

NATIONAL HOME BUILDERS

NHBRC

REGISTRATION COUNCIL

ASSURING QUALITY HOMES

ANNUAL REPORT



2015/16

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the NHBRC: an overview

The National Home Builders Registration Council (NHBRC) was established in 1998 in terms of the Housing Consumers Protection Measures Act, 1998 (Act No. 95 of 1998) (as amended) (the HCPMA). The NHBRC has a dual mandate: to protect the interests of housing consumers and to regulate the homebuilding industry.

OUR VISION

To be a world-class homebuilders' warranty organisation that ensures the delivery of sustainable, quality homes.

OUR MISSION

To protect the housing consumer and regulate the homebuilding environment by promoting innovative homebuilding technologies, setting homebuilding standards and improving the capabilities of homebuilders.

OUR VALUES

- Customer service excellence
- Good corporate governance
- Research and innovation
- Commitment and moral integrity
- Technical excellence

OUR STRATEGY

- To improve visibility and accessibility in the market while enhancing interaction with our stakeholders
- To position the NHBRC as a leader in knowledge creation, technical and technological building solutions through strategic partnerships
- To provide diversified products and services in line with changing building requirements and needs

MOTTO

"Assuring Quality Homes"

STRATEGIC OBJECTIVES

- Grow, protect and sustain the warranty fund
- Provide innovative quality products and services that delight the customer
- Strengthen the operating processes, systems and procedures
- Create a learning environment and build capabilities that deliver NHBRC value products and services





key moments in the history of the NHBRC

2007

Launch of the Eric Molobi Housing Innovation Hub in Soshanguve, Pretoria

2008

Development of integrated human settlements ('Breaking new ground')

2009

Relocation of Gauteng Provincial Customer Service Centre to Woodmead.

2010

Open days held in the Eastern Cape, Gauteng, KwaZulu-Natal and the Western Cape to educate housing consumers and homebuilders about the NHBRC and its objectives





2011

Hosting, in partnership with the National Department of Human Settlements, of the 12th International Housing and Home Warranty Conference (IHHWC), the first of its kind on African soil

2012

Representation on the board of the International Housing and Home Warranty Association (IHHWA) as Deputy Chairperson of the Association

2013

Commencement of materials testing at Eric Molobi Innovation Hub

2014

Launch of the 20/20 Women Empowerment Programme
Establishment of a fully insourced inspectorate service at the NHBC





SECTION 1
LEADERSHIP OVERVIEW

1. COUNCIL



Mr Abbey Chikane
Chairperson
Post-Graduate
International Business,
M.Sc. Economic
Development
(Southern New Hampshire
University)



Ms Julieka Bayat
Deputy Chairperson
MA in Town and
Regional Planning,
BA (University of Natal,
University of
Durban-Westville)



Mr Themba Dlamini
Member
MA in Development
Economics, BA in
Economics,
Dip in Business
Administration
(William College
Massachusetts,
Howard University,
Northern Virginia
Community College)



Ms Xoliswa Daku
Member
Degree in Computer
Literacy, B.Proc.,
LLM (MA In Law), Dip
in Legal Practice, Dip
in Human Resources
Management and Training,
Dip (MDP); Economics;
Marketing, People and
Financial Management,
Post-Graduate Project
Management
(University of Transkei,
University of the Western
Cape, University of Cape
Town, Varsity College,
University of Stellenbosch,
Cranefield University)



Ms Hlaleleni Dlepu
Member
B.Proc., LLB, Cert in
Business Rescue – Unisa,
Cert in Adjudication
Skills Legal Continuous
Education, First Level
Regulatory Examinations
(FSP) (Sole Properties)
and Key Individual in
categories I, II, IIA, III, IV &
Financial Services Board,
Cert in Court-Based
Mediation
(University of the North,
University of South Africa)



Mr Mziwonke Jacobs
Member
Adult Education Training,
First Aid Training – Trained
as a Trainer, Primary Health
Care Management,
Project Management,
Facilitation and
Organisational
Development,
Computer Training
(CVET and UWC,
Health Care Trust and St
Johns Ambulance,
Progressive Primary Health
Care Network with Red
Cross Hospital, ERIC and
UCT Business School,
Portfolio on Facilitation
and Organisational
Development through
CDRA. Microsoft Training)



**Ambassador Samuel
Kotane**
Member
BA in Government and
Law, MA in International
Politics, Law and
Organisation,
Cert in Teaching English as
a Second Language
(University of Botswana,
Lesotho and Swaziland,
University of Denver
Graduate School of
International Studies,
University of Denver,
George Brown College)

1. COUNCIL (CONTINUED)



Mr Phetola Makgathe
Member

M.Sc. in Industrial Relations and Personnel Management, BAdmin in Industrial Psychology and Public Administration, Cert in Management of Training, Housing Finance Executive Programme (University of London, University of the North, University of the Witwatersrand, University of the Witwatersrand)



Mr Goolam Manack
Member

M.Sc. Public Policy and Management, Cert in Government IT Management, Executive Programme – Financial Management (University of London, University of the Witwatersrand, Duke University)



Ms Mankwana Mohale
Member

Cert in Local Government and Development Management, Cert in Governance and Public Leadership, AdvCert in Governance and Public Leadership (MANCOSA, Unisa, Wits Business School)



Mr Obed Molotsi
Member

N Dip in Architecture, B.Tech. Architectural Management, MDP, Fundamentals of Snr Management, MBA (Technikon Northern Transvaal, Wits Technikon, University of Pretoria, Unisa SBL)



Ms Busisiwe Nzo
Member

B.Sc. (Quantity Surveyors) (Nelson Mandela Metropolitan University)



Mr Lulama Potwana
Member

LLB , B.Juris (University of Transkei)



Mr Alvin Rapea
Member

B.Com., Post-Graduate, Dip in Management, Dip in Labour Law (University of the North, Wits Business School, Graduate Institute of Management and Technology)

The NHBRC is directed and controlled by a council appointed by the Minister of Human Settlements in terms of section 4 of the HCPMA. The Council is appointed for a period determined by the Minister, but not exceeding three years at a time. The current Council was appointed as from 1 August 2015, and its terms of office will expire on 31 July 2018.

The members of Council and their highest qualifications have been set out above.





Mr Abbey Chikane

2. CHAIRPERSON'S REPORT

The 2015/2016 financial year brought a strategic and purposeful shift in the stance of Council in ensuring that the National Home Builders Registration Council forges ahead to ensure the protection of the housing consumers and the continued enhancement of the home building industry. I was in a privileged position to have worked with Council whose tenure ended on 31 July 2015 and with the current Council that was inaugurated to commence their fiduciary duties with effect from 01 August 2015. The changes in the economic and financial markets and the continual demand for houses within the subsidy and non-subsidy sector remained unabated; propelling a re-energised approach in corporate governance within the NHBRC and a conscious stance in elevating good ethos and service delivery. We note that the NHBRC received an unqualified audit finding for this reporting year and it is our intention that all endeavours for the 2016/2017 financial year must be committed towards a clean audit.

The mandate from the Shareholder to the newly appointed Council was unequivocally clear – the need for this Council to formulate and implement a turn-around strategy that will bring a paradigm shift in elevating the discharge of the mandate of the NHBRC. The urgency thereof could not be overemphasized if Council had to strategically lead with a purposeful and enlightened vision for the benefit of the sector. We were and remain conscious of the magnitude of the contribution that the NHBRC plays within the housing sector which in 2013 was worth R3 trillion according to research released by the Property Sector Charter Company within a property sector that was then worth R4.9 trillion. The commitment from Council resulted in the identification of the top ten priorities as an impetus to re-energise the strategic focus of the organisation recorded as follows:

- a. Visibility and Accessibility;
- b. Leader in knowledge creation;
- c. Products and Services;
- d. Review of the Operating Model;
- e. Review of Legislation;
- f. SAP Implementation;
- g. Investment Strategy;
- h. A Clean Audit;
- i. Social Transformation Strategy and;
- j. Strategic capacitation of the NHBRC.

Visibility and Accessibility

The visibility and accessibility of the NHBRC remains key to ensuring that consumers and home builders are enabled to exercise their legislative rights protected and provided by the NHBRC. Council recognised the various delimiting factors which may impede visibility and accessibility of the NHBRC. Our Marketing and Communication Section rose to the occasion and introduced various media awareness campaigns which included promotion of consumers' rights on national television networks. The Print media has also played a remarkable advertisement space and opportunity in uplifting consumer awareness campaigns.

Legislative Review

The enabling Act of the NHBRC remains the cornerstone upon which the regulation of the home building sector is regulated. It is crucial therefore that like all laws and policies, it should remain responsive to the changing needs of the consumers, society and all key stakeholders. The Housing Consumers have spoken – and the NHBRC has responded effectively by ensuring that the draft Bill which has been widely canvassed even prior to the formal process of public comments being embarked upon, encapsulates the various products and enforcements processes meant primarily to protect the housing consumers. We are glad to report that, through various collaborative and facilitative meetings with the Offices of Ministry and State Law Advisors, the Bill has been submitted to the Shareholder for formal tabling within the relevant legislative processes.

Certification of Inspectors

A significant stride within the building sector is the robust initiative and the bold steps taken by the

NHBRC and the South African Council for Project and Construction Management Professions (SACPCMP), an entity established to advance project and construction management professions for the primary purpose of protecting the public interests and to contribute towards the promotion of the built environment. We signed a Memorandum of Understanding to ensure the certification of Home Building Inspectors which will be ground breaking for South Africa.

It is a noteworthy to mention that the professionalization of inspectors will significantly contribute towards ensuring that home builders are assisted in ensuring that homes are built to ensure good structural integrity for the benefit of housing consumers.

Innovative Building Technology

The high cost of building materials and the need to provide housing consumers with innovative building technology has been an ideal and a vision of the NHBRC for over a significant period. The building of the Eric Molobi Housing Innovation Hub in Soshanguve is testimony thereof. The honourable Minister has emphasised the need for increased delivery of houses and that such delivery should achieved in a more cost effective and efficient way without any compromise to quality. The Department of Human Settlements intends to construct 1.5 million houses by 2019 and apportion of the allocated budget is for Innovative Building Technologies. We are resolute in ensuring this vision. The NHBRC is in collaboration with the Banking Association of South Africa (BASA) is busy with a position paper meant to provide details of the Innovative Building Technology systems targeted at ordinary home owners. This is meant to provide solutions as to how financing of Innovative Building Technology can be facilitated. The role of Financial Institutions is regarded as crucial in the process of technology innovation diffusion by providing financing for prospective homeowners when purchasing an existing property or constructing a new home using Innovative Technology.

Social Transformation

This reporting witnessed the incubation and ultimate adoption of the Social Transformation and Empowerment Program (S.T.E.P) with its beneficiaries being women,

youth, military veterans and persons with disabilities. The purpose is to address past transformation imbalances in the home building industry and increase the level of investment in technical training of such beneficiaries.

Investment Strategy

Council realised a need to review its Investment Policy and Strategy which entailed investments being 10% in equities, 17% in structure investment; 23% in bonds and 50% in money markets. A new Investment Strategy has been approved with the objective that the NHBRC should establish a Housing Development Fund subject to approval by the Shareholder.

Ethics

Council is pleased of the commitment that staff of the NHBRC has displayed during this reporting year to ensure that housing consumers remain protected and that the home building sector is being regulated. We consciously and practically embraced the notion of elevating good ethical values from Council to all staff. It is our intention to ensure that we all function from good moral grounds that shapes the manner in which we interact with our

stakeholders and how the NHBRC is perceived by its stakeholders.

Conclusion

Council thanks the support that it received from the Office of the Minister of Human Settlements, the Department of Human Settlements and all key stakeholders in ensuring that we continue to service the people of South Africa.

The commitment, perseverance and spirit of champions shown by our Management and Staff are greatly appreciated. Our vision of "being champions of the housing consumers" must continue to propel us forward and to esteem us to be proud change agents of excellent service delivery.



Mr. Abbey Chikane

Chairperson





Mr Shafeeq Abrahams

3. ACTING CHIEF EXECUTIVE OFFICER'S REPORT

The mandate of the NHBRC is to regulate the homebuilding industry and to protect housing consumers.

The organisation has adopted three key strategies in this regard namely *to improve visibility and accessibility in the market while at the same time enhancing interaction with our stakeholders; to position the NHBRC as a leader in knowledge creation to provide technical and technological building solutions; and finally to provide diversified products and services for the homebuilding industry.* During the past year, the NHBRC started laying the foundation for greater regulatory effectiveness in terms of its people, systems, processes and reputation. Our intention was to display more regulatory muscle, enhance our responsiveness to market needs and ensure greater engagement with customers and key stakeholders.

In realising this intention, the NHBRC set out to develop three programmes - namely; regulation, consumer protection and administration. The regulation programme deals with the registration, deregistration and reinstatement of homebuilders; homebuilders' compliance with set norms and standards and the enforcement thereof; and training for homebuilders. The consumer protection programme covers project enrolment, home enrolment, the issuing of warranty certificates, stakeholder engagement and sustaining the warranty fund. The administration programme covers governance and leadership; human capital issues; finance and supply chain management, and internal audit functions.

Key priorities

The newly appointed Council identified ten priority areas that required immediate focus for the 2015/2016 financial year. The following interventions were implemented to address these priorities:

No.	Description of priorities	Description of Interventions
1.	Visibility and accessibility	<ul style="list-style-type: none"> Media engagement Site visits and marketing campaigns to increase consumer awareness Round-table dialogues with homebuilders, contractors, academics in related sectors, and housing consumers Publication of the Homebuilding Manual
2.	Leader in knowledge creation	<ul style="list-style-type: none"> Enhancing the role of the Centre of Innovation, Research and Development
3.	Products and services	<ul style="list-style-type: none"> Enrolment of new homes, homebuilder registration and renewals, homebuilding inspections, forensic engineering investigations, assessment of houses for rectification, homebuilder training and development, homebuilding dispute resolution, litigation and legal advisory services, and geotechnical and materials engineering
4.	Review of the operating model	<ul style="list-style-type: none"> Use of innovative building technology and alternate building systems Implementation of the Geographic Information System and HomeQuas, incorporating the use of Google Maps
5.	Review of the legislation	<ul style="list-style-type: none"> Review of sections of relevant legislation to permit the Council to enforce compliance without hindrance Inspection of homes in the subsidy and non-subsidy sectors
6.	SAP implementation	<ul style="list-style-type: none"> Stabilise the SAP solution after going live during the period under review.
7.	Investment strategy	<ul style="list-style-type: none"> Revisiting the investment strategy of the Warranty Fund to support access to Housing in South Africa.
8.	Clean audit	<ul style="list-style-type: none"> In the previous financial year, the Council received an unqualified audit opinion with an emphasis of matter. Council has targeted the achievement of a clean audit by the year 2017.
9.	Social transformation	<ul style="list-style-type: none"> Acceleration of high-impact programmes for the youth, veterans, People Living with Disabilities and women
10.	Strategic capacitation of the entity	<ul style="list-style-type: none"> Implementation of a human capital strategy to attract, develop and retain appropriate technical and leadership skills within the organisation

Performance of organisation

I am pleased to report that for the financial year 2015/16 a total of 4,390 homebuilders were registered with the NHBRC against a target of 3,500. This can be attributed to the expected increase in tenders to be advertised by Provincial Departments of Human Settlements. As a result, in anticipation of this, builders tend to ensure that their NHBRC registration is in place. In addition, 78% of existing homebuilder registrations were renewed.

During the year under review, the NHBRC enrolled 49,612 homes in the non-subsidy sector against a target of 50,205. The shortfall in meeting this target can be attributed to the increase in interest rates experienced during the period, and its impact on the residential property development sector. Within the subsidy sector, the NHBRC conducted 77,004 subsidy home enrolments for the year under review – 39% below the target set for the financial year. The negative performance in the subsidy sector is due to the delayed rolling out of projects by Provincial Human Settlements Departments.

The NHBRC discourages homebuilders from enrolling homes late as it prevents the organisation from carrying out the necessary inspections, resulting in risks to the Warranty Fund. During the year under review, a total of 1028 late enrolments took place against a target of 1,255, indicating that the target was met for the financial year. Nevertheless, there is a dedicated effort to reduce the number of late enrolments to zero. A reduction in late enrolments would be a positive indication that homebuilders are complying with the Housing Consumers Protection Measures Act, 1998 (HCPMA).

The Council has resolved to take a zero-tolerance approach in respect of non-compliance with the HCPMA. In the year under review, 258,446 inspection stages were carried out in the non-subsidy sector against a target of 200,820. In the subsidy sector, a total of 230,103 inspection stages were carried against a target of 385,200 for the financial year. This failure to meet the target may be attributed to fewer subsidy projects than expected being enrolled with the organisation.

A total of 241 homebuilders were suspended for the year under review for failing to attend to one of the following reasons, complaints from housing consumers about non-adherence to norms and standards, and major structural defects. A total of 299 disciplinary hearings were conducted by the NHBRC.

Training of women and the youth

One of the National Department of Human Settlements' key priorities remains utilising housing delivery to drive job creation for women and youth in particular. To this

end, the NHBRC has focused on training and building the capacity of women and youth. During this financial year, the NHBRC undertook training initiatives for homebuilders, the youth, women, inspectors, artisans, people with disabilities and military veterans. The NHBRC trained a total of 4,652 individuals in various skills during the 2015/2016 financial year, against a target of 3,951.

The NHBRC will continue to devise innovative training and capacity-building methods to ensure the development and empowerment of women and youth in the industry. The National Department of Human Settlements has recommended that the NHBRC's Eric Molobi Centre of Excellence be utilised as a base for coordinating training events for women and youth. The NHBRC's strategy was to ensure that training happens where construction is taking place so that the trainees do not end up with only theoretical training but are empowered with the necessary skills required in the sector.

As we continue on our journey of building an effective regulatory organisation that protects the housing consumer, I would like to acknowledge the outstanding support of our stakeholders and staff. I would like to recognise their contribution, and look forward to building a stronger partnership into the future.



Mr Shafeeq Abrahams

ACTING CHIEF EXECUTIVE OFFICER



4. EXECUTIVE COMMITTEE

The NHBRC's Executive Committee is the top management committee responsible for making decisions on strategic and operational matters which are reserved for management in terms of the Delegation of Authority Policy. The Committee is constituted by all executive managers, and the Chief Executive Officer is the Chairperson of the Committee.

During the year under review the Committee comprised the following members:



Mr Shafeeq Abrahams
Acting Chief Executive
Officer
**CA(SA), MBL, B.Compt
(Honours)**



Ms Thandiwe Ngqobe
Chief Operations
Officer
**B.Com., Postgraduate
Dip in Management**



Ms Thilinti Moshoeu
Executive Manager:
Business Operations
**B.Comm., B.Comm.
(Hons), M.Sc.
(Business Studies)**



Ms Keolebogile Modise
Executive Manager:
Corporate Services
Bachelor of Science



Ms Julia Motapola
Executive Manager:
Legal Compliance and
Enforcement
B.Proc., LLB, LLM



SECTION 2
FINANCIAL HIGHLIGHTS

Background of division

The primary objective of the Finance division is to secure the financial sustainability of the NHBRC through effective asset and liability management as well sustained revenue generation and prudent cost management. The NHBRC Warranty Fund, which was evaluated on a run-off basis by independent actuaries, was found to be both solvent and in a sound financial position as at 31 March 2016.

Strategy of the division

The Finance division contributes to the NHBRC by growing and sustaining the warranty fund and ensuring implementation of risk mitigation strategies against losses on the warranty fund. In order to achieve this, the NHBRC has adopted, on a voluntary basis, the principles and practices of Solvency Assessment Management (SAM).

One of the main focus areas of the NHBRC for the 2015/16 financial year was to increase and improve organisational efficiency and effectiveness. As part of this initiative, the Finance division has been redesigned, including its processes with a view to ensuring simplified, automated and efficient financial processes, with increased control effectiveness. This has been enabled by the SAP ERP solution.

Key Challenges

Whilst revenue generation from non-subsidy enrolments has been stable in recent years, growth from this source of revenue is projected to grow by 5,5% per annum over the next five years. While this is the largest source of revenue, it is highly dependent on conditions within the home building industry and presents limited direct opportunity for the NHBRC to stimulate revenue growth in this segment. This presents a risk to predictability of future cash flows generated through this source of revenue.

Operating expenses have grown at an average of 20% per annum between 2014/15 and 2015/16. This is largely due to the implementation of initiatives aimed at positioning the NHBRC to effectively deliver on its mandate. In order to ensure prudent cost management on a sustainable basis, further cost containment measures have been implemented whilst enabling the NHBRC to deliver on its mandate.

FIVE YEAR FINANCIAL SUMMARY

Overview

Growth is anticipated in the segment for flats and townhouses in the market price band below R 1 million, while low growth is evident in the segment of larger homes.

The residential property market is influenced by macro-economic and household sector related factors. The residential property market is impacted by economic and confidence factors affecting home owners and prospective home buyers during times of rising inflation, high debt to income ratios and poor credit risk. These factors restrict the affordability of housing and the accessibility to mortgage finance.

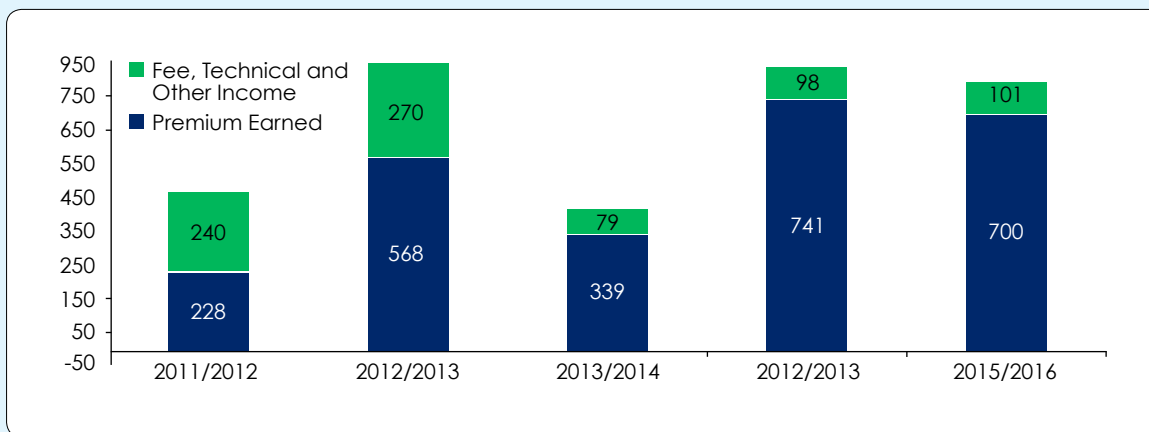
Future demand for and supply of new homes will be driven by developments with regard to the economy in general, but specifically by trends in respect of:

- Growth in real gross domestic product which will impact levels of employment in the economy;
- Average consumer price inflation affecting spending power;
- Interest rate stability in 2016;
- Household debt management;
- Consumer risk profiles;
- The affordability of property and the accessibility of mortgage finance for households.

Growth in the subsidy market is anticipated over the next 5 years as a result of the Department of Human Settlements 1,5 million housing opportunities programme.

RESULTS FOR THE YEAR

Revenue



Revenue from enrolments (premiums written) decreased by R 41 million to R 700 million in 2016. The increase in the provision for unearned premium of R 52 million (2015: R 221 million) was reduced by the change in the unexpired risk provision amounting to R 47 million (2015: R 155 million). Insurance premiums are recognized over the period of the policy commensurate with the expected incidence of risk from the date of occupation of the home.

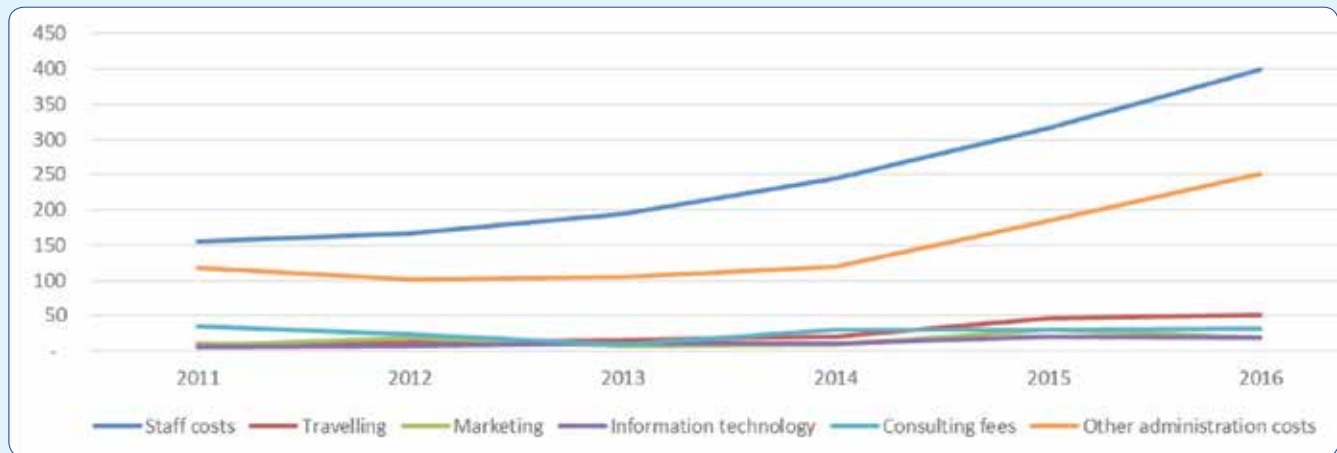
Non-subsidy enrolment value decreased by 0.3% while subsidy enrolment of homes also decreased by 39%. The decrease in subsidy home enrolments is primarily due to the rollover of projects approved in the prior year which are now entering the construction phase, whilst the decrease in non-subsidy premiums written is attributable to decreased or stagnant activity in the home building industry as compared to the previous financial year.

Fee revenue decreased from R 51 million to R 42 million (17%), which was mainly attributable to the decrease in subsidy project enrolments by R 7 million (2015: decrease by R17 million). Fee revenue includes annual registration fees, annual renewal fees, late enrolment fees, builder manual fees, subsidy project enrolments and document sales.

Technical services revenue represents rectification and forensic technical service fees earned in the subsidy market. The realisation of fees is primary due to contracts rolled over from the previous financial year.

Income earned from investments amounts to R289 million (2015: R 271 million) and represents a year on year increase of R 18 million.

Operating expenditure

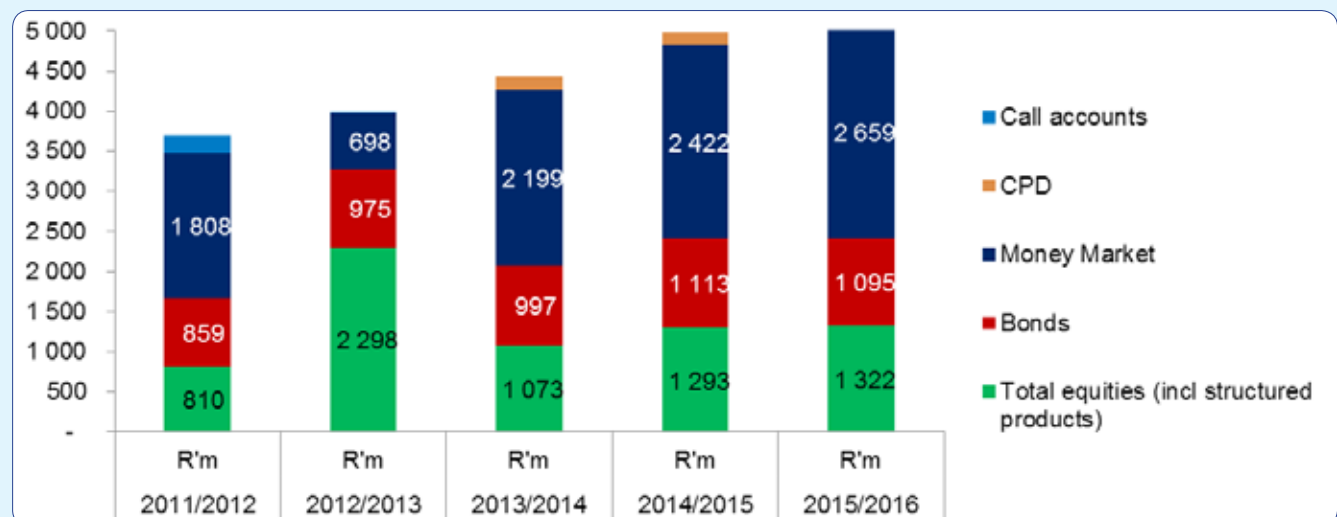


Expenditure is categorised into risk mitigation (operating expenditure) and business support (administrative expenditure). Risk expenditure is incurred to mitigate any risk to the warranty fund by enforcing legislated building regulations. Risk expenditure comprises inspection fees incurred during the construction of homes and the accreditation of builders on an annual basis.

