

OPERATIONS AND MANAGEMENT OF TOWNSHIP NODAL DEVELOPMENTS: KHAYELITSHA BUSINESS DISTRICT CASE STUDY



TRAINING FOR TOWNSHIP RENEWAL INITIATIVE







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TRAINING FOR TOWNSHIP RENEWAL INITIATIVE CASE STUDY SERIES

The Training for Township Renewal Initiative (TTRI) is a partnership between the National Treasury (Neighbourhood Development Programme), South African Cities Network (SACN), the Department of Cooperative Governance (Urban Renewal Programme), the Development Bank of Southern Africa (DBSA), and Urban LandMark. The partners are also supported by occasional associates. TTRI aims to promote, encourage and support township development and renewal in South Africa through the training of township managers and practitioners.

The TTRI case studies series aims to document experiences that illustrate innovative approaches to area-based development in order to share practical ideas and lessons to inform future development initiatives and practices for South Africa's townships. The case studies are primarily for role-players involved in township regeneration, including planners, trainers, policy makers, investors, community leaders and municipal officials.

The Khayelitsha Business District (KBD) development is one of the first cases of its kind in South Africa. It is unique in that the Khayelitsha Community Trust (KCT), with its various subsidiary companies, is the major equity holder on behalf of the community of Khayelitsha. KCT and its subsidiaries are playing an increasing role in developing the precinct and in its operations and management.

This case study focuses on operations and management in the KBD and provides a valuable opportunity to learn about operations and management in township nodal developments.

ACRONYMS

CBO: Community-based organisation

CoCT: City of Cape Town

COO: Chief Operating Officer

CoT: City of Tygerberg

IDP: Integrated Development Plan

K-Housing: Khayelitsha Housing Company

K-Manco: Khayelitsha Management Company

K-Retail: Khayelitsha Retail Company

KBD: Khayelitsha Business District

KCT: Khayelitsha Community Trust

LAA: Land Availability Agreement

LSM: Living Standards Measure

MAT: Municipal Asset Transfer Regulations

MFMA: Municipal Finance Management Act

MSA: Municipal Systems Act

MSAA: Municipal Systems Amendment Act

O&M: Operations and Management
(assumed to include maintenance)

RMB: Rand Merchant Bank

SARS: South African Revenue Services

SDF: Spatial Development Framework

SLA: Service Level Agreement

URP: Urban Renewal Programme

VPUU: Violence Prevention through
Urban Upgrading



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TRAINING FOR TOWNSHIP RENEWAL INITIATIVE | CASE STUDY

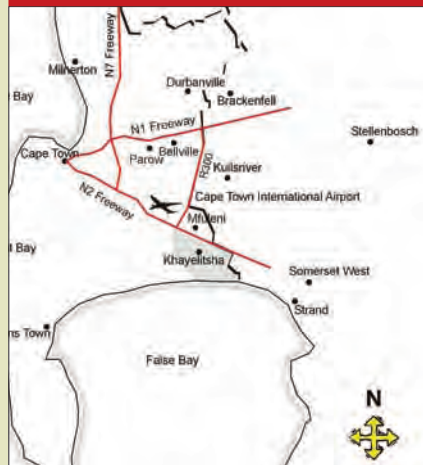
1. INTRODUCTION

Khayelitsha is a typical South African apartheid urban area, situated away from Cape Town's affluent areas, geographically isolated, and located with other similar places in a 'poverty zone' between a bleak section of the False Bay coastline and the N2 corridor.

With the advent of democracy the challenge of rebuilding and healing this country began. One of these significant challenges was to transform townships that had been deliberately established as labour dormitories with few of the formal services or urban functions normally associated with residential areas, into successful and sustainable communities.

Economic activity thrives where there is other economic activity, and townships and disadvantaged communities have, by design, been historically excluded from commercial activity. Accordingly, in Khayelitsha, one of the projects identified was the development of a central

Figure 1: Khayelitsha locality



business district, known as the Khayelitsha Business District (KBD).

The challenge was to turn the KBD into a vibrant economic hub that would contribute to socio-economic development and viable, stable neighbourhoods.

This case study serves to highlight the operations and management elements of the KBD. It covers the obvious issues

such as tenant management, security, maintenance and cleaning as well as those broader issues that, while not directly to do with operations and management, strongly influence the way the project is managed and its sustainability.

WHY A CASE STUDY IN KHAYELITSHA?

The KBD project is one of the first of its kind in South Africa, so role-players had to learn as they went along. It took place at a time when many townships were risky for commercial development. The Khayelitsha Community Trust (KCT) is the major equity holder – this is unusual and presents many learning opportunities, for example, about appropriate models for township community trusts. Should they be independent, or should they be municipal entities? Should they be entirely commercial, or supported by grants? The challenge now is to ensure the sustainability of KBD, and to ensure that management and maintenance are of a high standard so that local and external support for the precinct are maintained and enhanced.



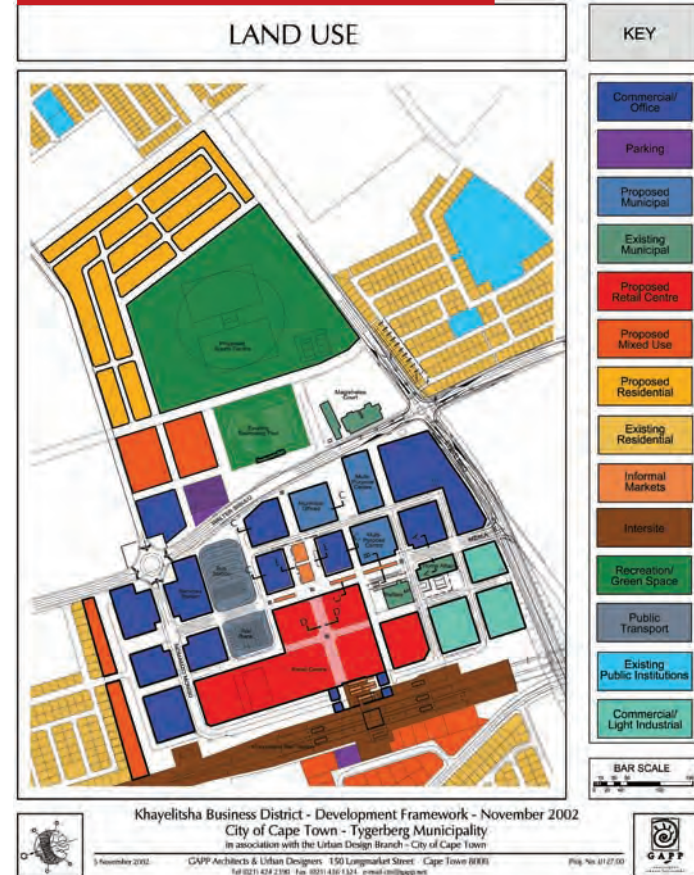
2. THE STORY OF KBD

BACKGROUND

Originally planned for some 270 000 residents, Khayelitsha grew to about 500 000 by the late 1990s and is currently home to more than 1 million people. The KBD is the only accessible regional centre that meets the retail and services needs of residents. The KBD was conceived and developed specifically to achieve township urban renewal and to reverse under-development during the apartheid era. With the establishment of the City of Tygerberg (CoT)¹ in 1996, the capacity and determination to make a success of the KBD became a key priority in order to address the needs for development, investment and access to higher order services in Khayelitsha.

