MANGAUNG
AT THE HEART OF IT ALL

CENTLEC
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CENTLEC (SoC) LTD

POLICY FOR THE PROVISION OF BULK INFRASTRUCTURE BY DEVELOPERS

2026/27 FY

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DEFINITIONS

Term	Description
Condition of approval	Means a condition prescribed by the Municipality with regards to the approval of a development application in terms of land use planning legislation;
Constitution	Means the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996);
Consent	means special permission granted by the Municipality, after due consideration of all relevant facts and after following the lawful process, in terms of which a specific type of land use or activity is permitted, in addition to the primary uses applicable to the property concerned
Consent use	Means the secondary use right that is permitted in terms of the provisions pertaining to a particular zone, only with the consent of the Council ;
Council"	Means the Council of the Mangaung Municipality and includes a councilor, the Municipal Manager, a committee, or an official where delegated authority is granted to decide a matter on behalf of the Council;
Developer	Means the person, including an organ of state, applying for approval to develop or change the use of land
Development	Means the changing of use and/or of cadastral boundaries in order to increase the use of land

Engineering services	Means the infrastructure required to supply water, sewerage, electricity, municipal roads, stormwater drainage and solid waste collection and removal required for the purpose of land development;
External engineering services"	Means municipal engineering services infrastructure external to the development site boundary and includes both: 1. bulk engineering services, which means municipal services infrastructure external to the development required to provide engineering services to users in the boundaries of the municipality; and 2. link engineering services, which means municipal services infrastructure external to the development site boundary required to connect internal engineering services of the proposed development to existing or proposed bulk engineering services;
"Internal engineering services	Means infrastructure within the boundary of the development to service that development;
LUPO	Means the Land Use Planning Ordinance, 1985 (Ordinance 15 of 1985);
Services Agreement	Means an arrangement between the Municipality and the developer in cases where the developer constructs or installs bulk engineering services in lieu of the payment of a Development Charge (full or in part) and in which the parties agree on their different roles in the construction, installation and financing of infrastructure;
SPLUMA	Means the Spatial Planning and Land Use Planning Act, 2013 (Act 16 of 2013);
Systems Act	Means the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)

Master plans	Means high level infrastructure plans prepared for the Municipality to cater for possible future development. For example: Bulk Water and Sanitation Master Plans
Network Development Charge	Means a once-off charge enforced by the Municipality on a developer as a condition of approval of a land development application in order to cover the cost of municipal engineering services required as a result of an increase of land use;
Development Load Requirement	Electrical load defined and required for the entire development expressed in kilo-Volt Amperes representing the Notified Maximum Demand (NMD)
Defects Liability Period	is a set period of time after a construction project has been completed during which a contractor has the right to return to the site to remedy defects. A typical defects liability period lasts for 12 months or more depending on the agreement between the parties involved
As built plans	The plans that will mimic the actual network that is handed over to the Local Authority in the form of electronic copies that will be in a specified format.

1. EXECUTIVE SUMMARY

Electricity provision is the bedrock of economic growth and development of any modern economy. The appreciation of this notion is noted in the Energy White Paper of 1998, which outlines the restructuring framework for the supply (generation and transmission) and distribution of electricity. The White Paper 18 further mandates NERSA with the responsibility of issuing licences to the distributors and regulation of tariffs by Eskom and municipalities. However, in terms of Schedule 4B of the Constitution of 1996, Eskom is responsible for distributing electricity to municipalities within national and provincial legislative frameworks. In accordance, clarity have been provided in the Municipal Systems Act, No.32 of 2000 in which municipalities were established as service authorities responsible for electricity provision to households and businesses in their areas of jurisdiction.

Electricity plays a significant role in the betterment of human life. Apart from its social benefits, electricity is also a driving factor in the economy. Its usage ranges from communication and transportation to production. Local government plays an important role in the electricity industry in South Africa. Schedule 4B of the Constitution lists electricity and gas reticulation as a local government responsibility. Section 153 of the Constitution places the responsibility on municipalities to ensure the provision of services (which includes electricity reticulation) to communities in a sustainable manner as well as promote economic and social development. Electricity is an important funding source for local government, particularly for larger urban municipalities.

The development priorities of a municipality and that of private developers are not always in harmony. There is continued deficit and limited resources to fund infrastructure. A discussion paper on Investment Growth and Urbanization (2015) shows that government spending on infrastructure has not kept pace with the investment demands of population growth. Global local government survey of 2016 shows that infrastructure requires innovative funding options and that infrastructure improvement could be through additional infrastructure funding
Undoubtedly, CENTLEC continued to face major investment gaps in funding infrastructure projects.