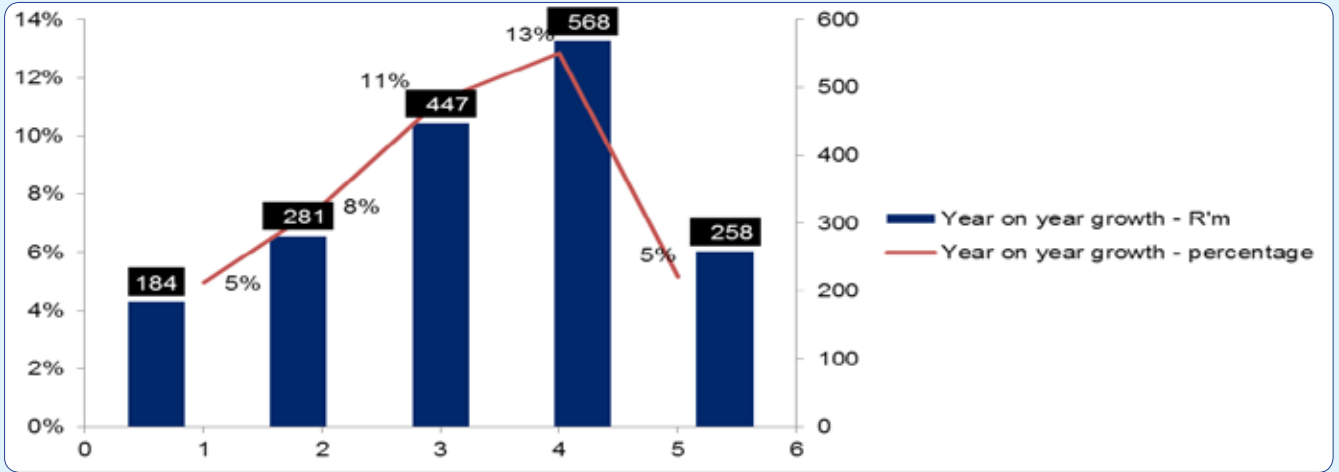
Business support expenditure consists of fixed costs to maintain the NHBRC operations and services to its customers.

Risk mitigation costs increased with the enhancement of the inspection model during the year under review with greater emphasis being placed on the employment of inspectors and quality assessors. The additional costs incurred by in-sourcing are evident in the increased employee costs incurred.

Investments



The NHBRC is regulated in terms of the Housing Consumers Protection Measures Act, 1998 (Act 1 of 1998) to establish a fund for the purposes of providing assistance to housing consumers under circumstances where a home builder fails to meet their obligations under section 13(e)(b)(1) 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.



Investments are held in Local Bonds, Local Equities, Money market instruments, structured equity linked notes and the Corporation for Public Deposits. These portfolios are managed on behalf of the NHBRC by external asset managers, with investment performances tracked against predetermined benchmarks. The market value of the investment portfolio increased to R 5.2 billion (2015: R 5 billion). The fair value loss adjustment of R114 million (2015: fair value gain R 75 million) caused by volatility in financial markets, is taken to the Statement of Financial Performance in terms of GRAP 104.

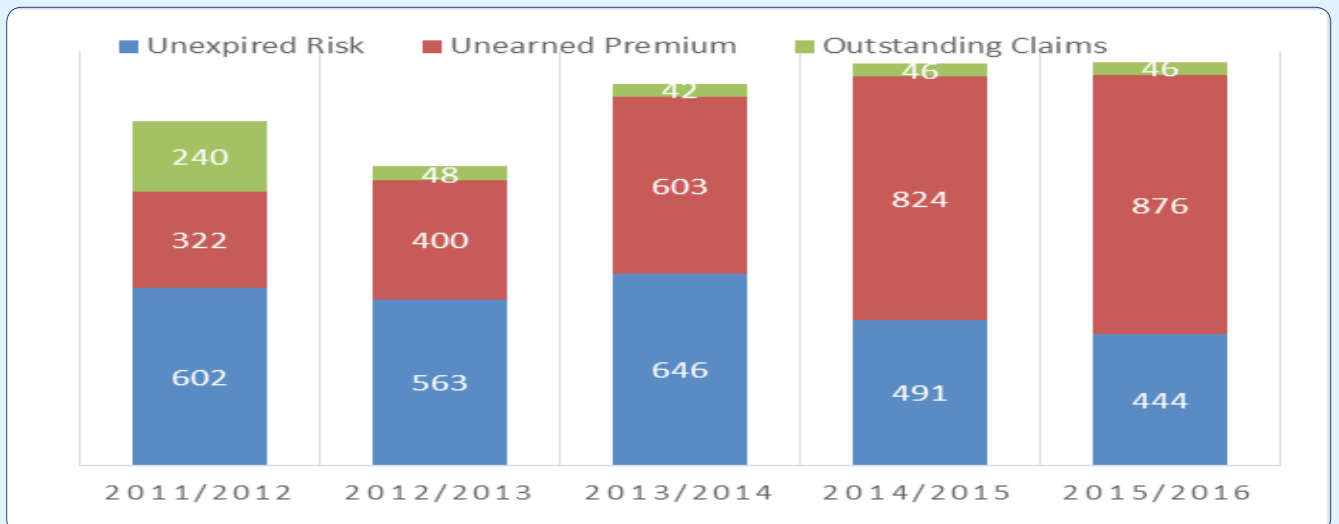
Emerging Contractor Reserve

The emerging contractor training 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 R 10 million (2015: R 9 million) for home builder training in the current financial year.

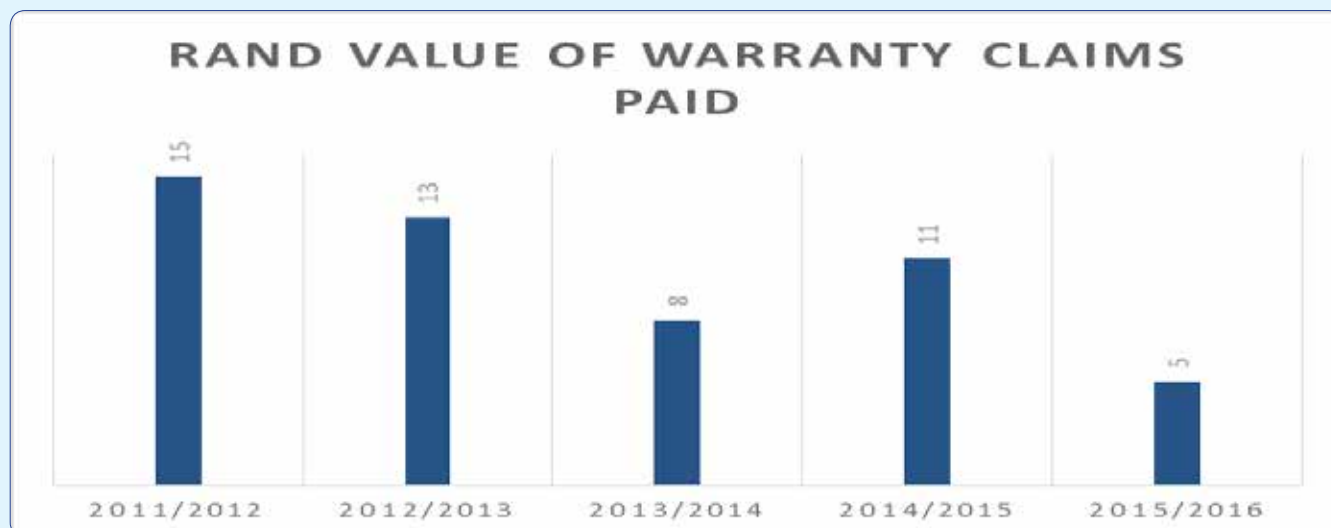
SOLVENCY OF THE WARRANTY FUND

Technical Liabilities

The technical liabilities of the NHBRC are actuarially determined annually as part of the solvency valuation of the warranty fund. The technical liabilities consists of Outstanding claims, Unearned premium and Unexpired risk provisions which are defined below.



Claims against the Warranty Fund



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.

During the current year the NHBRC settled warranty claims amounting to R 5 million (2015: R 11 million). The outstanding claims provision increased by R 0.8 million (2015: increased by R 5.9 million).

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 decreased from R 491 million to R 445 million, thereby increasing insurance premium revenue earned for the year by R 46 million (2015: R 155 million).

The results of the independent 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 2016 when valued on a run-off basis. The actuarial liabilities are 384% (2015: 361%) funded and the actuarial surplus is 284% (2015: 267%) of provisions. The solvency position (surplus as a percentage of provisions) has increased since the last valuation due to an increase in the valuation of assets that exceeds the increase in the value of provisions.

Cash Flow

The cash flow inflow from operating activities decreased from R 341 million to R 59 million in the current financial year.

The National Home Builders Registration Council (NHBRC) must remain sustainable in order to ensure that it continues to carry out its statutory duties, as stipulated in the Housing Consumers Protection Measures Act, 1998 (Act No.95

of 1998). The NHBRC is also governed by activities that take place in the construction industry. Residential building activities are expected to continue to reflect conditions in the economy, household finances, consumer confidence and factors impacting the market for new and existing housing. These factors will be reflected in the demand and supply of new housing. The NHBRC has endeavoured to adhere to the provisions of the Housing Consumer Protection Measures Act of 1998, the Public Finance Management Act of 1999 (PFMA) and the principles related to integrated sustainability reporting as stipulated by the King III Report when it implemented its strategies and operations in the period under review.





SECTION 3
SUSTAINABILITY REPORT

The NHBRC must remain sustainable to ensure that it is able to continue to carry out its statutory duties as stipulated in the HCPMA. In addition to being regulated by the HCPMA, the NHBRC is also governed by activities that take place in the construction industry itself. Residential building activities are expected to continue to reflect the condition of the economy, household finances and consumer confidence, and will remain subject to factors impacting the market for new and existing housing. This will, in turn, keep showing up in the demand for new housing and the supply thereof. The NHBRC adhered to the Housing Consumers Protection Measures Act, the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), Treasury regulations and the principles related to integrated sustainability reporting as stipulated in the King III Report in implementing its strategies and operations in the financial year reported on.

Economic sustainability

The NHBRC is a self-sustaining organisation whose existence is dependent on the provisions of the HCPMA and its ability to build up reserve funds. The main aim of the NHBRC as a warranty scheme is to ensure that it is able to honour claims arising from the warrant cover provided. The NHBRC Warranty Fund was found upon valuation on a run-off basis by independent actuaries to be both solvent and in a sound financial position as at 31 March 2016.

Financial performance

Table 1: Financial performance summary 2012–2016

	2016	2015	2014	2013	2012
Surplus for the year (Rm)	187	523	197	541	119
Return on equity	5%	13%	6%	17%	7.3%
Total assets (Rm)	5,575	5,374	4,758	4,237	3,844
Total reserves (Rm)	4,001	3,817	3,292	3,095	2,608
Total technical liabilities (Rm)	1,367	1,360	1,291	1,011	977

The NHBRC implemented stringent expenditure controls and reviewed contracts to ensure optimal savings in response to adverse trading conditions. One of the NHBRC's main points of focus for the 2015/2016 financial year was to increase and improve its organisational efficiency and effectiveness.



Environmental sustainability

The Industry Advisory Committee advises the Council on all matters relating to the operations of the homebuilding industry, in addition to acting as a communication channel between the industry and the Council. Various industry stakeholders are invitee members of this committee. The NHBRC has also established technical infrastructure at the Eric Molobi Testing Centre to test building materials such as bricks and blocks. Through its technical section, the NHBRC ensures that housing products used in the provision of homes for housing consumers meet the requirements of the National Building Regulations. The NHBRC has a database of innovative technological housing products that satisfy the National Building Regulations. These products are assessed based on a number of criteria, including structural strength and stability, fire resistance, thermal performance and durability.

Environmentally, the homebuilding environment can be intrusive and pervasive where it develops and expands. Each and every 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, 1977 (Act No. 103 of 1977) and its regulations, made by the Department of Trade and Industry. The regulations include mandatory performance requirements to support the objectives of the HCPMA, which aim to ensure the safety and health of persons living or working in any building. Guidance on the application of the regulations can be found in SANS 10400.

Centre for Research and Innovation

The NHBRC has established a Centre for Research and Innovation (CRI), the main purpose of which is to turn the Council into a leader in knowledge creation through research and development. The NHBRC used the CRI to publish and present various papers at international conferences in the 2013/2014 financial year. The CRI has also played an important role in promoting innovative alternate building technologies. One of its initiatives was to raise money through golf tournaments to build houses using different innovative building technologies, which were handed over to the indigent in the Free State and Gauteng provinces.

People

The NHBRC has implemented an organisational structure, approved by the Council and the National Department of Human Settlements, which is contained in the approved Annual Performance Plan 2015/2016. Since both executive positions, namely those of Business Services Executive Manager and Corporate Services Executive Manager, have been filled, the NHBRC is able to deliver on its objectives fully and efficiently.

The NHBRC has implemented a recently approved inspectorate model which will be used to manage the entire inspectorate process. The model has been very effective in the financial year of 2015/2016, as is evident from the increased number of inspections that were witnessed in both the subsidy and the non-subsidy sectors. The NHBRC is expected to inspect all the houses that are enrolled with it, and uses the inspection of homes to mitigate risk for the warranty fund.

The NHBRC has established a Centre for Research and Innovation (CRI), the main purpose of which is to turn the Council into a leader in knowledge creation through research and development.

Governance and compliance

The NHBRC is required under the HCPMA to comply with strict governance principles in line with the provisions of the PFMA. The NHBRC has, through its Council Charter, endorsed the King III Code of Good Practice (the Code). It continues to ensure that 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 board of the Council brings a mix of different skills and abilities. The NHBRC is expected to gain positively from the combined experience and insight of Council members in the discharge of their duties of strategic oversight and control of the organisation. With this wealth of knowledge and experience, the NHBRC can move to the next level to reach maximum maturity. The result will be demonstrated by the effective and efficient delivery of its 'valuable final products', as mandated by the HCPMA.

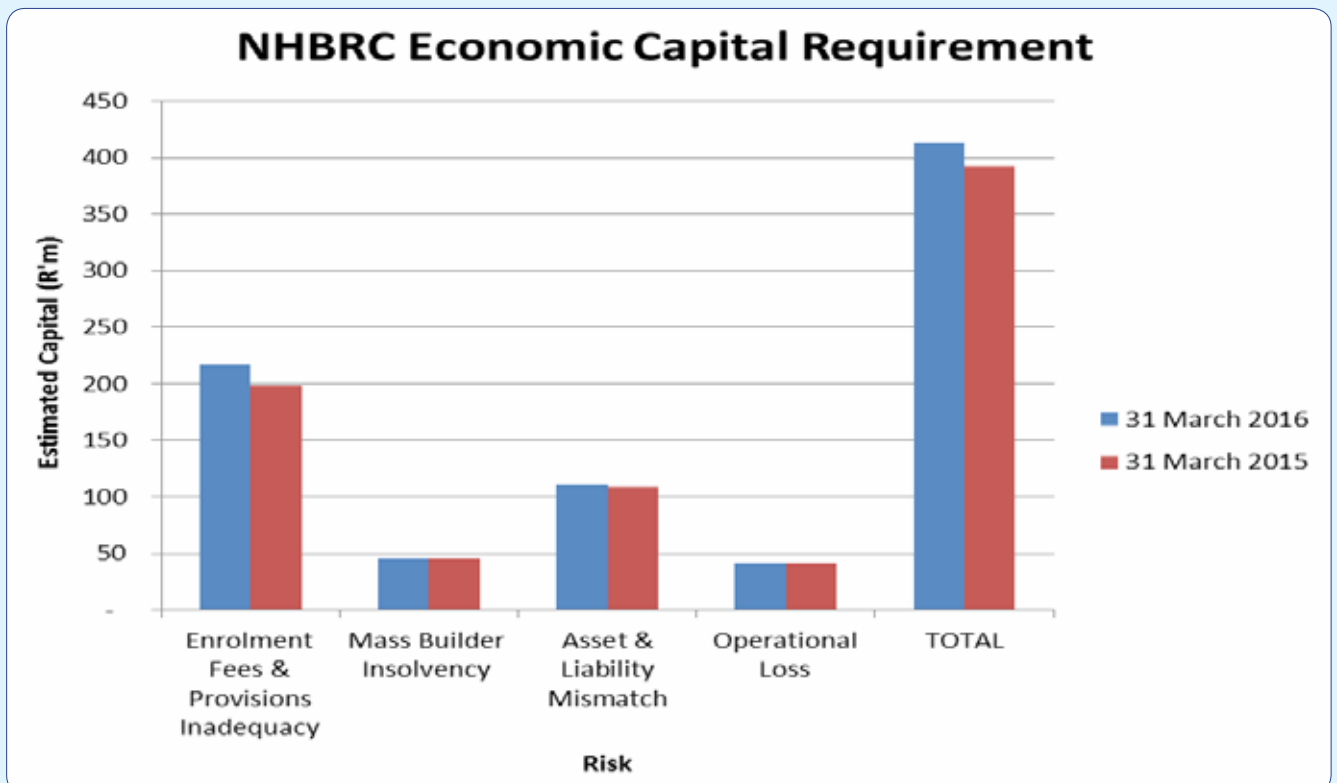
Capital and Risk Management for Sustainable Growth of the Warranty Fund

Introduction

The NHBRC Warranty Fund is managed to ensure its long-term sustainability for the protection of housing consumers. The NHBRC aligns as best as possible with best practice in the South African insurance industry in measurement and management of capital. Much of the quantitative aspects of capital management has been implemented with the assistance of our actuaries. Implementation and embedding of qualitative measures is underway to ensure a risk based solvency assessment and management framework.

Minimum Capital Requirement – R407 million

The NHBRC has estimated, as at 31 March 2016, the capital requirement it needs to hold over the FY2017 financial year as R407 million (FY2016: R393 million). These are the funds the NHBRC needs to hold, over and above the technical provisions or actuarial liabilities, to ensure the survival of the NHBRC over the 2016/17 financial year against probable worst-case risk events. This capital requirement is based on the NHBRC's specific risk profile. The risk components for which this capital is required are illustrated in the below chart:



Risk Appetite & Strategic Capital of the NHBRC – R2.0 billion

The NHBRC's strategic attitude to risk in terms of its risk appetite is to prefer to hold capital of at least five times the estimated capital requirement. This is higher than the estimated capital requirement for amongst others the following reasons:

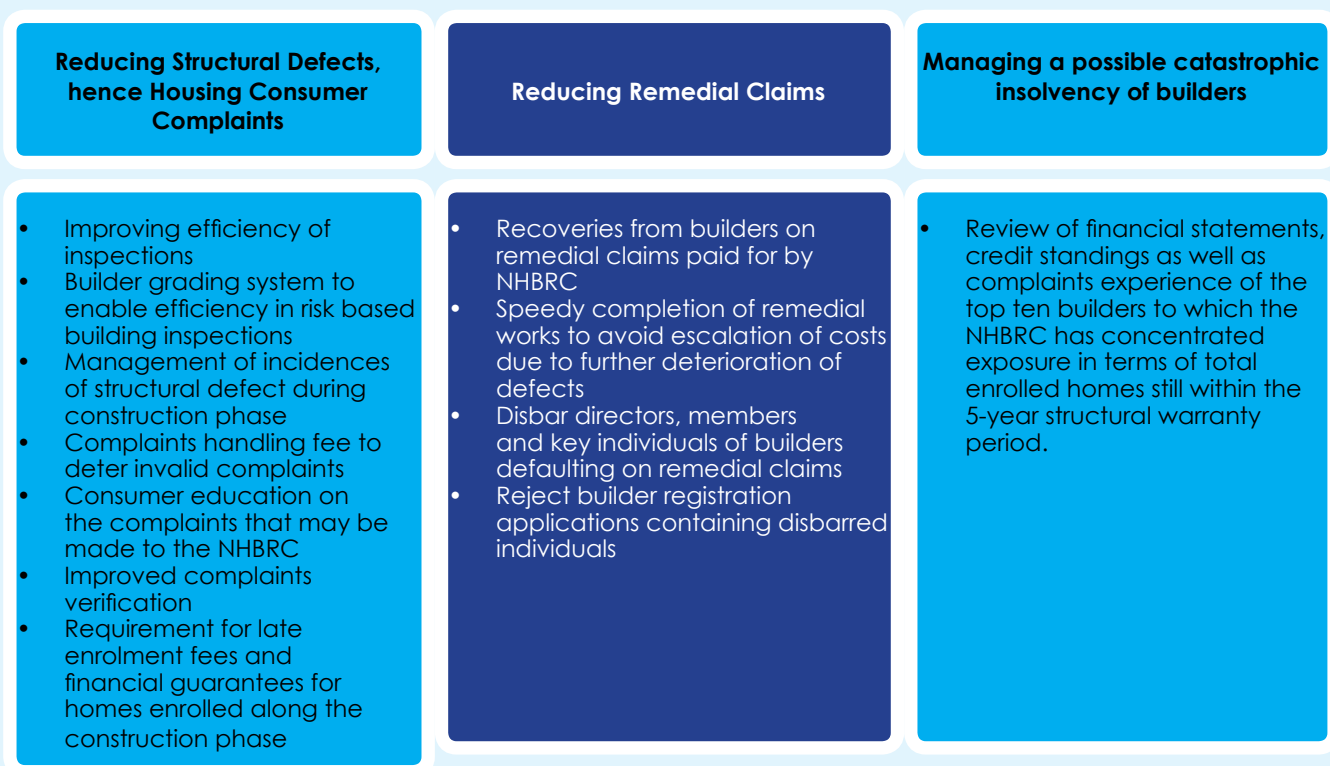
- There is need for capital in excess of the estimated capital requirement should the probable worst-case risk scenario for which the capital is required for happen in the 2016/17 financial year;
- Smaller loss events within the capital requirement amount could overtime erode the capital if only an amount equal to the capital requirement is held;
- To provide a buffer for corrective actions before insolvency, where the excess capital over technical provisions becomes less than the capital requirement amount; and
- The NHBRC is a unique warranty provider with no reinsurance or recourse to Government.
- The strategic capital that the NHBRC prefers to hold is therefore R2 067 million.

Excess Own Funds – R1.8 billion

The NHBRC Excess Funds after allowance of Strategic Capital of the NHBRC of R2.0 billion is R1.8billion. These are the excess funds that are available for utilisation in the business. These may be used for amongst others; enabling the Minister to increase benefits to the housing consumer to the extent allowable in the Housing Consumers Protection Act, additional warranty product offerings and/or investment profit by pursuing optimal real returns.

Managing Warranty Risks

For improved management of risk, the NHBRC has documented existing and new warranty risk management practices into a policy. The policy seeks to limit risks and losses from the provision of the NHBRC warranty product and promise to housing consumers. Some of the measures currently under consideration are as follows:





SECTION 4
CORPORATE GOVERNANCE

Composition of the Council

In terms of section 4 of the HCPMA, the Minister is empowered to appoint a minimum of seven and a maximum of 15 Council members for a period determined by the Minister, but not exceeding three years at a time. The Minister appointed 14 Council members, listed in Table 1 above, effective from 1 August 2015. They include the Chairperson, Mr Abbey Chikane.

The NHBRC Council

Mandate of the Council

The NHBRC derives its mandate from the HCPMA. The broad mandate is outlined as follows under section 3 of the HCPMA:

- To represent the interests 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 homebuilders to comply with their obligations in terms of the HCPMA;
- 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 assist homebuilders to register in terms of the HCPMA; and
- To assist homebuilders, through training and inspection, to achieve and to maintain satisfactory technical standards of homebuilding.

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, the Council is required to hold at least four quarterly meetings in each financial year in order to exercise proper oversight and accountability in relation to the activities of the NHBRC. Tables 2 and 3 below sets out the Council meetings that were held in the year under review and each member's attendance of those meetings.



Table 2: Council meetings and attendance during the year under review

Member Name	Capacity	Council Meetings			Totals per member
		30 April 2015	29 May 2015	30 July 2015	
Mr Abbey Chikane	Chairperson*	✓	✓	✓	3
Mr Suping Hlahane	Member~	✓	✓	✓	3
Ms Xoliswa Daku	Member~	✓	✗	✓	2
Ms Dina Maja	Member~	✓	✓	✓	3
Mr Matthys Markgraaf	Member~	✓	✓	✓	3
Mr Itumeleng Kotsoane	Member~	✓	✗	✗	1
Mr Sibusiso Ngwenya	Member~	✓	✓	✓	3
Ms Zimbini Vazi	Member~	✗	✓	✓	2
Mr Malusi Ganiso	Member~	✗	✗	✓	1
Ms Boniswa Madikizela	Member~	✗	✓	✓	2
Ms Busisiwe Nzo	Member~	✓	✓	✗	2
Mr Andisa Potwana	Member~	✗	✓	✓	2
13	Total members	8	10	11	

* *appointed Caretaker Chairperson from 3 February 2015 until 31 July 2015*

~*Three year term ended on 31 March 2015 and was extended to 31 July 2015 pending appointment of a new Council.*

Table 3: Council meetings and attendance during the year under review

Member Name	Capacity	Council Meetings								Totals per member
		30 April 2015	29 May 2015	30 July 2015	29 Oct 2015	11 Dec 2015	01 Feb 2016	05 Feb 2016	03 Mar 2016	
Mr Abbey Chikane	Chairperson	✓	✓	✓	✓	✓	✓	✓	✗	7
Ms Julieka Bayat	Deputy Chairperson				✓	✓	✓	✓	✗	4
Ms Xoliswa Daku	Member	✓	✗	✓	✓	✓	✓	✗	✓	6
Mr Themba Dlamini	Member				✓	✓	✓	✓	✓	5
Ms Hlaleleni Dlepu	Member				✓	✓	✓	✓	✓	5
Mr Whitey Jacobs	Member*				✓	✗	✓	✓	✗	3
Ambassador Samuel Kotane	Member*				✓	✓	✓	✓	✓	5
Mr Phetula Makgathe	Member*				✓	✓	✓	✓	✓	5
Mr Goolam Manack	Member*	✗	✓	✓	✗	✓	✓	✓	✗	5
Ms Mankwana Mohale	Member*				✓	✓	✓	✓	✓	5
Mr Obed Molotsi	Member*				✓	✓	✓	✓	✓	5
Ms Busisiwe Nzo	Member*	✓	✓	✗	✓	✓	✓	✓	✓	7
Mr Andisa Potwana	Member*	✗	✓	✓	✓	✓	✓	✗	✓	6
Mr Alvin Rapea	Member*				✓	✓	✓	✓	✓	5
14	Total members	3	4	4	13	13	14	12	10	

Council committees

The NHBRC Council is supported by ten (10) committees, established in terms of section 5 of the HCPMA. Each committee operates under terms of reference approved by the Council. The committees described below were constituted by the Council in August 2015.

List of constituted council committees

1. Human Capital and Remuneration Committee	2. Audit and Risk Management Committee	3. Fund Advisory and Finance Committee	4. Bid Adjudication Committee	5. Registrations Committee	6. Technical Research & Advisory Committee	7. Industry Advisory Committee	8. Social & Ethics Committee	9. Social Transformation Committee
Mr Rapea (Chairperson)	Mr Amod (Chairperson)	Mr Manack (Chairperson)	Ms Dlepu (Chairperson)	Mr Dlamini (Chairperson)	Ms Nzo (Chairperson)	Ms Bayat (Chairperson)	Ambassador Kotane (Chairperson)	Ms Daku (Chairperson)
Mr Makgathe	Mr Manack	Mr Makgathe	Mr Manack	Ambassador Kotane	Ms Bayat	Mr Jacobs	Mr Chikane	Mr Chikane
Ambassador Kotane	Mr Molotsi	Ms Dlepu	Ms Daku	Mr Rapea	Mr Dlamini	Mr Molotsi	Ms Dlepu	Ms Nzo
Ms Mohale	Mr Rapea	Mr Dlamini	Mr Potwana	Ms Bayat	Mr Molotsi	Ms Nzo	Ms Mohale	Ms Bayat
Ms Daku	Ms Daku	Vacant	Ms Mohale	Mr Potwana	Mr Makgathe	Ms Mohale	Mr Jacobs	Ms Mohale

10. Disciplinary Hearings Committee Chairpersons
Mr James Matshekga
Ms Salminah Maja
Mr Aubrey Ngcobo
Ms Reshma Maghoo
Ms Faith Mlaba
Mr Anandroy Ramdaw
Mr Derick Block
Mr Mandla Mdludlu
Mr Ephraim Sebe
Mr Tebogo Hlapolosa
Mr Bangiso Mhlabeni
Mr Paul Modise
Mr Pule Tshweu
Mr Suping Hlahane
Mr Matome Mokgalabone
Mr Nandu Malembete
Mr Molohe Ramolotja
Mr Abbey Dlavane
Mr Mohamad Motala
Mr Mosweu Mogotlhe
Mr Paul Mothle
Ms Duduzile Mthumunye
Ms Nonyazi Mzuzu
Mr Joseph Maseko
Ms Joyce Tohlang
Mr Harold Knopp
Ms Shirley Mabece
Ms Boitumelo Mmusinyane
Mr David Maree
Mr Thabile Mpshe
Ms Liv Vuma (Betty)
Mr Thabiso Kwena

Fund Advisory and Finance Committee

The Fund Advisory and Finance Committee is responsible for advising the Council on the prudent management of its funds. It makes recommendations to the Council regarding the setting of fees, procedures and policies for approval by the Council, as well as on all matters relating to the management of risk to the warranty fund, and the administration of this or any other Council fund. The Committee regularly reviews management's financial reports before submission to Council for approval, recommends the budget for approval by Council and advises Council on all other financial matters.