¹ The City of Tygerberg is now a local municipality within the Cape Town Metro, but in 1996 it was an autonomous municipality and held responsibility for KBD. In December 2000 the City of Cape Town Metropolitan Municipality was formed, with CoT and others as local municipalities within the Metro.

Figure 2: Detailed plan of KBD precinct





DEVELOPMENT PHASE

After the 1998 transfer of land from the Western Cape provincial government to the CoT there was a two to three-year process during which the CoT developed a framework plan in consultation with all major stakeholders. This phase was characterised by intensive consultation with the Khayelitsha community and other role-players. Rand Merchant Bank (RMB) provided a major supportive role during this time.

The CoT prepared a framework plan in consultation with the private sector and the Khayelitsha community (mainly the councillors). The aim was to identify private and public facilities that were required to serve the Khayelitsha community, and locate or draw such facilities to the KBD area, e.g. magistrates' courts and other services that could not be accessed locally.

In 2001, a Collaboration and Cooperation Agreement was signed between RMB and the City of Cape Town (CoCT). This led to the official launching of Phase 1 of the project in 2003 when the business plan was approved by the CoCT.

Table 1: Phase 1 of the KBD project included the following:

Element	Identified / originated by
Bulk services and road infrastructure	CoT framework plan
Regional Magistrates Court	National government policy decision – readiness on both sides to accommodate facility within KBD
Offices for the Department of Social Welfare	Need identified by provincial government. CoCT directly involved in location within KBD
Offices for the Department of Home Affairs	National government policy decision – readiness on both sides to accommodate facility within KBD
Swimming pool complex	Donation to CoCT, decision to use large open park area by CoCT with councillors
Khayelitsha cricket oval and club-house facility	Need for multi-use facility identified by CoT and councillors, partly funded by United Cricket Board
Transport interchange (taxi rank)	CoT initiative funded by provincial government
Informal trading facilities	Identified by CoCT and private-sector planners, traders occupied vacant area unplanned, but they were accommodated. To be moved into designated informal trading spaces after management arrangements have been formalised
KBD retail centre	CoCT in collaboration with private sector (RMB, Future Growth)
KBD multi-purpose centre	Provincial government initiative. Placement within KBD and close to planned municipal offices of the COCT initiative
Khayelitsha Hospital (230-bed hospital)	Provincial initiative. CoT and province did regional analysis, identified present site, consulted councillors



View from the retail area across to the Khayelitsha magistrates court and the multi-purpose centre



Site of the 230-bed Khayelitsha hospital

Phase 1 is scheduled to end during 2011, after which Phase 2 will be launched. The majority of the elements of Phase 1 were identified and planned as part of the CoT's initial consultations with members of the Khayelitsha community, particularly those councillors who later became core members of the KCT (the KCT had not yet been formed).

Phase 2 will include extensions and improvements to the retail centre and the transport interchange, a private academy, a mixed-use office complex, offices for the Criminal Investigation Department (CID) of the South African Police Services (SAPS), and development of the railway station area on the other side of the tracks from the retail centre, which will include further informal trading facilities and a transport interchange. Recently, a hotel group expressed interest in establishing a presence in the area.

The total proposed cost of the private-sector funded projects within the development was R321 million (2003 figures), of which approximately R265 million was secured from the private sector.

Role-players

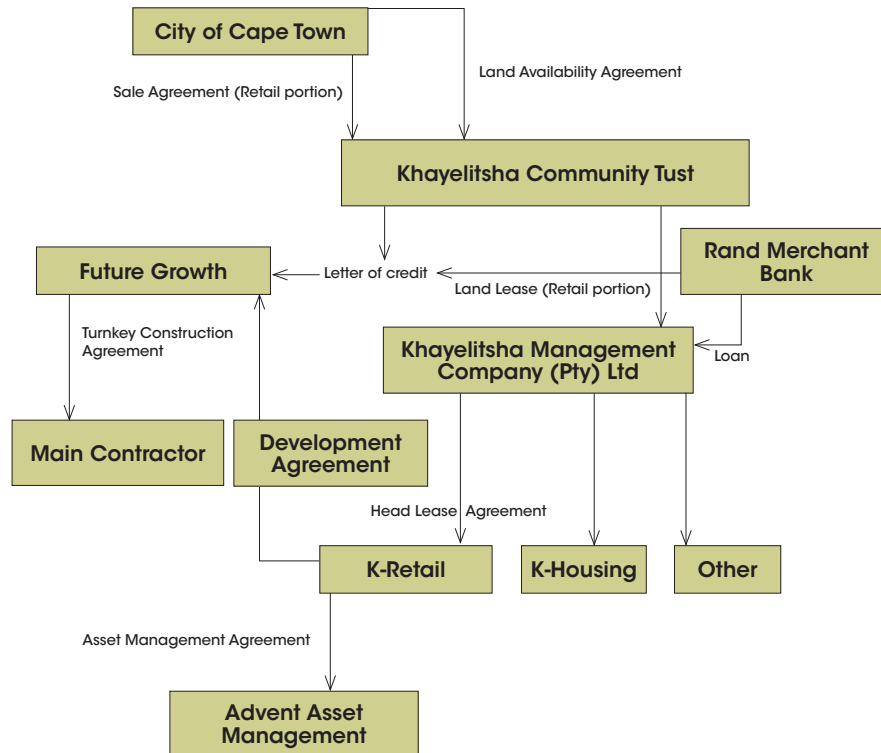
RMB was the only private-sector entity to indicate a willingness to assist the CoCT to develop the KBD, and an extremely important partnership was developed that remains in place to date.

The declaration of the KBD as one of 10 Anchor Projects by the national Urban Renewal Programme (URP) in 2001 further heightened the profile of KBD, particularly insofar as national and provincial government were concerned, as the URP obliged them to prioritise expenditure in the area.

The development process was facilitated through a Collaboration and Cooperation Agreement between CoCT and RMB. RMB assisted CoCT in sourcing and securing private sector loans for the project.

The KCT, formed to represent the community of Khayelitsha, is the principal equity holder in the development. The KCT was established before the Municipal Systems Amendment Act of 2003 (MSAA). Five of the original trustees were local government councillors who played a very

Figure 3: KBD organogram (2001– 2009)



important consultation role and provided local credibility for the project, but the Act required that they be replaced with independent trustees.

