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GLOSSARY OF ACRONYMS AND ABBREVIATIONS

BBBEE	Broad Based Black Economic Empowerment Act 53 of 2003
CETA	Construction, Education Sector Training Authority
CPI	Consumer Price Index
EXCO	Executive Committee
FCR	Financial Condition Reporting
GIS	Geographical Information System
HCPMA	Housing Consumers Protection Measures Act
HCREMCO	Human Capital and Remuneration Committee
HIV	Human Immunodeficiency Virus
IBNR	Incurred but not reported
IFRS	International Financial Reporting Standards
IHHWC	International Home and Housing Warranty Conference
LOC	Local organising committee
LRA	Labour Relations Act 66 of 1995, as amended
MPLS	Multiprotocol label switching
NEHAWU	National Health and Allied Workers Union
NHBRC	National Home Builders Registration Council
NURCHA	National Urban Reconstruction and Housing Agency
NYDA	National Youth Development Agency
OCP	Outstanding claims provision
PDA	Palm digital assistant
PPPFA	Preferential Procurement Policy Framework Act 5 of 2000
SAWIC	South African Women in Construction
UPP	Unearned premium provision
VOIP	Voice over Internet Protocol
VSP	Voluntary severance package

KEY MOMENTS IN THE HISTORY OF THE NATIONAL HOME BUILDERS REGISTRATION COUNCIL (NHBRC)

2008/2009

- Developed 'breaking new ground' housing typologies, approved by MINMEC
- Established satellite offices in Gauteng (Tshwane) and Free State (Bloemfontein and Bethlehem)
- Collapsed three stages of subsidy enrolments into two, thereby improving service delivery
- Enrolled homes (unit enrolment) in the subsidy sector for the first time
- Held briefing sessions with provincial housing departments on the legislative review
- Held workshops on home builder grading and the code of conduct with selected stakeholders

2009/2010

- Launched the International Housing and Sustainable Energy Efficiency Competition (Drakenstein Municipality, Cape Town)
- Finalised the Eric Molobi Testing Centre
- Established the Gauteng Provincial Customer Service Centre (offices relocated to Woodmead)

2010/2011

- Finalised the organisational redesign programme to streamline and offer better service to customers and stakeholders
- Organising the first International Home and Housing Warranty Conference – to be held at the Cape Town International Conference Centre from 25–28 September 2011
- NHBRC appointed as project manager for government's Eastern Cape and KwaZulu-Natal rectification projects
- NHBRC held open days in the Eastern Cape, Gauteng, KwaZulu-Natal and Western Cape to educate housing consumers and home builders about the business of the NHBRC
- Conducted a customer satisfaction survey for stakeholders

SUSTAINABILITY REPORTING

It is the strategic and regulatory intention of the National Home Builders Registration Council (NHBRC) to remain sustainable to ensure the discharge of the statutory duties that have been bestowed on it by government. While organisations and the business world are still tottering under the debilitating effects of an economic recession, the key fundamentals critical for sustainable organisations, businesses and societies remain clear as ethical and legal reminders of the duties incumbent on such institutions. During the reporting financial year, the NHBRC implemented its strategies and operations to ensure that it adhered to the provisions of its enabling act, the Public Finance Management Act 1 of 1999 (PFMA), and the principles related to integrated sustainability as espoused by the King III Report.

Economic sustainability

The primary purpose of the NHBRC, as a warranty scheme, is to ensure its ability to meet its claims liabilities. During the current financial year, the NHBRC strengthened its position through the restructuring of its investment portfolio, which it will continue to review. The NHBRC receives no funding from the National Department of Human Settlements, therefore its sustainability is purely dependent on its ability to build up reserves. The NHBRC's Warranty Fund, which was independently actuarially valuated, was both solvent and in a sound financial position as at 31 March 2011 when it was valued on a run-off basis.

Financial performance

Table 1: Financial performance summary 2009–2011

	2011	2010	2009
Surplus for the year (Rm)	335	211	414
Return on equity	14%	12%	21%
Total assets (Rm)	3 540	3 088	2 975
Total reserves (Rm)	2 423	2 145	1 938
Total technical liabilities (Rm)	787	822	848

The financial performance of the NHBRC should be viewed against the residential building activity for the reporting period. The number of homes enrolled increased by 16% compared to the previous financial year. It can be reasonably inferred that the significant interest rate cuts since 2008, from a prime rate of 15.5% to 9% as at the end of this reporting period, together with other factors, contributed to the increase in the enrolments of new homes. The NHBRC continues to monitor residential building activity through its research and monitoring section, by considering the impact of statistics provided by financial institutions and Statistics South Africa (Stats SA).

Council continues to be vigilant of the rate of inflation and its impact on possible interest rate hikes, the cost of building materials, weak household debt ratios and the categories of housing that are on the increase, in order to ensure the NHBRC maintains an integrated approach to financial sustainability. The residential building statistics for January and February 2011, as provided by Stats SA, showed a 21.7% increase in the completion of the construction of flats and townhouses as opposed to houses.

Table 2: Residential building statistics

Category of housing	Units 2010	Units 2011	% change
Houses of <80 square metres	2 740	2 413	-11.9
Houses of >80 square metres	1 698	1 412	-16.8
Flats and townhouses	1 058	1 288	21.7
Total	5 496	5 113	-7.0
Total technical liabilities (Rm)	787	822	848

Due to adverse trading conditions, the NHBRC implemented strict expenditure controls and reviewed existing contracts to ensure sustainable savings. The NHBRC's priorities were to improve organisational efficiency and effectiveness, create greater customer focus and ensure that our structure was effective for operating in a changing and challenging environment, as well as to achieve a meaningful reduction in our cost base.

Environmental sustainability

One of the key principles advocated by the King III Report is that a board should ensure that business resulting in value being created includes the triple bottom line of social, economic and environmental performance. The built environment is, in its nature, intrusive and pervasive to the environment in which it develops and expands. Any home built in an area under the jurisdiction of a local authority falls within the scope of the National Building Regulations and Building Standards Act 103 of 1977 and its regulations, under the Department of Trade and Industry (DTI). The regulations include mandatory performance requirements to support the objectives of the Act, which aim to ensure the safety and health of persons living or working in any building. Guidance in the application of the regulations may be found in SANS 10400.

Through its technical section processes and procedures, the NHBRC ensures that any housing product used in the provision of homes for the consumer meets National Building Regulations requirements. The NHBRC has established a database of housing products that satisfy the National Building Regulations but that are not included in the SANS Codes of Practice. The products on the database are submitted to the NHBRC directly by the respective owners or used in the construction of houses enrolled with the NHBRC. One of the statutory objectives of the NHBRC Council is to establish and promote technical standards in the homebuilding industry.

The NHBRC supports strategic alliances and collaboration with professional bodies such as the Engineering Council of South Africa, the South African Bureau of Standards, the Natural Sciences Council and Agrément South Africa. Such collaboration and partnerships are necessitated by the Act, regarding civil and structural engineers and geologists as competent persons. The SABS also provides test reports of conventional products, which is another element of the NHBRC's proof of compliance with National Building Regulations.

Our people

A key strategic project during this year was the finalisation and implementation of a new organisational structure. The need to become a high-performance, customer-centric organisation was addressed with all stakeholders, and required the NHBRC to develop a new organisational structure together with a concurrent rollout of a change management and values programme.

A number of positions were realigned as part of these processes to ensure a focus on skills at the delivery end. A major outcome was a reduction in the number of staff at head office and an increase in employees at the interface with clients.

In order to mitigate the adverse consequences of possible retrenchments or operational terminations, alternate options to reduce the number of employees who might have been retrenched were offered to those affected. These included the successful placement of affected staff into newly created alternate positions. In addition, some employees successfully concluded incentivised voluntary severance packages, including accepting early retirement.

Council is aware of the skills shortage in respect of scarce skills (like engineering and accounts officers) and, as a result, has implemented an attraction/retention strategy to ensure the retention of engineers. Engineering skills are critical to the home inspection process in ensuring the structural integrity of homes and mitigating financial risks against the warranty fund.

The NHBRC remains supportive of government's stance on the creation of jobs and skills development of human capital.

Governance and compliance

As a Schedule 3(A) public entity, the NHBRC is required to implement, and comply with, strict governance principles in line with the PFMA. The NHBRC has, through its Council Charter, endorsed the King III Code of Good Practice. It continues to ensure its corporate governance structures and practices are aligned with the principles of the code and best practice for public entities falling within Schedule 3(A) of the PFMA.

The NHBRC regularly reviews its policies, processes and internal systems so as to reflect on internal development, new legislation and its impact on NHBRC activities, and operations and other innovations in technology in order to ensure that the organisation is well managed and all risks are mitigated.

The Council, through the Audit and Risk Management Committee, requested that management develop an organisational risk compliance framework and detailed action plan for implementing it. This process was followed by the development of an organisational risk management compliance checklist, in terms of King III, which is being used to assess organisational compliance to the enterprise risk management as recommended by King III.

The Council has, in consultation with the Executive Authority, developed its own board evaluation framework, which is now being used to evaluate Council and its governance structure performance on an annual basis. This process is currently being implemented as a voluntary self-assessment exercise to enable the Council to identify skills gaps among its members and in its governance structures, and to determine developmental strategies to address such gaps. This process will ensure the sustainability of its governance structures, and the relevance of skills within the Council and its governance structures, to be able to deliver on the mandate of the organisation. This process is also intended to assist the Executive Authority in selecting eligible Council members for reappointment at the end of Council's term of office.

All these processes aim to cultivate a culture of compliance within the organisation that is strategically linked to performance management, with a focus on key deliverables that will see the organisation move forward in the right direction. The NHBRC is committed to ensuring that compliance is embedded in the organisational culture and that all its business activities are conducted in an economically, environmentally and socially responsible manner.

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1 MESSAGE FROM THE MINISTER OF HUMAN SETTLEMENTS, MR TOKYO SEXWALE



In 2010, the President and I signed a performance agreement for accelerated service delivery called 'Sustainable Human Settlements and Improved Quality of Household Life', otherwise known as Outcome 8. The agreement encompasses the following outputs:

- Acceleration of delivery of housing opportunities
- Access to basic services
- Effective utilisation of land
- Improved property market

As from 1 April 2011, the national human settlements budget has been allocated in an 80/20 split – 80% to the provinces and 20% directed from national level for specific interventions. As a start, the following projects have been identified as National Priority Interventions, funded from the 20%:

1. Duncan Village – Buffalo City, Eastern Cape
2. Lufereng, Sweetwaters, Khutsong and Diepsloot – Gauteng
3. Cornubia – Ethekwini, KwaZulu-Natal
4. Lephalale around Medupi Station – Limpopo
5. Drakenstein – Western Cape

The investment being made in all these intervention areas amounts to R886 million in 2011/2012 and R1 billion in the outer year.

Human settlements legislative programme for 2011/2012

The 2011/2012 financial year will see the following pieces of legislation being taken through Parliament:

- The Rental Housing Amendment Bill, which is aimed at resolving certain unintended consequences emanating from the application and interpretation of the legislation
- The Housing Consumers Protection Measures Amendment Bill, which seeks to resolve certain unintended consequences emanating from the interpretation and application of the Act
- The Housing Amendment Bill, which is supposed to be aligned with the mandate of the Department of Human Settlements

**Human
Settlements**
ROCKS
together we can do more

2 ACTING CHIEF EXECUTIVE OFFICER'S REPORT



The National Home Builders Registration Council (NHBRC) will be the first organisation in an African country to host the International House and Home Warranty Conference. The conference will be held at the Cape Town International Conference Centre from 25–28 September 2011. The NHBRC has established a local organising committee to coordinate all the conference activities. NHBRC management wanted to leave a legacy linked to the conference, and so a Legacy Project Committee has also been established. In addition, the NHBRC and its partners have donated houses to deserving beneficiaries.

The NHBRC has been heavily involved nationally in the pilot rectification assessment projects in the Eastern Cape and KwaZulu-Natal, and we have now been appointed to manage these two projects. The rectification projects involve houses that were built prior to 2002 and, in most cases, were not enrolled with the NHBRC and as such, did not qualify for the NHBRC warranty scheme.

Over the past two years, the NHBRC has experienced an increase in the performance of some of the valuable final products. During the 2009/2010 and 2010/2011 financial years, the NHBRC enrolled 26, 903 and 31, 458 homes respectively, which indicates a 17% increase in enrolments between the two financial years. The NHBRC also exceeded its target in enrolment fees generated, largely due to an increase in rand value, especially for large houses.

The Minister of Human Settlements, Mr Tokyo Sexwale, indicated in his letter dated 14 July 2010, when approving the NHBRC's 2010/2011 strategic corporate plan, that, "It has come to my attention that you are initiating a process of amending the Housing Consumers Protection Measures Act 95 of 1998 (the Act) to cover the extension of houses, the extension of warranty and for increasing penalties for late enrolments. I expect the department to assist you in this process. I therefore urge you to engage the department in this regard. There is high expectation on your entity in respect of its contribution, particularly with regard to ensuring quality in both subsidy and non-subsidy housing. Hence, your entity's contribution in the creation of sustainable human settlements cannot be over-emphasised."

The NHBRC is busy amending the Act with the aim of increasing benefits to housing consumers, with the assistance of the National Department of Human Settlements. The NHBRC is also serious about ensuring that there is quality in the subsidy and non-subsidy homes being constructed and as a result, will establish quality assurance centres in all provincial human settlements departments in an attempt to make this notion a reality.

One of the NHBRC's mandates is to represent the interests of housing consumers by providing warranty protection against defined defects in new homes. The NHBRC does this by registering home builders so that they build according to the standards contained in the NHBRC Home Building Manual. Each and every person engaged in home construction should be registered with the NHBRC. The NHBRC realised an increase of 1% in the registration of home builders, and of 7% in the renewal of registration of home builders, in the current financial year compared to the previous financial year. Furthermore, the NHBRC exceeded its budget by R2 million for the registration of home builders.

The NHBRC has finalised its organisational redesign process, with the aim of increasing delivery to all its customers. Many staff members have been promoted as a result of this process, although in some cases staff members opted to take voluntary severance packages. The organisation will be further streamlining its processes with the introduction of a Legal and Compliance Division and Inspectorate Division. The Chief Audit Executive position has now been filled and the incumbent will be handling both risk and audit matters for the organisation.

Financial performance

Administrative expenditure at R330.6 million was reduced by R10 million (3%) (2010: R340 million). The business support costs were managed to ensure that any cost increases did not outweigh the decreases in revenue. The emphasis on cost reduction was achieved by concentrating on those costs necessary to meet Council's mandate and by the realignment of resources to ensure that strategic goals were achieved within the revised budgetary constraints.

Solvency of the NHBRC Warranty Fund

The warranty fund's solvency and financial position is assessed annually by independent actuaries. The current year assessment of the solvency of the warranty fund, performed by Matlotlo (Pty) Ltd, ensured that best practice actuarial methods were applied in the actuarial assessment. Matlotlo performed the actuarial valuation of all relevant provisions needed to enable the NHBRC to report on the basis required by AC 141 and IFRS 4. However, although every effort was made to achieve this reporting basis, the reporting was limited by the quality of the data provided.

The valuation of the liability is performed on a run-off basis and split into unearned premium provision, the outstanding claims provision and the additional unexpired risk provision. The outstanding claims provision could not be split further into incurred but not reported (IBNR) and incurred but not enough reported (IBNER) provisions.

The outstanding claims provision is required with respect to complaints that will result in remedial work claims, but that are still under conciliation or not fully settled. Remedial claims payments data from March 2006 to March 2011 was grouped in a run-off triangle per complaint period against the development period of payment. The inflation-adjusted Bornhuetter-Ferguson Method (BF Method) was the most appropriate method for the triangulation of remedial work payments.

The unearned premium provision (UPP) is the portion of received enrolments that is held to meet future complaint and conciliation expenses, overheads and remedial work claims, and to provide a surplus for unexpired years of cover. To determine the UPP, earned and unearned initial expenses are deducted from the enrolment fee. The remaining portion of the enrolment fee, if positive, is assumed to be earned over the five years of the warranty cover in accordance with the earnings curve. Initial expenses are assumed to be earned uniformly over two quarters (the assumed period between enrolment date and occupation date). The unearned portion of initial expense is included in the UPP.

The results of our actuarial valuation indicate that the NHBRC as a whole, including both subsidy and non-subsidy houses, is solvent and in a sound financial position as at 31 March 2011 when it was valued on a run-off basis. The actuarial liabilities are 396% funded. The enrolment fees currently charged are adequate to cover future expenses and liabilities for the combined book of business (non-subsidy and subsidy homes) for the current business mix of 2010/2011.

Strategic intent

As a regulator for the national homebuilding sector, the NHBRC's valuable final products have a great influence on, and make a contribution to, the economy of the country as a whole. The continuous improvement and maintenance of high-quality service in operations is of utmost importance.

Although the homebuilding industry slowed during the 2009/2010 and 2010/2011 financial years, the demand for quality and sustainable accommodation has remained high. The NHBRC is committed to supporting government programmes and projects

coordinated by the Minister of Human Settlements. The NHBRC also conducts training of home builders onsite for projects enrolled and linked to the National Department of Human Settlements. The NHBRC acknowledges that housing contributes towards improving the quality of life of poor communities and to the economy of the country.

The NHBRC's strategic focus remains ensuring that products built in the market are of high quality and an excellent standard. The NHBRC has also strengthened its partnership with relevant role players in the market to enable it to enhance and enforce high-quality services and products in the homebuilding industry.

Conclusion

In conclusion, the challenge to provide better quality homes for all citizens remains, and I am committed to ensuring that the NHBRC continues as a major role player in uplifting our communities through the delivery of quality housing.

Appreciation

The major achievements on which we are reporting would not have been possible without the unreserved support of the Minister of Human Settlements, the Director-General, the NHBRC Council, and the management and staff of the NHBRC. I would like to express my gratitude to you all.



Dr J Mahachi
Acting Chief Executive Officer
July 2011

3 MEMBERS OF COUNCIL

The role of Council in the context of corporate governance is to determine overall strategic directions, approve the policies necessary to achieve those strategic goals, and monitor the efficiency and effectiveness of the management structure. Table 3 indicates the position and the highest qualification obtained by Council members.

Table 3: Position and highest qualification of Council members

	Name	Position	Qualifications
1	Rev. Dr Vukile Mehana	Chairperson	PhD
2	Ms Dina Maja	Deputy Chairperson	LLB Hons
3	Ms Sharon De Gois	Council member	Master of Town and Regional Planning
4	Dr Adam Goliger	Council member	PhD
5	Ms Sibongile Nene	Council member	MA
6	Mr Bangiso Mhlabeni	Council member	LLB
7	Ms Thandiwe Silinda	Council member (resigned 31 Dec 2010)	B Admin
8	Mr Paul Hlahane	Council member	LLM
9	Mr Mthembeni Mkhize	Council member	M.Sc. Arch
10	Mr Narain Kuljeeth	Council member	LLB
11	Ms Granny Seape	Former (Chairperson) (resigned 24 Jan 2010)	BSc Economics



1. Rev. Dr Vukile Mehana



2. Ms Dina Maja



3. Ms Sharon De Gois



4. Dr Adam Goliger



5. Ms Sibongile Nene



6. Mr Bangiso Mhlabeni



7. Ms Thandiwe Silinda



8. Mr Paul Hlahane



9. Mr Mthembeni Mkhize



10. Mr Narain Kuljeeth



11. Ms Granny Seape

4 EXECUTIVE COMMITTEE

The Executive Committee (EXCO) of the NHBRC is responsible for decision-making on operational matters and to ensure the implementation of Council resolutions. Table 4 indicates the positions of EXCO members and their highest qualifications obtained.

Table 4: Position and highest qualification of EXCO members

	Name	Position	Qualifications
1	Dr Jeffrey Mahachi	Acting Chief Executive Officer	Doctor of Philosophy
2	Mr Courtney Thorp	Chief Financial Officer	Chartered Accountant
3	Ms Laurie Less	Executive Manager: Corporate Services	Master of Public Administration
4	Ms Thitinti Moshoeu	Acting Regional Manager: Gauteng	Master of Science
5	Dr Awelani Malada	Strategic Planning and Research Manager	Doctor of Philosophy



1. Dr Jeffrey Mahachi



2. Mr Courtney Thorp



3. Ms Laurie Less



4. Ms Thitinti Moshoeu

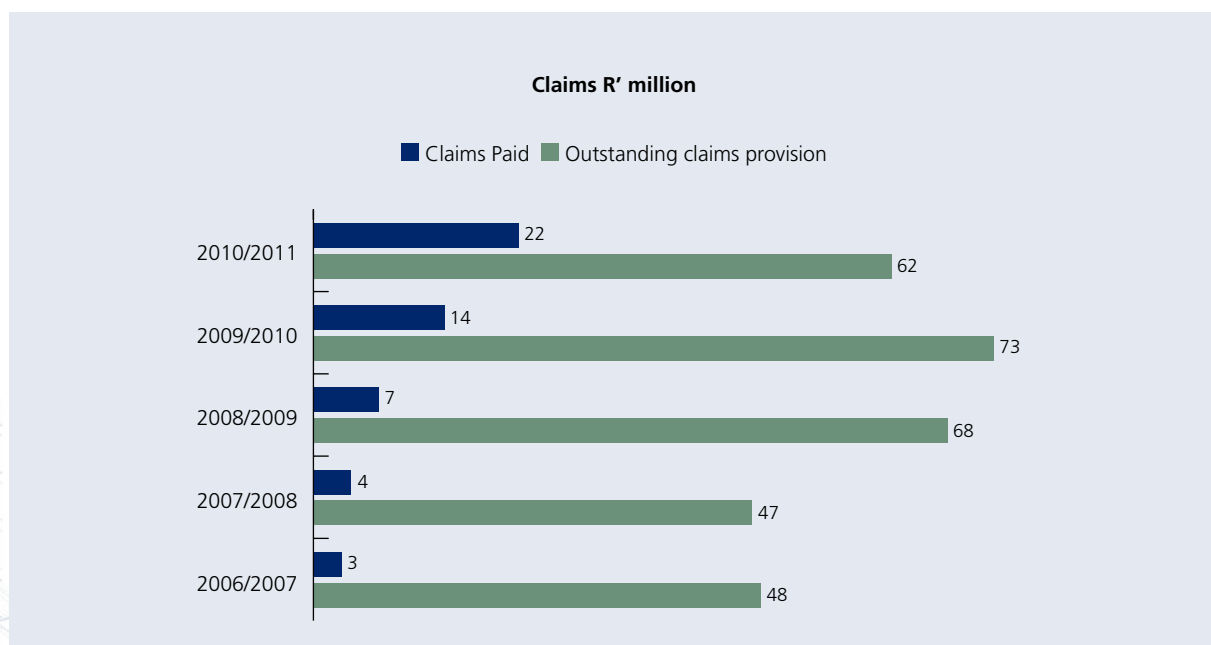
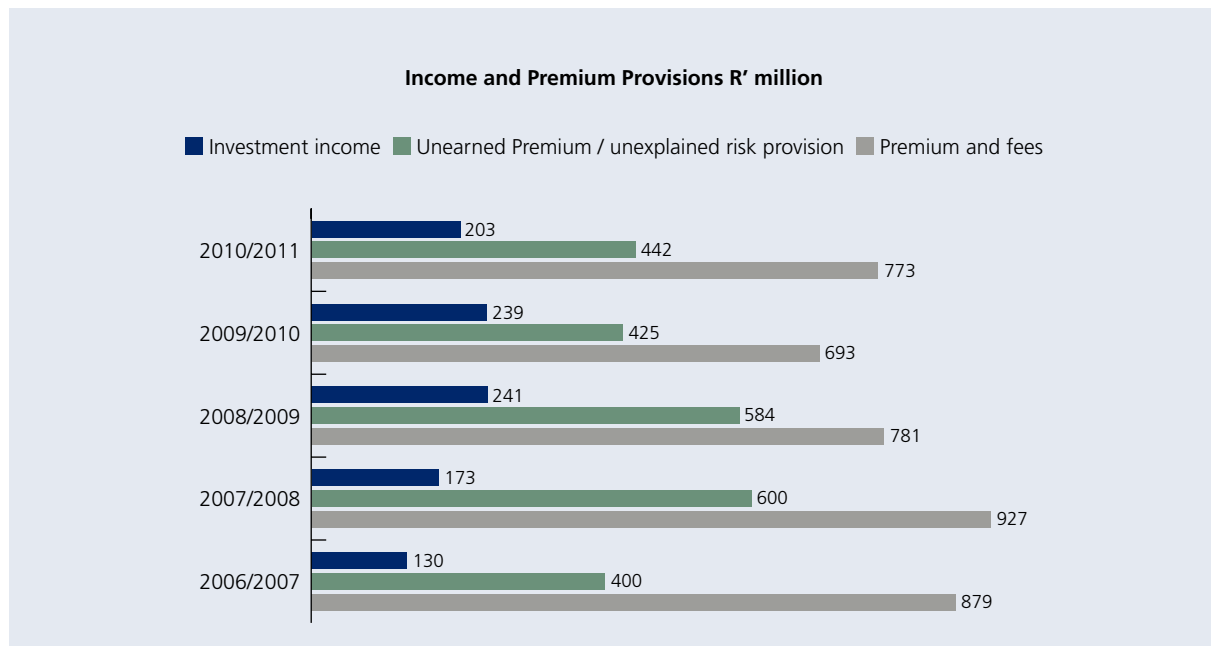


5. Dr Awelani Malada

5 FINANCIAL PERFORMANCE

Financial highlights – Five-year financial summary

Figure 1: Five year financial summary



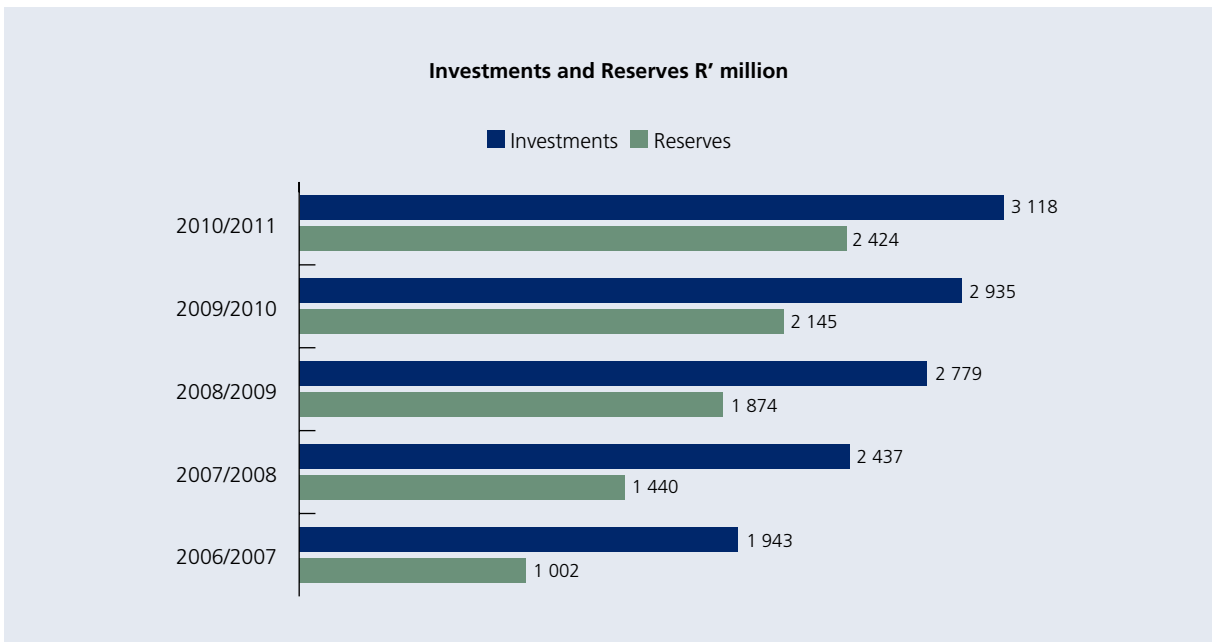
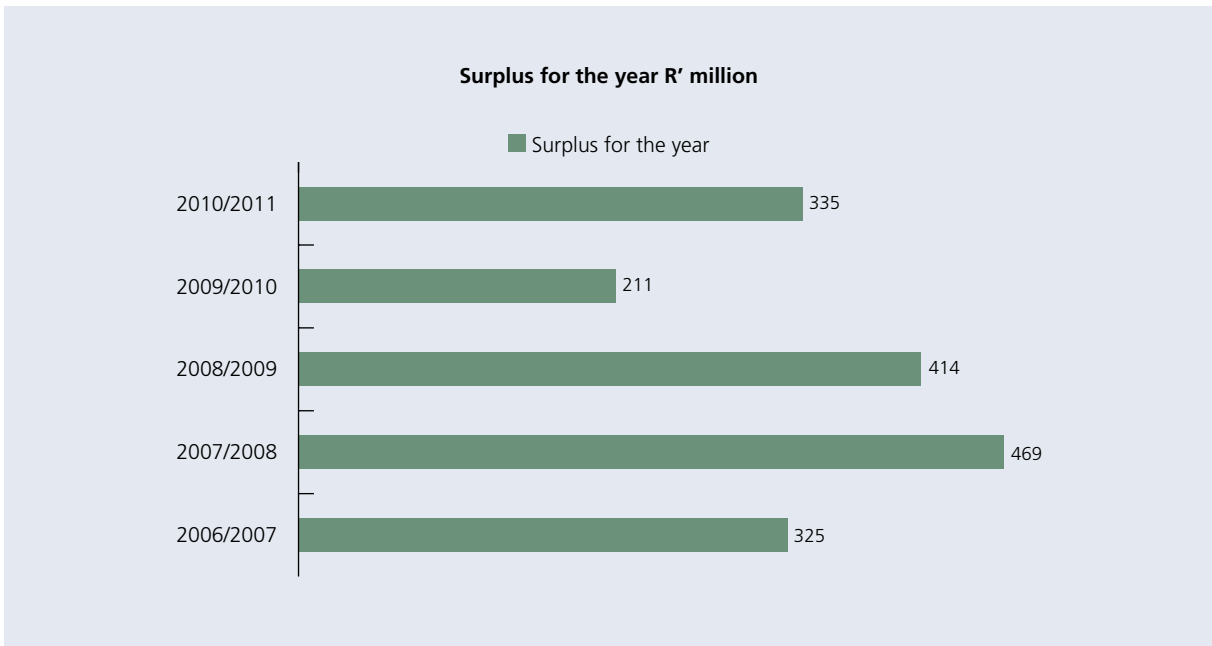


Table 5: Financial summary for year ending 31 March 2011

	R' Million 2011	R' Million 2010
Trading income	442	425
Investment income	203	239
Net income	773	693
Surplus for the year	335	211
Equity	2 424	2 145
Investments	3 118	2 934

Overview

The number of homes enrolled increased for the non subsidy market by 11.6% and in the subsidy sector by 20% compared to the previous financial year.

