

# **MID-TERM REPORT**

**For period**

**1 July 2016 to 31 December 2016**

## INTRODUCTION

Development agencies worldwide are normally established when an economic development intervention is required and when a city administration feels that such an intervention cannot be done by the city administration due to a lack of capacity or experience. It is important, though, that a development agency fulfils a catalytic economic development role and not a municipal service delivery role. Once a development agency plays a role in respect of basic service delivery, its catalytic economic development role will be diluted, which will undermine its very purpose.

Due to a rapid economic decline, particularly in the Central Business District (CBD) of Port Elizabeth, the Mandela Bay Development Agency (MBDA) was formed in 2003 by the Nelson Mandela Bay Municipality (NMBM) and the Industrial Development Corporation (IDC) in an attempt to turn around the urban decay, resulting economic decline and capital flight manifest in the Central Business District (CBD) of Port Elizabeth. Up to 2004, the City had seen a rapid decline in the once thriving CBD and many buildings falling into disrepair. At the time the decline in the CBD led to a general economic decline in the region as well. The general trend of a region dying when a city dies was very evident in this respect.

The MBDA is the Special Purpose Vehicle (SPV) local economic development and urban transformation arm of the NMBM. Against this backdrop the MBDA works closely with the political dispensation and executive management team of the NMBM and other key stakeholders to facilitate and support urban renewal and transformation through infrastructure projects and delivery of services – the latter as a top-up to the general security, cleansing and maintenance services provided by the NMBM. Many of these projects have as their aim the development of a strong tourism real estate sector, a sector that is not well developed in the City, but shows potential for development. Although the city has a competitive motor manufacturing and related industry cluster, there are no other potentially internationally competitive clusters other than tourism.

The work of the MBDA commenced with a strong Port Elizabeth CBD focus, but its mandate has been expanded to other emerging nodes, including emerging nodes in townships areas. The Helenvale Urban Renewal Programme (HURP) has now also been transferred to the Agency, and it has also identified projects in New Brighton, Veeplaas and Korsten/Schauderville for the 2016/2017 financial year.

It is fair to say that the role of the MBDA as a transformation agency for the CBD has changed radically, with a much wider or regional development agency role. This expansion has placed much pressure on the MBDA budget and staff capacity. There is an increasing trend for traditional NMBM projects to be handed over to the MBDA. A recent example is the Nelson Mandela Bay Stadium. The management contract with Access Facilities and Management (Pty) Ltd has ended and the Agency will be responsible for the full operations of the Stadium from January 2017 onwards. It needs to be noted that this trend may create a future problem, as the MBDA was also meant to be a catalytic local economic development agent and not another municipality operating and managing municipal assets. There must be a definite distinction between the provision of basic municipal services (the task of the NMBM) and the

conceptualisation and implementation of catalytic economic development projects (the task of the MBDA). There is a looming danger that these very different tasks may become blurred.

The MBDA works in the same legislative framework as the NMBM. The Municipal Finance Management Act (56 of 2003), the Municipal Structures Act (117 of 1998) and the Municipal Systems Act (32 of 2000) are the guiding pieces of legislation in the work of the MBDA.

The policy framework in which the MBDA operates and which serves as the strategic and operational direction of the MBDA is as follows:

- The NMBM Integrated Development Plan (IDP);
- Local Spatial Development Frameworks (LSDFs) for the respective designated areas/development nodes;
- The MBDA's Five-year Strategic Documents (2010-2014) and (2015-2020) – approved by the MBDA Board of Directors; and
- Annual Business Plans, approved by the MBDA Board of Directors.

The mandate of the MBDA forms an integral part of the IDP and hence the MBDA's projects and programmes are also in line with the IDP. The MBDA cannot embark on a project that is not contained in the IDP. The MBDA emphasis should be on catalytic projects, though, and not basic service delivery projects. The mandate of the MBDA was always contained in a separate chapter in the IDP, but has now been incorporated in the Economic Development, Tourism and Agriculture Directorate chapter. The work of the MBDA commenced with the 'CBD and immediate outlying areas Mandate Document', which was approved by full Council in 2004, and serves as a basis for urban renewal and transformation of the MBDA. The key objectives of the MBDA, which have grown and proliferated over time with an extended mandate and a more regional development agency role, are:

- Using extensive public consultation and marketing research in the identification of projects that will contribute to urban renewal in the CBD and the townships;
- Ensuring that all projects have a very strong underbelly of sustainability/ catalytic economic impact;
- Promoting, facilitating and managing the basics of security, cleansing and regulatory compliance to strengthen public confidence;
- Implementing catalytic capital projects and testing these in urban places as a stimulus for development;
- Enabling the conservation management and showcasing of heritage in order to forge a unique identity for the place and its people;
- Marketing the area as a first-class choice destination to live, work and play;
- Managing the area for environmental sustainability;
- Facilitating social and economic opportunities in all projects and activities in order to contribute to economic inclusion and growth;
- Engaging effectively, through public participation, with stakeholders, partners and the broader community in order to foster understanding, buy-in and shared delivery of urban renewal; and

- Developing a property portfolio through not only NMBM derelict properties handed over to the MBDA for redevelopment, but also through the acquisition of properties on the open market.

