NATIONAL HOME BUILDERS
NHBRC
REGISTRATION COUNCIL

Assuring QUALITY homes

2012
ANNUAL REPORT

THE NHBRC: AN OVERVIEW

The National Home Builders Registration Council (NHBRC) was established in 1998 in terms of the Housing Consumers Protection Measures Act (Act No.95 of 1998) (as amended) – herein after referred to as the Act – and is mandated to protect the interests of housing consumers and to regulate the home building industry.

Our vision

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

Our mission

To protect the housing consumer and regulate the home building environment by promoting innovative home building technologies, setting home building standards and improving the capabilities of home builders.

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 services and products in line with changing building requirements and needs

The NHBRC – quality is our priority

KEY MOMENTS IN THE

2007

Launched the Eric Molobi Housing Innovation Hub in Soshanguve, Pretoria

2008

Developed ‘breaking new ground’ housing typologies

2009

Established the Gauteng Provincial Customer Service Centre (offices relocated to Woodmead)

HISTORY OF THE NHBRC

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

2010

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

2011

CONTENTS

SECTION 1

LEADERSHIP OVERVIEW

1. COUNCIL

Table 1: Council members

	Name	Position	Qualifications
1	Prof. Vukile Mehana	Chairperson	PhD (Performance and Change)
2	Ms Mabusha Maja	Council member	LLB Hons
3	Ms Sharon De Gois	Council member	Master of Town and Regional Planning
4	Dr Adam Goliger	Council member	PhD (Civil Engineering); Pr.Eng.
5	Ms Sibongile Nene	Council member	MA
6	Mr Bangiso Mhlabeni	Council member	LLB
7	Mr Paul Hlahane	Council member	LLM
8	Mr Mthembeni Mkhize	Council member	M.Sc. Arch
9	Mr Narain Kuljeeth	Council member	LLB

2. Ms Mabusha Maja

1. Prof. Dr Vukile Mehana

3. Ms Sharon De Gois

5. Ms Sibongile Nene

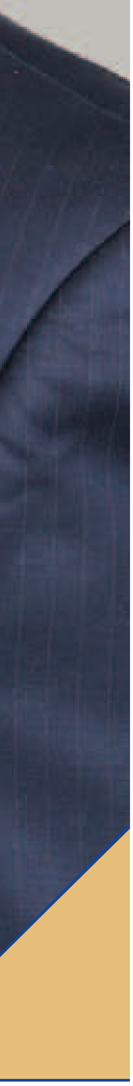
4. Dr Adam Goliger

8. Mr Mthembeni Mkhize

7. Mr Paul Hlahane

6. Mr Bangiso Mhlabeni

9. Mr Narain Kuljeeth



CHAIRMAN'S REPORT

It has been a pleasure to have served on the Council of the NHBRC. The financial period ending March 2012 marks the last year of the term of office of the current Council; the term expires on 30 April 2012. I would like to thank the members of Council for their unwavering support and strategic advice throughout this period.

The current Council was appointed in May 2009. Its term at the helm has not been an easy ride. At the outset, Council had to grapple with the realities of operating in a recessionary economic environment that was spurred on by the global economic meltdown. The economic situation facing South Africa at the time also had a negative effect on the home building industry, and the NHBRC observed a decline in income as a result of lower activity and new enrolments.

During this time, the NHBRC had its own structural challenges that Council inherited, and it has been a process to align and steer the organisation towards improved customer and service delivery. While this is a work in progress, I do believe the organisation is sound and positioned to serve the interests of the country and key stakeholders. In 2010, Council – together with the shareholder and executive team – adopted a new strategic framework with the objective of ensuring that the organisation's vision of a warranty organisation that protects housing consumers and delivers sustainable, quality homes was realised.

Legislative review

The NHBRC was established in terms of the Housing Consumers Protection Measures Act (Act No.95 of 1998). Subsequent to the Act coming into force in 1999, a number of laws have been enacted. These laws have a material and substantive impact on the regulatory framework within which the NHBRC functions, necessitating a review of the Act and its accompanying rules and regulations. The internal process of reviewing the Act is now complete and the NHBRC has presented its first draft of the proposed bill to the shareholder. The proposed changes to the Act were informed by engagements and input by key stakeholders.

The International Housing and Home Warranty Conference

From 24-26 September 2011, the NHBRC in partnership with the National Department of Human Settlements proudly hosted the 12th International Housing and Home Warranty Conference. Held in Cape Town, this was the first time that this illustrious international gathering took place on African soil.

The conference drew close on 400 prominent speakers and delegates from across the globe. It was an opportunity to engage on issues such as housing policy and finance; innovation and technological approaches to the creation of sustainable developments; the impact of climate change; managing risk and best practices in the home building and home warranty industries, both locally and internationally.

One of the international delegates commented that, "the hosts and organisers of the conference in Cape Town have really excelled, and the content of the conference, the arrangements and logistics set a very high benchmark for future conferences." For me, one of the proudest moments at this event was the official handover of eight new homes by the Minister of Human Settlements, Tokyo Sexwale, to deserving beneficiaries. To mark the inaugural hosting of the conference in Africa, we as the conference organisers partnered with the national and provincial Departments of Human Settlements and the City of Cape Town in the Legacy Project – a project to build eight housing units using alternative building technologies. It is our hope that the levels of cooperation as well as the technological, social and environmental efficiencies achieved in the Legacy Project will serve as a model for future private-public housing partnerships.

Rectification of unenrolled subsidy projects

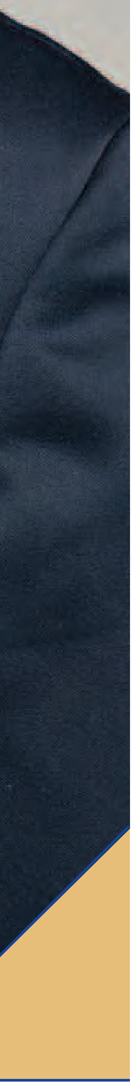
Towards the end of the 2011 financial year, the NHBRC was called upon by the Minister of Human Settlements to partner with government in the national rectification of defective subsidy housing projects. Most of these are projects that were undertaken by government prior to 2002 and hence not enrolled by the NHBRC.

The NHBRC's role in this project is that of project manager, responsible for forensic engineering investigations and assessments, the development of rectification works scope and the enrolment of homes. During the period under review, forensic engineering investigations were conducted in the provinces of Eastern Cape and KwaZulu-Natal. The NHBRC's draft reports on the work conducted in these two provinces have been submitted to the department, and final reports are expected to be submitted to government in the near future. The call by the minister also included a request for recommendations by the NHBRC on how government could ensure delivery of proper and quality houses going forward. This is being considered by the Council's Industry Advisory Committee.

Lastly, I would like to extend a word of thanks to the NHBRC management team for the good working relationship it nurtured with Council over the past three years. The organisation has weathered many storms during this time. I am confident that with the new strategic map, improvements in certain operational areas and the stronger working relationship that the organisation now shares with the shareholder, comes a new era of public service for the NHBRC.

Prof. VC Mehana
Chairperson of council

ACTING CHIEF EXECUTIVE OFFICER'S REPORT



During the past year, the NHBRC started laying the foundation for greater regulatory effectiveness in terms of its people, systems, processes and reputation. Our promise was to display more regulatory muscle, enhance our responsiveness to market needs and ensure greater engagement with customers and key stakeholders. With this in mind, the organisation has adopted three key strategies: 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, technical and technological building solutions; and to provide diversified products and services for the home building industry.

Performance

I am pleased to report that the financial year has witnessed an increase in the number of home builder registration renewals. This has been a trend since 2005/2006, with an average of 77% renewals in the last four years. The enrolment of homes increased to 37 671 during the financial year as opposed to 31 458 in the previous financial year.

Late enrolments have increased slightly from 966 in 2010/2011 to 980 this year. There is, however, a dedicated effort to reduce the number of late enrolments to less than 5% of the total enrolment figure. This decision is based on the fact that late enrolments pose a risk not only to the NHBRC Warranty Fund, but more importantly to the families residing in such homes. Therefore, a reduction in late enrolments is a positive indication that home builders are complying with the Act and that quality homes are being built.

