RUSTENBURG LOCAL MUNICIPALITY

UNITY

INVESTMENT INCENTIVES POLICY

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Table of Contents

Rustenburg Local Municipality

Draft: Investment Incentives Policy (2018)

SECTION A: INTRODUCTION

This section describes the problem statement that led to the drafting of the Investment Incentives Policy as well as applicable background information. The section serves as an introduction to the topic within which to contextualise the status quo description and the policy proposals that follows towards the end of this report.

1.Preamble

Municipalities across the world have a mandate to provide their respective communities with the best possible quality, affordable services and create suitable conditions for local business to thrive, create jobs and ensure that the municipality becomes financially sustainable. Provision of quality services is high on the priority lists of residents and business owners and is also a critical requirement for attractiveness of a city as people and corporations want to invest in a vibrant, clean, well-maintained, safe city with a highly capable and ethical administration.

Residents must be able to rely on the local government to make strategic decisions, guided by well-defined policies as procedures, that lead to prosperity for everyone who lives, visits or has business interests in the area. A municipality finds a balance between these competing but complementary responsibilities by developing and implementing dedicated instruments (strategies, programmes, projects and policies), to ensure that it succeeds in creating a quality, safe and vibrant environment for both business and ordinary residents.

One of those instruments is this Investment Incentive Policy, that is premised on the need for Rustenburg Local Municipality to ensure that the municipality achieves the outcome of attracting the necessary investment to implement economic and developmental infrastructure projects, that will ensure that the twin mandates of local municipalities are achieved.

2.Purpose of the policy

The incentive policy must create a connection between the municipal strategic intent and the strategy implementation document (Integrated Development Plan) and sector plans like the Spatial Development Framework, Land Use Management Scheme, the Local Economic Development Strategy and all the other infrastructure and environmental management plans.

The overarching purpose of this policy as articulated in Chapter 7 of The Constitution of the Republic of South Africa, mandates municipalities, per section 152 (1)(b) and (c) to ensure the provision of services to their communities in a sustainable manner; and; to promote social and economic development, respectively. Therefore, this policy seeks to identify relevant and

effective internal instruments Rustenburg Local Municipality requires to achieve sustainable service delivery, social development, economic diversification and growth.
What the municipality needs to do is to identify the favourable conditions required for local, national, international capital owners to have enough confidence in the area to invest in its people and local economic growth. The policy will provide detail on the specific packages offered, the conditions that need to be met by potential investors to access such packages, how those will be implemented by the municipality and the required measurement criteria. The intention of this policy is to:

- Identify the package of incentives required to effectively attract investors to the city
- Create conditions suitable to the attraction and retention of investment, like reducing the cost of doing business and expediting approvals and appointments within the prescripts of legislation
- Establish mechanisms to expedite implementation of innovative, environment friendly, economic and social infrastructure investment in a cost effective and efficient manner
- Expedite creation of targeted sustainable urban planning, urban regeneration and township development to enhance the liveable city priority
- Ensure that skills development, sustainable jobs and procurement opportunities are created for locals through implementation of all government policies and projects, in a fair, easy to understand, easy to access with clear and consistent measurement criteria
- Define minimum standards (conditions) required for submission of applications, consideration and elimination of applications for incentives
- Ensure that the local environment is cared for through implementation of innovative green economy projects for future generations

3. Legislative context

The incentives policy is guided by the following Government legislation, policies, strategies and programmes:

- The Constitution of the Republic of South Africa
- National Development Plan 2030;
- National Industrial Development Framework;
- Industrial Policy Action Plan;
- Rustenburg Integrated Development Plan
- Rustenburg Spatial Development Framework
- Rustenburg Integrated Masterplan
- Rustenburg Local Economic Development Strategy

4. Problem statement

Rustenburg Local Municipality is a world-renowned of Platinum Group Metals mining area with a population of over 630 000 growing at an annual rate of 3.5%. Because of this character, it has an economy that is highly dependent on the mining, which has both economic advantages, disadvantages and risks.

Identified advantages to the mining activities are that the economy of the city can absorb a high number of job-seekers but conversely, attract a lot of hopeful job seekers who end up adding to the unemployment rate of the city. Statistics South Africa (2011 Census) reported that unemployment rates in Rustenburg are approximately 26.4% for the general population and the youth unemployment rate is at a troubling 37%. Low formal education and skills levels contribute to this situation.

