ANALYSING THE IMPACT OF A SELECTED ECONOMIC ACTIVITY ON OUDTSHOORN’S ECONOMY

Aren Van Schalkwyk

Treatise submitted towards fulfilment of the requirements for the degree

MASTERS IN BUSINESS ADMINISTRATION

in the

Faculty of Business and Economic Sciences

of the

Nelson Mandela Metropolitan University

Promoter: Dr. Margaret Cullen
April 2010
DECLARATION

I, the undersigned, hereby declare that the work contained in this treatise is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

Signature: ………………………………….  Date:  April 2010

Aren Van Schalkwyk
ABSTRACT

Property development, by its very nature is an element of the economy and can be regarded as a multifaceted business, encompassing activities that include the development of undeveloped land by constructing residential, commercial and industrial buildings, either for leasing or selling. Based on the aforesaid, property development therefore has direct, indirect and induced impacts on the economy. Economic impact refers to the effects, positive or negative, on the level of economic activity in a given area. Measuring economic impact requires a baseline assessment conducted before the activity (property development) occurs and a second, comparable assessment conducted after the activity (property development) occurs. By using the Input-Output Model methodology, various anticipated direct and indirect economic impacts can be quantified. These economic impacts are derived using an understanding of economic cause-effect relationships. The principle of cause-effect is that for any economic action, there can be a multitude of different economic reactions (effects). For the purposes of this treatise, the main cause/action is the implementation of the proposed Alphen Aan Den Rijn Retirement and Lifestyle Village development in Oudtshoorn. The result is a number of direct potential/probable effects, which also have a range of indirect potential/probable effects. Based on the findings of the Input-Output Model, it is clear that the implementation of Alphen will have significant positive socio-economic benefits, e.g. additional business sales, additional GGP and additional employment for the local and regional environment. To ensure that these positive impacts are maximised for the benefit of the overall economy of Oudtshoorn as well as the population of Oudtshoorn, management strategies and mechanisms pertaining to the following are suggested for incorporation into the development proposal:

- Workplace Skills Plan;
- Labour Contracts;
- Service Carrying Capacity Management Plan;
- Economic Sustainability; and
- Social Sustainability.


ACKNOWLEDGEMENTS

For the past three years the academic environment of the Nelson Mandela Metropolitan University has been an integral part of my life. As such, the experience has enriched my life in many different ways.

At the outset, I am deeply grateful to the following people for their continued support and encouragement.

My daughter Liesl and son Martin. The love and support that you have shown me over the years is truly a blessing from God. My mother Heleen and late father Martin, your unconditional love and guidance throughout my life has been the pillar of my strength. My sisters Charience, Maretha and Heidi, thank you for always being there for me. Danie and his wife Karin, whose love, support and on many occasions’ prayers, have inspired me and have led to spiritual growth in my life. My wife Ilse, you brought joy and happiness into my life and I know that you will be my inspiration for many years to come. My promotor, Dr. Margie Cullen, thank you for your guidance and positive comments during this whole process of research. Lastly but most importantly, my Heavenly Father, through His grace and love I have come to accept Jesus Christ as my Saviour.
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<tr>
<td>GDP</td>
<td>Gross Domestic product</td>
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<td>GGP</td>
<td>Gross Geographic Product</td>
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<td>IDP</td>
<td>Integrated Development Plan</td>
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<td>I-O Model</td>
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<td>IR</td>
<td>Implementation Report</td>
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<td>Management Guidelines</td>
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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Economy is a general term used for the system of activities related to the production and distribution of goods and services in a particular geographic region (Economy, 2009). A local economy can be regarded as a dynamic system, which is constantly influenced by external interventions (e.g. investments or disinvestments) in the economy and impact assessments aim to determine in which manner the local economy will be affected by such specific interventions (Urban-Econ, 2007).

This research study proposes to determine how a specific economic activity would impact a local economy and how this impact can be managed to maximise the benefit for the local economy of Oudtshoorn in a sustainable manner. The economic activity in this particular instance refers to the proposed Alphen Aan Den Rijn Retirement and Lifestyle Village development (“Alphen”).

The impact of economic activities on local economies can be measured by:

- The Gross Geographic Product (GGP) – The GGP comprises the total market-related value for a particular year of all goods and services produced within a geographically defined area (McCann, 2005);
- Business Output (also referred to as revenue or sales volume) – Business output refers to gross level of business revenue, which pays for cost of materials and cost of labour, as well as generating net business income/profits (Urban-Econ, 2007); and
- Labour Market Information – Labour market information refers to those labour market information that are analysed and includes employment and unemployment statistics, occupational statistics, and average hours and earnings data (Urban-Econ, 2007).

The concept of sustainable development is fairly straightforward: “sustainable development is about behaving in a manner in which current efforts to raise the quality of life of a society’s citizens (i.e. “development”) can be continued (or “sustained”) into the future. It is about adopting a development path that improves the quality of life of current generations, while leaving future generations with at least the same capacity and options for development that we
have at present” (Concept Paper on Sustainable Development, 2005: 2). For sustainability to be achieved, decision-makers need to consider the long term implications of their decisions and to implement integrated governance systems that recognise the important interdependencies between the “triple bottom line of economic growth, social equity and environmental integrity” (Concept Paper on Sustainable Development, 2005: 2).

According to the Concept Paper on Sustainable Development (2005: 7);

“In South Africa, sustainable development can be achieved through implementing integrated governance systems that promote economic growth in a manner that contributes to greater social equity and that maintains the ongoing capacity of the natural environment to provide the ecological goods and services upon which socio-economic development depends. The economic concept refers to the production of manufactured goods and the flow of these goods and services through the formal and informal sector. The social concept refers to human capacities, skills and resources which are necessary for productive work and the creation of a reasonable quality of life. It incorporates the institutions, networks and relationships that support human activity (and human efforts to secure livelihoods) and enables access to resources and participation in decision-making. The natural environment concept refers to the natural resources (matter and energy) and ecosystem processes that maintain life and produce and deliver goods and services. They include renewable resources (such as freshwater, fisheries and wood), non-renewable resources (such as mineral deposits and fossil fuel), sinks (that absorb, neutralize or recycle wastes), and ecological processes such as photosynthesis, climate regulation and disease regulation. The crisis of sustainability is seen to arise from the fact that our current production and consumption patterns are depleting natural resources and impacting on human and social systems, largely because we fail to assign sufficient value to these assets in our decision-making processes”.

2
Sustainability therefore includes the increased participation of local communities in development projects and initiatives to ensure their success at a local level (Urban-Econ, 2007). It is thus important to manage the impact of specific economic activities in such a way that it maximises the benefit for the local economy in a sustainable manner.

This research study therefore proposes to undertake the following:

- To evaluate the economic impact which the proposed Alphen development would have on the local economy of Oudtshoorn. Aforesaid Development is located within the Oudtshoorn Municipal area and falls within the interim urban edge of Oudtshoorn. While two percent of the Western Cape population lived in Oudtshoorn in 2006, the economy of Oudtshoorn only contributed 1,1 percent towards the provincial GGP (StatsSA, 2006). The annual real growth rate of the Oudtshoorn economy was on par with the provincial average of 1,9 percent per annum but below national output growth for the period from 1996 until the end of 2006 (StatsSA, 2006). Oudtshoorn’s economy grew at a real growth rate of 1,9 percent per annum as opposed to growth in national output of 2,8 percent for the same period (StatsSA, 2006). The performance of the Oudtshoorn economy is also well below the growth rates experienced by larger towns in the Southern Cape between 1996 and 2006, namely George (5,5 percent); Knysna (5,2 percent) and Mosselbay (3,9 percent) (StatsSA, 2006). Although Oudtshoorn is the second largest town in the Southern Cape in terms of population, its economy is only the third largest in terms of output i.e. GGP (StatsSA, 2006); and

- To suggest proposals on how the economic impact of the proposed Development is to be managed to maximise the benefit for the local economy of Oudtshoorn in a sustainable manner. In order to ensure that the impacts are maximised, specific management strategies and mechanisms need to be incorporated into the overall development proposal. The specific considerations that will be included into the management strategies are:
  - Workplace Skills Plan;
  - Labour Contracts;
  - Service Carrying Capacity Management Plan;
  - Economic Sustainability; and
  - Social Sustainability.
1.2 Problem Statement

Economic growth is defined as “the increase in total production or income in the economy” (Mohr & Fourie, 2004:576). The economic growth of a town depends to a large extent on the capital investments by government and the private sector in that particular town’s economy. From the aforesaid, it is clear that it is important to establish:

- The impact that the proposed Development will have on the economy of Oudtshoorn; and
- How said economic impact could be managed in a sustainable manner.

In order to address the main problem, the following sub-problems will be addressed:

- How does the proposed Development meet the criteria envisaged in the municipal policies and strategies which have been compiled, with specific reference to the Integrated Development Plan (IDP) for Oudtshoorn (Oudtshoorn IDP, 2006), Local Economic Development Strategy (LED) of Oudtshoorn (Oudtshoorn Economic Review, 2005) and the Spatial Development Framework (SDF) for Oudtshoorn (Draft Oudtshoorn SDF, 2007)? The answers to the problem statement will assist the Oudtshoorn Municipality in adjusting its IDP, LED and SDF to create an environment that is conducive to economic growth in Oudtshoorn.

- By adopting the management strategies proposed herein will enable the developer of Alphen and the Oudtshoorn Municipality to attract capital investments to Oudtshoorn.

1.3 Research Objective of the Study

Economic growth and job creation can only be achieved through the better utilisation of all available resources – including human resources. Poverty and lack of economic development are two indicators of the sub-optimal functioning and operation of a development system, creating a poverty trap with a range of developmental and social problems (Demacon, 2008). The fatal system flaws are (Urban-Econ, 2007):

- Rapid population growth;
- Lack of technical and business skills; and
- Insufficient capital formation.

These elements contribute to already high unemployment levels, exacerbating the detrimental spin-offs such as poverty and crime. Such a situation provides an unhealthy environment for
investment, which in turns leads to a stagnating of the local economy with lack of investment and beneficiation.

The research study will be based on quantitative research, incorporating a case study. As such, elements of the qualitative research design is also included. The research design can therefore be referred to as a mixed methods research design. However, the study will mainly use quantitative research methods to interpret a cause and affect relationship among the following variables:

- The Oudtshoorn Local Economy – Independent Variable;
- Economic growth and job creation in Oudtshoorn as a result of the proposed Development – Independent Variable;
- Management of the economic impact in a sustainable manner – Dependant Variable.

The primary objective of the study will be to:

- Establish the impact on economic growth and job creation in Oudtshoorn as a result of the proposed Alphen development;
- Proposals to manage the economic growth and job creation in Oudtshoorn as a result of the proposed Alphen development.

The secondary objective will be to establish socio-economic trends and dynamics currently in existence within Oudtshoorn.

The research design objective will focus on an objective approach, by the measurement of a phenomenon (local economy) and collecting and analysing numerical data (impact on economic growth and job creation) by applying statistical tests (economic impact analysis). The researcher will make use of documentary analysis of the local economy. Relevant statistical data will be used to apply to the case study which forms part of the dependent variable of economic growth and job creation in Oudtshoorn as a result of the proposed Development, and which will add value to the research work. In order to assess the impact of economic growth and job creation in Oudtshoorn as a result of the proposed Alphen development, a wide range of sources will be consulted. This includes the Oudtshoorn Municipality’s IDP, LED and SDF. The methodology that will be used in this research study will be:
• Statistical analysis of the economic impacts;
• Personal Interviews: Personal interviews will be held with key informants who will include the officials in the Oudtshoorn Municipality who are involved with local economic development;
• Survey’s; and
• Literature Review: The literature review component will consist of the collection and analysis of the relevant secondary sources which relate to economic growth.

The secondary sources include books, journals, contemporary sources, internet sources and policy documents. This study will make use of surveys. The data analysis of existing statistical information will be crucial in determining the impact on economic growth and job creation in Oudtshoorn as a result of the proposed Alphen development.

1.4 Hypothesis
Primarily, the research will evaluate:
• The status quo of the economy of Oudtshoorn;
• The impact which the proposed Alphen development will have on economic growth and job creation in Oudtshoorn; and
• Management guidelines to ensure that the economic impact which will occur is sustainable.

Given the abovementioned, it is consequently hypothesised that:
H0 = the conceptualisation of economic management guidelines for Development in Oudtshoorn Local Municipality will result in sustainable economic development.

