

TURNAROUND STRATEGY FOR EKURHULENI DEVELOPMENT COMPANY (EDC)

Item B-HD (09-2010) TURNAROUND STRATEGY FOR EKURHULENI
MC 18/02/2010 DEVELOPMENT COMPANY (EDC)

(3/2/8/2/8) ASM

RESOLVED:

1. **That** the report on the Turnaround Strategy for Ekurhuleni Development Company (EDC) **BE NOTED**.
2. **That** the Ekurhuleni Development Company (EDC) Turnaround Strategy **BE APPROVED**, in particular the following:
 - 2.1 **That** Ekurhuleni Metropolitan Municipality (EMM), as part of the implementation phase, **PROVIDE BUDGET** for the next financial year in terms of Council Budgetary Process and monitors the Ekurhuleni Development Company (EDC) for an initial two (2) years.
 - 2.2 **That** Ekurhuleni Metropolitan Municipality (EMM) **FULFILL** the role as project developer for EDC.
3. **That** Ekurhuleni Metropolitan Municipality (EMM) **IDENTIFIES** housing stock from its rental portfolio and transfer it to be managed by Ekurhuleni Development Company (EDC).
4. **That** a detailed Turnaround Implementation Plan **BE SUBMITTED** to Council for approval.

MAYORAL COMMITTEE MEETING

2010.02.18

ITEM B-HD (09-2010)

TURNAROUND STRATEGY FOR EKURHULENI DEVELOPMENT COMPANY (EDC)

(3/2/8/2/8) ASM

PURPOSE

The purpose of the report is to inform Council about the proposed Turnaround Strategy for Ekurhuleni Development Company (EDC), and obtain Council support thereof.

RECOMMENDATION

1. **That** the report on the Turnaround Strategy for Ekurhuleni Development Company (EDC) **BE NOTED**.
2. **That** the Ekurhuleni Development Company (EDC) Turnaround Strategy **BE APPROVED**, in particular the following:
 - 2.1 **That** Ekurhuleni Metropolitan Municipality (EMM), as part of the implementation phase, **PROVIDE BUDGET** for the next financial year in terms of Council Budgetary Process and monitors the Ekurhuleni Development Company (EDC) for an initial two (2) years.
 - 2.2 **That** Ekurhuleni Metropolitan Municipality (EMM) **FULFILL** the role as project developer for EDC.
3. **That** Ekurhuleni Metropolitan Municipality (EMM) **IDENTIFIES** housing stock from its rental portfolio and transfer it to be managed by Ekurhuleni Development Company (EDC).
4. **That** a detailed Turnaround Implementation Plan **BE SUBMITTED** to Council for approval.

STRATEGIC OBJECTIVE

Good Governance.

MOTIVATION

The Housing Department observed that certain problematic areas existed in the operations of the EDC and also based on reports received. Concerns were raised as EDC is a municipal entity established to develop and manage social housing stock. The need to conduct a turnaround strategy was also influenced by the following:

- Two independent due diligence were conducted during 2007 and both indicated a need for a turnaround strategy.
- The Social Housing Foundation (SHF) conducted a Quicksan (Organizational Analyses) in 2008 and identified same weakness in the organization.

Issues raised in the above-mentioned reports covered strategic, operational components and highlighted weakness in the following areas:

- Finance, governance, contractual elements, internal and external operations, lack of capital injection risk elements, strategic partnerships, alignment and consolidation of EDC and Lethabong Housing Institute (LHI). Service Delivery Agreement between EMM and EDC. Service Level Agreement between EDC and other parties. Technical skills and capacity. Business process and skills audit and capacitation plan.

A service provider (Vuka Africa) was secured through Supply Chain Management processes to undertake a gap analysis and to develop a turnaround strategy to ensure sustainability of the EDC as an institution to deliver affordable well managed and secure rental social housing for the community of Ekurhuleni.

