk engineering services instead of paying DC subject to an Engineering Services Agreement being signed.

6.4 Midvaal Local Municipality

Midvaal Local Municipality policy has been aligned to Provincial Gazette which places the liability of bulk contributions on the property owner. It has become a challenge for many municipalities that start engagements with developers on the DC, only to discover years later that the development has not materialised. This impacts the municipal network development plans or master plans and has an impact on long term budget planning. As part of its policy, Midvaal Local Municipality states that 'If no payment is received from the applicant/owner within 90 days from the date of the approval letter, Finance in conjunction with Engineering may recalculate the bulk contributions payable' (Midvaal Local Municipality 2020).

6.5 Ekurhuleni Metro Municipality

In the case of Ekurhuleni Metro Municipality, the municipality had determined a cost per KVA that the developer is required to pay, in instances where the existing infrastructure is adequate to supply at least 150% of the calculated future load of the development and is within 1km radius of any existing infrastructure. This principle is applied so that the developer does not unduly benefit from the infrastructure paid for by the existing ratepayers.

6.6 Palmerston North City - New Zealand

Palmerston North City Council imposes DC 'to recover from those persons undertaking development a fair, equitable and proportionate portion of the total cost of capital expenditure necessary to service growth over the long term' (Palmerston North City Council 2021). The international practice is on fairness to both the developer and the current ratepayers. Cost of maintenance of the infrastructure is paid for from the normal tariffs, however the DC is only to cover the cost of the capital expenditure proportionate to the increase demand created.

To address the aspect of fairness, the City Council undertakes an obligation to demonstrate what the DC is being used for and why. The unique aspect with the City Council relative to other cities that have been studied, is that Palmerston also can recover DC for Capital expenditure already incurred in anticipation of development. This means that the city is proactive in the interest of development and would not necessarily wait for the application. If the city anticipates an increased demand due to a development, and can proactively incur the capital expenditure, and recover it from the developer at a later stage.

6.7 Stellenbosch Municipality

The municipality justifies the imposing of DC on the rationale that it is 'a direct charge to beneficiaries of existing and planned infrastructure installed to enable an intensification of land use. Development' (Stellenbosch Municipality 2023). It does acknowledge that this is an additional source of financing for infrastructure development, but at the same time ensuring that the beneficiaries of the infrastructure pay a fair share of the

capital cost of the additional infrastructure, and that that burden is not passed onto other ratepayers. This creates the opportunity to free of the financial resources to be used on other priorities of the municipality.

The municipality does permit for the DC to be paid progressively as development milestones have been reached. This would be of benefit to developers that want to mange their cash flow, rather than incur the expenses upfront.

The policy of the municipality permits it to 'increase or reduce the amount of the bulk services component of a development charge to reflect the actual cost of installation of the required bulk services' (Stellenbosch Municipality 2023). This is very useful when there are massive price fluctuations in materials used for the construction. It works for the benefit of both the developer and the municipality, since that initial cost estimate may be very far from the actual cost incurred, especially for long term projects.

Municipalities should have a network master plan to plan for future load growth and expected capital expenditure. Stellenbosch Municipality may request the developer who chooses the option to install the external engineering services rather than pay the DC, to construct the services to accommodate the needs of the master plan beyond the needs of the developer. In this case the municipality may reimburse the developer the amount in excess of the DC.

In fairness to the developer, the municipality commits that is it fails to install the required external engineering services within 12 months from the agreement completion date, it would return the applicable portion of the DC to the developer.

6.8 Swellendam Municipality

Swellendam municipality is explicit that DC are not to be used for operations and maintenance expenses. DC is based on the key principles of equity, fairness, reasonableness, predictability, certainly and administrative efficiency.

6.9 City of Johannesburg

The justification used by the city for the imposing of DC is based on the principle that the cost of the additional infrastructure must be incurred by the developments that directly benefit from the infrastructure, rather than being spread amongst all taxpayers. According to the City of Johannesburg in the past decade within South Africa 'increasing municipal operating expenses and the fact that most municipalities have reached their borrowing limits has reduced the ability of local authorities to fund infrastructure from existing capital reserves' (City of Johannesburg 2020). This means that municipalities must find new ways of accessing external private sector funding to support economic growth.

As with Stellenbosch Municipality, the City of Johannesburg has attempted to ease the burden on the developer having to pay the full cost upfront. Instead, where the municipality can incur the capital expenditure from its own financing sources, it would construct the infrastructure and recoup the DC costs over time in an incremental basis.