KCT then established further structures as part of its overall management and operations functions. These structures and their relationships with RMB and other entities are illustrated left.

Land release and ownership

In 2004, KCT entered into a Land Availability Agreement (LAA) with CoCT. Rights for the development of all undeveloped land within the KBD precinct were given to KCT. The land on which the retail centre was constructed was purchased by KCT from the CoCT using funding from RMB. There is a perception that RMB owns the retail centre. This is not correct. KCT also owns the buildings and is paying off the RMB loan over a 20-year period using rental income from the business owner, Khayelitsha Retail Company (K-Retail). This retail centre ownership model, which is unusual in South Africa, ensures that the Khayelitsha community benefits directly from the development.



Value of investments

The KBD was and continues to be funded from private and public sector sources. Table 2 reflects funding for Phase 1 and Phase 2 from those two sources and the major cost items that were budgeted for.

Table 2: Budgeted funding amounts

Private-sector funding as proposed (2003 figures)		
Private sources (RMB): R265m	Retail centre	R77m
	Municipal offices	R30m
	Service station	R5m
	Residential project	R209m
² Shortfall: R56m	TOTAL	R321m
Public-sector funding as proposed		
	Central Business District	R380m
	Rail extension	R161,3m
	Health	R79,6m
	Housing	R167,7m
	TOTAL	R688,7m



² The shortfall of R56 million relates to the housing project which is part of Phase 2 and will be secured through equity funding from the homeowners in the proposed residential development (R29,4 million) and the community (R26,6 million) through the KCT as equity holder in the development.



3. OPERATIONS AND MANAGEMENT IN KBD

In this case study the focus is on operations and management (O&M). This is assumed to include maintenance. O&M has both a narrow and a broad focus.

Narrowly, O&M relates to the day-to-day operations of KBD. For example, cleaning, security, gardening and beautification, maintaining infrastructure and other public physical elements, running and managing the shopping centre, including securing appropriate tenants, managing rentals and cash flow, and so on.

The narrow focus cannot be considered on its own, however, as it takes place within a broader context. Therefore it is important for effective O&M to consider the way a precinct is planned and set up. "Your history creates your future". Once a development is up and running it is difficult to undo mistakes. Conversely, if it is set up well, it is more likely to grow and be sustainable.

The broader focus includes bringing

people into the precinct, ensuring the correct mix of functions and services, ensuring maximum attractiveness of public open spaces, increasing through-flow, providing for informal traders and enhancing the synergies between the various land uses.

This is why this case study includes both the narrow O&M issues as well as the broader context of O&M in a township nodal development such as KBD. The two are interdependent. The O&M functions in KBD are shown in Table 3.

In August 2010 property management services were handed over from Advent to Khayelitsha Management Company (K-Manco). A retail centre Chief Operating Officer (COO) was appointed in July. Experienced support staff are still to be appointed. After staff costs are covered, an estimated R80 000 monthly saving is expected.

K-Manco has a steady revenue stream from the retail tenants. This is used to pay contractors and service providers. This aspect of O&M is operating well.

Table 3: O&M roles and responsibilities

Facility	Role	Role-player
Retail centre	Management	Advent
	Maintenance	Advent, sub-contracted
	Security	Advent, sub-contracted
	Cleaning	Advent, sub-contracted
National and provincial government buildings	All building-related functions	Relevant line department
	Surrounding spaces – cleaning, security, lighting	CoCT
Public open spaces in KBD	All functions	CoCT



For the remainder of the precinct, the requirements for public services such as security, cleansing and maintenance are clear, but the way in which they are carried out indicates confusion around roles and responsibilities.

O&M in the precinct (not the retail area) ought to be done through K-Manco, but there are inadequate funds and management staff at present. For this reason CoCT is presently providing all of these services. Over time it is intended that K-Manco should take over these functions (in terms of KCT's founding statements and mandate) and that CoCT will subsidise K-Manco for these public services.

The remainder of this case study focuses on lessons learned about the O&M phase, narrowly and broadly defined. Hence there is significant coverage of how the various systems and elements of KBD were planned and set up for trouble-free and sustainable operations.

4. LESSONS LEARNED

This section presents lessons learned during research conducted for this case study.

4.1 PROMOTE SUSTAINABILITY AND OWNERSHIP THROUGH CONSULTATION

When considering a township precinct development such as the KBD, outsider dominance can end up undermining the project and the effectiveness of its future operation and management. This is because local support is critical – such a project is not only a commercial venture, but also a community development process.

In the case of the KBD, extensive consultations took place. Local structures were consulted and became part of the process. The Khayelitsha Development Forum was integral to the consultations, and key community leaders supported the process. The KCT was established at an early stage as a non-profit body representing the interests of the people of Khayelitsha. They became an important contact point between the major stakeholders.

The importance of this level of involvement and consultation is evident in many ways. For example, in many urban spaces, when land is left lying open for some time, it is invaded by squatters. In the KBD case, the large area allocated for housing (which has been vacant for almost two years) has not been invaded. This is evidence of good relationships, local community understanding and acceptance of the development plans for the area. So people are prepared to be patient; they respect (and probably also expect) the land and therefore protect it.



The area reserved for housing has not been invaded



KEY POINTS

Include multiple stakeholders in the planning process

A nodal task group involving multiple stakeholders should ideally be set up for the planning process.

Don't rush the process

The development principle of "slow-fast, not fast-slow" applies. One must proceed slowly at the beginning to build strong foundations in order to make good progress later. Plan enough time and resources for this lead-up.

Expect and plan for conflict over new resources and opportunities

Even when consultations are thorough and there are steps to promote local ownership in a variety of ways, expectations in the local area will be huge. This can cause conflict over new resources or opportunities, requiring complex and time-consuming 'people management'. Local developments need to anticipate and prepare for this.

4.2 ESTABLISH AND BUILD EFFECTIVE STRUCTURES

A number of interesting points arise from the way the KBD project is structured.

Firstly, KCT is the major equity holder, has use rights over all of the KBD land and owns the retail centre land and buildings. It also acts as custodian of the entire precinct. Normally, a property developer or client of the developer would be the owner of the retail development.

Another unusual relationship in the KBD project is that the project management company at one stage reported directly to RMB, and was not accountable to KCT. This caused a great deal of unhappiness within KCT as its role was undermined. KCT's role in this case was to meet its community and local economic development mandates, as well as to maintain the physical quality of the shopping centre. This has been remedied, because Advent now reports to K-Manco and thus to KCT, but suggestions of low levels of commitment to the community and economic development mandate project remain.

Clearly, relationships are important, and when visions are not shared equally by the various stakeholders, tensions will exist. It is hoped that the handover of retail centre property management services to K-Manco will remedy this.