The trend in the residential property market indicates that the cost of building a new home is 18% higher than the cost of purchasing an existing home. The lower activity in the construction of new homes, as measured by the real value of residential building plans passed by larger municipalities (at current prices), decreased by 5.1% (1.3 billion) compared with 2009. (Statistics SA).

Notwithstanding the reduction in interest rates and the decline in CPI, homeowners and prospective homeowners remain under pressure to generate surplus income after taking the increase in home service costs and commodity prices, which are higher than CPI, into account. The additional uncertainty of further interest rate increases and the qualification for mortgage bonds by financial institutions is restricting development of new housing projects.

The outlook for the NHBRC over the next financial year is expected to remain at existing levels, due to the cost of building a new home, the weak household debt position and the possibility of a rise in interest rates.

The net surplus from operating activities for the year at R335.2 million is R124.1 million higher than that of the previous financial year (2010: R211.1 million). The net surplus excluding the adjustment for insurance claims and loss adjustment expenditure, as determined annually by actuaries decreased from R346.7 million to R230.1 million.

The increase in performance is due the net realised surplus on sale of financial assets (R126.5 million) and savings in expenditure R43.8 million (9.1%).

The net surplus for the year increased by R124.1 million year-on-year.

Results for the year

Revenue

Revenue from enrolments (premiums written) increased by R32.1 million (10.7%) from R299.8 million to R331.9 million. Non-subsidy enrolment value increased by 3% and the subsidy enrolment of homes by 33%. The increase in subsidy enrolments is primarily due to the rollover of projects approved in the prior year which are now entering the construction phase, whilst the increase in non-subsidy premiums written is attributable to the increase in the number of homes enrolled, compared to the previous financial year.

The premium earned increased due to the decline in the provision for unearned premium by R127.4 million (2010: R202 million decline) and the increase in the change in the unexpired risk provision of R102.8 million (2010: R171.1 million increase). Insurance premiums are recognized over the period of the policy commensurate with the expected incidence of risk.

Fee revenue decreased from R49.9 million to R27.3 million (45.3%) which was mainly attributable to the decline in subsidy project enrolments. Fee revenue includes annual registration fees, annual fee, late enrolment fees, renewal fees, subsidy project enrolments and document sales.

Technical services revenue increased from R45.1 million to R58.6 million due to rectification and forensic technical services in the subsidy market in Kwa Zulu-Natal and the Eastern Cape.

Income from investments at R203.1 million decreased by R36.8 million compared to the previous financial year (2010: R239.9 million). The lower income from investments was due to the fall in interest rates and the restructuring of the investment portfolio which resulted in a realized profit on R126.5 million. The entity utilized R80 million (2010: R9.7 million) to fund working capital requirements during the year, due to extended credit taken by provincial human settlement departments. The annualized return on investments exceeded the investment benchmark by (1.3%) (2010: 3.4%).

Insurance premiums written include total enrolment fees written during the year, adjusted by the movement in technical provisions. The main source of revenue during the financial year was generated through enrolment fees, interest on investments and realized gains from sale of investments.

Expenditure

Due to the adverse trading conditions the NHBRC had to implement strict expenditure controls and review existing contracts to ensure sustainable savings.

Operating expenditure, reduced by 23.2% from the previous financial year. The savings were primarily achieved due to the implementation of a hybrid inspection model in January 2011. The inspection model primary objective is to improve the inspection rate, in order to mitigate risk, and maximize economies of scale in the award of outsourced inspection tenders. The full effect of the revised system will benefit the entity in the next financial year.

Administrative expenditure at R330.6 million reduced by R9.9 million (3%) (2010: R340.5 million). The business support costs were managed, so as to ensure that expenditure was only authorized in line with the revenue trend. The emphasis on cost reduction was achieved by first allocating expenditure necessary for the Council to deliver on their mandate and the realignment of resources so as to ensure that risks were mitigated and strategic goals were achieved within the revised budgetary constraints.

The emerging contractor training reserve, as governed by section 15(5) of the Housing Consumer Protection Measures Act, was not increased during the financial year as current reserves are considered adequate.

The asset management service fees reduced by R0.69 million. These fees are paid to Fund managers who administer the investments on behalf of the NHBRC. Management fees are charged on a sliding scale on the investments under management.

Claims against the Warranty Fund

During the year under review the NHBRC settled warranty claims amounting to R22.3 million (2010: R14.1 million) against the projected provision of R21.8 million provided for in the previous financial year.

The outstanding claims provision consists of both the "notified outstanding claims provision" and the "incurred but not reported claims provision". The notified outstanding claims provision is the portion of outstanding claims provision that relates to the claims that were reported before the financial year-end, which were not settled at that date. The "Incurred but not reported claims provision" relates to claims that were neither reported, nor settled at the financial year end.

The net outstanding claims provision increased by R11.5 million (2010: R19 million). This is the net movement between the current warranty claims paid of R22.3 million and the decrease in the outstanding claims provision by R10.8 million. The total outstanding claims provision for the warranty period is actuarially provided for at R61.9 million (2010: R72.6 million).

The Outstanding Claims provision is determined at a 99.5% sufficiency level. This is consistent with the Financial Services Board's draft guidelines on Financial Condition Reporting (FCR). These standards require short term insurers to hold liabilities at a 75% sufficiency level, and capital at a 99.5% sufficiency level.

Unexpired Risk Provision

The unexpired risk provision estimates the cost of insurance claims, related expenses and deferred acquisition costs which exceed the unearned insurance premiums, after taking account of future investment income which will arise during the unexpired terms of policies in force at the balance sheet date.

In calculating the estimated cost of future insurance claims, actuarial and statistical projections of the frequency and severity of future insurance claims events are used to project ultimate settlement costs. The unexpired risk, which arises primarily in the subsidy housing market so as to ensure that this market is independently solvent. The provision increased from R319.9 million to R422.7 thus reducing insurance premium revenue earned for the year by R102.8 million.

Provision for Unearned Premium

Premium income written during the year is reserved and premiums earned is calculated over the life of the policy in accordance with the earnings curve. The provision represents the proportion of insurance premiums written that are held to cover future expenses, claims and profits attributable to future years warranty cover.

The provision for unearned premium decreased from R430.5 million to R303.1 million which resulted in additional premium income being released from prior years amounting to R127.4 million.

The premium to be realized in the 2011/2012 financial year is estimated at R187.6 million (2010: R253.8 million).

Solvency of the Warranty Fund

The NHBRC warranty fund, independently actuarially valuated, confirmed that the fund is solvent and in a sound financial position at 31 March 2011 when valued at a run-off basis.

Over the past two years the enrolment fee adequacy has declined. Due to the intervention of management to control costs the total fees for all houses are adequate to cover future expenses and liabilities. The enrolment fee per home adequacy is as follows:

Table 6: Enrolment fee per home adequacy

Year	All houses Rand	Non-subsidy Rand	Subsidy Rand
2010/2011	548	1 440	(40)
2009/2010	(370)	(682)	(172)

The actuarial surplus has increased by 10.4% from the previous year.

The actuarial liabilities are 396% funded (2010: 357%).

Investments

The NHBRC revised its investment policy in November 2010. A new investment policy was approved by Council and was implemented by January 2011. The investment with asset managers was consolidated after a lengthy tender and award process, independently managed by Sygnia Asset Managers.

The investment profile with investment managers was changed from the "fixed interest" and "Absolute" portfolios under management to a "fit for purpose" investment with asset managers.

The portfolio has been divided into the following asset classes:

Table 7: Portfolio asset classes

Asset class	Investment percentage
Bonds	23.3
Equities	10.0
Money Market	50.0
Structured products	16.7

The following asset managers were appointed during the year for each asset class:

Table 8: Asset managers per asset class

Equity Mandate	Percentage Allocation of Asset Class
Investec Contrarian Equity	50
Kagiso Equity	50
Bond Fund Managers	Percentage Allocation of Asset Class
Prescient Bond Quant Fund	50
Cadiz Bonds	50
Money Market	Percentage Allocation of Asset Class
Investec Money Market	32
Prescient Money Market	29
Taquanta Money Market	29
Argon Money Market	10
Structured Products	Percentage Allocation of Asset Class
Call account	40
Mazi	30
Pan Africa	30

The NHBRC is regulated in terms of the Housing Consumers Protection Measures Act, 1998 (Act of 1998) to establish a fund for the purposes of providing assistance to housing consumers under circumstances where the home builder fails to meet their obligations under section 13(e)(b)(i) of the Act. The investment mandate concentrates on the preservation of capital so as to ensure that the NHBRC remains financially sound to meet housing consumer claims as they arise.

The total investment, at market value, increased from R2.9 billion to R3.1 billion during the financial year. The fair value adjustment, at year end, decreased from R65.7 million to R5.6 million. The lower reserve is due to the realisation of financial instruments during the redistribution of investment funds in terms of the revised investment mandate.

Cash Flow

The cash flow inflow from operating activities increased by 176% (2010: decrease 35%) to R444.5 million. The surplus inflow of funds was generated by the restructuring of the investment portfolios and interest earned which was reinvested with fund managers.

The higher cash on hand at year end at R354.3 million (2010: R30.7 million) is due to payments received in advance for the national rectification projects.

Reserves

The Council did not increase the Emerging Contractor reserve as the reserve was considered adequate to meet the training of emerging contractors over the next financial year. R7.3 million was utilized out of the reserve of R44 million. The reserve available for use in the next financial year is R36.7 million. The reserve is established in terms of Section 15(5) (d) of The Act.

The non distributable reserve represents the fair value adjustment of investments to market value as at 31 March 2010.

The accumulated surplus increased from R2.0 billion to R2.4 billion during the current financial year.

6 CORPORATE GOVERNANCE

6.1 Composition of Council

The NHBRC was established and constituted in terms of the Housing Consumers Protection Measures Act 95 of 1998 (the Act). In terms of Section 4 of the Act, the Council consists of a minimum of seven and a maximum of 15 members appointed by the Minister of Human Settlements for a period determined by the minister, but not exceeding three years at a time. The minister appointed 13 members of Council, including the Chairperson and the Deputy Chairperson, on 1 May 2009. Four members have since resigned from Council (two in 2009, one in 2010 and one in 2011).

The composition of Council for the year under review was as follows:

- Ms Granny Seape (Chairperson, but resigned on 24 January 2010)
- Rev. Dr Vukile Mehana (Chairperson, appointed in this capacity from 17 February 2011)
- Ms Dina Maja (Deputy Chairperson, appointed in this capacity from 17 February 2011)
- Ms Sharon De Gois (member)
- Dr Adam Goliger (member)
- Ms Sibongile Nene (member)
- Mr Bangiso Mhlabeni (member)
- Ms Thandiwe Silinda (member) (resigned 31 December 2010)
- Mr Paul Hlahane (member)
- Mr Mthembeni Mkhize (member)
- Mr Narain Kuljeeth (member)

6.2 The NHBRC Council

Mandate of Council

The NHBRC derives its mandate from the Act; its broad mandate is outlined under Section 3, as follows:

- To represent the interest of housing consumers by providing warranty protection against defined defects in new homes.
- To regulate the homebuilding industry.
- To provide protection to housing consumers in respect of the failure of home builders to comply with their obligations in terms of this Act.
- To establish and promote ethical and technical standards in the homebuilding industry.
- To improve structural quality in the interests of housing consumers and the homebuilding industry.
- To promote housing consumer rights and to provide housing consumer information.
- To communicate with and to assist home builders to register in terms of this Act.
- To assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of homebuilding.
- To regulate insurers contemplated in Section 23(9) (a).
- In particular, to achieve the stated objects of this section in the subsidy housing sector.

Composition of Council and the attendance of Council meetings

In line with good governance principles as espoused by the King III Report of Good Corporate Governance, the PFMA and the Council Charter, Council is required to hold at least four meetings each financial year in order to exercise proper oversight and responsibility in relation to the activities of the NHBRC. Table 9 illustrates the meetings that were held in the year under review, and indicates each member's attendance.

Table 9: Council meetings and attendance in the year under review

Name	Capacity	29 Apr '10	28 May '10	29 Jul '10	15 Aug '10	20 Sep '10	29 Oct '10	13 Dec '10	28 Jan '11	30 Mar '11	Total per annum
Ms G Seape	Chairperson (resigned 24 January 2011)	x	x	x	-	x	-	x	-	Resigned	5
Ms D Maja	Deputy Chairperson (from 17 February 2011)	x	x	x	x	x	x	x	x	x	9
Rev. Dr V Mehana	Chairperson (from 17 February 2011)	x	x	x	x	-	x	-	x	x	7
Dr A Goliger	Member	x	-	x	x	x	x	-	x	-	6
Ms S Nene	Member	x	x	x	x	-	x	x	x	x	8
Ms S De Gois	Member	-	-	-	-	-	-	-	-	-	0
Mr M Mkhize	Member	x	-	x	x	x	x	x	x	-	7
Ms T Silinda	Member (resigned 31 December 2010)	x	-	-	-	x	x	x	Resigned	Resigned	4
Mr B Mhlabeni	Member	x	x	x	x	x	x	x	x	x	9
Mr P Hlahane	Member	x	x	x	x	x	x	x	-	x	8
Mr N Kuljeeth	Member	x	x	x	-	-	x	-	-	-	4

6.3 Council committees

The NHBRC Council is supported by the following nine sub-committees, established in terms of Section 5 of the Housing Consumers Protection Measures Act 95 of 1998:

6.3.1 Fund Advisory and Finance Committee

The Fund Advisory and Finance Committee advises Council on the prudent management of its funds. The committee operates in terms of its approved terms of reference, which empower it to make recommendations to Council regarding the setting of fees; financial procedures and policies for approval by the Council; all matters relating to the management of risk; and the administration of Council's warranty fund or any other Council fund. The committee regularly reviews management's quarterly financial reports, recommends the budget for approval by Council and advises Council on all financial matters.

6.3.2 Registration Committee

The Registration Committee monitors the registration, suspension and deregistration of home builders. The committee operates in terms of its approved terms of reference, which empower it to recommend appropriate policies and procedures to Council for approval. It also evaluates owner-builder applications received and determines whether owner-builders qualify for exemption from enrolling their homes in terms of the Act.

6.3.3 Audit and Risk Management Committee

The Audit and Risk Management Committee assists Council by reviewing the effectiveness of its systems of internal controls and risk management mitigation strategies; reviewing Council financial policies and procedures; reviewing financial information reported to Council stakeholders; and assessing the effectiveness of the internal and external audit functions. The committee operates in terms of its approved terms of reference, which empower it to ensure the maintenance and monitoring of the risk management framework. The committee also reviews the risk register and assesses reports on management action plans to ensure the efficiency and effectiveness of the risk management strategy and plans.

6.3.4 Technical Advisory and Claims Committee

The Technical Advisory and Claims Committee evaluates remedial work claims submitted by provincial offices and for making recommendations to Council. The committee operates in terms of its approved terms of reference. In addition, the committee advises the NHBRC's technical section on all technical aspects of construction and innovation (both professional and technical), which may have an impact on the NHBRC's risk management process.

6.3.5 Disciplinary Hearings Committee (ad hoc sittings)

The Disciplinary Hearings Committee is responsible for presiding and adjudicating over alleged breaches of the Act by home builders, and imposing disciplinary sanctions where home builders are found guilty of contravening the Act. The committee operates in terms of regulations made by the minister under Section 7(2) of the Act.

6.3.6 Human Capital and Remuneration Committee

The Human Capital and Remuneration Committee advises Council on employees' remuneration policies. The committee operates in terms of its approved terms of reference, which empower it to ensure maintenance of a corporate overview of Council's human capital policies, such as those covering employee sourcing, development, labour relations and rewards.

6.3.7 Industry Advisory Committee

The Industry Advisory Committee gives advice to Council on all matters relating to the operations of the homebuilding industry and acts as a communication channel between the industry and Council. The committee operates in terms of its approved terms of reference, which empower it to engage NHBRC industry stakeholders as invitees to meetings of the committee to share their experiences in dealing with NHBRC as a regulator in the homebuilding industry.

6.3.8 Tender Committee

The Tender Committee receives, evaluates, adjudicates and awards tenders in line with the NHBRC procurement policy and relevant legislation (i.e. the Preferential Procurement Policy Framework Act 5 of 2000 and related regulations, and the Broad Based Black Economic Empowerment Act 53 of 2003, among others). The committee operates in terms of its approved terms of reference, which empower it to award certain tenders as per the delegation of authority policy and to make recommendations to Council on those falling within Council's power to award.

6.3.9 Disciplinary Steering Committee

The Disciplinary Steering Committee makes recommendations to Council on amendments to the Act, and on disciplinary policies, procedures and guidelines to manage the process of disciplining defaulting home builders. The committee operates in terms of its approved terms of reference, which empower it to assess and approve the preferred charges to be brought against home builders who have allegedly contravened the Act.

6.4 Audit and risk management

The NHBRC through its various business activities engages in a number of operations, most of which involve the provision of a wide range of valuable final products to protect the interests of housing consumers and to regulate the homebuilding industry. By their nature, such services and products represent a substantial level of financial and operational risk, which must be mitigated continuously if the overall sustainability and prosperity of the organisation is to be assured.

The NHBRC risk policy provides the broad framework for dealing with risk in the organisation's businesses. In prioritising the organisation's approach to risk management, it is a primary objective to manage each specific risk to neutralise its impact on the organisation.

Risk policy framework

The methodology set out in global risk management standards, and the guidelines recommended by the King II and King III reports, Institute of Risk Management South Africa (IRMSA), Committee of Sponsoring Organisations of the Treadwell Commission (COSO) and the PFMA, among others, have been used as benchmarks in developing policy and monitoring and implementing risk management measures.

The key elements of the NHBRC's risk management system are a defined risk policy framework, risk identification, risk analysis, risk evaluation, risk remedies, monitoring and review, and communication and awareness.

Oversight of risk management policy framework

The Council is ultimately responsible for ensuring that the organisation's risk management practices are sufficient to mitigate, to the most cost-effective extent possible, the risks present in the organisation's various businesses. The Council delegates a portion of this responsibility to its Audit and Risk Management Committee. Management is mandated and empowered by the Council to implement risk management strategies in cooperation with it and the committee; to report to Council and the committee on developments related to risk; and to suggest to Council new and revised strategies mitigating risk.

The Executive Committee, through the Risk Manager, implements a risk control system to enable management to respond appropriately to significant risks that could have an impact, either negatively or positively, on the business's strategic objectives.

Risk reviews are conducted once a year, although the intention is to conduct them twice yearly in the next financial year. Identified risks are ranked and classified into categories, reviewed and then assessed by EXCO, the Audit and Risk Management Committee and Council to determine significant operational, strategic and business continuity risks. The ratings are finalised after considering the mitigation plans, and executive accountability is assigned for each of the risk categories.

Emerging risks and the risk management strategy

The NHBRC is subject to a number of categories of risks that can be expected to be enduring elements of its businesses. Council and management seek to identify, analyse, evaluate and remedy the following risks: strategic risks; operational risks; Information Technology risks; market structure and regulation risks; compliance risks; human resource risks; capital adequacy risks; business continuity risks; economic risks; reputation risks; and accounting and financial control risks.

Council, both directly and via the Audit and Risk Management Committee, works with management on an ongoing basis within the risk policy framework to mitigate the risks to the organisation's businesses as they evolve over time. The NHBRC reports on strategic, business and process risks as part of the risk profile. The risk dashboard reflects the likelihood and impact of each of the risks facing the entity.

Key risk focus areas for Council and management include outsourced inspectorate contractual risks; a sustainable inspection model; Siebel Oracle system not being fully operational; the performance management system; stakeholder confidence; declining revenue; an above inflation increase in operational expenses; and operational expenses not inversely responding to declining business volumes.

The level of commitment by NHBRC management and employees to risk management principles, standards and regulatory requirements is improving slowly and as such requires a boost to achieve a highly integrated, effective and efficient enterprise-wide risk management programme. This would contribute towards a more stable internal control environment of all identifiable risks to which the organisation is exposed.

The risk management section therefore aims to ensure that divisions and sections integrate the risk management and compliance processes into their divisional, sectional and individual scorecards. This will ensure that all employees are committed, participate in and contribute towards the risk management process in their day-to-day activities.

Some of the key achievements in the year under review included the adoption of a risk methodology; the Business Continuity Management (BCM) Impact and Risk Assessment Report; a BCM strategy; business continuity plans; risk awareness; and standardised CURA risk reports, as well as the completion of all strategic and operational risk assessments across the organisation and the integration of the compliance function within risk management.

Health and safety

The NHBRC respects the rights of employees and stakeholders to work in a clean, safe and healthy environment and took all necessary measures to ensure their protection and comfort.

6.5 Internal audit

The NHBRC has established an internal audit function in compliance with the PFMA Treasury Regulations. The purpose of the internal audit function is to continuously provide independent, objective assurance and consulting services to all divisions and sections of Council, and to ensure adequate and effective systems, corporate governance, risk management and internal control.

The function reports directly to the Chief Executive Officer and has direct access to the audit committee, its Chairperson and Council.

The internal audit function's operations are guided by a rolling three-year strategic audit plan. The strategic plan focuses on the high-risk areas of the organisation and is reviewed regularly to ensure relevance in terms of focus.

The internal audit function's responsibilities include evaluating controls to determine their effectiveness and efficiency, in order to provide management with the assurance that internal controls function as intended. In addition, the internal audit function evaluates financial and operational performance information in a bid to assist management to ensure that Council's strategic and operational objectives are achieved. Through performance audits, any gaps that may exist are identified early and remedial action is taken to safeguard the attainment of strategic and operational objectives.

In its contribution to the strategic focus of the organisation, the internal audit function also assists management by evaluating the process through which strategic objectives are established and communicated. The accomplishment of objectives is monitored, accountability is ensured and corporate values are preserved.

Improvements in the governance of all areas of the NHBRC have come about through ongoing, periodic audit reviews and risk controls and governance campaigns conducted by the internal audit function and management efforts and commitment.

6.6 NHBRC management structure

The NHBRC management structure was approved by Council on 29 January 2009 for implementation.

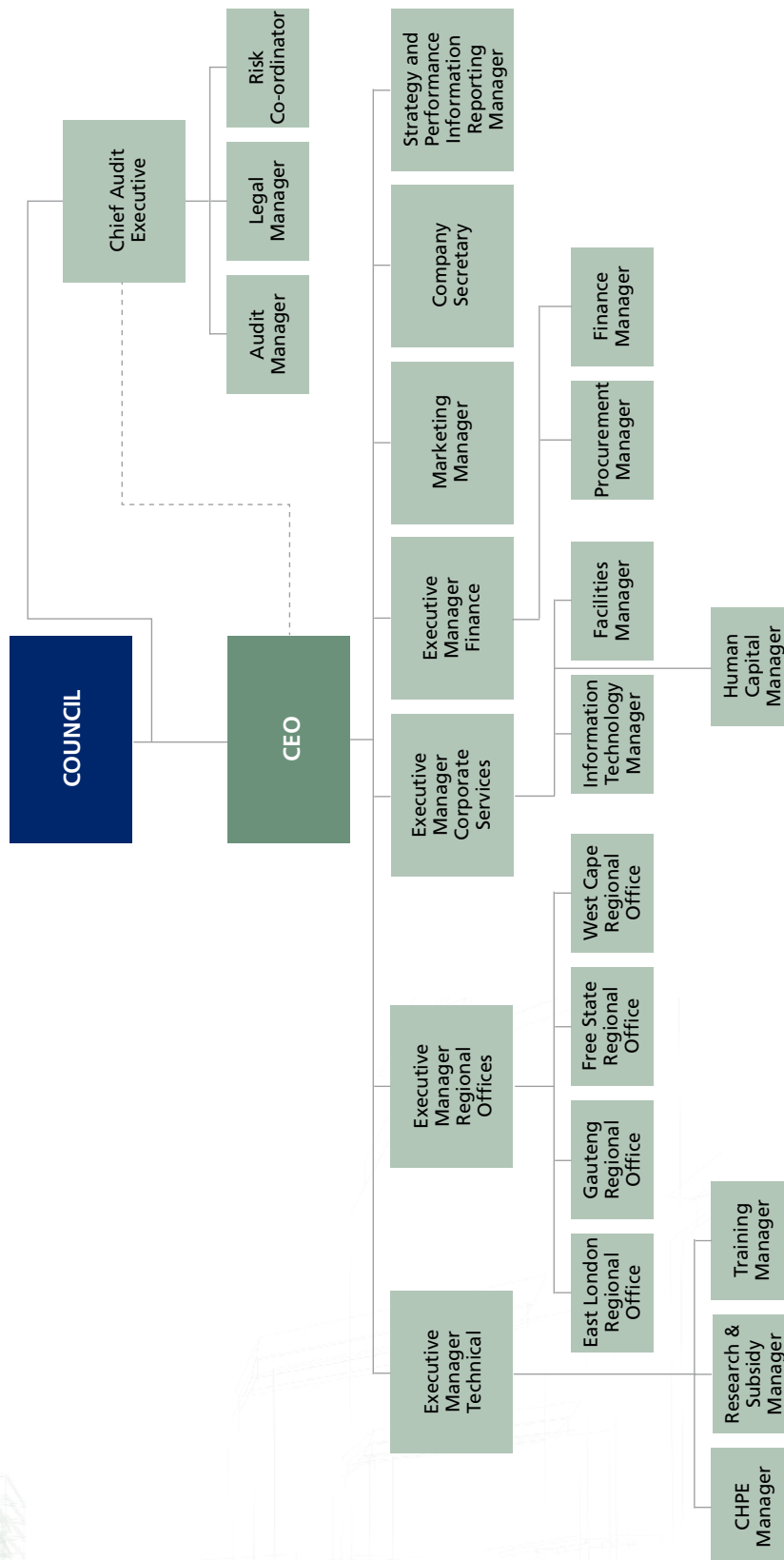


Figure 2: NHBRC management structure

7 NON-FINANCIAL PERFORMANCE INFORMATION REPORT

7.1 New registration and renewal of registration of home builders

In terms of Section 10(1) of the Act, any person in the business of home building must register with the NHBRC. Evaluation of registration is based on technical and construction capabilities and the financial and creditworthiness of the applicant. A non-refundable registration fee of R750 is payable upon application.

During the 2010/2011 financial year, 3,650 new home builders were registered and 11,115 home builders renewed their registration. This represents a 1% increase in registrations and a 7% increase in renewals, compared to the 2009/2010 financial year.

Figure 3 illustrates the NHBRC's performance on new registrations and home builder renewals for the financial year 2010/11.

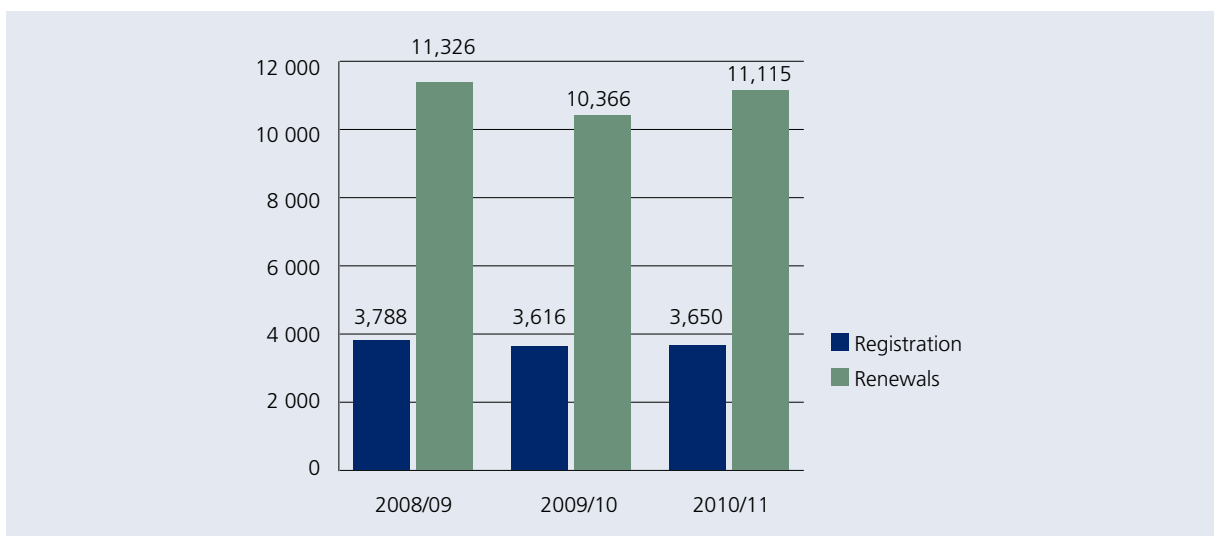


Figure 3: Chart of home builder registration and renewals

Complaints and conciliations

The housing consumer is entitled to lodge a complaint with the NHBRC where the home builder is in contravention of Section 13 of the Act, for failing to respond to legitimate complaints by the housing consumer. Complaints can only be lodged on houses covered by the NHBRC warranty scheme.