The research design is illustrated in Figure 1.1 below:
1.5 Chapter Outline
It is proposed that the study shall have six chapters which are outlined below:

Chapter One: Introduction
Background of the Study
Problem Statement
Research Objective of the Study
Hypothesis
Chapter Outline

Chapter Two: Literature Review
This chapter provides an overview of property development per se, the property development process, the role-players in property development, property development in the South African context, how the impact of property development can be determined and management strategies.

Chapter Three: Socio-economic Profile
This chapter provides an indication of the status quo of the area within which the proposed Development will be established. The aim of this section is therefore to provide the required ‘benchmark’ profiles against which the impact of the various project components of the Development can be quantified. Information will be gathered through primary data sources,
namely socio-economic surveys and interviews with role players in the study area, as well as secondary data sources, such as previous studies, statistical data from Stats SA and Quantec data.

Chapter Four: Research Methodology
The research paradigms, sampling design, development concept and a method to analyse the data collected are discussed in this chapter.

Chapter Five: Analyses and Findings
The purpose of this chapter is to identify the possible economic impacts which the Alphen Aan Den Rijn Lifestyle Village development would be a catalyst to. The identified impacts will be used to assist the researcher in developing management strategies to ensure that the proposed property development becomes more sustainable with regards to the economic environment.

Chapter Six: Management Guidelines
The implementation of the proposed Development will have significant socio-economic benefits for the local, district and regional environment. In order to ensure that the positive impacts are maximized, specific management strategies and mechanisms need to be incorporated into the overall development proposal. The specific considerations that will be recommended are:

- Workplace Skills Plan;
- Labour Contracts;
- Service Carrying Capacity Management Plan;
- Economic Sustainability; and
- Social Sustainability.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction
This chapter provides an overview of property development per se, the property development process, the role-players in property development, property development in the South African context, determining the impact of property development and management strategies.

2.2 Defining Property Development
Cadman and Topping (2004: 1) define property development as “a process that involves changing or intensifying the use of land to produce buildings for occupation”. Accordingly, it is not the buying and selling of land for a profit because land is only one of the raw materials used, the others being building materials, infrastructure, labour, finance and professional services (Cadman and Topping, 2004: 1). According to Havard (2002: 6), property development can be:

- “Greenfield – development on a previously undeveloped site;
- Brownfield – development on a previously used site;
- Demolition – clear and new-built of a functional and similar building;
- Partial demolition – partial new-built;
- Retention of existing structure which is renewed or rebuilt; and
- Existing structure substantially retained but for different use”

MacLaran (2003: 7) states that “property development is simply engaged in the production of commodities. In this case, the commodities comprise the various type of building (e.g. housing, offices, shops, hotels, factory units and warehousing) developed to meet a demand for users”. Boddy (1981) as quoted by MacLaran (2003: 7) observed that “property development and investment equips space and creates physical infrastructure so as to facilitate the circulation of capital in its various forms, the exchange of information and the physical and legal transactions on which commercial, administrative, governmental and financial functions are predicated”. D’Arcy and Keogh (1997) as quoted by MacLaran (2003: 8) go further by stating that “at its simplest, urban economic activity generates requirements for land and property which might be met by the existing stock of buildings or through new development. These requirements are mediated through a property market process which, amongst other things, determines property
values, allocate space in buildings between competing uses, and stimulates the production of new space through development and redevelopment”.

2.3 The Property Development Process
There are various views on the development process (Cadman and Topping, 2004). “At it’s most simple, property development can be likened to any other industrial production process that involves the combination of various inputs in order to achieve an output or product. In the case of property development, the product is a change of land use and/or a new or altered buildings in a process which combines land, labour, materials and finance” (Cadman and Topping, 2004: 2). In practice the process can be complex, taking place over a considerable period of time and the product is unique in terms of its physical characteristics and its location (Cadman and Topping, 2004). Developers are the coordinators of development activities by creating, funding, controlling and managing the development process (Heitger, 2004). Typically, developers determine the potential of a certain piece of land, purchase the land, develop the building program and design, obtain the necessary public approvals and financing, build the structure, and lease and or sell the developed structure.

According to Byrne and Cadman (1984: 4), “the development process means different things to different people. To some it is simply the construction of buildings, a physical process of production. To others it is essentially a part of a social and political process, involving the distribution and control of resources”. The Pilcher Report (1975), as quoted by Byrne and Cadman (1984: 4), states that “development comprises the following tasks:

i. The perception and estimation of demand for new buildings of different types;

ii. The identification and securing of sites on which buildings might be constructed to meet that demand;

iii. The design of accommodation to meet the demand on the sites identified;

iv. The arrangement of short and long term finance to fund site acquisition and construction;

v. The management of design and construction; and

vi. The letting and management of the completed building”.
Byrne and Cadman (1984: 4) define the development process as the “process by which development agencies, together or on their own, seek to secure their social and economic objectives by the improvement of land and the construction or refurbishment of buildings for occupation by themselves or others”. According to Cadman and Topping (2004) the development process may be divided into the following stages:

- Initiation – e.g. identifying the property to be developed;
- Evaluation – financial feasibility of the proposed property development;
- Acquisition – Purchase of the property;
- Design and costing – plans cost analysis;
- Permissions – environmental and planning authorization;
- Commitment – development in accordance with the design;
- Implementation – building; and
- Let/manage/dispose – marketing of the proposed development.

2.4 The Role-players in Property Development

There are several role-players involved in the property development process. Each of these role-players has a specific role in how property development occurs. The main role-players are defined as follows:

2.4.1 Government

According to Conningarth Economists (2007), national, provincial as well as local government plays an important role in the property development process:

- National Government – Issues legislation and policies pertaining to, amongst others, planning, economic growth, sustainability, environmental issues, etc.;
- Provincial Government – Issues legislation, policies and guidelines pertaining to, amongst others, planning, urban expansion, environmental issues, etc.; and
- Local Government – Issues legislation pertaining to planning on a local level for example defining the urban-edge in the spatial development framework.
2.4.2 Private Sector
According to Conningarth Economists (2007), the developer as well as the consumer plays a role in property development:

- Developer – Initiates the proposed property development by identifying the development concept, obtaining finance, applying for environmental and planning authorization, etc.; and
- Consumer – Supply and demand drives property development. If there is a demand for commercial, industrial or residential space, the property developer will supply the necessary property development to meet that demand from the consumer.

2.4.3 Community
Urban-Econ (2007) is of the opinion that the community clearly has an interest in all property developments proposed in that area. Property development impacts on the economic, social and environment of the community and for this very reason, environmental and planning legislation provides for public participation in the property development process.

2.5 Property Development in the South African Context
Property development in South Africa presents its own peculiar challenges in that it is strictly regulated by planning and environmental legislation whilst adhering to the principles of sustainable development (Envirocor, 2008).

2.5.1 Planning Legislation
Planning legislation has been described as “that area of the law which provides for the creation, implementation and management of a sustainable planning process to regulate land-use, with the purpose of ensuring the health, safety and welfare of society as a whole and taking into account environmental factors” (Van Wyk, 1999: 5). Kidd (1997: 154) states that “a legislative framework needs to be in place to ensure control of land-use for cadastral reasons (ensuring land units are of a proper size and location to achieve proper usage); to promote health, welfare and amenities for people living in a specific area by means of town planning schemes; to prevent nuisance; to promote the proper and efficient exploitation of land (agriculture, industrial, residential resources) and in order to protect and conserve the natural environment”. According
to Conyers and Hills (1996) development planning is a process to facilitate economic growth, create employment and determine the spatial development within an area. It is concerned with the allocation of the following resources:

- Natural resources – land, water, mineral wealth, etc.;
- Human resources;
- Capital resources – roads, buildings and equipment; and
- Finances.

Important planning legislation in operation in South Africa includes:

- The Land Use Planning Ordinance (Ordinance 15 of 1985) – This ordinance, in effect in the Western Cape Province, deals with, amongst others, application for departures, rezoning, subdivisions and consolidation;
- The Less Formal Township Establishment Act (Act 113 of 1999) – This act was promulgated to shorten the procedures for the establishment of townships and less formal settlements;
- Natural Heritage Resources Act (Act 25 of 1991) – This act requires that all policy, administrative practices and legislation promotes the integration of heritage resources conservation in urban and rural planning and social and economic development;
- Development Facilitation Act (Act 67 of 1995) – This act clarifies, amongst others, what rights property owners have; and
- Western Cape Planning and Development Act (Act 7 of 1999) – This act replaces racially based planning and development legislation and establish a system of development planning in the Western Cape.

There are also other important planning policies in existence:

- The Western Cape Provincial Spatial Development Framework (2006) – The Provincial Spatial Development Framework is a legislated planning tool aimed at effective urban planning and land use management within the Western Cape; and
- Provincial Urban Edge Guidelines (2006) – The urban edge guideline is aimed at enabling Municipalities to delineate urban edges and incorporate them into spatial
development frameworks so as to contain outward growth of urban areas and to facilitate the restructuring and spatial integration of urban areas.

2.5.2 Environmental Legislation

An important component of property development in South Africa is the environmental process that must be followed in certain instances, as prescribed by the National Environmental Management Act (Act 107 of 1998) and the Environmental Impact Assessment Regulations, 2006. Government Notice No. R 386 and R387 (of 2006) contains a list of activities identified in terms of Section 24 (2) (a) and (d) of the National Environmental Management Act (Act 107 of 1998), which may not commence without environmental authorization from the competent authority and in respect of which the investigation, assessment and communication of potential impact of activities must follow the procedure as described in Regulation 22 to 26 of the Environmental Impact Assessment Regulations (2006).

According to Envirocor (2008), the environmental process can best be explained as determining the environmental impact of a decision, with regard to a specific application. The term “environment” in this sense includes the biophysical, social and economic environments. The aim of the process is to enable the Chief Director of the Department of Environmental Affairs and Development Planning to apply his mind in an unbiased fashion. He therefore needs to be presented with an accurate prediction of the impact of the Department’s decision. The method underlying the environmental process involves identifying environmental issues, assessing these issues and where possible remedying and mitigating against all negative impacts. Similarly, impacts perceived to have a positive impact on the environment are promoted and enhanced.

The following contains a list of environmental legislation that pertains to property development in South Africa:

- The Environmental Conservation Act (Act 73 of 1989) (since replaced by The National Environmental Management Act) – This act was promulgated to provide for the effective protection and controlled utilization of the environment and for matters incidental thereto;
• The National Environmental Management Act (Act 107 of 1998) – This act was promulgated to:
  o provide for cooperative environmental governance by establishing principles for decision making on matters affecting the environment;
  o to promote cooperative governance and procedures for coordinating environmental functions exercised by organs of states; and
  o to provide for matters connected therewith;
• The Environmental Impact Assessment Regulations (2006) – These Regulations were promulgated in terms of Section 24 (2) (a) and (d) of the National Environmental Management Act, read with Section 44 of the National Environmental Management Act. The purpose of these regulations is to regulate procedures and criteria contemplated in Chapter 5 of the National Environmental Management Act for the submission, processing, consideration and decisions of applications for environmental authorisation of activities and for matters pertaining thereto.

2.5.3 Sustainable Development
Sustainable development can be defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987: 43). According to the Concept Paper on Sustainable Development (2005: 2), the concept of sustainable development is fairly straightforward: “sustainable development is about behaving in a manner in which current efforts to raise the quality of life of a society’s citizens (i.e. “development”) can be continued (or “sustained”) into the future. It is about adopting a development path that improves the quality of life of current generations, while leaving future generations with at least the same capacity and options for development that we have at present”.

The National Framework for Sustainable Development in South Africa (2008) states that the achievement of sustainable development is not a once-off occurrence and its objectives cannot be achieved by a single action or decision. It is an ongoing process that requires a particular set of values and attitudes in which economic, social and environmental assets that society has at its
disposal, are managed in a manner that sustains human well-being without compromising the ability of future generations to meet their own need.

According to Weaver, Rock and Kusterer (1997), sustainable development has four components, namely:

- A healthy growing economy that constantly transforms itself to maintain and enhance the standard of living of all;
- The benefits of economic growth are equitably shared by all;
- Respect for human rights, good governance, a healthy civil society and an increasingly democratic society; and
- Sustainability, which means that in the process of economic growth the environment is not destroyed.