City of Johannesburg uses the formular in Figure 4 below for the calculation of DC using the unit cost method. The total DC is the sum of the individual unit cost multiplied by the impact.

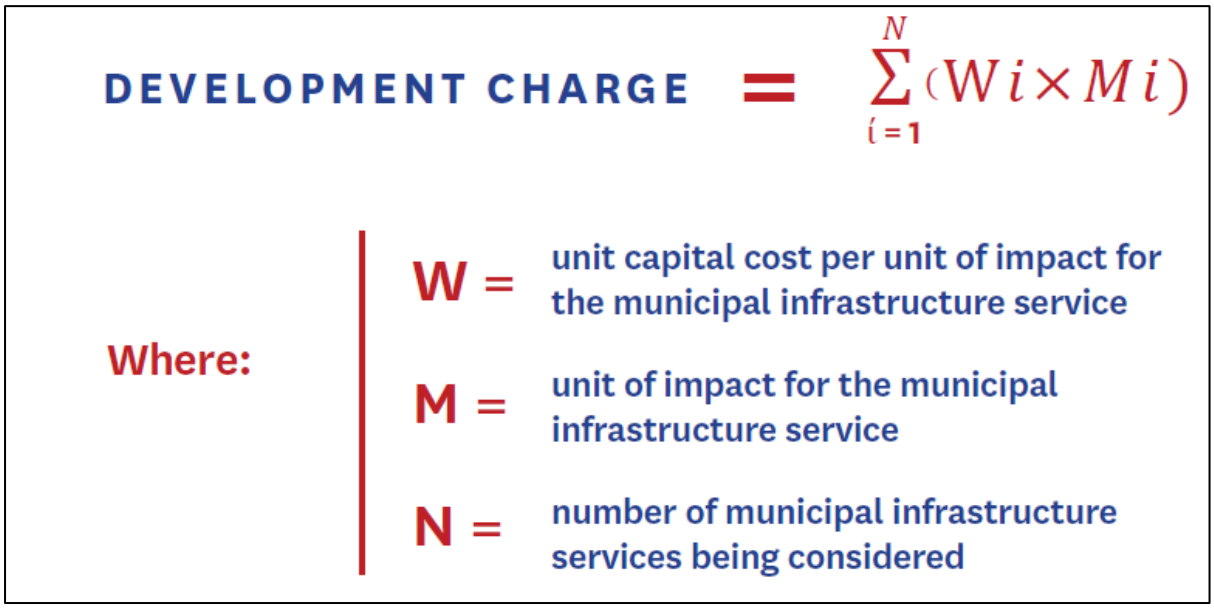

Figure 4 Calculation of Development Charge
Adapted from City of Johannesburg. 2020. South Africa.

Municipalities do have funding constraints. The option exists for the developer to install the necessary infrastructure and off-set these costs against the DC. If his option is exercised, then there must be an Engineering Services Agreement (ESA) entered between the developer and the city. Upon the final site inspection by the city, the assets commissioning would then be transferred to the city. Among other contractual obligations, the developer must provide the city a detailed breakdown of the costs incurred, a consulting engineer's Certificate of Completion, as-built drawings in the formats required by the City, and a guarantee in the amount of 10% of the value of the new works for a further defects liability period of 12 months.

6.10 EThekwini Municipality

The Economic Development and Planning Cluster of the municipality has acknowledged that under investment in the municipal infrastructure would have a negative impact on its economy. Having a DC policy assists with ensuring that developers are contributing their fair share to the cost of infrastructure, and not leaving the burden with the municipality. In terms of the Integrated Development Plan there has been a shift of focus on planning and implementation in the priority nodes and private sector developers. The Municipal Spatial Development Framework requires that the municipal spatial planning be co-ordinated, aligned and in harmony with national and provincial spatial development framework. eThekwini Municipality places the responsibility on decision maker to impose any reasonable conditions the payment of DC when an application for development is lodged.

For this purpose, the municipality has developed a DC Standard Operating Procedure (SOP) to ensure a standardised approach to the application of DC.

The municipality has taken a decision to exempt certain circumstances from DC. The first being when the proposed land use change will not result in a tangible impact on bulk infrastructure. This means that no investment would be required on the infrastructure. The second is when the municipality decides to grant and exemption or subsidise certain categories of landowners or land.