The various companies that were set up to manage the different entities within KBD (K-Manco, K-Retail, Khayelitsha Housing Company [K-Housing] and others) are also the subject of some debate. They were set up as separate entities in order to separate risk and to make management within each less complex. This has resulted in a fairly high level of organisational complexity (see Figure 3, KBD organogram). Some role-players have called for greater simplicity, for example that all management functions should be vested in K-Manco. However, the view now seems to be that the separation between the subsidiaries should be retained. All of this assumes that K-Manco and its subsidiaries have the required skills and capacity to take on these roles. This capacity building needs to be built into a project like this from the earliest stages.



KEY POINTS

Ensure clear mandates and roles

For effective operations and management of a township nodal development, the lines of reporting should be clear and should be consistent with the overall vision for the development. It is critical that institutional arrangements about which functions are to be executed by whom are clarified ahead of time.

Involve local entities in management roles

In future township nodal developments entities such as K-Retail, rather than the financiers, should play a more direct role in terms of appointing and managing the retail property managers. Unless unusual conditions prevail, finance institutions should not play a major role in the development or in the day-to-day operations of it. However, skills and capacity to fulfil these roles needs to be developed and supported.

4.3 DEVELOP CAPACITY AND RESOURCES FOR TECHNICAL AND MANAGERIAL ROLES

The previous lesson hinges on one very important point – the need for significant human resource capacity. The unusual relationships described above are the result, in part, of RMB wishing to retain close management control and to minimise risk.

KCT was set up primarily as a community representative body, and it had a number of local government councillors serving as trustees. This served the purpose of consultation and representation very well. However, when KCT became a municipal entity, the MSAA required these councillors to resign and independent trustees were appointed. The valuable unintended consequence of this was that KCT was then able to move into a new phase that required greater technical and managerial skills and capacity to engage with the issues at hand, as is now happening. KCT now fulfils three separate and necessary roles: consultative, technical and executive or managerial, which could be combined, but none excluded.

In addition, KCT is the overall precinct manager, but lacks capacity and budget to do this effectively. KCT acknowledges that in the interim a precinct manager provided by CoCT might be a useful way forward. Regardless of who it is, KCT is clear that it has to be a skilled person.

Once service providers and loan obligations have been paid KCT receives very little income from KBD's operations. This is a significant drawback as KCT should, in normal circumstances, play a greater role in financial management and operate more fully as precinct manager.

This was addressed recently by signing service level agreements (SLAs) with the CoCT which included the appointment of a COO for the retail centre, employed by K-Retail and acting on behalf of KCT. If KCT had the financial capacity to perform its executive roles all along, then the arrangement with CoCT would not have been necessary, and this management capacity, which is considered preferable by all role-players, could have been secured much earlier.



KEY POINTS

Ensure a community trust understands its executive role

Trusts need to play consultative as well as executive roles. They need to understand these roles and not confuse them.

Ensure trusts have technical skills

Community trusts need technical and managerial skills, which could include using independent technical experts. These are two separate and independent roles.

Ensure community structures have operational capacity

Community management structures need to have the required skills and clear mandates for their work. Monitoring and accountability are critical.

Trusts need to be independent

A community trust should be independent of its local authority and be able to act as landlord and precinct manager. It should have an income stream with strong financial controls.

Even as KCT and its sub-structures assume their overall executive role more fully, questions are raised about whether the capacity exists for the various role-players to fulfil their new management roles effectively. These are critical operational and management issues for any urban nodal development.

4.4 PROMOTE SKILLS DEVELOPMENT AND LOCAL ECONOMIC DEVELOPMENT

A township nodal development such as KBD needs to be operated and managed in a way that meets local expectations and takes its community development mandate into account. This is in order to promote local ownership of and support for the precinct. It is not just a question of charity, but of adding value, and in purely



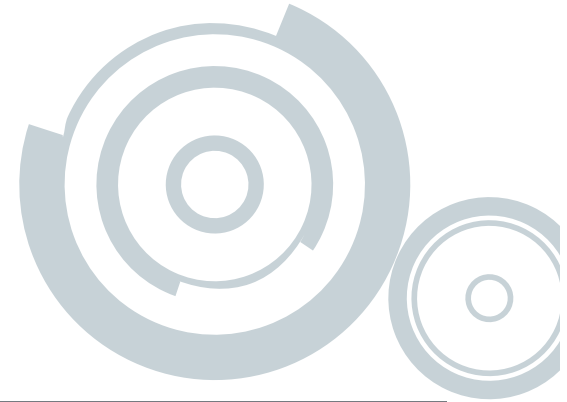
Security provision is an important source of local employment



commercial terms, of growing future markets for sustainability. This requires a long-term investment in human capital in relation to managing and maintaining the precinct, particularly in respect of capacity building and skills development.

Expectations of employment and skills development are certainly present in Khayelitsha, and in some cases the expectations have not been met. For example, there seem to have been contradictory understandings and hence some tensions between Advent and KCT in this regard, with suggestions that the company is only partially committed to hiring locally. Suggestions were made that more effort could be made to recruit local people to be mentored by Advent, that tenders could be more actively marketed within Khayelitsha, that the scoring of tenders could be weighted towards local companies, and so on. Questions around sourcing of workers and services, or how 'empowered' certain contractors or service providers are, remain close to the surface. There is concern that the social mandate might be considered as 'charity' by commercially oriented role-players.

Balancing this is the need for a professionally run, competent property management company. The two are not mutually exclusive if a long-term human capital investment view can be shared by all role-players.



KEY POINTS

Community development mandates should be shared by all role-players

It is important that all role-players share the same commitment to community development - commercially oriented role-players need to fully support community development mandates; community structures need to understand the limits experienced by commercially oriented role-players in this regard.

Explore innovative O&M arrangements

Future township nodal developments need to be creative in the ways that they build local capacity. Learnerships, internships, informal job shadowing, stipends,

partnerships or 'twinning' between experienced and resourced contractors and local contractors, on-the-job training provided by experienced people for emerging contractors - all of these are ways of achieving skills development and local economic development while at the same time achieving and ultimately enhancing O&M delivery standards.

Procure services locally whenever possible

Procurement of local supplies and services must favour local suppliers wherever possible; capacity building towards higher levels of service can be built into such arrangements.



Opportunities for improving skills development and boosting employment of local people include building up a fund for bursaries and providing on-the-job skills transfer as a condition of employing locally sourced contractors. Local skills will be improved through closer management than normal, in order to ensure the required standards are met. These need to be negotiated at the outset so that roles are clear and grey areas are eliminated.

4.5 CONSIDER THE IMPACT OF REGULATIONS

This section considers mainly the Municipal Systems Act (MSA) (and its amendment), the Municipal Finance Management Act (MFMA) and the Municipal Asset Transfer Regulations (MAT), and their implication for community trusts.