The Guideline on Need and Desirability (2009) states that “whilst it is essential that growth in the economy addresses national policies and strategies (e.g. Accelerated and Shared Growth Initiative for South Africa, Growth, and Employment and Reconstruction strategy), it is essential that the implementation of these social and economic policies takes cognisance of strategic concerns such as climate change, food security, as well as the sustainability in supply of natural resources and status of our ecosystem services. In other words, to achieve our constitutional goal of a better quality of life for all now and in future, through equitable access to resources and shared prosperity, it is essential that society improve on the efficiency and responsibility with which we use resources, and improve on the level of integration of social, economic, ecological and governance systems”. In the National Spatial Development Perspective (2006) it is highlighted that to achieve the goal of stimulating sustainable economic activities and to create long-term employment opportunities, it is required that spending on economic infrastructure is focused in priority areas with potential for economic development, with development to serve the broader societies’ needs equitably. According to the Guideline on Need and Desirability (2009), the need and desirability of a development must be measured against the Spatial Development Framework, the Environmental Management Framework for the area, as well as the sustainable development vision, goals and objectives formulated in, and the desired spatial form and pattern
of land use reflected in the area’s Integrated Development Plan and Spatial Development Framework.

2.6 Determining the Impact of Property Development

The impact of a property development on the economy can be determined by using, amongst others, the Input-Output Model (I-O Model). The I-O Model was developed by Leontief in late 1920 and early 1930 (Slabbert, 2004: 47). According to Slabbert (2004, 47), the I-O Model illustrates “economic linkages between different components of an economy. It identifies monetary flows (expenditures and receipts) between various units (Khun & Jansen, 1997) and focuses on the interdependence of different sectors of economic activities”. The input-output technique also provides a snapshot of economic production at a given point in time and, as such, can have numerous application possibilities. An application of this technique also includes determining the impact of changing production functions on the general economic equilibrium (Slabbert, 2004). According to Urban-Econ (2007), this technique is a generally accepted approach in an attempt to understand and quantify the potential effects of an exogenous change in the economy, e.g. the proposed Alphen Aan Den Rijn Lifestyle Village development.

2.7 Management Strategies

In order to ensure that the socio-economic impacts which are identified are maximised, specific management strategies and mechanisms need to be incorporated into the overall development proposal of the Alphen development.

Grant (2005: 120) is of the opinion that “there is little consensus as to the definition of strategy, either in its generic sense or applied to business”. Nevertheless, the Wordsmyth Dictionary, as quoted by Grant (2005: 121) defines strategy as “a plan, method or series of actions designed to achieve a specific goal or effect”. Chandler (1962) is of the opinion that strategy is the determination of goals and objectives and the adoption of a course of action and the allocation of resources necessary to carry out these goals. In this particular instance, the goal of Alphen, for purposes of this research, is to ensure that the economic impact of Alphen is managed in a sustainable manner to the maximum benefit of the local economy of Oudtshoorn.
In order to ensure that the impacts are maximised, specific management strategies and mechanisms need to be incorporated into the overall development proposal. Rondinelli, Middleton and Verspoor (1990: 33) define management strategies as “a particular pattern of management processes and organisational structures that enables an organisation to accomplish specific tasks in a given environment”. The four important elements that planners must consider in selecting a given management structure are the environment, tasks, organisational structures and management processes (Rondinelli, Middleton and Verspoor, 1990: 33). According to Barney (1997), as quoted by Peng (2000: 3), “strategic management is the process through which strategies are chosen and implemented”. In this research paper, certain proposals as well as the processes (ways) to implement these proposals, will be suggested.

2.8 Summary
Property development, the property development process, the role-players in property development, property development in the South African context and a tool to determine the impact of property development was discussed in this chapter.

Property development can be defined as “a process that involves changing or intensifying the use of land to produce buildings for occupation” (Cadman and Topping, 2004: 1). There are various views on the property development process. According to Cadman and Topping (2004: 2), “property development can be likened to any other industrial production process that involves the combination of various inputs in order to achieve an output or product. In the case of property development, the product is a change of land use and/or a new or altered building in a process which combines land, labour, materials and finance”. There are several role-players involved in the property development process. Each of these role-players has a specific role in how property development occurs. The main role-players are:

- National, provincial and local government;
- The private sector (the developer and the consumer); and
- The community.

Property development in South Africa is strictly regulated by planning and environmental legislation. Local municipalities are responsible for handling development applications, such as
applications for departures from building parameters or applications for rezoning or for the subdivision of land. Municipalities decide how to handle these applications according to legislation, policies and guidelines provided by the Department of Environmental Affairs and Development Planning. Before a development application can be decided in terms of land use planning legislation, the application must be subjected to various public participation processes and in some instances, the approval of various state institutions must also be obtained. Applications are assessed in terms of the National Environmental Management Act (Act 107 of 1998) to ensure that integrated environmental policy and planning considerations are addressed. Once a development application has been reviewed in terms of environmental legislation, an authorization is issued. Only after the application has been reviewed in terms of environmental legislation may a decision in terms of land use legislation be taken.

When presenting a development proposal to the authorities, the property developer must incorporate the principles of sustainability in his development proposal (The Guideline on Need and Desirability, 2009). Sustainable development is about behaving in a manner in which current efforts to raise the quality of life of a society’s citizens (i.e. “development”) can be continued (or “sustained”) into the future. This concept was discussed to set the background of how it is expected that property development takes place in the current legal environment in South Africa. Therefore the researcher will attempt to identify manners in which property development can become more sustainable and truly have a positive impact on the quality of life of local communities.

In this research, the I-O model will be used to translate the anticipated structural change in the economy of Oudtshoorn which will occur as a result of the proposed Alphen Aan Den Rijn Lifestyle Village development and to gauge the direct, indirect and induced effects in the local economy as a result of the aforesaid development. A full explanation of the mechanics of the I-O Model will be provided in the chapter dealing with methodology. In order to ensure that the socio-economic impacts which are identified are maximised, specific management strategies and mechanisms need to be incorporated into the overall Development proposal. In this treatise, certain proposals as well as the processes (ways) to implement these proposals, will be suggested.
CHAPTER THREE: SOCIO – ECONOMIC PROFILE

3.1 Introduction
This chapter provides the status quo in terms of socio-economic aspects of the Oudtshoorn Municipality within which the proposed Alphen Aan Den Rijn Lifestyle Village development will be established. The aim is to provide the required “benchmark” profiles against which the impact of Alphen can be quantified. To establish the benchmark referred to aforesaid, the following is included:

- Gross Domestic Product (GDP) and Sectoral Employment for Oudtshoorn;
- Economic Growth in Oudtshoorn;
- Socio-Economic Considerations; and
- Labour Market Supply Analysis.

Information was gathered through both primary and secondary data sources, namely socio-economic surveys and interviews with the Local Economic Development Officer of the Oudtshoorn Municipality, Manager of the Oudtshoorn Tourism Bureau and the General Manager of the Klein Karoo Group of Companies, as well as previous studies, statistical data from StatsSA and Quantec data.

3.2 Overview of Oudtshoorn Municipality
The study area is located in the Oudtshoorn Local Municipality, which is located within the Eden District Municipality and the Western Cape Province.

Map 3.1 shows the study area within the District and Province.
Oudtshoorn nestles at the foot of the Swartberg Mountains in the heart of the Little Karoo region. It is defined as semi-arid area with a unique and sensitive natural environment. The Oudtshoorn Municipal Area includes the larger settlements of Oudtshoorn, Dysselsdorp, De Rust, and smaller rural settlements of Vloed, Schoemanshoek, Spieskamp, Vlakteplaas, Grootkraal, Hoopvol, en Matjiesrivier (personal communication: Oudsthoorn Municipality, 2008). Oudtshoorn also serves as a regional centre for the surrounding agricultural area. Oudtshoorn is regarded as a centre for regional cultural, sport and art activities, and has since 1994 been the host of the Klein Karoo Art Festival. In 2006, the festival attracted 43 501 visitors and the sale from tickets generated R8,18 million (137 463 tickets). The economic impact of the festival in that particular year was estimated at R53.7 million (Clarke, 2008).

Oudtshoorn’s relatively higher “development potential” is directly linked to its geographic location on main transport routes, its natural resource base, its human resources, its institutional centre function and commercial services (Nel, 2008). Recent studies of Oudtshoorn’s growth potential identified it as one of 14 important “leader towns” in the Western Cape Province (Van Der Merwe, 2004). The identification as leader town suggests that Oudtshoorn is an important
node that supports regional growth. The vision for Oudtshoorn Municipality is described in the IDP (2009) as follows: “A strong and caring municipality that strives to improve the quality of life of all our citizens in a sustainable manner”.

3.3 Oudtshoorn Socio-Economic Profile

Based on a development and skills survey and statistical data from StatsSA and Quantec a socio-economic profile for Oudtshoorn was compiled. The socio-economic profile is thus grounded in an economic synopsis that provides an overview of the following:

- Gross Domestic Product (GDP) and Sectoral Employment for Oudtshoorn;
- Economic Growth in Oudtshoorn;
- Socio-Economic Considerations;
  - Population;
  - Age Profile;
  - Employment and Income Levels;
  - Household Income;
  - Occupation Profile;
  - Education Levels; and
- Labour Market Supply Analysis.

3.3.1 Economic Structure

The economic structure of an economy is a function of the sum of all the different economic activities in the geographic boundaries of that area (Urban-Econ, 2007). In order to facilitate a comparison of different sectors, it is necessary to employ a standardised classification. The Standard Industrial Classification codes (SIC) can be used as an instrument to identify economic sectors together with an indication of the activities associated with each main sector. SIC are an internationally accepted set of codes for the standard classification of all economic activities. According to the preface to the fifth edition of the Standard Industrial Classification of all Economic Activities (Central Statistical Services, 1993: I) the “SIC was designed for the classification of establishments according to the kind of economic activity, and provides a standardised framework for the collection, tabulation, analysis and presentation of statistical data on establishments”. It is further recommended that “public and private institutions, as well as
private persons, engaged in the classification of establishments as statistical units, use the SIC as a basis as far as this is feasible. The general application of the principles and definitions of this Classification will promote the uniformity and comparability of statistics compiled from different sources”.

3.3.2 Gross Domestic Product (GDP) and Sectoral Employment for Oudtshoorn

Mohr and Fourie (2004: 63) define GDP as “the total value of all final goods and services produced within the boundaries of a country in a particular period”. The Gross Domestic Product (GDP) in this treatise therefore indicates the total value of all final goods and services produced within the geographic boundaries of Oudtshoorn. The total GDP of Oudtshoorn was approximately R1,186 million in 2007 (StatsSA, 2008) The GDP of Oudtshoorn grew by an average of 1.9 percent over the last decade (StatsSA, 2006).

Table 3.1 shows the GDP Growth Rate per sector over a 2-year period (2005-2007) for Oudtshoorn:

**TABLE 3.1: GDP GROWTH RATE PER SECTOR (2005-2007)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Growth Rate (2005-2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Mining</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2.4%</td>
</tr>
<tr>
<td>Electricity &amp; Water</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Construction</td>
<td>14.7%</td>
</tr>
<tr>
<td>Wholesale &amp; retail trade; catering and accommodation</td>
<td>6.6%</td>
</tr>
<tr>
<td>Transport &amp; communication</td>
<td>4.7%</td>
</tr>
<tr>
<td>Finance and business services</td>
<td>6.0%</td>
</tr>
<tr>
<td>Services</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

(Researcher’ own calculation based on data from Quantec, 2008)

Table 3.1 above shows that:

- The best performing sectors over a two year timeframe were:
- Construction - 14.7 percent;
- Trade - 6.6 percent;
- Finance and business service sectors - 6.0 percent;
- Transport and Communication - 4.7 percent; and
- Agriculture is experiencing negative growth of -2.0 percent.

The following Figure 3.2 indicates the various sectors contribution to the GDP of Oudtshoorn:

**FIGURE 3.2: GDP PER SECTOR IN OUDTSHOORN (2007)**

Figure 3.2 above indicates that the leading industries in Oudtshoorn are:
- Services - 24.4 percent;
- Retail - 22.7 percent;
- Finance and business Services - 16.7 percent; and
• Manufacturing - 11.7 percent.

The following Figure 3.3 indicates the level of employment per sector:

**FIGURE 3.3: EMPLOYMENT PER SECTOR (2007)**

(Quantec, 2008)

Figure 3.3 above illustrates the following:

- The major employers of the municipal area are the services (25 percent) and trade (21 percent) sectors; and
- The sectors employing the least amount of people are the mining sector, transport, communication sector and electricity and water sectors.