The scope of work given to the service provider was the following:

- To formulate a “Turnaround Strategy” to normalize the EDC in terms of acceptable levels of liquidity, positive cash-flow and rebuild capacity in delivering and managing affordable rental stock.
- The “Turnaround Strategy” must reverse the causes of distress, resolve the financial crisis of EDC, achieve rapid improvement in financial performance, overcome internal constraints and above all regain stakeholder participation and support.

The overall goal of the “Turnaround Strategy” is to ensure that EDC returns to normal in terms of overall Corporate Governance, Financial Viability, Project Delivery and Management of its current assets. To achieve these objectives, the strategy should focus an approach of undertaking a Due Diligence and transform to aligned business objectives.

A Project Steering Committee, consisting of EMM Housing relevant officials, EDC CEO, Social Housing Foundation (SHF), Finance Expertise and Legal Expertise was established to be engaged and consulted to work on the “Turnaround Strategy”.

Project Outputs

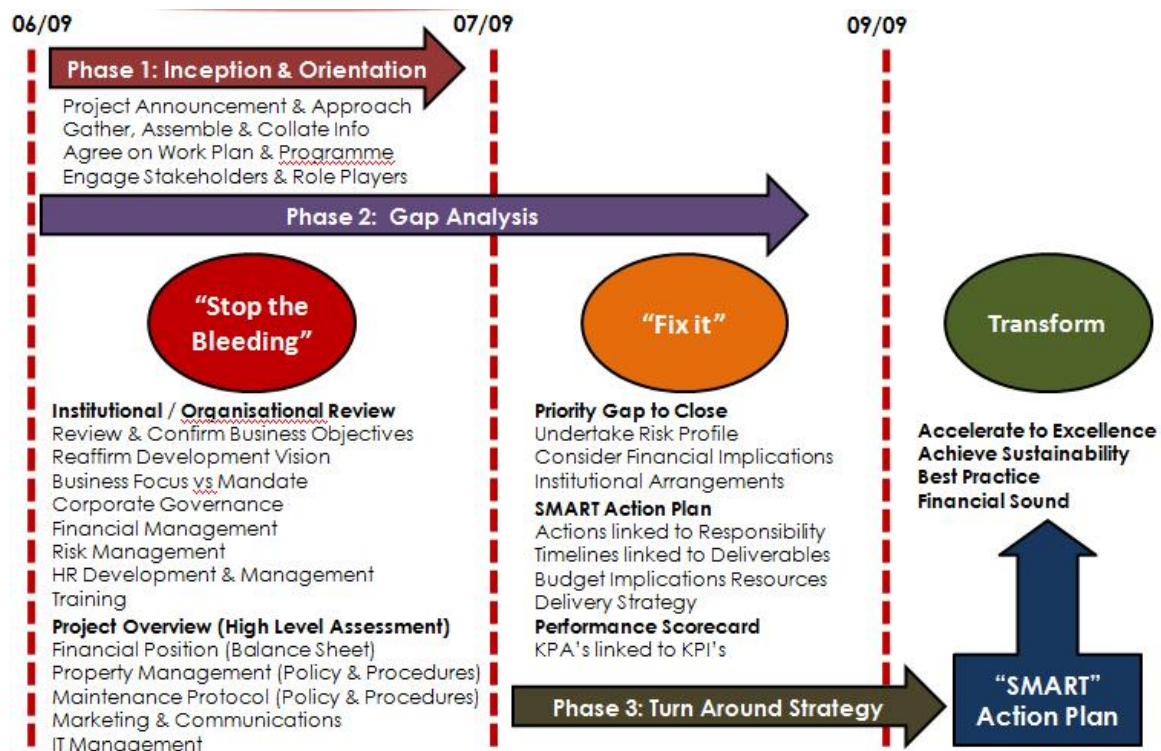
To achieve the above-mentioned objectives, as well as the desired outcomes as described in the Scope of work, the following outputs needed to be delivered:

- A Project Report detailing urgent issues, prioritization of such issues and time-lines.
- Consolidation and up-dating of the two (2) Due-Diligence Reports mentioned in the terms of reference for this project.
- A comprehensive report with recommendations for this specific phase.
- A synthesized draft Service Delivery Agreement between EMM and EDC, as well as a Service Level Agreement between EDC and another service provider.
- The synthesis of the 2 legal Due-Diligence Reports undertaken in 2007/2008; and the Quick Scan ‘A’ done in 2008.