New registrations have declined over the past seven years. This could be attributed to a number of factors, including the withdrawal and deregistration of home builders; the economic downturn, which negatively impacted the financial viability of home builders; insufficient technical capability among home builders; and possible saturation of the market.

Council has resolved to take a zero tolerance approach in respect of non-compliance with the Act. In the year under review, 48 913 homes were inspected by the NHBRC's inspectors resulting in 514 175 inspections conducted. A total of 156 home builders were suspended and 15 builders were deregistered for failure to comply with the provisions of the Act.

Establishment of the Compliance and Enforcement Division and the Quality Assurance Division

The NHBRC has established a Compliance and Enforcement Division in order to strengthen the compliance and enforcement provisions of the Act. Among its priorities is the responsibility to interdict the construction of any project and/or home (including people's housing projects and rural projects) built without being enrolled with the NHBRC, and to prosecute any home builder who has failed to comply in this regard.

The role of the Quality Assurance Division, on the other hand, is to provide inspection services across the country. This division aims to ensure that every home under construction is inspected in terms of the relevant building standards as entrenched in the NHBRC's Home Building Manual. The inspectors have an obligation to report any failure to enrol a project and/or home to the Compliance and Enforcement Division.

Continuous business improvement

Over the past nine months, Council and the executive management have dedicated a significant amount of time to a detailed investigation into the NHBRC's current systems and business processes. We have adopted a go-forward systems strategy that sees the Information Technology Department being transformed into a more effective Business Management Solutions (BMS) unit. The objective of the change is to focus on a continuous business improvement programme that addresses employee system requirements while at the same time focuses on greatly improving real-time regulatory services to our external stakeholders.

Training of women and 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 the following training initiatives: Emerging Home Builder Training; Women Build Training; Youth Build Training; and Youth in Human Settlements Training. In total, 959 learners were trained, of which 37% were women.

The NHRC's Eric Molobi Centre of Excellence has already been recommended by the National Department of Human Settlements to be utilised as a base for coordinating training events for women and youth.

As we continue on our journey I acknowledge that we would not be where we are today had it not been for the continued support of our stakeholders and staff. We have held a number of stakeholder engagements within the business, driven by different divisions and functional areas. The material issues reported on in this report are a result of these engagements.

Dr J Mahachi, Pr. Eng.
ACTING CHIEF EXECUTIVE OFFICER

4. EXECUTIVE COMMITTEE

Table 2: Position and highest qualification of Executive Committee (EXCO) members

	Name	Position	Highest qualification(s)
1	Dr Jeffrey Mahachi	Acting Chief Executive Officer	PhD (Civil Engineering); Pr.Eng; Pr.CPM
2	Mr Courteney Thorp	Chief Financial Officer	H Dip Acc; CA (S.A)
3	Ms Laurie Less	Executive Manager: Corporate Services	Master of Public Administration
4	Dr Awelani Malada	Acting Executive Manager: Technical and IT	PhD (Industrial and Systems Engineering)

Changes in the EXCO composition:

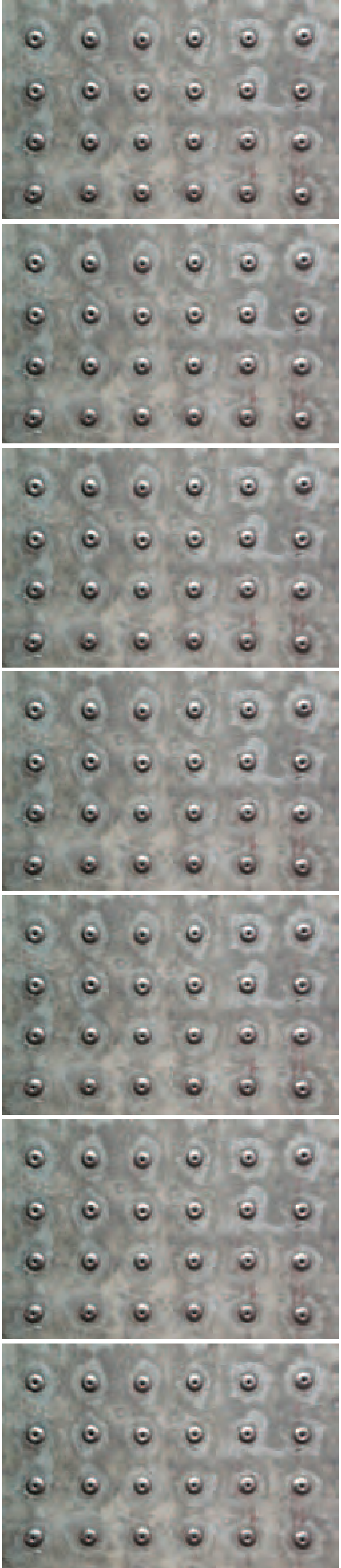
- Mr Sipho Mashinini, CEO, was placed on special leave in June 2011
- Ms Laurie Less, Executive Manager: Corporate Services, resigned in December 2011.