### 3.3.3 Economic Growth in Oudtshoorn

While two percent of the Western Cape population lived in Oudtshoorn in 2006, the economy of Oudtshoorn only contributed 1.1 percent towards the provincial Gross Geographic Product
(GGP) (StatsSA, 2006). The annual real growth rate of the Oudtshoorn economy was on par with the provincial average of 1,9 percent per annum but below national output growth for the period from 1996 until the end of 2006 (StatsSA, 2006). Oudtshoorn’s economy grew at a real growth rate of 1,9 percent per annum as opposed to growth in national output of 2,8 percent for the same period (StatsSA, 2006). The performance of the Oudtshoorn economy is also well below the growth rates experienced by larger towns in the Southern Cape between 1996 and 2006, namely George (5,5 percent); Knysna (5,2 percent) and Mosselbay (3,9 percent) (StatsSA, 2006). Although Oudtshoorn is the second largest town in the Southern Cape in terms of population, its economy is only the third largest in terms of output i.e. GGP (StatsSA, 2006).

**FIGURE 3.4: ECONOMIC GROWTH RATE FOR OUDTSHOORN (1996-2007)**

(Source: StatsSA, 2008)

### 3.3.4 Socio-Economic Considerations

#### 3.3.4.1 Population

Table 3.2 provides the population trends for Oudtshoorn.

**TABLE 3.2: TOTAL POPULATION & TRENDS FOR OUDTSHOORN**

<table>
<thead>
<tr>
<th>Period</th>
<th>Oudtshoorn Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>78723</td>
</tr>
<tr>
<td>2001</td>
<td>84692</td>
</tr>
</tbody>
</table>
According to Table 3.2 Oudtshoorn comprised 92,454 people in 2007 and the population experienced a growth of 1.47 percent between the period 1996 and 2007.

### 3.3.4.2 Age Profile

Figure 3.5 illustrates the age profile for Oudtshoorn.

**FIGURE 3.5: AGE PROFILE FOR OUDTSHOORN, 2007**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ages 0 and 14</td>
<td>30.10%</td>
</tr>
<tr>
<td>Ages 15 and 25</td>
<td>17.46%</td>
</tr>
<tr>
<td>Ages 26 and 30</td>
<td>7.40%</td>
</tr>
<tr>
<td>Ages 31 and 45</td>
<td>22.57%</td>
</tr>
<tr>
<td>Ages 46 and 60</td>
<td>14.04%</td>
</tr>
<tr>
<td>Ages 61 and 75</td>
<td>6.56%</td>
</tr>
<tr>
<td>Ages 76 and 80</td>
<td>1.05%</td>
</tr>
<tr>
<td>Ages 81 and up</td>
<td>0.82%</td>
</tr>
</tbody>
</table>

Figure 3.5 illustrates that the working population between the ages of 15 and 60 make up a total of 61.5 percent of the population in Oudtshoorn.
3.3.4.3 Employment and Income Levels

Table 3.3 indicates the number of unemployed and employed persons in Oudtshoorn in 2007. These figures comprise the economically active labour force as extrapolated by Stats SA Census 1996, 2001 and projections until 2007.

**TABLE 3.3: LABOUR FORCE IN OUDTSHOORN, 1996, 2001 & 2007**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
<td>73.6%</td>
<td>66.3%</td>
<td>72%</td>
</tr>
<tr>
<td>Unemployed</td>
<td>26.4%</td>
<td>33.7%</td>
<td>28%</td>
</tr>
<tr>
<td>Total Labour</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

(Source: StatsSA, 2006 & Quantec, 2008)

It is evident from Table 3.3 that the number of unemployed persons in Oudtshoorn increased from 26.4 percent in 1996 to 33.7 percent in 2001 but has stabilised at 28 percent in 2007.

3.3.4.4 Household Income

Household income levels normally form a foundation for determining poverty levels in a community. The income levels in a particular area are also an indication of the buying power of that community and the potential poverty levels that a community might be experiencing. Figure 3.6 illustrates the annual income levels of people residing in Oudtshoorn.

**FIGURE 3.6: ANNUAL HOUSEHOLD INCOME IN OUDTSHOORN, 2007**
Figure 3.6 illustrates that in Oudtshoorn 17 percent of individuals live below the poverty line, that is, they have an average combined household income which is below R13 896 per annum.

3.3.4.5 Occupation Profile

The occupation profile of the formal labour force in Oudtshoorn is based on the classification of StatsSA and is displayed in Figure 4.7

**FIGURE 3.7: OCCUPATION PROFILE OF WORKING POPULATION IN OUDTSHOORN, 2007**

(Source: StatsSA, 2007)

Figure 3.7 illustrates that the dominant occupations within Oudtshoorn include elementary occupations (23 percent), craft and related trade workers (18 percent), service workers, shop and market sales workers (11 percent) and clerks and professional (each 10 percent). Figure 4.7 further illustrates that most of the employed persons in Oudtshoorn are unskilled workers, i.e.
they work in elementary occupations. Semi-skilled persons make up the second highest number of workers, i.e. service workers, shop and market sales workers.

3.3.4.6 Education Levels
The employability of the residents of Oudtshoorn is based on an investigation of the overall education levels achieved by the individuals. The baseline data is presented in Figure 3.8 which illustrates the local education profiles for Oudtshoorn.

**FIGURE 3.8: EDUCATION PROFILE OF OUDTSHOORN, 2007**

![Education Profile Chart](Source: StatsSA, 2007)

Figure 3.8 illustrates that the great majority of Oudtshoorn’s population has an education below Grade 12 level. By definition, schooling has implications for the skills levels of communities.

3.3.5 Labour Market Supply Analysis
This section provides a labour market supply analysis, which consists of an analysis of the human resources available in Oudtshoorn (i.e. skills, expertise, education and experience). It includes an overview of the specific skills and expertise available in Oudtshoorn as well as a
brief analysis of key socio-economic indicators (e.g. education and employment). It is necessary to provide a skills profile of the study area as one of the key impacts which results from property development is economic growth and the creation of additional employment opportunities. There is often a leakage effect of new jobs created by property development (Demacon, 2008). This can be as a result of lack of skills in the primary study area where the development occurs. Thus, in order to determine what the skills gap is, it is necessary to determine the supply of skills in the Oudtshoorn Municipal area.

The skills supply audit was obtained based on a development and skills survey which was conducted in Oudtshoorn in 2008 by the researcher, in conjunction with Urban-Econ, to determine the types of skills available. The skills profile of an area does not change dramatically in a period of three years and the data base was augmented with Quantec data (2008) and StatsSA Community Survey data (2007). The development and skills survey was conducted through a sample survey of 250 household in the Oudtshoorn Local Municipality in order to gain access to information regarding the skills levels, and basic demographic information of the local population. Information was collected from all household members between the ages of 18-66. The survey structure was stratified according to neighbourhoods.
3.3.5.1 Findings of the Skills Survey
According to Figure 3.9, the skills survey established that 61.4 percent of the respondents are employed and 38.6 percent of the respondents are unemployed.

FIGURE 3.9: LABOUR FORCE, 2008

(Sources: StatsSA (2007), Researcher/Urban-Econ survey (2008) and Quantec (2008))

The respondent’s level of education is illustrated in Figure 3.10.

FIGURE 3.10: HIGHEST LEVEL OF EDUCATION, 2008

(Sources: StatsSA (2007), Researcher/Urban-Econ survey (2008) and Quantec (2008))
Figure 3.10 illustrates that 37.4 percent of the respondents have primary school level education. Over 43 percent of the respondents have a secondary education level, 8.3 percent have a tertiary education from a college or a technikon and only 10.9 percent of the respondents have basic level of education.

Table 3.4 indicates in which occupations the respondents are involved in.

TABLE 3.3: OCCUPATION OF RESPONDENTS, 2008

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self Employed</td>
<td>12.0%</td>
</tr>
<tr>
<td>Professional, Semi Professional and Technical</td>
<td>13.9%</td>
</tr>
<tr>
<td>Clerical and Sales Worker</td>
<td>5.8%</td>
</tr>
<tr>
<td>Managerial, executive and administration</td>
<td>3.8%</td>
</tr>
<tr>
<td>Transport and communication worker</td>
<td>3.8%</td>
</tr>
<tr>
<td>Service worker</td>
<td>20.2%</td>
</tr>
<tr>
<td>Farmer and farm worker</td>
<td>6.7%</td>
</tr>
<tr>
<td>Tradesman and Apprentice</td>
<td>24.5%</td>
</tr>
<tr>
<td>Mining and Quarry Worker Production Foreman, Supervisor, operation production and related worker</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

(Sources: StatsSA (2007), Researcher/Urban-Econ survey (2008) and Quantec (2008))

Of the respondents 12 percent are self-employed and 20.2 percent of the respondents are service workers.

The general skills, of the respondents in the study area, are illustrated in Table 3.5

TABLE 3.5: GENERAL SKILLS, 2008

<table>
<thead>
<tr>
<th>General Skills</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bricklaying</td>
<td>17.1%</td>
</tr>
<tr>
<td>Tiling</td>
<td>4.0%</td>
</tr>
<tr>
<td>Painting</td>
<td>9.1%</td>
</tr>
<tr>
<td>Plastering</td>
<td>1.0%</td>
</tr>
<tr>
<td>Other Building (specify)</td>
<td>2.3%</td>
</tr>
<tr>
<td>Sewing</td>
<td>35.8%</td>
</tr>
<tr>
<td>Typing/Office</td>
<td>7.5%</td>
</tr>
<tr>
<td>Furniture</td>
<td>0.2%</td>
</tr>
<tr>
<td>Cabinet making</td>
<td>0.6%</td>
</tr>
</tbody>
</table>
Table 3.5 shows that some of the respondents have skills relating to construction and various building skills such as bricklayers, tilers, painters, plasterers, etc. Approximately 35 percent of the respondent’s skills are directly related to construction.

Figure 3.11 illustrates the six most common specific skills that the Oudtshoorn residents have within each general skills category.
FIGURE 3.11: SIX MOST COMMON SKILLS, 2008

(Sources: StatsSA (2007), Researcher/Urban-Econ survey (2008) and Quantec (2008))

Figure 3.12 illustrates the type of training received by the respondents.

FIGURE 3.12: TYPE OF TRAINING, 2008

(Sources: StatsSA (2007), Researcher/Urban-Econ survey (2008) and Quantec (2008))
3.4 Summary

The socio-economic profile of Oudtshoorn was analysed in this chapter and can be summarised as follows:

- **Gross Domestic Product (GDP)** – approximately R1,186 million in 2007;
- **Economic Growth in Oudtshoorn** - An average of 1.9 percent over the last decade;
- **Population** – There were 92,454 people in Oudtshoorn in 2007, of which 43,868.21 are male and 48,595.36 are female;
- **Age profile** – The working population in Oudtshoorn between the ages of 15 and 60 make up a total of 61.5 percent of the population in Oudtshoorn;
- **Unemployment** – In 2007, the unemployment rate of Oudtshoorn was 28 percent;
- **Household Income** – Seventeen percent of individuals in Oudtshoorn live below the poverty line;
- **Occupation Profile** – Most of the employed persons in Oudtshoorn are unskilled workers, whilst semi-skilled persons make up the second highest number of workers; and
- **Education Levels** – The majority of Oudtshoorn’s population has an education below Grade 12 level.

It is clear that the local economy of Oudtshoorn is dependent on various trading activities, amongst others, the tourism industry and agricultural and manufacturing activities and that the local population will benefit greatly from any new job creation activities and developments (Demacon, 2008). The supply of skills in the study area was also determined through the findings of the skills supply audit (2008). This will be used as a benchmark when evaluating skills demanded by the Alphen Aan Den Rijn Lifestyle Village development and employment opportunities thereby created.

The assessment of the impact of the proposed Alphen Aan Den Rijn Lifestyle Village development on the economy in Oudtshoorn will indicate the linkages with the main characteristics of the local context. The local economy of Oudtshoorn is a growing economy and the more diversified it becomes the more local economic development opportunities will arise (Envirocor, 2008). There are a number of opportunities, which over the medium to long term, can bring about growth and development in Oudtshoorn. The pace of economic growth will
however, be reliant on external intervention and investments such as the proposed Alphen Aan Den Rijn Lifestyle Village development (Envirocor, 2008). Therefore in order to conceptualise effective management proposals it is necessary to determine potential positive impacts which could potentially occur and strengthen these impacts to ensure that the proposed Alphen Aan Den Rijn Lifestyle Village property development is sustainable.
CHAPTER FOUR: RESEARCH METHODOLOGY

4.1 Introduction
Research methodology refers to the approach adopted by the researcher to the entire process of the research study.