The Committee is constituted by the following members:

Name	Position
Mr G Manack	Chairperson and Council member
Mr PNS Makgathe	Member
Ms HK Dlepu	Member
Mr TTC Dlamini	Member
Vacant	Member

Registrations Committee

The Registration Committee is responsible for advising the Council on all matters relating to the registration and renewal of registration, suspension and deregistration of homebuilders under the HCPMA; monitoring the registration and deregistration of homebuilders; and recommending appropriate policies and procedures to the Council for approval. The Committee also assesses owner-builder applications received under section 29 of the HCPMA, and determines whether homebuilders qualify in terms of the HCPMA for exemption from enrolment of their own homes.

The Committee is constituted by the following members:

Name	Position
Mr TTC Dlamini	Chairperson and Council member
Amb. A Kotane	Member
Mr AP Rapea	Member
Ms J Bayat	Member
Mr LA Potwana	Member

Audit and Risk Management Committee

The Audit and Risk Management Committee is responsible for assisting the Council by reviewing the effectiveness of its systems of internal control and risk management mitigation strategies; its financial policies and procedures; and the financial information reported to its stakeholders, and by assessing the effectiveness of the internal and external audit functions. The Committee also ensures that the risk management framework is maintained and monitored. The Committee furthermore reviews the risk register and assessment reports to ensure the efficiency and effectiveness of the risk management strategy and plans.

The Committee is constituted by the following members:

Name	Position
Mr Y Amod	Chairperson and independent non-Council member
Mr G Manack	Member
Mr OL Molotsi	Member
Mr AP Rapea	Member
Ms X Daku	Member

Technical Research and Advisory Committee

The Technical Research and Advisory Committee is responsible for evaluating remedial works claims submitted by provincial offices and for making recommendations to the Council on the appropriate manner of dealing with such claims. It also reviews and approves the NHBRC's research agenda.

In addition, the Committee advises the NHBRC's Business Service division, with special emphasis on the Technical and Inspectorate section, with regard to all technical aspects of construction and innovation (both professional and technical) which may impact the NHBRC's risk management process.

The Committee is constituted by the following members:

Name	Council member
Ms BN Nzo	Chairperson and Council member
Ms J Bayat	Member
Mr TTC Dlamini	Member
Mr OL Molotsi	Member
Mr PNS Makgathe	Member

Disciplinary Hearings Committee (ad hoc sittings)

This Committee is responsible for presiding over cases of alleged contraventions of the HCPMA by homebuilders, and imposing disciplinary sanctions where homebuilders are found guilty of contravening the HCPMA. The Committee is constituted by a panel of legally qualified chairpersons and technical assessors who are all independent non-Council members appointed by the Council for its term of office.

The Committee is constituted by the following members:

DHC Chairpersons
Mr James Matshekga
Ms Salminah Maja
Mr Aubrey Ngcobo
Ms Reshma Maghoo
Ms Faith Mlaba
Mr Anandroy Ramdaw
Mr Derick Block
Mr Mandla Mdludlu
Mr Ephraim Sebe
Mr Tebogo Hlapolosa
Mr Bangiso Mhlabeni
Mr Paul Modise
Mr Pule Tshweu
Mr Suping Hlahane
Mr Matome Mokgalabone
Mr Nandu Malembete
Mr Molope Ramolotja
Mr Abbey Dlavane
Mr Mohamad Motala
Mr Mosweu Mogotlhe
Mr Paul Mothle
Ms Duduzile Mthumunye
Ms Nonyazi Mzuzu
Mr Joseph Maseko
Ms Joyce Tohlang
Mr Harold Knopp
Ms Shirley Mabece
Ms Boitumelo Mmusinyane
Mr David Maree
Mr Thabile Mpshe
Ms Liv Vuma (Betty)
Mr Thabiso Kwena

Human Capital and Remuneration Committee

The Human Capital and Remuneration Committee advises the Council on remuneration policies for employees. This Committee also maintains corporate oversight of the Council's human capital policies.

The Committee is constituted by the following members:

Name	Positions
Mr AP Rapea	Chairperson
Mr PNS Makgathe	Member
Amb. A Kotane	Member
Ms X Daku	Member
Ms MC Mohale	Member

Industry Advisory Committee

The Industry Advisory Committee is responsible for giving advice to the Council on all matters relating to the operations of the homebuilding industry, in addition to acting as a communication channel between the industry and the Council. Industry stakeholders are invitee members of this Committee.

The Committee is constituted by the following members:

Name	Positions
Ms J Bayat	Chairperson
Mr W Jacobs	Member
Mr OL Molotsi	Member
Ms BN Nzo	Member
Ms MC Mohale	Member

Bid Adjudication Committee

The Bid Adjudication Committee adjudicates and awards tenders in line with the NHBRC's Procurement Policy, Delegation of Authority Policy and relevant legislation, including the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and its related regulations, and the Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003), among others.

The Committee is constituted by the following members:

Name	Position
Ms HK Dlepu	Chairperson
Mr G Manack	Member
Ms X Daku	Member
Mr LA Potwana	Member
Ms MC Mohale	Member
Mr W Jacobs	Member

Social and Ethics Committee

The role of the Social and Ethics Committee is to monitor the Council's activities with regard to social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships, labour and employment. It also draws matters within its mandate to the attention of the Board and reports to the shareholders on such matters.

The Committee is constituted by the following members:

Name	Position
Amb. A Kotane	Chairperson
Mr A Chikane	Member
Ms HK Dlepu	Member
Ms MC Mohale	Member
Mr W Jacobs	Member

Social Transformation Committee

- 3.1 The NHBRC Council has been mandated by the Minister to champion transformation within human settlements and that led to the establishment of the Social Transformation Committee by Council to oversee the implementation of sector transformation initiatives in line with the National Department of Human Settlements objective.
- 3.2 The mandate of the Social Transformation Committee is therefore aligned to the mandate of the NHBRC and is to :
 - 3.2.1. Empower the designated groups to support the delivery of sustainable human settlements in line with the following :
 - 3.2.1.1. Outcome 8 : the delivery of sustainable human settlements and improved quality of human settlements;
 - 3.2.1.2. National Development Plan;
 - 3.2.1.3. Chapter 3 : Economy and employment;
 - 3.2.1.4. Chapter 9 : Improving education, training and innovation;
 - 3.2.1.5. Chapter 11 Social protection
 - 3.3. National Growth Path
 - 3.3.1. Jobs driver 4 Investing in social capital
 - 3.4. Compliance with the requisite legislative and policy prescripts;

- 3.5. Compliance with the National norms, standards and quality within the home building sector.
- 3.6. Assist the NHBRC fulfill its targets within the scope outlined in the NHBRC's Corporate and Annual Performance Plans by advocating the allocation of an agreed percentage of projects to women and designated groups;
- 3.7. Introduce measures to improve programme and project management through training and the transfer of skills to the sector through its various programmes such as the Women Empowerment Programme, the Youth Brigades Programme, the Community Empowerment, Builder Training and other related initiatives;
- 3.8. Participate in the Social Transformation Agenda through the Social Transformation and Empowerment Programme by encouraging participation of key sector players, partnerships and the previously disadvantaged groups;
- 3.9. Communicate with and liaise, wherever possible, with representative organizations of the identified social transformation targeted beneficiaries, ie., the Youth, Women, People with Disabilities and Military Veterans;
- 3.10. Ensure an integrated human capital development approach, which will allow the previously disadvantaged groups to be given preference in specific and relevant positions;
- 3.11. Seek to promote sustainable entrepreneurship and consumer education by including:
 - 3.11.1. Entrepreneurial training and support;
 - 3.11.2. Professionalization of the sector;
 - 3.11.3. Access to sustainable business development skills training;
 - 3.11.4. Mentorship and market opportunities.

The Committee is constituted by the following members:

Name	Position
Ms X Daku	Chairperson
Mr A Chikane	Member
Ms BN Nzo	Member
Ms J Bayat	Member
Ms MC Mohale	Member
Ms HK Dlepu	Member
Mr TTC Dlamini	Member



SECTION 5
AUDIT AND RISK MANAGEMENT

1. RISK MANAGEMENT

Purpose of the Enterprise Risk Management Section

The NHBRC's mandate is to regulate the homebuilding industry and protect housing consumers. It is therefore imperative that the organisation ensures that it is a 'risk-aware entity' by ensuring that both significant risks and opportunities are identified and responded to in a manner that takes the business forward.

The risk management functions have a vital task, namely to ensure that the risk management processes are robust and technologically up to date and that both the Council and Management are provided with the risk information they need to oversee and steer the organisation forward in these challenging and testing times.

Given the importance of risk management to the success of any organisation, this section is divided into the following equally important and complementary units:

- Enterprise Risk Management (ERM);
- Safety, Health and Environment (SHE);
- Business Continuity Management (BCM);
- Security; and
- Fraud Risk Management.

Background

The Council of the NHBRC is responsible for the total process of risk management and has established a process for identifying, evaluating and managing all significant risks faced by the NHBRC.

Risk Management provides a framework for managing risks which typically involves identifying particular events or circumstances that impact on the NHBRC in its endeavour to meet its objectives (risks and opportunities), assessing them in terms of likelihood and magnitude of impact, assessing the effectiveness of controls in place to mitigate the risks, determining a response strategy where necessary and monitoring progress in its implementation. By identifying and proactively addressing these risks and opportunities, the NHBRC's operations are able to protect and create value for its stakeholders.

Dependencies required in instilling a culture of risk management within the NHBRC

Our risk management framework covers the areas of governance; people; methods and practices; and monitoring, reporting and review.

Good governance is a fundamental part of effective risk management. It begins with the 'tone at the top', which determines and models overall behaviours, establishes and monitors the strategic direction and objectives of the organisation, and sets appropriate guidance for consistent action through policies and procedures. Compliance encompasses the expectations of key stakeholders in relation to expected behaviour and establishes the boundaries as regards the acceptability and tolerance of deviations from the standard.

People are fundamental to the effective and efficient risk management of our organisation. The risk culture of the organisation has to be regularly evaluated, as has the alignment of key risk functions and their co-ordination, including related activities and ultimately their underlying risk competencies and capabilities. Clarity around roles, responsibilities and measurement criteria is crucial in ensuring that people understand and accept their obligations across the NHBRC.

+ _____ +
 People are fundamental to the effective and efficient risk management of
 our organisation.
 + _____ +



Methods and practices relating to risk management are continuously improved to support efficient and effective ways of doing business, ultimately resulting in greater benefits to all stakeholders and particularly the customers we serve through improved service delivery.

The monitoring, reporting and review function forms an integral part of the risk management process, and related responsibilities must be clearly defined. Our monitoring, reporting and review processes should encompass all aspects of the risk management process to ensure that controls remain effective and efficient in both design and operation. This includes obtaining further information to improve risk assessments; analysing and learning lessons from events (including near-misses), changes, trends, and successes and failures; detecting changes in the external and internal contexts, including changes to risk criteria and the risk itself, which can require a revision of risk treatments and priorities; and identifying emerging risks. The results of monitoring and review activities are recorded and reported internally and externally, as appropriate. Any key findings are used as inputs to the improvement of the risk management framework. Appropriate and accurate information supports effective decision-making, and reporting activities drive process improvements.

Critical strategic risks facing the NHBRC

At a Council meeting held at the Southern Sun in Pretoria on 27 August 2015, the following list of the top ten strategic risks facing the NHBRC was presented to the Minister of Human Settlements.

1. Failure of IT infrastructure to enable and support business processes (Inadequate solution that is not aligned to business requirements);
2. Risk to sustainability of the warranty fund due to poor quality of subsidy homes being built in the North West Province (Freedom Park Phase 2);
3. Vacancies in strategic roles within the organisation;
4. Unenrolled homes being constructed;
5. Inadequate enforcement of the HCPMA;
6. Non-compliance with applicable laws and regulations relating to the organisation;
7. Unclean audit due to AG findings on performance information;
8. Inadequate prosecution of registered /non-registered homebuilders in terms of the HCPMA;
9. Inefficiency of policies and procedures in achieving organisational objectives; and
10. Fraud and corruption among NHBRC employees and developers/builders.

Fraud risk management

During the financial year, the NHBRC established an anti-fraud unit consisting of two fraud specialists. The primary function of the unit is to develop anti-fraud strategies and a fraud prevention framework, and to conduct fraud and ethics awareness training and workshops. Its duties also include managing a fraud hotline.

The unit is tasked with assisting management in dealing with all fraud- and ethics-related incidents and taking appropriate actions to resolve such incidents. Corrective measures will be put in place to prevent future incidents of fraud and non-compliance. Ethics and fraud

awareness workshops are scheduled to be rolled out from the first quarter of the new year. Draft fraud and whistleblowing policies have been developed and are awaiting approval.

Business continuity management

The NHBRC recognises the potential strategic, operational, financial and stakeholder risks associated with business or IT service interruptions and the importance of maintaining viable capabilities to continue its business processes with minimum impact in the event of a disaster.

The NHBRC has accordingly resolved that a business continuity management (BCM) programme, in addition to being a value-creating activity, is essential to the survival of the Council. The NHBRC has committed itself to establishing and maintaining a BCM programme according to good practices and international standards in order to provide a basis for understanding, developing and implementing business continuity within the organisation. Through the programme, it will endeavour to identify activities and criticality, and facilitate the consideration of threats and risks, resulting in the identification of strategies for risk reduction, recovery and management.

The objectives of the NHBRC's BCM programme are to:

- Proactively improve the NHBRC's resilience against any disruptions and disasters;
- Provide the NHBRC with a tested and rehearsed method for restoring services and the ability to continue supplying its products and services to its clients, to an agreed level within an agreed timeframe, in reaction to a disruption or disaster;
- Provide a proven capability to minimise the impact of any disruption or disaster on the NHBRC's reputation and brand image; and
- Provide confidence in the NHBRC's dealings with its clients and suppliers, and other organisations.

Safety, health and environment

The revised Safety, Health and Environment (SHE) Policy is in place and is being displayed at Head Office. Rollout at the remaining offices is ongoing, while procedures, forms and checklists are currently in the draft phase.

Compliance with the Occupational Health and Safety Act, 1993 (Act No. 85 of 1993) (OHSA) has been prioritised. Appointments of management representatives have been signed, and training for the SHE representatives (firefighters, SHE representatives, first-aiders and incident investigators) has been completed. SHE risk co-ordinators have conducted SHE audits at all NHBRC offices, and monthly SHE inspections are being conducted by SHE representatives at the various NHBRC offices.

National SHE Committee members have been nominated. The Committee has adopted the SHE terms of reference in accordance with section 19 of the OHSA, and is operational. National SHE risk assessments have been completed, covering all SHE-related issues for NHBRC offices.

SHE-awareness presentations have been conducted for all SHE representatives and new employees, while safety training for NHBRC home inspectors is currently underway. The development of a SHE incident management system on SAP was completed in 2015. SHE co-ordinators have undergone the relevant 'train the trainer' course on the SAP system. SHE representatives have been trained on incident logging, management reporting and corrective action.

Security

In support of its risk management framework, the NHBRC has embarked on a programme to enhance two significant components of physical security, namely physical guarding services and electronic security services. The latter is itself made up of two components: Supply, installation and maintenance of a fully integrated electronic security system; and alarm-monitoring and response services for all offices nationally.

The request for proposals (RFP) for the guarding services has almost been finalised, whilst the RFP for electronic security awaits business case approval. The latter includes access control, CCTV and intruder alarms. In the interim, a smaller, stand-alone CCTV system is being installed in Sunninghill to help address the high incidence of theft within the building.

Security-related policies and procedures are also being reviewed and upgraded or re-drafted where deemed necessary. For instance, the interim Key and Lock Policy has been approved and will be implemented as soon as the existing keys and locks at Sunninghill have been replaced.

An incident register is used to track all incidents throughout the organisation.

Table 5: Performance of the sections in relation to targets set in scorecards:

#	Key performance area	Target 2015/16	Performance against target
1.	% implementation of the approved risk plan	95%	95%
2.	% implementation of the SHE plan	90%	90%
3.	% implementation of the BCM strategy	100%	75%
4.	% implementation of the fraud plan	100%	50%

Table 6: Comparison of performance between 2014/15 and 2015/16:

#	Key performance area	Performance 2014/15	Performance 2015/16
1.	% implementation of the approved risk plan	86%	95%
2.	% implementation of the SHE plan	67%	90%
3.	% implementation of the BCM strategy	30%	75%
4.	% implementation of the fraud plan	85%	50%

Conclusion

At the NHBC we strive to define, in our own terms, risk management that is appropriate for our organisation. We believe in carefully considering how to balance risk, cost and value to achieve a sustainable, efficient and effective risk-managed organisation. We are committed to building a strong risk management culture with consistent and visible leadership in order to ensure that there is a clear message about the importance of sound risk management as an enabler for meeting our objectives. Our executives lead this process by being strong advocates of sound risk management.

The strength and consistency of risk management compliance across the NHBC is achieved through strong engagement and interaction. It is essential that all stakeholders, especially our staff, buy into the risk management process and actively drive and support the approach that is being implemented.

2. INTERNAL AUDIT SECTION

Background

The NHBRC has an in-house Internal Audit section (IA). IA utilises a co-sourcing strategy to ensure the availability of skills and competencies for auditing complex core business areas.

IA is headed by the Chief Audit Executive, who is accountable to the CEO and Council through the Audit and Risk Management Committee (ARMCO). This line of reporting is in accordance with best practice and ensures the effectiveness of IA by guaranteeing its ability to do its work objectively and independently without undue pressure.

The NHBRC's strategic context from an internal audit perspective

Changes in both the internal and external environments present significant challenges for IA, which has to ensure that it is a key partner for executives and the Council in enhancing the control environment and ensuring that the NHBRC's internal audit services enable the organisation to deliver on its strategic objectives. To this end, IA has factored and aligned its internal audit strategy and planning to make provision for the effects of change.

Significant organisational initiatives that impact on IA planning considerations

A number of strategic organisational change initiatives have presented a challenge to IA as regards its fulfilment of an impactful role from both an assurance and an advisory perspective. The NHBRC is currently experiencing significant changes that have both strategic and operational impacts, and IA has had to ensure that its strategy and resources deliver accordingly.

Purpose

The business of the IA division is to provide business solutions to business and effectively support and enable the Council to discharge its fiduciary oversight duties and provide direction to the NHBRC. IA ensures that it is strategically relevant by aligning the internal audit strategy and planning to the overall strategic objectives of the NHBRC. The diverse needs of key stakeholders, especially Executive Management and the Council, are fully and adequately addressed, and in this way IA ensures that it remains a valuable strategic partner to the NHBRC.

Need to balance Executive Management and Council expectations

There needs to be a balance between Audit Committee and Management expectations on the one side, and company or business initiatives on the other.

Stakeholder expectations

IA has to provide in the diverse needs of various stakeholders, and the challenge is to balance the Council's need for assurance with Business Management's advisory needs. Gaps identified between the expectations of Management and those of Council/Armco during the planning approval stage were duly addressed during the year under review.

Key stakeholder	Key needs	What it means for the IA
Council and Council sub-committees	The Council and its sub-committees typically want assurance around: <ul style="list-style-type: none"> • The risks that matter • Emerging risks • The state of the control environment • Early detection or notification of issues that would result in regulatory non-compliance or reputational risk 	Assuring the adequacy and effectiveness of the: <ul style="list-style-type: none"> • Strategy execution and reporting processes • Internal control system • Enterprise-wide risk management processes • Regulatory compliance • Governance processes • Risk management processes
Business management	Business management want: <ul style="list-style-type: none"> • Insight • Foresight • Advice • Assistance • Keeping them out of trouble • Reduction in the cost of control • Value • Assistance with financial year-end audit readiness initiatives 	Insight in terms of: <ul style="list-style-type: none"> • Impact of strategic and operational models • Business improvement recommendations • Identifying and advising on emerging strategic and business risks • Objective advice regarding: <ul style="list-style-type: none"> • Informing and advising management • Prevention, detection and deterring of fraud
Other assurance providers	Want to be able to leverage the work of IA with a focus on: <ul style="list-style-type: none"> Quality Relevance 	Share and align audit plans in areas of mutual interest Avoid duplication of efforts

Performance to date

Below is a table of IA performance achievements at a strategic level in the last two financial years:

Strategic KPI	2014/15	2015/16
Following up on resolution of IA findings	100%	100%
Implementation of audit plan	92%	77%
Investigation of fraud incidents reported and tracking the implementation of corrective management plan	100%	100%

The way forward

Essentials for IA

IA will drive the need for increasing cross-functional collaboration and promoting a co-ordinated focus on risk with adjacent functions in order to:

- Optimise opportunities in the risk management arena;
- Bring together all functions that are engaged in identifying, managing and reporting on risks, resulting in a more comprehensive picture of risk management for the organisation as a whole;
- Determine how IA and its adjacent functions can best support the Council in providing oversight of risk management and governance activities;
- Take into account the maturity of the risk management operations and the ability of IA and risk-related functions to co-ordinate their responses to ERM;

- Link assessments, with the ultimate goal of providing an independent and objective assessment of risk management, including the activities of the first and second lines of defence, so the organisation can develop a comprehensive view of all activities for the board; and
- Challenge the risk assessment process to ensure that all significant risks are properly identified and evaluated for the Council.

IA has embarked on creating a road map that will see it evolve from providing basic IA auditing to becoming a key strategic business advisor to the Council on issues of governance, risk management and controls. This new positioning will ensure over the next three years that:

- There are no surprises from the business side;
- IA proactively works with and advises management on addressing risks, rather than only coming in after the fact;
- Through in-depth data analytics, IA becomes a key source of strategic insights for the business function;
- 'Clean audit' status is attained; and
- Governance, risk management and compliance become fully integrated and controls are automated to lift the NHBRC's systems a level up, with dependency on manual interventions being significantly reduced.





SECTION 6
**COMMUNICATION, MARKETING AND
STAKEHOLDER RELATIONS**

Background

The Corporate Communication unit is tasked with favourably positioning the NHBRC brand through internal and external communication, media and public relations, stakeholder engagements, strategic events and offering marketing counsel to the organisation.

Purpose

The unit's purpose is to improve visibility and accessibility in the market while enhancing interaction with our stakeholders. Bolstered by a Council-approved strategy, the team of professionals seeks to proactively position and protect the NHBRC's reputation, image and brand amongst the organisation's key public and private stakeholders.

Going back to basics

Corporate reputation is indisputably linked to an organisation's brand, which is deemed to be the most intangible of its assets. The NHBRC, like most risk-averse entities in the market today, is increasingly under scrutiny from a wide range of media-savvy stakeholders. It is therefore imperative that this risk is effectively managed due to its inter-connectedness to other operational risks.

The development of an integrated marketing communication (IMC) strategy continues to be informed by insights from a customer and employee brand perception study undertaken in July 2014. Visibility and accessibility were the two major challenges singled out as needing the most attention. The newly appointed Council approved this strategy in October 2015, along with an organisational strategy that is designed to position the NHBRC as a leader in knowledge creation and technical and technological building solutions through strategic partnerships. The ultimate goal is to provide diversified products and services in line with the changing building requirements and needs of our key stakeholders, whilst remaining true to our brand promise to be the champions of housing consumers.

The object of the Council has been infused into the overall organisational strategy, and the corporate communication team's role was clearly defined in terms of the utility of the marketing investment in galvanising NHBRC employees and relevant internal processes to better serve the homebuilding industry for the ultimate benefit of the housing consumer. An inordinate amount of time and energy was spent on getting the basics right, and we will continue doing so until our stakeholders inform us otherwise. It is not surprising, therefore, that the year under review saw a substantial increase in stakeholder engagement and effort towards ensuring that the consumer voice influences our strategic direction.

Performance of Corporate Communication and marketing section in relation to target as contained in the level 1 scorecard

Key performance area	Target 2015/2016	Performance against target for 2015 /2016
Communications (Consumer Awareness)	100% execution of revised stakeholder management	37% execution of the elements of Communication strategy were deferred to 2016/2017 financial year.
Implementation of stakeholder management	100% implementation of stakeholder relations strategy and plan	90% execution of the stakeholder management plan.

Stakeholder activities

The empowerment and education of homebuilders and consumers was a key focus of our stakeholder engagement activities. This was achieved through face-to-face meetings at mall activations, exhibitions, presentations and workshops. An average of two such engagements was realised by each of our provincial offices, further supported by the appointment of a dedicated stakeholder relations specialist. During the period under review, we participated in 18 (27*) exhibitions and held 32 (26*) homebuilder awareness workshops and 21 (19*) housing consumer workshops.

***(2014/15 figures)**

The newly appointed Council has also placed a premium on four specific groups as part of the organisation's social transformation agenda, namely women, the youth, people living with disabilities and military veterans. Community meetings to improve our understanding and appreciation of how the NHBRC could better serve these groupings were also held in five out of the nine provinces. The insights derived from these engagements will inform our strategic direction as we transform the society we serve.

Members of the Council also embarked on un-announced visits to NHBRC-enrolled sites in the Eastern Cape (Motherwell in PE and Mdantsane), KwaZulu-Natal (Cornubia) and the Western Cape (N2 Gateway). These site visits were aimed at acquainting Council members with the challenges and opportunities facing the NHBRC Inspectorate and providing first-hand engagement with some of the beneficiaries of the relevant housing developments. The media was also invited and an article appeared on the front page of the Mercury newspaper.

The South African Council for Project and Construction Management Professions (SACPCMP) and the NHBRC signed a memorandum of understanding on 27 November 2015 to the effect that, in future, housing inspectors will be required to register with a professional body in order to carry out their work. A first for South Africa, the agreement, once implemented, will mitigate against risks associated with building a new home and protect consumers against shoddy workmanship.

On 25 February 2016, the newly updated Homebuilding Manual as well as a number of technical publications were launched in partnership with the South African Bureau of Standards. Attendees included members of the NHBRC's Council; delegates from the Department of Human Settlements, Ekurhuleni Metro, City of Johannesburg Metro, City of Tshwane Metro, Gauteng Housing Department and the Industry Advisory Committee; top builders in Gauteng; industry bodies; consulting engineers; NHBRC Executive Members; contributors to the Homebuilding Manual; South African Bureau of Standards (SABS) Executive Members; and Media representatives.

The NHBRC also participated in the International Women's Day Celebration at Joe Slovo Park (Du Noon) on 8 March 2016, which was hosted by the Minister of Human Settlements. Stakeholder Relations is a new addition to the marketing and communication portfolio as it was previously managed by a stand-alone department, until September 2015. In the year in review, the following highlights were achieved by the team in the number of relevant stakeholders reached by our initiatives.

Media relations

The media acts as a key stakeholder and partner in creating awareness among, and educating, our builders and consumers. In the period under review, 25 media interviews and five one-on-one engagements with journalists and editors were conducted. The media coverage received has a combined advertising value equivalent (AVE) of R29 432 721.10 and potentially reached 45,183,052 stakeholders. This emanates from 744 news items, comprising:

- Print articles: 361 (350)*
- Online articles: 239 (332)*
- Broadcast features: 144 (126)*

*(2014/15 figures)

The majority of the news coverage was positive or neutral. Negative publicity received was in relation to the late issuance of registration and enrolment certificates as a result of issues with the implementation of the new SAP enterprise system.

Digital media

Website

A website review resulted in the launching in November 2015 of a revamped interactive platform for the NHBRC to engage its stakeholders and customers by providing updated and relevant information. The improved website now also features news articles as well as live links to the NHBRC's social media platforms. The user-friendly new website works on all devices (mobile phones, tablets and desktops), with other dynamic features including an events calendar and an online job application portal.

Social media

In the year under review, the Facebook medium grew from 1,754 in the 2014/15 financial year to 2,603 in the 2015/16 financial year. We witnessed a growth of 48% in the social media platform. The growth is attributed to many factors including the appointment of a digital media specialist, regular updates and the engaging content which is posted.

Internal communication

The unit produced and circulated four electronic newsletters (Indaba) during the period under review. It furthermore continues to support the organisation with regular sectional updates, using newly designed manager templates. In order to ensure awareness of the organizational strategy and targets, the Acting CEO and Head of Strategy presented the Council approved Annual Performance Plan was presented to employees.





SECTION 7
PERFORMANCE REPORT

1. BUSINESS SERVICES DIVISION

The Business Services division consists of four sections: the Technical Section, Quality Assurance Section, Project Support Unit and Customer Services Centres. The performance review below covers the Business Services division and the Corporate Services division.