Through the implementation of the above strategic objectives, the key rationale is to ensure a complete turnaround in respect of urban decay in the targeted areas of the Agency. This turnaround approach is also applicable in emerging township areas. Through the turnaround strategy, economic growth is promoted through the response of private sector investment to the catalytic infrastructure projects and services initiated and implemented by the MBDA. Through these efforts, the MBDA enhances decayed areas through the creation of sustainable urban places to contribute to the economic development of the City and the quality of life of its residents. The Agency believes in the concept of Dynamic Place Initiative (DPI), i.e. to create dynamic places that will contribute to tourism real estate and be a catalyst for private sector investment.

The overall approach of the MBDA remains to “get the basics right” before other layers of economic infrastructure development take place. It is continuously building strong relationships with the relevant directorates within the NMBM and, through these efforts, the MBDA is recognised as a key urban renewal and economic/social transformation vehicle. The MBDA’s involvement with private sector security, cleansing contracts and Special Rating Areas (SRAs), as well as the regulation of informal trading, is all part of its “get the basics right” approach.

Although the MBDA’s core business is the identification, conceptualisation and completion of catalytic capital projects (that will lead to a downstream economic development impact where public sector investment leads to private sector investment), the support of such projects through security, cleansing, maintenance and SRAs has become an important “softer” part of the MBDA’s development agenda.

The selection of key services and catalytic infrastructure projects is against the backdrop of extensive market research and public participation, based on the needs of key stakeholders and the broader community. Community participation is one of the backbones of the MBDA’s development approach. The MBDA has reached a point after a decade of operating where it has created the required confidence to market and brand the City as a strong, sustainable, urban place that is increasingly recognised locally, nationally and internationally.

The MBDA also follows a creative and innovative way of “Concept to Completion”, i.e. conceptualising and implementing and therefore fulfilling its role as a change agent, “thinking out of the box”, but at the same time respecting the municipal regulatory and compliance environment. The MBDA is a Special Purpose Vehicle between the government and the private sector and fulfils in many ways the role of a development parastatal at local government level.

The approach of the MBDA endeavours to coordinate and manage public sector capital investment and other programmes in order to deliver a range of projects and programmes aimed at not only achieving the IDP, but bringing the IDP down to an implementation level in order to create a higher level of Gross Domestic Product (GDP) and employment opportunities, and in the process growing the pool of rates

and taxes that can be applied in critical areas of needs, such as the townships and other emerging nodes.

The overall development involves mechanisms to ensure that the development is implemented as planned. It is in this respect where local government often feels short, i.e. not always being in touch with the market place and the needs of the customer and often erring in the implementation of projects that are not speaking to the market place and there often ending up as white elephants.

The MBDA believes “a good plan is a plan that works”, and to achieve a plan that works it must be implemented on budget, time and within acceptable quality standards”.

The MBDA uses the “consulting model” approach, i.e. employing a small team of experienced and skilled staff that drives a large consulting base to the desired output and environment, with the MBDA’s objectives of delivering on time, on quality and on budget. The expanded mandate, which now also includes the maintenance of upgraded areas component, does bring more pressure on human resources and budget. The present consulting model also brings a layer of consulting cost that drives up project implementation cost. Consideration is presently given to a model where more in-house technical expertise is built to bring project implementation costs down.

One of the challenges for the MBDA remains sourcing sufficient capital funding for its respective projects and to incrementally implement the well researched Local Spatial Development Framework (LSDF), which has now been converted in a legal NMBM Council adopted LSDF. In this regard, the Agency has embarked upon looking at various external sources of funding in addition to the funds it receives from the NMBM. One of the key objectives in the 2016/2017 financial year and beyond will be to submit applications for national funding that can be used to finance identified projects in the CBD and township areas.

The Agency achieved a clean audit outcome from the Auditor-General for the 2015/2016 financial period. It needs to be noted that the objective of a clean audit is increasingly difficult in a dynamic environment and pro-active project implementation programme.