4.2 The Research Paradigms
A Paradigm is defined as “the progress of scientific practice based on people’s philosophies and assumptions about the world and the nature of knowledge” (Collis & Hussey: 2003, 352). Collis and Hussey (2003) identified two main research paradigms, namely the positivistic paradigm and the phenomenological paradigm. A positivistic paradigm is defined according to Collis & Hussey (2003: 353) as a “paradigm based on the natural sciences which assume that social reality is independent of us and exists regardless of whether we are aware of it”. The phenomenological paradigm is a “paradigm that assumes that social reality is in our minds; a reaction to the positivistic paradigm. Therefore, the act of investigating reality as an effect on that reality and considerable regard is paid to the subjective state of the individual” says Collis and Hussey (2003: 352). The research study will follow the positivistic paradigm as the research will test the relationship between the proposed Alphen Aan Den Rijn Lifestyle Village development (Alphen) in Oudtshoorn and the economy of Oudtshoorn, determine the impact that aforesaid proposed development will have on the economy of Oudtshoorn and suggest management strategies to ensure that the impact of said development is sustainable.

The research study will be based on quantitative research, incorporating a case study. As such, elements of the qualitative research design is also included. The research design can therefore be referred to as a mixed methods research design. According to Creswell (1994: 2) “no mixed methods research design blends typological and systemic approaches into a cohesive, multifaceted whole. A synergistic approach to mixed methods research uses the inherent strengths of both types of approaches, providing researchers with a comprehensive framework for making pivotal research design decisions. Grounded in both philosophy and practice, this approach enables researchers to identify what will be researched, how it will be researched, and why the research will be undertaken in their chosen way”.

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It is important to have a clear understanding of both quantitative and qualitative research approaches. Each will be defined respectively. Collis & Hussey (2003: 354) define quantitative research as “an objective approach which includes collecting and analyzing numerical data and applying statistical tests”. Qualitative research on the other hand is defined as “a subjective approach which includes examining and reflecting on perceptions in order to gain an understanding of social and human activities” (Collis & Hussey, 2003: 353). Miles & Huberman (1994: 40) provides the following definitions of qualitative and quantitative research:

- Qualitative research involves analysis of data such as words (e.g., from interviews), pictures (e.g., video), or objects (e.g., an artifact);
- Quantitative research involves analysis of numerical data.

As such, the research study is based on a case study which is qualitative as well as a survey and statistical profiles which are quantitative in nature. Therefore a mixed method research approach is applicable.

4.3 Sampling Design

The Sampling theory is based on the relationships that exist between a population and samples drawn from it. Collis & Hussey (2003) describe a sample as a subset of a population. According to said authors a distinction is made between numerous sampling methods. In this research paper the judgmental sampling, that is, where participants are selected on the strength of their experience of the phenomenon under study, will be utilised. Aforesaid is as a result of the nature of the study, namely:

- To evaluate the status quo of the economy of Oudtshoorn;
- To evaluate the impact which Alphen will have on economic growth and job creation in Oudtshoorn; and
- To suggest management strategies to ensure that the economic impact which will occur is sustainable.

4.4 Data Collection Method

Data are defined by Collis and Hussey (2003: 346) as “known facts or things used as a basis for inference or reckoning”. The researcher is required to collect data pertaining to the variables
being studied. A distinction is made between the following data collection methods (Welman and Kruger, 2001):

- Critical incident technique;
- Diaries;
- Focus groups;
- Interviews;
- Observation;
- Protocol analysis; and
- Questionnaires.

A distinction is also made between primary data and secondary data (Welman and Kruger, 2001). Primary data are regarded as original data collected at the source such as the use of information gathered through surveying certain areas in Oudtshoorn. Secondary data are data which already exists such as the IDP, LED, and SDF for Oudtshoorn and statistical data from StatsSA and Quantec.

Due to the nature of this research treatise, the data collection method was limited to:

- Interviews:
  - In 2008 with Mr. G. Baartman, the Local Economic Development Officer of the Oudtshoorn Municipality;
  - In 2008 with Mr. M. Nel, the General Manager of the Klein Karoo Group of Companies;
  - In 2008 with Mr. C. Clarke, the Manager of the Oudtshoorn Tourism Bureau;
  - In 2008 and 2009 with Mr. G. Le Grange, the Developer of the Alphen Aan Den Rijn Lifestyle Village development;
  - In 2009 with Miss. I. Fouche, Development Economist of Urban-Econ.

(A list containing questions put to the above parties during the interviews is attached hereto marked Annexure 1).

- Survey – A development and skills survey was conducted in 2008 through a sample survey of two hundred and fifty households in the Oudtshoorn Local Municipality. A
copy of the Oudtshoorn Development and Skills Survey is attached hereto marked Annexure 2. The survey dealt with:

- Household characteristics;
- Employment;
- Training;
- Skills;
- Income;
- Access to Facilities and Services; and
- Property status.

The statistical profile in chapter 3 was used to provide a baseline profile of the study area. The purpose of the aforesaid survey was to collect primary data and to augment secondary statistical data from StatsSA and Quantec to ensure an updated profile which is necessary to determine the current socio-economic profile of Oudtshoorn and which was used to measure the exogenous changes which will occur as a result of the Alphen Aan Den Rijn development. The information obtained from the results of the above survey was captured in a database by the researcher, which data can be accessed, utilised and applied in other research of a similar nature.

4.5 Development Concept

The researcher obtained the development concept of Alphen during an interview in 2008 with Mr. Le Grange, the developer of Alphen. According to Mr. Le Grange, Alphen will consist of the following:

- 194 unit retirement village;
- 125 unit lifestyle village;
- 128 beds frail care centre;
- 100 bed Hotel;
- Recreational Facilities (two bowling green, four tennis courts); and
- Commercial Node (Pharmacy, Hairdresser, Coffee shop, Small Super market, etc.).

Based on the aforesaid development concept and information obtained from the developer, the researcher calculated the total capital investment in Alphen as follows:
**Capital Expenditure (CAPEX)**

**Development Activities**

**Land Costs**
- Value of Land: R 3,000,000.00

**Site Services**
- Boundary Fence: R 4,700,000.00
- Gatehouse: R 400,000.00
- Landscaping Costs: R 1,510,000.00
- Access Control: R 1,500,000.00

**Development Costs**
- Professional Fees: R 2,300,000.00

**Engineering Costs**
- Bulk Services: R 2,829,830.00
- Internal Services: R 18,959,310.00
- Electrical Engineering Costs: R 8,200,797.00

**Sundry Buildings**
- Retirement Village Units: R 49,000,000.00
- Frail Care Centre: R 19,200,000.00
- Residential Units: R 18,750,000.00
- Hotel: R 10,000,000.00
- Retail Facility: R 5,000,000.00
- Maintenance Facility: R 900,000.00
- Administrative Office: R 600,000.00

**Recreational Facilities**
- Bowling Green: R 860,000.00
- Tennis Court: R 560,000.00
- Swimming Pool (indoor): R 300,000.00
- Swimming Pool (Olympic): R 600,000.00
- Clubhouse: R 6,000,000.00

**Total CAPEX**

R 155,169,937.00
Determining the CAPEX is important in that these figures are used in the Input-Output Model (I-O Model). Based on the aforesaid, the findings of the I-O modelling propose to illustrate the impact that the construction as well as the operational phases of the Alphen development will have on the local economy in respect of the following:

- Additional new business sales;
- Additional Gross Geographic Product (GGP); and
- Additional employment (direct and indirect).

4.6 Analysing the Data Collected

The I-O Model can be used to determine, amongst others, the impact of a property development on the economy. To understand the I-O Model, it is important to look at the workings thereof.

4.6.1 The Input-Output Table

The I-O Model is presented in tabular form based on the principle that any “output requires inputs” (Slabbert, 2004: 47). According to Armstrong and Taylor (2000), as quoted by Slabbert (2004: 46) these “inputs may take the form of raw materials or semi-manufactured goods, or inputs of services supplied by households or the government. The I-O Table forms the nucleus of any model that analyses and projects the economy on an industry-to-industry basis (Urban-Econ, 2000: 47). According to Urban-Econ (2000; 47),

“The I-O Table is a summarised version, in quantified terms, of all transactions that took place between the main economic stakeholders in a particular year. The main feature of an input-output table is that it divides these economic transactions into the main sectors of the economy, starting with Agriculture, Forestry and Fishing right through to Community Services. The main economic decision-makers who are responsible for the transaction activities contained in the I-O Table are entrepreneurs, workers, households and government (all three levels). The I-O Table is nothing more than an extension of the National Accounts of a country, i.e. desegregating it into the various sectors of the economy. For this reason I-O-Tables are compiled and published by Statistics South Africa (SSA). These sectoral figures are
therefore strictly compatible with the macro national accounting data published by the South African Reserve Bank and SSA on a regular basis”.

According to Urban-Econ (1998), as quoted by Slabbert (2004: 48), “Input-output tables show the production function of a specific geographic area in terms of the value of transactions that have taken place between different sectors and sub-sectors in the economy. It also takes into account the imports and exports to and from the specific geographic area. The classical input-output model therefore provides a framework that illustrates inter-industrial linkages and economic interdependencies”.

4.6.2 Structure of the I/O Table

Using the CSS (1978: 15) as a source, Slabbert (2004: 47) states that there are four quadrants in an input-output table, as shown in Table 4.1

<table>
<thead>
<tr>
<th>Quadrant 1</th>
<th>Quadrant 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intermediate Inputs</td>
<td>Final Demand</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quadrant 3</th>
<th>Quadrant 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary inputs</td>
<td>Primary Inputs directly to Final Demand</td>
</tr>
</tbody>
</table>

Slabbert (2004: 48) explains the contents of each quadrant as follows:

“Quadrant 1 is referred to as the transactions table, which contains the transfer of goods and services between different sectors for production purposes. They are referred to as “intermediate inputs”.

Quadrant 2 shows the different “final demand” components: private consumption expenditure, government consumption expenditure, gross domestic fixed investment, change in inventories and total exports.

Quadrant 3 represents the demand for “primary inputs” by the productive sector: imports, remuneration (salaries and wages which can also be divided
into categories or social classes depending on the analyst’s objectives on income distribution analysis), gross operating surplus (savings and depreciation), as well as net indirect taxes (subsidies are subtracted).

Quadrant 4 shows the portion of “receipts by primary inputs”, which is part of final demand. For example, part of income can be dispatched as dividend and interest, salaries to households for private consumption, investment expenditure, government transfer (e.g. pension) and transfer to the rest of the world”.

4.6.3 The Input-Output Table as an Analytical Tool

According to Urban-Econ (2000: 49), the “function of an Input-Output Table is twofold. Firstly, the table presents a descriptive framework of the economic structure of a country by showing the interrelationships between sectors by means of the transactions table. Secondly an input-output table serves as an economic model”. Urban-Econ (2000: 49) further states that according to Van den Bogaerde (1972: 53), “an economic model involves the exposition of the relationships between economic variables in the form of equations. These equations are then combined to form a complete model”. Urban Econ (2000: 49) therefore defines an economic model “as a set of equations which show mutual dependence or interrelationships of economic variables. As input-output table’s formal exposition complies with these requirements, it can be considered as a model, which is useful for analytical purposes”.

According to Urban-Econ (2000: 49, 50), “an input-output model as an analytical tool is pre-eminently suitable for measuring the effects of autonomous disturbances in the economy. Given specific assumptions with regard to the nature of the production functions, the input-output model can be generally utilised for the above-mentioned purposes, on account of their mathematical features. The matrices which can be derived from the input-output model are used as instruments for economic analysis. This is done by means of the so-called technical input coefficients’ matrix and the Leontief inverse matrix”.