Registration and renewal of homebuilders

Strategic context

Section 10(1) of the HCPMA requires that all persons in the business of homebuilding must be registered with the NHBRC and that they must renew their membership with the NHBRC annually. The registration process entails the assessment of applications from potential homebuilders. In this performance area, applicants who meet all the requirements for recognition as homebuilders are given a certificate. The certificate serves as a license to trade as a homebuilder and is renewable annually.

Key activities

The evaluation of a homebuilder's registration and renewal application is based on:

- The technical, construction and financial capabilities of the applicant;
- A non-refundable registration fee of R657.89 (payable to the NHBRC before registration); and
- An annual renewal fee of R526.32 (payable to the NHBRC each year) and an amount of R87.72 per set of two homebuilder manuals.

Performance

New homebuilder registrations decreased by 8% in the year under review compared to the previous financial year. Figure 1 shows the performance of new registrations and renewals over the last seven years, as follows:

The average number for seven years of active builders (renewals)	– 11,495 per year
The average number for seven years of new entrants (registrations)	– 3,598 per year
The average total number of builders for seven years	– 15,093 per year

The increase in new registrations can be attributed to, among other things:

- The relative stabilisation of the economy;
- Improved financial standing; and
- Technical competency.

Table 7: Number of homebuilder registrations for the 2014/2015 and 2015/2016 financial years

Registrations					
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
2014–15	1,166	1,564	978	1,034	4,742
2015–16	1,168	1,292	630	1,294	4,384
Variance (#)	2	(272)	(348)	260	(358)
Variance (%)	0.2	(17)	(36)	25	(8)

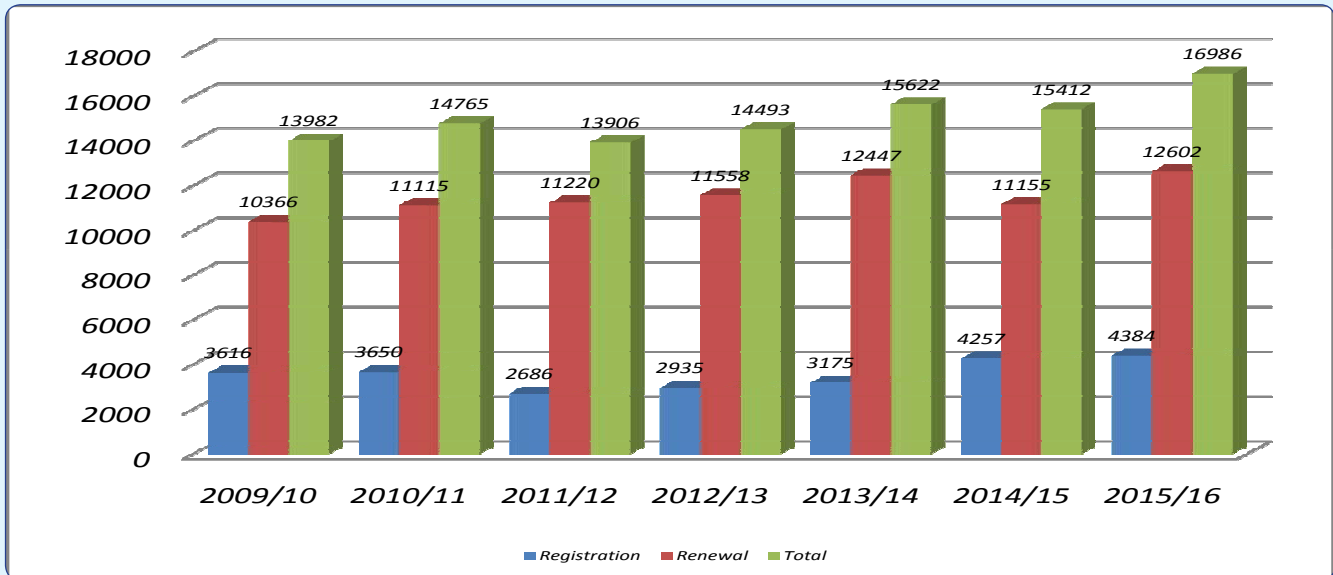


Figure 1: Shows the performance of new registrations and renewals over the last seven years

Figure 2 represents the average annual percentage of renewals by builders. The percentage of renewals has steadily increased from 2014/15 to 2015/16. The average number of renewals over the last four years was 78%. This means that the NHBRC expects 78% of active builders, on average, to renew their registration.

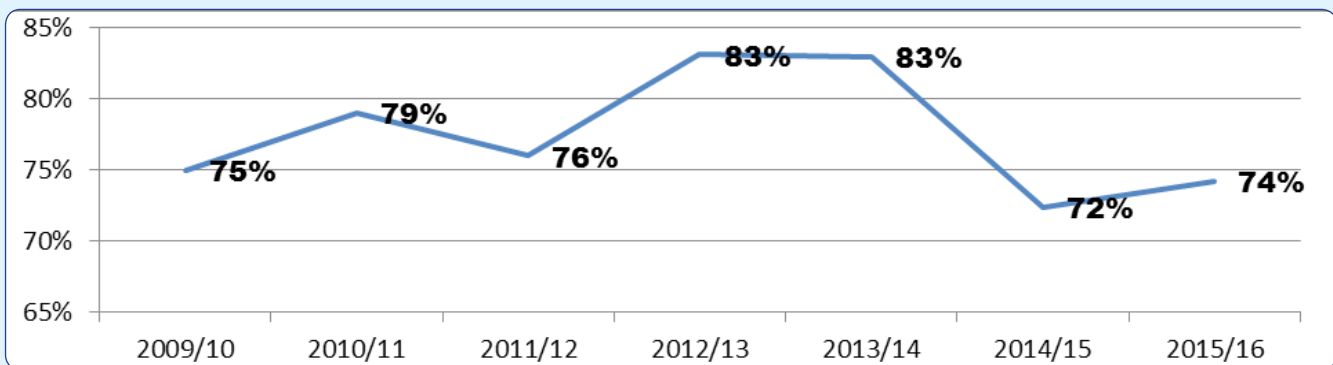


Figure 2: Percentage of renewals by builders

Enrolment and late enrolment of homes

Strategic context

Section 14 of the HCPMA requires that all new homes be enrolled with the Council 15 days prior to commencement of construction, and allows for late home enrolments provided the risk to the Council is acceptable. The enrolment of homes entails a process where registered homebuilders and developers purchase a warranty scheme for the house before construction starts. The warranty covers the owner of the house against certain defined defects.

Key activities

- First, the enrolment documentation is assessed.
- Where the risk of unsuitable soil conditions is high (e.g. dolomite is present), a detailed technical assessment of the submission is performed in liaison with the NHBRC's strategic partner, the Council for Geoscience.
- For late enrolments entailing high risk, financial guarantees may be required.
- 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 is used to calculate the enrolment fee.

Performance

There has been a notable decrease in enrolments in the current financial year compared to last year, the number of enrolments decreased, as shown in Figure 3.

It should be noted, however, that it is the intention of the Council to reduce the number of late enrolments, as they pose a risk to the warranty fund. An analysis of late enrolments for the last seven years, as presented in Figure 4, shows a decrease in the percentage of houses enrolled late. The statistics on the late enrolment of homes shows a significant decrease of 31% over the previous year, attributable to the implementation of improved compliance and enforcement strategies during the year under review. Ultimately, the aim is to maintain the late enrolment index at 0%.

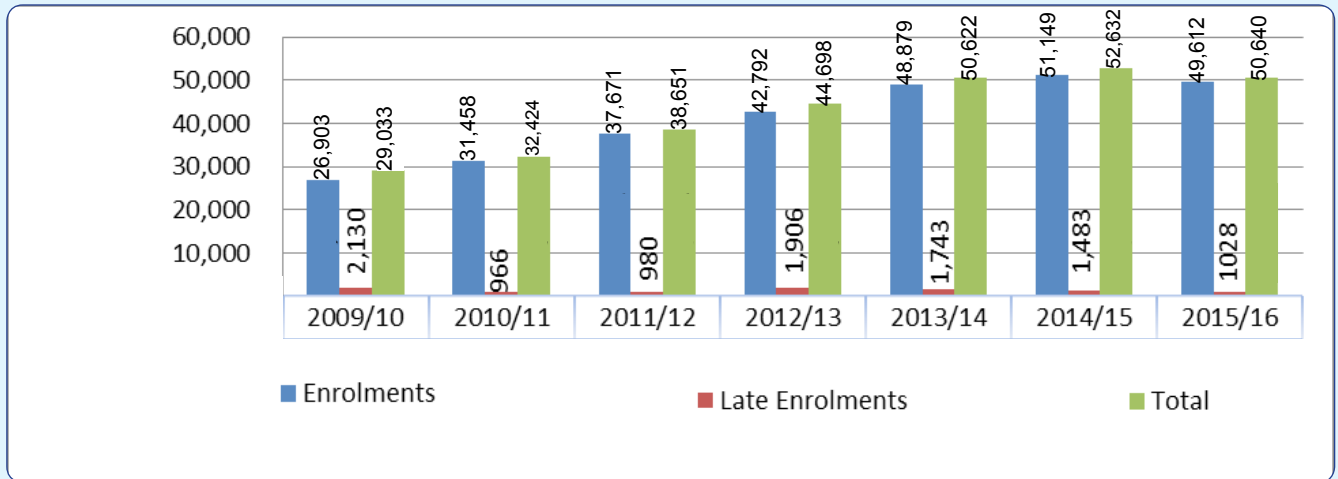


Figure 3: Total number of non-subsidy enrolments for the last seven years

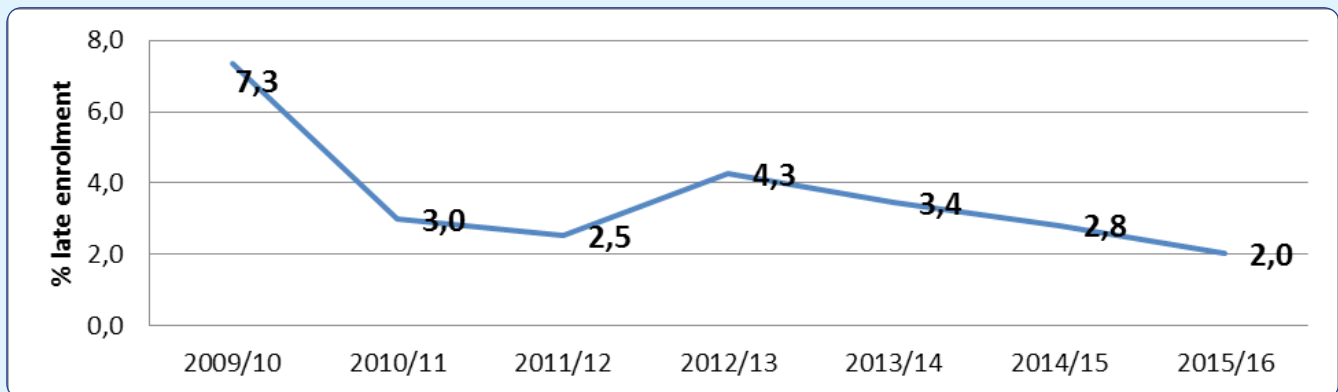


Figure 4: Non-subsidy late enrolments as a percentage of non-subsidy total enrolments

Complaints and conciliations

Strategic context

Rule 18 of the Regulations to the HCPMA entitles a housing consumer to lodge a complaint where a homebuilder has failed to respond to legitimate complaints by that consumer, while section 13(8) of the HCPMA entitles a housing consumer to initiate a conciliation process with the homebuilder. The NHBRC has laid down principles that ensure that disputes between homebuilders and housing consumers are resolved as effectively, efficiently and expeditiously as possible, and a formal dispute resolution process for both housing consumers and homebuilders has been adopted. The NHBRC warranty is effective from the date of occupation. This section of the report deals with complaints lodged by housing consumers against homebuilders after occupation has taken place. Complaints lodged during construction are attended to through enforcement measures.

Key activities

- Complaints lodged during construction are attended to in the form of technical non-compliance notices, issued on site by NHBRC inspectors.
- Complaints are lodged and dealt with through the provincial customer service centres.
- When a complaint cannot be resolved, it is escalated to a conciliation process between the housing consumer and homebuilder.
- A conciliation fee of R100 is payable if the enrolment value is less than R100,000, and a fee of R300 is payable if it is more than R100,000.

Performance

The number of complaints received in the year under review totalled 331, of which 299 were resolved.

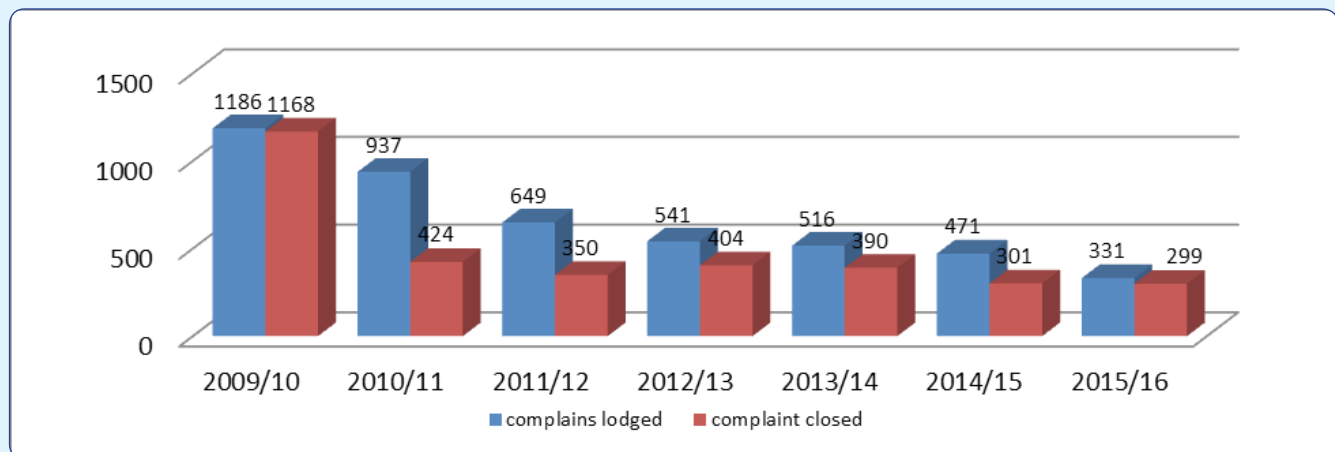


Figure 5: Complaints lodged and complaints resolved for the past seven years

The table above indicates that there was a 30% decrease in the number of complaints lodged with the NHBRC from the previous financial year, while the number of complaints that were resolved declined by 0.7%. Conciliations between homebuilders and housing consumers witnessed a decline of 17% from the 2014/2015 to the 2015/2016 financial year.

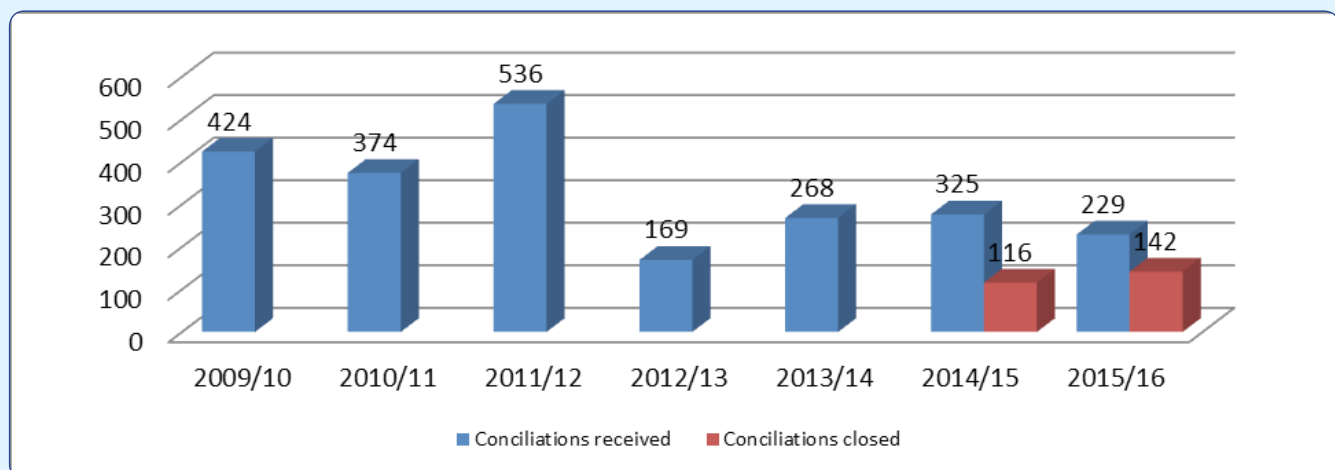


Figure 6: Conciliations handled for the past seven years

Inspections

Strategic context

Section 5(4) (b) of the HCPMA requires that all enrolled homes be inspected. The number of inspections conducted per house depends on the enrolment value and the complexity of the design of the house in order to mitigate risk in relation to the warranty. A minimum of four inspections are conducted on all enrolled homes.

Key activities

- A minimum of four inspections are conducted on all enrolled houses.
- The number of inspections conducted per house depends on the enrolment value and the complexity of the design of the house in order to mitigate the structural risk it poses in terms of claims against the warranty fund.

Performance

Figure 7 shows the number of houses inspected in the non-subsidy sector and the number of inspections conducted during the year under review. The NHBRC conducted a total of 258,446 inspections on a total of 111,368 houses during the year under review. The NHBRC conducts a minimum of four inspections and a maximum of eight inspections per house, depending on the nature and complexity of the house. It should be noted that some of the houses were still under construction as at the end of the financial year, and therefore additional inspections are still to be conducted on these properties.

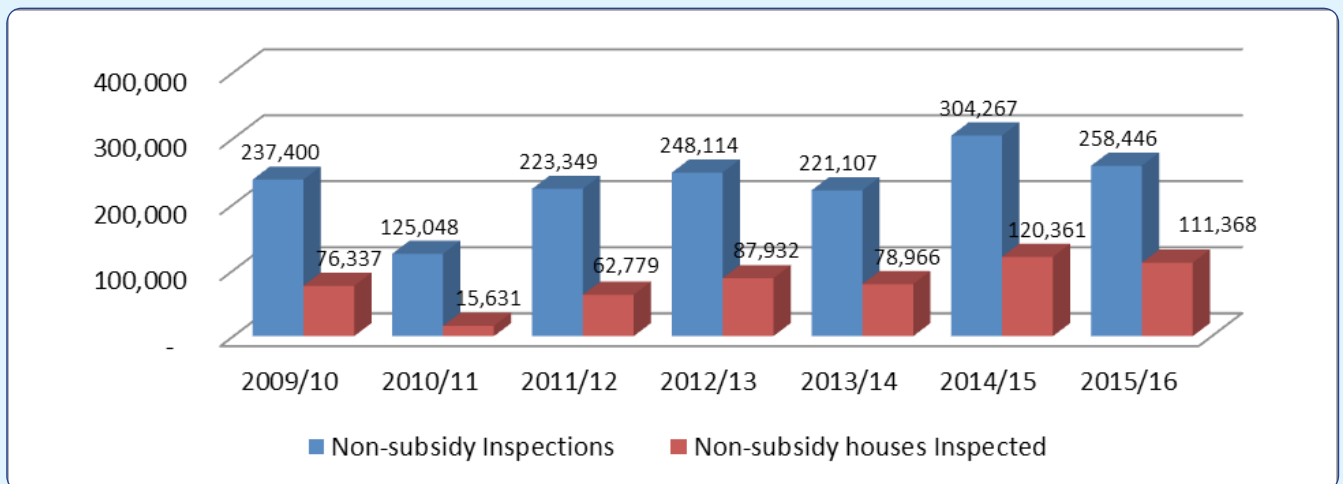


Figure 7: Non-subsidy inspections and houses inspected for the past seven years

The table above shows that non-subsidy inspections during the year under review declined by 15% from the previous year. The number of homes inspected declined by 7% as compared with the previous financial year.

Remedial works done by the NHBRC

Strategic context

Section 17 of the HCPMA requires the NHBRC to rectify any structural defects where a homebuilder has failed to do so.

Key activities

- The NHBRC, through its provincial customer service centres, assesses the extent of the structural damage.
- The NHBRC is willing to assist housing consumers/homeowners who lodge complaints with it for remedial purposes.

Performance

The NHBRC conducted remedial works on a total of 95 homes during the year under review.

Table 8: Remedial works per stages

Remedial stages	Number of units rectified per stage
Foundations	6
Substructure	19
Superstructure	48
Roof	3
Drainage	1
Settlement	18
Total houses	95

For the year under review, the NHBRC fixed 50% of superstructure and a total of 20% on the settlement. The table above indicates that we only had one claim for drainage across the country. A total of 95 claims were addressed by NHBRC in the year under review.

Subsidy sector

Strategic context

Section 14 of the HCPMA requires all new homes to be enrolled 15 days prior to the commencement of construction. This includes houses built using the People's Housing Process (PHP) and as part of rural projects.

Key activities

- The NHBRC assesses the submitted projects with particular emphasis on the geotechnical investigation report that forms part of Phase 1.
- During Phase 1 a geotechnical site investigation is carried out, the objective of which is to perform a detailed risk assessment with the focus on soil classification, ground conditions, the suitability of dolomitic land, established subsidy variations, etc.
- If the assessment was successful, the NHBRC will issue a project enrolment certificate.

Performance

Figure 8 below illustrates the performance of the subsidy sector with respect to project and home enrolments over the last seven years. In the current year under review, the NHBRC enrolled 4,440 projects involving 77,004 homes, while in the previous financial year a total of 32,347 projects were enrolled that involved 168,753 homes. Subsidy home enrolments decreased by 54% as compared with the previous financial year.

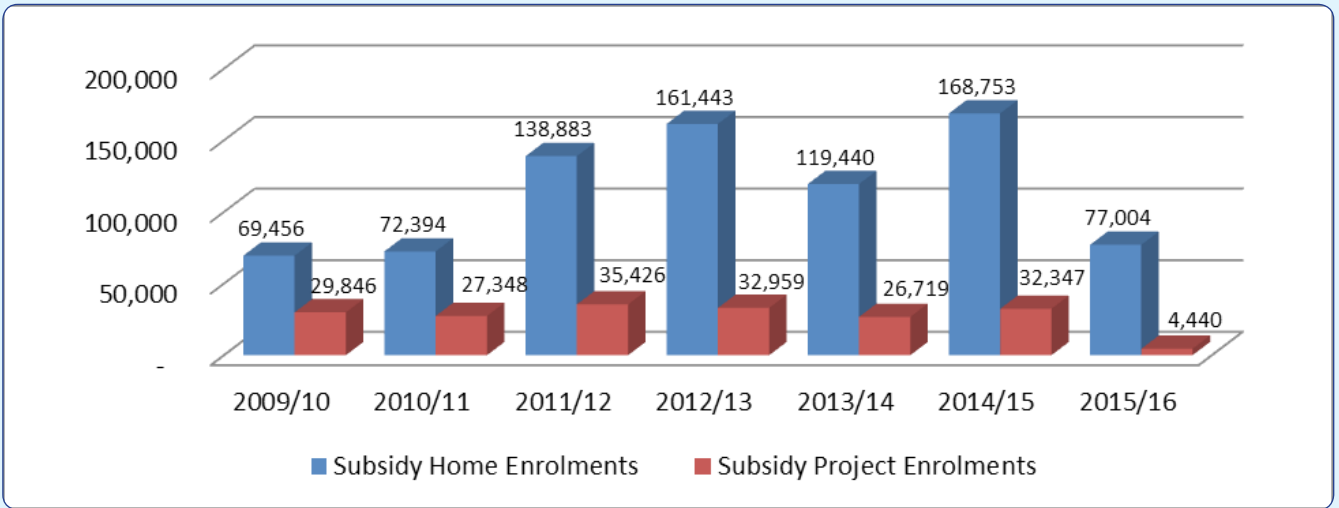


Figure 8: Home and project enrolments in the subsidy sector over the last seven years

*It should be noted that some of the houses that have been enrolled have not yet been inspected and will only be inspected at a later stage based on the total of 4,440 project enrolments.

Subsidy home enrolments declined by 54% when compared with the previous financial year’s performance, while subsidy project enrolments declined by 63%.

Strategic intervention by the NHBRC

In order to align itself with the National Department of Human Settlements’ delivery plan, the NHBRC has implemented the following strategies:

- Developer workshops – Comprehensive workshops were held between the NHBRC, provincial offices of the Department of Human Settlements, and municipalities to share information regarding the NHBRC’s technical requirements and the process for enrolling PHP and rural projects.
- ‘On-site’ assessments – NHBRC professionals assessed project submissions for enrolment at provincial departments’ premises to ensure immediate feedback and guidance regarding compliance.
- Decentralisation of services – The NHBRC decentralised most of its services, including the geotechnical assessments, in order to ensure a more effective service to its clients and stakeholders.

Subsidy inspection

The NHBRC also embarked on a strategy to ensure that all subsidy housing units constructed in South Africa are inspected so as to mitigate the risk of possible future rectification by the government being required. Table 10 shows the number of inspections conducted in the subsidy sector in the year under review. A total of 230,103 subsidy inspections were conducted on a total of 111,387 units in the subsidy sector. It should be noted that the number of inspections was dependent on the speed of construction. Performance related to inspections in the subsidy sector increased by 3% from the 2014/15 financial year to the 2015/2016 financial year.

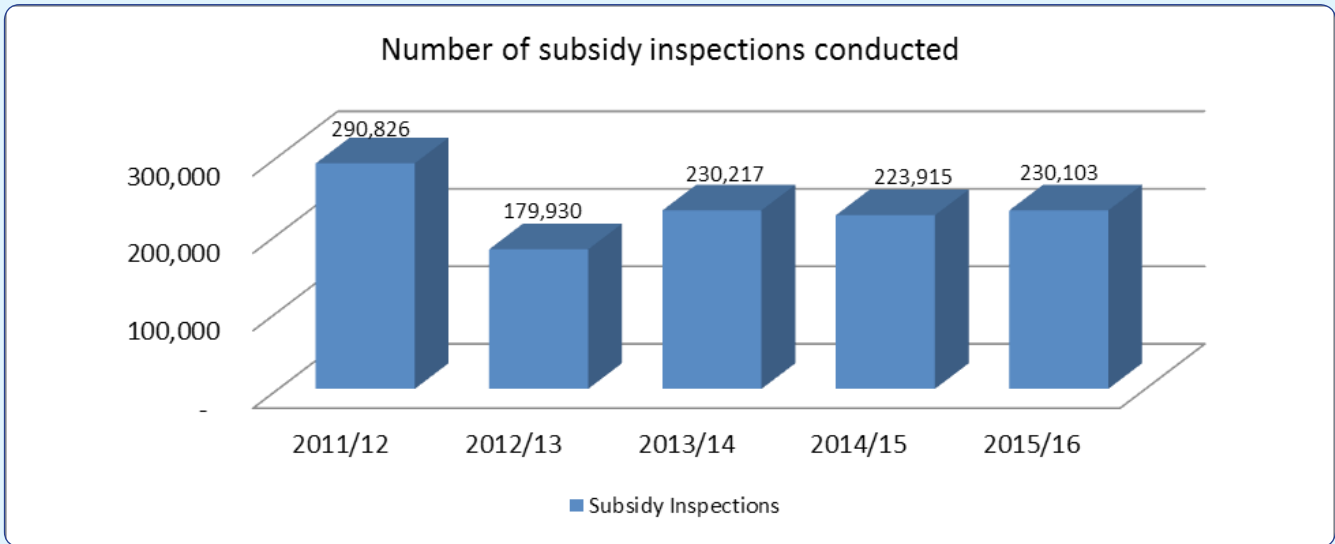


Figure 9: Number of subsidy inspections conducted in the past five financial years



2. CORPORATE SERVICES DIVISION

The Corporate Services division's strategy is to build an efficient internal customer-focused support structure. The Human Capital, Facilities and Business Management Solutions (IT) sections support the organisation in executing its strategic objectives.

The division consists of three sections, namely:

- Human Capital
- Facilities, and
- Business Management Solutions.

HUMAN CAPITAL

The Human Capital section's strategy is to build an efficient internal customer-focused support structure. Human Capital supports the NHBRC in executing its strategic objectives.

The following are the highlights experienced during the year.

- Appointment of Council members
A key highlight for the year was the appointment of new Council members by the Minister of Human Settlements.
- Relationship with the Union
The year began with wage negotiations that were concluded amicably on the first day of negotiations in April 2015. This had a positive impact on the relationship between the Union and management. The signing of a recognition agreement and the establishment of a National Bargaining Forum further enhanced this relationship.
- Staff complement growth
The permanent staff complement grew by 47 employees.
- Employee wellness programme
The Human Capital section manages a very successful employee wellness programme, with a significant number of wellness interventions being conducted throughout the year.
- Review of policies
Key Human Capital policies were revised.
- Staff training
Four hundred and eighty five (485) employees were trained in 2015/16 financial year.