The NHBRC has proved that there is a correlation between late enrolments and complaints. If a builder enrolls before construction, the NHBRC is able to inspect the house, thus limiting the possibility of future complaints arising from the enrolled house. Complaints tend to arise when home builders deviate from applicable homebuilding standards. During the 2010/2011 financial year, 937 complaints were received. All of these complaints, together with the 796 complaints received in the 2009/2010 financial year – a combined total of 1,733 complaints – were closed by the NHBRC in the 2010/2011 financial year.

Figure 4 illustrates the life cycle of the complaints resolution process, while figure 5 shows the number of complaints lodged with the NHBRC in recent financial years, including the year under review.

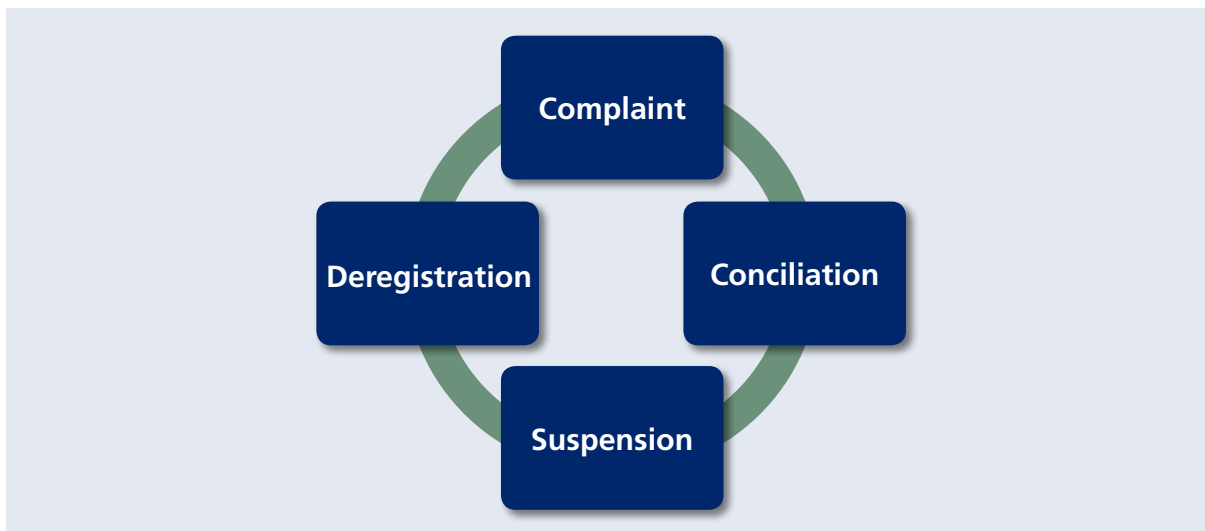


Figure 4: Life cycle of the complaints resolution process

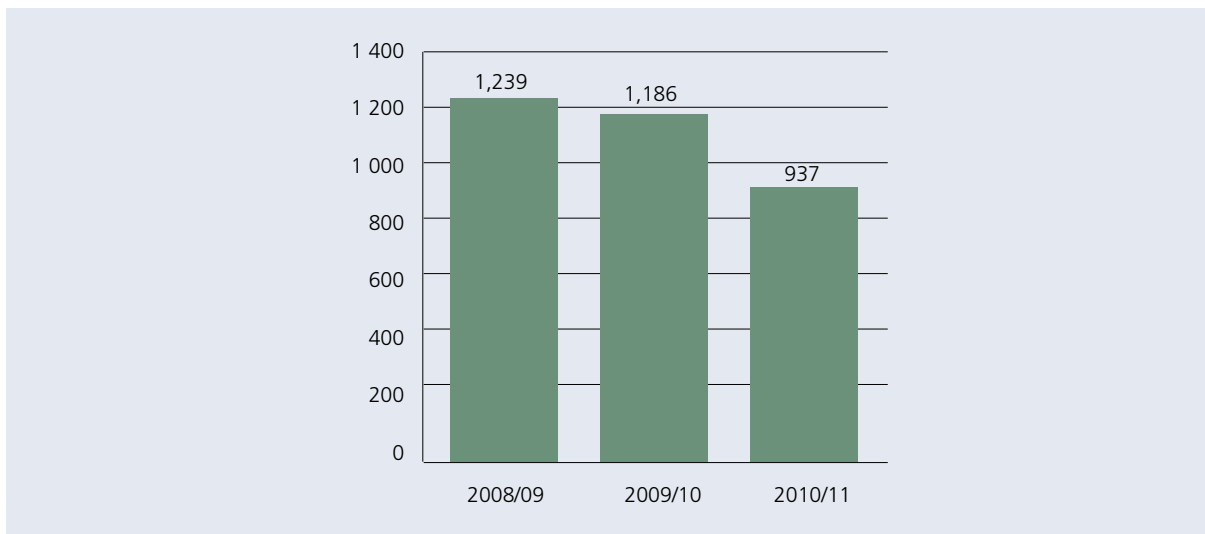


Figure 5: Chart of complaints lodged with the NHBRC

Conciliation takes place when a housing consumer and the home builder cannot agree on the complaint lodged. The NHBRC's role in this process is to conciliate between the two parties. During the 2010/2011 financial year, 536 conciliations were received and 424 were closed by the NHBRC. The turnaround time for conciliation is negatively affected by non-cooperation between the home builder and the homeowner. Figure 6 illustrates the number of conciliations handled by the NHBRC in recent financial years, including the year under review.



Figure 6: Chart of conciliations handled by the NHBC

Suspension and deregistrations

A home builder may be suspended for a number of reasons, one of which may be non-compliance with the NHBC's technical requirements as stipulated in the NHBC Home Building Manual.

In the 2010/2011 financial year, 512 home builders were suspended. This represents an increase of 13% in suspensions of home builders compared with the 2009/2010 financial year. The increase in the number of suspensions was due to the inability of home builders to meet their obligations in terms of Section 13 of the Act. There were fewer complaints, and fewer suspensions imposed, during the 2010/2011 financial year.

Deregistration of a home builder occurs when a home builder is found guilty at an NHBC disciplinary hearing of contravening the Act. The deregistration of home builders from the register of home builders poses a risk to the NHBC as, if there are structural defects, recourse to the home builder is impossible. However, this risk is normally taken into consideration by the disciplinary committee against future risks posed by the home builder when a sanction of deregistration is imposed. Figure 7 shows the number of home builders suspended in recent financial years, including the year under review.

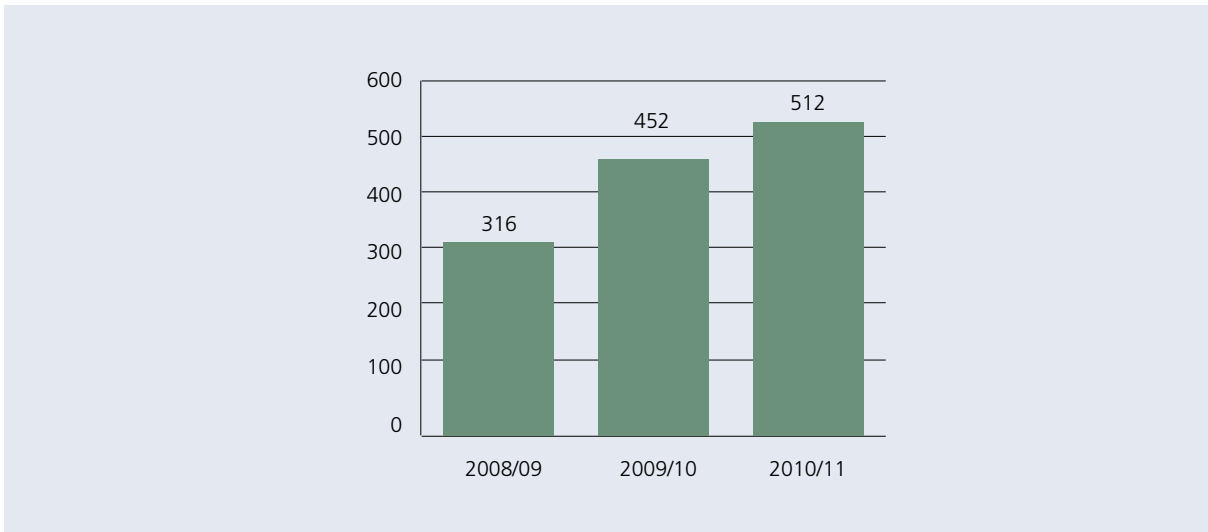


Figure 7: Chart of suspended home builders

Enrolment and late enrolment of homes (non-subsidy)

Section 14 of the Act requires that all new homes be enrolled with the NHBRC 15 days prior to construction. For homes under R500 000, the enrolment fee is calculated as 1.3% of the value of the property including the land. For houses above R500 000, a sliding scale as shown in table 10 is used to calculate the enrolment fee.

Table 10: Sliding scale used to calculate enrolment fee

Fee Scale	Selling price (R)	Enrolment fee as % of selling price	Maximum enrolment fee
A	0–500 000	1.3%	R6 500
B	500 001–1m	A + 1.0% of difference	R11 500
C	1–2m	B + 0.75% of the difference	R19 000
D	2–5m	C + 0.5% of difference	R34 000
E	>5m	Maximum of R34 000	R34 000

The NHBRC enrolled 31,458 new homes in the current financial year, which represents an increase of 17% over the 2009/2010 financial year.

The Act also provides for late enrolment of homes, where home builders had started construction prior to enrolment. The implication of late enrolment is that the NHBRC is denied the opportunity to check that the house is built according to the NHBRC's technical requirements to ensure quality in the construction of homes.

During the 2010/2011 financial year, 966 homes were enrolled late with the NHBRC. This represents a 55% reduction in late enrolment of homes, which indicates good performance. Figure 8 illustrates the enrolment and late enrolment of homes in recent financial years, including the year under review. The NHBRC conducted open days at its customer service centres in all provinces to launch its customer centric strategy, which aims to educate consumers about their rights and home builders about their obligations in terms of the Act.

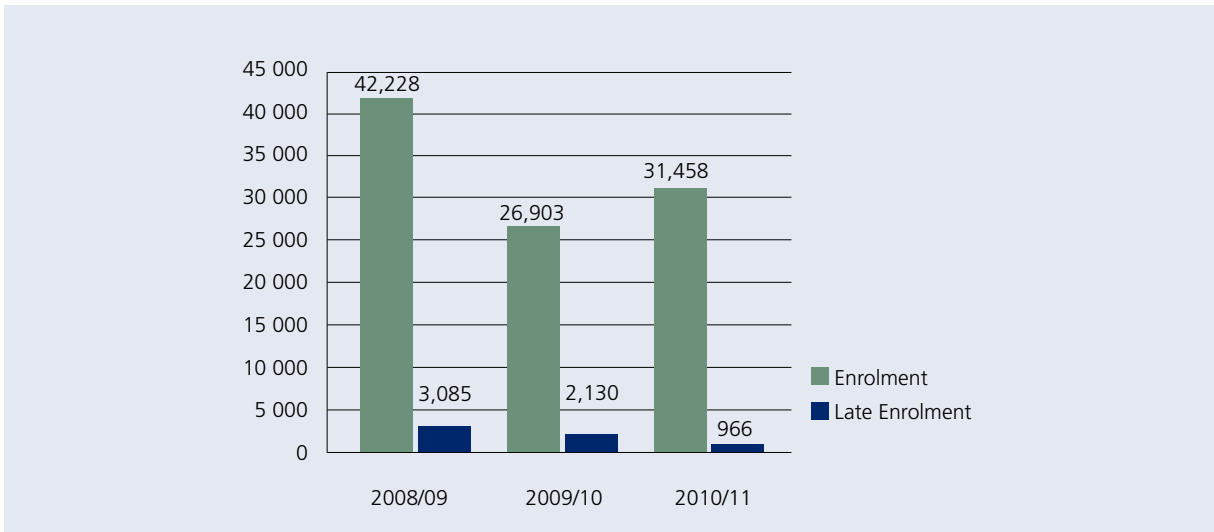


Figure 8: Chart of the enrolment and late enrolment of homes

Remedial works completed by NHBRC

Where home builders are unable or unwilling to take liability for major structural defects in enrolled homes as reported by housing consumers, the NHBRC undertakes remedial work to rectify the homes in accordance with the Act.

Non-subsidy remedial work

The NHBRC spent R22 million on remedial works in the 2010/2011 financial year, which represents an increase of 57% over the R14.1 million spent in the 2009/2010 financial year. The increase is attributed to the bankruptcy rate in the homebuilding industry and the high settlement amounts that were incurred in the Western Cape.

Subsidy remedial works

The NHBRC did not utilise its fund for remedial works in the subsidy sector. The rectification project launched by the minister in the subsidy sector is independently run by the National Department of Human Settlements because the houses to be rectified were not enrolled with the NHBRC.

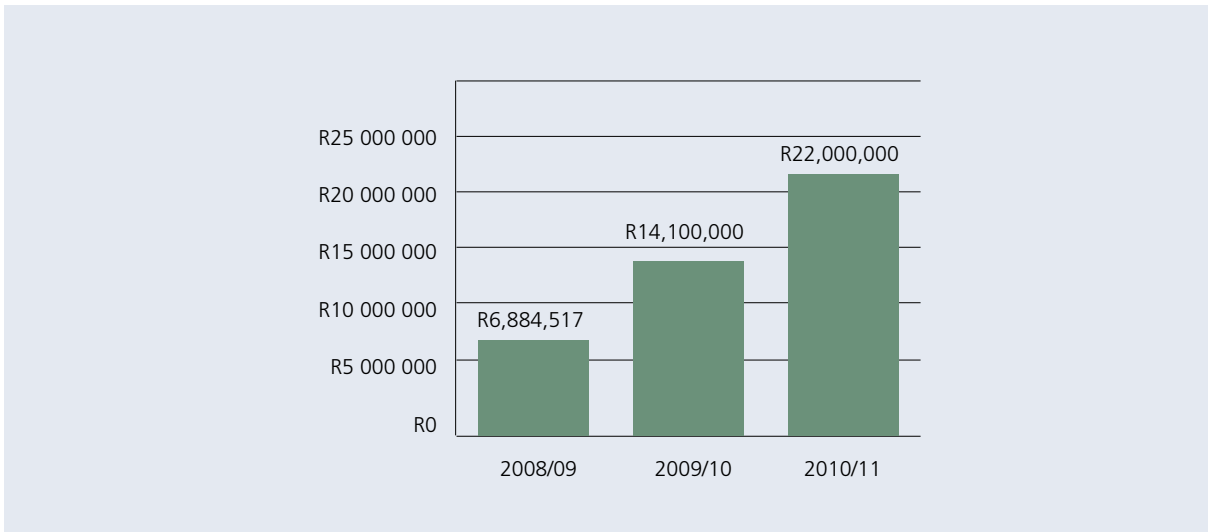


Figure 9: Chart of remedial works settled by the NHBRC

Risk mitigating measures for the warranty fund

In order to sustain and grow the fund, the NHBRC has put a number of risk mitigating measures in place, which also serve to ensure the quality of the homes being produced in the homebuilding sector. The following are some of the risk mitigating measures that the NHBRC has implemented for the sustainability of the warranty fund:

Performance guarantee

A performance guarantee is payable for homes that are enrolled late. The performance guarantee kicks in when a home that was enrolled late fails due to a structural defect and the home builder is unable or unwilling to rectify the defects.

Training of home builders

The NHBRC trains emerging home builders to increase their skills level and awareness in relation to the requirements in terms of the NHBRC Home Building Manual, and their obligations in terms of the Act. The purpose is to ensure that good quality homes continue to be built and that the fund is protected and sustained.

Inspection of homes

In terms of the Act, every new house enrolled and under construction must be inspected. The level of inspection is determined by the size and complexity of the home. Table 11 indicates the number of inspections conducted according to the value of the house enrolled.

Table 11: Number of inspections conducted according to house value

Fee Scale	Selling price (R)	Enrolment fee as % of selling price	Maximum enrolment fee	No. of inspections
A	0–500 000	1.3%	R6 500	4
B	500 001–1m	A + 1.0% of difference	R11 500	5
C	1–2m	B + 0.75% of the difference	R19 000	6
D	2–5m	C + 0.5% of difference	R34 000	7
E	>5m	Maximum of R34 000	R34 000	8

The NHBRC inspected 15,631 homes in the 2010/2011 financial year. This indicates a decline of 80% in the number of homes inspected compared with the 2009/2010 financial year. The decline in performance was due to continuous slowdown in the construction market.

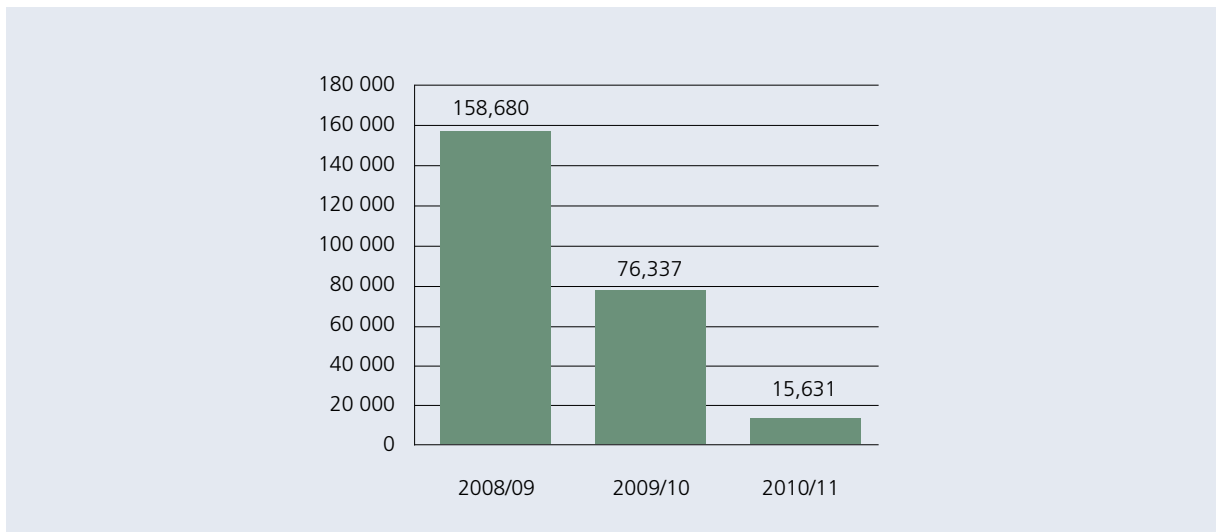


Figure 10: Chart of number of homes inspected by the NHBRC

7.2 Subsidy sector

Subsidy housing is a state-sponsored initiative for unemployed people and those who earn less than R3 500. It is delivered by provincial human settlements departments through accredited metros and municipalities.

Subsidy enrolment process

Subsidy projects are subject to a two-phase enrolment process, project enrolment and home enrolment, to allow the NHBRC to achieve the required risk management before a home enrolment certificate is issued. In terms of the Act and Part 3, Chapter 3 of the Housing Code, developers of subsidy projects are required to register and enrol all projects with the NHBRC.

Project enrolment phase

During the project enrolment phase, the NHBRC assesses the submitted projects with particular emphasis on the phase one geotechnical investigation report. In this financial year, the NHBRC received 46 projects with a combined total of 27,348 housing units for the project enrolment phase. In total 38 projects, with a total of 25,090 housing units, were approved. Figure 11 shows performance in this regard for the past three years.

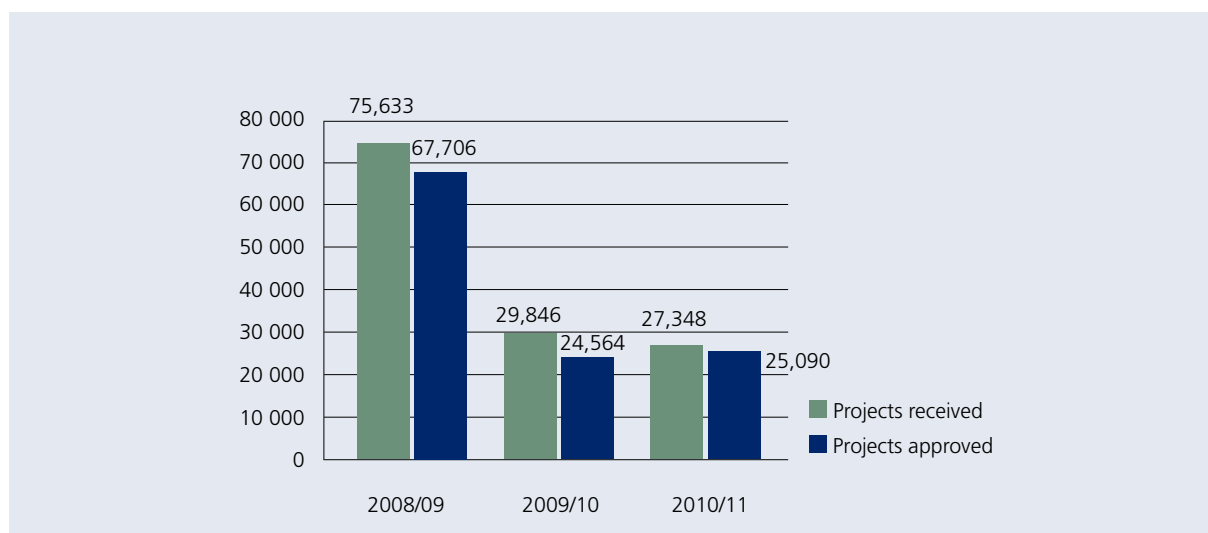


Figure 11: Chart of project enrolment for phase one

It should be noted that most of the projects submitted for project enrolment in this financial year will only commence construction in the next financial year. Project enrolment numbers are low in provinces like the Eastern Cape, Limpopo, Mpumalanga and the Northern Cape because these provinces are enrolling rural projects. Rural projects are only assessed for home enrolment status because, in most cases, there are no services to be installed and therefore the phase two geotechnical report is not required. The provincial departments of human settlements undertake once-off project enrolment and then rollout construction over two financial years.

Home enrolment phase

Prior to the construction of homes, the developer or home builder prepares comprehensive designs based on each erf's soil class designation. These are certified by a competent person for the different typologies in accordance with the provisions of the NHBRC's home building manuals. This year, 346 projects were submitted for the home enrolment phase with a combined total of 72,394 units. Out of the 346 projects, 212 projects with 49,929 housing units were approved, as presented in figure 12.

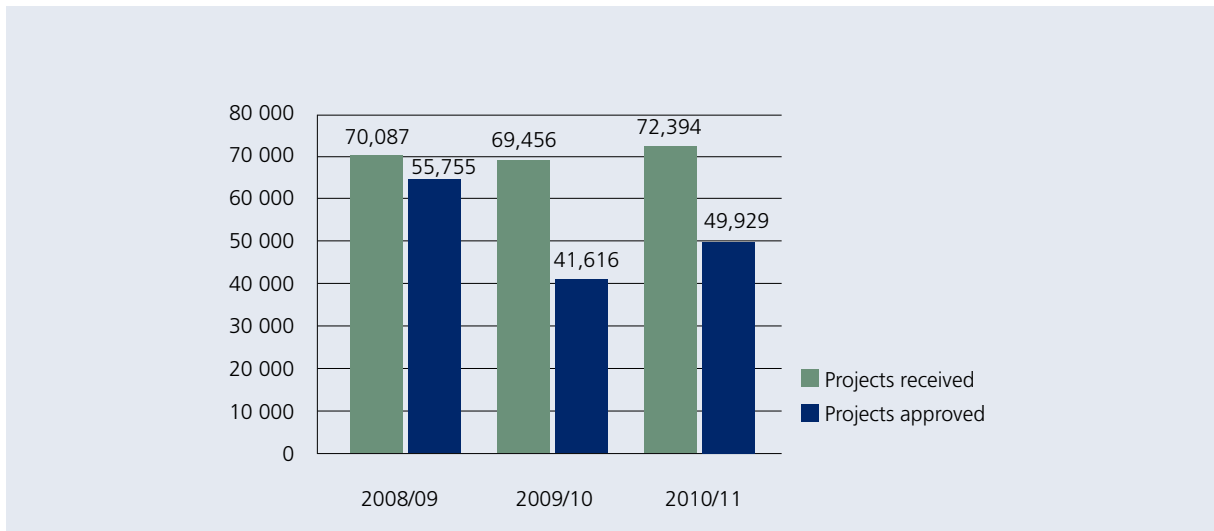


Figure 12: Chart of home enrolment for phase two

No projects were received from Gauteng, Free State or Mpumalanga during the period under review. The implication of non-enrolment is that such projects under construction are not inspected by the NHBRC and are therefore not covered by the warranty scheme. The NHBRC is, however, engaging the provincial human settlements departments and assisting them to get projects enrolled and inspected. The provincial departments of human settlements undertake once-off project enrolments and then rollout construction over two financial years.

7.3 Subsidy inspection

The NHBRC conducts a maximum of four inspections per home on homes constructed within the subsidy sector. These include inspections of the substructure (foundations), superstructure (wall plate), roof, and practical completion (including plumbing and storm water). The NHBRC has increased inspectorate capacity by appointing inspectorate companies to assist in conducting inspections.

In the 2010/2011 financial year, 49,929 homes were enrolled with the NHBRC in the subsidy sector, and 57,420 homes were inspected and completed. The latter figure is not aligned with the number of homes enrolled with the NHBRC during the 2010/2011 financial year, because the number of inspections conducted also included homes that were enrolled in previous years.

7.4 Technical and Information Technology Division

The function of the Technical and Information Technology Division is to support the organisation in all technical and IT-related aspects of its activities. It is the Technical and IT Division's role to promote the application of technical standards within the homebuilding industry, encourage innovation, and facilitate the development and transfer of information, knowledge and best practice. The following summaries highlight some of the major projects:

Contribution to sustainable human settlements and value creation through the National Rectification Project

Through its comprehensive plan to create sustainable human settlements, government is committed to enhancing the quality of residential products and the benefits thereof. This commitment extends beyond merely the provision of new human settlements, as it also includes attention to cases where inferior or inappropriate products were delivered.

The National Department of Human Settlements has identified a number of state-financed houses that have not been enrolled by NHBRC and that do not comply with accepted minimum technical and infrastructural standards. As a result, a dedicated rectification programme for the improvement of these houses has been established by the department in terms of the provisions of Section 3(5) of the Housing Act 107 of 1997. The NHBRC was appointed by the National Department of Human Settlements to project manage the rectification project.

An urgent need for rectification in the current financial year was identified in the provinces of KwaZulu-Natal and the Eastern Cape. Amounts of R120 million and R40 million were set aside for the rectification programmes in KwaZulu-Natal and the Eastern Cape respectively.

In the current financial year, the focus was on the assessment of the houses. However, in the next financial year, the focus will be on the rectification works. Phase one covered the following:

- Assessment of the extent of damage on the top structures
- Assessment of the quality of materials and products used
- Assessment of the condition of infrastructural services, where it is deemed that the quality of the services may affect the integrity of the top structures
- Production of specifications and cost estimates for the necessary remedial works

A summary of the findings is presented in table 12.

Table 12: Summary of findings from phase one of the rectification project in KwaZulu-Natal and the Eastern Cape

KwaZulu-Natal	
Number of units to be demolished and rebuilt	25 093
Number of units to be rectified	29 202
Number of vacant stands	6 555
Sub-total number of units	60 850
Number of units (No rectifications)	3 168
Total number of units assessed	64 018
Eastern Cape	
Total number of units assessed	36 128

The general findings in most of the projects were very similar. The main causes of structural failures and consequent knock-on effects on the superstructure were due to:

- improper soil classification;
- inadequate or inappropriate foundation design;
- design not carried out by a competent person registered with the Engineering Council of South Africa as a professional engineer/engineering technologist;
- construction details not in accordance with design specifications;
- no inspectors on the ground to identify and prevent problems at an early construction stage;
- late enrolments or non-enrolment of homes with the NHBRC warranty scheme, resulting in houses not being inspected at all;

- generally poor workmanship;
- use of inappropriate materials and technologies; and
- lack of appropriate attention given to structural detailing such as connections of external and internal walls, inadequate provision of lintels above large openings, and large unsupported sections of walls.

Examples of some of the defects are presented in figure 13.



Figure 13: Examples of defects found in houses

General housing typologies and typologies for people with disabilities

The NHBRC received a request from the National Department of Human Settlements to revise the existing 40m² standard subsidy house. New designs have been completed for the department's policy division on the 40m² subsidy house, including larger windows. Costing was also done to confirm that the larger windows would have no impact on the existing subsidy quantum. The NHBRC, in consultation with experts, has also developed 45m² typologies based on the concept of accessibility for people with disabilities.

Eric Molobi Testing Centre

The procurement of the testing equipment for the Eric Molobi Testing Centre was completed in the year under review. The NHBRC also received the occupation certificates for both the conference centre and the NHBRC testing facility. The facilities will be commissioned in the next financial year.

Approval of rational designs for non-conventional building systems

During the current financial year, the NHBRC approved 10 non-conventional building systems.

7.5 Information Technology section

During this financial year, the IT section focused on addressing outstanding problems with the Siebel Oracle system. All issues were consolidated, prioritised and scheduled for correction with the assistance of consultants; all major issues have been resolved. As part of our research and development, new palm digital assistant (PDA) devices were identified to improve the quality of inspections and the productivity of inspectors.