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4.6.4 Assumptions and Conditions Pertaining to Input-Output Analysis

Slabbert (2004: 48, 49) states that it is “imperative that the results of the model be interpreted in the correct context and that cognizance be taken of its’ constraints, as is the case with almost any modeling exercise”. Slabbert (2004: 49) list the most important constraints and assumptions of this technique as follows:

- “Classical input-output modeling provides a view of the economy in equilibrium at a specific instant in time and it therefore assumes fixed output production and pricing;
- Calculations are linear in two respects, firstly in terms of pricing and secondly in terms of production. Therefore, input-output modeling assumes that the output price will be directly proportional to demand, allowing for no economics of scale and other externalities. Similarly, production functions (the mix of inputs relative to outputs) are fixed for all output ranges;
- Input-output tables are sophisticated, costly and have extensive data requirements. The results are therefore dependent on data availability and quality; and
- The model does not anticipate structural economic changes such as, for example, the impact of substitute products and technological innovation”.

Urban-Econ (2000: 50) is of the opinion that the “input-output model, as in the case of any other economic model, rests upon assumptions made and conditions which must be complied with in order to make the model useful for economic analyses”.

4.7 Summary

The research paradigms, sampling design, development concept and a method to analyse the data collected were discussed in this chapter.

A Paradigm is defined as “the progress of scientific practice based on people’s philosophies and assumptions about the world and the nature of knowledge” (Collis & Hussey: 2003, 352). The research study followed the positivistic paradigm as the research will test the relationship between the proposed Alphen Aan Den Rijn Lifestyle Village development in Oudtshoorn and the economy of Oudtshoorn, determine the impact that aforesaid proposed development will have on the economy of Oudtshoorn and suggest management strategies to ensure that the impact
of said development is sustainable. The Sampling theory is based on the relationships that exist between a population and samples drawn from it. In this research paper judgmental sampling were utilised due to the nature of this study.

Data are defined by Collis and Hussey (2003: 346) as “known facts or things used as a basis for inference or reckoning”. Primary data were gathered through surveying certain areas in Oudtshoorn. Secondary data, such as the IDP, LED, SDF for Oudtshoorn and statistical data from StatsSA and Quantec were also utilised. The data collection method was limited to Focus groups, interviews and Questionnaires. Based on the data collected, a socio-economic profile was compiled for the area, which illustrated the characteristics of the area in terms of employment, income, etc. The socio-economic profile is presented in chapter three. As part of the data collection process, the development concept was obtained from the developer. Based on the aforesaid development concept, the researcher calculated the CAPEX as R 155,169,937, which figure was used in the I-O Model. In this research, the I-O Model will be used to determine the impact that the Alphen Aan Den Rijn Lifestyle Village will have on the economy of Oudtshoorn in respect of, amongst others, additional new business sales, additional Gross Geographic Product (GGP) and additional employment (direct and indirect). The results/findings of the I-O Model will be presented in chapter 5, and in chapter 6 management strategies will be suggested to ensure that the impact of said development is sustainable, e.g. strategies to maximise the utilisation of local labour and the prevention of leakage of jobs, etc.
CHAPTER FIVE: ANALYSIS & FINDINGS

5.1 Introduction

The purpose of this chapter is to identify the probable economic impacts which the Alphen Aan Den Rijn Lifestyle Village development would be a catalyst to. The identified impacts will be used to assist the researcher in developing management strategies to ensure that the proposed property development becomes more sustainable with regards to the economic environment. In chapter four the data/information collection process as well as the development concept and the method used to analyze the data collected was discussed. As far as the development concept is concerned, the proposed Alphen development will primarily be a lifestyle village for retired/elderly people. According to the developer (Le Grange, 2008), the development will also include a frail care facility for the residents, medical aid funds and private patients, erven for residential use as well as a hotel. Recreational facilities and commercial opportunities (small shops) will also be included in the development to cater for the needs of the residents and visitors.

IMAGE 5.1: LAYOUT OF ALPHEN AAN DEN RIJN LIFESTYLE VILLAGE

(Source: GP Greeff & Associates, Architects and Urban Designers, 2008)
The Input-Output Model was selected as a modelling tool to determine the impact of the Alphen Aan Den Rijn Lifestyle Village on the economy of Oudtshoorn in respect of, amongst others, additional new business sales, additional Gross Geographic Product (GGP) and additional employment (direct and indirect). Based on the development concept, the researcher estimated the CAPEX at R155,169,937 and in 2008 aforesaid calculations were presented by the researcher to Urban-Econ Economists with a request to construct the I-O Model using the inputs provided by the researcher to calculate the exogenous changes in the various economic sectors. The results/findings of the I-O Model are presented in this chapter.

This chapter therefore discusses:

- A definition of economic impact;
- Types of economic impact;
- Property development as a component of the economy; and
- The economic impact – An analysis of the potential socio-economic impact which the proposed development could have on the local economy and residents of Oudtshoorn, based on the findings/results of the I-O Model. An economic impact refers to the effect on the level of economic activity in a given area because of some form of external intervention in the economy (Urban-Econ, 2007). The analysis focuses on the changes that could be expected in the Oudtshoorn Local Municipal economy and community.

5.2 Defining Economic Impact

According to America’s Byways Resource Centre (2009), economic impact refers to the effects on spending, saving, investment, and asset value (e.g., property value) of any action whether it is a change in regulation, marketing activity, new business development, or new infrastructure. According to the Oil, Gas and Mining Sustainable Community Development Fund (2009), economic impact refers to any increase or decrease in the productive potential of the economy. The Business Dictionary (2009) defines economic impact as the economy-wide effect on employment and incomes produced by a decision, event, or policy. Based on the aforesaid one can therefore accept that economic impacts are the effects, positive or negative, on the level of economic activity in a given area.
5.3 Types of Economic Impact

Measuring economic impact requires a baseline assessment conducted before the activity (property development) occurs and a second, comparable assessment conducted after the activity occurs. According to Urban-Econ (2007), the net economic impact is usually measured as the expansion or contraction of an area’s economy as a result of, e.g., a proposed development. The net economic impact is ultimately informed by the exogenous change to a particularly defined geographical area. The choice of methodologies used to assess impacts ultimately depends upon time constraints, available resources and the structure of the particular economy to be studied (Fletcher, 1989). There are however limitations to the economic assessment techniques, e.g., the need for reliable techniques that generate standardised information, the need for holistic-assessments and the need to evaluate the commercial viability of property development (Envirocor, 2008).

According to Bio Economic Research Associates (2008), economic impact refers to:

- Direct impact – A measure of the value of goods and services that can be directly attributed to the sector;
- Indirect impact - Accounts for the changes in activity in other sectors as a result of increased demand from the directly affected sector; and
- Induced output - Reflects the impact of increased consumer spending resulting from income changes in the directly and indirectly affected sectors.

According to Redding (2006), economic impact on an area economy can be measured in several ways. The total economic impact (or “demand impact”) is based on the total demand for goods and services as a result of that particular economic intervention. Much of this demand for goods and services generates income to people within the area. This earnings impact can take the form of wages and salaries for area workers. The earnings impact also includes profits for owners and investors in area businesses. Demand for goods and services from area businesses creates the need to hire area workers. The impact on employment is the economic measurement of the number of jobs created within the area. The quantification of the economic impact is translated into earnings impact and jobs impact in a specific economy or area and by industry. Industries
which are more labor-intensive rather than capital-intensive will have a greater impact on employment.

According to Urban-Econ (2007), the net economic impact of an exogenous change in the economy can be translated according to various direct and indirect economic effects, as are set out below:

- Direct economic impacts – The changes in local business activities occurring as a direct consequence of public or private business decisions, or public programmes and policies. Increased user benefits lead to monetary benefits for some users and non-users, individuals and businesses, within the geographical area:
  - For affected businesses, there may be economic efficiency benefits in terms of product cost, product quality or product availability, stemming from changes in labour market access, cost of obtaining production inputs and/or cost of supplying finished products to customers; and
  - For affected residents, benefits may include reduced costs for obtaining goods and services, increased income from selling goods and services to outsiders, and/or increased variety of work and recreational opportunities associated with greater location accessibility.

- Indirect and induced impacts – The direct benefits to businesses and the residents of communities and regions may also have broader impacts, including:
  - Indirect business impacts – business growth for suppliers to the directly affected businesses
  - Induced business impacts – business growth as the additional workers (created by direct and indirect economic impacts/effects) spend their income on food, clothing, shelter and other goods and services. This business growth will also have implications for potential municipal income due to raised taxes and service levies.

### 5.4 Property Development as a Component of the Economy

According to Ball, Lizieri and MacGregor (1998), the property crash of the mid-1970s had a dramatic effect on the UK secondary banking sector with economic and political consequences, the property crash of the late 1980s led to many company failures and the turmoil in South East
Asian financial markets in the late 1990s is linked to the very large amounts of capital tied up in land and buildings and the contribution of property loans to debt in those countries. The worldwide boom and bust property cycle of the late 1980s and early 1990s raised the awareness of the important links between the macro economy and commercial property markets. Accordingly, “economic modelling of property market behaviour is of great importance in analyzing the linkage between key economic and financial variables and the behaviour of commercial property” (Ball et al, 1998: 3).

According to Berry, McGreal and Deddis (1993: 144), the “importance of land and property to the economy is now acknowledged by the government, politicians and policy makers. The contribution of commercial property to the national economy, for example, is significant both as a component of investment, but also as the main collateral for loans to companies to finance investment. The land and property sector also has an effect on the scale and location of economic activity within the macro economy”. “Land and property development has an important contribution to make in terms of regional and local economic prosperity. Development for residential, commercial and industrial purposes can facilitate inward investment, create employment and other opportunities for local builders and suppliers and increase the supply of space for economic activities” (Berry et al, 1993: 145).

From the above it is clear that property development, by its very nature is an element of the economy and can be regarded as a multifaceted business, encompassing activities that include the development of undeveloped land by constructing residential, commercial and industrial buildings, either for leasing or selling. Property development therefore has direct, indirect and induced impacts on the economy.

5.5 The Economic Impact

Urban-Econ (2007) is of the opinion that by using the I-O model methodology, various anticipated direct and indirect economic impacts can be quantified. These economic impacts are derived using an understanding of economic cause-effect relationships. The principle of cause-effect is that for any economic action, there can be a multitude of different economic reactions (effects). For the purposes of this treatise, the main cause/action is the implementation of the
Alphen development. The result is a number of direct potential/probable effects, which also have a range of indirect potential/probable effects. The nature of the probable economic cause-effects is illustrated in Figure 5.1.

**FIGURE 5.1: CAUSE-EFFECT RELATIONSHIPS**

(Source: Urban-Econ, 2007)

Based on the above figure, the economic cause-effect relationships resulting from the investment in the Alphen development leads to the stimulation as set out below:

- Construction spending involved in the development (2 a);
- The creation of operational income in the form of government revenue, e.g. rates and taxes (2 b);
- The stimulation of these economic activities will result in various direct and indirect economic impacts (3 a & b); and
- The direct and indirect economic impacts will result in economic structural changes in the local economy (4).
The following sub-section will discuss the impacts as calculated using the I/O model. The impacts will be discussed based on the impact during the construction phase which is temporary. The money spent on infrastructure and building materials etc. is once off and therefore this impact is perceived to be based on the capital expenditure during the construction phase.

The impacts which are calculated during the operational phase are permanent for as long as the proposed development is operational. This impact is not as substantial as the construction phase where-by the capital expenditure (CAPEX) is much more than the operational expenditure (OPEX) used to calculate the permanent impact in the case of the Alphen Aan Den Rijn Lifestyle Village development.