1. Dr Jeffrey Mahachi

2. Mr Courteney Thorp

3. Ms Laurie Less

4. Dr Awelani Malada



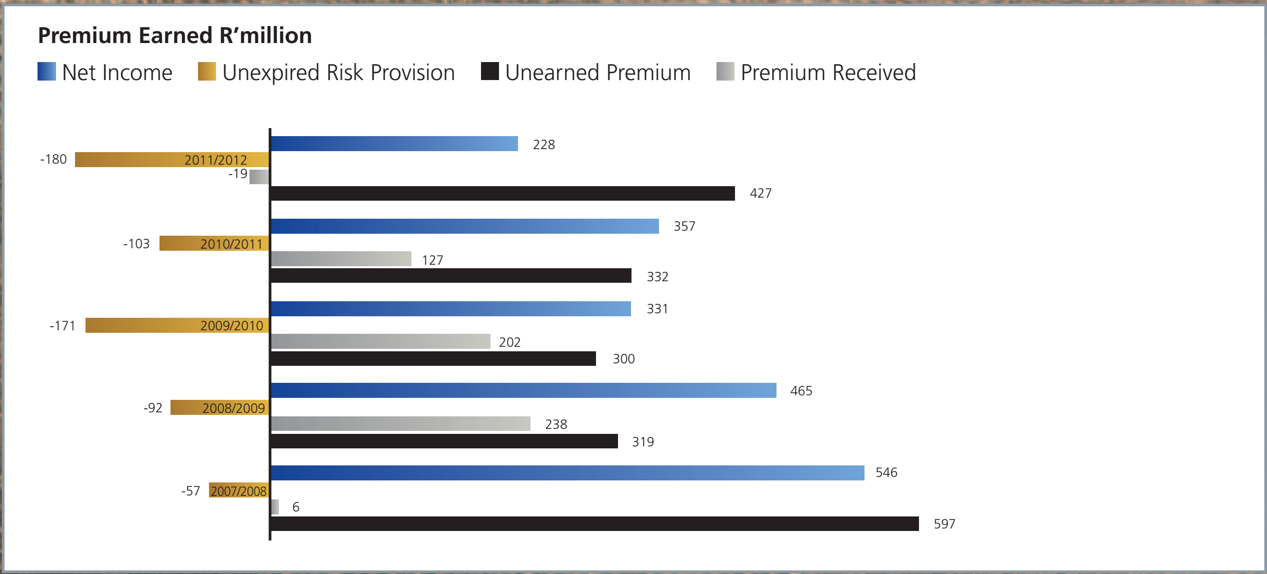
SECTION 2

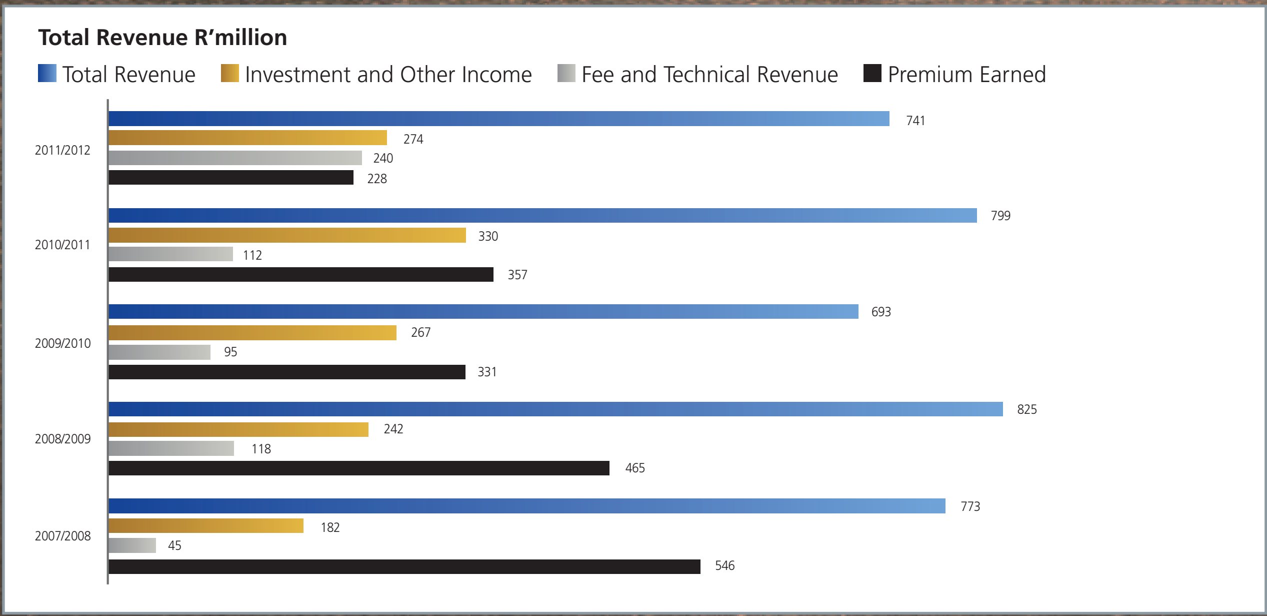
FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

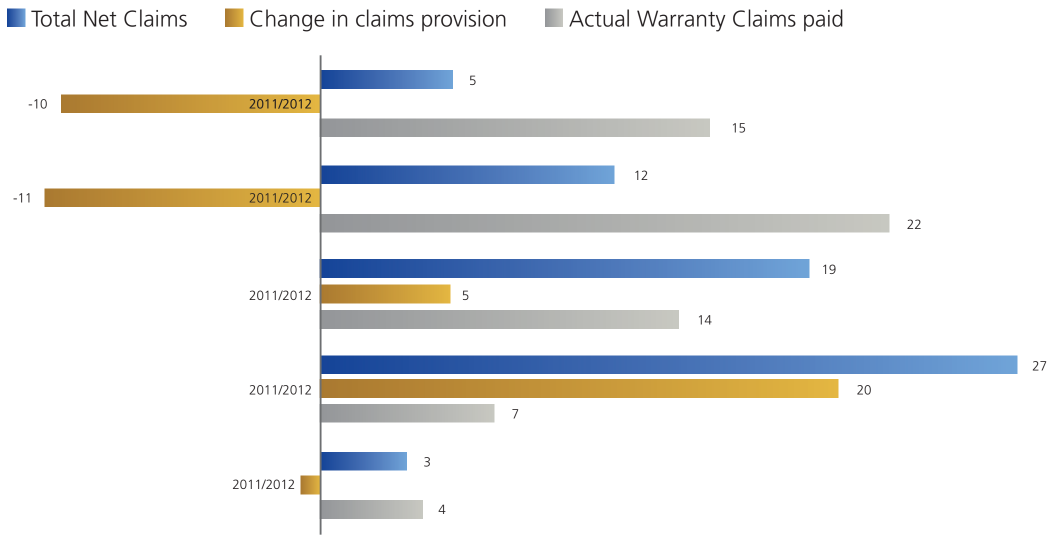
FIVE-YEAR FINANCIAL SUMMARY

Figure 1: Five-year financial summary

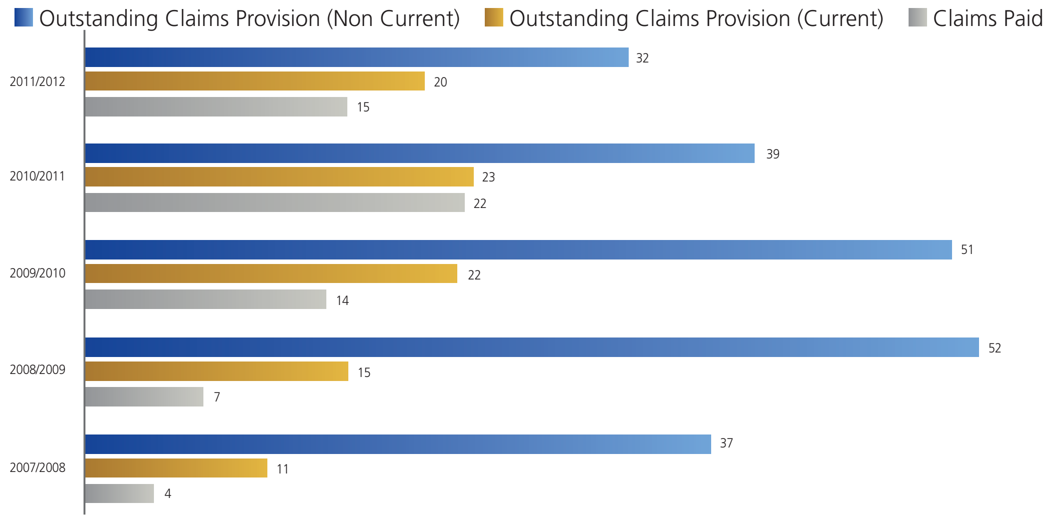




Insurance Claims and Loss Adjustment Expenditure R'million



Claims paid and Claim Provision Trend R'million



Surplus for the year

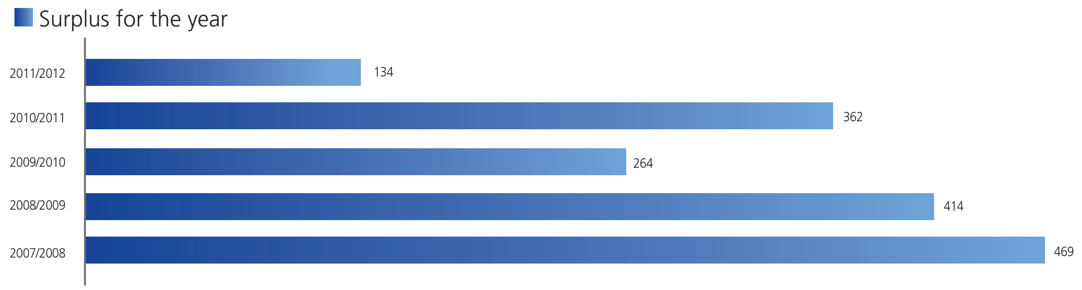


Table 3: Financial summary for the year ending 31 March 2012

Financial summary		
For the year ended 31 March 2012		
	R' Million	R' Million
	2012	2011
Net income	741	799
Surplus for the year	134	362
Equity	2603	2450
Investments	3694	3119

OVERVIEW

The NHBRC's performance should be viewed against residential building activity, which has improved after a long period of contraction in the planning and construction phase, based on data released by Statistics South Africa.

The net surplus from operating activities for the year at R133.6 million was R228.1 million lower than that of the previous financial year (2011: R361.7 million). The net surplus in the current year was negatively affected by the adjustment for insurance technical provisions, as determined annually by actuaries, which increased by R199.1 million (2011: R24.6 decrease).

In the previous financial year, an extraordinary realised surplus on sale of financial assets (R126.5 million) was earned compared to the current year realised profit of R33.9 million.