During this financial year, achievements included:

- The Siebel Oracle system's major issues were resolved and the system's stability was improved.
- The Siebel Oracle disaster recovery system was implemented.
- The enterprise service framework was completed.
- The development of the new Internet-based valuable final products (e-VFP) was completed.
- The development of the Geographical Information System (GIS) was completed.

The following issues will be addressed in the next financial year:

- Deployment into production of Internet-based VFP system and GIS.
- Upgrading of the network system to a MPLS network.
- The implementation of Voice over IP.
- The implementation of video conferencing.

7.6 Marketing and communication section

The marketing and communication section's core business is to develop, position, promote and protect the NHBRC's image through appropriate marketing and communication activities. The role of the section includes informing housing consumers and home builders about their rights, obligations and responsibilities in terms of the Act.

In the 2010/2011 financial year, a number of marketing and communication programmes were run nationally to promote the NHBRC to both customers and stakeholders. One of these initiatives included a series of NHBRC open days to launch the NHBRC's customer centric strategy. The open days were attended by NHBRC management, staff and stakeholders from across the board.

Media breakfasts were held to give the NHBRC's CEO and executive management an opportunity to engage the media regarding the NHBRC's strategy to remain relevant and responsive to the growing and changing expectations of the housing consumer. At the media briefings, time was allocated for a question and answer session to allow the media to pose their questions to the NHBRC.

The NHBRC continues to participate in provincial exhibitions to ensure increased public awareness of the NHBRC. Such exhibitions are frequently done in conjunction with national and local departments of human settlements to further raise awareness of the role of the NHBRC to both stakeholders and consumers.

Major work and effort has gone into the preparations for the 12th International House and Home Warranty Conference, which is due to take place at the Cape Town International Convention Centre from 24–28 September 2011. As a custodian of the home warranty sector in South Africa, the NHBRC, in partnership with the National Department of Human Settlements, is hosting this important international event. The NHBRC and National Department of Human Settlements have established a local organising committee with a dedicated team of experts to work on the preparatory logistics for this important event; the team's programme is being executed diligently to ensure a successful event on African soil.

7.7 Corporate Service Division

7.7.1 Implementation of change: Human capital

A key strategic project during the year was the finalisation and implementation of our new organisational structure. The need to become a high performance, customer-centric organisation was addressed with all stakeholders; it required that the NHBRC develop a new organisational structure while concurrently rolling out a change management and values programme.

A number of positions were realigned as part of these processes, together with improved focus on skills at the delivery end. A major outcome was a reduction in the number of staff at head office and an increase in employees at the interface with clients. These changes required consultations with NEHAWU in order to comply with the provisions of the Labour Relations Act. Extensive communication strategies and an external facilitator were used to expedite consultative processes.

In order to mitigate the adverse consequences of possible retrenchments/operational terminations, alternate options to reduce the number of employees who might have been retrenched were offered to those affected. These included the successful placement of 75 affected staff into newly created alternate positions. In addition, 40 affected employees successfully concluded incentivised voluntary severance packages, with some accepting early retirement. All these actions substantially reduced the number of affected employees to approximately 35.

Major achievements during this period included:

- The successful placement of the bulk of affected staff
- The successful implementation of a new NHBRC organisational structure
- Limited retrenchments and the creation of 60 new positions
- Promotions for affected staff
- The integration of all human capital policies into one user-friendly manual
- Provisional CETA accreditation of the Eric Molobi Centre of Occupational Excellence training facility
- Approval and printing of the inspector training module
- Successful Oracle MIS application in all sections, especially the qualifications and competency modules
- The establishment of a professional, outsourced employee wellness service provider, NDAWO, introducing free legal and financial services, and 24-hour counselling services, for all staff
- The rollout of balanced scorecard performance management methodology
- The introduction of a change management and values training programme for all levels of employees
- The elimination of company-provided cellphones to the majority of employees and the introduction of cellphone allowances to qualifying staff, thereby saving the NHBRC R111 096.62 in mobile costs
- The offering of 60 bursaries to external and internal bursars totalling R5 981 639. The external bursaries target students studying at tertiary institutions in fields designated as related to technical and scarce skills

Headcount and workforce profiles

The NHBRC's headcount has been reduced from 354 to 318 permanent staff, with a breakdown of 136 male and 182 female staff members. The approved structure has 380 posts, which leaves 63 vacancies, although approximately 35 staff will be made redundant in the new financial year.

7.7.2 Employment equity: 2010/2011

Table 13: Employment equity statistics for the 2010/2011 financial year

Occupational Levels	Level % Ratio	Male White	Male ACI	Female White	Female ACI	Whites %	Equity % Black (ACI)	Total	Equity Data	Total Staff	% Ratio
Top and Senior Management	1.57%	20.00%	40.00%	0.00%	40.00%	20.00%	80.00%	5	African	267	83.96%
Professionally qualified and experienced specialists and mid-management	8.49%	28.57%	60.71%	3.57%	11.11%	28.57%	71.43%	27	Indian	9	2.83%
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	83.02%	0.38%	40.53%	4.17%	54.92%	4.55%	95.45%	264	Coloured	21	6.60%
Semi-skilled and discretionary decision-making	2.52%	0.00%	25.00%	0.00%	0.00%	0.00%	0.00%	8	Black (ACI)	297	93.40%
Semi-skilled and discretionary decision-making	4.40%	0.00%	0.00%	0.00%	92.86%	0.00%	4.09%	14			
Semi-skilled support staff	100%	2.83%	39.94%	3.77%	53.46%	3.77%	93.40%	318	White	21	6.60%

Black (ACI) levels remain high at 93.4% versus 93.5% in 2009/2010, against a national demographic of 90.8%. White and coloured levels reflect 6.6% of the total NHBRC equity complement against a national demographic of 9.2% and 8.8% respectively. Indian employees are 3% against the national demographic of 2.2%. A focused effort has been directed towards acquiring women at management levels and post implementation of our new organisational structure, we will target appointing disabled persons in designated posts. The emphasis for 2011 is to expand levels of diversity as reflected in our employment equity plan.

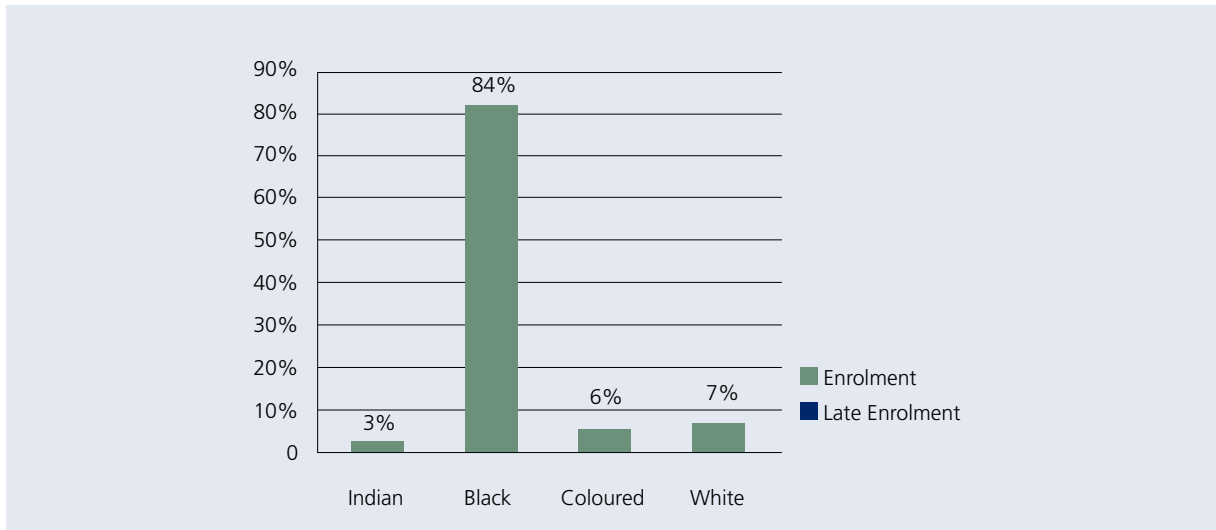


Figure 14: Chart of employment equity

Employment equity by gender

The NHBRC employs 136 males (43%) and 182 females (57%). In terms of race, 40% of the employee total reflects black males and 53% black females.

Employee equity by race

Figure 14 indicates that of the 318 employees of the NHBRC, 84% are African, 6% are coloured, 3% are Indian and 7% are white. The NHBRC is over-represented in certain areas, but under-represented in the white and coloured categories. This will be corrected through our targeted recruitment process.

7.7.3 Emerging home builder training

A total of 1, 505 emerging home builders were trained in the period under review. The NHBRC did not meet its annual training target of 3, 500 set for the 2010/2011 financial year; this was due to a change in the training strategy whereby training was conducted onsite and only for projects linked to the Department of Human Settlements.

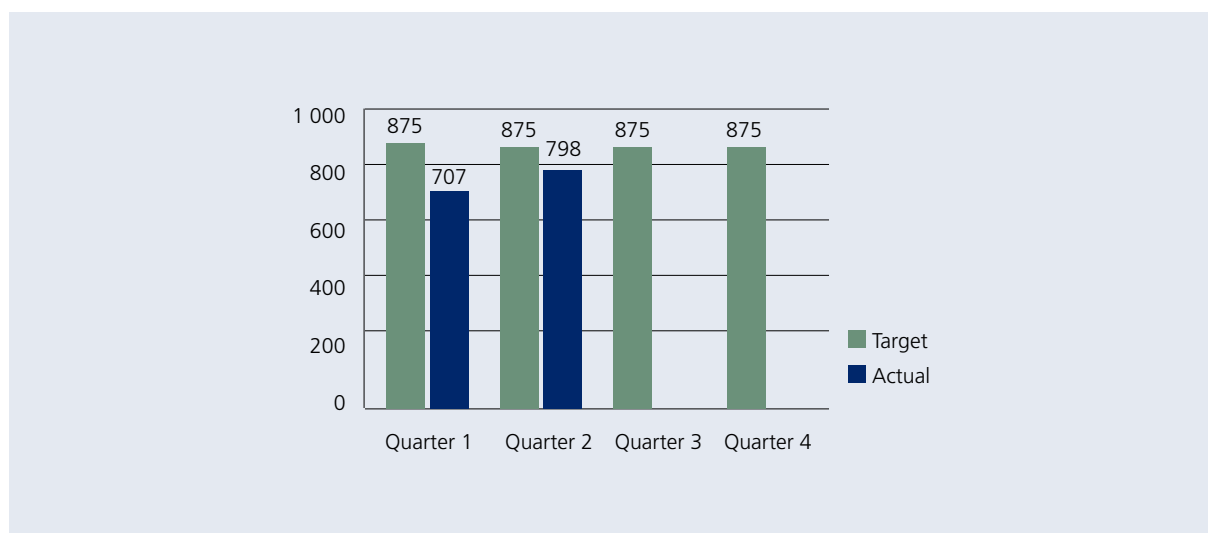


Figure 15: Chart of training of emerging home builders

7.7.4 Special projects

A total of 160 special training interventions took place in the period under review. August was Women's Month and in recognition of the occasion, the NHBRC conducted training for women in Kimberley under the auspices of South African Women in Construction (SAWIC). Fifty women were trained in both bricklaying and plastering, which translates to 100 interventions. The training was launched on 16 August 2010 and ran until 22 September 2010. In Gauteng, a special programme to train 30 emerging contractors in Johannesburg and Tshwane was completed, with the 30 learners trained in both bricklaying and plumbing.

It is important to note that a strategic change was implemented in our methodology i.e. that all training would be linked to onsite housing developments enrolled with the NHBRC. However, the implementation of this strategic project was delayed due to the appointment of service providers.

The NHBRC will conduct training in the Eastern Cape (Buffalo City and Mount Pleasant); Gauteng (Ivory Park phase two); KwaZulu-Natal (Eshowe); the North West (Coligny) and the Western Cape (Witsand). In total, 720 learners will be trained on different skills programmes – bricklaying and plastering. A budget of R3.7 million has been set aside for the entire training programme.

Our key partner in this project is the National Youth Development Agency (NYDA), which has already implemented the life orientation skills phase for the Mount Pleasant, Eastern Cape, Youth in Human Settlements project. The technical skills training rollout will be implemented in 2011/2012.

In Gauteng, the identified contractors were briefed on their role during the onsite training of learners. The Gauteng Department of Local Government and Human Settlement has made a commitment to transfer R1.6 million to the NHBRC.

Inspector training

A major highlight has been the completion of the NHBRC's inspector training module, which has been approved at both EXCO and HCREMCO. We have submitted this training course to CETA as part of the accreditation process and approval has been granted to implement the pilot project for this training programme.

Eric Molobi Centre of Occupational Excellence accreditation

The Eric Molobi Centre of Occupational Excellence has been awarded provisional accreditation by CETA. This enables the centre to operate as a training facility for one year while the CETA satisfies itself with the standard of delivery offered at the centre. The approval process of erecting mock-ups is at an advanced stage, pending engineering reports.

Human settlements: Emerging contractor development programme

The NHBRC is part of a project team together with NURCHA, CETA and the Department of Human Settlement Stakeholder Management Chief Directorate. The team has been tasked with developing the Emerging Contractor Incubator and Mentorship Programme. The programme now requires MINMEC approval of the Draft Emerging Contractor Incubator Model.

7.8 Legal services

The legal framework

The legal services section's value proposition is to provide effective legal advisory services. The service offerings of the section are prosecutions, contracts management, recovery of remedial costs, litigation management, vetting of policies, legal advisory services and the review of the Act.

The section's goal is to mitigate the risks towards the warranty fund by providing efficient and effective legal advisory support in order to protect housing consumers and regulate the homebuilding industry.

Prosecution of home builders

The prosecution of home builders is integral to the NHBRC's regulatory and enforcement function. In terms of the provisions of Section 11(1) of the Act, Council may withdraw the registration of a home builder where the home builder has been found guilty by the disciplinary committee on a charge that the home builder has contravened certain provisions of the Act.

In terms of the provisions of Section 11(3) of the Act, where Council has information that would enable it to withdraw the registration of a home builder and require immediate intervention in the interest of housing consumers, Council, after having notified the home builder and after having allowed the home builder an opportunity to urgently respond to it, may suspend the registered home builder's registration or refuse to enrol homes for the period that Council deems necessary to investigate the matter or until the registered home builder has complied with the relevant provisions of, condition or obligation in terms of the Act, as the case may be.

During the year under review, disciplinary hearings against home builders were held in Gauteng, the Western Cape, Limpopo and KwaZulu-Natal. Figure 16 shows the provinces and the dates during which such hearings were held.

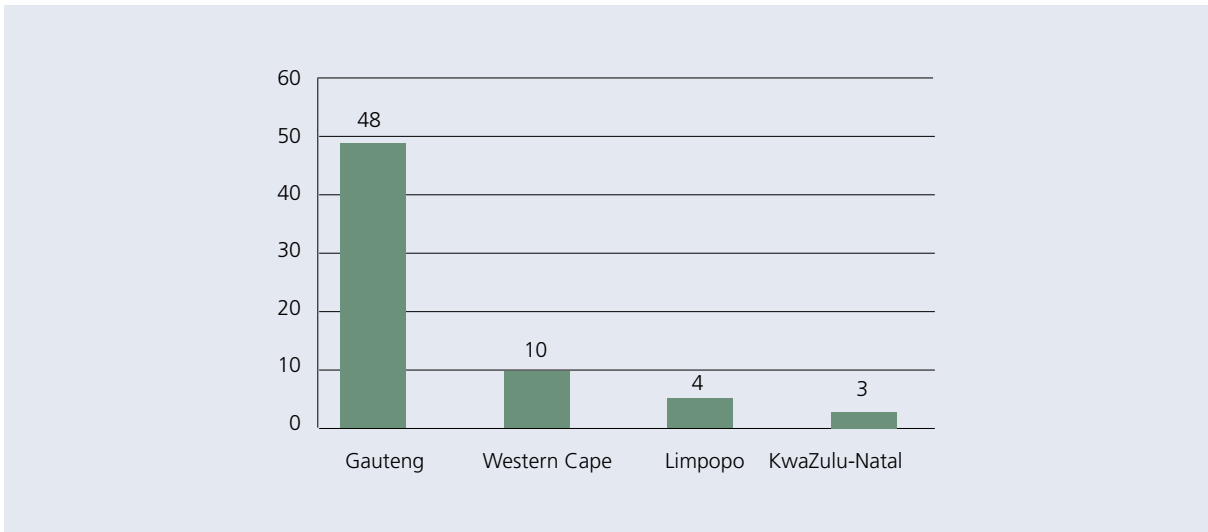


Figure 16: Chart of the number of home builders prosecuted per province

A total of 65 home builders were prosecuted by the NHBRC for offences ranging from failure to rectify major structural defects and non-structural defects to failure to attend to correspondence from the NHBRC. Of all the matters referred to the Disciplinary Hearing Committee, 70% resulted in guilty verdicts against home builders. Figure 17 depicts the outcome of the disciplinary hearings held during the reporting financial year.

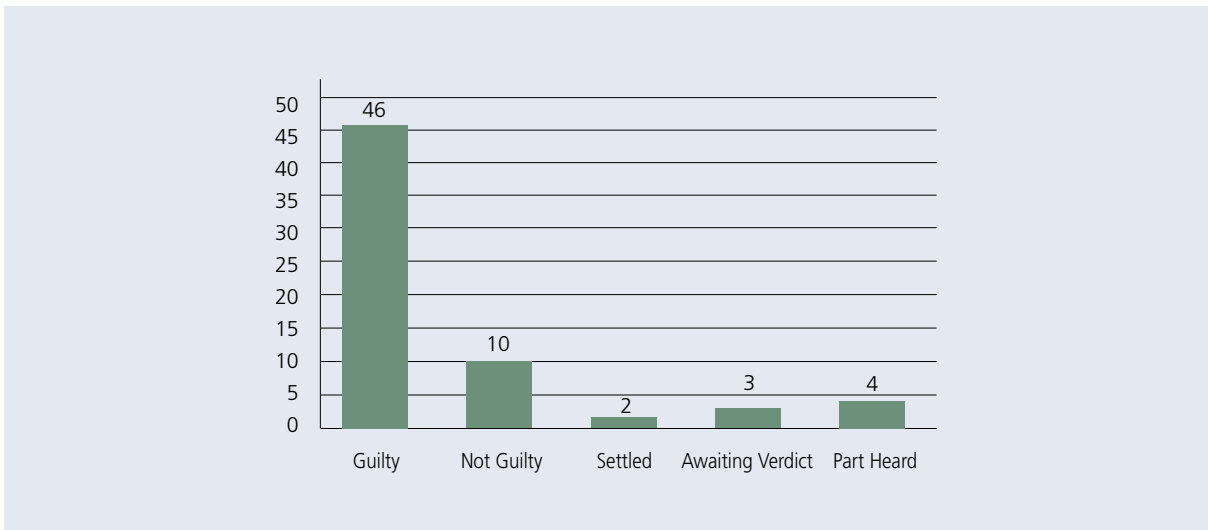


Figure 17: Chart of the outcomes of prosecutions of home builders

Criminal enforcement

Section 21 of the Act makes it a criminal offence for any person to build a home without first being registered as a home builder or without enrolling such a home with the NHBRC. The penalty is a fine of up to R25 000 per contravention or imprisonment for a period not exceeding one year on each charge.

The NHBRC has raised the bar in trying to protect housing consumers who have been swindled by contractors purporting to be registered home builders when they are not, or building homes for them and failing to enrol the home with the NHBRC. It is the NHBRC's intention to ensure that the police deployed at police stations or at police training academies fully understand the criminal conduct committed if a person builds without registering with the NHBRC or builds a home without enrolling it. The NHBRC reinforced its commitment to serve and protect housing consumers by training more than 900 police trainees at South Police Training Academies in Mthatha, Eastern Cape, and Bishop Lavis, Western Cape.

The NHBRC intends to create 'pockets of enforcement' through government institutions and enforcement agencies to ensure that the rights of housing consumers are adequately protected.

Recoveries of remedial costs

Section 17(7) of the Act states that if Council has incurred rectification costs or expenditure because a home builder has failed to rectify major structural defects occasioned by failure to comply with satisfactory technical standards in the homebuilding industry, then the home builder must reimburse Council, at its request, all reasonable costs or expenditure it incurred as a result of such failure.

Section 17(9) of the Act further states that if a home builder referred to in Section 17(7) fails to reimburse Council, the latter shall be entitled to institute any action for the recovery of such costs.

The recovery of remedial costs has proven difficult in view of the harsh reality of the impact of the recession on the housing market. During the reporting period, the NHBRC instructed attorneys to undertake the debt collection process and where this failed, to proceed with legal action against non-compliant home builders. Although the prospect of recovering rectification costs looks bleak, all legal mechanisms are being employed to ensure that the rectification costs are reimbursed to Council.

Amendments to the Act and its regulations and rules

The objectives and intentions of Parliament in passing into law the Housing Consumers Protection Measures Act 95 of 1998 are unambiguous and made significantly clear by its name. The Act's main purpose is to protect housing consumers or homeowners against unscrupulous building practices.

While there is no dispute that this important piece of legislation was intended to protect housing consumers, its evolution through the passage of time in conjunction with changes in the social, economic, environmental and political imperatives means that the National Home Builders Registration Council has to constantly ensure that the Act remains relevant and responsive to the growing and changing expectations of housing consumers. This duty becomes mandatory of a regulatory body, especially in view of the promulgation of other pieces of legislation which directly or indirectly have an impact not only on the nature, but also on the delivery, of its statutory mandate. The NHBRC, as an organ of the state, has to have the regulatory tenacity to adapt to such legislative changes.

During the second quarter of the reporting year, Council appointed Nexus Forensic Services (Pty) Ltd through an open and public tender to undertake the legislative review of, and suggest amendments to, the Act, its regulations and rules. The process will ultimately lead to public comment being invited on the final draft bill, regulations and rules.

The second draft bill, regulations and rules were ready by the end of the 2010/2011 financial year. It is anticipated that after much consultation and research on possible amendments, the amendments will be ready for submission to the office of the Minister of Human Settlements by July 2011. This ministerial process will culminate in the parliamentary process, anticipated to commence during the last quarter of the 2011 calendar year, as shown in figure 18.

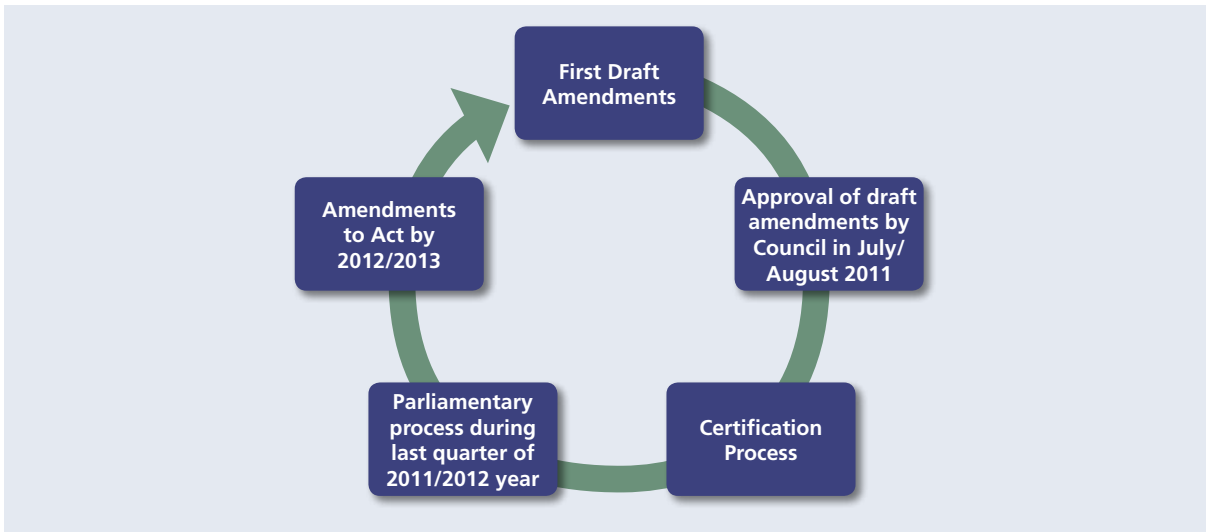


Figure 18: Diagram of legislative review process

Contract management

The objective of contract management is to ensure that services entered into between the NHBRC and external parties are delivered to the required level of performance and quality. It also aims to ensure that relationships between the two or more parties remain open and constructive, aiming to resolve or ease tensions and identify problems at an early stage. Furthermore, contract management enables the NHBRC to handle the formal governance of contracts and changes to the contract documentation. Our contract management was deemed effective during the reporting year and a large number of contracts (120) were entered into during the reporting period.

Litigation

One of the inherent objectives of the legal services section is the duty to maintain a comprehensive litigation management programme in order to reduce litigation, litigation costs, negligence, acts or omissions by staff employed by the NHBRC, without sacrificing a case or litigation results.

As litigation is ongoing and it is often impossible to predict the period within which such matters will be finally adjudicated upon by courts of law, the legal section still has 21 civil actions on record that were instituted since the 2005/2006 financial year.

There has been a remarkable improvement in respect of litigation management during the reporting year in that Council ensured that most matters were dealt with internally first before incurring more costs through external legal services.

8 NATIONAL HOME BUILDERS REGISTRATION COUNCIL ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2011

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REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE NATIONAL HOME BUILDERS REGISTRATION COUNCIL

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying statements of the National Home Builders Registration Council ("NHBRC"), which comprise the statement of financial position as at 31 March 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages 55 to 90.

Accounting authority's responsibility for financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practise (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No 1 of 1999)(PFMA) and section 15 (6) (c) of the Housing Consumer Protection Measures Act (Act no.95 of 1998), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 15 (6) (c) of the Housing Consumer Protection Measures Act (Act no.95 of 1998), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects the financial position of the National Home Builders Registration Council as at 31 March 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the PFMA and section 15 (6) (c) of the Housing Consumer Protection Measures Act (Act no.95 of 1998).

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties

9. As at the date of the audit report, the Receiver of Revenue was still in the process of reviewing the VAT accounting of the entity. Management has included a comment in the financial statements note 26 'contingent liabilities' as the ultimate outcome of the matter cannot presently be determined, and consequently no provision has been made in the financial statements.

Restatement of corresponding figures

10. As disclosed in note 28 to the financial statements, the corresponding figures for 31 March 2010 have been restated as a result of errors discovered during the year ended 31 March 2011 in the financial statements of NHBRC at, and for the year ended, 31 March 2010.

Material impairments

11. As disclosed in note 6 to the financial statements, trade receivables due from government entities amounting to R45 112 759 is outstanding for a period of more than 120 days. As a result of disputes an additional provision of R17 142 080 was raised.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 93 to 118 and material non-compliance with laws and regulations applicable to the NHBRC.

Predetermined objectives

Usefulness of information

13. The reported performance against predetermined objectives was deficient in respect of the following criteria:
 - Relevance: There is no clear and logical link between the objectives, indicators and performance target.
14. The following audit finding relate to the above criteria:
 - For 33% of the objectives selected, there was no clear and logical link that existed between the planned objectives, indicators and targets.

Compliance with laws and regulations

Annual financial statements

15. The accounting authority submitted financial statements for auditing that were not prepared in all material aspects in accordance with generally accepted accounting practice (and supported by full and proper records) as required by section 55(1) (a) and (b) of the PFMA. Certain material misstatements identified by the AGSA with regard to the following classes of transactions, account balances and disclosures were identified: capital assets, current assets, liabilities, revenue, expenditure and disclosure items, which were subsequently corrected.

Procurement and contract management

16. Awards were made to suppliers who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state as per the requirements of Treasury regulation 16A8.3 and Practice Note 7 of 2009/10.
17. Awards were made to suppliers who did not submit a declaration of past supply chain practices such as fraud, abuse and non-performance as per the requirements of Treasury regulation 16A9.1(a) and Practice Note SCM 4 of 2006.

18. SCM officials/other SCM role players whose close family members/ partners/ associates had a private or business interest in contracts awarded by the entity failed to disclose such interest as required by TR 16A8.4(a).
19. SCM officials/ other SCM role players who or whose close family members/ partners/ associates had a private or business interest in contracts awarded by the entity participated in the process relating to that contract contrary to the requirements of TR 16A8.4(b).

Value Added Taxation

20. The NHBRC has been registered as a VAT vendor up to 1 April 2011, which is in contravention of the Revenue Laws Amendment Act, 2004 (Act No. 32 of 2004).

Non compliance with Housing Consumers Protection Measures Act

21. Sections 7 and 53 (3) of the PFMA and Treasury Regulations 31.3 require an entity to have an investment policy approved by the appropriate accounting authority, which in this case is defined as the council. Unless exempted by national Treasury all surplus funds must be invested with the Corporation for Public Deposits.

The Housing Consumer Protection Measures Act (Act no.95 of 1998) section 16 (7) requires that the funds of the Council or any fund may, subject to subsection (4) and subject to the approval of the Minister with the concurrence of the Minister of Finance, be invested in accordance with the policies approved by the Council.

Unless the above approvals were obtained Public Entities listed in schedule 3A must invest all surplus funds with the Corporation of Public Deposits.

The NHBRC has not received any approval from the Minister of Finance, or National Treasury as required.

NHBRC is in contravention with the Housing Consumers Protection Measures Act (Act no.95 of 1998) and Treasury regulation 31.3.3 as the surplus funds of R3 118 841 712 were not invested at the Corporation for Public Deposits.

Revenue management

22. The accounting authority did not take effective steps to collect all money due to the NHBRC as required in terms of section 51 (1) (c) (ii) of the PFMA.