5.5.1 Quantifying Direct and Indirect Economic Impacts During Construction Phase

Based on the results of the I-O Model, the researcher compiled the following table:

**TABLE 5.1: FINDINGS OF THE I-O MODEL – CONSTRUCTION PHASE**

<table>
<thead>
<tr>
<th>Impact During Construction Phase</th>
<th>Direct Additional New Business Sales (R’000)</th>
<th>Indirect Additional New Business Sales (R’000)</th>
<th>Total Additional New Business Sales (R’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Additional GGP (R’000)</td>
<td>24,710</td>
<td>64,390</td>
<td>89,100</td>
</tr>
<tr>
<td>Indirect Additional GGP (R’000)</td>
<td>64,390</td>
<td>89,100</td>
<td>89,100</td>
</tr>
<tr>
<td>Total Additional GGP (R’000)</td>
<td>89,100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Additional Employment</td>
<td>756</td>
<td>565</td>
<td>1,321</td>
</tr>
<tr>
<td>Indirect Additional Employment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Additional Employment</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: Alphen Aan Den Rijn Lifestyle Village I-O Model results, 2008)

The direct and indirect economic impacts of the Alphen development during construction can be summarized as follows:

- New Business Sales – The construction of the Alphen development will lead to the expansion of business sales for existing businesses located within the area, e.g. materials used in construction as well services such as engineers, plumbers, electricians, etc.:
  - Direct – R178 430 000
• Indirect – R300 920 000
• Total – R479 350 000

• Additional GGP – According to McCann (2005), the GGP comprises the total market-related value for a particular year of all goods and services produced within a geographically defined area. The construction of the Alphen development will lead to the following increase in the GGP:
  • Direct – R24 710 000
  • Indirect – R64 390 000
  • Total – R89 100 000

• Additional Employment – The proposed Alphen development will result in an increase of jobs on the construction site (direct) as well as in industries that provide goods, materials and services (indirect), as follows:
  • Direct – 756
  • Indirect – 565
  • Total – 1 321

5.5.2 Quantifying Direct and Indirect Economic Impacts During Operational Phase

Based on the results of the I-O Model, the researcher compiled the following table:

<table>
<thead>
<tr>
<th>IMPACT DURING OPERATIONAL PHASE</th>
<th>Direct Additional New Business Sales (R’000)</th>
<th>Indirect Additional New Business Sales (R’000)</th>
<th>Total Additional New Business Sales (R’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Additional GGP (R’000)</td>
<td>34,830</td>
<td>24,300</td>
<td>59,130</td>
</tr>
<tr>
<td>Indirect Additional Employment</td>
<td>273</td>
<td>248</td>
<td>522</td>
</tr>
</tbody>
</table>

(Source: Alphen Aan Den Rijn Lifestyle Village I-O Model results, 2008)
It is generally understood that once a development has been constructed, ongoing economic impacts will result during the operational phase based on operational expenditure (OPEX). The economic impact is determined by the level of economic activity generated as a result of the increase in market demand in the effected sectors. This impact indicates the estimated potential economic effect that ongoing, sustained economic activity as a result of the proposed Alphen Development can have on the local economy. The direct and indirect economic impacts of the Alphen development during the operational phase can be summarized as follows:

- **New Business Sales** – The increase in goods and services during the operational phase of the Alphen development based on an overall expansion of the business sales/annual turnover in the local economy.
  - Direct – R107 040 000
  - Indirect – R120 800 000
  - Total – R227 840 000

- **Additional GGP** – The generation of additional business sales and employment opportunities results in an increase in product and service value (measured in GGP).
  - Direct – R34 830 000
  - Indirect – R24 300 000
  - Total – R59 130 000

- **Additional Employment** – It is a given that new employment opportunities will be created during the operational phase.
  - Direct – 273
  - Indirect – 248
  - Total – 522

5.5.3 **Increase in Municipal Rates and Taxes**

Municipalities provide basic services, e.g., water, electricity, collection of refuse, collection and treatment of sewage, maintaining roads, etc., to residents. In order to provide these services, the Municipality collects rates, taxes and levies from residents. In the case of the Alphen development, electricity will be supplied directly by Escom (Le Grange, 2008) and as such, the income stream from this source is ignored for the purpose of estimating the additional rates and taxes generated during the operational phase of said development. The researcher calculated the
proposed rates and taxes which will be paid by the residents of the Alphen development to the Oudtshoorn Municipality and which will increase the income of the Municipality, presented in Table 5.3.

**TABLE 5.3: ESTIMATED RATES, TAXES AND LEVIES**

<table>
<thead>
<tr>
<th>Rates &amp; Taxes</th>
<th>Residential</th>
<th>Hotel</th>
<th>Frail Care</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>R 11,917,200</td>
<td>R 238,700</td>
<td>R 429,700</td>
<td>R 1,193,500</td>
</tr>
<tr>
<td>Water Tariff</td>
<td>R 11,764,000</td>
<td>R 1,114,380</td>
<td>R 1,108,600</td>
<td>R 320,600</td>
</tr>
<tr>
<td>Sewerage Tariff</td>
<td>R 149,800</td>
<td>R 50,300</td>
<td>R 60,000</td>
<td>R 1,900</td>
</tr>
<tr>
<td>Refuse Tariff</td>
<td>R 143,900</td>
<td>R 23,500</td>
<td>R 23,500</td>
<td>R 4,800</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>R 23,831,000</strong></td>
<td><strong>R 1,426,900</strong></td>
<td><strong>R 1,621,800</strong></td>
<td><strong>R 1,520,800</strong></td>
</tr>
</tbody>
</table>

(Source: Researcher’s own calculations based on the Oudtshoorn Municipality’s rates structure in operation in 2008)

### 5.6 Summary

A definition of economic impact, types of economic impact, property development as a component of the economy and an analysis of the potential socio-economic impact which the proposed development could have on the local economy and residents of Oudtshoorn, based on the findings/results of the I-O Model were discussed in this chapter.

The proposed Alphen development will primarily be a lifestyle village for elderly people and will have a significant socio-economic and social impact on Oudtshoorn. Economic impacts can be defined as the effects, positive or negative, on the level of economic activity in a given area. The net economic impact of an exogenous change in the economy can be translated according to direct economic impacts as well as indirect and induced impacts. Property development can be regarded as a multifaceted business and by its very nature is a component of the economy. By using the I-O model methodology, various anticipated direct and indirect economic impacts can be quantified. These economic impacts are derived using an understanding of economic cause-effect relationships. The principle of cause-effect is that for any economic action, there can be a multitude of different economic reactions (effects). For the purposes of this treatise, the main cause/action is the implementation of the Alphen development. The result is a number of direct
potential/probable effects, which also have a range of indirect potential/probable effects. Based on the total capital investment (CAPEX) which will be made by the developer during the construction phase, the findings of the I-O Model propose to illustrate the impact that the construction phase of the Alphen development will have on the local economy in respect of additional new business sales, additional Gross Geographic Product (GGP) and additional employment (direct and indirect). It is generally understood that once a development has been constructed, ongoing direct, indirect and induced economic impacts will result during the operational phase based on operational expenditure (OPEX) in respect of additional Business Sales, increase in Annual GGP, increase in Employment and an increase in rates, taxes and levies.

In order to conceptualise effective management proposals, it is necessary to determine potential positive and negative impacts which could potentially occur and mitigate these impacts to ensure that the proposed Alphen Aan Den Rijn Lifestyle Village development is sustainable. Based on the assessment of the possible impacts of the proposed Alphen Aan Den Rijn Lifestyle Village development and in order to ensure that the positive impacts are maximized, specific management strategies and mechanisms need to be incorporated into the overall development. The management strategies, which will be more fully discussed in chapter 6 includes, amongst others:

- Workplace Skills Plan;
- Labour Contracts;
- Service Carrying Capacity Management Plan;
- Economic Sustainability; and
- Social Sustainability.
CHAPTER SIX – MANAGEMENT GUIDELINES

6.1 Introduction

The researcher made use of a case study approach to determine how a specific economic activity would impact a local economy and how this impact can be managed to maximise the benefit for the local economy of Oudtshoorn in a sustainable manner. The economic activity in this particular instance refers to the proposed Alphen Aan Den Rijn Lifestyle Village Development (“Alphen”) in Oudtshoorn. This research study therefore proposed to undertake the following:

- To provide the required “benchmark” socio-economic profile against which the impact of Alphen can be quantified.
- To identify and evaluate the economic impact which Alphen would have on the local economy of Oudtshoorn;
- To suggest proposals on how the economic impact of Alphen can be managed to the maximum benefit of the local economy of Oudtshoorn in a sustainable manner. In order to ensure that the impacts are maximised, specific management strategies and mechanisms need to be incorporated into the overall development proposal.

This research study followed the positivistic paradigm as the research tested the relationship between Alphen and the economy of Oudtshoorn, determined the likely impact that aforesaid proposed development will have on the economy of Oudtshoorn and suggesting management strategies to ensure that the impact of said development is sustainable. Primary data were gathered through surveying certain areas in Oudtshoorn and secondary data, such as the IDP, LED, SDF for Oudtshoorn and statistical data from StatsSA and Quantec was utilized. The data collection method was limited to interviews and questionnaires.

Based on the data collected, a socio-economic profile was compiled for the area, which illustrated the characteristics of the area in terms of employment, income, etc. As part of the data collection process, the development concept was obtained from the developer. Alphen will primarily be a lifestyle village for retired/elderly people and will include erven for residential use, a frail care facility, hotel, recreational facilities and commercial opportunities (small shops). Based on the aforesaid development concept, the researcher calculated the Capital Expenditure
(CAPEX) by the developer at R155 169 937, which figure was used in the Input-Output Model (I-O Model). In this research, the I-O Model was used to measure the direct and indirect impact that Alphen will have on the economy of Oudtshoorn in respect of, amongst others, additional Gross Geographic Product (GGP), additional new business sales and additional employment.

6.2 Management Guidelines (MG)

In order to conceptualize effective management proposals, it is necessary to determine potential positive and negative impacts which could potentially occur and to suggest strategies to strengthen the positive impacts, and at the same time mitigate the negative impacts, to ensure that the proposed Alphen development is sustainable. Based on the findings of the I-O Model, it is clear that the implementation of Alphen will have significant socio-economic benefits for the local and regional environment. The development of Alphen will:

- Stimulate real growth and development in the Oudtshoorn Local Municipality and will contribute to overall sustainable economic growth and development;
- Stimulate employment creation and a reduction in unemployment – with an emphasis on the lower income communities, empowering and employing them;
- Stimulate the development of the construction sector;
- Increase business development as a direct result of the sustainable operational and maintenance expenditure;
- Increase population thresholds and a new demand for the expansion of; inter alia, the Retail, Trade and Accommodation Sector, as well as the accelerated demand for new production capacity in the Manufacturing Sector.

The socio-economic disadvantages are associated with the following:

- Inconvenience during the construction period, i.e. the concentration of construction labour on the site during the Development Phase, potential crime, violence and health risks;
- The migration of labour in search of perceived employment opportunities generated as part of the proposed development;
As discussed in chapter 3, the socio-economic profile of Oudtshoorn can be summarised as follows:

- Gross Domestic Product (GDP) – approximately R1,186 million in 2007;
- Economic Growth in Oudtshoorn - An average of 1.9 percent over the last decade;
- Population – There were 92 454 people in Oudtshoorn in 2007, of which 43 868. 21 are male and 48 595.36 are female;
- Age profile – The working population in Oudtshoorn between the ages of 15 and 60 make up a total of 61.5 percent of the population in Oudtshoorn;
- Unemployment – In 2007, the unemployment rate of Oudtshoorn was 28 percent;
- Household Income – Seventeen percent of individuals in Oudtshoorn live below the poverty line;
- Occupation Profile – Most of the employed persons in Oudtshoorn are unskilled workers, whilst semi-skilled persons make up the second highest number of workers;
- Education Levels – The majority of Oudtshoorn’s population has an education below Grade 12 level.

As discussed in chapter 5, the estimated socio-economic impact of Alphen is as per Table 6.1.

**TABLE 6.1: ESTIMATED SOCIO-ECONOMIC IMPACT**

<table>
<thead>
<tr>
<th></th>
<th>CONSTRUCTION PHASE</th>
<th>OPERATIONAL PHASE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NBS</td>
<td>GGP</td>
</tr>
<tr>
<td><strong>Direct</strong></td>
<td>R178 m</td>
<td>R24,7 m</td>
</tr>
<tr>
<td><strong>Indirect</strong></td>
<td>R300 m</td>
<td>R64,3 m</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>R479 m</td>
<td>R89,1 m</td>
</tr>
</tbody>
</table>

(Source: Alphen Aan Den Rijn Lifestyle Village I-O Model results, 2008)

(NBS = New Business Sales; GGP = Gross Geographical Product; EMP = Employment)
Based on the assessment of the possible impacts of Alphen, it is clear that the additional business sales, additional GGP and additional employment outweigh the disadvantages from a socio-economic point of view. To ensure that these positive impacts are maximized for the benefit of the overall economy of Oudtshoorn as well as the population of Oudtshoorn, specific management strategies and mechanisms need to be incorporated into the development proposal.