Investment income was reported at R197.4 million, which was lower than the previous year by R5.8 million. The actual return on investments was lower than the prior year due to lower interest rates and adverse economic conditions. However, the reported returns were within the set benchmark.

RESULTS FOR THE YEAR

Revenue

Revenue from enrolments (premiums written) increased by 28,6% from R331.9 million to R426.8 million. Non-subsidy enrolment value increased by 14.4%, and the subsidy enrolment of homes by 143%. The increase in subsidy home enrolments was primarily due to the rollover of projects approved in the prior year which are now entering the construction phase. The increase in non-subsidy premiums written was attributed to the increase in the number of homes enrolled, compared to the previous financial year.

The premium earned decreased due to the increase in the provision for unearned premium by R19.4 million (2011: R127.4 million decrease) and the increase in the change in the unexpired risk provision amounting to R179.7 million (2012: R102.8 million increase). Insurance premiums were recognised over the period of the policy commensurate with the expected incidence of risk.

Fee revenue increased from R31.9 million to R56 million (75.6%), mainly as a result of the 153% (R26.3 million) increase in subsidy project enrolments. Fee revenue included annual registration fees, annual fees, late enrolment fees, renewal fees, subsidy project enrolments and document sales.

The revenue from technical services increased from R80.4 million to R183.7 million (128.4%) due to rectification and forensic technical service fees earned in the subsidy market (KwaZulu-Natal and the Eastern Cape).

Income from investments at R197.4 million decreased by R5.7 million compared to the previous financial year (2011: 203.1 million) as a result of lower returns in the bond and equity portfolios. The entity did not utilise any of the investment fund to finance working capital during the year (2011: R80 million utilised).

The annualised return on investments performance is shown in Table 4.

Table 4: Annualised return on investments performance

Investment performance	Annualised percentage
Actual return on investments	6.2%
CPI	6.1%
Stefi	5.7%
Benchmark	8.1%

Expenditure

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

Inspections and operating expenditure increased by 30.3% from the previous financial year. The expenditure was mainly incurred as a result of inspections to homes under construction in order to mitigate future claims against the NHBRC Warranty Fund.

Technical operating expenditure at R186.4 million was partly absorbed by the additional technical revenue generated of R183.7 million. This service, in terms of the NHBRC mandate, was delivered to the subsidy housing market.

Administrative expenditure was controlled and decreased marginally by R0.6 million. The emphasis on cost reduction was achieved by first allocating the expenditure necessary for the Council to deliver on its mandate and for the realignment of resources, so as to ensure that risks were mitigated and strategic goals were achieved within the revised budgetary constraints.

The emerging contractor training reserve, as governed by Section 15(5) of the Act, was not increased during the financial year as current reserves were considered adequate. Expenditure of R5.4 million was incurred during the year.

Asset management service fees remained constant at R8.8 million. These fees were paid to the fund managers that administer the investments on behalf of the NHBRC. Management fees were charged on a sliding scale on the investments under management.

Claims against the NHBRC Warranty Fund

During the year under review, the NHBRC settled warranty claims amounting to R15.4 million (2011: R22.3 million). The outstanding claims provision consisted of both the 'notified outstanding claims provision' and the 'incurred but not reported claims provision'. The 'notified outstanding claims provision' was the portion of outstanding claims provision that related to the claims that were reported before the financial year-end, but that were not settled by that date. The 'incurred but not reported claims provision' related to claims that were neither reported, nor settled at the financial year-end.

The net outstanding claims provision decreased by R10.1 million reducing the insurance claims and loss adjustment expense to R5.3 million (2011: R11.5 million).

The outstanding claims provision was determined at a 99.5% sufficiency level. This was consistent with the Financial Services Board's draft guidelines on financial condition reporting (FCR). These standards require short-term insurers to hold liabilities at a 75% sufficiency level, and capital at a 99.5% sufficiency level.

Unexpired risk provision

The unexpired risk provision estimates the cost of insurance claims, related expenses and deferred acquisition costs that exceed the unearned insurance premiums, after taking account of future investment income that 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, is to ensure that this market is independently solvent. The provision increased from R422.7 million to R602.4 million, thus reducing insurance premium revenue earned for the year by R179.7 million.

Solvency of the NHBRC Warranty Fund

The independent actuarial valuation of the NHBRC Warranty Fund confirmed that the fund was solvent and in a sound financial position at 31 March 2012 when it was valued on a run-off basis. The warranty fund surplus was 278% (2011: 296%) as a percentage of investments under management. The actuarial liabilities were 378% funded (2011: 396%).

Investments

The NHBRC is regulated in terms of the Housing Consumers Protection Measures Act (Act No.95 of 1998) to establish a fund for the purposes of providing assistance to housing consumers under circumstances where the home builder fails to meet their obligations under Section 13(e)(b)(i) of the Act. The investment mandate concentrates on the preservation of capital so as to ensure that the NHBRC remains financially sound to meet housing consumer claims as they arise.

The NHBRC revised its investment policy during the previous financial year. The investments were independently managed by Sygnia Asset Managers.

The investment strategy over the financial year increased equity and structured products exposure. The intention of the investment strategy was to move the asset portfolio closer to the medium-term inflation-linked liability profile of the NHBRC.

The total investment, at market value, increased from R3.1 billion to R3.7 billion during the financial year. The fair value adjustment, at year end, increased from R5.6 million to R24.3 million.

Cash flow

The net cash flow inflow from operating activities is R20 million (2011: R260.6 million).

Reserves

The non-distributable reserve represents the fair value adjustment of investments to market value at 31 March 2012.

The accumulated surplus increased from R2.4 billion to R2.5 billion during the current financial year.

SECTION 3

SUSTAINABILITY REPORT

SUSTAINABILITY REPORTING

The National Home Builders Registration Council (NHBRC) must remain sustainable in order to ensure that it can carry out its statutory duties as stipulated in the Housing Consumers Protection Measures Act (Act No.95 of 1998). The NHBRC and the business world are still coming out of the economic recession; the key building blocks for sustainable organisations, businesses and societies at large remain clear as ethical and legal reminders of the duties incumbent on such institutions. The NHBRC adhered to the Act, the Public Finance Management Act (PFMA) and the principles related to integrated sustainability as stipulated by the King III Report when it implemented its strategies and operations in the reporting financial year.

ECONOMIC SUSTAINABILITY

The NHBRC is a self-sustaining organisation that depends on its ability to build up reserve funds. The main aim of the NHBRC as a warranty scheme is to ensure its ability to meet its claims liabilities. The NHBRC Warranty Fund, which was independently actuarially valuated, was both solvent and in a sound financial position as at 31 March 2012 when it was valued on a run-off basis.

FINANCIAL PERFORMANCE

Table 5: Financial performance summary 2009-2012

	2012	2011	2010	2009
Surplus for the year (Rm)	134	362	264	414
Return on equity	5.1%	14.7%	9.8%	21%
Total assets (Rm)	3.844	3.567	3.084	2.975
Total reserves (Rm)	2.603	2.450	2.145	1.938
Total technical liabilities (Rm)	977	788	823	848

The financial performance of the NHBRC should be viewed against residential building activity for the reporting period, as presented in Table 6. The number of homes enrolled increased by 20% compared to the previous financial year.

Table 6: Residential building activity for the year under review

Category of housing	Units 2012	Units 2011	% Change
Houses of <80 square metres	2 444	2 413	1.3
Houses of > 80 square metres	1 986	1 412	40.7
Flats and townhouses	1 538	1 288	19.4
Total	5 968	5 113	16.7

The NHBRC implemented stringent expenditure controls and reviewed contracts to ensure sustainable savings due to adverse trading conditions. It also finalised its organisational structure to ensure that it would be effective in operating in an ever changing and challenging environment. One of the main focuses of the NHBRC for the 2011/2012 financial year was to increase and improve organisational efficiency and effectiveness.