The MBDA is slowly beginning to take the role of a parastatal at a local government level. The intended foray into property development will not only provide the MBDA with a much needed “private sector in a government environment approach”, but will also ensure more financial independence. The redevelopment of the Tramways Building, the Athenaeum Building and the purchase of the St Peters land in the Baakens Valley are the first steps in this direction. The intention is to build a rolling balance sheet that can be used as collateral for the funding of future projects, leading to a lesser reliance on municipal funding.

## **OVERVIEW OF PERIOD 1 JULY 2016 TO 31 DECEMBER 2016**

The period under review has seen the MBDA move forward amidst more political stability after the local government elections and the change in the political dispensation. Through fresh political leadership, the MBDA is dealing with a more responsive NMBM, not only from a political point of view, but also an administrative point of view. There is clearly a stronger service delivery and developmental agenda in place since the change in government in August 2016.

Although the MBDA received broad political support to implement its projects in the CBD and selected emerging nodes in the townships, there is a very strong demand to increase the MBDA's township involvement much further.

The MBDA's involvement in Helenvale and other township areas has broadened its operational base, and the impact of projects in the townships can already be seen. The approach in the townships is not much different from the approach in the CBD and could be described as work that aims at social change. The work is therefore not only based on construction, but also includes social transformation programmes.

Most township areas in Nelson Mandela Bay do not look good and any new public sector infrastructure investment in township areas will be a good investment only if it ultimately leads to private sector investment in retail, entertainment/leisure, office and residential development.

The Helenvale Urban Renewal Project has provided the MBDA with new impetus. The funding agreement with Kfw Bank will be crucial in ensuring a successful social intervention in Helenvale.

The redevelopment of the 130-year old Tramways Building is the start in the creation of a new tourism/leisure/entertainment/office/retail area within the Tramways Building, the Bridge Street Brewery, Vuyisile Mini Square and St Georges Park. It will also link in well with a future commercial/marina development at the Port Elizabeth Port. The completed Master Plans for the Baakens Valley and the Port's marina/commercial development will lead to the development of a new entertainment/leisure, retail, office and residential tourism real estate node. Along with the development and positive outcome of the Port of Coega, the development of this node may be the cornerstone of the international competitiveness of the City.

The public participation process in the Singapi Road project was very successful and the completion of the project over the next two years will unlock many retail, leisure and entertainment opportunities along the road to the Red Location Museum. The redevelopment of Singhapi Street will be the catalyst for development in a very historic township that has not seen much in terms of development over the past two decades.

## **SERVICE DELIVERY BUDGET IMPLEMENTATION PLAN**

The introduction of a Performance Management System has further focused the MBDA's efforts in its service delivery programme, enabling the management and staff members to fulfil in its mandate given by the NMBM. The MBDA sets itself high

performance targets and drives its staff to achieve the desired results. In cases where the desired targets are not achieved, pro-active measures and processes are put in place to rectify the situation. Although the overall performance in keeping projects to time, budget and quality has improved in the first six months of the 2016/2017 financial year, processes need to be refined even more to ensure a better performance toward the end of the financial year.

The MBDA believes that a hard driven set of Key Performance Indicators (KPIs) is the only way to keep performance at an acceptable level. The MBDA is operating in a volatile political environment and the only way to make an impact is through effective service delivery.

It is common cause that there are a couple of variables in the achievement of a KPI and the MBDA is dependent on a number of role players to ensure that KPIs are reached. Although cooperation with the relevant divisions in the NMBM is good, the machinery of the NMBM works much slower than the machinery of the MBDA. Often approvals are required from Human Settlements and Infrastructure and Engineering. If these approvals do not come through at the required time, it often causes delays in the implementation of projects and the subsequent fulfilment of a specific KPI. Measures are in place though to continuously improve on communication channels to ensure that approvals are received on time to ensure that projects are implemented on time, budget and quality.

In conclusion, although the MBDA has become a paramount service delivery vehicle of the NMBM in terms of CBD and township related catalytic projects, the shareholder (i.e. the NMBM), the MBDA Board of Directors and MBDA management must ensure that the core focus of the company is retained. The management of the Stadium and the Stadium precinct will bring a massive change to the operations of the MBDA.

Whereas the management of the stadium is clearly an NMBM function (this capacity will need to be built in the MBDA), the development of the Stadium Precinct and the use of the lake as a sporting events catalyst fall very much within the development mandate of the MBDA, and is an exciting prospect and a silver development lining to the takeover of a basic NMBM facilities management competence.

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**5 January 2017**