HEADCOUNT AND WORKFORCE PROFILES

The permanent staff headcount as at 31 March 2016 was 627.

Workforce profile as at 31 March 2016

Occupational levels	Grades	Male				Female				Foreign nationals	Total
		A	C	I	W	A	C	I	W	Male	
Top management	1–2	1	0	0	0	1	0	0	0	0	2
Senior management	3–4	2	1	0	0	4	0	0	0	0	7
Middle-management Professionally qualified	5–6	14	2	2	5	8	0	3	3	0	37
Skilled/Technically qualified/ Junior management	7–12	204	25	6	10	267	13	4	15	0	544
Skilled and discretionary decision-making	13–15	8	0	0	0	5	1	0	0	0	14
Semi-skilled and defined decision-making	16–17	2	0	0	0	20	0	0	1	0	23
TOTAL PERMANENT		230	28	8	15	306	14	7	19	0	627
TEMPORARY EMPLOYEES		26	1	1	7	37	7	1	2	0	82
Total		211	23	8	19	253	9	6	17	0	707

White employees constitute 5.4% of the total NHBRC equity complement, whilst Indian employees constitute 2.39%.

Employment equity by gender

The NHBRC employs 281 males (44.82%) and 346 females (55.18%). In terms of race, African females represent 48.8% of the total staff complement.

Employment equity by race

Of the 627 employees of the NHBRC, 85.48% are African, 6.69% are coloured, 2.39% are Indian and 5.4% are white. The Council is oversubscribed in certain areas and under-subscribed in certain categories. This will be corrected through our targeted recruitment process.

FACILITIES MANAGEMENT

Facilities Management ensures that the NHBRC has premises that are conducive for employees to operate in.

Highlights

Lease agreements

A tender process was initiated for the establishment of new premises in Tshwane, Rustenburg, Mafikeng, Bethlehem, Richards Bay (Shelly Beach), East London, Port Elizabeth, Durban and the Vaal. However, all tenders received were unsuccessful.

The Bid Adjudication Committee resolved that the NHBRC could enter into new three-year lease agreements with the current landlords for the following offices:

- Durban
- Mafikeng
- Rustenburg
- Bela-Bela
- East London
- Port Elizabeth.

The tenders for new service providers to supply cleaning services for the NHBRC's Head Office and Eric Molobi premises were finalised and awarded to two service providers.

Functional Risk Management

The Facilities Department, combined with Risk Management, has identified potential risks relating to the NHBRC's facilities and has instituted a combined strategic risk and operational register which is monitored and mitigated against on a monthly basis.

Facilities governance

The Facilities department has forged stronger and closer relationships with the landlords of the provincial offices and has managed to improve savings and services with regard to, inter alia, monthly rentals.

Strategic projects

- Four emergency water tanks were installed on NHBRC premises.
- Access for disabled persons was improved by installing a disabled access ramp outside the main entrance to the NHBRC's building and a disabled persons' toilet on the third floor.
- Pathways have been constructed leading from the gravel-covered visitors parking to the main entrance of the head office building.
- The process of ensuring that the fire protection/alarm system is compliant was finalised, and additional security was installed on the fire escape doors.
- The energy load was reduced and the NHBRC's 300 kva generator was successfully re-connected.

BUSINESS MANAGEMENT SOLUTIONS

Business Management Solutions provides IT services to the NHBRC in order to ensure its smooth operation and improve its effectiveness and efficiency. The organisation went live with SAP in November 2015 and ended the year with all modules operating, except for the Subsidy module. The organisation also saw a big improvement after replacing most of its old computers and hardware. The implementation of the Unified Communications project brought about an improvement in telephony services, email communication and internet connections.

The NHBC's projects programme comprises various projects that are running concurrently in order to ensure the continuation of business. The following sections provide an update on the different projects involved.

Project Name	Nature of work	Status
SAP implementation	Implementation of the fully integrated ERP solution, comprising: <ul style="list-style-type: none"> • Change management • Blueprint documentation • Realisation • Solution testing • Go-live • Post-go-live support 	<ul style="list-style-type: none"> • The system went live in November 2015. • The Subsidy module is still being implemented. • Two years' data was migrated from the legacy systems into SAP.
Data cleansing	<ul style="list-style-type: none"> • Data source identification • Report generation • Manual and automated cleansing, enrichment, etc. • Make data compatible with SAP for migration 	<ul style="list-style-type: none"> • Data cleansing had not been completed by the end of the year.
Hardware hosting	Provision of hosting facilities for: <ul style="list-style-type: none"> • SAP 5 landscapes • Disaster recovery (SAP) 	<ul style="list-style-type: none"> • The tender was awarded to Telkom.
Voice and data (Unified communications)	Installation of: <ul style="list-style-type: none"> • Hosted PBX • SIP phones with auto-messaging • Hosted exchange (emails) • Managed Enterprise Wi-Fi 	<ul style="list-style-type: none"> • Most sites have been equipped with the new infrastructure and system.
Disaster recovery capability	Provided for the capability in a hosted environment	<ul style="list-style-type: none"> • Two tests were done
Document management system	Incorporation of Multi-Functional Printers as input to Document Management System	<ul style="list-style-type: none"> • Testing completed • e-copy licence requirements to be finalised



3. LEGAL COMPLIANCE AND ENFORCEMENT DIVISION

Purpose

To entrench a culture of compliance with the applicable legislative and regulatory framework so as to ensure effective enforcement processes and provide cutting-edge litigation and legal advisory services.

Report performance for the section in relation to strategic objectives

Performance of the section in relation to targets as contained in the level 1 scorecard:

- During the 2015/2016 financial year, the Disciplinary Committee adjudicated upon 299 matters, 41.3% of which were heard within a period of 160 days calculated from the date of suspension of the homebuilder concerned. See Table 11 in this regard.
- The above turnaround time of 160 days was reduced from 180 days during the financial year 2014/2015 in an effort to strengthen the enforcement of the HCPMA.
- A total of 246 homebuilder suspensions were approved and recorded on the system during the financial year.
- The offences before the Disciplinary Committee ranged from failure by the homebuilder to rectify major structural defects to failure to rectify workmanship-related defects, failure to enrol homes, and code of conduct-related matters.
- Over this period, a total of 55 code of conduct-related matters were received from either the general public or the NHBRC's hotline. About 53% of these matters have been resolved through adjudication by the Disciplinary Committee, parties reaching an amicable solution or the complainant deciding not to proceed with the matter.
- About 251 cases were escalated for criminal investigations and prosecutions. Investigators opened 25 cases in terms of section 21 of the HCPMA at various police stations across the country. There have been few admissions of guilt by homebuilders for carrying on the business of a homebuilder without having registered as such in terms of section 10 of the HCPMA. In order to expedite the prosecution of these matters and to ensure the effective enforcement of the HCPMA, the NHBRC's investigators and prosecutors continue to engage and conduct workshops to forge relationships and facilitate cooperation and understanding of the HCPMA, not only by SAPS and NPA members but also by the relevant officials across the country.
- As at March 2016, a total of some R1.3 million had been recovered in the form of penalties imposed by the Disciplinary Committee against defaulting homebuilders.



Table 10: 2015/16 Disciplinary Committee hearings

Provinces	Suspensions	Total DC hearings	Not-guilty verdict	Warning	Fine imposed	Registration withdrawn	Matters postponed/ struck off the roll	Charges withdrawn
WC	45	39	0	2	18	1	11	7
KZN	44	54	0	0	39	2	7	6
GP	13	96	1	14	48	4	13	16
EC	10	20	0	2	13	0	1	4
MP	35	18	0	3	6	1	6	2
LP	69	19	3	1	5	1	1	8
NW	22	29	1	2	11	2	8	5
NC	6	12	0	3	6	0	1	2
FS	2	12	0	0	9	0	3	0
TOTAL	246	299	5	27	155	11	51	50

Comparison of performance against set targets for 2015/2016 and 2014/2015 financial years

- As illustrated in the table, matters adjudicated upon by the Disciplinary Committee have decreased from 339 in the 2014/2015 financial year to 299 in the 2015/2016 financial year. This decrease was as a result of the Disciplinary Committee not being appointed for the second and third quarters of the 2015/2016 financial year.
- Homebuilder suspensions also increased from a total of 233 in the 2014/15 financial year to 246 in the 2015/16 financial year.

The key focus during the current financial year remains improvement on the turnaround times as well as aggressive enforcement of provisions relating to builders who conduct the business of a homebuilder without being registered with the NHBRC. This is part of the division's efforts to ensure not only stricter enforcement of the HCPMA but also fairness and justice for all by expediting the disciplinary processes.

Table 11: Suspensions per province

Provinces	2014/2015 Financial year		2015/2016 Financial year	
	Suspensions	Total DC hearings	Suspensions	Total DC hearings
Western Cape	71	79	45	39
KwaZulu-Natal	16	38	44	54
Gauteng	28	56	13	96
Eastern Cape	8	23	10	20
Mpumalanga	19	20	35	18
Limpopo	79	80	69	19
North West	9	25	22	29
Northern Cape	0	4	6	12
Free State	3	14	2	12
TOTAL	233	339	246	299

Compliance section

Performance of section in relation to target as contained in the level 1 scorecard

- Continuous update of the regulatory universe as well as an analysis of the primary laws that apply to the NHBC;
- Compliance Policy approved by the Council for implementation;
- Compliance framework finalised and ready to undergo approval process;
- Commencement of the training of managers on the CURA system to ensure efficient management and monitoring of compliance risk in the organisation;
- In co-operation with the Risk Section, facilitation of the appointment and training of Risk and Compliance champions;
- Commencement of compliance monitoring within the Human Capital section, with the focus on the Labour Relations Amendment Act; and
- Continued provision of formal and informal opinions on compliance risk issues as and when required.

Comparison of 2014/2015 performance against 2015/2016

2014/2015 Performance	2015/2016 Performance
Continuous update of the regulatory universe as well as an analysis of the primary laws that apply to the NHBC	Continuous update of the regulatory universe as well as an analysis of the primary (core) and topical laws that apply to the NHBC
Compliance Policy approved by Council for implementation	Compliance Policy in place as approved by the Council
Compliance framework finalised and ready to undergo approval process	Compliance framework before the Policy Development Committee for review
Continued provision of formal and informal opinions on compliance risk issues as and when required to do so.	Continued provision of formal and informal opinions on compliance risk issues as and when required to do so
In co-operation with the Risk Section, facilitation of the appointment and training of Risk and Compliance champions	Review and approval of compliance champion structure
N/A	Finalisation of compliance champions' profiles
N/A	Development and implementation of CRMP and KRI templates for high-risk provisions
N/A	Development of the reporting templates for different forums
N/A	Preparation of regulatory compliance reports for submission to management and to the Council and its committees
Commencement of compliance monitoring within the Human Capital section, with the focus on the Labour Relations Amendment Act	Continued compliance monitoring within the Human Capital section, with the focus on the Labour Relations Amendment Act



4. SUPPLY CHAIN SECTION

During the year under review, the Supply Chain section reached a number of milestones. One important highlight was the approval of a more detailed and regulation-compliant Supply Chain Management Policy. In this financial year, 95% of the previous year's audit findings were addressed, and we have new confidence in our supply chain processes. A continued improvement on internal control and governance is envisaged with the guidance that the new policy will provide.

The NHBRC remains committed in its endeavours to empower historically disadvantaged individuals, as it posts yet another report on a preferential procurement spend of 64.75% against a 51% target. This reflects an annual performance of 13.75% above target. The NHBRC regards the cost of doing business as a daily operational priority within its supply chain, while at the same time ensuring that the quality of goods and services is not compromised.

The four most important legislative acts to the NHBRC, set out below, continue to govern its supply chain activities, and are observed in the organisation's daily procurement operations as the pillars of regulatory compliance:

- Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) (as amended)
- Public Finance Management Act, 1999 (Act No. 1 of 1999) (as amended)
- Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000), and
- National Treasury practice notes, guides, circulars and letters as reviewed, updated and improved on a continuous basis.

The NHBRC is committed to the tenets of B-BBEE and subscribes fully to the legal, social and moral imperatives thereof. It is important to view B-BBEE as an economic imperative which requires financial investment and commitment from the organisation in addressing the identified challenges. The NHBRC must remain relevant as a state-owned enterprise by promoting transformation through attracting and supporting the meaningful participation of B-BBEE-compliant individuals and enterprises.

The table below shows the actual value of purchases placed with suppliers with shareholdings held by historically disadvantaged individuals (HDIs).

Table 12: Table of procurement spend for the financial year

Procurement spend: HDI institutions	R299,579,535.07	64.75%
Procurement spend: non-HDI institutions	R163,115,085.00	35.25%

Of the R462,692,620 spent on procurement for the year, R299,579,535 was through HDI institutions, representing 64.75% of the total expenditure. The figures shown above are an indication of the NHBRC's continued effort to meet the targets set by the organisation in contributing to the empowerment of historically disadvantaged individuals.

The procurement spend of R300m on HDI included the provision of the following services:

- Inspection of houses
- Rectification services
- Actuarial evaluations
- ERP implementation, and
- Water tanks.

5. CENTRE FOR INNOVATION AND RESEARCH

PURPOSE OF THE CENTRE

The purpose of the Centre for Research and Housing Innovation (the Centre) is to promote research, best building practice and standards, innovation and capacity building in builders and inspectors in order to contribute to the improvement of sustainable human settlements in South Africa.

The Centre has strategic partners, both locally and internationally, to enable it to diffuse technology to the homebuilding environment and in doing so promotes the latest advances in materials engineering and the development of innovative products to provide better housing solutions and processes.

The current stakeholder partners include universities and universities of technology as well as the South African Bureau of Standards (SABS), Agrément Board of South Africa, Council for GeoScience (CGS) and Government, and several materials suppliers.

STRATEGY OF THE CENTRE FOR RESEARCH AND INNOVATION

The strategy of the Centre is to:

- position the NHBRC as a leading knowledge, technical and housing technology solutions provider through strategic partnerships;
- support the mandate of the NHBRC to enhance the structural quality of houses and promote technical standards in the homebuilding industry; and
- support the development of emerging homebuilders, including the youth, women, military vets and people living with disabilities.



The purpose of the Centre for Research and Housing Innovation (the Centre) is to promote research, best building practice and standards, innovation and capacity building in builders and inspectors in order to contribute to the improvement of sustainable human settlements in South Africa.



SELECTED VALUE-ADDED RESEARCH AND INNOVATION PROJECTS DELIVERED

Launch of the new *Homebuilding Manual (HBM)*

The HCPMA requires the Minister of Human Settlements to prescribe technical requirements relating to the warranty scheme which ensures the protection of housing consumers from shoddy workmanship.

The HCPMA further requires the NHBRC to publish a homebuilding manual which contains guidelines to satisfy the technical requirements.

The first edition of the *Homebuilding Manual* was published in February 1999, and the revised second edition was gazetted in September 2015 and launched in February 2016.

The new *Homebuilding Manual* has taken into account the recently published South African National Standards, overlaps between the NHBRC's technical requirements and the National Building Regulations, the latest developments in government housing subsidy programmes, advancement in building practices and innovations in the built environment.

Technical publications

The following publications were reviewed, published and launched during the launch of the *Homebuilding Manual*:

- *Guidelines for building an energy efficient home*
- *Promoting innovative building technologies*
- *Housing typologies for disabilities*
- *Cartoon animation of NHBRC business process in a number of local languages*
- *Housing consumer booklet, and*
- *Home builder booklet.*

Promoting innovation in sustainable human settlements

The HCPMA mandates the NHBRC to promote ethical and technical standards in the homebuilding industry. The Centre has accordingly embarked on a number of projects to promote the use and uptake of innovative building technologies (IBT), in partnership with a number of stakeholders and the provincial departments of Human Settlements.

The NHBRC partnered with the CSIR to develop an IBT analyser. The tool is used as an enabler to select IBTs for specific climatic zones during the procurement stage. It is capable of providing a comparison of various IBT systems to determine, by using a multi-criteria decision process, which system performs best in various climatic conditions in South Africa.

The NHBRC has also developed a condition assessment tool for IBTs. This tool has the capability of assessing any possible defects of IBT homes at the post-construction stage. It can also be used to identify technologies that qualify for inclusion on the NHBRC's IBT database. The database is dynamic, and can be used by provincial departments and municipalities for the procurement of housing technologies.

TRAINING AND CAPACITY BUILDING OF HOME BUILDERS AND INSPECTORS

Sections 3(h) and 15(d) of the HCPMA require the NHBRC to build-up the capacity of homebuilders and housing consumers, with specific emphasis on historically disadvantaged communities.

Major constraints that have been identified as obstacles to the growth of emerging homebuilders include the following:

- The private sector does not fully utilise the emerging homebuilders.
- Emerging homebuilders are often used as subcontractors or labourers only by larger developers and/or contractors.
- The equipment needed to undertake bigger projects is lacking.
- Difficulty is experienced in bargaining for best prices for construction materials from bigger suppliers.
- The community demands that local labour be used, which is generally unskilled and expensive.
- Technical knowledge and understanding of design specifications, project and construction management knowledge, and financial skills are lacking.

Currently, the industry is pyramidal with a few big established companies at the top and the majority of the small emerging companies pre-dominantly operating as micro, small and medium-scale enterprises at the bottom.

In order to address this, the Centre offers the following capacity-building programmes:

- Emerging homebuilder training;
- Support of the government training programme that targets the youth, women, military vets and people living with disabilities;
- Inspector training;
- Artisan development; and
- A homebuilder development programme.

The following training modules are offered for free to the designated groups:

- Bricklaying;
- Plastering;
- Plumbing;
- Roofing;
- Painting;
- Construction management;
- Finance for non-financial managers; and
- Construction project management.

The performance of the NHBRC in the training of emerging homebuilders is summarised in Table 13. It is evident that the targets for the year were achieved in all provinces, with the exception of KwaZulu-Natal, where the target was missed by 43%. Nationally, the target was exceeded by more than 105%.

In the current year, no targets were set for the designated government training programmes. Instead there was an overall target for the entire programme, set at 2000. In the next financial year, targets have been provided for each of the training programmes. Table 14 summarises the training performance of each of the government programmes. A total of 2,303 learners were trained, exceeding the target by 15%.

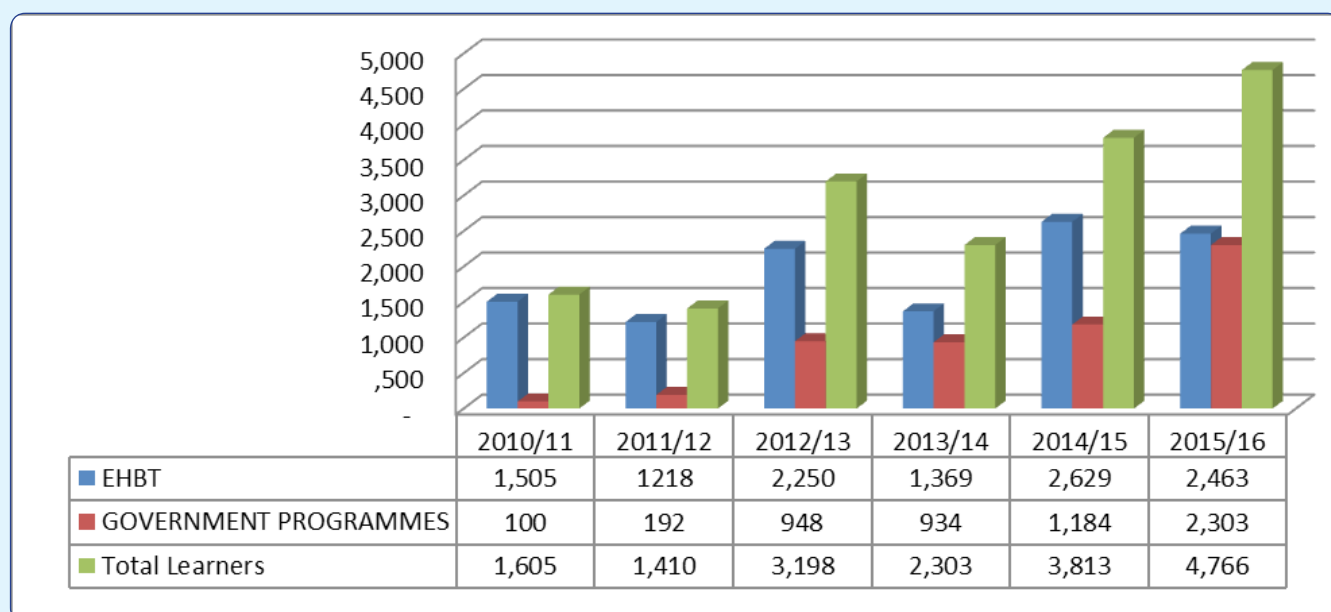
Table 13: Training of emerging homebuilders

Programme		2015/16 Performance									YTD PERFORMANCE
		EC	FS	GP	KZN	MP	NC	LP	NW	WC	
Emerging Homebuilders	Male	148	70	347	82	179	114	187	170	152	1449
	Female	66	61	223	32	301	43	137	123	28	1014
	Total	214	131	570	114	480	157	324	293	181	2463
	Target	200	120	200	200	120	80	120	80	80	1200
	Variance	14	11	370	-86	360	77	204	213	101	1264

Table 14: Training for government programmes

Programme		2015/16 Performance									YTD PERFORMANCE
		EC	FS	GP	KZN	MP	NC	LP	NW	WC	
Youth	Male	96	46	57	139	99	0	78	16	30	561
	Female	102	48	160	305	185	0	203	34	25	1062
	Total	198	94	217	444	284	0	281	50	55	1623
Military Veterans	Male	75	0	0	0	0	0	0	0	0	75
	Female	0	0	36	0	0	0	0	0	0	36
	Total	75	0	36	0	0	0	0	0	0	111
Artisans	Male	32	0	13	0	0	19	11	0	0	75
	Female	44	0	76	0	0	40	21	0	0	181
	Total	76	0	89	0	0	59	32	0	0	256
People with Disabilities	Male	17	0	0	0	0	0	0	0	0	17
	Female	17	0	0	0	0	0	0	0	0	17
	Total	34	0	0	0	0	0	0	0	0	34
Women	Total	100	0	63	0	30	28	0	58	0	279
Government programmes total	Male	220	46	70	139	99	19	89	16	30	728
	Female	263	48	335	305	215	68	224	92	25	1575
	Total	483	94	405	444	314	87	313	108	55	2303

A trend of training performance is presented in Figure 9 below. The total number of learners trained has grown by 25% in the current financial year as compared to 2014/15.

**Figure 10: Trend in training of homebuilders**

In the current year, the NHBRC trained a total of 310 homebuilding inspectors through skills programmes which included the implementation of innovative building technologies.

IMPACT OF YOUTH TRAINING PROGRAMME

Of the 1,623 youth trained, 38 have now enrolled for further studies in technical vocational education and training (TVET) colleges in Gauteng. The training is accredited with the Construction CETA. A further 20 learners have recently completed the Youth Brigade programme and have been accepted for the second trimester enrolment at the Sebokeng TVET college. Some of the youth trained have been employed by big developers as bricklayers and plumbers.

In KwaZulu-Natal, 65 learners have been identified for possible enrolment at the Nongoma TVET college. Some of the graduates that recently completed the programme have been absorbed by contractors in Zululand as specialists in bricklaying, plastering, roofing and carpentry.

In Limpopo, 18 learners have been enrolled for further studies at the Abakolwe TVET college, and a further 10 learners will be enrolled at the Mokopane TVET college in the second trimester.

In North West, 50 youths will be enrolled in the second trimester at the Mafikeng TVET college, and 34 are to be enrolled at various TVET colleges in Mpumalanga and a further 40 in colleges in the Western Cape.

In the Northern Cape, 11 learners are currently enrolled at the Moremogolo TVET college, and a further 50 learners are to be enrolled in the second trimester. In the Eastern Cape, 22 learners are enrolled at the King Sabata Dalindyebo TVET college, and in the Free State 50 learners will be enrolled at the Motheo TVET college.

The number of cooperatives formed by youth-owned entities is still to be collated by the National Youth Development Agency (NYDA). However, at least ten youth-owned entities have been awarded contracts by the Gauteng Department of Human Settlements. The NHBRC has also partnered with the National Department of Human Settlements to create an incubation programme for the youth, women and people living with disabilities. The incubation programme will empower them with both hard technical skills and soft skills in project and construction management, financial management and so forth.

The NHBRC, working with other human settlements entities in the Nelson Mandela Bay Metro and Cape Town Metro, enrolled 97 and 105 youths respectively for a character-building course under the Narysec programme, as part of the Youth Brigades Programme. After the programme the youths will be placed in catalyst projects in the two metros as labourers and youths contractors, once they have completed technical skills training by the NHBRC. The latter training is currently ongoing.

TRAINING ACADEMY

The Minister of Human Settlements pronounced in her 2014/2015 budget vote speech that a human settlements training academy would be established under the leadership of the NHBRC. The academy will be supported by all housing institutions involved in training as well as by the National Department of Human Settlements.

In the current year, the NHBRC started offering training courses through the academy, although it is not yet fully functional. The following milestones were achieved:

- 150 learners were awarded scholarships under the LGSETA/DHS Graduate Development Programme;
- 150 officials from the Nelson Mandela Metro completed the Project and Public Management Programme at the Nelson Mandela Metropolitan University (NMMU);
- Under the auspices of the Estate Agency Affairs Board (EAAB), 800 learners were trained in property management. This was done through their "one-agent one-learner" development programme;
- 38 women military veterans were trained in technical construction skills;
- 100 women that graduated from the NHBRC-GIBBS Construction Leadership Programme were also given technical construction skills training; and
- Another 1623 youths and 279 women also received various forms of training.