Internal audit

23. The internal audit function did not adhere to the requirements as set by section 51(1) (a) (ii) of the PFMA and Treasury Regulation 27.2.10, in that:
 - The internal audit function did not evaluate and develop recommendations on the effectiveness and efficiency of controls on the information systems environment, the reliability and integrity of financial and operational information in compliance with laws and regulations.
 - The internal audit function did not evaluate and develop recommendations for the enhancement or improvement of the processes through which the objectives of the institution are achieved.

INTERNAL CONTROL

24. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

25. The accounting authority did not exercise adequate oversight responsibility over financial and performance reporting and compliance and related internal controls.
26. The accounting authority did not adequately review the financial statements and the report on predetermined objectives prior to the submission for audit. Several adjustments had to be made during the audit. There was material non compliance by the entity with legislation.
27. The IT governance framework was not sufficient to support and enable the business, to deliver value and improve performance. General and application controls are not adequate and focussed to achieve reliable and accurate data outputs.

Financial and performance management

28. The design and implementation of formal controls over the IT system were not adequate, as limited to no reliance could be placed on the accuracy and validity of financial information obtained from the system.
29. Management did not have adequate control to ensure compliance with legislation. The procurement process did not fully comply with the requirements of the supply chain legislation management requirements.

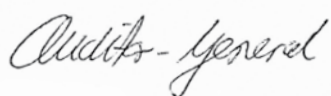
Governance

30. The internal audit department was not functioning effectively in the period under review.

OTHER REPORTS

Investigations

31. An investigation is being conducted to probe into allegations of irregular tendering processes and allegations of conflict of interests and appointment of senior staff. The investigations were still ongoing at the date of this report.



Pretoria
31 July 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

ACCOUNTING AUTHORITY'S REPORT

for the year ended 31 March 2011



The 2010/2011 financial year saw many corporate entities still experiencing the after effects of the global economic melt-down experienced in the 2009/2010 financial year. These after effects also had an impact on the NHBRC's performance in terms of its mandate under the Act. The slow recovery in the home building industry contributed to lower achievements of targets for the Valuable Final Products that the NHBRC offers as its services to both the housing consumers and the home builders.

Council, however, continued to provide support and direction to the NHBRC management during this time to ensure that the organisation remained sustainable, while continuing to discharge its mandate of protection to the housing consumers through the delivery of quality homes by home builders.

Governance

Council continued to play its governance role as required by PFMA by ensuring that the organisation's internal control systems were in place and remained effective, efficient and transparent to deliver on the strategic objectives and to mitigate against risks that threaten the sustainability of the organisation.

A review of the internal audit function by Council's Audit and Risk Management Committee during the year under review resulted in certain gaps being identified in this function and in this regard, Council ensured that the necessary intervention plan was developed. This plan saw the outsourcing of the internal audit function to increase capacity within that function to be able to give Council assurance on the adequacy and effectiveness of internal controls within the organisation. Council is confident that the new internal audit function will provide it with the necessary assurance and reliability from the external auditors under the leadership of the Auditor-General.

Council has also continued to provide support and to receive advice from its sub-committees on the activities delegated by Council to these structures in accordance with the terms of reference developed for each of the sub-committees. Annual reviews of the sub-committees' terms of reference took place during the year under review to ensure that these structures remain relevant and continue to assist Council in the discharge of its mandate as required under the Act.

Towards the end of the financial year, Council witnessed the resignation of two Council members, including the Chairperson. These resignations were in addition to two other resignations that were received in the previous financial year, including that of the Deputy Chairperson. Council wishes to express its confidence in the shareholder role of the Hon. Minister of Human Settlements, who was quick to make the necessary appointments from among the remaining Council members, and who also started a process to appoint additional members to serve for the remainder of the Council term of office, which ends in the next financial year, to ensure that the leadership of the organisation remains intact and relevant to the objectives as per the Act.

International Housing and Home Warranty Conference

The NHBRC in partnership with the National Department of Human Settlements is the proud host of the 2011 International Housing and Home Warranty Conference, which will take place for the first time on African soil, in Cape Town in September 2011. This is an international conference of housing and home warranty schemes looking at global challenges facing warranty schemes in the home building industry and engaging in debate to address these challenges, while also looking at sustainable, innovative ways of delivering housing to communities.

Preparations for the conference started during the year under review, and the Council is happy with the progress made so far to ensure this will be a memorable event that the African continent will remember and build upon its legacy to introduce housing and home warranty schemes in African countries. There is also a legacy project in the form of a housing development intended for destitute people of our country that is being developed as part of the celebrations of this important event. This legacy project will remain an important milestone for the beneficiaries who will be identified through government's social housing programme run by the Department of Human Settlements.

ACCOUNTING AUTHORITY'S REPORT (continued)

for the year ended 31 March 2011

National Rectification Project – call by the Minister

The Council was also honoured by the Minister's call towards the end of this financial year for the NHBRC to be one of government's partners in the national rectification of defective social housing projects covering houses built without enrolment under the NHBRC warranty cover. The NHBRC's role in this project is to manage the project to ensure that the defects in the houses are determined through forensic engineering investigations, which will also determine the scope of rectification works required to put the houses in the condition that would be in compliance with the NHBRC quality building standards and National Building Regulations.

These rectification projects started in the Eastern Cape and KwaZulu-Natal provinces towards the end of the financial year and the initial forensic assessments conducted during this period indicated in most instances that the majority of the houses require demolition and rebuilding at a huge government cost before they will be able to meet the NHBRC quality building standards and the requirements in terms of the National Building Regulations.

The NHBRC has committed to assist government in this project, and as a bonus, all rectified houses will be eligible for enrolment upon completion to be able to enjoy the NHBRC warranty cover for five years in respect of any structural defects that may occur during the period of cover. During the rectification of these houses, the NHBRC will, ensure that they are inspected by NHBRC inspectors to ensure quality and to mitigate the risk to its warranty fund if the houses are enrolled after completion.

Relationship between Council and Executive Management

Council has continued to monitor and ensure that the NHBRC management team delivers on the organisation's strategic objectives through the quarterly reporting on the achievement of operational targets.

The good relationship and interaction maintained between Council and the management team resulted in the efficient and effective management of the organisation that achieved the results reported in this annual report. This kind of relationship is espoused by the King III Code of Good Practice which states. "...there should be a clearly accepted division of responsibility between the accounting authority and its management team to ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making". The benefactors of such a separation of responsibilities are housing consumers, homebuilders, employees and all other key stakeholders who look upon the organisation for service delivery in terms of its statutory mandate of protection of the housing consumer through the delivery of quality homes by registered home builders.

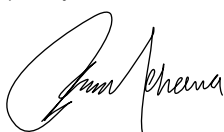
Conclusion

The vibrant nature of the home building has afforded the NHBRC with an opportunity of identifying key industry stakeholders to be engaged in the discharge of the mandate of the organisation to ensure their full participation and transparency in how the Council discharges its mandate.

While management of the NHBRC, like any other organisation, faces the task of remaining relevant and responsive to its key stakeholders, Council has confidence that it is a duty that will surely be discharged through enduring leadership.

On behalf of Council, I thank the support of the Ministry of Human Settlements, the industry players and the management and staff of the NHBRC during this challenging first year of Council's term of office.

Special thanks to the Parliamentary Portfolio Committee on Human Settlements for guidance. A special word of thanks to Council members for their decisiveness and unwavering support during crucial times. It was indeed a steep learning curve for Council Members. The infusion of the culture of excellence is our goal. I am confident that delivery of quality and sustainable human settlements will be priority for Council.



Rev. Dr Vukile Mehana

Chairperson of Council

STATEMENT OF RESPONSIBILITY

for the year ended 31 March 2011

The Council, which is the Accounting Authority of the National Home Builders Registration Council (NHBRC), is responsible for the preparation, integrity and fair presentation of the annual financial statements of the NHBRC.

The annual financial statements for the year ended 31 March 2011 presented on pages 55 to 90 have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

They are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable and prudent judgements and estimates. The going concern basis has been adopted in preparing the annual financial statements. The Council have no reason to believe that the NHBRC will not be a going concern in the foreseeable future based on forecasts and available cash resources.

The Council is also responsible for the NHBRC's system of internal controls. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability of assets. These controls are monitored throughout the NHBRC by management and employees, in an attempt to address the segregation of authority and duties with available resources. The Council continues to design and implement processes to monitor internal controls, to identify material breakdowns and implement timely corrective action.

The Council, and NHBRC management, treat corporate governance matters seriously, and whenever any instances of non compliance to regulation are uncovered or reported, appropriate disciplinary measures in terms of policy and legislation are instituted.

The annual financial statements were approved by the Council on 28 July 2011 and are signed on its behalf:



Rev. Dr Vukile Mehana
Chairperson: Council



Dr Jeffrey Mahachi
Acting Chief Executive Officer

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

STATEMENT OF FINANCIAL POSITION

as at 31 March 2011

	Notes	2011 R	Restated 2010 R
ASSETS			
Non-current assets			
Property, plant and equipment	2	35 958 079	37 875 184
Intangible assets	3	22 552 514	33 906 332
Investments	4	1 252 132 156	1 775 427 363
		<u>1 310 642 749</u>	<u>1 847 208 879</u>
Current assets			
Investments	4	1 866 709 556	1 159 471 942
Inventories	5	120 264	99 215
Trade and other receivables	6	9 155 280	51 211 808
Cash and cash equivalents	7	354 256 747	30 665 352
		<u>2 230 241 847</u>	<u>1 241 448 317</u>
TOTAL ASSETS		<u>3 540 884 596</u>	<u>3 088 657 196</u>
EQUITY AND LIABILITIES			
Equity			
Accumulated surplus		2 381 477 402	2 038 968 994
Emerging contractor reserve	8	36 721 269	44 025 781
Non-distributable reserve	9	5 647 629	61 984 292
		<u>2 423 846 300</u>	<u>2 144 979 067</u>
LIABILITIES			
Non-current liabilities			
Provision for outstanding claims	10	39 234 521	50 799 602
Provision for unearned premium	10	115 448 951	176 703 943
Provision for unexpired risk	10	422 685 227	319 894 396
		<u>577 368 699</u>	<u>547 397 941</u>
Current liabilities			
Trade and other payables	11	328 030 526	120 619 882
Provisions	12	1 368 898	65 000
Provision for outstanding claims	10	22 643 723	21 806 447
Provision for unearned premium	10	187 626 450	253 788 859
		<u>539 669 597</u>	<u>396 280 188</u>
Total equity and liabilities		<u>3 540 884 596</u>	<u>3 088 657 196</u>

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2011

	Notes	2011 R	Restated 2010 R
Insurance premium revenue	13	356 560 296	330 713 305
Fee revenue	14	27 258 672	49 945 237
Technical services revenue	15	58 594 235	45 153 093
Investment income	16	203 122 057	239 914 989
Realised profit on sale of available-for-sale investments		126 472 192	9 711 932
Other income		881 299	17 156 326
Net income		772 888 751	692 594 882
Insurance claims and loss adjustment expenses	17	11 542 190	19 048 250
Operating expenses		86 742 492	112 470 022
Administration expenses		330 631 250	340 561 898
Asset management services		8 768 668	9 426 212
Expenses		437 684 600	481 506 382
Results from operating activities	18	335 204 151	211 088 500
Finance costs	19	255	8 785
Surplus for the year		335 203 896	211 079 715

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2011

	Accumulated surplus R	Emerging contractor reserve R	Non- distributable reserve R	Total R
Balance at 31 March 2009 restated	1 831 009 300	40 905 760	63 029 144	1 934 944 204
Surplus for the year - restated (note 27)	211 079 715	-	-	211 079 715
Transfer to reserve (note 8)	(35 950 800)	35 950 800	-	-
Reserve utilised (note 18)	32 830 779	(32 830 779)	-	-
Loss on available for sale investments taken to equity (note 4)	-	-	(1 044 852)	(1 044 852)
Balance at 31 March 2010 restated	2 038 968 994	44 025 781	61 984 292	2 144 979 067
Surplus for the year	335 203 896	-	-	335 203 896
Reserve utilised (note 18)	7 304 512	(7 304 512)	-	-
Gain on available for sale investments taken to equity (note 4)	-	-	70 135 529	70 135 529
Realised profit on sale of available-for-sale investments (note 4)	-	-	(126 472 192)	(126 472 192)
Balance at 31 March 2011	2 381 477 402	36 721 269	5 647 629	2 423 846 300

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

CASH FLOW STATEMENT

for the year ended 31 March 2011

	Notes	2011 R	Restated 2010 R
Cash flows from operating activities			
Cash (utilised in) / generated from operations	20,1	259 939 322	(64 765 943)
- Cash receipts from customers		484 469 731	381 983 390
- Cash paid to suppliers and employees		(224 530 409)	(446 749 333)
Interest paid		(255)	(8 785)
Interest received		719 004	-
Net cash inflow from operating activities		260 658 071	(64 774 728)
Cash flows from investing activities			
Purchase of property, plant and equipment		(3 440 445)	(10 582 044)
Proceeds on disposal of property, plant and equipment	20,2	47 589	994 531
Purchase of intangible assets		-	(304 729)
Purchase of financial assets		(2 438 128 470)	(1 355 081 709)
Proceeds on sale of financial assets	20,3	2 526 724 645	1 447 447 964
Net cash outflow from investing activities		85 203 319	82 474 013
Cash flows from financing activities			
Claims paid		(22 269 995)	(14 118 528)
Net cash outflow from financing activities		(22 269 995)	(14 118 528)
Net increase / (decrease) in cash and cash equivalents		323 591 395	3 580 757
Cash and cash equivalents at beginning of year		30 665 352	27 084 595
Cash and cash equivalents at the end of the year	20,4	354 256 747	30 665 352

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2011

1. Summary of significant accounting policies

The NHBRC is a statutory body incorporated in terms of the Housing Consumers Protection Measures Act, (Act No. 95 of 1998). Its principle business is the regulation of the home building industry and protection of housing consumers by the establishment of warranty fund.

1.1 Basis of preparation

In terms of section 55(1) of the Public Finance Management Act (Act No.1 of 1999) (PFMA), the NHBRC is required to comply with SA Statements of Generally Accepted Accounting Practice unless the Accounting Standards Board approves the application of South African Statements of Generally Accepted Accounting Practice.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

During the year, a number of standards of GRAP became effective for the current financial period. A brief description of these standards as well as an estimate of the impact is contained in Note 1.2. A full list of the GRAP Framework is contained in Directive 5. In the absence of a GRAP standard, the GRAP hierarchy in GRAP 3 - Accounting policies, changes in accounting estimates and errors are used to develop an appropriate accounting policy. In terms of GRAP 3, judgment must be used when developing an accounting policy. In applying judgement, GRAP 3 requires that management refers to and considers the applicability of the following sources in descending order:

- (a) the requirements and guidance in Standards of GRAP dealing with similar and related issues; and
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements.

These accounting policies are consistent with the previous period.

The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value less point of sale costs, and incorporate the principal accounting policies set out below.

The NHBRC concluded that the annual financial statements present fairly the Council's financial position, financial performance and cash flow.

1.2 Application of new accounting standards

The following standards, amendments to standards and interpretations which are relevant to the Council, have been adopted in these financial statements:

GRAP 1: Presentation of Financial Statements (Revised)

Incorporates guidance on how entities as part of their accounting policies should disclose the extent to which they have taken advantage of any transitional provisions in adopting the standards of GRAP and commentary should be added to explain where there has been a departure from a particular Standard of GRAP and that departure is material, entities cannot claim compliance with Standards of GRAP.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

1. Summary of significant accounting policies (continued)

1.2 Application of new accounting standards (continued)

GRAP 3: Changes in Accounting Estimates and Errors (Revised)

Provides clarity that changing an entity's basis of accounting is a change in an accounting policy, and that certain changes within a basis of accounting may also be a change in accounting policy

GRAP 9: Revenue from Exchange Transactions (Revised)

The definition of revenue in terms of GRAP 9 incorporates the concept of service potential. Revenue is the gross inflow of economic benefits or service potential when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Entities may derive revenue from exchange or non-exchange transactions.

An exchange transaction is one in which the entity receives resources or has liabilities extinguished, and directly gives approximately equal value to the other party in exchange.

Non-exchange revenue transaction is a transaction where an entity receives value from another entity without directly giving approximately equal value in exchange.

An entity recognises revenue when it is probable that economic benefits or service potential will flow to the entity, and the entity can measure the benefits reliably.

Clarifies that this standard only applies to revenue from exchange transactions. This standard will not have a material impact on the NHBRC.

GRAP 12: Inventories (Revised)

The fair value measurement has been removed. Inventories are not measured at their fair value except if the entity is a commodity broker, which is not common in the public sector

GRAP 13: Leases (Revised)

Incorporates additional guidance on the concept of substance and legal form of a transaction, to illustrate the difference between lease and other contracts and on operating lease incentives. In certain circumstances, legislation may prohibit the entering into certain types of lease agreements. If the entity has contravened these legislative requirements, the entity is still required to apply the requirements of GRAP 13.

Other than the abovementioned requirements, there is no other impact on the initial adoption of GRAP13.

GRAP 14: Events after the reporting date (Revised)

An event, which could be favourable or unfavourable, that occurs between the reporting date and the date the annual financial statements are authorised for issue. The impact of the standard is not material.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

1. Summary of significant accounting policies (continued)

1.2 Application of new accounting standards (continued)

GRAP 16: Investment Property (Revised)

This standard prescribes the accounting treatment for investment property and related disclosure requirements. The impact of the standard is not material.

GRAP 17: Property, Plant and Equipment (Revised)

Does not require or prohibit the recognition of heritage assets but if an entity recognises Heritage assets the entity needs to comply with GRAP 17 disclosure requirements.

Additional commentary has been included to clarify the recognition and measurement of exploration and evaluation assets in terms of GRAP 17.

Where assets are held for rental to others in the ordinary course of operations and the entity subsequently sells the assets, the Standard of GRAP on Non-current Assets held for Sale and Discontinued Operations does not apply. The sale of such assets is treated under GRAP 12 on inventories.

The disclosure requirement for temporarily idle, fully depreciated property, plant and equipment and for property, plant and equipment that are retired from active use is encouraged rather than required.

The disclosure of the cost of property, plant and equipment measured at fair value is no longer required.

The impact of the standard is not material but will result in additional disclosure.

GRAP 19: Provisions, Contingent Liabilities and Contingent Assets

Excludes from its scope those provisions and contingent liabilities arising from social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits.

For the purpose of GRAP 19, social benefits refers to goods, services and other benefits provided in the pursuit of the social policy objective of a government. This Standard includes guidance on the accounting of these social benefits.

Outflow of resources embodying service potential also needs to be considered in when assessing if a present obligation that arises from past events exists or not.

Additional disclosure for each class of provision regarding reductions in the carrying amounts of provisions that result from payments or other outflows of economic benefits or service potential made during the reporting period and reductions in the carrying amounts of provisions resulting from re-measurement of the estimated future outflow of economic benefits or service potential, or from settlement of the provisions without cost to the entity. The impact of the standard is not material.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

1. Summary of significant accounting policies (continued)

1.2 Application of new accounting standards (continued)

1.2.1 *Standards, interpretations and amendments to published standards effective for reporting periods commencing on or after 1 April 2011 not adopted by the NHBRC*

- GRAP 100 - Non-current assets held for sale

The impact of the standard is not material but will result in additional disclosure

1.3 Insurance technical result

The technical result is determined on an annual basis whereby the incurred cost of insurance claims and related expenses, together with any change in other technical provisions is charged against the earned proportion of insurance premiums, as follows:

Insurance premiums written

Insurance premiums are defined as an enrolment fee in terms of Section 14 of the Housing Consumers Protection Measures Act. Insurance premiums written relate to business incepted during the year, together with any differences between booked insurance premiums for prior years and those previously accrued. They include the insurance premiums for the whole of the period of risk covered by the warranty regardless of whether or not these are wholly due for payment in the accounting period.

Insurance premiums written comprise the total insurance premiums payable by the insured to which the insurer is contractually entitled and are shown net of insurance premium refunds. Insurance premiums written exclude value added taxation.

Unearned insurance premiums

In terms of the Housing Consumers Protection Measures Act (Act no. 95 of 1998), the Council shall provide a warranty to housing consumers for a maximum period of five years from the date of occupation. Insurance premiums are earned over the period of the policy commensurate with the expected incidence of risk. In reaching its assessment of the pattern of risk the Council makes reference to past insurance claims experience. Unearned insurance premiums represent the proportion of insurance premiums written that is held to cover expenses, claims and profits attributable for future years of warranty cover.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

1. Summary of significant accounting policies (continued)

1.3 Insurance technical result (continued)

Unearned insurance premiums (continued)

In determining the unearned premium provision, initial expenses are deducted from the enrolment fee. The remaining portion of the enrolment fee is assumed to be earned over the life of the policy in accordance with the earnings curve. Initial expenses are earned uniformly over two quarters. The unearned premium provision includes an allowance for the future release of profits.

Insurance claims incurred

Insurance claims incurred, comprise insurance claims and related expenses paid in the year and changes in the outstanding claims provision, including provisions for insurance claims incurred but not reported and related expenses, together with any other adjustments to insurance claims from previous years. Insurance claims are typically reported relatively quickly after the insurance claims event and are therefore subject to significantly less uncertainty than future insurance claims events.

Insurance claims outstanding represent the cost of settling all insurance claims arising from events that have occurred up to the balance sheet date, including the provision for insurance claims incurred but not reported, less any amounts paid in respect of those insurance claims.

In estimating the cost of notified but not paid insurance claims, the Council has regard to the insurance claim circumstances as reported. Basic chain ladder techniques are applied to project outstanding remedial work payments for each complaint period. The difference between the ultimate claims and the claims paid to date produced a result which includes both the "Incurred But Not Reported" and "Notified Outstanding Claims" provisions.

Unexpired risk provisions

An unexpired risk provision is made where the estimated cost of insurance claims, related expenses and deferred acquisition costs exceed unearned insurance premiums, after taking account of future investment income. An assessment is made at the year-end for the estimated cost of insurance claims, which will arise during the unexpired terms of policies in force at the balance sheet date. The estimated cost of insurance claims includes expenses to be incurred in settling insurance claims.

The provisions are inevitably subject to inherent uncertainties because of the range of factors, which could give rise to potentially significant insurance claims over the five year period covered by the "unexpired risk provision". The time expected to elapse between the inceptions of policies, the manifestation of events giving rise to insurance claims, and the notification to and settlement by the Council of such insurance claims accentuate these uncertainties.

In calculating the estimated cost of future insurance claims, actuarial and statistical projections of the frequency and severity of future insurance claims events are used to project ultimate settlement costs. Such projections are based on current facts and circumstances. Due to inherent uncertainties a significant degree of caution has been included in exercising the judgement required for setting the unexpired risk provision at a level such that the Council is confident that it is not understated.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

1. Summary of significant accounting policies (continued)

1.3 Insurance technical result (continued)

Unexpired risk provisions (continued)

Given the inherent uncertainty in estimating the cost of future insurance claims, it is likely that the final outcome will prove to be different from the estimate established at the balance sheet date. Any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified.

Liability adequacy test

The solvency of the warranty fund is tested annually by an independent actuarial service company. The assessment is to confirm the solvency of the organisation and its ability to meet its future obligations. The results of the actuarial valuation indicated that the NHBRC as a whole, including both subsidy and non-subsidy houses, is solvent and able to fund its liabilities on a run-off basis. The change in mix of business between subsidy and non-subsidy houses and enrolment fee structures will in future determine the solvency position of the NHBRC.

1.4 Revenue recognition

Revenue arising from registration, renewal, late enrolment, document sales, technical services and subsidy project enrolments fees are recognised on the accrual basis. Revenue from the sale of goods and service are recognised when significant risks and rewards of ownership have been transferred to the buyer.

Interest income is accrued on a time proportion basis, taking into account the principal outstanding amount and the effective interest rate over the period to maturity.

1.5 Irregular, fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA, or any legislation providing for procurement procedures in Government.

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of Government or organ of state and expenditure in the form of a grant that is not permitted in terms of the PFMA.

Fruitless and wasteful expenditure means expenditure that was made in vain and could have been avoided had reasonable care been exercised.

All irregular, unauthorised, fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.6 Taxation

No provision has been made for South African Normal Tax as the Council has been granted exemption in term of Section 10 (1) (cA) (i) of the Income Tax Act No 58 of 1962.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

1. Summary of significant accounting policies (continued)

1.7 Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

Items of property plant and equipment are initially recognised at cost, being the cash price equivalent at the recognition date. Expenditure on additions and improvements to property, plant and equipment including the cost of related interest is capitalised as the expenditure is incurred. Subsequent to initial recognition, items of property plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Change in useful lives

Management re-assessed the useful lives of computer equipment and office furniture. The useful life of computer equipment was changed from 3 to 4 years for all new computer equipment purchased and the useful life of office furniture was changed from 6 to 12 years.

Depreciation is charged to surplus or deficit so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The following rates are used for the depreciation of property, plant and equipment:

Computer equipment	25.0% p.a
Office furniture	8.3% p.a
Office Equipment	16.7% p.a
Motor vehicles	20.0% p.a
Buildings	5.0% p.a

Land is not depreciated

The residual values, useful lives and economic consumption patterns for all items of property, plant and equipment are reviewed annually and, if necessary, the consequent depreciable amounts, rates and methods are adjusted at each balance sheet date. Any changes are accounted for as changes in accounting estimates and included in surplus or deficit for the current and future periods by adjusting the relevant future depreciation charges.

The gain or loss arising from the disposal or retirement of an asset is determined by deducting the carrying value from the proceeds on the date of disposal and are included in surplus or deficit.

1.8 Intangible assets

The intangible assets are purchased and have a finite life. Amortisation is recorded by a charge to income computed on the straight line basis, after adjusting for residual value at the end of their useful life, so as to write off the cost of the assets over their expected useful lives. The following rates are used for the amortisation of intangible assets:

Computer software	20.0% p.a
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NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

1. Summary of significant accounting policies (continued)

1.9 Impairment

The carrying values of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where the carrying value exceeds the estimated recoverable amount, such assets are written down to their estimated recoverable amount.

Impairment losses are recognised as an expense.

Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income.

1.10 Inventories

Inventories are initially measured at cost and subsequently written down to the lower of cost and estimated net realisable value. Any write-down is recognised in surplus or deficit. Cost is calculated using the first-in-first-out method and comprises direct purchase costs. Estimated net realisable value is the estimated selling price in the ordinary course of business, less any costs to be incurred in distribution.

1.11 Financial instruments

Significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed below:

Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs. Financial assets are classified into the following specified categories: held-to-maturity, available-for-sale and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

1. Summary of significant accounting policies (continued)

1.11 Financial instruments (continued)

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Council has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are initially recorded at fair value, and subsequently at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Available For Sale ("AFS")

Unlisted shares and listed redeemable notes, traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 24. Gains arising from changes in fair value are recognised directly in equity as a non-distributable reserve. Impairment losses are recognised directly in surplus or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the non-distributable reserve is included in surplus or deficit for the period.

Loans and receivables

Trade receivables, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, including AFS, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

1. Summary of significant accounting policies (continued)

1.11 Financial instruments (continued)

Impairment of financial assets (continued)

the allowance account. Changes in the carrying amount of the allowance account are recognised in surplus or deficit.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through surplus or deficit to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from that asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Where the risks and rewards of ownership are not transferred or retained continue to control the transferred asset, the retained interest in the asset and the associated liability are recognised. Where risks and rewards of ownership are retained, the financial asset and a collateralised borrowing are recognised.

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the obligations are discharged, cancelled or they have expired.

1.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand and short term bank deposits.

1.13 Leased assets

Rentals payable under operating leases are charged to surplus or deficit on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

1. Summary of significant accounting policies (continued)

1.14 Investments

Investments are made in terms of an approved investment policy and investment strategy approved by the accounting authority in terms of Treasury regulation 31.3.1 and 31.3.2

1.15 Critical accounting judgements and key sources of estimation uncertainty

Certain critical accounting policies require the use of judgement in their application or require estimates of inherently uncertain matters. Listed below are those policies that the Council believe are critical and require the use of complex judgement in their application.

Insurance technical result

The accounting for the insurance technical result as disclosed in note 1.3 requires the Council to make certain assumptions that have a significant impact on the revenues, expenses and liabilities that are recorded for these insurance premiums. The expected impact as recorded in note 10 are based on historical performances, current and long-term outlooks and the actuarial statistics compiled and updated by the actuarial industry on an ongoing basis.

Plant and equipment

Residual values and estimated useful lives are assessed on an annual basis. The residual values of vehicles are estimated on published second hand vehicle values as well as trading history. The residual values of all other assets are estimated to be zero.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

2. Property, plant and equipment

	Computer equipment	Office furniture and equipment	Motor vehicles	Land	Buildings	Total
	R	R	R	R	R	R
Year ended 31 March 2011						
Opening net book amount	4 087 612	8 848 478	58 194	1 453 947	23 426 953	37 875 184
Additions	1 992 525	1 170 988	232 100	-	44 832	3 440 445
Disposals	(6 334 181)	(1 151 511)	-	-	-	(7 485 692)
Depreciation on disposal	6 311 049	1 142 645	-	-	-	7 453 694
Depreciation charge	(2 659 727)	(1 559 475)	(42 701)	-	(1 063 649)	(5 325 552)
Closing net book amount	3 397 278	8 451 125	247 593	1 453 947	22 408 136	35 958 079
At 31 March 2011						
Cost	18 280 498	16 038 323	555 447	1 453 947	25 505 793	61 834 008
Accumulated depreciation	(14 883 220)	(7 587 198)	(307 854)	-	(3 097 657)	(25 875 929)
Net book amount	3 397 278	8 451 125	247 592	1 453 947	22 408 136	35 958 079
Year ended 31 March 2010						
Opening net book amount	8 342 892	5 013 882	103 139	1 453 947	21 828 061	36 741 921
Additions	1 879 554	5 954 646	-	-	2 747 844	10 582 044
Disposals	(4 632 317)	(937 404)	-	-	-	(5 569 721)
Depreciation on disposal	3 582 912	791 135	-	-	-	4 374 047
Depreciation charge	(5 085 429)	(1 973 781)	(44 945)	-	(1 148 952)	(8 253 107)
Closing net book amount	4 087 612	8 848 478	58 194	1 453 947	23 426 953	37 875 184
At 31 March 2010						
Cost	22 622 154	16 018 846	323 347	1 453 947	25 460 961	65 879 255
Accumulated depreciation	(18 534 542)	(7 170 368)	(265 153)	-	(2 034 008)	(28 004 071)
Net book amount	4 087 612	8 848 478	58 194	1 453 947	23 426 953	37 875 184

Land

Land comprises of ERF's situated in Soshanguve A Township, Registration Division JR, Province of Gauteng; under General Plan No A9923/1996 and held by Certificate of Registered Title No. T4866/1997. The register of land is available at the Council's premises.