This policy presents the following viz. The Executive summary, Introduction, Purpose of the policy, Legislative framework, Development charges components, financial models for compensating a developer for the cost of providing primary infrastructure and Recommendations.

2. INTRODUCTION

In terms of section 49 of the Spatial Planning and Land Use Management Act, 2013, the Municipality is responsible to provide all bulk engineering services. However, the responsibility on the Municipality to provide external engineering services is not unqualified. The Municipality is not obliged to provide infrastructure where it is not in line with the relevant master plans and capital budgets.

The provision of bulk municipal infrastructure by a developer, on behalf of a municipality, normally takes place when it is practical for the municipality to incorporate the scope of the shared external service with the installation of the developer's internal service, or when the municipality lacks the financial and or personnel resources to undertake the external works. In the majority of instances when a developer expedites the provision of an external service for a development, it is limited to the external secondary cable network. The typical capital expenditure related to an external secondary cable network required to supply a development is usually less or equal to the applicable service contribution, enabling such expenditure to be either partially or fully offset against the contribution.

The provision on the other hand of primary bulk electricity infrastructure by a developer is neither unique nor ideal for various reasons addressed in this policy. The development of capital intense primary electricity infrastructure, by a developer providing the initial capital expenditure can only take place on the basis of a "willing developer, willing municipality.

3. PURPOSE OF THE POLICY

The purpose of this policy document is first to assist and guide municipality as well as

CENTLEC decision-makers in:

- the exercise of their discretionary powers when considering appropriate conditions of approval to be imposed under the SPLUMA.
- their negotiations with developers relating to the payment of development contributions and the CENTLEC electricity service costs.
- ensuring the provision of adequate engineering services by developers and/ or payment models of development contributions in respect of new developments

4. LEGISLATIVE FRAMEWORK

A Services Level Agreement should be concluded between the Municipality/CENTLEC and the developer, capturing such a condition to provide municipal engineering infrastructure in lieu of payment before any construction of infrastructure begins. The Draft National Policy Framework for Municipal Development Charges stipulates that once the condition of approval is finalised, no further agreement is needed, which differs from this requirement. In terms of Section 49 of SPLUMA:

4.1 An applicant is responsible for the provision and installation of internal engineering services.

4.2 A municipality is responsible for the provision of external engineering service.

4.3 Where a municipality is not the provider of an engineering service, the applicant must satisfy the municipality that adequate arrangements have been made with the relevant service provider for the provision of that service.

4.4 An applicant may, in agreement with the municipality or service provider, install any external engineering service instead of payment of the applicable development charges, and the fair and reasonable cost of such external services may be set off against Development Charges payable.

4.5 If external engineering services are installed by an applicant instead of payment of development charges, the provision of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), pertaining to procurement and the appointment of contractors on behalf of the municipality does not apply.

4.6 In terms of the MSA, development within the Municipality and its expenditure on engineering services infrastructure must be guided by an approved Integrated Development Plan. The Municipality is enjoined to give priority to providing basic services and improving the quality of life for all within its financial means. Therefore, if an Applicant intends to develop land before the necessary bulk engineering services have been installed or where existing bulk services are inadequate to serve the proposed development, and the Municipality is not in a position to provide such at that time, the Applicant will be required as a condition of approval to fund the bulk services. In those circumstances appropriate provisions need to be incorporated in a Services Agreement relating to control over the costs of such external services and relating to the refund of reasonable costs to which the Applicant may be entitled.

4.7 Local Government: Municipal Systems Act the Municipal Systems Act provides the underlying legal basis for a municipality to require a DC. Section 75A provides that a ‘municipality may … levy and recover fees, charges or tariffs in

respect of any function or service of the municipality'. Section 76 goes on to allow a municipality to provide its services through 'an external mechanism', which is defined to include 'any … institution, entity or person legally competent to operate a business activity'. This thus enables the municipality to enter into an agreement with a developer to require the developer to install infrastructure to provide or contribute towards providing a service in lieu of having to pay a DC.

4.8 Municipal Financial Management Act (MFMA) The MFMA, in chapter 11 and associated regulations, makes it clear that whenever a municipality procures services from an outside body it must do so through the prescribed supply chain management system. Where a developer is providing services for the municipality in lieu of paying a DC, this will, strictly speaking, constitute the provision of a service and so should, in terms of the MFMA, comply with the applicable supply change management and procurement regulations.