Environmental sustainability

The NHBRC supports collaborations and engagements with professional bodies such as the Engineering Council of South Africa (ECSA), the South African Bureau of Standards (SABS) and Agrément South Africa. Such collaborations are supported by the Act. The NHBRC has also established technical infrastructure at the Eric Molobi Testing Centre to test building materials such as bricks and blocks. The SABS also provides test reports of conventional products that have been submitted to it.

The NHBRC through its technical section ensures that any housing product used in the provision of homes for housing consumers meets the set National Building Regulations requirements. 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, thermal performance and durability. One of the statutory objectives of the NHBRC Council is to establish and promote technical standards in the home building industry.

The home building environment can be intrusive and pervasive to the environment in which 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 (Act No.103 of 1977) and its regulations, under the Department of Trade and Industry. The regulations include mandatory performance requirements to support the objectives of the Act, which aim to ensure the safety and health of persons living or working in any building. Guidance in the application of the regulations may be found in SANS 10400.

People

In the year under review, the NHBRC was in the process of finalising its organisational structure and filling some of its vacant positions. The NHBRC has a number of stakeholders that it interacts with on a regular basis, and this led to management creating the position of Manager: Stakeholder Relations in the office of the Chief Executive Officer. The incumbent in this position is meant to solidify and enhance the relations of the NHBRC with important stakeholders like the National Department of Human Settlements, the portfolio committee of Human Settlements and the select committee of Public Service (Housing).

Governance and compliance

The NHBRC is mandated by the Housing Consumers Protection Measures Act (Act No.95 of 1998) to comply with strict governance principles in line with the Public Finance Management Act (Act No.1 of 2000). The NHBRC has, through its Council Charter, endorsed the King III Code of Good Practice. It continued to ensure its corporate governance structures and practices were aligned with the principles of the code and best practice for public entities falling within Schedule 3(A) of the Public Finance Management Act (Act No.1 of 2000).

SECTION 4

CORPORATE GOVERNANCE


NATIONAL HOME BUILDERS
NHBRC
REGISTRATION COUNCIL

CORPORATE GOVERNANCE

COMPOSITION OF THE COUNCIL

The Council comprises a minimum of seven and a maximum of 15 members, appointed by the Minister of Human Settlements in terms of Section 4 of the Housing Consumers Protection Measures Act (Act No.95 of 1998). The minister appointed nine members of Council, including the Chairperson and the Deputy Chairperson in 2009. As there were no changes in this composition, the total number of Council members remained at nine.

The composition of the Council was as follows:

- Prof. Vukile Mehana (Chairperson)
- Ms Mabusha Maja (Deputy Chairperson)
- Ms Sharon De Gois (member)
- Dr Adam Goliger (member)
- Ms Sibongile Nene (member)
- Mr Bangiso Mhlabeni (member)
- Mr Paul Hlahane (member)
- Mr Mthembeni Mkhize (member)
- Mr Narain Kuljeeth (member)

THE NHBRC COUNCIL

Mandate of the Council

The NHBRC derives its mandate from the Housing Consumers Protection Measures Act (Act No.95 of 1998). The broad mandate is outlined under Section 3 of the Act:

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

Composition of Council and the attendance of Council meetings

In line with good governance principles as espoused by the King III Report of Good Corporate Governance, the PFMA and the Council Charter, Council is required to hold at least four meetings each financial year in order to exercise proper oversight and responsibility in relation to the activities of the NHBRC. Table 7 illustrates the meetings that were held in the year under review, and indicates each member's attendance.

Council Committees

The NHBRC Council is supported by nine sub-committees,

Table 7: Council meetings and attendance in the year under review

MEMBER NAME	CAPACITY				
		20-Apr-2011	16-May-2011	27-May-2011	24-Jun-2011
Rev. Vukile Mehana	**Chairperson**	√	√	√	√
Ms Mabusha Maja	**Deputy Chairperson**	√	—	√	√
Dr Adam Goliger	**Member**	√	√	√	√
Mr Bangiso Mhlabeni	**Member**	√	√	√	√
Mr Mthembeni Mkhize	**Member**	√	—	√	√
Mr Paul Hlahane	**Member**	√	√	√	—
Mr Narain Kuljeeth	**Member**	—	—	—	—
Ms Sibongile Nene	**Member**	√	√	√	—
Ms Sharon De Gois	**Member**	—	—	—	—
	Total Members	**7**	**5**	**7**	**5**

established in terms of Section 5 of the Housing Consumers Protection Measures Act, (Act No.95 of 1998). Each committee operates under terms of reference approved by Council.

Fund Advisory and Finance Committee

The Fund Advisory and Finance Committee is responsible for advising the Council on the prudent management of its funds. The committee 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, and the administration of its fund or any other Council fund. The committee regularly reviews the financial reports of management, recommends the budget for approval by Council and advises Council on all financial matters.

Registration Committee

The Registration Committee is responsible for monitoring the registration and deregistration of home builders, and also recommends appropriate policies and procedures to Council. It evaluates owner-builder applications received, and determines whether home builders qualify in terms of the Act for exemption from enrolment of their own homes.

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 controls and risk management mitigation strategies; reviewing its financial policies and procedures; reviewing financial information reported to its stakeholders; and assessing the effectiveness of the internal and external audit functions. The committee also ensures the maintenance and monitoring of the risk management framework. The committee further reviews the risk register and assessment reports, to ensure efficiency and effectiveness of the risk management strategy and plans.

Technical Advisory and Claims Committee

The Technical Advisory and Claims Committee is responsible for evaluating remedial works claims submitted by provincial offices, and making recommendations to the Council on the appropriate manner of dealing with such claims. In addition, the committee advises the NHBRC technical section with regards to all technical aspects of construction and innovation (both professional and technical), which may impact on the NHBRC's risk management process.

Disciplinary Hearings Committee (ad hoc sittings)

This committee is responsible for presiding over cases of alleged contraventions of the Act by home builders, and imposing disciplinary sanctions where home builders are found guilty of contravening the Act.

Human Capital and Remuneration Committee

The Human Capital and Remuneration Committee advises Council on employees' remuneration policies. This committee also maintains a corporate overview of the Council's human capital policies such as employee sourcing, development, relations and rewards.

Industry Advisory Committee

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

Tender Committee (Bid Adjudication Committee)

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

Disciplinary Steering Committee

The Disciplinary Steering Committee is responsible for approving disciplinary policies, procedures and guidelines to manage the process of disciplining defaulting home builders. The committee assesses and approves the preferred charges against home builders who have allegedly breached the Act, and recommends disciplinary action to the disciplinary committee.

COUNCIL MEETINGS						TOTALS PER MEMBER
8-Jul-2011	28-Jul-2011	31-Aug-2011	28-Oct-2011	15-Dec-2011	30-Jan-2012	
√	√	√	√	√	√	**10**
√	—	√	√	√	—	**7**
√	√	√	√	√	—	**9**
√	√	√	√	√	√	**10**
√	√	√	—	—	√	**7**
√	√	√	√	√	√	**9**
—	—	—	—	—	—	**0**
√	√	√	√	√	√	**9**
—	—	—	—	—	—	**0**
7	**6**	**7**	**6**	**6**	**5**	

SECTION 5

AUDIT AND RISK REPORTS


NHBRC
NHBRC

AUDIT AND RISK MANAGEMENT REPORT

The NHBRC through its various business activities engages in a number of operations, most of which involve the provision of a wide range of valuable final products (VFPs) to protect the interests of housing consumers and to regulate the home building industry. These VFPs include the following core activities:

- Builder registrations and renewals
- Project and home enrolments
- Inspections
- Handling of complaints and conciliations
- Remedial works

By their nature, such services or products present a substantial level of financial and operational risk, which must be mitigated on an organisation-wide and continuous basis if the overall sustainability and prosperity of the organisation is to be assured.

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

Risk policy framework

The methodology set out in global risk management standards, incorporating King III, the Institute of Risk Management South Africa (IRMSA), the Committee of Sponsoring Organisations of the Treadwell Commission (COSO) and the PFMA, among others, has been used as a benchmark in developing policy and in monitoring and implementing risk management measures.