KCT as a municipal entity

The MSA of 2002 and the MSAA of 2003 relate specifically to governance issues and had direct implications for KCT. The KCT was established by the CoCT. In terms of the amendment act the KCT was obliged to become a municipal entity. There is some confusion around this

matter – there is an understanding that this obligation to become a municipality was in terms of the MFMA of 2003 prompted by the fact that the transfer of land from CoCT to KCT took place at ‘discounted’ rates (see below). This is not the case. The KCT had to become a municipal entity because the municipality was directly involved in setting it up. This does not,

KEY POINT

Ensure independent establishment of community trusts

Based on the experience of KBD and the advice of all major role-players, supported by legal opinion, any future community trust should not be established by its host municipality so that it can retain flexibility over the legal status it should take. It could still become a municipal entity, but this would be by choice, not in terms of legislation. If CoCT and KCT had been aware of the impending legislation, this would have been the route preferred by all role-players.

however, apply to K-Manco and the other subsidiary structures as these were not formed by the CoCT.

The MFMA and land transfers

The sale of KBD land by the municipality to the KCT was set at 2003 prices, while the agreement of sale was concluded in 2004. This effectively amounted to a land value write-down. There is an understanding that this had legal implications for the KCT, but there is nothing in the MFMA or the subsequent MAT of 2008 that might have constrained this transaction. At present KCT is making monthly repayments to CoCT, as this was the basis of the agreement to transfer it to KCT.

In terms of the legislation and regulations currently in place, it is possible that this land could have been donated by the CoCT because it had a relatively low market value and is for ‘social good’. This perspective has been reinforced by a court decision (Waterval JV Property Company (Pty) Ltd v City of Johannesburg, 2008) which found that there is no generalised prohibition against selling land at less than market value. A municipal council is required only



to consider the fair market value when weighing up whether or not to sell the asset. Section 14(2) of the MFMA is broad enough to authorise a council to donate property if some commensurate community value can be derived from doing so.

KEY POINT

Municipal land can be donated

Transfers of municipal land to community trusts can be made as donations (under certain specific conditions).

In future township nodal developments municipalities should consider donating land to community trusts, but as this is a complex matter, legal advice should be sought from public and commercial law specialists with experience in urban renewal in previously disadvantaged areas.

Community / public partnerships

The MSAA also requires local governments to provide services to communities in a sustainable way and emphasises the importance of community involvement

in matters of local government. In particular, it encourages partnerships with community organisations for the delivery of services. KCT cannot at present be considered as a community-based partner for the delivery of services as it is a municipal entity. However, as precinct manager, this is the role that is envisaged for KCT as described in its founding documents, and the CoCT could explore ways in which KCT and its subsidiaries as well as local community-based organisations (CBOs) could be contracted to provide certain services for the KBD precinct. In this way KCT's revenue stream could be enhanced from the CoCT's local assessment rates income.

Tax obligations

Another restriction experienced by KCT was the fact that it was taxed by SARS on its grant income from CoCT. This took significant effort to address, and has only very recently been resolved. Future township nodal developments should be forewarned by this and engage SARS through suitable tax law specialists. Community trusts should not be liable for taxation, particularly if it is for social good, not economic gain.



KEY POINT

Promote KCT/CoCT services partnerships

Community/public partnerships are encouraged by the MSAA and could be explored more actively between KCT, its subsidiaries and CoCT, as well as with other CBOs.

KEY POINT

Resolve tax issues from the outset

Community trusts should ensure that any tax obligations are clarified and resolved during their establishment process.



4.6 ENSURE FINANCIAL SUSTAINABILITY

Any township nodal development needs to be financially sustainable, although the model adopted to achieve this goal can vary. The existing KBD funding model is based on the conditions in 1996 when RMB initially agreed to provide financing for the project. Those were turbulent times and most townships in South Africa were still 'no-go' areas. RMB must be applauded for their brave step in committing significant funding to Khayelitsha at that time. But taking that step meant that the funding model was established from the outset – an important part of which was to minimise risk.

A risk minimisation model

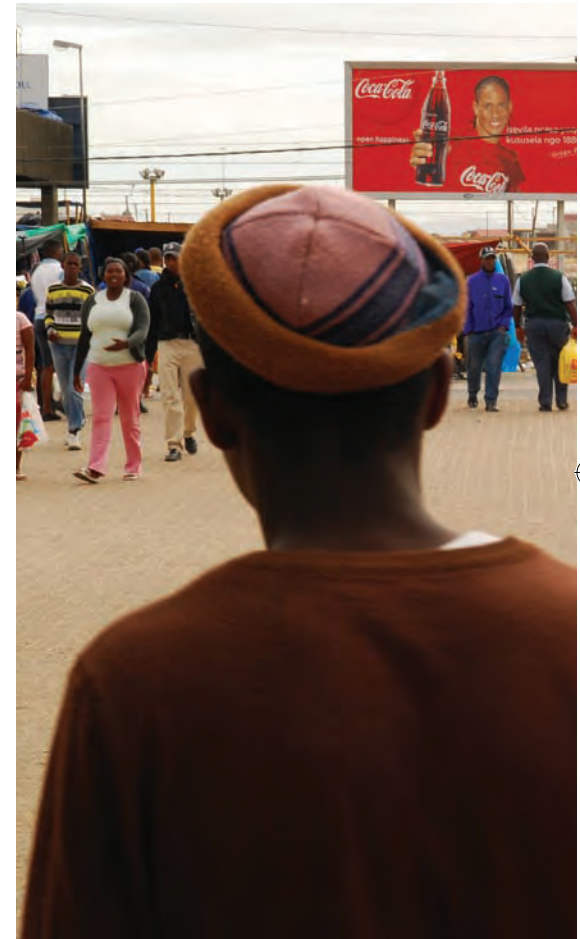
Accordingly, and considering the low level of technical capacity within KCT at the time, RMB took on a closer management role than would otherwise be the case for a financier. For example, RMB identified and appointed the retail property manager, who reported directly to RMB for several years. Given the conditions prevailing at the time, and the risk minimisation model that dominated, this

is understandable. Nevertheless, it created tensions between the various role-players that have only recently been resolved.

At present, even though KCT owns the shopping centre land and buildings, loan repayments are tightly managed. Revenues generated by the shopping centre are collected by Advent and, once the operational costs and property management fees have been deducted, are paid over to RMB as loan repayments. As a result, KCT receives little direct income from the retail centre. This requires external funding from CoCT through special grants in order to sustain KCT. When K-Manco takes over from Advent it is projected that savings of R80 000 per month will accrue. This will assist considerably with revenue streams.

The more common commercial model

A more common model for a township retail centre, even if it is part of a larger nodal development, is for external parties to own, develop and manage the retail component fully, perhaps with a percentage equity allocated to a community trust (but seldom exceeding 10 per cent).





This option almost entirely directs revenue streams externally and diminishes the opportunities to fulfil a social mandate. The benefits of this are, for example, a single-focus mandate, commercial strength and sustainability, higher levels of skills and management capacity, and the likelihood of more robust O&M systems.