5. DEVELOPMENT CHARGE COMPONENTS

External engineering services include bulk- and link engineering services. The Development Charge includes both, but different rules apply to them. Developers are required to pay a Development Charge consisting of both of these components:

- a pro rata share of the cost of bulk engineering services to the development.
- the costs of any link engineering services required for the development.

5.1 Whenever the bulk engineering services are provided in lieu of Development Charges, the developer shall be responsible for both of the above.

5.2 Only the provision of infrastructure for which the municipality is responsible is covered by the Development Charge. These costs may have to be paid by the developer, but the process will be managed by the authority in charge of providing the specific service. The cost of required Provincial and national infrastructure is therefore not covered by the Development Charge.

5.3 Excluded from the Development Charge is the provision and installation of internal engineering services, which is the responsibility of the developer.

5.4 Link external engineering services may be vital to link the proposed development's internal engineering services to external engineering services to keep up functionality of the overall network where development takes place ahead of planned infrastructure provision.

5.5 In terms of section 49 of the Spatial Planning and Land Use Management Act, 2013, the Municipality is responsible to provide all bulk engineering services. However, the responsibility on the Municipality to provide external engineering services is not unqualified. The Municipality is not obliged to provide

infrastructure where it is not in line with the relevant master plans and capital budgets.

5.6 Should the developer and Municipality agree, the cost of the installation of external bulk engineering services by the developer can be set off against the developer's overall Development Charge. The developer shall be responsible for the additional cost of bulk engineering services should the set off value described here be greater than the total Development Charge for all phases of the development.

5.7 Unless otherwise agreed with the Municipality, the installation of link engineering services is however the direct responsibility of the developer.

5.8 To maintain the functionality of the Municipality's engineering service network according to master planning, the Municipality may require that the developer install services with greater capacity than required for the specific development. The cost of the additional link engineering services can then be set off against the developer's overall Development Charge.

6. FINANCIAL MODELS FOR COMPENSATING A DEVELOPER FOR THE COST OF PROVIDING PRIMARY INFRASTRUCTURE

This policy proposes the following three models for the provision of municipal primary electricity infrastructure by a developer:

- Contribution rebate model
- Capital contribution offset model.
- Capital contribution loan model.

6.1 Contribution Rebate Model

This model is based on the conventional method utilised by municipalities to refund developers for the provision of shared networks. In the case of the provision of primary infrastructure the magnitude of the refund is substantially larger than that of secondary networks and normally takes place over an extracted period. This model is rarely applied to the provision of primary infrastructure due to the magnitude of the capital investment and hence the municipal refund.

- **Capacity allocation**: The capacity allocation is based on the sum of the kVA zoning ADMD"s of the erven of the development at transformer LV bus level, in accordance with those specified in the municipal policy document which should be consistent with SANS 204-1:2008 and NRS 069: 2004 as well as CENTLEC electricity supply conditions under the current financial year.
- **Service contribution**: The service contribution for the developer's developments included in the service agreement for the provision of the infrastructure is to be calculated as the product of the capacity allocation for a specific development and the service contribution tariffs applicable at the time of signing of the individual service agreement for the specific service agreement for each ensuing development.
- **Capital expenditure by developer**: The capital expenditure is equal to the cost of the primary works as defined by the scope of works, excluding any land cost, but including interest and all professional fees.
- **Capital expenditure by municipality**: Normally no initial capital expenditure, besides future capital refunds.
- **Source of initial capital**: The developer who agrees to expedite the installation of the primary infrastructure, and who accepts the responsibility for the capital expenditure.
- **Service contribution tariffs**: The service contribution tariffs are to be the applicable tariffs at the time of signing the individual service agreements for each ensuing development of the developer providing the capital expenditure. The service contribution tariffs ruling at the time of signing the agreement for the provision of the municipal primary infrastructure must not be fixed as the developer is entitled to a refund plus interest.

- **Rebate:** The rebate is determined as the difference between the capital expenditure by the developer and the sum of the relevant service contributions for the developer's developments, which is to be calculated using the applicable service contribution tariffs at the time of signing the individual service agreements.
- **Source of refund:** The municipality's own funds or from new customers/developers when they share the networks.

6.2 Capital Contribution Offset Model

This model is based on offsetting the cost of the primary works against the future service contributions payable to the municipality for the shared external service by the developer who has agreed to expedite the installation of the networks.