Buildings

Buildings comprise of show houses, a training centre and a conference centre at the Eric Molobi Housing Innovation Hub. The Hub was established towards the end of 2005 at Thorntree View, Soshanguve A, in the Tshwane Metropolitan Municipality in Gauteng.

Useful lives

The residual values and estimated useful lives are reflected under "Critical accounting judgements and key sources of estimation uncertainty" (note 1.14) in the summary of significant accounting policies.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

3. Intangible assets

	Computer software R	Total R
Year ended 31 March 2011		
Opening net book amount	33 906 332	33 906 332
Disposals	(2 985 413)	(2 985 413)
Amortisation on disposals	2 985 413	2 985 413
Amortisation charge	(11 353 818)	(11 353 818)
Closing net book amount	22 552 514	22 552 514
At 31 March 2011		
Cost	60 498 516	56 842 035
Accumulated amortisation	(37 946 002)	(34 289 520)
Net book amount	22 552 514	22 552 514
Year ended 31 March 2010		
Opening net book amount	44 182 540	44 182 540
Additions	304 729	304 729
Disposals	(23 940)	(23 940)
Amortisation disposal	23 940	23 940
Amortisation charge	(10 580 937)	(10 580 937)
Closing net book amount	33 906 332	33 906 332
At 31 March 2010		
Cost	60 498 516	60 498 516
Accumulated amortisation as previously reported	(26 592 184)	(26 592 184)
Net book amount	33 906 332	33 906 332

Impairment

The carrying value of the assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated.

4. Investments

Investments represent investments in cash, listed bond securities and equities, which generate interest and dividend income and trading gains/losses.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

4. Investments (continued)

	2011 R	Restated 2010 R
Available-for-sale investments carried at fair value comprise the following:		
Cash investments	1 866 709 556	1 159 471 942
Listed bond securities and equity		
- Short-term < 7 years	317 932 557	734 480 112
- Medium-term 7 to 12 years	132 455 150	391 353 333
- Long-term > 12 years	175 317 825	386 294 059
- Inflation linked bonds, equity and Derivatives	626 426 624	263 299 859
	3 118 841 712	2 934 899 305
Split between non-current and current		
Non-current portion	1 252 132 156	1 775 427 363
Current portion	1 866 709 556	1 159 471 942
Total	3 118 841 712	2 934 899 305
Reconciliation of opening and closing balance		
Opening balance	2 934 899 305	2 778 683 490
Additions	2 447 028 933	1 355 081 709
Interest received	202 403 052	239 914 990
Disposals	(2 446 724 645)	(1 439 987 605)
Withdrawals	(80 000 000)	-
Administration fee	(8 900 462)	(7 460 359)
Fair value (loss) / gain on available-for-sale investments	70 135 529	(1 044 852)
Realised profit / (loss) on sale of available-for-sale investments	-	9 711 932
	3 118 841 712	2 934 899 305

A fair value gain of (R70 135 529) (2010: loss of R1 044 852) was processed directly in equity during the year. The fair value adjustment decreased the carrying value of the investments to equal the market value as at 31 March 2011. Details of investments are available at the registered office of the NHBRC for inspection by authorised agents.

5. Inventories

Builders manuals carried at cost	120 264	99 215
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6. Trade and other receivables

Net trade receivables	4 387 335	50 114 101
- Trade receivables	34 138 346	62 720 098
- Less allowances for discrepancies	(29 751 011)	(12 605 997)
Other receivables:		
- Deposits	-	299 620
- Staff loans	15 070	358 552
- Sundry debtors	4 752 876	348 439
- Accrued interest	-	91 096
	9 155 280	51 211 808

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

6. Trade and other receivables (continued)

	2011 R	Restated 2010 R
Ageing of past due but not impaired:		
Amounts in 90 to 120 days	409 141	10 144 494
Amounts in 120 days +	15 361 748	37 597 058
	<u>15 770 889</u>	<u>47 741 552</u>

In determining the recoverability of a trade receivable, the NHBRC considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is high due to the customer base being provincial human settlement departments.

7. Cash and cash equivalents

Cash balances	354 209 860	30 618 357
Short-term bank deposits	46 887	46 995
	<u>354 256 747</u>	<u>30 665 352</u>

8. Emerging contractor reserve

The reserve was established to develop programmes to assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building in terms of Section 3(h) of the Housing Consumers Protection Measures Act (Act no. 95 of 1998). The emerging contractor reserve has been established, with Ministerial approval, to develop programmes targeted at the empowerment of emerging home builders registered with the NHBRC, which will enable learners to be able to start and manage their own construction contracting businesses. The Council utilised R7 304 512 (2010: R32 830 779) for home builder training in the current financial year and authorised the transfer of R35 950 800 in the prior year for this project in terms of Section 15(5) of the Housing Consumer protection Measures Act.

9. Non-distributable reserve

The non-distributable reserve relates to unrealised gains/losses earned on available for sale investments. This reserve is not substantiated by cash reserves, which makes it inaccessible to the NHBRC.

10. Technical liabilities

	Outstanding claims R	Unearned premium R	Unexpired risk R	Total R
Balance at 31 March 2009	67 676 327	632 496 312	148 805 469	848 978 108
Increase during the year (note 17)	19 048 250	-	-	19 048 250
Utilised during the year (note 17)	(14 118 528)	-	-	(14 118 528)
(Decrease) increase during the year (note 13)	-	(202 003 510)	171 088 927	(30 914 583)
Balance at 31 March 2010	<u>72 606 049</u>	<u>430 492 802</u>	<u>319 894 396</u>	<u>822 993 247</u>
Increase during the year (note 17)	11 542 190	-	-	11 542 190
Utilised during the year (note 17)	(22 269 995)	-	-	(22 269 995)
(Decrease) increase during the year (note 13)	-	(127 417 401)	102 790 831	(24 626 570)
Balance at 31 March 2011	<u>61 878 244</u>	<u>303 075 401</u>	<u>422 685 227</u>	<u>787 638 872</u>
Balance at 31 March 2010				
Current	21 806 447	253 788 859	-	275 595 306
Non-current	50 799 602	176 703 943	319 894 396	547 397 941
	<u>72 606 049</u>	<u>430 492 802</u>	<u>319 894 396</u>	<u>822 993 247</u>
Balance at 31 March 2011				
Current	22 643 723	187 626 450	-	210 270 173
Non-current	39 234 521	115 448 951	422 685 227	577 368 699
	<u>61 878 244</u>	<u>303 075 401</u>	<u>422 685 227</u>	<u>787 638 872</u>

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

10. Technical liabilities (continued)

10.2 Basis and methodology of valuation

Best practice actuarial techniques were applied to value the insurance liabilities of the NHBRC on a run-off basis, using best estimate assumptions per general practice in the South African short-term insurance industry and IFRS 4.

The Outstanding Claims Provision (OCP) is determined at a 99.5% sufficiency level. This is consistent with the Financial Services Board's proposed Financial Condition Reporting requirements, which will require companies to hold liabilities at the 75% level, and capital at 99.5%.

The OCP has been estimated by applying chain ladder techniques to a run-off triangle of remedial work claims paid grouped by quarter of complaint. The Bornhuetter Ferguson (BF) method was used to calculate the OCP, as this method was most suitable to the data. The methodology is consistent with that applied in the prior year. The OCP includes insurance claims incurred, changes in outstanding claims provision, and provision for insurance claims incurred but not yet reported.

The Unearned Premium Provision (UPP) has been estimated using the enrolment fee earnings curve, having deducted initial expenses which are assumed to be earned uniformly over the first two quarters following the enrolment date (estimated period between enrolment and occupation dates). This methodology is consistent with that used in the prior year.

The unexpired risk provision (URP) is the sum of all UPP's plus any additional unexpired risk provision (AURP) that may be required if the unearned premium is considered to be inadequate to pay for the unexpired risks.

10.3 Assumptions

The basis of assumptions used are consistent with those used in the prior year valuation. The discount rate and inflation rates are consistent with the market. The ultimate complaint rate is dependent on a run-off triangle (historical and projected) of complaints. Actuarial judgement was applied on setting other assumptions supported by internal data.

Key assumption	2011		2010	
	Non-subsidy	Subsidy	Non-subsidy	Subsidy
Discount rate	7,6%	7,6%	7,6%	7,6%
General price inflation	5,9%	5,9%	5,7%	5,7%
Future building cost inflation	6,9%	6,9%	6,7%	6,7%
Historical building cost inflation	5,2%	N/A	7,1%	N/A
Ultimate complaint rate	2,9%	2,9%	2,9%	2,9%
BF complaints loss ratio	2,6%	N/A	2,6%	N/A
Remedial work rate	2,0%	2,0%	2,0%	2,0%
Average claim cost	R140 193	R30 294	R121 490	R30 178
Initial expense ratio	79,0%	73,0%	103,0%	57,0%
BF method loss ratio	2,50%	2,50%	2,5%	2,5%
BF method tail factor	10,0%	10,0%	10,0%	10,0%
Spread of risk period	Per earnings curve (of complaints)		Per earnings curve (of complaints)	

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

10. Technical liabilities (continued)

10.4 Sensitivity analysis

The table below shows the key assumptions the liabilities are most sensitive to:

	Assumption change %	Change in liability %
Discount Rate	1%	-2,20%
	-1%	2,29%
BF Tail Factor	1%	0,07%
	-1%	-0,07%
Remedial Work Rate	0,1%	0,07%
	-0,1%	-0,07%
Ultimate Complaint Rate	0,1%	0,06%
	-0,1%	-0,06%

10.5 Attribution analysis

A change in the initial expense ratio and economic assumptions (inflation and discount rate) will have a negative impact of R40 564 761, and a positive impact of R5 310 134 on the balance sheet, respectively.

11. Trade and other payables

	2011 R	2010 R
Trade payables and accrued expenses	23 194 059	28 456 274
Operating lease accrual	1 995 958	952 675
Income received in advance (KwaZulu Natal Rectification Work)	222 000 000	-
Leave accrual	8 418 480	8 063 629
Unidentified receipts	5 815 003	8 240 173
Cash received in advance	30 965 600	53 497 170
Value Added Taxation payable	35 641 428	21 398 978
Other payables	-	10 981
	328 030 526	120 619 882

The NHBRC has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. Due to the short-term nature of the payables, management believes that the carrying amount approximates the fair value.

12. Provisions

	Legal Fees	Bonuses	Total
Balance at beginning of the year	65 000	-	65 000
- Raised during the year	1 053 305	250 593	1 303 898
Balance at 31 March 2011	1 118 305	250 593	1 368 898
Balance at beginning of the year	-	-	-
- Raised during the year	65 000	-	65 000
Balance at 31 March 2010	65 000	-	65 000

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

	2011 R	Restated 2010 R
13. Insurance premium revenue		
Premium received	331 933 726	299 798 722
Change in unearned premium provision (see note 10)	127 417 401	202 003 510
Change in unexpired risk provision (see note 10)	(102 790 831)	(171 088 927)
	<u>356 560 296</u>	<u>330 713 305</u>
14. Fee revenue		
Annual registration fees	2 082 391	1 757 771
Annual renewal fees	8 317 167	7 015 736
Registration fees	2 710 734	2 212 686
Builder manual fees	603 112	361 419
Subsidy project enrolments fees	12 571 636	32 934 735
Late enrolment fees	602 351	5 522 756
Document sales	371 282	140 133
	<u>27 258 672</u>	<u>49 945 237</u>
15. Technical services revenue		
Forensic audit, Geo-tech and rectification work	58 594 235	45 153 093
	<u>58 594 235</u>	<u>45 153 093</u>
16. Investment income		
Investment income earned on financial assets, analysed by category of asset, is as follows:		
Income from available for sale investments	202 403 052	239 160 497
Income from loans and receivables (cash and cash equivalents)	719 004	754 493
	<u>203 122 057</u>	<u>239 914 989</u>
17. Insurance claims and loss adjustment expenses		
Current year warranty claims	22 269 995	14 118 528
(Decrease)/Increase in the outstanding claims provision	(10 727 805)	4 929 722
	<u>11 542 190</u>	<u>19 048 250</u>

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

	2011 R	Restated 2010 R
18. Results from operating activities		
Results from operating activities is arrived at after taking into account the following:		
Auditor's remuneration	1 995 791	1 276 127
Depreciation	5 325 947	8 253 107
Computer equipment	2 660 122	5 085 429
Office furniture and equipment	1 559 474	1 973 781
Motor vehicles	42 701	44 945
Buildings	1 063 650	1 148 952
Amortisation of intangible assets	11 353 818	10 580 937
Net loss / (profit) on disposal of property plant and equipment	(15 591)	201 143
Emerging contractor training	7 304 512	32 830 779
Rentals in respect of operating leases	14 525 067	11 264 888
The Council leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.		
The future minimum lease payments are as follows:	23 144 581	26 463 065
Not later than 1 year	12 288 088	10 332 138
Later than 1 year and not later than 5 years	10 856 493	16 130 927
Salaries and related costs	154 608 389	147 723 586
Directors' emoluments	9 009 927	12 004 253
Executive directors		
For managerial services	7 830 705	10 342 790
Non-executive directors		
For services as directors	1 179 222	1 661 463
World cup expenditure		
Purchase of apparel: T-shirts	-	126 000
19. Finance costs		
Interest paid - late payments	255	8 785

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

	2011 R	Restated 2010 R
20. Notes to the cash flow statement		
20.1 Cash (utilised in) / generated from operations		
Surplus for the year	335 203 896	211 079 715
Adjustments for:		
Depreciation	5 325 552	8 253 107
Amortisation	11 353 818	10 580 937
Net loss / (profit) on disposal of property plant and equipment	(15 591)	201 143
Realised (profit) / loss on sale of available-for-sale investments	(126 472 192)	(9 711 932)
Increase / (decrease) in provisions	1 303 898	65 000
Decrease in technical liabilities	(13 084 380)	(11 866 333)
Other non-cash items	-	(3 783 011)
Interest paid	255	8 785
Interest received	(203 122 057)	(239 914 990)
Operating income before working capital changes	10 493 199	(35 087 579)
(Increase)/Decrease in inventories	(21 049)	209 400
Decrease in trade and other receivables	42 056 528	36 523 078
Increase/ (Decrease) in trade and other payables	207 410 644	(66 410 842)
	259 939 322	(64 765 943)
20.2 Proceeds on disposal of property, plant and equipment		
Net book value	31 998	1 195 674
Net gain /(profit) on disposal of property plant and equipment	15 591	(201 143)
	47 589	994 531
20.3 Proceeds on sale of financial assets		
Net book value	2 400 252 453	1 437 736 032
Realised profit on sale of available-for-sale investments	126 472 192	9 711 932
	2 526 724 645	1 447 447 963
20.4 Cash and cash equivalents		
Cash and cash equivalents consist of cash balances and short term bank deposits. Cash and cash equivalents included in the cash flow statement comprise the following amounts indicating financial position:		
Net book amount		
(Loss) profit on sale of financial instruments		
Cash on hand and balances with banks	354 256 747	30 665 352

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

	Fees R	Cell phone Allowance R	Subsistence and travel R	Total 2011 R	Total 2010 R
21. Remuneration					
21.1 Total cost – Non-executive council members					
S Nene ²	87 004	17 600	1 879	106 483	137 363
C Cudmore ¹	-	-	-	-	33 979
V Maluleke ¹	-	-	-	-	16 073
J Matthews ¹	-	-	-	-	13 092
S De Gois ²	14 128	16 800	2 748	33 676	53 250
Y Jiya Tiba ¹	-	-	-	-	18 189
S Moleshiwa ¹	-	-	-	-	43 605
C Kadwa ¹	-	4 800	-	4 800	22 592
F Ntumbu ¹	-	-	-	-	9 671
S Mojapelo ¹	-	-	-	-	64 786
A Goliger ²	65 369	17 600	15 441	98 410	99 959
O Shabangu ¹	-	-	-	-	112 368
M Venter ¹	-	-	-	-	45 562
S P Hlahane ³	85 111	17 600	10 949	113 660	124 713
S M Maja-Masilo ³	149 475	17 600	26 946	194 021	128 336
V C Mehana (Chairperson) ³	66 026	17 600	3 558	87 184	95 420
B A Mhlabeni ³	155 912	17 600	23 381	196 893	178 156
M Mkhize ³	100 981	17 600	15 706	134 287	121 267
G Seape ⁴	70 116	14 400	17 233	101 749	163 941
S Mashinini ⁵	-	-	-	-	48 400
T D Silinda ⁶	35 928	18 400	53 731	108 059	130 741
	830 050	177 600	171 572	1 179 222	1 661 463

¹ Contract expired on 31 March 2009

² Re-appointed on 01 May 2009

³ Appointed on 01 May 2009

⁴ Resigned on 24 January 2011

⁵ Resigned on 31 April 2010

⁶ Resigned on 31 December 2010

	Salaries R	Cell phone Allowance R	Subsistence and travel R	Total 2011 R	Total 2010 R
21.2 Total cost – Top management					
S Mashinini (Chief Executive Officer)	2 500 000	27 700	14 884	2 542 584	1 009 886
	2 500 000	27 700	14 884	2 542 584	1 009 886
21.3 Total cost – Executive Managers					
J Mahachi (Technical and Information Technology)	1 568 032	17 500	1 980	1 587 512	1 448 079
C Thorp (Finance and Supply Chain)	1 655 710	30 000	20 770	1 706 480	1 551 642
T Moshoeu (Customer Care) ¹	799 923	5 000	8 602	813 525	1 099 681
L Less (Corporate Services)	1 157 874	20 000	2 730	1 180 604	1 068 933
	5 181 539	72 500	34 082	5 288 121	5 168 335

¹ Contract expired on 31 October 2010

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

	2011 R	Restated 2010 R
21.4 Bonuses		
Executive Directors		
S Mashinini (Chief Executive Officer)	60 000	-
J Mahachi (Technical and Information Technology)	28 771	71 134
C Thorp (Finance and Supply Chain)	75 950	70 792
T Moshoeu (Customer Care)	54 003	43 169
L Less (Corporate Services)	31 868	44 136
	250 592	229 231
22. Related Parties		
22.1 Transactions with the Department of Human Settlements:		
Subsidy project enrolment fee (note 14)	12 571 636	46 419 399
Insurance premium revenue	85 551 957	60 817 636
Technical service revenue (note 15)	58 594 235	59 660 993
Balances with the Department of Human Settlements:		
Trade receivable (note 6)	34 138 346	62 720 098
Income received in advance (note 11)	222 000 000	-

The NHBRC provides a warranty for both non subsidy and government subsidised homes. The fee payable by government in the subsidy market comprises 1% project enrolment fee and 0.75% home enrollment fee. The subsidy income is funded by national government through the Department of Human Settlements.

22.2 Transactions with other related parties are summarised below:

Key management are individuals who have authority and responsibility for planning, directing and controlling the activities of the Board, directly or indirectly.

Trading transactions

During the current financial year, the NHBRC concluded the following trading transactions with related parties:

Related parties	Expenses		Balances	
	2010/2011	2009/2010	2010/2011	2009/2010
	R'000	R'000	R'000	R'000
1. Ahanang Hardware and Construction CC	24 075	28 231	-	-

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

22. Related Parties (continued)

22.2 Transactions with other related parties are summarised below: (continued)

Ahanang Hardware and Construction CC (Ahanang) was contracted by the NHBC to undertake inspections throughout the Gauteng Province on behalf of the NHBC. This contract was awarded during 2005, and again during 2007 when re-advertised:

The former Chairperson of the Council, Ms Granny Seape has an interest in Ahanang. Ms G Seape was appointed to serve as a member of Council and Chairperson of the NHBC for a three year term commencing 1 May 2009 to 30 April 2012. Ms G Seape resigned as the Chairperson of Council on 24 January 2011.

23. Irregular, fruitless and wasteful expenditure

Versatile Polycrete Housing CC*	400 000	-
Interest paid to suppliers	255	8 785
SARS Penalties (relating to prior 2008/09 tax year)	-	28 721
SARS Penalties (relating to 2008/09 tax year)	-	642 004
Kenosi Tladinyane Investment cc (out of court settlement)*	-	4 600 000
Eezybuilt payment (out of court settlement)*	-	1 100 000
Tau Pride Projects (Pty) Ltd (Out of court settlement)*	-	2 500 000
Insurance (appropriate tender procedures not followed)	-	44 094
Recruitment agency (close family member interest in supplier not declared)	-	353 799
	<hr/>	<hr/>
	400 255	9 277 403

* Council deliberated and approved this expenditure

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

24. Financial instruments

24.1 Categories of financial instruments and maturity profile

2011	0-1 Year R	>1 Year R	Total R
FINANCIAL ASSETS			
<i>Loans and receivables</i>			
Trade and other receivables	9 155 281	-	9 155 281
Cash and cash equivalents	354 256 747	-	354 256 747
<i>Available for sale financial assets</i>			
Investments	1 866 709 556	1 252 132 156	3 118 841 712
Total financial assets	2 230 121 584	1 252 132 156	3 482 253 740
FINANCIAL LIABILITIES			
<i>Financial liabilities at amortised cost</i>			
Trade and other payables	319 612 046	-	319 612 046
2010			
FINANCIAL ASSETS			
<i>Loans and receivables</i>			
Trade and other receivables	51 211 808	-	51 211 808
Cash and cash equivalents	30 665 352	-	30 665 352
<i>Available for sale financial assets</i>			
Investments	1 159 471 942	1 775 427 363	2 934 899 305
Total financial assets	1 241 349 103	1 775 427 363	3 016 776 466
FINANCIAL LIABILITIES			
<i>Financial liabilities at amortised cost</i>			
Trade and other payables	112 556 253	-	112 556 253

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

24. Financial instruments (continued)

24.2 Fair value of financial instruments

The NHBRC considers that the carrying amounts of trade and other receivables, cash and cash equivalents and trade and other payables approximates their fair values due to the short term nature of these assets and liabilities.

The fair values of financial assets represent the market value of quoted instruments and other traded instruments. For non-listed investments and other non-traded financial assets fair value is calculated using discounted cash flows with market assumptions, unless the carrying amount is considered to approximate fair value.

The fair values of financial liabilities carried at amortised cost is calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

24.3 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The NHBRC does not undertake transactions in foreign currencies and is thus not unduly exposed to foreign currency risk.

24.4 Capital risk

The NHBRC manages its capital to ensure that the NHBRC will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The NHBRC's overall strategy remains unchanged from 2010.

24.5 Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the NHBRC. Financial assets, which potentially subject the NHBRC to concentrations of credit risk, consists principally of cash and cash equivalents and trade and other receivables.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

24. Financial instruments (continued)

24.5 Credit risk (continued)

The NHBRC's cash and cash equivalents are placed with high credit quality financial institutions. Refer to note 6 for further information on the NHBRC's exposure to credit risk with regards to trade and other receivables.

There has been no significant change during the financial year, or since the end of the financial year, to the NHBRC's exposure to credit risk, the approach to the measurement or the objectives, policies and processes for managing this risk.

24.6 Liquidity risk

Liquidity risk is the risk that the NHBRC will not be able to meet its financial obligations as they fall due.

The NHBRC manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Refer to note 24.1 for the maturity profile of financial instruments.

24.7 Management risk

The key risk is underwriting risk, as the NHBRC is governed by the Act and the risk of defaulting home builders.

Premiums for the non-subsidy markets are based on the selling price of the home to be constructed, and applied on a sliding scale limited to a maximum premium of R34 000 and a maximum claim of R500 000 per home.

The premiums for the subsidy sector are based on 0,75% of the current subsidy cost per unit of R84 000.

The risk to the NHBRC and housing consumers is managed primarily through the assessment and registration of home builders who have the appropriate financial, technical, construction and management capacity for their specific business.

Within the insurance process, concentration of risks may arise in the subsidy market where a particular event or series of events could impact the NHBRC technical liabilities. Such concentrations may arise from a single contract or through a number of related contracts in concentrated housing developments and sectional title developments.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

24. Financial instruments (continued)

24.7 Management risk (continued)

Approximately 80% of the assets of the NHBRC are invested in interest bearing instruments and 20% in equity instruments (shares and equity derivatives). Approximately R1.87 billion (60%) of financial assets are expected to realise within 12 months of year-end compared to approximately R514 million of liabilities expected to be settled within the same period. R1.25 billion (40%) of assets matures within 12 years, covering the remaining liability. Approximately 36% of bonds maturing in the following 12 months carry an AAA credit risk rating, equivalent to that of government (government, parastatal and quality senior corporate debt). 29% of bonds carry a rating higher than A. 35% of bonds are rated BBB or have no rating. Approximately 76% of bonds maturing after 12 months carry an AAA credit risk rating, 20% of bonds carry a rating higher than A. 4% of bonds are rated BBB or have no rating.

The results of the actuarial valuation indicate that the NHBRC as a whole, including both subsidy and non-subsidy houses, is solvent and in a sound financial position as at 31 March 2011 when valued on a run-off basis. The actuarial liabilities are 396% funded. However, for future business, the enrolment fees currently charged are inadequate to cover future expenses and liabilities for both subsidy and non-subsidy homes.

Enrolment Fee Adequacy						
	All Houses		Non-Subsidy		Subsidy	
Utilisation	Amount	%	Amount	%	Amount	%
Enrolments & inspections	3 435	78%	6 714	77%	1 270	84%
Complaints conciliations	340	8%	469	5%	255	17%
Remedial claims	75	2%	142	2%	31	2%
Average	43		81		17	
99.5% variation margin	32		61		13	
Total expenses and claims	3 850	88%	7 325	84%	1 555	103%
Average fee per enrolment	4 398		8 765		1 515	
Surplus/(Deficit)	548.15	12%	1 439.64	16%	(40.44)	-2.7%

The key risk is that there is an emerging trend of above inflation increase in operational expenses. The budgeted expenses for 2009/10 being 28% higher than the 2008/09 budgets as well as budget expenses of 2010/11 being 19% higher than the actual expenses in 2009/10. For 2011/12, the budgeted expenses are 11% higher than the actual expenses in 2010/11. This has a potential impact of overstating the provisions if the budgeted expenses are not best estimates. The expense is not sufficiently variable to respond to declining new business volumes.

24.8 Insurance risk

The primary insurance activity carried out by the NHBRC assumes that the risk to the warranty fund relates to the warranty cover as defined in the Housing Consumers Protection Measures Act (Act 95 of 1998) as amended (the Act). The insurance premiums are received in advance as a "home enrolment fee" and a portion of the insurance premium is invested in terms of the NHBRC investment policy to cover future rectification of homes paid out under the warranty scheme.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

24. Financial instruments (continued)

24.8 Insurance risk (continued)

The risks to the warranty fund are defined in section 3 of the Act "Objects of Council" which states:

The Council shall:

- represent the interests of housing consumers by providing a warranty protection against defects in new homes;
- regulate the home building industry;
- provide protection to housing consumers in respect of the failure of the home builders to comply with their obligations in terms of the Act;
- establish and promote ethical and technical standards in the home building industry;
- improve structural quality in the interests of housing consumers and the home building industry;
- promote housing consumer rights and provide housing consumer information;
- assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building;
- regulate insurers; and
- achieve the stated objects in the subsidy housing sector.

There is no risk categorisation in determining the enrolment fees charged. The enrolment fee structure is promulgated in the regulations to the Act. Enrolment fees are charged on the selling price of the home (including land value) so that equal value homes yield equal enrolment fees. The subsidy and non subsidy markets each have their own enrolment fee structure. The NHBRC is exposed to the uncertainty surrounding the timing and severity of claims under the warranty contract. The NHBRC also has exposure to market risk through its insurance and investment activities.

The NHBRC uses several methods to assess and monitor insurance risk exposures for the protection of housing consumers. A home builder can only be registered if he has the appropriate financial, technical, construction and management capacity for the specific business carried on by the home builder in order to protect housing consumers and the Council from being exposed to unacceptable risks. The Council may withdraw the registration of a home builder where the home builder has been found guilty by the disciplinary committee as prescribed in the Act. The insurance risk is further mitigated by the inspection of houses under construction, interdicts issued against home builders who do not comply with the provisions of the Act and in cases of late enrolments, a financial guarantee is required from the home builder, calculated on a risk model which takes the stage of completion of the house at enrolment date into account. The financial guarantee is held for the full five year warranty period.

Risk to the warranty fund is further controlled by the inspection of the house during the construction phase, and rectifications are enforced when construction of the house does not comply with the provisions of the Act.

The NHBRC is an insurer of last resort, as claims, are only paid where a home builder fails to perform the necessary remedial work, due to liquidation or unavailability. The maximum claim per home is limited to the insured value up to a maximum claimable amount of R500 000 per home.