SECTION 8
PERFORMANCE INFORMATION
2015/2016

Programme 1: Administration

Strategic objectives	KPI budget	KPA	KPI no.	KPI	Key activity	Yearly target	Yearly performance	Target met or target not met	Actual achievement	Reason for variation
Grow, protect and sustain the warranty fund	R68 m	SAP project	1.1	Completion of SAP project	100% completion of SAP project	-Completion of SAP implementation (100%) -Go-live date – 31/08/2015 -Post-go-live support (3 months) Projects ends 24/12/2015	95% implementation of SAP was achieved	Target not met	95% implementation of SAP was achieved	Modules like subsidy, legal, and inspections are still outstanding
		Maintenance of ICT	1.2	Maintenance of ICT uptime	Maintenance of uptime	-Achieve 99% uptime of ICT systems	99% of uptime was achieved	Target met	99% of uptime was achieved	ICT system was being maintained continuously
		DR capabilities	1.3	Full disaster recovery (DR) capability	Install disaster recovery capabilities	-Two successful DR tests per annum	2 disaster recovery tests were done	Target met	2 disaster recovery tests were done	SP was appointed late last year
		ICT upgrades	1.4	ICT infrastructure upgrades	Upgrade ICT infrastructure	-Video conferencing infrastructure (All offices) -Hardware refresh (Servers/PCs) -Server room upgrades	No video conferencing facilities installed for organisation	Target not met	No video conferencing facilities installed for organisation	Lack of resources to execute the performance
Grow, protect and sustain the warranty fund		Review of policies and implementation	2.1	Number of policies to be reviewed and implemented	Review policies	17 policies to be reviewed	13 policies were approved	Target not met	13 policies were approved	Policies were not approved by Council
		Number of days it takes to recruit employees	2.2	Number of days it takes to recruit employees	Recruit staff	90 days	Employees were recruited within 68 days	Target met	Employees were recruited within 68 days	Due to timely management on performance
		Number of staff to be trained	2.3	Staff to be trained	Train staff	296 staff	491 staff were trained on various modules	Target met	491 staff were trained on various modules	The demand for training was high on the agenda

Strategic objectives	KPI budget	KPA	KPI no.	KPI	Key activity	Yearly target	Yearly performance	Target met or target not met	Actual achievement	Reason for variation
		% execution of HR re-engineering strategy	2.4	% execution of HR re-engineering strategy	Implement HR strategy	100%	100% execution of HR re-engineering strategy	Target met	100% execution of HR re-engineering strategy	Management was able to stick to plan
Grow, protect and sustain the warranty fund	R22m	Number of offices that have been provided with adequate and efficient facilities maintenance services	3.1	23 offices maintained for the year	Maintain offices	23 offices maintained for the year	41 offices were maintained (On average, ten offices were maintained for the year)	Target met	41 offices were maintained	Due to efficient management of contracts
Grow, protect and sustain the warranty fund	R3.4m	% of investment assets to exceed actuarial liabilities	4.1	Investment assets to exceed actuarial liabilities	Manage investment assets	Investment assets to exceed actuarial liabilities by 200%	Investment assets exceeded actuarial liabilities by 268%	Target met	Investment assets exceeded actuarial liabilities by 268%	Performance of investment portfolio above set benchmark
		Actual net profit ≥ budgeted net profit	4.2	Actual net profit ≥ budgeted net profit	Manage revenue	Actual net profit ≥ budgeted net profit	Actual net profit is below budget by R94 million	Target not met	Actual net profit is below budget by R94 million	Revenue generation was below budget
		Number of days within which suppliers will be paid	4.3	Pay suppliers on time	Pay suppliers	30 days	Suppliers were paid within 37 days	Target not met	Suppliers were paid within 37 days	Focused effort on payment of travel invoices
		% discretionary spend on BBBEE suppliers	4.4	% discretionary spend on BBBEE suppliers	Revenue spent on BEE suppliers	BBBEE spend > 51%	BBBEE spend was 59%	Target met	BBBEE spend was 59%	Discretionary spend aligned to planned target
	R2m	Percentage implementation of the audit plan	5.1	Track implementation of audit plan	Implement audit plan	90% implementation of the audit plan	76% implementation of the audit plan	Target not met	76% implementation of the audit plan	Delays in obtaining data for auditing purposes
		Percentage tracking of the implementation of corrective management plan	5.2	Tracking of the implementation of corrective management plan	Track the implementation of corrective management plan	100% tracking of the implementation of corrective management plan	100% tracking of the implementation of corrective management plan	Target met	100% tracking of the implementation of corrective management plan	All findings were tracked by audit section

Programme 2: Regulation

Strategic objectives	KPI budget	KPA	KPI no.	KPI	Key activity	Yearly target	Yearly performance	Target met or target not met	Actual achievement	Reason for variation
Provide innovative quality products and services that delight the customer	R4.6m	Registration of homebuilders	6.1	Number of homebuilders to be registered	-Check creditworthiness -Pass assessment tests	3,500	4,390 homebuilders were registered	Target met	4,390 homebuilders were registered	Due to government tenders homebuilders see reason to register
	R7.6m	Renewal of homebuilder registration	6.2	Number of homebuilders to renew their registration	-Check credit worthiness -Pass assessment tests	13,218	12,199 homebuilders renewed their registration	Target not met	12,199 homebuilders renewed their registration	Homebuilders renew registration when anticipating tenders and when tenders do not materialise they do not have an obligation to renew
Provide innovative quality products and services that delight the customer	R50m	Inspection of homes	7.1	Number of inspections to be conducted in the subsidy sector	Inspect homes	385,200	A total of 230,103 inspection stages were conducted in the subsidy sector.	Target not met	A total of 230,103 inspection stages were conducted in the subsidy sector.	Department is enrolling fewer projects than anticipated despite Engineers placed at NDHS and municipalities to fast-track rollout of projects
	R17m	Inspection of homes	7.2	Number of inspections to be conducted in the non-subsidy sector.	Inspect homes	200,820	A total of 258,446 inspection stages were conducted in the non-Subsidy sector.	Target met	A total of 258,446 inspection stages were conducted in the non-Subsidy sector.	Inspection increases in line with speed of development

Strategic objectives	KPI budget	KPA	KPI no.	KPI	Key activity	Yearly target	Yearly performance	Target met or target not met	Actual achievement	Reason for variation
Strengthen NHBC's operating processes, systems and procedures		Suspension of homebuilders	8.1	Number of days it takes to suspend a homebuilder on a prosecutable matter	Suspend homebuilders	80% of relevant homebuilders suspended within 14 days from date of receipt of file	34% of relevant homebuilders suspended within 14 days from date of receipt of file	Target not met	34% of relevant homebuilders suspended within 14 days from date of receipt of file	Increased number of instructions received from business led to overload at prosecutors and continued unavailability of prosecutors due to attendance at disciplinary hearings' However, interns have been appointed to assist in addressing the challenge.
		Prosecution of homebuilders	8.2	Number of days it takes to prosecute defaulting homebuilders	Prosecute homebuilders	80% of homebuilders prosecuted within 160 days from date of suspension	55% of homebuilders prosecuted within 160 days from date of suspension	Target not met	55% of homebuilders prosecuted within 160 days from date of suspension	Disciplinary Committee only started functioning at the end of November (third quarter). This created a backlog from turnaround time perspective. However, the Committee is now fully functional and it is anticipated that the backlog will be addressed by the end of the first quarter of 2016/2017.

Strategic objectives	KPI budget	KPA	KPI no.	KPI	Key activity	Yearly target	Yearly performance	Target met or target not met	Actual achievement	Reason for variation
Strengthen NHBC's operating processes, systems and procedures		Implementation of annual compliance plan	8.3	Implementation of the annual compliance plan	Implement annual compliance plan	80% implementation of the annual compliance plan	73% implementation of the annual performance plan achieved	Target not met	73% implementation of the annual performance plan achieved	Monitoring and reporting on compliance risk management Plans and workshops/ awareness were the major focus for the fourth quarter. However, due to moratorium on the filling of vacant positions, the Compliance Function had inadequate capacity to meet its targets.

Programme 3: Consumer protection


Strategic objectives	KPI budget	KPA	KPI no.	KPI	Key activity	Yearly target	Yearly performance	Target met or target not met	Actual achievement	Reason for variation
Strengthen NHBC operating processes, systems and procedures	R43m	Project enrolment	9.1	Number of project enrolment units	Enrol projects	51,655	A total of 4,440 units were approved	Target not met	A total of 4,440 units were approved	Due to low volumes from NDHS
	R198m	Home enrolments	9.2	Number of home enrolment units	Enrolment of subsidy units	44,645	A total of 7,437 units were approved	Target not met	A total of 7,437 units were approved	Due to low volumes from NDHS
		Consolidation home enrolments	9.3	Number of consolidation units to be done for the year	Enrolments of subsidy units	81,707	A total of 69,567 consolidation projects were approved	Target not met	A total of 69,567 consolidation projects were approved	Due to low volumes from NDHS
		Late enrolments	10.1	Number of late enrolments to be conducted by NHBC	Late enrolment of homes	1,255	A total of 1,028 late enrolments were conducted	Target met	A total of 1,028 late enrolments were conducted	Homebuilders were discouraged from enrolling late with the NHBC.
		Implementation of stakeholder relations	11.1	% implementation of stakeholder relations strategy and plan	Implement strategy	100% implementation of stakeholder relations strategy and plan	90% implementation of stakeholder relations strategy and plan	Target not met	90% implementation of stakeholder relations strategy and plan	There was no stakeholder relations specialist. The position was filled in January 2016 and programmes will be executed in 2016/2017.

Strategic objectives	KPI budget	KPA	KPI no.	KPI	Key activity	Yearly target	Yearly performance	Target met or target not met	Actual achievement	Reason for variation
	R2.1m	Implement risk plan	12.1	% implementation of the approved risk plan	Implement risk plan	95 % implementation of the approved risk plan	95 % implementation of the approved risk plan	Target met	95 % implementation of the approved risk plan	The risk policies were not updated due to the ERM unit not having sufficient capacity. The unit has since been fully resourced and the policies have been submitted to the Policy Development Committee for review and consideration. SAP GRC solution will be implemented during 2016/2017 financial year.
	R170k	Implement safety, health and environment (SHE) plan	12.2	% implementation of the safety, health and environment (SHE) plan	Implement SHE plan	90% implementation of the SHE plan	90% implementation of the SHE plan	Target met	90% implementation of the SHE plan	Implemented the plan to ensure compliance with Occupational Health and Safety Act
	R170k	Implement BCM strategy	12.3	% implementation of BCM strategy for the NHBRC	Implement BCM strategy	100% implementation of BCM strategy for the NHBRC	75% implementation of BCM strategy for the NHBRC	Target not met	75% implementation of BCM strategy for the NHBRC	Unachieved targets were pending the full resourcing of the risk section and the strategy will be fully implemented by end of first quarter of 2016/2017.

Strategic objectives	KPI budget	KPA	KPI no.	KPI	Key activity	Yearly target	Yearly performance	Target met or target not met	Actual achievement	Reason for variation
	R239k	Implement fraud plan	12.4	% implementation of the fraud plan	Implement fraud plan	100% implementation of the fraud plan	50% implementation of the fraud plan	Target not met	50% implementation of the fraud plan	Development of the fraud awareness plan and roll-out thereof did not take place due to the resourcing of the unit, which took over six months. The recruitment process was undertaken three times before suitable candidates were identified and appointed. On appointment of the fraud specialists the fraud strategy and policies were prioritised for development as awareness could not commence without these being in place. Unachieved targets were pending the full resourcing of the risk section, which includes a comprehensive fraud risk team to run with the deliverables. Two fraud specialists were appointed. Fraud risk manager role has been advertised. All pending deliverables will be completed as part of the 2016 /2017 risk plan.

Strategic objectives	KPI budget	KPA	KPI no.	KPI	Key activity	Yearly target	Yearly performance	Target met or target not met	Actual achievement	Reason for variation
Strengthen NHBRC operating processes, systems and procedures		Enrolment of homes	13.1	Number of enrolments to be conducted	Enrol homes in the non-subsidy sector	50,205	A total of 49,612 enrolments were done in non-subsidy sector	Target not met	A total of 49,612 enrolments were done in non-subsidy sector	Due to economic hardship experienced in the year
	R24m	Communication	14.1	% execution of communication strategy	Execute the plans	100% execution of plans against the communication strategy	37% execution of plans against the communication strategy	Target not met	37% execution of plans against the communication strategy	Some of elements of communication strategy were deferred to 2016/2017 financial year
Centre for Research and Housing Innovation		Research		% execution of research projects as per approved research agenda	Execute the research projects	100% execution of research projects as per approved research agenda	100% of projects as per research agenda and project plan executed (cumulative)	Target not met	50% of projects as per research agenda and project plan executed (cumulative)	Due to inability to start projects on time
				Achieve South African National Accreditation Standard (SANAS) accreditation of the testing centre	Achieve SANAS accreditation of the testing centre		No SANAS certificate was obtained for the year	Target not met	No SANAS certificate was obtained for the year	Due to finalisation of policies and procedures
				Number of publications and conference proceedings developed and presented	Publish papers	Eight publications and conference proceedings developed and presented	Eight papers were published	Target met	Eight papers were published	Publications completed as per project plan

Strategic objectives	KPI budget	KPA	KPI no.	KPI	Key activity	Yearly target	Yearly performance	Target met or target not met	Actual achievement	Reason for variation
Strengthen NHBRC operating processes, systems and procedures	Training	Number of inspectors to be trained	14.2	Number of inspectors to be trained	Train inspectors	400 home inspectors to be trained	310 inspectors were trained	Target not met	310 inspectors were trained	Inadequate requests from provincial departments for NHBRC support. ETD will continue to liaise with national departments' technical capacity directorate and devise a national plan for the training of inspectors.
			14.3	Number of homebuilders to be trained	Training of homebuilders	1200 homebuilders to be trained	2,463 homebuilders were trained	Target met	2,463 homebuilders were trained	The NHBRC has employed the services of provincial training officers and this has increased the number of homebuilders undergoing training for 2015/16.
			14.4	Number of youths to be trained	Training for government projects	2000 government project trainings	1,623 youths were trained	Target not met	1,623 youths were trained	Delayed engagement of service providers and so there have been ongoing projects in various provinces through 2016/2017.
			14.5	Number of artisans to be trained	Training of artisans	351 artisans to be trained	256 artisans were trained	Target not met	256 artisans were trained	There was not a sufficient number of artisans to be enrolled.



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.

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annual financial statements

FOR THE YEAR ENDED 31 MARCH 2016



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

Report on the financial statements

Introduction

1. I have audited the financial statements of the National Home Builders Registration Council set out on pages 94 to 145, which comprise the statement of financial position as at 31 March 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Authority's responsibility for the 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 Practice and the requirements of the Public Finance Management Act (Act No 1 of 1999) and for such internal control as the accounting authority determines is 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. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Homebuilders Registration Council as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance South African Standards of Generally Recognised Accounting Practice and the requirements of the Public Finance Management Act (Act No 1 of 1999).

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Significant uncertainties

8. With reference to note 25 to the financial statements relating to pending cases which have been disclosed as contingent liabilities, the ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Additional matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

10. The supplementary information as set out in note 28 does not form part of the financial statements. I have not audited this schedule and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

11. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected programmes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programmes presented in the annual performance report of the public entity for the year ended 31 March 2016.
- Programme 2: Regulation on pages 74 to 76.
 - Programme 3 : Consumer Protection on pages 77 to 78.
13. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPPI).
14. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. The material findings in respect of the selected programmes are as follows:

Programme 2: Regulation

Reliability of reported performance information

16. The FMPPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for the reported achievements against planned targets of 29% of indicators.

Programme 3: Consumer Protection

I did not identify any material findings on the usefulness and the reliability of the reported performance information for programme 3: Consumer Protection.

Additional matters

17. I draw attention to the following matters:

Achievement of planned targets

18. Refer to the annual performance report on pages 72 to 81 for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraphs 16 and 17 of this report.

Adjustment of material misstatements

19. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Programme 2: Regulation and Programme 3: Consumer Protection. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness of the reported performance information.

Compliance with legislation

20. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Procurement and contract management

21. Goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation 16A6.1.

22. Persons in service of the public entity who had a private or business interest in contracts awarded by the public entity failed to disclose such interest, as required by Treasury Regulation 16A8.4.

Expenditure management

23. Effective steps were not taken to prevent irregular expenditure, amounting to R13 601 382 as disclosed in note 23 of the AFS, as required by section 51 (b)(ii) of the Public Finance Management Act.

Internal control

24. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation, included in this report.

Leadership

25. The accounting authority and management did not exercise effective oversight responsibility regarding performance reporting, compliance and related internal controls.

Financial and performance management

26. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

Other reports

27. I draw attention to the following engagement that could potentially impact on the public entity's financial, performance and compliance related matters. My opinion is not modified in respect of this engagement.

Investigations

28. The public entity is in the process of appointing independent consulting firms to perform investigations. The investigations were initiated based on allegations of possible tender fraud, employee misconduct and corrupt activities including all acts of dishonesty.

Auditor - General,

Pretoria

31 July 2016



**A U D I T O R - G E N E R A L
S O U T H A F R I C A**

Auditing to build public confidence

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITY

for the year ended 31 March 2016

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

The annual financial statements for the year ended 31 March 2016 presented on pages 8 to 61 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 has no reason to believe that the NHBC will not be a going concern in the foreseeable future based on forecasts and available cash resources.

The Council is also responsible for the NHBC'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 NHBC 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.

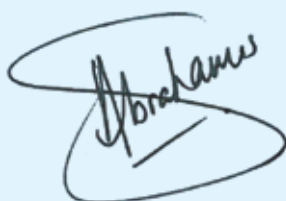
The Council, and NHBC management, treat corporate governance matters seriously, and whenever any instances of non-compliance to regulation are uncovered or reported, appropriate disciplinary measures in terms of policy and legislation are instituted.

The annual financial statements were approved by the Council on 31 July 2016 and are signed on its behalf:



Mr Abbey Chikane

Chairperson of Council



Mr Shafeeq Abrahams

Acting Chief Executive Officer

AUDIT AND RISK MANAGEMENT COMMITTEE (ARMCO) ANNUAL REPORT ON THE NHBRC

The ARMCO 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 ARMCO also reports that it has adopted appropriate formal terms of reference as its ARMCO Charter, and has managed and regulated its affairs in compliance with this charter. As mandated, we hereby report on the functions of the ARMCO for the year ended 31 March 2016.

ARMCO Meetings and Attendances

ARMCO appointment effective up to 31 July 2015.

The ARMCO consists of the members listed below. The Committee meets at least four times per annum in line with its approved charter. Three (3) meetings were held during the period under review, two (2) were scheduled and one (1) was special. The attendance record of the members is detailed below:

Members	Qualification	Scheduled Meetings	Special Meetings	Scheduled Meetings Attended	Special Meetings Attended	Total Meetings attended
Mr Z. Fihlani Chairperson Independent Non-Council Member	CA(SA)	2	1	2	1	3
Mr. R. Moodley Independent Non-Council Member	CA(SA)	2	1	1	1	2
Mr G. Manack Council Member	M.Sc. (Public Policy and Development)	2	1	2	1	3
Ms. B. Madikizela Council Member	CA (SA)	2	1	2	1	3
Ms. B. Nzo Council Member	Bsc (QS) Pr QS	2	1	1	0	1
Mr I. Kotsoane	Post Graduate Diploma in Governance & Political Transformation	2	1	0	1	1

ARMCO appointment effective as from 1 August 2015.

The ARMCO consists of the members listed below. The Committee meets at least four times per annum in line with its approved charter. One (1) scheduled meeting was held during the period under review. The attendance record of the members is detailed below:

Members	Qualification	Scheduled Meetings	Special Meetings	Total Scheduled Meetings Attended	Total Special Meetings attended	Total Meetings attended
Mr Y Amod Chairperson Independent Non-Council Member	CA(SA), CIA	1	0	1	0	1
Mr G. Manack Council Member	M.Sc. (Public Policy and Development)	1	0	1	0	1
Ms X. Daku Council Member	B.Com (Accounting), H.Dip.Acc, MBA	1	0	1	0	1
Mr A P Rapea	B. Com Post Grad Diploma in Management (HR)	1	0	0	0	0
Mr O. Molotsi	B Tech Architectural Management MDP MBA	1	0	1	0	1

ARMCO members appointed effective from 01 August 2015

ARMCO chair appointed effective from 01 October 2015

Risk Management

Risk management is an essential part of effective corporate governance and whilst it is a management responsibility, Council and Executive Management expect the ARMCO to oversee and provide advice on the organisation's risk management. During the year ARMCO reviewed and approved the risk management plans and assessed the organisational risk management processes throughout the year.

The NHBRC has established the Enterprise Risk Management unit headed by the chief risk officer to ensure that it has and maintains an effective and efficient system of internal control and risk management, driving the Council's initiative to build a risk-intelligent organisation.

The NHBRC Council and the Chief Executive Officer have delegated the following risk management responsibilities, in terms of section 56 of the PFMA, to the Chief Risk Officer, who is the head of the Enterprise Risk Management Unit.

- To ensure that the NHBRC has, and maintains an effective, efficient & transparent system of risk management - PFMA S51(a)(1);
- To take effective and appropriate steps to prevent irregular expenditure, fruitless & wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the NHBRC - PFMS S51(b)(ii); and
- To comply and ensure compliance by the NHBRC with the provisions of the PFMA and any other legislation applicable to the institution - PFMA S51 (1) (h).

Based on this mandate the following objectives for the ERM Unit were developed:

- Raising awareness of risk management and ensuring that guiding documents are developed in compliance with applicable legislation and prescripts;
- Risk identification, assessment and risk response at organisational, programme and functional levels of the NHBRC;
- Identification of compliance areas in key applicable legislation and prescripts, assessing compliance levels and reporting;
- Maintaining whistle-blowing, infrastructure and facilitating management of conflict of interest;
- Supporting and championing the development of NHBRC Strategic Plan Annual Performance Plans and performance reporting;
- Identification and management of health and safety risks, injury prevention, reporting and management of incidents as well as compliance with the requirements of the Occupational Health & Safety Act.

At the NHBRC, we strive to define, in our own terms, risk management that is appropriate for our organisation. We believe in carefully considering how to balance risk, cost and value to achieve a sustainable, efficient, and effective risk managed organisation. We are committed to building a strong risk management culture with consistent and visible leadership in order to ensure that there is clear messaging relating to the importance of sound risk management as an enabler to meeting our objectives. Our executives lead this process by being strong advocates of sound risk management.

The strength and consistency of risk management compliance across NHBRC is achieved through strong engagement and interaction. It is essential that all stakeholders, especially our staff “buy-in” to the risk management processes and actively drive and support the approach that is being implemented.

The Top Ten strategic risks are:

1. IT infrastructure fails to enable and support business processes. (Inadequate solution not aligned to business requirements).
2. Sustainability of the warranty fund due to the risk of poor quality subsidy homes being built in the North West Province (Freedom Park Phase 2)
3. Vacancies in Strategic roles within the organisation.
4. Construction of unenrolled homes.
5. Inadequate enforcement of the Housing Consumers Protection Measures Act (HCPMA).
6. Non-compliance with all applicable laws and regulations relating to the organization.
7. Unclean audit due to AG findings on performance information.
8. Inadequate prosecution of registered / non-registered home builders in terms of the Housing Consumers Protection Measures Act (HCPMA).
9. Inefficiency of policies and procedures to achieve organisational objectives.
10. Fraud and corruption of NHBRC employees and developers/builders.

The maturity level of the risk management unit, which is a self-assessment, is currently 2.5 (defined) on a 5 rating scale. The maturity level is based on the following risk management practices currently in place at the NHBRC:

- The tone at the top – Council is very risk aware and perform regular oversight on the risk management activities of the organisation;
- Policies and procedures have been developed and updated;
- Risk management is currently reactive with risk mitigation monitoring taking place on a monthly basis.

Effectiveness of Internal Controls

In carrying out its mandate as conferred to it by its Charter, and section 27.1.8 of the Treasury Regulations (March 2005), the Committee confirms that taking into consideration the reports by various assurance sources it has reviewed and assessed the following:

- The effectiveness of the internal control systems;
- The effectiveness of the internal audit and finance functions;
- The effectiveness of the risk management process;
- The scope of risk areas to be covered by internal and external audits;
- The adequacy, reliability and integrity of operational and financial information and reports used by management and governance overseers;
- The entity's compliance framework and implementation thereof;
- The reports on significant investigations and outcomes thereof; and
- The independence of the external auditors.

There has been steady improvement in the Organization's control environment however, the ARMCO is of the opinion that there is need for more focussed Management action in the following critical areas:

- ERP stabilization
- Reliability and integrity of data
- IT governance and data security;
- Revenue accounting especially regarding the record keeping of the underlying supporting information;
- Compliance across the business ;
- Procurement and special attention should be on the area of irregular procurement;
- Leadership oversight on financial and performance reporting;
- Business Continuity and Recovery processes; and
- Performance information reporting.

The ARMCO noted with concern the continued reporting around:

- ERP performance issues
- Performance Information deficiencies and Irregular Expenditure.

Management will be tasked to give these two areas the necessary urgency and attention they deserve to ensure a quick turnaround regarding the accounting, recording and reporting in these areas.

Internal Audit

The NHBRC has continued to use a hybrid Internal Audit function that incorporated a core in-house team and had access to subject matter experts for complex business areas. The model has made a significant impact in the coverage and review of significant business areas and processes, but there is still room for improvement to get its focus to include areas such as asset and liability management and other activities associated with the actuarial activities of the Business.

The Internal Audit fully conforms with the IIA standards for the professional practice of internal audit and was subjected to an independent external quality assurance review by the IIA and was awarded the highest rating, which is the General Conforms (GC).

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 Controls;
- Quality of Management Reports; and
- The Annual Financial Statements.

Management Reports

The ARMCO has noted that the information management system that produces management reports faced significant challenges during the year accessing the requested supporting information. The NHBRC, it must be reported, however, has embarked on a long term solution to this problem on the stabilization SAP ERP solution to address these system problems.

A detailed action plan to address and improve the process issues highlighted during the audit will be developed by Management and progress in resolving the issues will reported and monitored accordingly.

Annual Financial Statements

The ARMCO has:

- Reviewed and discussed the audited annual financial statements to be included in the Annual Report with the Auditor General and the Council. It has noted the matters raised in the Auditor's General report.
- Reviewed the Auditor General's management letter and the substance of Management's response and action plans thereto;
- Reviewed changes in accounting policies and practices, where appropriate; and
- Reviewed significant adjustments resulting from the audit.

The ARMCO concurs with and accepts the Auditor General's conclusions on the annual financial statements, and recommends that the audited financial statements read together with the report of the Auditor General be accepted and approved by the Council for submission to the Shareholder and publication for NHBRC stakeholders.



Mr Y Amod

Chairperson of ARMCO

Date: 31 July 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

as at 31 March 2016

	Notes	2016	2015
		R	R
ASSETS			
Non-current assets			
Property, plant and equipment	2	102,360,970	103,827,107
Intangible assets	3	117,058,064	87,814,430
Investments	4	2,246,659,452	1,987,130,080
		<u>2,466,078,486</u>	<u>2,178,771,617</u>
Current assets			
Investments	4	3,001,581,274	3,003,357,047
Inventories	5	5,058,577	876,149
Trade and other receivables	6	27,397,896	19,321,214
Cash and cash equivalents	7	83,208,459	171,719,372
		<u>3,117,246,206</u>	<u>3,195,273,782</u>
TOTAL ASSETS		5,583,324,692	5,374,045,399
EQUITY AND LIABILITIES			
Equity			
Accumulated surplus		3,976,350,875	3,776,648,826
Emerging contractor reserve		31,007,301	41,237,883
		<u>4,007,358,176</u>	<u>3,817,886,709</u>
LIABILITIES			
Non-current liabilities			
Provision for outstanding claims	9	33,006,085	32,554,742
Provision for unearned premium	9	508,080,229	497,969,460
Provision for unexpired risk	9	444,695,393	491,208,654
		<u>985,781,707</u>	<u>1,021,732,856</u>
Current liabilities			
Trade and other payables	10	205,937,515	192,365,234
Provisions	11	2,878,581	2,978,582
Provision for outstanding claims	9	13,448,548	13,072,062
Provision for unearned premium	9	367,920,165	326,009,956
		<u>590,184,809</u>	<u>534,425,834</u>
Total equity and liabilities		5,583,324,692	5,374,045,399

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2016

		2016	2015
	Notes	R	R
Insurance premium revenue	12	700,272,893	740,770,044
Fee revenue	13	42,311,370	50,680,650
Technical services revenue	14	56,045,976	24,124,500
Other income	16	2,215,229	23,229,935
Net income		800,845,468	838,805,129
Insurance claims and loss adjustment expenses	17	5,309,754	14,638,847
Inspections and operating expenses	28.2	2,935,103	1,708,314
Technical services expenditure	28.3	55,807,461	5,368,647
Administration expenses	28.4	714,323,262	627,804,025
Expenses		778,375,580	649,519,834
Profit from operating activities		22,469,888	189,285,295
Net Investment income		167,032,269	338,272,291
Interest received and Investment income	15	289,109,007	271,072,480
Unrealised (loss)/profit on financial assets	4	(79,865,588)	32,394,978
Realised (loss)/ profit on financial assets	4	(34,471,697)	42,672,415
Asset management services		(7,739,453)	(7,867,582)
Net profit before finance costs	18	189,502,157	527,557,587
Finance costs	19	30,690	4,369,938
Surplus for the year		189,471,467	523,187,649

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2016

	Notes	Accumulated surplus	Emerging contractor reserve	Total
		R	R	R
Balance at 31 March 2014		3,274,279,231	20,419,828	3,294,699,060
Surplus for the year ended 31 March 2014		523,187,649	-	523,187,649
Transfer to NDR		(30,000,000)	30,000,000	-
Reserve utilised (note 8)	8	9,181,946	(9,181,946)	-
Balance at 31 March 2015		3,776,648,826	41,237,883	3,817,886,709
Surplus for the year ended 31 March 2016		189,471,467	-	189,471,467
Reserve utilised (note 8)	8	10,230,582	(10,230,582)	-
Balance at 31 March 2016		3,976,350,875	31,007,301	4,007,358,176

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

CASH FLOW STATEMENT

for the year ended 31 March 2016

Notes	2016	2015
	R	R
Cash flows from operating activities		
Cash generated from operations	49,947,039	336,202,205
- Cash receipts from customers	790,553,557	831,932,106
- Cash paid to suppliers and employees	(740,606,518)	(495,729,901)
Interest paid	(30,690)	(4,369,938)
Interest received	8,724,345	9,453,309
Net cash inflow from operating activities	58,640,694	341,285,575
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,133,185)	(14,864,346)
Purchase of intangible assets	(35,162,277)	(51,081,760)
Purchase of financial assets	(170,643,835)	(418,839,481)
Proceeds on sale of financial assets	71,269,614	178,839,493
Net cash outflow from investing activities	(142,669,682)	(305,946,094)
Cash flows from financing activities		
Claims paid	(4,481,925)	(11,103,559)
Net cash outflow from financing activities	(4,481,925)	(11,103,559)
Net (decrease)/ increase in cash and cash equivalents	(88,510,913)	24,235,922
Cash and cash equivalents at beginning of year	171,719,372	147,483,450
Cash and cash equivalents at the end of the year	83,208,459	171,719,372

STATEMENT OF COMPARISON OF BUDGET INFORMATION WITH ACTUAL INFORMATION

for the year ended 31 March 2016

Description	Notes	2016 Actual	2016 Budget	Difference: Actual and Budget	2015 Actual	2015 Budget
Revenue	1					
Fee income		42 311 370	49 055 934	(6 744 564)	50 680 650	53 434 770
Non-subsidy enrolments		496 845 757	452 338 733	44 507 024	329 819 242	414 473 639
Subsidy enrolments		203 427 136	239 519 118	(36 091 982)	410 950 803	189 507 358
Technical and other revenue	2	58 261 205	72 250 000	(13 988 795)	47 354 435	102 837 460
Total Revenue		800 845 468	813 163 785	(12 318 317)	838 805 130	760 253 228
Expenses	3					
Operating Expenditure		64 052 318	53 446 633	10 605 685	21 715 809	135 046 407
General and Administration		25 711 290	33 151 796	(7 440 506)	14 838 252	18 380 598
Payroll Costs		6 503 760	7 160 000	(656 240)	5 310 890	4 840 000
Permanent Staff Costs		399 413 432	449 691 081	(50 277 649)	316 659 729	458 195 725
General Costs		179 886 930	171 911 991	7 974 938	174 925 167	158 661 461
Other Expenses		102 807 849	97 673 778	5 134 071	116 069 988	78 079 438
Total Expenses		778 375 580	813 035 280	34 659 700	649 519 835	853 203 628
Surplus / (Deficit) before investment income		22 469 888	128 505	22 341 383	189 285 295	(92 950 400)
Investment income	4					
Interest received		167 032 269	264 500 000	(97 467 731)	338 272 291	211 570 000
Interest paid		(30 690)	-	(30 690)	(4 369 938)	
Surplus / (Deficit) for the period		189 471 467	264 628 505	(75 157 038)	523 187 648	118 619 600

Note

1. Revenue

Fee income

Fee income included registration fees, renewal fees as well as project enrolments, the negative variance against budget was due to the delays experienced in rolling out projects by the Provincial Departments of Human Settlement.