Mining is finite and as such, not a sustainable economic activity. It is also vulnerable to external macro-economic factors. A reported downward trend in the production and sales of Platinum Group Metals (PGMs), per Statistics South Africa (Mining: Production and Sales; P2041 of February 2018) points to a bleak outlook for the economic sustainability of the city, as local mines look to downscaling production and retrenching employees. Other disadvantages to high mining activities are that the same operations undermine other economic sectors, land use, land distribution, agricultural production, tourism, consumption of municipal services, environmental impacts and pressure on housing provision. Such negative impacts of a dominant mining sector need strategic intervention contained in this policy.

The challenge for the municipality is to reduce the vulnerability of the local economy to external factors by working to diversify the local economy and ensure financial, social and economic sustainability of the area by developing mechanisms to attract and retain investment in education, technical and professional skills levels, infrastructure, agriculture and other catalytic projects and programmes like the renewable energy in the green economy. This can only be achieved by capitalising on the competitive and comparative advantages that the city has; like

- Location on the spine of major road networks (N4, provincial roads (R24 and R510),
- Existence of tourism routes, heritage sites,
- Being within reach of countries in the Southern African Development Community (SADEC), and,
- Being the economic hub of the North West Province.

Assumptions made, based on the information above, that need to be resolved are:

- A local economy that is highly dependent (tress index of over 65%) on a declining PGM mining production and sales output threatens the sustainability of the city beyond mining
- An above average (3.5%) inward migration of people hoping to be employed in local mines puts pressure on the provision of municipal services (housing, water, sewerage, waste removal and electricity provision)
- A depressed or declining output of local economic sectors (mining, agriculture, tourism, manufacturing, energy) contributes to the high unemployment rates. As at 2011, 196 123 of the 266 471 residents, aged between 16 – 65 were employed. A total of 105 188 young people were identified as unemployed.
- A favourable business environment will promote and attract capital investment
- Ease of access to investment capital, premised on provision of quality basic services, enhances growth of businesses in the municipality
- Clearly defined and easy to apply investment procedures will create business confidence from the investors, entrepreneurs and beneficiaries

The Investment Incentives Policy aims to address these identified problems by creating targeted investment attraction packages to:

- Enhance the creation of a favourable environment that will attract and retain capital investment in the local economy.
- Improve levels of business confidence in the municipality to enhance investor confidence.
- Address the high cost of creating greenfield infrastructure projects in the municipality.
- Ensure efficiency in receiving, processing and approving applications for identified incentive packages within applicable legislation
- Promote the establishment of professional project teams that will expedite innovative programme and project implementation
- Create suitable conditions for locals including SMMEs, to participate in the implementation of catalytic projects through education, skills transfer and capacity development programmes
- Ensure that local employment is also enhanced to reduce dependency and poverty levels in the municipality

The Investment Incentive Policy therefore focuses on improving systems, processes and mechanisms to coordinate investment and development facilitation to promote a more organized and transparent investment and development application processes and improve turnaround times. The policy further identifies key pillars necessary to achieve its objectives and unlock the city's development potential. These pillars include land release, delegations of authority, development and / or review of bulk contributions policies.

5.Defining Incentives and Development Charges

5.1 Incentives

"*non-market benefits used to influence the behaviour of an economic actor*".
For investors, incentives may be defined as any measurable advantages (in the form of fiscal, financial, or non-financial incentives) accorded to specific enterprises or categories of enterprises by (or at the direction of) a government, to encourage investors to behave in a certain manner.

5.2 Financial incentives

These may include direct grants and cost sharing schemes, lending instruments and guarantees. It may also refer to discounted prices on the market value of land or the direct provision of land on terms more favourable than that available on the open market.

5.3 Non-financial incentives

This refers to technical or business support incentives: Services to support investors in setting up and running their operations (often provided by an investment promotion agency). These can include preferential treatment and streamlined administrative processing, administrative consulting, direct administrative assistance, relocation support and support to *ex patriate* employees of the investor business. Cities can also provide business-centric research, market intelligence, opportunity identification, project packaging and industrial clustering and support.