6.2.1 Purpose of the Management Guidelines

The preparation of a Management Guidelines (MG) is in keeping with the economic and social sustainability of the project. The MG encourages best practices and ensures that potential negative impacts are controlled and to enhance positive socio-economic impacts. The effective implementation of the MG will ensure that the construction and operational activities are conducted and managed in a socio-economic sound and responsible manner. MG’s typically contain management strategies to which the developer will be required to adhere to throughout the duration of the construction of Alphen, and by the body corporate of Alphen after construction of Alphen has been completed. A MG also details the organisational authority and structure required to ensure the effective implementation of the MG and measures to monitor and improve the application of the MG. The MG may be amended from time to time to ensure that any additional requirements identified by key stakeholders are adequately covered.

6.2.2 Organisation and Management Structure

In order to ensure the sound and effective implementation of the MG, it is necessary to identify and define the responsibilities and authority of the various persons and organisations that will be involved in the project. The following key roles will need to be provided for during the implementation of the MG:

- **Developer** – The developer is ultimately responsible for the implementation of the MG. Where construction or operation activities are contracted out (e.g. to contractors and subcontractors), the liability associated with non-compliance still rests with the developer. The developer is therefore responsible for liaising directly with the relevant role players and must identify a project manager who has over-all responsibility for managing the project contractors and for ensuring that the requirements of the MG are met. All decisions regarding MG procedures and protocol must be approved by the
project manager, who also must have the authority to stop any construction activity that is in contravention of the MG;

- Project Manager (PM) – The PM for Alphen should be the overall responsible person during the construction phase. The developer should appoint a PM prior to construction commencing. The PM will be required to assume overall responsibility for the implementation of the management guidelines. An important part of this role will be to:
  o Undertake regular site visits and site inspections to ensure that the MG are implemented;
  o Be familiar with the contents of the MG;
  o Assume responsibility for compliance to all good management practice requirements for all aspects and for the duration of construction, in order to ensure effective minimization of all negative impacts caused directly or indirectly by any project activity;
  o Ensure that the MG is included in the tender documentation issued to prospective contractors;
  o Establish and maintain regular and proactive communications with the Contractors;
  o Communicate instructions to sub contractors/employees on the site, and ensure that they are conversant and comply with all relevant measures contained within the MG;
  o Review and comment on assessments and/or reports produced by the Contractors;

- Project Liaison Committee (PLC) – A Project Liaison Committee should be established by the developer prior to the commencement of construction. It is proposed that the PLC comprises the developer, the project manager, local authority representative, NGO representatives, community leaders and the Home Owners association (once it is established). The purpose of the PLC is to ensure compliance with the MG;

- Contractors – The developer and the appointed PM will ensure that all Contractors appointed to work on the site of Alphen are contractually required to undertake their activities in a responsible manner, as described in the MG. Each Contractor affected by the MG must appoint a Contractor’s Representative who is responsible for the on-site implementation of the MG. The Contractor must ensure that the Contractor’s Representative is suitably qualified to perform the necessary tasks and is appointed at a level such that she/he can interact effectively with other site Contractors, laborers and the
public. The Contractor’s Representative ensures that all Sub-contractors working under the Contractor abide by the requirements of the MG. The Contractor is answerable to the Project Manager for all issues associated with the project.

6.2.3 Specific Management Strategies
The socio-economic profile for Oudtshoorn, discussed in chapter 3, identified certain key socio-economic weakness, e.g. fairly average growth of 1.9 percent over the last decade, unemployment rate of 28 percent (2007), significant number of people that lives below the poverty line (seventeen percent) and the large number of unskilled and semi-skilled workers. These weaknesses can to a great extend be addressed by the Alphen development if managed correctly. More specifically, the following considerations need to be included in the Management guidelines:

- Workplace Skills Plan;
- Labour Contracts;
- Service Carrying Capacity Management Plan;
- Economic Sustainability;
- Social Sustainability.

6.2.3.1 Workplace Skills Plan
According to Coetzee (2002: 95), as quote by Swanepoel, Erasmus, Van Wyk and Schenk (2003: 459), the “Workplace Skills Plan (WPSP) refers to the strategic human resource training and development aim of developing the workforce skills capacity and thereby achieving the business goals contained in the business plan”. Coetzee, Botha, Kiley and Truman (2007: 34) states that “a workplace skill plan describes what skills are needed, who needs the skills, how employees will get the skills, and how much it will cost”. In order to assist with the skills management of the labour force for Alphen, the developer must ensure that the lead construction contractor compiles a Workplace Skills Plan (WPSP). Once a WPSP is completed and approved by the developer of Alphen, an application can be made to SETA for a refund of a maximum of 50 percent of the total of the levies paid in the relevant year as part of the percentage of levies paid by the contractor. The WPSP is used to support:
• The identification of imbalances in the supply of, and demand for, skilled labour in the various sectors;
• The Government to assist in the development and review of the National Skills Development Strategy that must be demand-led and sensitive to labour market needs;
• The assessment of training capacity and training investment so as to ensure the sound allocation of resources;
• The disbursement of levy funds to eligible employers, through the Levy Grant System;
• Employers to provide a strategic basis for planning the development of their staff and organisation.

The WPSP and the Implementation Report (IR) are central to the establishment of a demand-led skills development system, which is responsive to the economic and social needs of South Africa. The IR allows employers to monitor the achievement of the skills priorities and skills development objectives that were outlined in the WPSP. Where there are variations between the WSP and the IR, the IR provides employers and Skills Development Facilitator’s (SDF’s) with an opportunity to analyse reasons for non-completion of planned training (Tourism, Hospitality, Sport Education & Training Authority, 2009). A skills management plan has to be drafted by the developer in co-operation with the Department of Labour in order to ensure that the local labour force is equipped as best as possible for the proposed employment opportunities which will be created. The process which needs to be followed to develop such a WPSP includes the following:

• Establish a task team;
• Conduct a training needs analysis;
• Determine the critical training priorities;
• Identify scarce skills;
• Identify possible training organizations;
• Access SETA funding.

6.2.3.2 Labour Contracts
In order for in-migration of labour to be minimised, it is essential that the developer enters into a contract with the contractors which contract must specify that at least 75 percent of the labour requirements are met by the employment of local labour. The contractors should therefore
provide the developer with an indication of the percentage of labourer which will be local. The local labour employment specifications should be monitored on a regular base e.g. a weekly report on the percentage of local labour which is employed. The process which needs to be followed to develop a Labour Contract includes the following:

- Establish the skills of local labour;
- Determine percentage of local labour to be employed (approximately 75 percent);
- Establish Labour Contract;
- Implement Contract Stipulations;
- Monitor that stipulations are implemented correctly.

### 6.2.3.3 Services Capacity Management Plan

Alphen will have a large impact on the employment opportunities in Oudtshoorn. One possible impact could be an in-migration of possible job seekers. Aforesaid in turn may place additional strain on the services which are delivered by the local authorities for the local residents. Service which could potentially be affected includes:

- Housing;
- Social Services;
- Health Services;
- Educational Facilities;
- Basic Services (Water, Electricity and Sanitation);
- Transport Services.

Thus the local authorities need to put a management plan in place which will monitor the usage of these services and determine whether additional services need to be supplied to increase the carrying capacity. This will prevent local residents from receiving second rate service due to the increase in demand. This needs to be monitored in both phases of the development until the development is fully operational and the labour demand has stabilised. The process which needs to be followed to develop a Management Plan includes the following:

- Determine current service carrying capacity;
- Determine in-migration rate;
- Establish the strain which will be placed on services;
• Establish Management Plan to provide sufficient services;
• Monitor that stipulations in the Management Plan are implemented correctly.

6.2.3.5 Economic Sustainability
According to Clement (2000: 14), economic sustainability “encompasses growth, development, productivity and trickle-down effects”. It is of the utmost importance that the development of Alphen leads to growth and development of the economy of Oudsthoorn and the Southern Cape region. To ensure the aforesaid, it is essential that the developer enters into a contract with the contractors stipulating that all of the following are sourced in Oudtshoorn:

- Construction material, e.g. bricks, cement, plumbing material, tiles, etc.;
- Subcontractors, e.g. plumbers, electricians, etc.;
- Professional services, e.g., civil engineers, electrical engineers, town planners, attorneys, etc.

Sourcing of the above will obviously be subject to the provision that said material and services can be obtained at fair and market related prices locally. In instances where the material and services can not be sourced locally, the contract should stipulate that these material and services must first be sourced in the rest of the Southern Cape, e.g. George or Mosselbay, before it can be sourced somewhere else. Similarly, the same contract must form part of the Home Owners Association’s rules and regulations to ensure that the economic sustainability concept is applied during the operational phase as well. Aforesaid will go a long way in ensuring that from an economic sustainable point of view, the development will have the maximum positive impact on the business and services sectors of Oudtshoorn and the Southern Cape.

6.2.3.4 Social Sustainability
According to Polèse and Stren (2000: 3), social sustainability refers to “policies and institutions that have the overall effect of integrating diverse groups and cultural practices in a just an equitable fashion”. Social sustainability for cities/towns refer to “development (and/or growth) that is compatible with the harmonious evolution of civil society, fostering an environment conducive to the compatible cohabitation of culturally and socially diverse groups while at the same time encouraging social integration, with improvements in the quality of life for all
segments of the population” (Polèse and Stren, 2000: 15). According to Harris and Goodwin (2001), as quoted by Dillard, Dujon and King (2009: 3), “a socially sustainable system must achieve fairness in distribution and opportunity, adequate provision of social services, including health and education, gender equity, and political accountability and participation”. Based on the aforesaid one can therefore assume that a socially sustainable society is one that is just, equitable, inclusive and democratic, and provides decent quality of life for current and future generations.

In order for the development to be considered socially sustainable various aspects have to be reviewed, this includes:

- Assessment of social impact;
- Community engagement;
- Distribution of benefits;
- Diversity;
- Integrated planning.

The social aspect of Alphen should form a significant part of the development proposal to ensure that the development is socially sustainable and that the local population will benefit from this in as many ways as possible. Possible benefits include:

- Skills transfer – A skills audit must be conducted to ascertain the skills gap and training needs of the community. Based on the skills audit, a skills plan can be drafted, to ensure that local labour is utilised as much as possible, during both the construction and operation phase of the development. The community can be assisted in this regard and should be given skills development opportunities through SETA’s and various other existing organisations in the region willing to invest in their human capital as part of their social responsibility. Where the supply of skilled labour is not adequate, regional labour markets should be accessed in order to ensure regional employment opportunities benefit them as well. The skills development initiative will affect the local economic development of the region, due to the fact that it is an investment in the human resource base. Employees should be sourced locally by contractors during the construction phase which will in effect reduce their labour costs and stimulate the local economy. Income
earned by the employees will be spent locally thereby ensuring an increase in the multiplier effect. It is essential that the necessary skills training for the labour pool are provided at local training facilities to ensure that the local labour is utilised.

- **Job creation** - The development will result in many new employment opportunities for the local population during the construction and operational phase;

- **SMME development** - Many new entrepreneurial opportunities and new business activities will be generated as a result of Alphen, which in itself will be socially beneficial as unemployment and poverty will be impacted positively resulting in an increase in household income, etc.;

- **Social upliftment** – The developer should make funding available to the Oudtshoorn Municipality for social upliftment;

- **Water usage** – The social equity of the development is another aspect of social sustainability which needs to be addressed specifically in terms of water requirements. In comparison to a low cost housing development, Alphen will have a much higher water usage. Water is a scarce resource and it is therefore important that a management plan is put in place which will prevent water wastage and economical water usage to ensure that the future needs of the residents of Oudtshoorn is not negatively impacted.

- **Infrastructure Upgrading** - The developer will contribute financially to the upgrading of roads and associated infrastructure which will in itself be for the benefit of the population of Oudtshoorn.

### 6.3 Summary

In this concluding chapter, the researcher furnished a broad summary of the purpose of the research, how it was conducted and also suggested certain management strategies which in the opinion of the researcher should be included in the development proposal to ensure that the economic impact of Alphen can be managed to the maximum benefit of the local economy of Oudtshoorn in a sustainable manner. As such, the researcher has dealt with the Hypothesis stated in Chapter 1. It is clear that Alphen will greatly impact in a positive manner on the following:

- Stimulate real growth and development in Oudtshoorn;
- Stimulate employment creation and a reduce unemployment;
- Stimulate the development of the construction sector;
• Increase business development;
• Create demand for the expansion of the various business sectors in Oudtshoorn

In order to ensure that the impacts are maximised, the following management strategies are suggested for incorporation into the overall development proposal:

• A Workplace Skills Plan;
• Labour Contracts;
• A Service Carrying Capacity Management Plan;
• Economic Sustainability; and
• Social Sustainability Approach.
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