Non subsidy enrolments

The positive increase of R44m is due to increased non-subsidy enrolments in units and in value.

Subsidy enrolments

Subsidy revenue decreased by R36 million compared to budget. This is due to a decrease in the volumes of work done by the Provincial Departments. The lower Subsidy enrolments fees in the subsidy sector was partly recovered by higher than budgeted non-subsidy home enrolments.

2. Technical provisions

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

STATEMENT OF COMPARISON OF BUDGET INFORMATION WITH ACTUAL INFORMATION

for the year ended 31 March 2016

3. Expenditure

General and administration expenses

General and administration expenditure were stringently managed by the organisation so as to ensure savings in expenditure. Operating expenditure is higher than budget as some technical expenditure coming from provincial department that was not budgeted for due to uncertainty of projects.

Permanent staff costs

The savings in permanent staff costs is due to the prioritisation in filling of critical vacancies, this was informed by the austerity measures implemented.

4. Income from investments

The investment strategy followed by the entity was to maximise the return on cash investments when the bond and equity market were declining. The under performance against budget was due to the the negative sentiment in the market in the third quarter of the financial year, the portfolios affected were the equity instruments and bond instruments.

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 a 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 the South African Statements of Generally Recognised 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 and International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments measured at fair value;
- Financial instruments at fair value through profit or loss are measure at fair value;
- Technical liabilities are measure at actuarial values.

The methods used to measure fair value are detailed in note 1.13.

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 1.3. 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 those of the prior financial year.

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 for the year 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).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.2 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is given in the following notes:

- Technical liabilities;
- Impairment of financial assets;
- Measurement of the recoverable amount from Provincial Departments.

1.3 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

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.

GRAP 3: Changes in Accounting Estimates and Errors

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.3 Application of new accounting standards (continued)

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

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

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

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.

GRAP 16: Investment Property

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

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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.3 Application of new accounting standards (continued)

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 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.

GRAP 104: Financial Instruments

Financial Instruments should also be applied retrospectively, except where indicated otherwise. In previous reporting periods, entities would have applied IAS 39 or, they may have used GRAP 104 to formulate their accounting policies. The main difference between GRAP 104 and IAS 39 is the elimination of certain categories of financial assets in GRAP 104. As a result of these differences in categorisation, entities should analyse the financial assets recognised as at 31 March/30 June 2012 and categorise them using the requirements in GRAP 104. Entities should also take note of the carrying values and fair values of any instruments at that date as these will form the basis of either the fair value or carrying value going forward.

The Impact of this standard is material and has been applied retrospectively with additional disclosure.

1.3.1 Standards, interpretations and amendments to published standards effective for reporting periods commencing on or after 1 April 2012 not adopted by the NHBRC.

GRAP 100: Discontinued operations

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.4 Newly effective GRAP standards for the 2015/16 financial year

1.4.1 The following Standards of GRAP should be applied by public entities, constitutional institutions, Municipalities and municipal entities for the period beginning 1 January 2016:

- GRAP 18: Segment Reporting;
- GRAP 105: Transfer of Functions between Entities under Common Control;
- GRAP 106: Transfer of Control between Entities not Under Common Control;
- GRAP 107: Mergers;

1.4.2 Effective GRAP Standards affected by the improvements project

- GRAP 1: Presentation of Financial Statements;
- GRAP 2: Cash Flow Statements;
- GRAP 3: Accounting policies, Changes in Accounting Estimates and Errors;
- GRAP 7: Investments in Associates;
- GRAP 10: Financial Reporting in Hyperinflationary Economies;
- GRAP 11: Construction Contracts;
- GRAP 13: Leases;
- GRAP 17: Property Plant and Equipment;
- GRAP 19 : Provisions, Contingent Liabilities and Contingent Assets;
- GRAP 21: Impairment of Non-cash- generating units;
- GRAP 24: Presentation of Budget Information in Financial Statements;
- GRAP 25: Employee Benefits;
- GRAP 26: Impairment of cash-generating Assets;
- GRAP 31: Intangible Assets;
- GRAP 103 : Heritage Assets;
- GRAP 104 : Financial Instruments.

1.5 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.5 Insurance technical result (continued)

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.5 Insurance technical result (continued)

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.

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.

1.6 Revenue recognition

Revenue arising from registration, renewal, late enrolment, non-subsidy enrolments, and subsidy home enrolments are recognised on the accrual basis when cash and appropriate supporting documentation is obtained.

Revenue arising from subsidy project enrolments fees and technical services 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.

1.7 Irregular, unauthorised, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.7 Irregular, unauthorised, fruitless and wasteful expenditure (continued)

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.

1.8 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.

1.9 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.

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	6.7% p.a
Office Equipment	10% p.a
Motor vehicles	20.0% p.a
Buildings	5.0% p.a
Minor Assets	1 year

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.9 Property, plant and equipment (continued)

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.

1.9 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. Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives of intangible assets from the date that they are available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year and adjusted if appropriate. The useful life of intangible assets was reviewed and the following rate is used for the amortisation of intangible assets:

Computer software	14.29% p.a
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Subsequent expenditure is capitalised only when it creates the future economic benefits embodied in the specific asset to which it relates. All other expenditure including expenditure on internally generated goodwill and brands is recognised in profit or loss when incurred.

1.11 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 in the statement of financial performance.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.12 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.

1.13 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: financial instruments at fair value, financial instruments at amortised cost. 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.

Financial instruments at fair value

Unlisted shares and listed redeemable notes, traded in an active market are classified as financial instruments at fair value 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 the statement of comprehensive income, this is not consistent with prior years as a result of the adoption of GRAP 104 which has been applied retrospectively. 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 is included in surplus or deficit for the period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.13 Financial instruments (continued)

Financial instruments at amortised cost

Trade receivables, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial instruments at amortised cost. 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 fair value financial assets, 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 financial assets at amortised cost, 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 the allowance account. Changes in the carrying amount of the allowance account are recognised in surplus or deficit.

With the exception of fair value derivative financial assets, 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.

De-recognition 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 liabilities are recognised. Where risks and rewards of ownership are retained, the financial asset and a collateralised borrowing are recognised.

1.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.13 Financial instruments (continued)

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.

De-recognition of financial liabilities

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

1.14 Cash and cash equivalents

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

1.15 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.

1.15 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.

1.16 Value Added Tax

No provision has been made for Value Added Taxation as the Council was deregistered as a vat vendor on 01 April 2011 in terms of the Revenue Laws Amendment Acts Nos. 45 of 2003 and 32 of 2004 which came into operation on 01 April 2005.

1.17 Financial Guarantees

Financial guarantees are contracts that require a Bank to make specified enrolment payments to the NHBC at the expiration of a certain period stated in the financial guarantee. Financial guarantees are initially recognised at their fair value and the initial value is amortised over the life of the financial guarantee. The guarantee liabilities are included in other current liabilities.

1.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.18 Provisions

Provisions are recognised if, as a result of a past event, the NHBRC has a present legal or constructive obligation that can be estimated reliably and is probable that an outflow of economic resources will be required to settle the provision.

Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

1.19 Events after the reporting period

An event, which could be favourable or unfavourable, that occurs between the end of the reporting period and the date that the financial statements are authorised for issue.

Adjusting event: An event that after the reporting period provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.

Non-adjusting event: An event after the reporting period that is indicative of a condition that arose after the reporting period.

1.20 Related parties

The NHBRC operates in an economic environment currently dominated by entities directly owned by the South African Government. As a result of the constitutional independence of all spheres of government (National, provincial and local) in South Africa, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with authority and responsibility for planning, directing and controlling the activities of the NHBRC. All individuals from Council to Executive management are key management individuals.

Close family members of key management personnel are considered to be those family members who may be expected to influence or be influenced by key management in their dealings with the NHBRC.

Other related party transactions are also disclosed in terms of the requirements of IAS 24. The objective of the standard and the financial statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

1.21 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.

1.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.21 Critical accounting judgements and key sources of estimation uncertainty (continued)

Insurance technical result

The accounting for the insurance technical result as disclosed in note 1.4 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 on-going 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2016

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 2016						
Opening net book amount	7,356,480	13,356,247	307,617	17,751,947	65,054,816	103,827,107
Additions	7,110,327	645,988	70,001	-	306,869	8,133,185
Disposals	(117,122)	(558,763)	(37,000)	-	-	(712,885)
Depreciation on disposal	7,968	263,949	37,000	-	-	309,077
Depreciation charge	(3,550,541)	(1,749,014)	(91,271)	-	(3,804,688)	(9,195,514)
Closing net book amount	10,807,112	11,958,407	286,347	17,751,947	61,556,997	102,360,970

At 31 March 2016						
Cost	21,569,781	22,367,344	1,169,897	17,751,947	75,746,282	138,605,251
Accumulated depreciation	(10,762,669)	(10,408,778)	(883,550)	-	(14,189,285)	(36,244,281)
Net book amount	10,807,112	11,958,567	286,347	17,751,947	61,556,997	102,360,970

Fully Depreciated Assets	Computer equipment	Office furniture and equipment	Motor vehicles	Total
At 31 March 2016				
Cost	1,933,770	5,176,575	243,792	7,354,137
Accumulated Depreciation	(1,933,770)	(5,176,575)	(243,792)	(7,354,137)
Net Book Value	-	-	-	-

	Computer equipment	Office furniture and equipment	Motor vehicles	Land	Buildings	Total
	R	R	R	R	R	R
Year ended 31 March 2015						
Opening net book amount	7,052,221	11,755,677	496,046	17,751,947	61,203,408	98,259,299
Additions	3,400,653	4,625,090	-	-	6,838,603	14,864,346
Disposals	(8,007,155)	(5,067,683)	(37,000)	-	-	(13,111,838)
Depreciation on disposal	7,901,573	4,071,436	37,000	-	-	12,010,009
Depreciation charge	(2,990,813)	(2,028,273)	(188,429)	-	(2,987,194)	(8,194,710)
Closing net book amount	7,356,480	13,356,247	307,617	17,751,947	65,054,816	103,827,107

At 31 March 2015						
Cost	14,576,576	22,280,058	1,099,897	17,751,947	75,439,412	131,147,890
Accumulated depreciation	(7,220,096)	(8,923,812)	(792,280)	-	(10,384,597)	(27,320,784)
Net book amount	7,356,480	13,356,247	307,617	17,751,947	65,054,816	103,827,107

Fully Depreciated Assets	Computer equipment	Office furniture and equipment	Motor vehicles	Total
At 31 March 2015				
Cost	8,128,025	6,750,264	322,652	15,200,941
Accumulated Depreciation	(8,128,025)	(6,750,264)	(322,652)	(15,200,941)
Net Book Value	-	-	-	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

2. Property, plant and equipment (continued)

Land

Land comprises of ERF's 1085 & 1086 situated in Leeuwkop road Sunninghill, and 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 Head Office located in Leeuwkop Road ,Sunninghill, 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 1.9) in the summary of significant accounting policies and note 1.21 "Critical accounting judgements".

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

3. Intangible assets

	Computer software	Total
	R	R
Year ended 31 March 2016		
Opening net book amount	87,814,430	87,814,430
Additions	35,162,277	35,162,277
Amortisation charge	(5,918,642)	(5,918,642)
Closing net book amount	117,058,064	117,058,064
At 31 March 2016		
Cost	176,014,411	176,014,411
Accumulated amortisation	(58,956,348)	(58,956,348)
Net book amount	117,058,064	117,058,064
Fully Depreciated Intangible Asset		
At 31 March 2016		
Cost	699,775	699,775
Accumulated amortisation	(699,775)	(699,775)
Net Book value	-	-
Year ended 31 March 2015		
Opening net book amount	57,007,633	57,007,633
Additions	51,081,760	51,081,760
Disposals	(5,948,119)	(5,948,119)
Impairment on ERP solution	(19,338,784)	(19,338,784)
Amortisation on disposals	5,948,119	5,948,119
Amortisation charge	(936,178)	(936,178)
Closing net book amount	87,814,430	87,814,430
At 31 March 2015		
Cost	140,852,135	140,852,135
Accumulated amortisation	(53,037,705)	(53,037,705)
Net book amount	87,814,430	87,814,430
Fully Depreciated Intangible Asset		
At 31 March 2015		
Cost	5,955,639	5,955,639
Accumulated amortisation	(5,955,639)	(5,955,639)
Net Book value	-	-

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.

The impairment raised relates to the amount incurred on the SAP ERP which has been written down to its net reliable value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

2016	2015
R	R

4. Investments

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

Investments carried at fair value comprise the following:

Money Market investments	2,829,279,466	2,841,607,562
CPD Money Market	172,301,808	161,749,486
Listed bond securities and equity		
- Short-term < 7 years	859,598,791	918,862,130
- Medium-term 7 to 12 years	118,593,884	190,098,374
- Long-term > 12 years	796,340,053	412,812,910
- Inflation linked bonds, equity and Derivatives	-	2,019,424
	4,776,114,002	4,527,149,884

Derivative Financial Instruments at fair value	472,126,724	463,337,243
	5,248,240,726	4,990,487,127

Split between non-current and current

Non-Current portion	2,246,659,452	1,987,130,080
Current portion	3,001,581,274	3,003,357,047
Total	5,248,240,726	4,990,487,127

None of these financial assets are either past due or impaired

Reconciliation of opening and closing balance

Opening balance	4,990,487,121	4,422,165,056
Capital additions	170,643,835	418,839,481
Interest accrued	267,928,152	252,425,930
Dividend income	12,456,510	9,193,239
Disposals	(71,198,155)	(179,336,397)
Administration fee	(7,739,453)	(7,867,582)
Unrealised profit on financial assets	(79,865,588)	32,394,978
Realised profit on financial assets	(34,471,697)	42,672,415
	5,248,240,726	4,990,487,121

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

4. Investments (continued)

2016	2015
R	R

4.1 Credit quality of financial assets (continued)

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

Financial Assets at Fair Value

(Bonds, Money Market, Equities and Structured Products)

Fitch

F1	161 137 164	146 488 331
F2	6 618 405	6 016 732
F1+	1 075 012 803	1 022 738 912
A	57 166 942	51 969 947
A-	5 586 629	5 078 754
A+	1 221 246 908	1 160 224 462
AA	778 972 832	708 157 120
AA-	121 128 339	110 116 672
AA+	96 018 434	87 289 485
AAA	610 939 372	555 399 429
B	20 726 365	18 842 150
BBB-	177 924 435	161 749 486
CCC	50 138 669	45 580 608
	4 382 617 297	4 079 652 087

Moody

A1	34 047 211	76 406 555
A2	17 784 043	16 167 312
Aaa	7 820 055	7 109 141
Baa1	8 327 702	7 570 638
Baa2	227 012 184	279 101 986
CCC	10 299 623	9 363 294
	305 290 818	395 718 926

GCR

A	14 208 219	12 916 562
BBB+	6 253 073	5 684 612
BBB	1 114 245	1 012 950
	21 575 537	19 614 125

S&P

AA-	49 104 682	44 640 620
BBB+	2 168 735	1 971 577
	51 273 417	46 612 197

Issuer Rated

AA	3 742 544	3 402 313
	3 742 544	3 402 313

Equity Exposure

	483 741 113	445 487 478
	5 248 240 726	4 990 487 126

Fitch ratings were available for all the above listed financial assets in 2015. In 2016 GCR, Moody, S&P and Issuer ratings were used where Fitch ratings was not available.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

4. Investments (continued)

4.2 Fair value hierarchy for financial assets measured at fair value.

	Fair value measurement at end of the year using:		
		Level 1	Level 2
	R	R	R
2016			
Financial assets at fair value through profit or loss			
Equities	475,632,970	475,632,970	-
Government bonds	692,561,961	-	692,561,961
Corporate bonds	403,021,115	403,021,115	-
Money market instruments	2,831,235,224	-	2,831,235,224
Other investment(Structured Products)	845,789,456	845,789,456	-
	-	-	-
	5,248,240,726	1,724,443,541	3,523,797,185

	Fair value measurement at end of the year using:		
		Level 1	Level 2
	R	R	R
2015			
Financial assets at fair value through profit or loss			
Equities	476,420,843	476,420,843	-
Government bonds	703,329,873	-	703,329,873
Corporate bonds	409,287,263	409,287,263	-
Money market instruments	2,584,139,410	-	2,584,139,410
Other investment(Structured Products)	817,309,736	817,309,736	-
	-	-	-
	4,990,487,125	1,703,017,842	3,287,469,283

The fair value assets are classified using a fair value hierarchy that reflects the significance of the inputs used in determining the measurements.

The fair value hierarchy has the following levels:

Level 1 - These are assets measured using quoted prices in an active market.

Level 2 - These are assets measured using inputs other than quoted prices included within level 1, that are either directly or indirectly observable.

Level 3 - These are assets measured using inputs that are not based on observable market data. The scheme does not have any assets falling under level 3.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

4. Investments (continued)

4.2 Fair value hierarchy for financial assets measured at fair value. (continued)

The table below details the valuation techniques and observable inputs for assets falling under level 2:

Description	Fair as at 31 March 2016	Valuation techniques	Observable Input
Financial assets at fair value through profit or loss: Ulisted:			
Debt securities		Reference to listed bonds	Risk free yield to maturity curve, risk free zero curve
Money market securities		Discount cash flow valuation, black-scholes Model	Published exchange swap curve,published interest rate curve,published credit spread curve/implied credit spread curve,risk free yield to maturity curve, risk free zero curve, swap yield to maturity curve.swap zero curve
Other investments		Reference to listed benchmark bond	Risk free yield to maturity curve, risk free zero curve

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

5. Inventories

Builders manuals at cost

	2016	2015
	R	R
Builders manuals at cost	5,058,577	876,149

6. Trade and other receivables

Net trade receivables

- Trade receivables

- Less provision for impairment

Other receivables:

- Deposits

- Sundry debtors

Net trade receivables	20,855,800	5,527,160
- Trade receivables	50,920,529	34,889,629
- Less provision for impairment	(30,064,729)	(29,362,470)
Other receivables:		
- Deposits	1,045,013	1,007,149
- Sundry debtors	5,497,083	12,786,905
	27,397,896	19,321,214

The fair values of trade and other receivables are as follows:

Trade receivables

Deposits

Trade receivables	50,920,529	34,889,629
Deposits	1,045,013	1,007,149
	51,965,542	35,896,778

Ageing of past due but not impaired is as follows:

Amounts in 60 to 120 days

Amounts in 120 days +

Amounts in 60 to 120 days	21,497,479	5,527,159
Amounts in 120 days +	29,423,050	29,362,470
	50,920,529	34,889,629

Movements on the provision for impairment of trade receivables is as follows:

At 1 April 2015

Additional provision raised

At 31 March 2016

At 1 April 2015	(29,362,470)	(13,427,946)
Additional provision raised	(702,259)	(15,934,523)
At 31 March 2016	(30,064,729)	(29,362,470)

In determining the recoverability of a trade receivables, 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.

6.1 Credit quality of financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

Trade receivables

Counterparty with external credit rating (Fitch)

BBB

Total trade receivables

BBB	50,920,529	34,889,629
Total trade receivables	50,920,529	34,889,629

Note: The customer is the National and Provincial Department of Human Settlements

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

2016	2015
R	R

7. Cash and cash equivalents

Cash balances	83,154,748	171,676,159
Short-term bank deposits	53,711	43,213
	83,208,459	171,719,372

FNB uses the credit rating of FirstRand Bank Ltd which has a credit rating of BBB.

NHBRC had a guarantee with FNB in favour of Barinor Properties (Pty) Limited to the value of R 274 794.66. This guarantee was issued on 15 June 2012 and expired on 31 May 2015.

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 R10 230 582 (2015: R9 181 946) for home builder training in the current financial year

9. Technical actuarial liabilities

	Outstanding claims	Unearned premium	Unexpired risk	Total
	R	R	R	R
Balance at 31 March 2014	42,091,516	603,266,452	645,731,568	1,291,089,536
Increase during the year	14,638,847	-	-	14,638,847
Utilised during the year (note 17)	(11,103,559)	-	-	(11,103,559)
Increase during the year (note 12)	-	220,712,964	(154,522,914)	66,190,050
Balance at 31 March 2015	45,626,804	823,979,416	491,208,654	1,360,814,874
Increase during the year	5,309,754	-	-	5,309,754
Utilised during the year (note 17)	(4,481,925)	-	-	(4,481,925)
Increase (decrease) during the year (note 12)	-	52,020,978	(46,513,261)	5,507,717
Balance at 31 March 2016	46,454,633	876,000,394	444,695,393	1,367,150,420
Balance at 31 March 2015				
Current	13,072,062	326,009,956	-	339,082,018
Non-current	32,554,742	497,969,460	491,208,654	1,021,732,856
	45,626,804	823,979,416	491,208,654	1,360,814,874
Balance at 31 March 2016				
Current	13,448,548	367,920,165	-	381,368,713
Non-current	33,006,085	508,080,229	444,695,393	985,781,707
	46,454,633	876,000,394	444,695,393	1,367,150,420

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

9. Technical actuarial liabilities (continued)

9.2 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 valuation followed as best as it could the Advisory Practice Note 401 ("APN401") of the actuarial society.

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 (being the 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.

9.3 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	2016		2015	
	Non-subsidy	Subsidy	Non-subsidy	Subsidy
Discount rate	8.25%	8.25%	7.18%	7.18%
General price inflation	6.70%	6.70%	5.84%	5.84%
Future building cost inflation	6.70%	6.70%	5.84%	5.84%
Historical building cost inflation	0.00%	N/A	3.50%	N/A
Ultimate complaint rate	2.45%	2.45%	2.50%	2.50%
BF complaints loss ratio	2.19%	N/A	2.31%	N/A
Remedial work rate	3.40%	3.40%	3.00%	3.00%
Average claim cost	R 200,853	R 44,656	R 200,853	R 44,656
Initial expense ratio	58.00%	87.00%	58.00%	35.00%
BF method loss ratio	2.50%	2.50%	2.50%	2.50%
BF method tail factor	10.00%	10.00%	10.00%	10.00%
Spread of risk period	Per earnings curve (of complaints)		Per earnings curve (of complaints)	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

2016	2015
R	R

9. Technical actuarial liabilities (continued)

9.4 Sensitivity analysis

The various components of the provisions are sensitive to various factors. The UPP is mostly driven by the initial expense ratio and the earnings curve. The UPP is sensitive to the earnings curve, even though the high level of initial expenses in non-subsidy sector which results in only 42% of the enrolment fees being held as the UPP negates this sensitivity to some extent. The initial expense ratio affects the current component of the UPP held to meet inspection costs still ongoing. The requirement for AURP makes the total provisions insensitive to the initial expense ratio (for 2015/16). The OCP is sensitive to the net real discount rates and the BF Tail Factor. The AURP is also sensitive to the net real discount rate in addition to the average remedial claim amount, the remedial work rate, the ultimate complaint rate, and to a lesser extent the development of complaints as suggested by the earnings curve.

10. Trade and other payables

Trade payables and accrued expenses	117,397,135	90,730,434
Operating lease accrual	371,203	66,006
Income received in advance (KwaZulu Natal Rectification Work and Eastern Cape Forensics projects)	11,999,052	63,378,401
Leave accrual	20,509,746	16,710,312
Cash received in advance	53,921,362	18,064,642
Retentions	1,739,017	3,415,439
	205,937,515	192,365,234

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

11. Provisions

	Legal Fees	Other	Total
Balance at 1 April 2015	2,978,582	-	2,978,582
- Utilised during the year	(2,978,582)	-	(2,978,582)
- Raised during the year	2,878,582	-	2,878,582
Balance at 31 March 2016	2,878,582	-	2,878,582
Balance at 1 April 2014	2,978,582	116,684	3,095,266
- Utilised during the year	(2,978,582)	(116,684)	(3,095,266)
- Raised during the year	2,978,582	-	2,978,582
Balance at 31 March 2015	2,978,582	-	2,978,582

The "Other" provisions consists of professional fees payable which will be settled in the new financial year

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

12. Insurance premium revenue

	2016	2015
	R	R
Premium received	705,780,610	806,960,094
Change in unearned premium provision (see note 9)	(52,020,978)	(220,712,964)
Change in unexpired risk provision (see note 9)	46,513,261	154,522,914
	700,272,893	740,770,044

13. Fee revenue

Annual registration fees	2,834,407	2,494,216
Annual renewal fees	5,638,857	8,557,939
Registration fees	6,081,406	3,669,096
Builder manual fees	571,934	587,418
Subsidy project enrolments fees	26,218,471	33,420,077
Late enrolment fees	397,172	525,458
Document sales	569,122	1,426,446
	42,311,370	50,680,650

14. Technical services revenue

Forensic engineering audit, Geo-tech and rectification work	56,045,976	24,124,500
	56,045,976	24,124,500

15. Investment income

Investment income earned on financial assets, analysed by category of asset, is as follows:

Income from investments	267,928,152	252,425,932
Dividend income	12,456,510	9,193,239
Income from loans and receivables (cash and cash equivalents)	8,724,345	9,453,309
	289,109,007	271,072,480

16. Other Income

Sundry Income	961,229	22,532,435
Penalties	1,254,000	697,500
	2,215,229	23,229,935

17. Insurance claims and loss adjustment expenses

Current year warranty claims	4,481,925	11,103,559
Increase/ (decrease) in the outstanding claims provision	827,829	3,535,288
	5,309,754	14,638,847

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

	2016	2015
	R	R
18. Results from operating activities		
Results from operating activities is arrived at after taking into account the following:		
Auditor's remuneration	5,236,785	3,499,724
Depreciation	9,195,514	8,194,710
- Computer equipment	3,550,541	2,990,813
- Office furniture and equipment	1,749,014	2,028,273
- Motor vehicles	91,271	188,429
- Buildings	3,804,688	2,987,194
Amortisation of intangible assets	5,918,642	936,178
Impairment on ERP solution	-	19,338,784
Net loss on disposal of property plant and equipment	332,355	1,101,829
Emerging contractor training	10,230,582	9,181,946
Rentals in respect of operating leases	12,042,229	10,001,079
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:		
Not later than 1 year	14,280,007	10,792,827
Later than 2 years and not later than 5 years	5,808,929	3,864,275
	8,471,077	6,928,552
Salaries and related costs	399,413,432	316,659,728
Directors' emoluments	16,253,684	11,835,641
Executive directors		
- For managerial services	13,487,924	10,317,547
Non-executive directors		
- For services as directors	2,765,760	1,518,094
19. Finance costs		
Interest paid - late payments	30,690	4,369,938

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

2016	2015
R	R

20. Notes to the cash flow statement

20.1 Cash generated from operations

Surplus for the year	189,471,467	523,187,649
Adjustments for:		
Depreciation	9,195,514	8,194,710
Amortisation	5,918,642	936,178
Impairment on ERP solution	-	19,338,784
Administration fee	7,739,453	8,364,484
Net loss on disposal of property plant and equipment	332,355	1,101,829
Unrealised loss/ (profit) on financial instruments	79,865,588	(32,394,978)
Realised loss/ (profit) on financial instruments	34,471,697	(42,672,415)
Decrease in provisions	(100,001)	(116,684)
Increase in technical liabilities	10,817,471	80,828,897
Dividend received	(12,456,510)	(9,193,239)
Interest paid	30,690	4,369,938
Interest received	(276,652,497)	(261,879,240)
Operating income before working capital changes	48,633,868	300,065,912
(Increase) in inventories	(4,182,427)	(694,645)
Decrease in trade and other receivables	(8,076,682)	16,356,912
(Decrease)/Increase in trade and other payables	13,572,280	20,474,026
	49,947,039	336,202,205

20.2 Proceeds on sale of financial assets

Net book value	71,269,614	178,839,493
	71,269,614	178,839,493

20.3 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.