This is currently a dominant model for retail centres, but the very strengths listed above mean this option is not preferred or recommended for township nodal developments where a multi-focus mandate is considered very important. As a point of clarity, the KBD shopping centre is the only one in South African townships that is not commercially owned.

Current KBD role-players see the need for a different financing model than the one that currently exists. All the major role-players feel that the CoCT grants should not continue indefinitely and that other sources of funding are required. (The new revenue stream from the retail centre property management function will be one.)

Towards a social investment model

While generating revenue from commercial activities is important and forms a central part of the sustainability of township nodal developments, the above discussion raises the opportunity for a new perspective. This moves away from a 'risk minimisation' model to a 'social investment' model, led by public funding for public infrastructure.

In this approach an overall precinct plan needs to be developed first, with a thorough consultation phase referred to earlier. This should be followed initially by public infrastructure and developments such as transport interchanges, a magistrates court, a post office, municipal offices and so on. The intention is to make a statement of commitment, to create a sense of place that draws people and retail interests, and where state services occupy commercial spaces, to make long-term lease commitments.

How do these public facilities generate revenue for a community trust? Firstly, the municipality needs to recognise the community trust as the custodian



of the nodal development and transfer the required land to it without requiring payment (made possible through certain provisions of the MFMA and the MAT - see pages 16 and 17).

Secondly, a percentage of the revenue from those public entities to the municipality would need to be allocated to the community trust, thereby enabling it to act as precinct manager and essentially taking on many of the local authority functions. These two steps release the trust from dependence on revenue streams from the retail centre and enhance its ability to manage the precinct effectively.

KEY POINTS

Ensure adequate revenue streams

It is important to ensure adequate revenue streams for the community trust from the outset. This can be from public and private funds. Balancing this is the need for strong financial management systems to be put in place.

Use public funds as a catalyst

Public-funded developments are a viable way of creating a central place identity and can act as a catalyst for retail developments.

Community trusts can act as custodians of the development

Revenues from public entities that are normally paid over to local authorities should be allocated to the community trust, thereby enabling it to act as precinct manager, essentially taking on many of the local authority functions. However, this assumes that roles and functions have been clearly defined beforehand.

4.7 ADDRESS PLANNING ISSUES

It is the role of local government to provide a planning role for a township nodal development such as KBD. But as this is a large and complex undertaking and includes reversing existing underdevelopment, the planning process needs to incorporate multiple stakeholders, include thorough consultation and communication, and be strategic in the way it proceeds.

This section on planning covers:

- Coordinating the development process
- Creating synergies
- Access flow and movement
- Impacts on the local economy.

Plan the development in a coordinated way

What elements of a nodal development should be constructed first in order to establish the area and make it workable? This is critical for successful operations and sustainability.

One school of thought is that the commercial interests (mainly in the form of a retail shopping centre) should lead



because this generates revenue from the outset. Another view is that public infrastructure spending should lead in order to signal confidence to future developers, to create the beginnings of a central place where people come to access services, and to begin to turn around an area that might well have been derelict and subject to criminal activities. There is no single 'best' way of doing it, and local circumstances and conditions should be taken into account. What is important is to create a sense of place, and work towards attracting people to that place.

Following on this point, overall regional planning needs to ensure that multiple, competing township nodes are not launched at similar times. For future sustainability it is better to ensure the success of one before establishing another. Alternately, nearby nodes should be planned in such a way that they add value through stabilising areas that might have been unsafe or of low business potential, thereby effecting a regional recovery, similar to that being done by the Violence Prevention through Urban Upgrading (VPUU) project.

In this case, areas peripheral to KBD that had become derelict or dangerous for various reasons, have begun stabilising, thereby enhancing the general area and thus the viability of KBD itself. The regeneration focus and small scale of the VPUU nodes do not in any way draw energy or business away from the dominant node of KBD, but instead increase the overall viability of that area.

There is a view that KBD as Khayelitsha's premier business district is in the wrong location and that it should rather have been located closer to the N2 and further west near Site C and Site B. A counter view is that these sites would have required significant removals of informal houses and redevelopment, whereas the current location had sufficient land that had been earmarked for a business district.

As Khayelitsha has developed southwards, so the original peripheral location of KBD has become more central. A further advantage of the site is the railway station that pre-existed and from where the rail network has been extended to a further two stations. This debate emphasises the

importance of a Spatial Development Framework (SDF) and an Integrated Development Plan (IDP) that can provide coherence to planning and to site selection and development.

KEY POINTS

Attract people and new retail and services

It is important to create a critical mass and a centre of gravity that not only attracts people to the precinct, but has a secondary effect of attracting subsequent retail interests and other services such as banking and government services.

Coordinate regional plans and release of land

Coordinated district planning and coordinated release of land for various projects is critical to avoid diluting the impact and reducing the sustainability of a township nodal development. Important in this is the development and use of an SDF and an IDP.



Plan to create synergies

In order to enhance sustainability of a township nodal development and to capture value for the area, collaboration with the various stakeholders is important. For example, the Khayelitsha railway station that is very close to the KBD has great potential for commercial uses, for taxi and bus transport interchanges and for informal trade. At this point Transnet has not engaged with other stakeholders, so these opportunities remain unrealised.

Likewise, the present taxi rank that is close to the shopping centre and is currently almost unused is accused of not being

planned consultatively, either with users or owners. This is a significant lost opportunity to plan synergistically and thereby use one function to enhance another.

In other cases, KCT and other role-players actively lobbied for functions such as the social welfare building to be located within the KBD instead of elsewhere in Khayelitsha. Likewise, the new hospital, which is a modern 230-bed regional hospital, was placed on CoCT land in the KBD as a result of negotiations among stakeholders. These are both examples of where synergies were created, using one function to draw people in and enhance other functions.

roads (Walter Sisulu and Govan Mbeki) linking it closely with a major arterial, Spine Road. These links lend themselves well to integrating KBD into the local area and with the region. The transport infrastructure is in place, but the planning to optimise the system has not been as effective. The taxi rank on the eastern side of the railway lines was not planned consultatively, so it remains almost unused. Stakeholders feel it is in the wrong place. The real taxi business now operates from the other side of the railway line, thereby drawing people away from the KBD precinct. Whether the planners could have done anything about this is not clear, but the evidence suggests that a lot more could have been done to enhance KBD itself.

KEY POINT

Promote collaborative planning, seek synergies

Identification of landowners around the precinct and collaborative planning with them and other major stakeholders is important for creating synergies that enhance the overall effectiveness and sustainability of a township nodal development.

Plan to improve access, flow and movement

This point relates to the previous one about synergies. Transport can be a powerful factor in integrating people into existing functions and in creating synergies.