Service	**Measure**	**Unit of measure**
Electricity	After Diversity Maximum Demand (ADMD)	kVA
Roads	Modified vehicle trip generation	Equivalent trips/peak hour
Water	Average Annual Daily Demand (AADD)	Kl/day
Sanitation	Average Annual Daily Flow	Kl/day
Stormwater	Runoff coefficient Development area	Unit-less runoff coefficient (site area) m^2
Transport	Public transport passenger trips per peak period	Public transport trips/peak period
Solid Waste	Airspace required and transfer station	Solid waste generation rate (kg/day)

Table 2: Unit of measure for Development Charges
Adapted from eThekwini Municipality 2024. ***Standard operating procedure for development charges*****.** South Africa.

Since the DC calculation is based on the Unit cost, the table above was developed for the various categories of infrastructure by the municipality.

Once the DC contribution is communicated to the applicant, the municipality has created a mechanism for the applicant to appeal the decision, if they are of the opinion that their rights are affected. This was done in terms of Section 62 of the Municipal Systems Act.

To encourage development in the tough economic climate, eThekwini Municipality has accommodated situations in which the full DC is not paid upfront. In this case the municipality 'may ask the applicant to provide a written guarantee, issued in favour of the municipality, for the difference between that portion of the municipal DC which is paid upon approval of the land development application, and the total amount of the municipal DC' (eThekwini Municipality 2024). Further the municipality has accommodated the self-build option, in which case the value of services provided by the developer, may be set off against the DC liability.

7. CONCLUSIONS

In recent years the ability of national government to fund large scale infrastructure projects that are resource intensive has become severely constraints. This is primarily due to declining revenue generation and increasing cash outflows. Historically, such infrastructure was largely funded through the disbursement of national grants, surpluses on municipal operating budgets and municipal borrowings. This meant that much needed infrastructure investment had not taken place and is not taking place. This has the consequential effect, that with inadequate infrastructure, investment is not attracted to the local economy. Municipalities had to find other financing mechanisms. One such mechanism is the involvement of the private sector via Developer Contributions. DC was developed as a framework to promote the development principles of spatial justice, spatial sustainability, spatial resilience, operational efficiency, and good administration. If properly applied, DC would ensure that infrastructure investment occurs in a manner that facilitates land development, by covering the costs of new infrastructure to support increased capacity.

In general, the research has concluded that there are some common principles for the application of DC among most municipalities internationally and within South Africa. These principles are:

a) Scope – The infrastructure that is being costed for the DC must be appropriate for the impact being incurred by the developer. The new infrastructure should not be over scoped to cover impacts that are not as a consequence of the development. Municipalities must avoid the allegation of “gold-plating”, in which non-essential features and aesthetics are costed as part of the DC.
b) Equity – All applicants are to be treated the same and according to the same set of rules. It also means that exceptions should be avoided, but if it is a decision to deviate from the rules, then such deviation should be transparent and documented.
c) Fairness – The principle that those that benefit from the investment, should pay for it in a proportionate manner. Existing should not unfairly benefit from the cost incurred by the developer, and vice versa the new residents should not unfairly benefit at the cost of the existing residents. However, there should not be any duplicate recovery of cost.
d) Reasonableness – Charges should be based on the cost of new infrastructure needed relative to the impact of a development on that bulk services. Municipalities must have mechanisms in place to justify the estimated cost of DC based on a unit-cost measure. This is an important principle as it avoids distortions in the economy and patterns of spatial development. The developer is only required to pay the upfront capital cost and not the on-going maintenance cost or any future replacement cost.
e) Predictability – Policies need to exist that make DC legal and predictable, both as a source of revenue to municipality, as well as a cost to the developer. The calculation

method should be clear and transparent, to enable a developer to reasonably calculate the cost of the potential development, even before an application is made.

f) Certainty - Revenue generated from DC must be used for the purpose it was raised, and such must be disclosed by the municipality. Once DC is collected, the municipality is obligated to provide the services within the agreed time.

g) Administratively efficiency – The calculation of DC should be administratively simple and transparent. There is always a trade-off between the accuracy of individual charge and the efficiency of administration of the charge. This is to avoid unnecessary litigation in the administration of development charges.

h) Transparency – The municipality must account for when and where the DC funds are being spent.

i) Timeliness – Infrastructure must be delivered within the agreed time from when the DC was paid, to avoid increasing delivery costs and delay in the developer getting the return in investment.

j) Efficient design and delivery – From an asset life-cycle cost perspective, the chosen design must be a fair balance between upfront capital cost and long-term maintenance cost.

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