5.4 Development charges

Development charges are once-off fees applied to offset the additional public-service investment cost resulting from an intensification of land use. These charges are an important component of a sustainable system of municipal infrastructure financing. The general concept of a development charge is that the urban growth and expansion of new land use development creates the need for additional infrastructure services. These services, which are an essential part of land use development, are a direct cost generated by that development and should therefore be paid for by the land developer to avoid the financial burden being imposed on municipalities or existing communities.

Development charges can and should cover a significant portion of the costs of providing infrastructure that supports economic growth. They are a strategic and efficient source of capital finance to pay for new infrastructure that supports economic growth.

The following are principles underpinning development charges:

- Equity and Fairness: Development charges should be reasonable, balanced and practical 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.

5.5 Fiscal or tax incentives

Fiscal or tax incentives may refer to exemptions or Income excluded from the tax base. It may also refer to allowances which are amounts deducted from gross taxable income. Credits or rebates are allowances which are amounts deducted from gross taxable income.

SECTION B: BACKGROUND OF INVESTMENT INCENTIVES

This section describes the current reality in the investment incentive environment. Holders of investment capital demand high returns on their investment due to the scarcity of capital resources, stringent controls placed by governments on financial flows and the increasing pressure for municipalities and other businesses to become financially viable.

6. Creating sustainable competitive advantage

Municipalities must craft innovative strategies to address the twin challenges of providing basic services and ensuring that the local conditions are conducive for the growth of the economy. In Rustenburg Local Municipality (RLM), the IDP provides a strategic plan to address most of the challenges. However, due to lack of financial resources for economic projects, economic infrastructure projects do not get adequate financial injection, thus the need for domestic and foreign direct investment attraction. The fact that there are natural resources, adequate and competitive labour and other advantages does not make Rustenburg an investment destination of choice.

Attractiveness of a place for foreign direct investment to create sustainable competitive advantage requires innovative strategies and projects. These identified, and priority projects have been selected to create a diverse portfolio for interested investors and stimulate the economic growth of Rustenburg.

- Manufacturing: Logistics Hub, Mining Supplier Park, Factory Shops
- Tourism: Convention Centre and hotel, Flea market, Tourism and Heritage routes
- Agriculture and agro-processing: Fresh Produce Market, Urban Agricultural Hubs
- Green economy: Renewable and alternative energy production (solar, wind, mining, agricultural and landfill waste)
- Circular economy: Recycling and reusing of waste products
- Education: Centre for Science and Research Innovation, Tertiary Education Institutions
- Transport: Airport development, Bus Rapid Transport (RRT)
- CBD Regenerations
- Approved Precinct Development

7.Principles influencing investment decisions

7.1 Achievable and relevant performance criteria

Incentives must be tied to achievable and relevant performance criteria with clear and unambiguous mechanisms for monitoring and enforcement. Examples of conditions for the granting of incentives range from compliance with basic regulations to job creation and training targets.

7.2 Public access

All investment incentives should be published for ease of access by the general business community and public.

7.3 Legality and compliance

Tax incentives must comply with all relevant policy and legislation. Incentives should not be provided to companies which are not in compliance with the law. Incentives should align with core labour, health, safety and environmental standards. The investment incentives policy must be in line with national and provincial planning guidelines.

7.4 Low administrative complexity and clear criteria for granting rule-based incentives automatically

Transparent and objective eligibility criteria must be used to grant access to incentives. Unless incentives are tied to pre-defined, public, and rule-based systems they become vulnerable to corruption investor confusion and information asymmetries. Eligibility for incentives provided by law should be based on clearly defined, easy to understand, predetermined criteria. Qualifying criteria should be consistently applied to all businesses applying for incentives without prejudice. Incentives should not be granted through special permission or certification by investment promotion agencies, ministries of trade, or other government agencies. Ascertaining whether a business is eligible for an incentive and subsequently obtaining an incentive should be a simple task for investors and be based on the submission of pre-determined criteria and easily provided evidence of eligibility. This approach ensures prompt decision making and quick turnaround times for investors.

7.5 Employment creation

Investment incentives must consider temporary and sustained job creation in the private sector. Private investors and entrepreneurs must create both temporary jobs and permanent employment during start-up and sustained operations.