KBD has the great fortune of being located next to a railway station, which, although it is not a busy one within the region, is locally significant. It also has two local

Recent discussions with taxi operators have led to an agreement to shift the focus of the taxi movements to the taxi rank next to the shopping centre. This is a significant intervention at an O&M level that will enhance the effectiveness of KBD. One request from the operators was for toilets at the rank. CoCT will provide temporary facilities until a more permanent arrangement can be made. Ideally, these permanent toilet facilities should be



incentivised for better and cleaner operation – can an external service provider or even the taxi industry itself be given a contract to operate and manage the toilets? This raises the question of why such facilities (another might be informal trade spaces) were not provided as part of the original rank construction? And also why such consultations with taxi operators were not concluded much earlier in the process?

The majority of KBD users or visitors are pedestrians, either having walked there from home, or having passed through from the railway station. The shopping centre is structured in such a way that it funnels rail commuters directly through it on their way eastwards into Khayelitsha. This is an excellent feature of the urban design. However, an increasing number of people use motor vehicles, which the original planners did not anticipate. As a result there is very little formal parking provided, and none of it is tarred. This is an issue which needs to be addressed to cater for the rising levels of affluence in

the area. Page 29 includes a comment on aspirational planning, or planning for positive development.

Plan to avoid damage to the local economy

An unintended consequence of establishing a retail centre such as in KBD is that it can have a severe impact on local retailers. There is evidence that a number of previously successful local enterprises have closed down. Recent research⁴ confirms that township retail developments can have a slight to moderate negative impact on local businesses. Accordingly, township nodal developments, while they need to be planned in an integrated way within the precinct, also need to consider their impacts outside of the precinct and attempt to minimise their impacts among the very community they are intended to benefit. If proper integrated planning is done, and the planning includes not only the node, but considers surrounding areas, then this issue can be addressed.

KEY POINT

Use transport to integrate and add value

Transport nodes and networks need to be planned carefully and early to integrate people, places and transport modes, and create synergies. As previously pointed out, this highlights the importance of an SDF and an IDP.



⁴Demacon Market Studies (2010) *Impact of Township Shopping Centres: Market research findings and recommendations*. Pretoria, February 2010.



Plan for informal and downstream enterprises

In KBD, a strip of land between the shopping centre and the railway station has created a buffer zone (the strip was a road that has since been deproclaimed). The area is still municipal land. The unintended consequence was that the space is now used by informal traders. This was inevitable because the area experiences significant pedestrian traffic. This is seen as an opportunity missed and that more insightful planning could have captured value for all role-players.

For example, the area could have been set up more intentionally and with well-planned facilities to make it suitable for informal trade. Because this did not happen, the traders are being tolerated rather than encouraged, as the area is considered inappropriate for informal trade. There is no management of that area except for normal cleansing and security services.



**Department of Home Affairs
and downstream enterprises**



Just as informal traders will move into available spaces around a retail centre or where pedestrians move through, one should also expect 'downstream enterprises' to be attracted into the area. Downstream enterprises are those that provide services to clients of the retail outlets, for example, TV repairs, shoe repairs, tailoring, and as shown left, ID photo services outside the Department of Home Affairs. It is important to expect such developments and to plan for them, rather than treat them as competitors or as a nuisance. In this way one can add value, not only to the traders themselves, but also to the precinct and the customers through the wider range of services they have access to.

KEY POINT

Plan and accommodate new, existing, informal and downstream businesses

A township nodal development needs to encourage business enterprises that are not part of its original planning or are not directly within the precinct, for example, by deliberately trying to attract new business interests, avoiding damage to existing local businesses and planning for informal and downstream enterprises.

Provisions required for informal and downstream enterprises include suitable space, informal trade-friendly policies and management, storage and cleansing services and even small business development training.

4.8 CREATE AND MAINTAIN ATTRACTIVENESS

A critical element of operations and management of a township nodal development is to make it attractive to members of the public and to retail and service industries and, critically, to maintain that attractiveness.

Maintenance and operational service levels

In the KBD there are clear signs that day-to-day maintenance is not up to standard. In certain areas grass and weeds grow through paving and litter lies around. There have also been complaints that the condition of toilets in the shopping centre are below standard, and people find this degrading. These are issues which diminish the attractiveness of a business district, and could have serious long-term consequences for its sustainability. In KBD, different role-players gave different answers as to why certain areas in the precinct looked scrappy. Yet some of these are the very role-players whose responsibility it is to look after basic maintenance and cleaning. For example, KCT's founding statement includes



responsibility for procuring O&M services, which it is doing through K-Manco. Yet neither KCT nor K-Manco is presently in a position to fulfil this mandate due to its lack of a revenue stream, and so the CoCT is currently providing basic maintenance and cleaning outside of the retail area.

For reasons that are not clear, this service is not being provided effectively, perhaps due to service delivery challenges, or confusion over who does what, and where. Likewise, there is a problem at the shopping centre. In the photograph shown to the right does

the responsibility of Advent's service provider stop at the furniture shop's doorstep, the edge of the walkway, or the edge of the paved area? There is a clear problem here that is not at all evident just metres away within the enclosed section of the shopping centre. This is an issue that is likely to affect all township nodal developments.

KCT is presently considering including cleaning and security for the area outside of the retail centre in its next budget to CoCT to allow K-Manco to take over this area and employ a service provider or to extend the

operational area of Advent's existing service provider. As capacity grows and roles and responsibilities are clarified, such gaps or areas of overlap will be dealt with.

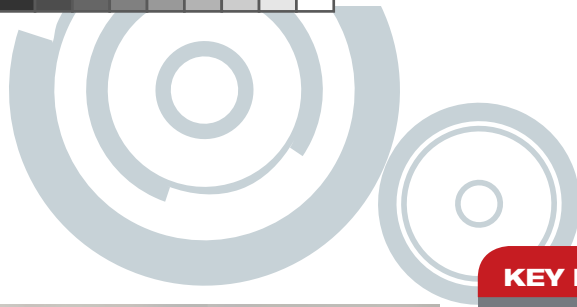


THE BROKEN WINDOW THEORY

The 'broken window' theory suggests that if a building has a broken window, then vandals might be more likely to break other windows, and then the building might be further vandalised, occupied illegally, and end up being a source of crime, a blight in the area and a cause of social and urban decay. The same goes for litter on a sidewalk, or weeds growing through the paving.

While the theory has been criticised, especially in relation to serious crime (where other socio-economic factors play a major role), it seems to hold in relation to petty crime. Importantly, the relationship between 'broken windows' (or litter, graffiti, weeds in the paving) and land values is well known and is considered an important aspect of urban regeneration.

What went wrong with operations and management here?



KEY POINT

Develop clear O&M scope, roles and responsibilities and monitor closely

Role-players must have clearly defined areas of responsibility, and budgets must allow for basic services such as security, cleaning and maintenance. Such procedures must be worked out with great clarity early on in the process. Gaps in provision of service need to be identified and dealt with at the beginning, not responsively when problems arise or complaints are made.

SLAs with accountability and penalties are a critical element of maintaining standards in a complex area such as KBD.

Monitoring of performance is critical.