- **Capacity allocation**: A fixed capacity allocation determined by the sum of the zoning ADMD"s of the erven of the townships/developments but not exceeding two thirds of the new/additional firm transformation capacity of the primary substation in order to reserve capacity for other developers/customers.
- **Scope of primary works:** Determined in conjunction with the municipality but restricted to the capital expenditure which is a function of the fixed capacity allocation.
- **Capital expenditure by developer:** The capital expenditure is to be limited to the product of the fixed capacity allocation and the contribution tariff at the time of signing the contract.
- **Capital expenditure by municipality**: The municipality must provide the power transformers as free issue items and must purchase or expropriate the land for the primary facility.
- **Source of initial capital:** The developer who agrees to expedite the installation of the primary substation, and who agrees to provide the full upfront payment thereof including professional fees.
- **Service contribution tariffs:** The service contribution tariffs shall be those in force at the time of signing the agreement for the provision of the primary works.
- **Source of refund**: No physical cash refund is applicable and the service contributions for the developer's future townships are waivered by the municipality until the capacity allocation is depleted by means of individual signed service agreements.
- **Interest:** Interest is not applicable to this financial model as the developer is guaranteed a specific capacity against zero service contribution which hedges against future increases in the standard tariffs for service contributions.

6.3 Capital Contribution Loan Model

This model is similar to the capital contribution rebate model, with the exception that the developer or customer loans the capital to the municipality for the funding of the works, without becoming directly involved in the execution of the works.

- **Capacity allocation:** The capacity allocation is based on the sum of the kVA zoning ADMD‟s of the erven of the development at transformer LV bus level, in accordance with those specified in the municipal policy document which should be consistent with SANS 204-1 : 2008 and NRS 069: 2004.
- **Scope of primary works:** Determined by the municipality in order to meet at least the overall capacity requirement of the relevant developer's development/s.
- **Capital loaned by developer**: The capital amount loaned to the municipality is to be by mutual agreement but typically will equal the cost of the primary works less the capital expenditure of the municipality. The inclusion of land cost and professional fees is subject to negotiation.
- **Capital expenditure by municipality**: Determined by the availability of municipal funds.
- **Source of initial capital:** The developer who agrees to expedite the installation of the primary infrastructure, and who agrees to loan the full/partial funds.
- **Service contribution tariffs:** The service contribution tariffs are to be the applicable tariffs at the time of signing the individual service agreements for each ensuing development of the developer providing the capital expenditure. The service contribution tariffs ruling at the time of signing the agreement for the provision of the municipal primary infrastructure must not be fixed as the developer is entitled to the loan repayment plus interest.
- **Loan repayment:** The loan amount is determined as the difference between the cost of the loan and the applicable service contribution, which is to be calculated using the applicable service contribution tariffs at the time of signing the individual service agreements.
- **Source of repayment:** The municipality's own funds or from new customers/developers when they share the networks.
- **Interest:** The municipality must contract to repay such loan including interest, in accordance with clause 6.6.10 of the special circumstances in SANS 069:2004.

7. RECOMMENDATION

The following be approved and implemented as a "Policy on provision of bulk infrastructure by Developers.

7.1. CENTLEC will not supply materials to developers or contractors.

7.2 The land cost for the substation erf must be excluded from the financial offset and the municipality should ideally purchase or expropriate the land. A developer does not have the advantage of expropriating private land.

7.3 The Specifications of CENTLEC approved materials and equipment shall be made available to developers.

7.4. Names of Manufacturers and Suppliers of CENTLEC approved material and equipment's shall be made available to developers.

7.5. To curb theft, material and equipment that are installed by the developer must bear the CENTLEC mark. In cases where this is not possible the developer will, in writing, request approval from CENTLEC to install material and equipment not bearing the CENTLEC mark.

7.6 Should a new primary substation need to be provided by a developer, it should be restricted to the initial stage, comprising one service and one backup transformer.

7.7. The agreement should be based on a feasible financial model. The capital contribution offset model has proven to be successful. It is essential to stipulate time periods for the expiry of the capacity allocation and refunds in the agreement, typically 5 or less 10 years respectively

7.8. The standard and technical specifications of the substation must be in accordance with the standard requirements of the municipality, and the design of the infrastructure must be undertaken in conjunction with the municipality.

7.9. The process followed by the developer for calling for bids from infrastructure providers must be fair and competitive. The developer should appoint the bidder offering the most cost-effective bid.

7.10. The developer shall keep accurate records of payment to verify final payment certificates.

7.11. That, the policy should be reviewed when needed. Situations which can lead to reviews of the policy include amongst others the engineering service provision duties of the Municipality changes and where under- or over-recovery of bulk infrastructure costs are detected.

END