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

Oversight of risk management policy framework

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

EXCO, through the business management, implements a risk management system that enables the business to respond appropriately to significant risks that could impact negatively or positively on the business's strategic objectives. The Risk Manager provides support and facilitates risk management activities. However, management takes overall responsibility for risk management.

Risk reviews are conducted once per annum, with the intention to conduct them on a quarterly basis next financial year. Identified risks are ranked and classified into categories, reviewed and then assessed by EXCO, the Audit and Risk Management Committee and Council to determine the

significant operational, strategic and business continuity risks. The ratings are finalised once the mitigation plans have been considered and executive accountability assigned for each of the risk categories.

Emerging risks and risk management strategy

The NHBRC is subject to a number of types of risks, many of which are long-term risks that can significantly impact its businesses. The Council and management seek to identify, analyse, evaluate and capitalise or remedy strategic risks; operational risks; information technology risks; market risks; regulatory risks; compliance risks; human resource risks; capital adequacy risks; business continuity risks; economic risks; reputation risks; and accounting and financial control risks.

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

Council and management's key risk focus areas in the past year included outsourced inspectorate contractual risks; a sustainable inspection model; Oracle/Siebel not being fully operational; the performance management system; stakeholder confidence; declining revenue; an above inflation increase in operational expenses; and operational expenses not variably responding to declining business volumes.

The level of commitment by NHBRC management and employees to risk management principles, standards and regulatory requirements is slowly improving. However, this needs to be augmented further to achieve a highly integrated, effective and efficient enterprise-wide risk management programme that contributes towards achieving a more stable and resilient business that effectively pursues the achievement of its mandate.

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

During the reporting year, the risk management framework and policy were approved, and an entity-wide risk assessment workshop involving all business divisions undertaken. The next stages will involve training the businesses to identify and manage risks, and implementing self-assessment processes within the business to ensure that risk management is integral to all day-to-day activities, integrated with strategy execution and performance management.

Health and safety

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

NHBRC critical risks

The following have been identified as high risks to the NHBRC:

- Funding model not flexible to change
- Poor enforcement of the Act
- Stakeholders' lack of understanding of the NHBRC's mandate and product offering
- Poor quality houses in the subsidy sector
- Depletion of the warranty fund
- Ineffective brand positioning
- Potential for fraud and corruption
- Reputational risk
- Gaps in leadership
- Failure of IT and/or business systems

INTERNAL AUDIT

The NHBRC has established an internal audit function in complying with the Treasury Regulations of the Public Finance Management Act (Act No.1 of 1999). The purpose of the internal audit function is to continuously provide independent, objective assurance and consulting services to all divisions and sections of the Council, to ensure adequate and effective systems, corporate governance, risk management and internal control. The function is headed by a Chief Audit Executive, who reports functionally to Council and administratively to the CEO.

During the year under review, the internal audit function was fully outsourced to the Rebahale Consortium for a period of three years. The contract commenced on 1 March 2011. However, due to delivery shortcomings and contractual breaches, the contract was terminated in February 2012. The Chief Audit Executive will develop a short- and long-term plan for an ideal internal audit model commencing 1 April 2012 for EXCO and Council approval.

Internal audit's responsibilities include evaluating controls to determine their effectiveness and efficiency in order to provide management with the assurance that internal controls are functioning as intended. Furthermore, the internal audit function evaluates financial and operational performance information in a bid to assist management in ensuring that the strategic and operational objectives of the Council are achieved. Through the performance audits, gaps that may exist are proactively identified and remedial action taken to ensure the realisation of strategic and operational objectives.

In its contribution to the strategic focus of the organisation, the internal audit function also assists management by evaluating the process through which strategic objectives are established and communicated; by monitoring the accomplishment of objectives; by ensuring accountability; and by preserving corporate values.

Governance in all areas of the NHBRC has improved as a result of on-going, periodic audit reviews and risk controls and governance campaigns through management efforts and commitment to this issue.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

The Audit Risk Management Committee (ARMCO) is pleased to report that it is properly constituted as required by section 77 of the Public Finance Management Act, 1999 (Act No. 1 of 1999) and has complied with its responsibilities arising from section 38(1)(a) of the PFMA, 1999 and paragraph 3.1.13 of the Treasury Regulations. The ARMCO also reports that it has adopted appropriate formal Terms of Reference as its Charter, and has managed and regulated its affairs in compliance with this Charter. As mandated, we hereby report on the functions of the Committee for the year ended 31 March 2012.

ARMCO meetings and attendances

The ARMCO consists of the members listed below. The Committee meets at least four times per annum in line with its approved charter. Six (6) meetings were held during the year under review, four (4) were scheduled and two (2) were special. The attendance record of the members is detailed below:

Mr. R. Moyo recused himself from ARMCO in October 2011. Ms. S. Rahiman was appointed Acting Chairperson in December 2011 for the remainder of the financial year.

ARMCO MEMBER	SCHEDULED MEETINGS	SPECIAL MEETINGS	TOTAL NUMBER OF MEETINGS ATTENDED
Mr. R. Moyo – CA(SA):Chairperson-Independent Member	2	2	4
Ms. S. Rahiman – CA(SA): Independent Member	4	2	6
Mr. Z. Fihlani – CA(SA): Independent Member	2	2	4
Ms. S. De Gois – MTRP: Council Member	4	-	4
Mr. M. Mkhize –Msc. Arch: Council Member	3	-	3
Dr. A. Goliger – PhD PrEng: Council Member	1	1	2

Effectiveness of Internal Control

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;
- 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.

Based on information and explanations provided by various assurance sources, the Committee is of the opinion that there is an urgent need for significant improvement in the following critical areas:

- Technology and data integrity;
- Revenue accounting especially in the Geotech area;
- Compliance including supply chain management;
- Key account reconciliations;
- Ethical and fraud prevention reviews;
- Daily and monthly recording and processing of transactions; and
- Performance information reporting.

The Committee is unable to conclude that the internal accounting controls are adequately designed and operated effectively to ensure completeness, accuracy and reliability of financial records for preparing the annual financial statements, and that accountability for assets and liabilities is maintained. This is exacerbated by a serious concern in that the NHBRC had fully outsourced its internal audit services, and during the year the contract with the service provider was terminated in February 2012. This has exposed the NHBRC to significant risks and as a result no effective assurance was provided to management and Council from internal audit.

The Committee continues to be concerned about the gravity of some of the matters raised in the External Auditor's reports to Management. The Committee also noted serious concerns about lack of progress by Management in addressing reported internal control shortcomings. The Committee will engage with the newly appointed Council to consider various initiatives that will see a radical positive change regarding implementation and maintenance of adequate and effective governance, risk and control processes within NHBRC.

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:

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

Management Reports

The Committee has noted that the information management system that produces management reports faced significant disruptions during the year. The business still relies on disparate systems for reporting, with the attendant system interface risks (the reliability and integrity of data may be materially compromised), however, this did not impact on meeting the statutory reports submission deadlines as set in section 8(1) of the PFMA, 1999.