Copy of the Turnaround Strategy for EDC is attached as **Annexure “A”**.

Methodology and Approach

The diagram below depicts the components of the adopted methodology and approach put forward by Vuka Africa to undertake a Gap Analysis as a basis for developing and formulating a “SMART” Action Plan linked to a “Turnaround Strategy” for the EDC.



Phase 1: Inception and Orientation

The inception and orientation phase focused on the gathering and collation of information, and assembling of all relevant documentation to undertake the Due-

Diligence in preparation of formulating the “Turnaround Strategy”. During this phase a detailed communication protocol was determined with the EDC Steering Committee to ensure that the approach and level of engagement was acceptable and done with diligence.

The EDC Mandate

The EDC’s general mandante is in relation to legislative and policy frameworks as prescribed by National and Provincial manadates. Its key mandate relates to the integration of urban areas and being pro-poor. It’s second mandate is to deliver 15 000 social housing units over a five year period.

Some findings and recommendation:

- That the reason why EDC is a going concern is because its viability is depended entirely on its ability to raise and recover 100% of its management fees from the two companies. The only source of revenue for EDC is the collection of management fees from two companies and this cannot be increased beyond a specific threshold. Therefore, unless EMM takes a firm decision to contribute towards the viability of EDC turnaround strategies will be developed to no success.
- Performance Agreement must be agreed and entered with between EMM and EDC (a separate Item will be compiled on this matter).
- That a SDA be concluded between EMM and EDC (a separate Item will be compiled on this matter).
- That a SLA between EDC and Xihangu be reviewed (a separate Item will be compiled on this matter).

Gap Analysis Dealing a Key Strategic Thrust (Calibration Model)

The methodology and approach put forward by Vuka Africa to undertake a “Gap Analysis” as a basis for developing and formulating a “SMART” Action Plan linked to a Turnaround Strategy for EDC involved the following components:-

Aligning to this methodology, the six strategic thrusts represent the “bleeding points” of EDC, creating an urgent need to “stop the bleeding “and “fix it”. The above processes is achieved by implementing the following stop, start and continue planning exercise, i.e. what should the EDC **Stop** doing, knowing well that it cannot continue with this activity, what should EDC **Start** to do differently to rectify its current position, and **Continue** to do that has to date achieved success.

The table below depicts a summary of the said exercise:-

Strategic Thrusts	Stop	Start	Continue
Business Structure Objectives	<ul style="list-style-type: none"> • Business as usual • Review Statutes 	<ul style="list-style-type: none"> • Align with mandate 	<ul style="list-style-type: none"> • Prepare Business Plan
Organizational Performance	<ul style="list-style-type: none"> • Non-Compliance • Non-Implementation of Policy and Procedures 	<ul style="list-style-type: none"> • Implementation of Monitoring and Evaluation • Induction Programme • Corporate Identity • PMS all Levels 	<ul style="list-style-type: none"> • Implement HR Policy • EDC Culture • Skills Audit • Restructure Organogram • Performance Agreements • CM Continue
Financial Management	<ul style="list-style-type: none"> • Qualified Audit Report • Escalating Debtors Book • Non-Compliance • Financial Loss • Escalating Operating Costs • Dependence on Grants • Under Budgeting • Under Collection • Operating Costs 	<ul style="list-style-type: none"> • Develop Financial Policies • Cost Benefit Analysis • Develop Property Management System • Marketing and Communication Strategy • Internal Controls (Discipline) • Aggressive Credit Control Policy • Project Funding Strategy • Growth Planning • Zero Based Budgeting • Asset Register 	<ul style="list-style-type: none"> • Financial Strategy • Growth Planning (Project)
Corporate Governance	<ul style="list-style-type: none"> • Non-Compliance • Non-Reporting of PMS • Non-Implementation of Policy 	<ul style="list-style-type: none"> • Endeavour to Comply • Monitor Performance • Evaluate Performance • Monitor Implementation of Policies 	<ul style="list-style-type: none"> • Implement Policy • Training an Skills Development • Workplace Programmes • Employment Equity Plan • Change Management