7.6 Affordability of full financial costs

Determine the full financial costs of incentives under all possible circumstances. It is possible that incentives decrease tax income initially but increase tax income in the long-run. However, all incentive packages must be affordable and allow the municipality to meet its service delivery targets. High impact, low cost incentives should be targeted. Mitigate indirect costs of incentives.

7.7 Transparency

Information on incentives policy and the availability of incentives should be public knowledge. Freely provide local and foreign investors with information on existing incentives in the most open and public way possible. All incentives available should be clearly spelt out in full detail and kept up-to-date on the Municipality's website (www.rustenburg.gov.za) or another dedicated public website.

7.8 Clear identification of those responsible for implementation

Establish who (committee, agency, directorate or authority) is responsible for incentive implementation and for ensuring that the objectives and criteria for incentives are met.

7.9 Spatial inclusivity

Investment incentives that target specific sectors or businesses may run the risk of exacerbating spatial inequality. Investment incentives should include marginalised communities where possible. Policies that correct market or regulatory failures in all areas should be considered. However, this should be in line with the Spatial Development Framework.

7.10 Complementarity and alignment (national and provincial)

National, provincial and district government currently provide various programmes and packages that incentivise investment and job creation. Incentives offered by Rustenburg Local Municipality should align with these to enhance their impact. Furthermore, the RLM investment incentives policy should directly reflect its mandate as a separate and independent sphere of government i.e. it should relate to incentives that Rustenburg can uniquely provide.

7.11 Continuous review

The impact of the incentives on investment decisions will only be apparent when the investment incentives policy is implemented. Investment incentives need to be reviewed regularly to mitigate unintended consequences through adjustments. The review process will be made easier and more effective by keeping incentives simple, keeping records, and evaluating results. The full package of investment incentives should also be reviewed for effectiveness and investor popularity after a fixed period

SECTION C: POLICY DIRECTIVES

This section deals with the proposed incentive policy in line with the Municipality's vision and strategic objective.

8. Priority strategic programmes

These Municipality's developmental programme is guided by the spatial development framework which has six priorities which should direct the application of the proposed incentives:

Priority 1: Integrated spatial development supported by the required bulk infrastructure development

Priority 2: Accelerated and shared economic growth supported by creation of spatial economic opportunities

Priority 3: Sustainable use and management of natural resources

Priority 4: Integration of land use and transport development

Priority 5: Creation of sustainable settlements through access to appropriate housing and social facilities. (housing projects; informal settlements).

Priority 6: Creation of opportunities for sustainable rural development

9.Eligibility

The following provides guidelines in terms of eligible projects which the Municipality will consider for incentives applications.

Criteria for consideration

PRIORITY SECTOR / PROGRAMME	PROJECT TYPE	MIN INVESTMENT (R')
Education	Education precinct / facility / infrastructure / supporting amenities (student accommodation, retail development, etc.)	R100m
Agricultural Development	Urban Agriculture Hubs, Rural Agricultural projects / hubs, Agro-processing projects	R20m (primary agriculture development) R50m (agro-processing project)
Industrial Development	Logistics, Mining Supply, Green Economy, Manufacturing	R100m
Tourism	Convention centre, Hotel, Tourism Park	R100m
CBD Regeneration Projects	Single and Mixed-use high rise (Commercial, Residential and Retail),	R100m
Mixed Use Development	Combination of 3 or more land-uses, etc.	R300m
Precinct Development	Residential, Retail, Logistics, etc.	R50m

Assessment Criteria

CATEGORY	**WEIGHT %**	**Score Max 10**	**Total Score**
Local Content and Procurement	15	[redacted]	[redacted]
Bankable Business Plan and Financial Model	15	[redacted]	[redacted]
Company Profile and Relevant Industry Experience	15	[redacted]	[redacted]
Total Capital Investment Value	15	[redacted]	[redacted]
Job Creation	10	[redacted]	[redacted]
Green Economy	10	[redacted]	[redacted]
Access to Market	5	[redacted]	[redacted]
Skills Development	5	[redacted]	[redacted]
Concept Design	5	[redacted]	[redacted]
CSI Spend	5	[redacted]	[redacted]
TOTAL	**100**	**100**	[redacted]

POSSIBLE MAXIMUM SCORE: 1000. MIINIMUM QUALIFYING SCORE ACCEPTABLE: 700

10. Role of Municipal Directorates

Directorates in the municipality each have a critical contribution to the Investment Incentive Policy and the packages on offer including the implementation thereof. Each unit must present possible concessions regarding applications complexity and costs, processing and turnaround times. These must be analysed for value so that potential investors can appreciate the savings on offer. Care must be taken to apply the basic principles of this policy in making the decisions.