The NHBRC has an internal audit function which regularly reviews the degree of compliance with Council procedures.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

24. Financial instruments (continued)

24.8 Insurance risk (continued)

Underwriting strategy

The registration of all home builders is prescribed in terms of section 10 of the Act. The NHBRC is obliged to register and insure all new homes constructed. The NHBRC may on the recommendation of the Council, on application made to it, in exceptional circumstances, exempt a person or home from any provision of the Act.

Reinsurance strategy

The NHBRC does not reinsure any portion of the risk it underwrites due to the current low claim rate experienced. Reinsurance of the exposure to losses has been identified as a medium term strategic objective.

Terms and conditions of Insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below:

The NHBRC's main business is highly specialised, and covers the rectification of:

- major structural defects in a home caused by non-compliance with the NHBRC technical requirements within a period of five years from the occupation date;
- non-compliance with or deviation from the terms, plans and specification or the agreement of any deficiency related to design, workmanship or material notified to the home builder by the housing consumer within three months from the occupation date; and
- repair roof leaks attributable to workmanship, design or materials occurring and notified to the home builder by the housing consumer within 12 months of the occupation date.

The event giving rise to a claim occurs with the insolvency, liquidation and protracted default of the home builder. The claim will be notified to the NHBRC in terms of the specific regulations to the Act. The business of the NHBRC can be classified as short to long term as the NHBRC may only be notified of a claim up to five years after occupation of the home in the instance of structural defects.

Concentration of insurance risk

Insurance risk by geographical area

The geographical concentration of home enrolments is predominantly in the Gauteng province (49%) and the Western Cape province (17%). The Western Cape has a lower complaints ratio relative to KwaZulu-Natal, Gauteng, Free State and the Eastern Cape which have the highest complaints rate.

Insurance risk by developer

The risk per developer is ranked by units of exposure (enrolments after Sep 2005). Liquidation of the 15 largest developers constitute R252.3 million of sum insured (comparison of 348 346 home enrolments) which could potentially increase claims against the warranty fund.

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

24.9 Interest rate and price risk

Interest rate risk

Interest rate risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. All cash surpluses are invested with investment fund managers in terms of the investment policy. The exposure to interest rate risk is determined by the maturity profile of investments (see note 4).

Price risk

Price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or foreign currency risk. The NHBRC is exposed to equity price risk as it holds equity securities classified as available for sale. However, due to the investments in equities being immaterial, the exposure to equity risk is limited.

Sensitivity analysis

31 Mar 2011								
Carrying Amount at 31 March 2011	Rand amount exposed to risk	Interest rate risk				Equity risk		
		Reasonable possible change				Rand amount exposed to risk	Reasonable possible change	
		Rate increase	Rand amount	Rate decrease	Rand amount		Adverse impact	Favourable Impact
Financial Assets								
Cash investments	1 866 709 556	1 866 709 556	1%	18 667 096	-1%	(18 667 096)		
<i>Listed bond securities</i>								
- Short-term < 7 years	317 932 557	317 932 557	1%	3 179 326	-1%	(3 179 326)		
- Medium-term 7 to 12 years	132 455 150	132 455 150	1%	1 324 552	-1%	(1 324 552)		
- Long-term > 12 years	175 317 825	175 317 825	1%	1 753 178	-1%	(1 753 178)		
- Inflation linked bonds	626 426 624	626 426 624	3%	18 792 799	-3%	(18 792 799)		
Impact of financial assets on:								
Statement of changes in net assets							-	-
Statement of financial performance				43 716 950		(43 716 950)		
Impact on financial position	3 118 841 712	3 118 841 712		43 716 950		(43 716 950)	-	(0)

31 Mar 2010									
Carrying Amount at 31 March 2010	Rand amount exposed to risk	Interest rate risk				Equity risk			
		Reasonable possible change				Rand amount exposed to risk	Reasonable possible change		
		Rate increase	Rand amount	Rate decrease	Rand amount		Adverse impact	Favourable impact	
Financial Assets									
Cash investments	1 159 471 942	1 159 471 942	1%	11 594 719	-1%	(11 594 719)			
<i>Listed bond securities</i>									
- Short-term < 7 years	734 480 112	734 480 112	1%	7 344 801	-1%	(7 344 801)			
- Medium-term 7 to 12 years	391 353 333	391 353 333	1%	3 913 533	-1%	(3 913 533)			
- Long-term > 12 years	386 294 059	386 294 059	1%	3 862 941	-1%	(3 862 941)			
- Inflation linked bonds	221 183 596	221 183 596	3%	6 635 508	-3%	(6 635 508)			
Equity	42 116 263						42 116 263	14%	-14%
Impact of financial assets on:									
Statement of changes in net assets							(5 896 277)	5 896 277	
Statement of financial performance				33 351 501		(33 351 501)			
Impact on financial position	2 934 899 305	2 892 783 042		33 351 501		(33 351 501)	42 116 263	(5 896 277)	5 896 277

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

25. Contingent liabilities

There are outstanding claims pending in the Courts in relation to disputes between the NHBRC and service providers amounting to R25 820 121, the outcome of which is unknown. There is an outstanding internal audit overrun amounting to R1 143 160. This overrun has not been substantiated by the internal auditors, therefore Management has not provided for this. The NHBRC has been deregistered as a Vat vendor, as a result of this the NHBRC might have a potential liability, at reporting date the liability could not be quantified by management. The de-registration should have been effective in April 2005 when the Vat Act was Amended.

26. Post reporting date events

No material facts or circumstances have arisen after the reporting date which affects the financial position of the NHBRC as reflected in the financial statements.

27. Restatements and reclassifications

The restatement relates to the understatement of revenue, expenses and VAT, from prior years. This has been corrected and the prior year results have been restated. The impact on the Statement of financial performance and statement of financial position is shown below:

	Balance previously stated	Adjustment	Restated balance
Accumulated Surplus at 31 March 2010	2 091 410 384	-52 441 390	2 038 968 994
Surplus at 31 March 2010	263 521 105	-52 441 390	211 079 715
Statement of Financial Performance			
Insurance premium revenue (Note 13)	335 678 501	-4 965 196	330 713 305
- Premium received	304 763 918	-4 965 196	299 798 722
Fee revenue (Note 14)	63 429 900	-13 484 664	49 945 236
- Subsidy project enrolment fee	46 419 399	-13 484 664	32 934 735
Technical services revenue (Note 15)	59 660 993	-14 507 900	45 153 093
Operating expenses	111 408 266	1 061 756	112 470 022
Administration expenses	322 140 024	18 421 874	340 561 898
Statement of Financial Position			
Intangible assets (Note 3)	34 438 206	-531 874	33 906 332
- Accumulated Amortisation	26 060 310	531 874	26 592 184
- Amortisation charge	10 049 063	531 874	10 580 937
Trade and other receivables (Note 6)	84 267 551	-33 055 743	51 211 808
- Net Trade receivables	83 071 861	-32 957 760	50 114 101
- Trade receivables	95 677 858	-32 957 760	62 720 098
- Vat receivable	97 983	-97 983	-
Trade and other payables (Note 11)	97 983 098	22 636 784	120 619 882
- Trade payables and accrued expenses	27 218 470	1 237 804	28 456 274
- Vat	-	21 398 978	21 398 978
Notes to the Cash flow statement			
Amortisation	10 049 063	531 874	10 580 937
Changes in working Capital			
Decrease/ (Increase) in trade and other receivables	3 467 335	33 055 743	36 523 078
(Decrease)/ increase in trade and other payables	-89 047 626	22 636 784	-66 410 842
Statement of cash flows			
- Cash receipts from customers	414 941 150	-32 957 760	381 983 390
- Cash paid to suppliers and employees	-493 825 621	47 076 288	-446 749 333
Financial Instruments (Note 24.1)			
Financial assets			
- Trade and other receivables	84 169 568	-32 957 760	51 211 808
- Total financial assets	1 274 306 862	-32 957 760	1 241 349 102
Financial liabilities			
- Trade and other payables	89 919 469	22 636 784	112 556 253

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2011

28. Reconciliation of budget surplus with the surplus in the statement of financial performance

Net surplus per approved budget	95 814 348
Adjusted for	
Movement in Technical provisions	(11 542 190)
Emerging contractor reserve	(7 304 512)
Revenue	80 025 406
Expenditure	88 259 802
Realised profit on sale of financial assets	126 472 192
Interest received	(36 521 150)
Net Surplus per the statement of financial performance	<u>335 203 896</u>

The major variances between the budgeted surplus and statement of financial performance are due to the following factors:

Revenue

Revenue increased by R42.2 million compared to budget. The increase in the volumes of work done for technical services contributed to this increase. The loss in revenue in the subsidy sector was partly recovered by higher than budgeted no-subsidy home enrolment and project enrolments fees.

Technical provisions

The technical provisions are assessed annually by independent actuaries and are not budgeted.

Expenditure

Total operating expenditure and fixed expenditure were stringently managed by the organisation so as to ensure that the savings in expenditure could offset the decline in revenue, and that the budgeted surplus could be achieved. The savings in total expenditure compared to budget totalled R102.6 million, and together with the savings in the emerging contractor reserve, the NHBRC was able to cover the operational costs compared to budget.

Income from investments

The investment strategy followed by the entity maximised the return on cash investments when the bond and equity market were declining, by locking into higher fixed term returns during the period of falling interest rates.

REPORT OF THE AUDIT AND RISK COMMITTEE OF THE NATIONAL HOME BUILDERS REGISTRATION COUNCIL

We are pleased to present our report for the financial year ended 31 March 2011

Audit and Risk Committee responsibility

The Audit and Risk Committee is pleased to report that it is properly constituted as required by section 77 of the PFMA and has complied with its responsibilities arising from section 38(1)(a) of the PFMA and paragraph 3.1.13 of the Treasury Regulations. The Audit and Risk Committee also reports that it has adopted appropriate formal terms of reference as its Audit and Risk Committee Charter, and has regulated its affairs in compliance with this charter. As mandated, we hereby report on the functions of the Audit and Risk Committee for the year ended 31 March 2011.

Audit and Risk Committee meetings and attendance

The Audit and Risk Committee consists of the members listed below. The Committee meets at least four times per annum in line with its approved terms of reference. Seven (7) meetings were held during the year under review, six (6) scheduled and one (1) special. The attendance record of the different members is detailed below.

AUDIT AND RISK COMMITTEE MEMBER	ATTENDANCE		
	Scheduled Meetings	Special Meetings	Total Number of Meetings Attended
Mr R. Moyo – CA (SA): Chairperson – Independent Member	6	1	7
Ms S. Rahiman – CA (SA): Independent Member	6	1	7
Mr Z. Fihlani – CA (SA): Independent member	5	1	6
Ms S. de Gois – MTRP: Council Member	2	1	3
Mr M. Mkhize – Msc. Arch: Council Member	5	1	6
Dr A. Goliger – PhD PrEng: Council Member	2	0	2

Effectiveness of internal control

In carrying out its mandate which is conferred by its terms of reference and section 27.1.8 of the Treasury Regulations (March 2005), the Committee confirms that taking into consideration the reports by both internal and external auditors, it has reviewed and assessed the following:

- the effectiveness of the internal control systems;
- the effectiveness of internal audit;
- the effectiveness of the risk management processes;
- the risk areas of the entity's operations to be covered in the scope of internal and external audits;
- the adequacy, reliability and accuracy of financial information provided to management and other users of such information;
- any accounting and auditing concerns identified as a result of internal and external audits;
- the entity's compliance with legal and regulatory provisions;
- the activities of the internal audit function, including its annual work programme, coordination with the external auditors;
- the reports of significant investigations and the responses of management to specific recommendations; and where relevant, the independence and objectivity of the external auditors.

Based on the information and explanations given by Management, Internal Audit function and discussions with the independent external auditors on the result of their audits, the Audit and Risk Committee is of the opinion that there is an urgent need for significant improvement in the areas of controls over the daily and monthly processing and reconciling of transactions, as well as review of and

monitoring of compliance with applicable laws and regulations. The Audit and Risk Committee is unable to conclude that the internal accounting controls are adequately designed, and operated effectively to ensure completeness, accuracy and reliability of financial records for preparing the annual financial statements, and that the accountability for assets and liabilities is maintained.

The Committee continues to be concerned about the gravity of some of the matters raised in the external and internal auditor' reports to management. The Committee also noted serious concerns about lack of progress by management in addressing internal control shortcomings reported by both internal and external auditors in the previous years. The Committee has engaged the Council to consider various initiatives that will see a quantum leap progress in dealing with the adequacy and effectiveness of the entity system of internal controls and risk management. Management has been instructed to formulate detailed improvement plans that will seek to address these shortcomings and these plans will be subjected to deliberations of both the Council, and Audit & Risk Management Committee.

Evaluation of financial statements and management reports

In terms of section 3.1.13 of the Treasury Regulations (March 2005) the Committee has reviewed and evaluated the following:

- Effectiveness of internal control
- Quality of management reports
- The annual financial statements

Management reports

The Audit and Risk Committee has noted that the Information Management system that produces management reports was not functional during the year under review. At year end the system was unable to produce a reliable set of annual financial statements due to the lack of certain functionality and errors in processing transactions; however this did not result in any delays in the submission of the annual financial statements to the Auditor General in terms of section 8(1) of the PFMA.

Annual financial statements

The Audit and Risk Committee has:

- Reviewed and discussed the audited financial statements to be included in the annual report with the Auditor-General and the Chief Executive Officer; and noted with concern the matters included in the qualified audit opinion and matter of emphasis of the Auditor-General's report.
- Reviewed the Auditor-General's management letter and the substance of management's response thereto;
- Reviewed changes in accounting policies and practices, where appropriate; and
- Reviewed significant adjustments resulting from the audit.

The Audit and Risk Committee concurs and accepts the Auditor-General's conclusions on the annual financial statements, and recommends that the audited financial statements be accepted by the Council and read together with the report of the Auditor-General.



Mr R. Moyo CA (SA)
Chairman of Audit and Risk Committee
28 July 2011

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FIRST QUARTER OF 2010/2011

Table 14: Performance against strategic objectives for the first quarter of 2010/11 financial year

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q1	Target Q1	Target met/not met	Actual achievement	Reason for variation
Customer Care perspectives	(1) Contribute to creation of sustainable human settlements through effective regulation of home building industry	(a) Inspection of homes to ensure homes are constructed in compliance with NHBRC	Average Inspection ratio	Inspection report	Achieve minimum inspection ratio of 4 on all homes inspected	Target met	Average inspection ratio of 4 achieved across provinces	
		(b) Enrol all homes before construction	(a) % homes enrolled before construction (non-subsidy)	Quarterly statistical report	95% of homes enrolled before construction	Target met	95.8% of homes enrolled with NHBRC	
		(b) % of projects & homes enrolled before construction (subsidy)	Quarterly statistical report	95% of homes enrolled before construction	Target met	100% of projects and homes enrolled before construction		
	(c) Registration & renewal of home-builders	(a) No. of builders to be registered	Quarterly statistical report	Register 637 builders	Target met	1 056 have been registered		
		(b) % of home builder renewals	Quarterly statistical report	Renew 70% of active registered homebuilders	Target met	2510/2895 87% of home builders have renewed registration with NHBRC		
	(d) Dispute resolutions	% of dispute resolved within metric system	Quarterly Statistical Report	Resolve 80% of conciliated matters as per approved metric system	Target met	202 matters conciliated		
	(e) Review enforcement policies & process	Reduction in number of audit findings	Appointment letter	Appoint a legal drafter	Target not met	Terms of reference advertised, briefing session completed, 14 technical adjudication proposals completed	The legal drafter was not appointed by Procurement	
	(f) Training of builders	(a) No. of emerging homebuilders training trained (EHBT) & In-Situ training (on the job training)	Quarterly report	Train 875 Emerging Home Builders	Target not met	707 emerging homebuilders trained	Training is confined to projects that are linked to NDHS	
			(b) Youth & In-Situ training (on the job training)	Quarterly report	Train 250 youth	Target not met	100 youths trained in Gauteng	The Department did not forward youth to be trained by NHBRC

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FIRST QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q1	Target Q1	Target met/not met	Actual achievement	Reason for variation
			(c) Inspectors	Report to EXCO	Stakeholder task team w/ shop	Target met	4 training workshops held – 2 at Eric Molobi, 1 in KZN, 1 in EC and 1 stakeholder workshop at Indaba Hotel	
		(g) Monitor & Evaluate training	Completed Monitoring & Evaluation (M&E) System	Monitoring & Evaluation model	Investigate the implementation of M&E tool for training	Target met	First draft of M&E framework completed	
Customer Care perspectives	(2) Capacitate stakeholders	(a) Education & awareness	(a) No. of programmes & workshops	Attendance register	2 technical workshop with stakeholders	Target met	2 workshops (EC & Gauteng)	
			(b) No. of awareness campaign for home-builders	Distribution reports of tollgates, municipalities & newspapers	Distribute leaflets about registration process at tollgates, municipalities & in newspapers	Target met	Pamphlets containing NHBRC's information distributed at Open Days	
			(c) Campaigns targeted for consumers	Distribution report of tollgates, municipalities & newspapers	Distribute leaflets on benefits of using registered homebuilders	Target met	Pamphlets containing NHBRC's information distributed Open Days	
			(d) Campaigns for beneficiaries of RDP	Beneficiary list	Identify beneficiary list per municipality	Target not met	Beneficiaries not been identified per municipality	No beneficiaries were identified per Municipality
			(e) NHBRC legal awareness	Completed pack	Completed legal orientation pack	Target met	Pack is complete and 48 targeted staff members trained	
		(b) Geotechnical investigations	No. of projects	Geotechnical reports & SLAs	Project manage 2 geotechnical investigations on behalf of PHD	Target not met	0 reports done	The NHBRC were not appointed by the Department to project manage geotechnical investigations
		(c) Provincial Rectification	No. of projects	Rectification report	Assist PHD's with rectification of 1 project	Target met	Busy with last 2 500 units of 5 000 unit project	
Customer Care perspectives	(3) Promote effective stakeholder relations	(a) Stakeholder/customer satisfaction surveys	Stakeholder/Customer perception	SLA & survey report	Appoint service provider to conduct survey	Target met	Service provider has been appointed to conduct survey	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FIRST QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q1	Target Q1	Target met/not met	Actual achievement	Reason for variation
		(b) Marketing plan	External Stakeholders	Distribution list & a completed magazine	Provide magazine to Portfolio Committee, NdHS, PHSD, professional bodies, financial institutions, academic institutions & housing institutions	Target not met	Magazine to be distributed to different stakeholders not produced	Magazines were not developed and produced by NHBRC
		(c) Stakeholder workshops	Information sharing	Attendance register	2 technical workshop with stake-holders	Target met	Training workshops held in E/Cape & Gauteng	
	(4) Promote established technical standards in the home-building industry to protect housing consumers	(a) Revise homebuilding manual aligned to SANS 10400	Revised homebuilding manual	Framework reference manual	Develop a framework reference manual	Target not met	Framework for reference manual not developed	Awaiting finalisation of SANS 10400 and the framework, reference manual were not developed
		(b) Develop simplified home-building manual for emerging contractors	Functional homebuilding manual for emerging contractors	Framework reference manual	Develop a framework reference manual	Target not met	Framework for reference manual not developed	Awaiting SANS 10400 and the framework, reference manual were not developed
		(c) Operationalise testing centre at Eric Molobi	Effectiveness & suitability of building material	Completed commissioned report	Commission testing centre	Target not met	Equipment installed	Awaiting Occupation Certificate
Internal business process	(5) To design & develop new products & services in home building industry	(a) Develop research agenda for 2011/12	Value add to organisation	Draft document	Literature review & documentation of information	Target met	Research agenda document drafted	
		(b) Investigation of subsidy market performance	Performance of subsidy projects	Analysis report	Analyse process maps of 4 subsidy projects	Target met	Analysis of process maps conducted	
		(c) Investigate into material & product performance	Value add to quality of materials	Report on performance	Investigate on thermal performance, condensation & structural performance	Target Met	Report available & TAC approved	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FIRST QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q1	Target Q1	Target met/not met	Actual achievement	Reason for variation
		(d) Develop a model for additions & alterations	Enhance services & products	Report on investigation	Investigate parameters for additions & alterations	Target not met	Investigations for additions and alterations not done	The research and investigations on additions and alterations not done
		(e) Review & development of risk based enrolment fee	Value add to NHBRC	Report on investigation	Investigate parameters for additions & alterations	Target not met	Investigation of parameters for additions and alterations not started	The investigation for additions and alterations not done
Internal business process	(6) Provide effective strategic management of human resources	(a) Human Resource Plan (workforce planning)	Attract best talent for NHBRC strategic business plan	Quarterly report	Implementation of C plan	Target met	Human Capital plan complete & implementation framework approved by EXCO & REM-CO 18 positions advertised; only 4 appointments & 3 voluntary severance packages offered	
		(b) Performance Management to increase standards of delivery	Assessed balanced scorecard	Assessed balanced scorecard	Assessment of balanced scorecard	Target not met	150 (42%) staff members submitted scorecards. Management failed to submit scorecards within time limits	Balanced Scorecard not assessed, because they were submitted late
		(c) Monitor & evaluate organisational performance	Performance information assessment	Performance information assessment scorecard	Performance information assessment for Q1	Target met	Performance assessment of organisational performance done	
		(d) Employee satisfaction survey	Increase in staff morale	No indicator set this Quarter	No target set for Quarter	No achievement	No actual achievement	No variation
		(e) Change Management programme in relation to culture	Performance & delivery of services	Register of resolved complaints	15% reduction in customer service complaints	Target not met	No system to monitor complaints	A target of 15% not achieved because no system was in place to monitor complaints
		(f) Internal service delivery charter	NHBRC service standards	Gr 9 charter	Finalisation of service delivery charter	Target met	Charter signed by all managers	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FIRST QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q1	Target Q1	Target met/not met	Actual achievement	Reason for variation
		(g) Employee wellness programme (EWP)	Appoint an accredited outsourced service provider	Status report from service provider	Resolve employee problems successfully	Target met	Appointed Ndawo as wellness service provider	
		(h) Improve relations with labour	Monthly meetings with management forum & Union	Attendance & minutes with resolutions	3 meetings with management forum & union	Target met	HC met union 10 times. Successfully concluded wage negotiation without labour unrest	
		(i) Dispute resolution	Number of disputes at CCMA & Labour Court	Register of resolved disputes	80% resolution of disputes within statutory time limits	Target met	Turnaround times for hearings quicker	
Learning & Innovation Perspective	(7) To develop effective governance structures, policies, process & ensure compliance	(a) Development of all policies (GC)	Implementation of required policy documentation	Status report from compliance	Finalise drafting of required policies & approval of existing policies	Target not met	Drafting of policies and approval of existing policies not finalised	The policies had to go to the Policy task team and Council
		(b) Business Continuity Management (GC)	Implementation of business continuity management plan by target date	Signed off business continuity plans	Development of business continuity plans	Target met	Business continuity plans developed	
		(c) Risk management plan (GC)	Compliance with risk management plan	Approved plan	Implementation of first quarter approved plan	Target met	Risk management plan being implemented	
		(d) Implementation of compliance risk function (GC)	Implement a compliance risk policy	Approval of the compliance risk policy	Finalisation of the draft compliance risk policy	Target not met	Risk policy not finalised	The compliance risk policy had to go through the Policy task team
		(e) Compliance with King III Code of Governance (GC)	Implementation of "apply or explain" resolutions	Completed gap analysis	To conduct a Gap Analysis of King III Code of Governance	Target met	Gap analysis of King III Code of governance conducted	
Internal business process perspective	(8) To ensure effective & integrated systems to support the business operations	(a) Review & update all business applications	Document on reviewed business applications (BPR Report)	Document on reviewed business applications	Review all business applications	Target not met	Not all business applications reviewed	The business applications were not reviewed

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FIRST QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q1	Target Q1	Target met/not met	Actual achievement	Reason for variation
		(b) Develop & implement Enterprise Service Framework (ESF)	Integrated system	Detailed business process maps	Review & develop business process maps for finance	Target met	Process maps available for finance	
		(c) Review & implement technical infrastructure network	Effective provincial & national network infrastructure	Project plan	Review provincial & national technical Wide Area network	Target met	Research in progress	
		(d) Clean-up data related to inspectorate, finance, legal & Human Capital	Historical record of data	Project plan	Review historical data from JDE to Oracle	Target met	Inspectorate data cleaned	
		(e) Review & implement telephone Management System	Efficiency of telephone system	SLA	Implement Service Level Agreement with suppliers	Target met	Proposal available	
		(f) Develop & implement Internet based VFP	Efficiency of organisation	Signed off functionality document	Implement internet based VFP	Target met	Functionality document signed off	
		(g) Develop & implement Geo-graphical Information Systems	Efficiency of the organisation	Signed off functionality document	Implement internet based GIS	Target met	Functionality document signed off	
Financial perspective	(9) To maintain & grow a sustainable warranty fund to protect consumers	Investment Strategy	Investment Strategy	Return on investment	Benchmark return on investment	Target met	9.1% is actual and benchmark is 4.6%	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR SECOND QUARTER OF 2010/2011

Table 15: Performance against strategic objectives for the second quarter of 2010/11 financial year

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
Customer & Stakeholder	(1) Contribute to creation of sustainable human settlements through effective regulation of home building industry	(a) Inspection of homes to ensure homes are constructed in compliance with NHBRC	Average inspection ratio	Inspection report	Achieve minimum inspection ratio of 4 on all homes inspected	Target met	Minimum inspection ratio of 4 achieved	
		(b) Enrol all homes before construction	(a) % homes enrolled before construction (non-subsidy)	Quarterly statistical report	95% of homes enrolled before construction	Target met	98% of homes enrolled before construction took place	
			(b) % of projects & homes enrolled before construction (subsidy)	Quarterly statistical report	95% of homes enrolled before construction	Target met	100% of homes were enrolled	
		(c) Registration & renewal of home-builders	(a) No. of builders to be registered	Quarterly statistical report	Register 929 builders	Target met	1 014 homebuilders were registered with NHBRC	
			(b) % of home builder renewals	Quarterly statistical report	Renew 70% of active registered homebuilders	Target met	NHBRC has renewed 93% of active registered homebuilders	
		(d) Dispute resolutions	% of dispute resolved within the metric system	Quarterly statistical report	Resolve 80% of conciliated matters as per approved metric system	Target not met	69% of disputes resolved	11% of dispute were not resolved, because builders were not traceable
		(e) Review enforcement policies & process	Reduction in no. of audit findings	Minutes & report of meetings	Stakeholder consultation	Target met	Risk register is being monitored to eliminate work that has been done	
		(f) Training of builders	(a) No. of emerging homebuilder training trained (EHBT) & in-situ training (on the job training)	Quarterly report	Train 875 EHBT (The target has been changed to 875 because NHBRC is only training where the departments activity are taking place)	Target not met	Trained 798 emerging homebuilders	Training is confined to projects that are linked to the Department