Annual Financial Statements

The Committee has:

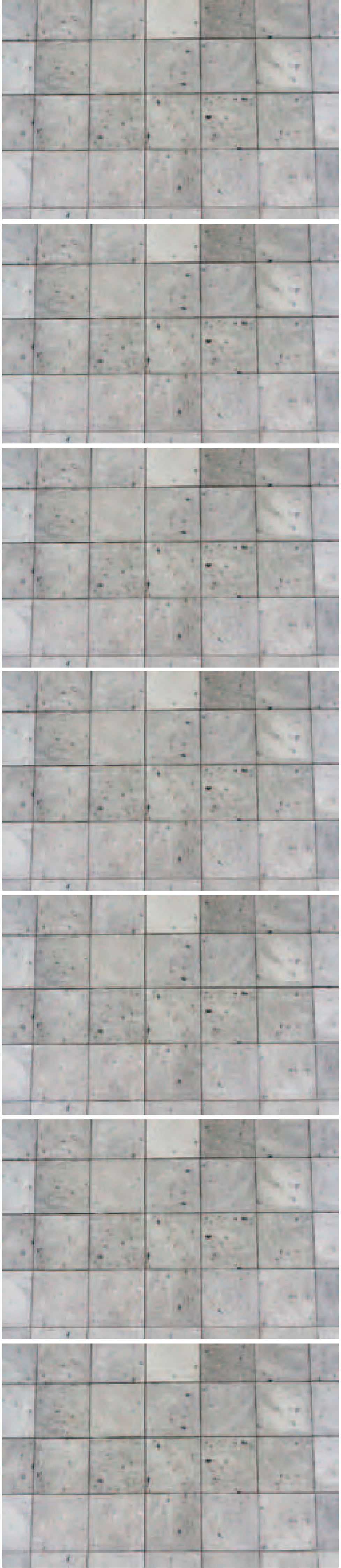
- Reviewed and discussed the audited financial statements to be included in the Annual Report with the Auditor-General and the Chief Executive Officer. It has noted with concern the matters raised in the Auditor-General's report;
- Reviewed the Auditor-General's management letter and the substance of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

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

Name: Ms. S. Rahiman

Signature:

Chairperson of ARMCO
Date: 31 July 2012



SECTION 6

PERFORMANCE REPORT

PERFORMANCE REPORT

BUSINESS OPERATIONS AND CUSTOMER CARE

1. Registration and renewal of home builders

1.1 Strategic context:

Section 10(1) of the Act requires that all persons in the business of home building be registered with the NHBRC, and all persons in the business of home building renew their annual membership with the NHBRC.

1.2 Key activities:

The evaluation of home builders' registrations and renewals is based on:

- The technical, construction and financial capabilities of the applicant.
- A non-refundable registration fee of R750 (payable to the NHBRC before registration).
- An annual renewal fee of R600 (payable to the NHBRC each year).

1.3 Performance:

New home builders' registrations declined in the year under review by 26%, compared to the last financial year. Figure 2 shows the performance of new registrations and renewals over the last seven years. It indicates:

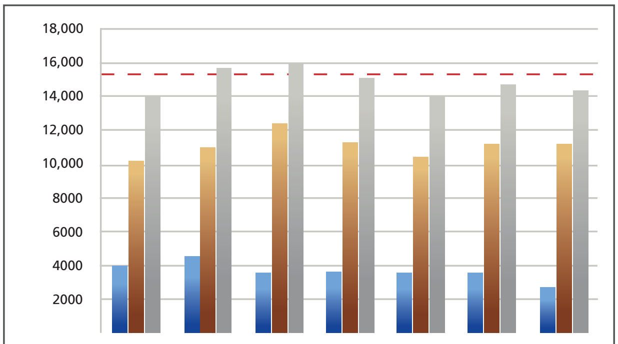
- The average number of active builders (renewals) – 11 080 per year.
- The average number of new entrants (registrations) – 3 710 per year.
- The average total number of builders – 14 790 per year.

This decline in new registrations can be attributed to, among others:

- The cancellation of contracts by potential clients and the provincial Departments of Human Settlements.
- Voluntary withdrawals and deregistrations.
- Suspensions by Council due to non-compliance.
- The economic recession.
- Lack of financial and technical capability.

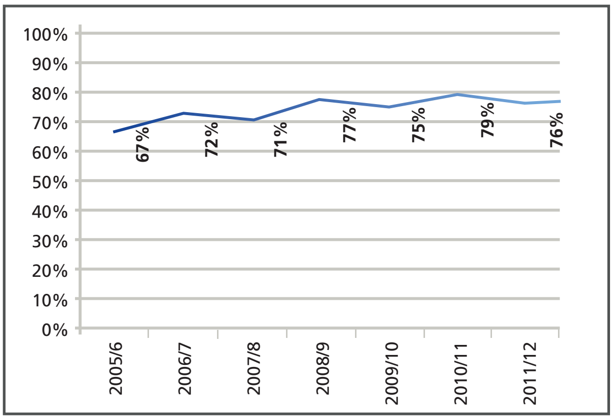
Figure 3 represents the average annual percentage renewal by builders. The percentage renewal has steadily increased since 2005/2006. The average renewal over the last four years was 77%. This means that of all the active builders, the NHBRC expects 77% of them, on average, to renew their registration.

Figure 2: Registrations and renewals of home builders over the last seven years



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Registration	4 006	4 595	3 628	3 788	3 616	3 650	2 686
Renewal	10 123	11 033	12 390	11 326	10 366	11 115	11 220
Total	14 129	15 628	16 018	15 114	13 982	14 765	13 906

Figure 3: Average percentage renewal of registrations over the last seven years



2. Enrolment and late enrolment of homes

2.1 Strategic context:

Section 14 of the Act requires that all new homes be enrolled with the Council 15 days prior to construction, and allows for late home enrolments provided the risk to the Council is acceptable.

2.2 Key activities:

- Assessment of enrolment documentation.
- Where the risk of unsuitable soil conditions (i.e. dolomites) is high, a detailed technical assessment of the submission is performed in liaison with the NHBRC's strategic partner, the Council for Geoscience.
- For late enrolments, financial guarantees may be called upon if the risk of enrolment is high.
- For homes under R500 000, the enrolment fee is calculated as 1.3% of the value of the property

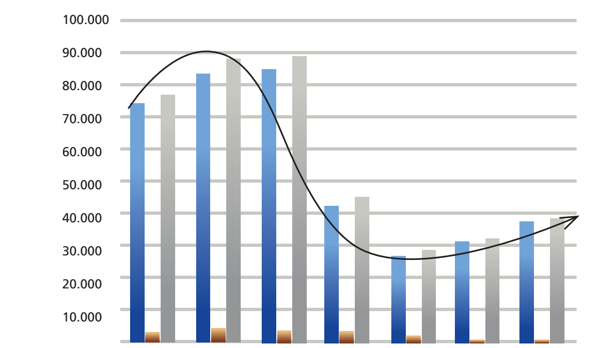
including land. For houses above R500 000, a sliding scale is used to calculate the enrolment fee.

2.3 Performance:

Despite the decline in registrations in the current financial year compared to last year, the number of enrolments increased, as shown in Figure 4. This perhaps suggests that although the market has started to recover from the recession, it is reaching saturation in terms of the number of home builders.

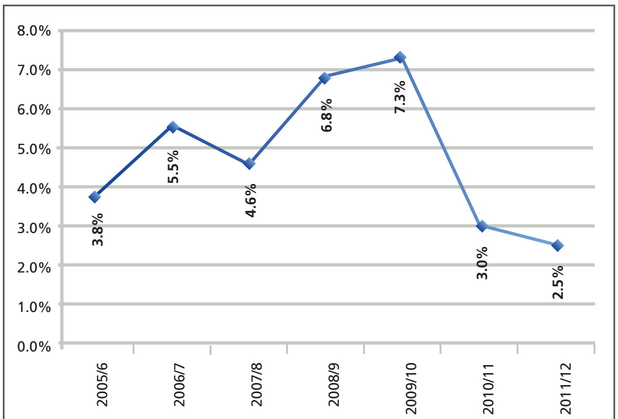
It should be noted, however, that it is the intention of the Council to reduce the number of late enrolments as they pose a risk to the warranty fund. From a risk perspective, late enrolments should not exceed 5% of the total enrolments figure. An analysis of late enrolments for the last seven years, as presented in Figure 5, shows a decline in the percentage of houses enrolled late. The reduction in late enrolments is a positive indication that home builders are complying with the legislation that governs the home building industry.

Figure 4: Total number of enrolments for the last seven years



	05/06	06/07	07/08	08/09	09/10	10/11	11/12
Enrolments	74 095	83 106	84 371	42 228	26 908	31 458	37 671
Late Enrolment	2 901	4 803	4 208	3 085	2 150	966	980
Total	76 996	87 909	88 399	45 313	29 033	32 424	38 651

Figure 5: Late enrolments as a percentage of total enrolments



3. Complaints and conciliations

3.1 Strategic context:

Rule 18 of the Regulations to the Act entitles a housing consumer to lodge a complaint where a home builder has failed to respond to legitimate complaints by the housing consumer, while Section 13(8) of the Act entitles a housing consumer to a conciliation process with the home builder.