<p>Leadership</p>	<ul style="list-style-type: none"> • Ad-Hoc Approach • Crisis Management 	<ul style="list-style-type: none"> • Take Accountability • Get Involved • Add Value (Solution Thinking) • Foster Partnership • Arrangements • Committees Functional • Document Resolutions 	
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It was proposed by the service provider and the Steering Committee after consideration in terms of the legal, financial and institutional constraints that EDC is currently experiencing that, the EDC should fulfill the role of a property manager for a period of two years. The role of property developer can be assumed by EMM Housing Department jointly with the private sector.

The action plan linked programme and schedule in the Turnaround Strategy Document should be followed as an integral part to the overall turnaround strategy that forms part of the implementation phase:

It is suggested that within the context of the current position and circumstances, the EMM as part of the Implementation Phase, provide financial assistance and mentor/monitor the EDC for an initial two year period, fulfilling the role as Property Manager. Furthermore, the EMM should consider the release of viable housing stock as and when EDC requires, to become more sustainable. This should only be considered within the context of having reviewed and aligned its policy, procedures and systems to cope with such.

Copy of the turnaround strategy of EDC was sent to EDC. The Board of Directors of the EDC made their comments with regard to the strategy copy of their comments are attached as **Annexure "B"**.

Department comment an EDC comments:

- The mandate of EDC is in line with the Social Housing Act. The number of units to be build 15 000 in five years is very unrealistic. EDC performance will be dealt with in terms of performance contract that Council will annually enter with EDC.
- EDC should continue with the development of Bedfordview and Germiston Phase 2B.
- Council has already identified housing stock that can be managed by EDC additional stock will be identified in future.

- Closure 8.9 will be reworded. Procurement of goods and services by EDC will be done in terms of approved EMM Supply Chain Management Policy as adopted by EDC.
- A detailed implementation plan with actual KPI and timelines should be submitted for approval to give effect to the Turnaround Strategy.

COMMENTS FROM RELEVANT DEPARTMENTS

FINANCE

Comment dated 13 October 2009.

The content of the report has been noted and the recommendations are supported.

Comment dated 15 October 2009

Due to council financial position the recommendations are not supported

There are issues that we will have to address, such as the blanket resolution that the EMM will provide financial assistance, if supported, from where this will be funded.

Further discussions will have to be arranged.

LEGAL AND ADMINISTRATIVE SERVICES

Comment dated 02 November 2009.

Having noted from the report that EMM is required to assist EDC financially and further that a Performance Agreement would be signed by both parties, it is hereby recommended that Council insists on monitoring operations of EDC herein.

This view emanates from a negative picture painted by the history which brought about the proposed turnaround strategy intervention. Council should be seen to be adhering to the general principles of accountability in all its engagements, more so where the financials are involved. Therefore recommendation 2 (two) in your report is not supported, in so far as it relate to EMM's initial 2 year monitoring of EDC's operations.

Your attention is further drawn to the provisions of the Local Government: Municipal Finance Management Act 56 of 2003, Chapter 10 thereof entitled "Municipal Entities", in all its efforts to assist EDC, Council should adhere to all the relevant sections provided therein.