11. Proposed Investment Incentives

In South Africa, the Department of Trade and Industry (the dti) offers a set of incentives through the fiscus to encourage development and investment in various sectors such as manufacturing, agriculture, tourism and film. Other incentives from the dti are tailor made to attract and retain investments in the automotive, business processes, outsourcing and offshoring industries. While the dti incentives go a long way in making South Africa more competitive. These incentives generally apply nationally. Cities still must compete for such investments. This makes the provision of investment incentives by cities an important ingredient in developing a city's competitiveness.

International best practice acknowledges the benefits of both financial and non-financial local incentives to investors in addition to the National Government incentives. It is recommended that Rustenburg follows the same practice to offer both financial and non-financial incentives

12. Financial Incentives

The Financial Investment Incentives proposed through this policy are described below.

12.1 Incentive F1: Electricity Rates Rebate

A monthly rate rebate as a percentage of total electricity consumed per month per new customer, as per the categories listed, for a period not exceeding 3 years, as follows:

Year	Action to follow	Rebate
Year 1	Rand value to be quantified/estimated in each case	20%
Year 2	Rand value to be quantified/estimated in each case	15%
Year 3	Rand value to be quantified/estimated in each case	10%
Year 4	Revenue Neutral	0%

The following rules apply, for practical implementation:

- Commencement date for the Year 1 rebate countdown – to be determined in each case, in consultation with the investor. The commencement date may be postponed, up to a maximum of 12 months from the date on which the connection was activated. In the period preceding the commencement date agreed upon, full energy rates will be applicable, subject only to demand charges exemption, upon prior request, as specified in the Energy Tariffs schedule.

- A Notified Maximum Demand (NMD) must be stated by these customers. The full Network Access Charges (NAC) values, will be payable from the month in which the electricity connection is activated by. In cases where the NMD is understated, the understated value will be clawed back once it becomes evident.
- Upon completion of the 3-year period, the normal tariff clauses will be applicable in relation to the NMD and NAC values.

12.2 Incentive F2: Water Rates Rebate

A monthly rate / service tariff rebate as a percentage of total water and sewerage consumed per month per new customer, for a period not exceeding 3 years, as per the table below. This rebate is only available for investments above R100-million.

Year	Action to follow	Rebate
1	Rand value to be quantified/estimated in each case	20%
2	Rand value to be quantified/estimated in each case	15%
3	Rand value to be quantified/estimated in each case	10%
4	No rebate	0%

12.3 Incentive F3: Estate Rental Rebate

A rental rebate on council owned land will be provided as per the table below.

Qualifying project phase	Qualifying lease period	Qualifying investment value	Rebate	Maximum Duration
Planning	Less than 10 Years	Less than R100 million	100%	12 Months
Planning	More than 10 Years	More than R100 million	75%	12 Months
Construction	Less than 10 Years	More than R100 million	50%	12 Months

The rental rebate will only be applicable and effective from the date of the signing of the lease agreement.
The lease agreement for the qualifying project should be subjected to 12 months for the development to commence from the date of signing the agreement or a similar condition in compliance to the land disposal policy.

13 Nonfinancial Incentives

Non-Financial Investment Incentives formalised through this policy are described below.

13.1 Incentive NF1: Catalytic Projects Fast-Track Committee

Catalytic projects fast-tracking committee has been established to fast track investment and development proposals. The fast-tracking of investments and development proposals contributes towards reducing the cost of doing business as it improves the turnaround time for decision making. The Local Economic Development Directorates is establishing a one-stop office that will also improve the interaction with investors and developers and provide ease of access to Municipality's services relating to investment and development facilitation.

SECTION D: MONITORING AND EVALUATION

The incentives applications and their impact will be monitored by the Catalytic Projects Fast-Tracking Committee. The Local Economic Development Directorate will evaluate the impact of the incentives policy on an annual basis. Depending on the investment and macro-economic environments, the policy may be updated to ensure relevance and cost efficiency.