Strong public spaces

In order to make a township nodal development attractive to people it needs to have spaces where people feel welcome and safe. Safety and security is a critical element and visible policing by a security company that is well managed and has clear performance requirements is an absolute requirement. Public spaces also need to be kept clean and visually attractive, and cannot be allowed to degenerate into spaces where people feel uncomfortable. It is instructive that some of the public spaces in the KBD have people moving through them, but no people stopping to rest or interact. These 'uncomfortable' spaces outside of the retail centre include those with weeds growing through the paving, for example in front of the Wall of Remembrance. How long can this situation remain before it does irreparable damage to the sustainability of the precinct? What can be learned from the differences between the kinds of spaces?



Drawing people into the precinct

People should want to come to the KBD. It must meet their needs through providing an appropriate range of services. While there is presently a range of services within the precinct, including public and retail services, there is a growing need for commercial services such as banking and financial institutions. The shopping centre needs to attract retail tenants representing a slightly higher income level such as restaurants and other slightly more specialised retail outlets. There is now a growing call for this wider range of services and a move to include some of the higher LSM levels. It appears that the shopping centre, in particular, still reflects the assumptions of the late 1990s rather than more current trends. To what extent is this holding the KBD back? Is this a case of wise caution, or unnecessary conservatism? To what extent will new services create their own market?

Attracting secondary business development

If a township nodal development is well managed, kept clean and safe, and has an appropriate range of services then it is likely



that other retail, commercial and service industries will be attracted to the area. In KBD, a hotel group and a firm of attorneys have expressed interest. A Quick Shop has been established at the local petrol station that was not part of the original planning. This is evidence of the increasing attractiveness of the precinct.

People feel safe and relaxed here; the space invites them to linger



KEY POINTS

Maintain and protect public open spaces

Public open spaces that add value to a township nodal development need to be kept clean. They need to be open and uncluttered, yet be contained or bounded to maintain some level of intimacy. They should have attractive artefacts such as sculptures or attractively designed waste bins. They must have benches for people to sit comfortably. They also need to have visible and effective policing. This also has design implications.

Make the precinct as attractive as possible

Precinct and retail centre managers need to review 'product offerings' in light of people's needs, as well as physical standards and appearances in order to draw people in.

Product satisfaction and aspirations

In the early days of planning the shopping centre, one of RMB's biggest concerns was minimising risk. For this reason, the physical scale of the buildings and the materials used to construct them were conservative. Given the political context of the time and the culture of non-payment that pervaded, this seemed like a wise position to adopt. However, times have changed. People earn more and have higher expectations. At first glance, the shopping centre looks dated and resembles what one would find in a dusty rural town. The car park is unpaved and the centre has no roof. In reality it is two rows of shops with an open space between them and, sadly, the general environment around the outside of the shopping centre looks a bit run down.

It is no surprise, then, that in 2010 people are not happy with the way 'their' shopping centre looks. They compare it with the much more up-market Promenade Mall in Mitchell's Plain and even complain of racism in that comparison. Yet at the time it was planned, income levels were generally very low and investment risks were high.

KEY POINT

Plan to meet future aspirations and to satisfy expectations

While it is unfair to judge KBD using today's standards and expectations, a general principle that can be adopted is to plan aspirationally with future developments and upgrades in mind.



Secondary commercial interest in KBD



5. SUMMARY

This short section presents a summary of lessons learned to guide future township nodal developments.

PROMOTING SOCIAL AND LOCAL ECONOMIC DEVELOPMENT

In order to promote social and local economic development, a community trust can be established that has clear social and local economic development objectives. All subsequent contracts, relationships, SLAs and the like between the trust, its subsidiaries and other service providers should include similar objectives so that alignment of purpose and energy are assured.

PLANNING AND CONSULTATION

Ensure that planning is undertaken by a multi-stakeholder team and that intensive consultations take place in order to ensure local support, buy-in and sustainability. Importantly, don't be in a hurry to conclude the negotiations and consultations, and ensure that clarity and understanding on all sides are achieved.

The local authority should act as the initial host and motivator for the project until the time is right to hand over operations to the community trust. This 'right time' includes having suitable technical skills and capacity on the ground (see next two recommendations). The local authority should also provide bulk infrastructure and overall planning and should coordinate a multi-stakeholder consultation process, establishing partnerships with trust and subsidiaries for delivery of services.





ROLES AND STRUCTURES

In the context of township nodal or precinct developments, the local social and economic development mandate is very important and all role-players, even those with a clear commercial focus, need to support and contribute to this mandate.

It is extremely important to set up the structures that will be managing the nodal development carefully so that roles and responsibilities are clearly worked out and are understood by all. Roles during the O&M phase include overall precinct management, retail centre management (including all tenant and rental related matters), sub-contracting of maintenance, cleaning, security and gardening or parks services within the retail area and the general areas, informal trade area facilities provision and management, and others.

Deciding whether an asset management company should be sub-contracted to manage the retail centre, including all O&M roles in the retail centre, or whether a local entity such as K-Manco plays this role, is a local decision. However, in

either case the function should enhance the local community and economic development mandate.

Community trusts need to have both a consultative role, as the community's representative in the project, as well as executive and technical roles, and the capacity to fulfil these roles. It is necessary that the trust understands these roles and does not confuse them. For this reason it is important to consider capacity building, use of independent technical experts (who are aware of the overall development mandate and the need for sustainability) and partnerships with skilled people, organisations or government structures.

In the set-up phase of a township nodal development project, legal and tax aspects must be examined carefully and obstacles avoided so that the correct structures are in place and can operate effectively, and the financial viability of the project is assured.



COMMUNITY TRUST AS CUSTODIAN AND PRECINCT MANAGER

The community trust can act as precinct manager, and there should be a clear understanding with the local authority of this role. Ideally, revenues normally paid to the local authority should be allocated to the trust so that it can fulfil its precinct managerial role effectively.

To enhance this role, land transfers from government to the trust can be made as donations in order to enhance the social development mandate and reduce financial burdens on the trust.

LOCAL ECONOMIC AND SKILLS DEVELOPMENT

It is important, as part of the overall development mandate, to procure local services and to find creative ways to build local capacity to provide such services.

Skills development and capacity building are a core element of a township nodal development and all role-players need to work towards building such human

resources. The lack of such skills should not be used as a barrier to progress.

It is critical that those with any executive roles to play should have the necessary expertise, for example retail centre managers, the community trust and its subsidiary structures. Creative ways need to be found to ensure such expertise is available so that local structures are able to play their role fully from as early as possible. These solutions include partnering, making independent technical experts available for the trust and municipal officials providing initial assistance and support.

PLANNING FOR SUSTAINABILITY OF THE PROJECT

The precinct needs to be well maintained, attractive and safe. It also needs to be attractive to new business. Planning for synergies between the many functions in the precinct is important, particularly transport synergies. Regional planning needs to be coordinated so that one development does not reduce the sustainability of another.