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR SECOND QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
			(b) Youth & In-Situ training (on the job training)	Quarterly report	Train 250 youth	Target not met	Zero youths trained in this quarter	The department did not submit youth to be trained by NHBRC
			(c) Inspectors	Report on data collection & needs analysis	Data collection for module materials development	Target met	First draft Inspector Training module completed	
		(g) Monitor & Evaluate training	Completed monitoring & evaluation system	Diagnostic report	Completed M&E Diagnostic report submitted to EXCO	Target met	Phase One was completed successfully. Phase Two not implemented due to budgetary cuts	
Customer & stakeholder	(2) Capacitate stakeholders	(a) Education & awareness	(a) No. of programmes & workshops	Attendance register	2 technical workshops with stakeholders	Target met	Workshops with Inspectorate training Gauteng/ E Cape/ Limpopo/ Free State/ KZN. PAJA Training Limpopo/KZN/ North West/ E Cape/ W Cape/Gauteng	
			(b) No. of awareness campaign for home-builders	Distribution reports of tollgates, municipalities & newspapers	Distribute leaflets about enrolments process at tollgates, municipalities & in newspapers	Target met	Leaflets have been distributed in North West, Gauteng, Limpopo, Mpumalanga and Eastern Cape	
			(c) Campaigns targeted for consumers	Distribution report of tollgates, municipalities & newspapers	Distribute leaflets on benefits of an enrolled home	Target met	Leaflets on benefits for an enrolled home have been distributed	
			(d) Campaigns for beneficiaries of RDP	List of beneficiaries contacted per municipality	Contact beneficiaries via phone & letters	Target met	The Campaigns targeted for RDP beneficiaries has been done in KwaZulu-Natal and Eastern Cape and Free State	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR SECOND QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
			(e) NHBC legal awareness	Formal endorsement	Approval & implementation by Justice College & Law schools	Target not met	The programme was interrupted by the critical PAJA training which was conducted in all 9 provinces during the 2nd quarter. Drafted the training manual for the Consumer Protection Act No. 68 of 2008	The legal awareness was not approved and implemented by Justice College and Law Schools
		(b) Geotechnical Investigation	Geotechnical reports and SLAs	Geotechnical reports and SLAs	Project Manage 2 Geotechnical investigation on behalf of PHD	Target not met	Awaiting appointment by Free State Department of Human Settlement	It is compulsory that NHBC carries out geotechnical investigations at provinces before enrolment is done
		(c) Provincial rectification	Rectification report	Assist PHD's with rectification of 1 project	Involved in Eastern Cape – Progress Report	Target met	Rectification of the Eastern Cape is the NHBC programme	
		(d) Provincial Rectification	No. of projects	Rectification report	Assist PHD's with rectification of 1 project	Target met	Involved in Eastern Cape	
Customer & stakeholder	(3) Promote effective stakeholder relations	(a) Stakeholder/customer satisfaction surveys	Stakeholder/customer perception	Presentation report	Presentation of findings to EXCO & Approval by EXCO	Target not met	Presentation was not done to EXCO and approval received	Stakeholder satisfaction survey was not finalised
		(b) Marketing plan	External stakeholders	Distribution list & a completed magazine	Provide a magazine Portfolio Commit., NdHS, PHSD, Professional bodies, financial Institutions, Academic Institutions & Housing Institutions	Target met	The magazine distributed at open days	
		(c) Stakeholder workshops	Information sharing	Attendance register	2 workshop of technical with stakeholders	Target met	Workshops with SABS / CGS / DoHS / International Housing Conference / Housing Indaba / Int. engineering conference	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR SECOND QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
Customer & stakeholder	(4) Promote established tech standards in the homebuilding industry that protects housing consumers	(a) Revise homebuilding manual aligned to SANS 10400	A revised homebuilding manual	Developed Part 1: Planning of houses	Develop Part 1: Planning of houses	Target not met	Reviewed Part 1	SANS 10400 still awaiting approval
		(b) Develop simplified homebuilding manual for Emerging Contractors	A functional homebuilding manual for Emerging contractors	Developed Part 1: Planning of houses	Develop Part 1: Planning of houses	Target not met	Meetings with designers & printers to discuss & agree on concept	SANS 10400 still awaiting approval
		(c) Operationalise testing centre at Eric Molobi	Effectiveness & suitability of building material	Test reports	10 subsidy material projects tested	Target not met	The subsidy material projects were not tested	Plan approval done. Awaiting Occupation Certificate & appointment of staff to manage facility
Innovation & development	(5) To design & develop new products & services in the home building industry	(a) Develop research agenda for 2011/12	Value add to organisation	Developed research agenda	Research agenda	Target met	Research Agenda approved by TAC	
		(b) Investigation of subsidy market performance	Performance of subsidy projects	Report on process maps	Compile a report on the process maps	Target not met	Report on process maps has not been developed	Investigation of subsidy market performance will be conducted at a later date
		(c) Investigate material & product performance	Value add to quality of materials	Report on the performance	Investigate thermal performance, condensation & structural performance	Target met	Material and products performance were investigated	
		(d) Develop a model for additions & alterations	Enhance services & products	Compilation of report	Compile a report on the parameters of additions & alterations	Target met	Draft report for development of additions and alterations is available	
		(e) Review & development of risk based enrolment fee	Value add to NHBRC	Report on the investigation	Investigate parameters for additions & alterations	Target not met	Investigation for additions and alterations has not been conducted	Awaiting appointment of staff in the research section of Technical Division
Innovation & development	(6) Provide effective strategic management of human resources	(a) Human Resource Plan (workforce planning)	Attract best talent for NHBRC strategic business plan	Quarterly report	Implementation of the Human Capital plan	Target met	Incorporated fully into 2011 Strategic Plan. 7 Successful placements	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR SECOND QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
		(b) Performance management to increase standards of delivery	Assess balanced scorecard	Assessed balanced scorecard	Assessment of balanced scorecard	Target not met	Assessment of balanced scorecard not completed	Restructuring not complete – will need redrafting of contracts and performance information
		(c) Monitor & Evaluate Organisational Performance	Performance information assessment	Performance information assessment score card	Performance information assessment for Q2	Target met	Performance information assessment conducted for second quarter	
		(d) Employee satisfaction survey	Increase in staff morale	Survey report	Conduct survey	Target not met	Conducted biannually	Awaiting completion of Organisational Design process
		(e) Change management programme in relation to culture	Performance & delivery of services	Register of resolved complaints	15% reduction in customer service complaints	Target met	40% of received complaints received in quarter were closed	
		(f) Internal service delivery Charter	Service standards of the NHBRC	Rollout report & BI report	30% rollout charter to province (GP, WC, NW)	Target met	There has been a 100% rollout of the Charter to all the provinces	
		(g) Employee wellness programme (EWP)	Appoint accredited outsourced service provider	Status report from service provider	Resolve employee problems successfully	Target met	Corporate Services & Provincial Province consultations completed plus National Health Day held successfully incl. individual consultations with staff nationally	
		(h) Improve relations with labour	Monthly meetings with management forum & union	Attendance & minutes with resolutions	3 meetings with management forum & union	Target met	Ongoing weekly union consultations with facilitation meetings at Muldersdrift	
		(i) Dispute resolution	Number of disputes at CCMA & Labour Court	Register of resolved disputes	80% resolution of dispute within statutory time limits	Target met	All disputes resolved and settled within time limits	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR SECOND QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
People	(7) To develop effective governance structures, policies, process & ensure compliance	(a) Development of all Policies	Implementation of required policy documentation	Status report of approved policies	Approval of required policies & communication of approved policies	Target met	Most technical policies integrated with customer care policies. Policies on roof leaks & policy on claims assessments currently with Policy Task Team	
		(b) Business continuity management	Implementation of the business continuity management plan by target date	Sign off of Phase 1 implementation	Phase 1 of implementation	Target met	Status Report tabled at ARMCO in July 2010	
		(c) Risk Management Plan	Compliance with risk management plan	Approved strategic risk register	Approved strategic risk register	Target met	Signed off BCPs tabled at ARMCO in July 2010	
		(d) Implementation of compliance risk function	Implement a compliance risk policy	Communication & awareness campaign	Communication & awareness campaigns of compliance risk policy	Target met	Strategic risk register tabled at ARMCO in July 2010	
		(e) Compliance with King III Code of Governance	Implementation of "apply or explain" resolutions	Document on intended level of compliance	Develop a document on organisation intended level of compliance	Target met	Incorporated into Risk Management framework. July / August Risk Newsletter	
Process & Systems	(8) To ensure effective & integrated systems to support business operations	(a) Review & update all business applications	Document on reviewed business applications (BPR Report)	Document on reviewed business applications	Review all business applications	Target met	Applications and processes documented	
		(b) Develop & implement Enterprise Service Framework (ESF)	Integrated system	Detailed business process maps	Review & Develop business process maps for Customer Care, Human Capital, Technical & Legal	Target met	Phase 1 – completed, documented and signed off	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR SECOND QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
		(c) Review & implement technical infrastructure network	Effective provincial & national network infrastructure	Implementation document	Implementing provincial & national technical wide area network	Target met	Wide area network established in Pretoria, George, East London, Witbank; lines have been upgraded to cater for high volume of data	
		(d) Clean-up data related to inspectorate, finance, legal & human capital	Historical record of data	Clean data	Review & clean the new network structure	Target not met	Target could not be achieved	Review and clean-up of network was not conducted
		(e) Review & implement telephone management System	Efficiency of telephone system	Report on functionality of telephone system	Review functionality of telephone system	Target not met	Existing system issues addressed, VOIP under investigation, reliant on MPLS network establishment	The functionality of the telephone system was not reviewed
		(f) Develop & implement Internet based VFP	Efficiency of organisation	Signed off user acceptance test report	Internet based VFP in production	Target not met	Not met due to resource & focus issues. Team estimated to address business requirement Document signed off, busy with Technical Design Document	Internet-based VFP will help with efficiency of conducting business
		(g) Develop & implement geo-graphical information systems	Efficiency of organisation	Signed off user acceptance test report	Internet based GIS in production	Target met	Report is available	
Financial perspective	(9) To maintain & grow a sustainable warranty fund to protect consumers	Investment strategy	Investment strategy	Return on investment	Benchmark return on investment	Target met	NHBRC exceeded benchmark by 1.5%	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR THIRD QUARTER OF 2010/2011

Table 16: Performance against strategic objectives for the third quarter of 2010/11 financial year

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
Customer & Stakeholder	(1) Contribute to creation of sustainable human settlements through effective regulation of the home building industry	(a) Inspection of homes to ensure homes are constructed in compliance with NHBRC	Average inspection ratio	Inspection report	Achieve minimum inspection ratio of 4 on all homes inspected	Target met	Average inspection ratio of 6 on all homes inspected achieved	
		(b) Enrol all homes before construction	(a) % homes enrolled before construction (Non-subsidy)	Quarterly statistical report	95% of homes enrolled before construction	Target met	104% of the homes were enrolled before construction	
			(b) % of projects & homes enrolled before construction (subsidy)	Quarterly statistical report	95% of homes enrolled before construction	Target met	100% of homes enrolled within turnaround time	
		(c) Registration & renewal of home-builders	(a) No. of builders to be registered	Quarterly statistical report	Register 684 builders (letter to be written to department explaining why target has been changed from 750)	Target met	683 homebuilders registered; target has been changed to 684	
			(b) % of home builder renewals	Quarterly statistical report	Renew 70% of active registered homebuilders	Target met	NHBRC has renewed 97% of active homebuilders	
		(d) Dispute resolutions	% of dispute resolved within metric system	Quarterly statistical report	Resolve 80% of conciliated matters as per approved metric system	Target met	NHBRC resolved & closed 91% of conciliation matters brought to its attention	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR THIRD QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
		(e) Review enforcement policies & process	Reduction in number of audit findings	Draft HCPMA document	First draft completed	Target not met	Approved project plan's timelines have been adhered to. Service provider appointed, SLA signed, project steering committee constituted, project plan approved, consultation with internal stakeholders held & study of international benchmarks commenced. First draft due January 2011 in terms of approved project plan	Delay in ensuring Tender Committee meeting was held to ensure appointment of a service provider in terms of submitted bids. Delay negatively affected achievement of target as project plan had to follow appointment of successful bidder
		(f) Training of builders	(a) No. of emerging home builder training trained (EHBT) & in-situ training (on the job training)	Quarterly report	Train 875 emerging home builders	Target not met	No training during 3rd quarter	Contract expired on the 15 Jul '10. Awaiting new appointments of service providers
			(b) Youth & In-Situ training (on the job training)	Quarterly report	Train 250 youth	Target not met	No training during 3rd quarter	Contract expired – awaiting new appointments of service providers
			(c) Inspectors	EXCO submission & minutes	Draft inspector training module submitted to EXCO	Target met	Approved by EXCO (04 October 2010) & printed for sampling	
		(g) Monitor & evaluate training	Completed monitoring & evaluation system	Draft 1 submitted	Develop M&E system integrated with business intelligence report	Target met	Completing this project in-house due to cost containment. Meetings with IT to interface Oracle Learner Module with business	
Customer & Stakeholder	(2) Capacitate stakeholders	(a) Education & awareness	(a) No. of programmes & workshops	Attendance register	2 technical workshops with stakeholders	Target not met	2 technical workshops with stakeholders not done	No staff in marketing section

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR THIRD QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
			(b) No. of awareness campaign for home-builders	Distribution of reports at tollgates, municipalities & newspapers	Distribute leaflets about complaints, conciliation & remedial works process at tollgates, municipalities & in newspapers	Target not met	Leaflets about complaints, conciliation & remedial works process at tollgates, municipalities & in newspapers not distributed	No staff in marketing section
			(c) Campaigns targeted for consumers	Distribution of report at tollgates, municipalities & newspapers	Distribute leaflet on complaint resolution process	Target not met	No leaflets were distributed on complaint resolution to municipalities & newspapers	No staff in marketing section
			(d) Campaigns for beneficiaries of RDP	Attendance register	Conduct 5 workshops in different municipalities	Target met	Workshops were conducted in municipalities for beneficiaries of RDP campaign	
			(e) NHBC legal awareness	Training report	Train 100 targeted stakeholders	Target met	PAJA training was conducted	
		(b) Geotechnical Investigation	No. of projects	Geotechnical reports & SLAs	Project manage 2 geotechnical investigation on behalf of PHD	Target not met	Technical division did not project manage any geotechnical investigations	No requests for geotechnical made
		(c) Provincial Rectification	No. of projects	Rectification report	Assist PHDs with rectification of 1 project	Target met	Assisted KZN forensics	
		Customer & stakeholder	(3) Promote effective stakeholder relations	(a) Stakeholder/customer satisfaction surveys	Stakeholder/ Customer perception	Council Submission	Submission of recommendations to Council	Target not met
(b) Marketing plan	External Stakeholders			Distribution list & a completed magazine	Provide a magazine Portfolio Committee, NdHS, PHSD, professional bodies, financial institutions, academic institutions & housing institutions	Target not met	No magazine was provided to Portfolio Committee, NdHS, PHSD, professional bodies, financial institutions & housing institutions	No staff in the Marketing Section
(c) Stakeholder workshops	Information sharing			Attendance register	2 technical workshops with stakeholders	Target not met	No workshops conducted in quarter	Stakeholder workshops are to be planned for the quarter

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR THIRD QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
	(4) Promote established technical standards in homebuilding industry that protects housing consumers	(a) Revise homebuilding manual aligned to SANS 10400	A revised homebuilding manual	Developed Part 2: Design of houses	Develop Part 2: Design of houses	Target not met	Review of current Home Building Manual	Awaiting finalisation of SANS 10400
		(b) Develop simplified homebuilding manual for emerging contractors	A functional homebuilding manual for emerging contractors	Developed Part 2: Design of houses	Develop Part 2: Design of houses	Target not met	Meetings with designers & printers to discuss & agree concept	Awaiting finalisation of SANS
		(c) Operationalise testing centre at Eric Molobi	Effectiveness & suitability of building material	Test reports	10 subsidy material projects tested	Target not met	Testing protocol developed	Delay in obtaining occupational certificate
Innovation & development	(5) To design & develop new products & services in the home building industry	(a) Develop research agenda for 2011/12	Value add to organisation	Submission to EXCO	EXCO approval of research agenda	Target met	Research agenda developed	
		(b) Investigation of subsidy market performance	Performance of subsidy projects	Submission of EXCO & TAC	Submit to EXCO & TAC	Target not met	Draft research report	Research in progress
		(c) Investigate material & product performance	Value add to quality of materials	Report on performance	Investigate thermal performance, condensation & structural performance	Target met	Research report	
		(d) Develop a model for additions & alterations	Enhance services & products	Submission of EXCO & TAC	Submit to EXCO & TAC	Target met	Research report developed	
		(e) Review & development of risk based enrolment fee	Value add to NHBRC	Report on risk based model	Develop a risk base model	Target not met	Draft research report	Research in progress
Innovation & development	(6) Provide effective strategic management of human resources	(a) Human Resource Plan (workforce planning)	Attract best talent for NHBRC strategic business plan	Quarterly report	Implementation of Human Capital plan	Target met	Human Capital Plans & Strategy (26 October 2010 to HCREMCO) implemented	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR THIRD QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
		(b) Performance Management to increase standards of delivery	Assess balanced score card	Assessed balanced score card	Assessment of balanced score card	Target not met	No balanced score card submitted for 2010/11	BSC not cascaded to lower levels
		(c) Monitor & evaluate organisational performance	Performance information assessment	Performance information assessment score card	Performance information assessment for Q3	Target met	Performance information assessment is conducted for all divisions and sections	
		(d) Employee satisfaction survey	Increase in staff morale	Data report	(a) Analysis of data (b) Implementation of special projects	Target met	Data was analysed in first survey. Second survey to be conducted during 4th quarter after conclusion of organisation restructuring	
		(e) Change management programme in relation to culture	Performance & delivery of services	Register of resolved complaints	15% reduction in customer service complaints	Target not met	Change management programme and values programme in place and not able to measure immediate result	NHBRC is implementing a customer-centred strategy
		(f) Internal service delivery charter	NHBRC service standards	Rollout report & BI report	30% rollout of charter (KZN, MP & NC)	Target met	100% rollout of charter to all provinces	
		(g) Employee wellness programme (EWP)	Appoint accredited outsourced service provider	Status report from service provider	Resolve employee problems successfully	Target met	Appointment made 31 July 2010, delivery has taken place & is ongoing	
		(h) Improve relations with labour	Monthly meetings with management forum & union	Attendance & minutes with resolutions	3 meetings with management forum & union	Target met	Meetings currently relating to organisational restructuring	
		(i) Dispute resolution	Number of disputes at CCMA & Labour Court	Register of resolved disputes	80% resolution of dispute within statutory time limits	Target met	All the disputes logged with Human Capital has been resolved	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR THIRD QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
People	(7) To develop effective governance structures, policies, process & ensure compliance	(a) Development of all policies	Implementation of required policy documentation	Status report	Awareness campaigns on approved policies	Target not met	Integrated all policies into Human Capital policies manual – awareness campaigns to be conducted in future. Submitted Code of Conduct Ethics policy	Await EXCO approval prior to implementation
		(b) Business Continuity Management	Implementation of business continuity management plan by target date	Sign off of Phase 2 implementation	Phase 2 of implementation & sign off	Target met	Phase 2 of implementation done & signed off	
		(c) Risk Management Plan	Compliance with risk management plan	Operational risk registers submitted to Risk Committee	Cover 50% of operational risk registers	Target met	4 provincial risk assessments & strategic workshops done covering more than 50% of operational risk register	
		(d) Implementation of compliance risk function	Implement a compliance risk policy	Compliance risk monitoring report	Monitoring high risk areas according to risk based approach	Target met	Policy framework developed which helps in monitoring high risk areas	
		(e) Compliance with King III Code of Governance	Implementation of "apply or explain" resolutions	An approved document on intended level of compliance	Management approval of intended level of compliance	Target met	Audit conducted by Internal Audit Section	
Process & Systems	(8) To ensure effective & integrated systems to support the business operations	(a) Review & update all business applications	Document on reviewed business applications (BPR Report)	No indicator set this quarter	No target set for quarter	No achievement	No actual achievement	No variation
		(b) Develop & implement Enterprise Service Framework (ESF)	Integrated system	No indicator set this quarter	No target set for quarter	No achievement	No actual achievement	No variation

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR THIRD QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q2	Target Q2	Target met / not met	Actual achievement	Reason for variation
		(c) Review & implement technical infrastructure network	Effective provincial & national network infrastructure	Review document	Review efficiency of new network structure	Target met	Efficiency of network structure completed	
		(d) Clean-up data related to inspectorate, finance, legal & Human Capital	Historical record of data	Audited data	Conduct audit of data	Target not met	Human capital and inspectorate were finalised	Human capital and inspectorate were finalised except finance
		(e) Review & implement telephone management System	Efficiency of telephone system	No indicator set this quarter	No target set for quarter	No achievement	No actual achievement	No variation
		(f) Develop & implement Internet based VFP	Efficiency of organisation	No indicator set this quarter	No target set for quarter	No achievement	No actual achievement	No variation
		(g) Develop & implement geographical information systems	Efficiency of organisation	No indicator set this quarter	No target set for quarter	No achievement	No actual achievement	No variation
Financial perspective	(9) To maintain & grow a sustainable warranty fund to protect consumers	Investment Strategy	Investment strategy	Return on investment	Benchmark return on investment	Target met	Actual return on investment exceeded benchmark by 1.3%	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FOURTH QUARTER OF 2010/2011

Table 17: Performance against strategic objectives for the fourth quarter of 2010/11 financial year

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q4	Target Q4	Target met / not met	Actual achievement	Reason for variation
Customer & Stakeholder	(1) Contribute to creation of sustainable human settlements through effective regulation of the home building industry	(a) Inspection of homes to ensure homes are constructed in compliance with NHBC	Average Inspection ratio	Inspection report	Achieve a minimum inspection ratio of 4 on all homes inspected	Target met	Achieved an average inspection ratio of 8	
		(b) Enrol all homes before construction	(a) % homes enrolled before construction (non-subsidy)	Quarterly statistical report	95% of homes enrolled before construction	Target met	98% of homes were enrolled with NHBC	
			(b) % of projects & homes enrolled before construction (subsidy)	Quarterly statistical report	95% of homes enrolled before construction	Target met	100% of home enrolments were done	
		(c) Registration & renewal of home-builders	(a) No. of builders to be registered	Quarterly statistical report	Register 750 builders	Target met	897 builders were registered	
			(b) % of home builder renewals	Quarterly statistical report	Renew 70% of active registered homebuilders	Target met	80% of builders renewed their registrations	
		(d) Dispute resolutions	% of disputes resolved within the metric system	Quarterly statistical report	Resolve 80% of conciliated matters as per approved metric system	Target not met	27% of new matters conciliated resolved	Disputes not resolved within approved turnaround
		(e) Review enforcement policies & process	Reduction in number of audit findings	Draft HCPMA document	Second draft completed	Target met	Second draft of HCPMA has been completed	
		(f) Training of builders	(a) No. of emerging home builder training trained (EHBT) & in-situ training (on the job training)	Quarterly report	Train 875 EHBT	Target not met	Zero training	Time taken to secure new training tenders was not met. December period has also created timing issues
			(b) Youth & In-Situ training (on the job training)	Quarterly report	Train 250 youth	Target not met	Zero trained	This is a NDoHS managed programme & we rely heavily on their screening processes which were delayed. We do foresee this programme will be fast tracked next financial year

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FOURTH QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q4	Target Q4	Target met / not met	Actual achievement	Reason for variation
			(c) Inspectors	EXCO submission & minutes	Draft 2 of inspector training module	Target met	Booklet on inspector training module produced	
		(g) Monitor & Evaluate training	Completed Monitoring & Evaluation System	Draft 1 Submitted	Implementation of M&E model	Target not met	Project reliant on Oracle BI which is incomplete	Oracle BI project being fast tracked in IT & project to be picked up in 2011/12 financial year
Customer & Stakeholder	(2) Capacitate stakeholders	(a) Education & awareness	(a) No. of programmes & workshops	Attendance register	2 technical workshops with stakeholders	Target met	14 workshops were held with stakeholders	
			(b) No. of awareness campaign for home-builders	Distribution reports of tollgates, municipalities & newspapers	Distribute leaflets about benefits of warranty at tollgates, municipalities & newspapers	Target met	Brochures & pamphlets were distributed in each province at various municipalities & exhibitions	
			(c) Campaigns targeted for consumers	Distribution report of tollgates, municipalities & newspapers	Distribute leaflets on moving into your new home	Target met	Leaflets were distributed at municipalities & exhibitions	
			(d) Campaigns for beneficiaries of RDP	Attendance register	Conduct 5 workshops in different municipalities	Target met	7 workshops were held	
			(e) NHBC legal awareness	Training report	Train 100 targeted stakeholders in the legal profession	Target met	Trained 930 stakeholders on PAJA, CPA & criminal offences	
		(b) Geotechnical Investigation	No. of projects	Geotechnical reports & SLAs	Project manage 2 geotechnical investigation on behalf of PHD	Target met	SLA signed with Free State and two geotechnical investigations conducted	
		(c) Provincial rectification	No. of projects	Rectification report	Assist PHDs with rectification of 1 project	Target met	50 projects completed	
Customer & stakeholder	(3) Promote effective stakeholder relations	(a) Stakeholder/customer satisfaction surveys	Stakeholder/Customer perception	Council Submission	Implementation of recommendations	Target met	Final survey report & inputs made toward implementation	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FOURTH QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q4	Target Q4	Target met / not met	Actual achievement	Reason for variation
		(b) Marketing plan	External stakeholders	Distribution list & a completed magazine	Provide magazine to Portfolio Committee, NdHS, PHSD, professional bodies, financial institutions, academic institutions & housing institutions	Target not met	Magazine not distributed to external stakeholders	New marketing team has been appointed
		(c) Stakeholder workshops	Information sharing	Attendance register	2 technical workshops with stakeholders	Target met	14 workshops held	
	(4) Promote established technical standards in the home-building industry that protects housing consumer	(a) Revise homebuilding manual aligned to SANS 10400	Revised homebuilding manual	Developed Part 2: Design of houses	Develop Part 3: Construction of houses	Target not met	Part 3 was not developed	Awaiting revised publication of SANS10400
		(b) Develop simplified homebuilding manual for Emerging Contractors	A functional homebuilding manual for Emerging contractors	Developed Part 2: Design of houses	Develop Part 3: Construction of houses	Target not met	Part 3 was not developed	Awaiting revised publication of SANS10400
		(c) Operationalise testing centre at Eric Molobi	Effectiveness & suitability of building material	Test reports	10 subsidy material projects tested	Target not met	Occupation certificate received in Feb 2011; material projects were not tested	Tests could not commence without occupation certificate
Innovation & development	(5) To design & develop new products & services in the home building industry	(a) Develop research agenda for 2011/12	Value add to organisation	Submission of EXCO	TAC & Council approval of research agenda	Target met	Approved research agenda	
		(b) Investigation of Subsidy market performance	Performance of subsidy projects	Submission of EXCO & TAC	Submit to Council with recommendations	Target met	Quarterly report	
		(c) Investigate material & product performance	Value add to quality of materials	Report on performance	Investigate thermal performance, condensation & structural performance	Target met	Investigation into thermal performance, condensation & structural performance	
		(d) Develop model for additions & alterations	Enhance services & products	Submission to EXCO & TAC	Submit to Council with recommendations	Target not met	Submit to Council with recommendations not done	Report not yet submitted to EXCO

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FOURTH QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q4	Target Q4	Target met / not met	Actual achievement	Reason for variation
		(e) Review & development of risk based enrolment fee	Value add to NHBRC	Report on risk based model	Investigate parameters for additions & alterations	Target not met	Investigate parameters for additions & alterations not done	Research in progress to be aligned with revision of legislation
Innovation & development	(6) Provide effective strategic management of human resources	(a) Human Resource Plan (workforce planning)	Attract best talent for NHBRC strategic business plan	Quarterly report	Clean audit report	Target met	Report to be workshopped for all	
		(b) Performance management to increase standards of delivery	Assess balanced scorecard	Assessed balanced scorecard	Assessment of balanced scorecard	Target met	All manager balanced scorecard training completed	
		(c) Monitor & evaluated	Performance information assessment	Performance information assessment scorecard	Performance information assessment for Q4	Target met	Performance information assessment done on time	
		(d) Employee satisfaction survey	Increase in staff morale	Data report	Conduct follow up survey	Target met	Survey questionnaire distributed electronically to all staff	
		(e) Change management programme in relation to culture	Performance & delivery of services	Register of resolved complaints	15% reduction in customer service complaints	Target met	Successful appointment of Human Capital Group. Offsite interventions held with NHBRC executives on rollout of new organisational strategy. Feedback report received from service provider. Next stage & dates have been confirmed with establishment for senior management	
		(f) Internal service delivery charter	NHBRC service standards	Rollout report & BI report	40% rollout of charter (LP, FS, EC)	Target met	Service charter signed by Limpopo, Free State & Eastern Cape	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FOURTH QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q4	Target Q4	Target met / not met	Actual achievement	Reason for variation
		(g) Employee wellness programme (EWP)	Appoint accredited outsourced service provider	Status report from service provider	Resolve employee problems successfully	Target met	49% of employees registered on Ndawo website. Key issues referred to for counselling related to emotional & legal issues. Trends registered were 1) stress, 2) anxiety, 3) bereavements, 4) personal relationships	
		(h) Improve relations with labour	Monthly meetings with management forum & union	Attendance & minutes with resolutions	3 meetings with management forum & union	Target met	Section 189 consultations on-going since February 2010 with final round scheduled for 31 March 2011 in respect of roll out of organogram, placements & retrenchment lists	
		(i) Dispute resolution	Number of disputes at CCMA & Labour Court	Register of resolved disputes	80% resolution of disputes within statutory time limits	Target met	Grievances: 1 – solved CCMA cases: 2 – resolved & concluded 1 x DC outstanding	
People	(7) To develop effective governance structures, policies, process & ensure compliance	(a) Development of all Policies	Implementation of the required policy documentation	Status report	Monitoring exercises on policies by managers	Target met	All key policies developed & in place. Monitoring of workshopping on all developed policies	
		(b) Business continuity management	Implementation of the business continuity management plan by target date	Sign off of Phase 2 implementation	Final Implementation, maintenance & testing of plans	Target met	Ongoing maintenance of BCPs. IT disaster recovery testing not yet achieved by IT Section	
		(c) Risk Management Plan	Compliance with risk management plan	Operational risk registers submitted to Risk Committee	Cover 100% of the operational risk register	Target met	Consolidation of all operational risks done & strategic risk register going to committee & board approval	

9 PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FOURTH QUARTER OF 2010/2011

Balanced scorecard perspective	Strategic objective	Programme	Measures	Indicator Q4	Target Q4	Target met / not met	Actual achievement	Reason for variation
		(d) Implementation of compliance risk function	Implement a compliance risk policy	Compliance risk monitoring report	Monitoring high risk areas according to risk based approach	Target met	Compliance policy in place. High compliance risks identified	
		(e) Compliance with King III Code of Governance	Implementation of "apply or explain" resolutions	An approved document on intended level of compliance	Conduct monitoring on progress status in terms of management resolutions	Target met	IA audit to submit report on compliance at next sitting	
Process & Systems	(8) To ensure effective & integrated systems to support the business operations	(a) Review & update all business applications	Document on reviewed business applications (BPR Report)	No indicator set for quarter	No target set for quarter	No performance	No achievement, reported in previous quarter	No variation
		(b) Develop & implement Enterprise Service Framework (ESF)	Integrated system	No indicator set for the quarter	No target set for quarter	No performance	No actual achievement	No variation
		(c) Review & implement technical infrastructure network	Effective provincial & national network infrastructure	Review document	Review efficiency of new network structure	Target met	Efficiency of the new network structure reviewed	
		(d) Cleanup data related to inspectorate, finance, legal & Human Capital	Historical record of data	Audited data	Conduct audit of the data	Target met	Inspection data cleaned	
		(e) Review & implement telephone Management System	Efficiency of the telephone system	No indicator set for the quarter	No target set for the quarter	No performance to report on	No achievement for quarter	No variation
		(f) Develop & implement Internet based VFP	Efficiency of organisation	No indicator set for the quarter	No target set for the quarter	No performance to report on	No achievement for quarter	No variation
		(g) Develop & implement geographical information systems	Efficiency of organisation	No indicator set for the quarter	No target set for quarter	No performance to report on	No achievement for quarter	No variation
Financial perspective	(9) To maintain & grow a sustainable warranty fund that protects consumers	Investment strategy	Investment Strategy	Return on investment	Benchmark return on investment	Target met	1.3% higher than benchmark	

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