Cash on hand and balances with banks	83,208,459	171,719,372
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

Fees	Cell phone Allowance	Subsistence and Travel	Total 2016	Total 2015
R	R	R	R	R

21. Remuneration

21.1 Total cost - Non-executive council members

S P Hlahane ²	55,397	3,200	9,001	67,598	61,178
S M Maja-Masilo ²	42,349	3,200	-	45,549	130,969
X Daku ¹	183,877	9,600	-	193,477	157,776
IW Kotsoane ¹	29,304	3,200	-	32,504	178,072
S Loonat ²	-	-	-	-	7,995
Adv MB Madumise (Chairperson)	-	-	-	-	211,559
Mr A Chikane ¹ (Chairperson)	1,027,610	6,400	15,917	1,049,927	144,280
BN Nzo ¹	168,646	9,600	-	178,246	151,447
G Manack ³⁽¹⁾	-	-	-	-	-
O Molotsi ³⁽¹⁾	-	-	-	-	-
A Potwana ³⁽¹⁾	-	-	-	-	-
S Kotane ¹	114,389	1,600	536	116,525	-
SP Ngwenya ²	20,600	3,200	-	23,800	79,236
J Bayat ¹	119,818	4,800	-	124,618	-
Z Vazi ²	23,642	3,200	-	26,842	125,490
P Makgathe ¹	158,226	4,800	22,376	185,402	-
B Madikizela ²	35,825	3,200	1,062	40,087	82,619
MC Markgraaf ²	50,177	3,200	-	53,377	187,473
T Dlamini ¹	112,695	4,000	-	116,695	-
KH Dlepu ¹	157,020	5,600	21,578	184,198	-
P Jacobs ¹	71,510	5,600	-	77,110	-
M Mohale ¹	174,628	5,600	14,230	194,457	-
A Rapea ¹	51,348	4,000	-	55,348	-
	2,597,061	84,000	84,700	2,765,760	1,518,094

¹ Appointed to Council 01 August 2015

² Term ended 31 July 2015

³ Public Service Employees do not receive non executive remuneration

⁴ Resigned 31 May 2014

⁵ Resigned 28 January 2015

Salaries	Cell phone Allowance	Subsistence and travel and Acting Allowance	Total 2016	Total 2015
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21.2 Total cost - Top management

M Mnyani (Chief Executive Officer) ¹	2,796,787	42,000	-	2,838,787	2,630,144
T Ngqobe (Chief Operations Officer)	2,415,407	42,000	9,753	2,467,160	2,080,361
	5,212,194	84,000	9,753	5,305,947	4,710,505

¹ Resigned 31 March 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

Salaries	Cell phone Allowance	Subsistence and travel and Acting Allowance	Total 2016	Total 2015
R	R	R	R	R

21. Remuneration (continued)

21.3 Total cost - Executive Managers

K Modise (Executive Manager Corporate Services)	1,906,901	30,000	-	1,936,901	1,665,473
S Abrahams (Chief Financial Officer)	2,016,500	30,000	8,081	2,054,581	939,919
W Bellingan (Executive Manager Business Service)	-	-	-	-	812,117
J Mahachi (Advisor: Special projects)	2,162,551	30,000	23,736	2,216,287	2,060,122
T Moshoeu (Executive Manager Business Service)	1,938,855	30,000	5,354	1,974,209	129,411
J Motapola (Executive Manager: Legal Service)	1,938,855	30,000	-	1,968,855	-
	8,024,807	120,000	37,170	8,181,977	5,607,042

¹ Appointed on 01 August 2015

2016	2015
R	R

21.4 Bonuses

Executive Managers

M Mnyani (Chief Executive Officer)	153,952	171,719
T Ngqobe (Chief Operations Officer)	177,278	118,512
K Modise (Executive Manager Corporate Services)	139,956	57,345
S Abrahams (Chief Financial Officer)	74,000	-
T Moshoeu (Executive Manager Business Service)	120,561	-
J Motapola (Executive Manager: Legal Service)	88,295	-
	754,042	347,576

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

2016	2015
R	R

22. Related Parties

22.1 Transactions with the Department of Human Settlements:

Subsidy project enrolment fee (note 13)	26,218,471	33,420,077
Insurance premium revenue	91,739,568	202,575,128
Technical service revenue (note 14)	56,045,976	24,124,500

Subsidy project enrolment fee and Insurance premium revenue relates to transactions with the following Departments of Human Settlements:

KwaZulu Natal Department of Human Settlements, Eastern Cape Department of Human Settlements, Western Cape Department of Human Settlements, Gauteng Department of Human Settlements, Limpopo Department of Local Government and Housing, Mpumalanga Department of Human Settlements, Northwest Department of Human Settlements, Free State Department of Human Settlements and Northern Cape Department of Human Settlements

Technical service revenue relates to:

KwaZulu Natal Department of Human Settlements
Eastern Cape Department of Human Settlements

Balances with the Department of Human Settlements:

Trade receivable (note 6)	50,920,529	34,889,629
Income received in advance (note 10)	(11,999,052)	(63,378,401)

Income received in advance relates to the KwaZulu Natal Department of Human Settlements and the Eastern Cape Department of Human Settlements.

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, 0.75 % home enrolment fee and 2.01% for consolidated projects. The subsidy income is funded by national government through the Department of Human Settlements.

22.2 Transactions with other related parties

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

For remuneration of key management personnel refer to Note 21.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

2016	2015
R	R

23. Fruitless, wasteful and irregular expenditure

23.1 Reconciliation of fruitless and wasteful expenditure

Opening balance	5,466,932	317,053
Add: Fruitless and wasteful expenditure relating to prior year	-	-
Add: Fruitless and wasteful expenditure relating to current year	62,286	5,149,879
Less: Amounts condoned	-	-
Fruitless and wasteful expenditure awaiting condonation	5,529,219	5,466,932

Analysis of awaiting condonation per economic classification

Current	62,286	5,149,879
Capital	-	-

23.2 Analysis of Current year's fruitless and wasteful expenditure

Incident		
Freyja Holistic Wellness and Day Spa	31,596	
Interest paid to SARS	30,690	4,369,938
SARS penalty	-	779,941
	62,286	5,149,879

23.3 Reconciliation of Irregular expenditure

Opening balance	692 928 463	638 958 973
	13 601 382	53 969 490
Add: Irregular expenditure relating to prior year	-	-
Add: Irregular expenditure relating to current year	13 601 382	53 969 490
Less: Amounts condoned	-	-
Irregular expenditure awaiting condonation	706 529 846	692 928 463

Analysis of irregular expenditure per financial year:

Irregular expenditure incurred relating to prior financial years	12 896 761	33 100 430
Irregular expenditure incurred relating to the current financial year	704 621	20 869 059
Total	13 601 382	53 969 490

Analysis of awaiting condonation per age classification

Current year	13 601 382	53 969 490
Prior year	692 928 463	672 059 403
Total	706 529 846	726 028 893

The additional irregular expenditure from prior year relates to transaction with a value from R 5 000 to R 500 000 which should have been procured by means of a three quotation system.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

2016	2015
R	R

23. Fruitless, wasteful and irregular expenditure (continued)

23.4 Details of irregular expenditure - current year

Incident	Action taken	Amount	Amount
Security contracts (Ulwazi Protection service) ⁽¹⁷⁾	Compliance checklist for bid process is implemented.	5,138,739	4,143,713
Security contracts (Mjayeli Security) ⁽¹⁷⁾	Compliance checklist for bid process is implemented.	611,604	-
Security contracts (ADT Security) ⁽¹⁷⁾	Compliance checklist for bid process is implemented.	12,732	-
Security contracts (Atlas Security System) ⁽¹⁷⁾	Compliance checklist for bid process is implemented.	3,506	-
Security contracts (Chubb Security) ⁽¹⁷⁾	Compliance checklist for bid process is implemented.	21,104	-
Security contracts (Galven Security) ⁽¹⁷⁾	Compliance checklist for bid process is implemented.	4,145	-
Security contracts (Northern Security) ⁽¹⁷⁾	Compliance checklist for bid process is implemented.	4,000	-
Security contracts (Top Security systems) ⁽¹⁷⁾	Compliance checklist for bid process is implemented.	4,024	-
H2O Purfies cc3	Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked.	3,205	-
Southbird Express ²⁴	Treasury Transversal contract is submitted.	357,345	462,903
JKJ Express cc ²⁴	Treasury Transversal contract is submitted.	75,062	128,216
Steiner ²⁴	The bid is in procurement process	882,925	1,084,565
Rentokil ²⁴	The bid is in procurement process	244,764	-
BBR Design SA (Pty) Ltd	Contract terminated	1,524,637	15,558,459
S Pather ²⁴	The panel of attorney was appointed during the period	465,381	643,459
Lexis Nexis ²⁴	The panel of attorney was appointed during the period	113,767	-
Atlantis Corporate Travel ^[23 - 24]	Corrective measures have been put in place, we are currently participate in Department of Education bid.	261,147	-
Magic Travel ^[23 - 24]	Corrective measures have been put in place, we are currently participate in Department of Education bid.	54,714	-
Travel Management Services ^[23 - 24]	Corrective measures have been put in place, we are currently participate in Department of Education bid.	-	7,129,029
Pureau Fresh water company	The bid is in procurement process	3,305	-
Courier, Storage and Photocopy Service ²⁴	Submission to participate in National Treasury Transversal contract is submitted. The Expenditure will be fully addressed once approval is granted.	-	1,632,648
Amount carried over to next page		9,786,106	30,782,992

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

2016	2015
R	R

23. Fruitless, wasteful and irregular expenditure (continued)

23.4 Details of irregular expenditure - current year (continued)

Incident	Action taken	Amount	Amount
Amount carried forward from prior page		9,786,106	30,782,992
Metro File ²⁴	Submission to participate in National Treasury Transversal contract is submitted. The Expenditure will be fully addressed once approval is granted.	94,237	-
PostNet ²⁴	Submission to participate in National Treasury Transversal contract is submitted. The Expenditure will be fully addressed once approval is granted.	1,174,354	-
Document Exchange ²⁴	Submission to participate in National Treasury Transversal contract is submitted. The Expenditure will be fully addressed once approval is granted.	11,585	-
Tidy Files ²⁴	Submission to participate in National Treasury Transversal contract is submitted. The Expenditure will be fully addressed once approval is granted.	212,515	-
ASP transport ²⁴	Submission to participate in National Treasury Transversal contract is submitted. The Expenditure will be fully addressed once approval is granted.	48,708	-
AON South Africa (Pty) Ltd ¹⁸	Contract expiring 15/16 year. SCM procedures will be followed.	1,555,378	1,445,257
P&F Business Enterprise ²⁴	Corrective measures have been put in place, we are currently participate in Department of Education bid.	180,500	-
Berco Indoor Gardens	Compliance checklist for bid process is implemented.	13,879	-
Poswa ²⁴	The panel of attorney was appointed during the period	-	40,177
Cozens ²⁴	The panel of attorney was appointed during the period	-	53,300
Matabane Inc ²⁴	The panel of attorney was appointed during the period	-	323,928
Knowles Hussain ²⁴	The panel of attorney was appointed during the period	-	71,406
Rectification and Forensics appointments ⁽⁴⁾	Action taken against responsible person and matter reported to National Treasury	-	2,810,342
Nongongo ²⁴	The panel of attorney was appointed during the period	-	173,972
SA Truster ²⁴	The bid is in procurement process	-	130,318
Pukwana Attorneys ²⁴	The panel of attorney was appointed during the period	-	143,518
Tokiso Dispute Settlements (Pty) Ltd ²⁴	The panel of attorney was appointed during the period	-	176,198
Mbabane and Sokutu Inc ²⁴	The panel of attorney was appointed during the period	-	154,072
Amount carried over to next page		13,077,261	36,305,481

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

2016	2015
R	R

23. Fruitless, wasteful and irregular expenditure (continued)

23.4 Details of irregular expenditure - current year (continued)

Incident	Action taken	Amount	Amount
Amount carried forward from prior page		13,077,261	36,305,481
Lebea Development and Projects	Corrective measures have been put in place by management	315,515	
KAS and MVR Trading	Corrective measures have been put in place by management	208,606	
Morena Corporate Service CC ^[13]	The new service was appointed in forth quarter period.	-	910,552
Kgantsho Cleaning & Projects ^[24]	The bid is at BSC stage and the appointment of a new service following bid process will be finalised during quarter three.	-	296,781
ER Marivate t/a Marivate Attorneys ²⁴	The panel of attorney was appointed during the period	-	90,112
NB Hewu t/a Hewu Attorneys ²⁴	The panel of attorney was appointed during the period	-	144,675
Deneys Reitz Attorneys t/a Norton Rose ²⁴	The panel of attorney was appointed during the period	-	487,472
Werksmans	The panel of attorney was appointed during the period	-	132,665
Pule Incorporated ²⁴	The panel of attorney was appointed during the period	-	46,829
Ditshaba ²⁴	The panel of attorney was appointed during the period	-	225,156
Drake ²⁴	The bid is in procurement process	-	101,412
Lethamo ²⁴	The bid is in procurement process	-	119,746
Affirmative Portfolio ²⁴	The bid is in procurement process	-	113,040
ERP system ^[15]	Compliance checklist for bid process is implemented.	-	6,990,114
Sekgala Careers Pty Ltd ²⁴	The bid is at BSC stage and the appointment of a panel following bid process will be finalised during quarter three	-	115,196
Murire and Company Pty Ltd ²⁴	Corrective measures have been put in place, SCM checklist is implemented where the three quotes system,TCC and SBD 4 forms are checked	-	144,675
Aande ²⁴	Corrective measures have been put in place, SCM checklist is implemented where the three quotes system,TCC and SBD 4 forms are checked	-	209,646
Shl Saville and Holdsworth Pty Ltd ²⁴	Corrective measures have been put in place, SCM checklist is implemented where the three quotes system,TCC and SBD 4 forms are checked	-	114,441
Training contracts ^[16]	Compliance checklist for bid process is implemented	-	2,183,054
FJD Builders cc ²⁴	Corrective measures have been put in place, Forensic panel is appointed for a period of three years following bid process	-	1,060,084
Amount carried over to next page		13,601,382	49,791,130

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

2016	2015
R	R

23. Fruitless, wasteful and irregular expenditure (continued)

23.4 Details of irregular expenditure - current year (continued)

Incident	Action taken	Amount	Amount
Amount carried forward from prior page		13,601,382	49,791,130
Huge Telecom Managed Telecommunication ^[20]	Compliance checklist for bid process is implemented	-	771,384
Regency Embroiderers SA Pty Ltd ²⁴	Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked	-	62,955
Indaba Hotel ²⁴	Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked	-	16,855
Extension to non subsidy inspectorate ²	Extension was approved by Council, contracts expired on 31 May 2014	-	956,468
Uvuko Civils Maintanance ⁽¹⁷⁾	Contracts were terminated	-	1,634,895
Mkhabela ²⁴	The panel of attorney was appointed during the period	-	242,050
R Charles ²⁴	The panel of attorney was appointed during the period	-	491,716
North Rand Fire Services ²⁴	Compliance checklist for bid process is implemented.	-	2,038
		13,601,382	53,969,490

⁽¹⁾ The extension to the Non Subsidy inspectorate contracts was outside the Delegation of Authority of CEO, as a result the expenditure has been classified as irregular.

⁽⁷⁾ Relates to transactions with suppliers not on the data base and which did not follow the Supply Chain Management Policy, excluded are claims, sponsorships, and the Department of Human Settlements training.

⁽⁹⁾ The appointment of the companies that performed the forensic investigations contravened the Supply Chain Management policy. The appointments were above the delegated authority of the CEO, as result the total expenditure for the rectification program have been classified as irregular.

^{[10] - [13]} Written price quotations were not obtained from at least three different prospective suppliers for procurement with a transaction value of between R 10 000 and R 500 000.

^{[14] & [18]} Goods and services with a transaction value of more than R 500 000 were not procured through a competitive bidding process.

^{[15] - [17]} Competitive bids were not advertised for a minimum period of 21 days before closure.

^{[19] & [21]} The preference point system was not applied in the procurement of goods and services above R 30 000.

^[20] Goods and services with a transaction value of more than R 500 000 were not procured through a competitive bidding process.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

23. Fruitless, wasteful and irregular expenditure (continued)

23.4 Details of irregular expenditure - current year (continued)

^[22] Competitive bids were not advertised for a minimum period of 21 days before closure.

^[23] Goods or services with a transaction value of R 2000 up to R 5000 were procured without obtaining at least three verbal or written quotes, or orders have not been placed against written confirmation for quotations submitted verbally.

^[24] Goods or services with a transaction value of R 5000 up to R 500 000 were procured without inviting at least three written quotations from prospective suppliers.

^[25] Tax Clearance certificates for the service providers could not be located, the issue is being investigated by management.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

24. Financial instruments

24.1 Categories of financial instruments and maturity profile

2016	0-1 Year R	>1 Year R	Total R
FINANCIAL ASSETS			
Loans and receivables			
Trade and other receivables	20,855,800	-	20,855,800
Cash and cash equivalents	83,208,459	-	83,208,459
Financial assets at fair value			
Investments	3,001,581,274	1,774,532,728	4,776,114,002
Derivative Financial Instruments	-	472,126,724	472,126,724
Total financial assets	3,105,645,533	2,246,659,452	5,352,304,985
FINANCIAL LIABILITIES			
Financial liabilities at amortised cost			
Trade and other payables	117,397,135	-	117,397,135
2015			
FINANCIAL ASSETS			
Loans and receivables			
Trade and other receivables	5,527,160	-	5,527,160
Cash and cash equivalents	171,719,372	-	171,719,372
Financial assets at fair value			
Investments	3,003,357,047	1,521,773,413	4,525,130,460
Derivative Financial Instruments	-	465,356,667	465,356,667
Total financial assets	3,180,603,579	1,987,130,080	5,167,733,659
FINANCIAL LIABILITIES			
Financial liabilities at amortised cost			
Trade and other payables	90,730,434	-	90,730,434

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

24. Financial instruments (continued)

24.2 Categories of financial instruments

31 March 2016	Loans and Receivables	Derivative Financial Instruments	Fair value Investments	Total
Derivative Financial Instruments	-	472 126 724	-	472 126 724
Fair value financial assets	-	-	4 776 114 002	4 776 114 002
Trade and other receivables	20 855 800	-	-	20 855 800
Cash and cash equivalents	83 208 459	-	-	83 208 459
Total	104 064 259	472 126 724	4 776 114 002	5 352 304 985

31 March 2015	Loans and Receivables	Derivative Financial Instruments	Fair value Investments	Total
Derivative Financial Instruments	-	463 337 243	-	463 337 243
Fair value financial assets	-	-	4 527 149 884	4 527 149 884
Trade and other receivables	5 527 160	-	-	5 527 160
Cash and cash equivalents	171 719 373	-	-	171 719 373
Total	177 246 532	463 337 243	3 444 798 301	5 167 733 659

31 March 2016	Financial liabilities at amortised cost	Total
Lease Liabilities	371,203	371,203
Trade and Other Payables	205,566,312	205,566,312
Total	205,937,515	205,937,515

31 March 2015	Financial liabilities at amortised cost	Total
Lease Liabilities	66,006	66,006
Trade and Other Payables	192,299,228	192,299,228
Total	192,365,234	192,365,234

24.3 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, and banking facilities, by continuously monitoring forecast and actual cashflows and matching the maturity profiles of financial assets and liabilities. Refer to note 24.1 for the maturity profile of financial instruments.

The amounts disclosed in table below are contractual undiscounted cashflows:

At 31 March 2016	Less than 3 Months	Between 3 months and 1 year	Between 1 year and 2 years	Over 2 years
Operating Lease Liability	240,092	131,111	-	-
Trade and Other Payables	119,556,365	86,009,947	-	-
At 31 March 2015				
Operating Lease Liability	-	66,006	-	-
Trade and Other Payables	94,145,873	98,153,356	-	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

24. Financial instruments (continued)

24.4 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.

24.5 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.

24.6 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 in 2014/ 2015 financial year.

24.7 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.

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.

If there is no independent rating, credit quality of the Customer is assessed taking into account the customer's financial position, past experience and other factors.

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. The NHBRC does not grant credit limits to the the National Department of Human Settlements and does not expect any losses from non-performance by the Human Settlement Department.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

24. Financial instruments (continued)

24.8 Management risk

The underwriting risk of the NHBRC is governed by the Housing Consumers Protection Measures Act (Act no. 95 of 1998) and the risk of defaulting home builders.

The premiums on the non-subsidy sector are based on the selling price of the home to be constructed, and applied on a sliding scale limited to a maximum premium of R 34 000 and a maximum claim of R 500 000 per home.

The premiums for the subsidy sector are based on 0,75% and 2.01% for consolidated subsidy projects.

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.

The NHBRC is invested predominantly in fixed interest investments and is exposed to interest rate risk. The investment strategy has moved closer, in the past 3 financial years, to the target of a return in excess of inflation as the NHBRC has inflation linked liabilities. Although the liabilities of the NHBRC are within five years, over 20% of assets are invested in fixed interest assets maturing beyond five years.

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 2016 when valued on a run-off basis. The actuarial liabilities are 367% funded. However, for future business, the enrolment fees currently charged are adequate to cover expenses of the NHBRC and remedial claims for both subsidy and non-subsidy homes.

	Enrolment Fee Adequacy					
	All Houses		Non-Subsidy		Subsidy	
Utilisation	Amount	%	Amount	%	Amount	%
Enrolment & Inspections	3 813	64%	7 141	63%	1 637	65%
Complaints conciliations	364	6%	736	7%	122	5%
Remedial claims	271	5%	511	5%	114	5%
<i>average</i>	85		161		36	
<i>99.5% variation margin</i>	186		351		78	
Total Expenses & Claims	4 448	74%	8 388	74%	1 872	74%
Average fee per enrolment	5 990		11 294		2 522	
Surplus / (Deficit)	1 542	26%	2 906	26%	650	26%

Although there was downward management of expenses in 2010/11 and 2011/12, the continued trend of above inflation increases seen in 2012/13, 2013/14, 2014/15 2015/16 and the future planned increases in expenditure if not coupled with similar significant increases in business volumes, could threaten the future of the NHBRC business.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

24. Financial instruments (continued)

24.9 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 Act as amended. 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.

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; 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 a 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 homes during the construction phase, and rectifications are enforced when construction of the home does not comply with the provisions of the Act.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

24. Financial instruments (continued)

24.9 Insurance risk (continued)

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 R 500 000 per home.

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

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

Gauteng and Western Cape make up 70.81% of exposure with 54.60% and 16.21% respectively.

Insurance risk by developer

The risk per developer is ranked by units of exposure (enrolments after Sep 2010). Liquidation of the 14 largest developers constitute R 235.4 million of sum insured (comparison of 220 201 home enrolments) which could potentially increase claims against the warranty fund.

24.10 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).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

24. Financial instruments (continued)

24.10 Interest rate and price risk (continued)

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 at fair value. However, due to the investments in equities being immaterial, the exposure to equity risk is limited.

Sensitivity analysis

31-Mar-2016						
Carrying Amount at 31 March 2016	Rand amount exposed to risk	Interest rate risk				
		Reasonable Possible change				
		Rate Increase	Rand amount	Rate Decrease	Rand amount	
Financial Assets						
Money Market Investments	2,829,279,466	2,829,279,466	1%	28,292,795	-1%	(28,292,795)
CPD Money Market	172,301,808	172,301,808	-	-	-	-
Listed bond securities						
- Short-term < 7 years	859,598,791	859,598,791	1%	8,595,988	-1%	(8,595,988)
- Medium-term 7 to 12 years	118,593,884	118,593,884	1%	1,185,939	-1%	(1,185,939)
- Long-term > 12 years	796,340,053	796,340,053	1%	7,963,401	-1%	(7,963,401)
- Inflation linked bonds	-	-	3%	-	-3%	-
Derivative Financial Instruments	472,126,724	472,126,724	1%	4,721,267	-1%	(4,721,267)
Impact of financial assets on						
Statement of changes in net assets	-	-	-	-	-	-
Statement of financial performance	-	-	-	46,038,122	-	(46,038,122)
Impact on financial position	5,248,240,726	5,248,240,726		96,797,511		(96,797,511)

31-Mar-2015						
Carrying Amount at 31 March 2015	Rand amount exposed to risk	Interest rate risk				
		Reasonable Possible change				
		Rate Increase	Rand amount	Rate Decrease	Rand amount	
Financial Assets						
Money Market Investments	2,841,607,562	2,841,607,562	1%	28,416,076	-1%	(28,416,076)
CPD Money Market	161,749,486	161,749,486	-	-	-	-
Listed bond securities						
- Short-term < 7 years	918,862,130	918,862,130	1%	9,188,621	-1%	(9,188,621)
- Medium-term 7 to 12 years	190,098,374	190,098,374	1%	1,900,984	-1%	(1,900,984)
- Long-term > 12 years	412,812,910	412,812,910	1%	4,128,129	-1%	(4,128,129)
- Inflation linked bonds	2,019,424	2,019,424	3%	60,583	-3%	(60,583)
Derivative Financial Instruments	463,337,243	463,337,243	1%	4,633,372	-1%	(4,633,372)
Impact of financial assets on						
Statement of changes in net assets	-	-	-	-	-	-
Statement of financial performance	-	-	-	43,694,392	-	(43,694,392)
Impact on financial position	4,990,487,129	4,990,487,129		92,022,157		(92,022,157)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

25. Contingent liabilities

There are outstanding claims pending in the Courts in relation to disputes between the NHBRC and other parties amounting to R 181 912 476, the outcome of which is unknown.

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 annual financial statements.

27. Contractual Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

At 31 March 2016 the NHBRC had the following commitments:

	2016	2015
	R	R
Operational Expenditure		
Approved and contracted		
Outsourced contracts for Risk management Service	131,769	1,307,993
Outsourced contract for Actuarial Services	1,041,535	1,330,354
Outsourced contracts for Facilities Management	2,158,333	-
Outsourced contract for Testing Machines for Eric Molobi	558,102	-
Outsourced contract for Legislative review project	1,212,800	-
Outsourced contract for Training Assessment	-	409,260
Outsourced contract for Information Technology Services	4,463,651	786,660
Outsourced contract for Media Services	3,453,847	6,089,301
Outsourced contract for the Human Capital Management service	303,550	1,158,544
Outsourced contract for Telecommunication Services	93,899,699	108,649,015
Outsourced contract for the Remedial works	-	1,104,245
Outsourced contract for the Technical Service	14,431,491	21,830,045
	121,654,777	142,665,418
Capital Expenditure		
Implementation of an integrated Enterprise Resource Planning Business Solution	-	32,562,120
Approved and contracted	-	32,562,120

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

28. Detailed Expenditure

28.1 Insurance claims and loss adjustment expenses

2016	2015
R	R
5,309,754	14,638,847
2,935,103	1,708,314
(9,713)	(579,228)
1,217,135	2,035,223
1,727,680	252,319
-	-
55,807,461	5,368,647
54,812,539	5,424,778
994,922	(56,131)
714,323,262	627,804,025
5,918,642	936,178
5,236,785	3,499,724
1,382,472	15,934,523
2,210,499	1,140,681
1,467,153	1,859,609
2,003,118	4,852,505
38,466,518	30,828,199
1,065,257	1,287,641
9,195,354	8,194,710
22,437,730	19,600,147
1,631,786	1,445,257
14,803,323	6,357,112
17,769,921	29,543,767
318,408	213,561
10,278,886	5,493,804
32,425,613	34,171,236
2,524,566	6,709,975
6,503,760	5,310,890
399,413,432	316,659,728
12,042,229	10,001,079
5,434,843	5,233,925
15,258,461	21,682,272
785,901	1,466,589
21,665,499	18,779,182
29,911,218	25,283,098
51,172,207	48,734,610
2,999,680	2,584,025
778,375,580	649,519,834

28.2 Inspections and Operating expenses

- Inspection costs
- Accreditation fees
- Direct costs of Builder Manuals
- Direct costs of certificates

28.3 Technical services expenditure

- Forensic Investigations and Geotec
- Water tanks installations

28.4 Administration Expenses

- Amortisation
- Audit fees
- Bad debts written off
- Bank charges
- Cleaning costs
- Conferences and seminars
- Consulting fees
- Courier and freight
- Depreciation
- Information technology costs
- Insurance paid
- Legal fees
- Marketing fees
- Motor vehicle expenses
- Office equipment and furniture expenses
- Other expenses
- Other rentals costs
- Payroll costs
- Permanent staff costs
- Rentals
- Security
- Staff costs
- Stationery
- Telephone expenditure
- Training
- Travelling expenditure
- Water and electricity

Total Expenditure before interest paid

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The NHBRC is an Agency of the Department of Human Settlements