3.2 Key activities:

- Day-to-day complaints raised during construction are attended to in the form of technical non-compliance notices, issued on site by NHBRC inspectors (these complaints are not analysed and reported here).
- Complaints are lodged and dealt with through the provincial customer service centres.
- When a complaint cannot be resolved, it is escalated to conciliation between the housing consumer and home builder.
- A conciliation fee of R100 is payable if the enrolment value is less than R100 000, and a fee of R300 is payable if the enrolment value is more than R100 000.

3.3 Performance

The number of complaints received in the year under review totalled 649, of which 350 complaints were resolved; 169 complaints were under conciliation; 14 complaints were under remedial works; and 116 complaints were still in progress, as at the end of the financial year.

The total complaints received and resolved were broken down as follows:

Type of Complaint	Number Received	Number Resolved
Structural related	431	225
Roof related	36	22
Maintenance related	165	86
Others (e.g. outisde warranty period)	17	17
Total	649	350

4. Inspections

4.1 Strategic context:

Section 5(4) (b) of the Act requires that all enrolled homes be inspected.

4.2 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 risk.
- Houses that have been enrolled late may miss the foundation inspection, and this poses a huge risk to the NHBRC.

4.3 Performance

Table 8 shows the number of houses inspected in the non-subsidy sector, and the number of inspections conducted per property type and rand value category, in the year under review. A total of 223 349 inspections were conducted on 62 779 houses, providing an average inspection ratio of 3.6. 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.

Table 8: Non-subsidy inspections

Property Type	Bracket	No. Houses Inspected	No. Inspection Conducted
PA003	0 TO 500 000	5 107	16 211
PA003	500 001 to 1 million	2 155	7 520
PA003	1 million to 2 million	1 019	4 148
PA003	2 million to 5 million	326	1 665
PA003	5 million +	22	119
SUB TOTAL		8 629	29 663
Sectional Title	0 to 500 000	18 596	53 700
Sectional Title	500 001 to 1 million	9 512	37 043
Sectional Title	1 million to 2 million	2 254	9 846
Sectional Title	2 million to 5 million	286	1 674
Sectional Title	5 million +	32	187
SUB TOTAL		30 680	102 450
Speculative	0 TO 500 000	8 726	27 540
Speculative	500 001 to 1 million	5 350	20 427
Speculative	1 million to 2 million	5 414	23 237
Speculative	2 million to 5 million	3 254	16 548
Speculative	5 million +	726	3 484
SUB TOTAL		23 470	91 236
Grand Total		**62 779**	**223 349**

5. Risk analysis: remedial works done by the NHBRC

5.1 Strategic context:

Section 17 of the Act requires the NHBRC to rectify any structural defects where a home builder has failed to do so.

5.2 Key activities:

- The NHBRC, through its provincial customer service centres, assesses the extent of the structural damage. If the home builder is not willing to rectify the damage, the NHBRC uses the warranty fund to fix the defect up to the lesser amount of either the enrolment value or R500 000, and disciplinary action is taken against the defaulting home builder.
- Risk analysis:
  - The breakdown of the remedial costs for the financial year is shown in Figure 6 and the associated risk analysis in Table 9.
  - In the current financial year, the NHBRC spent R15 million on remedial works, which was substantially lower than in the previous year, as shown in Figure 7. However, this figure should not be read in isolation to the cost spent in mitigating the risk through inspections. The claims incidence ratio for the year as presented in Table 9 was 0.49%, which was acceptably below the 4% target. The average claims paid of 9% was way below the risk limit of 32%.

Table 9: Risk analysis for remedial works

Description	EC	FS	GP	KZN	MP	NW	NC	LP	WC	TOTAL
No. of conciliations closed	25	15	35	3	73	11		11	5	178
No. of enrolments	1 982	1 328	21 220	1 855	2 552	1 707	1 541	1 711	4 755	38 651
No. of claims paid	27	16	53	13	19	24	5	5	28	190
Claims paid costs(net) - R	1 354 964	210 905	5 725 695	2 032 150	1 577 178	1 216 351	397 849	1 313 234	1 465 709	15 294 035
Conciliation incidence per enrolment (%)	1.26%	1.13%	0.16%	0.16%	1.86%	0.64%	0.00%	0.64%	0.10%	0.46%
Claims incidence per enrolment (%)	1.36%	1.20%	1.20%	0.25%	0.70%	0.74%	1.41%	0.30%	0.59%	0.49%
Average claims paid cost - R	50 184	13 182	108 032	156 319	83 009	50 681	79 570	262 647	52 347	80 495
Average claims paid cost -%	6%	2%	13%	18%	10%	6%	9%	31%	6%	9%

Figure 6: Breakdown of remedial works

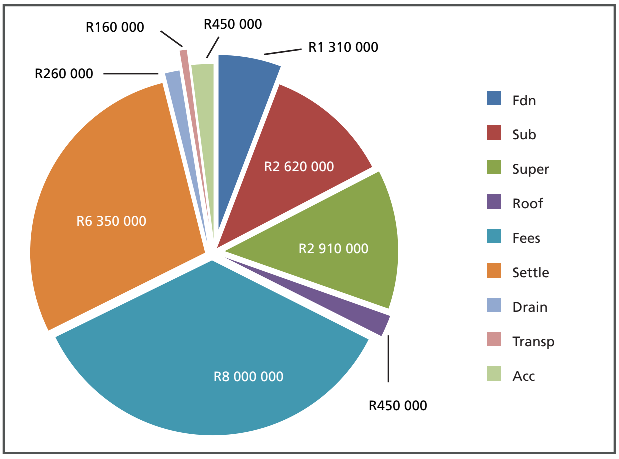
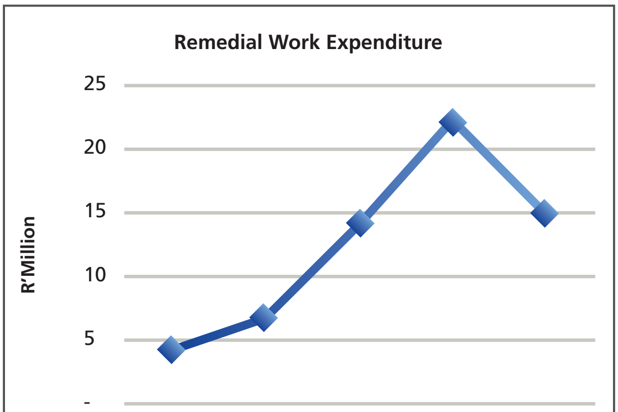


Figure 7: Remedial works expenditure over last five years



	2007/08	2008/09	2009/10	2010/11	2011/12
R'Million	5	7	14	22	15

6. Subsidy sector

6.1 Strategic context:

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

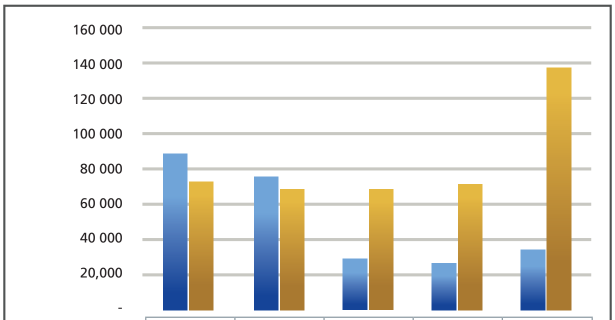
6.2 Key activities:

- In line with the Act and the Housing Code, developers of government subsidy projects are required to register and enrol all projects with the NHBRC. The NHBRC uses various risk management tools in assessing subsidy projects, including geotechnical assessments; inspections of the top structure and infrastructure services and structural assessments of both the sub- and super- structures.
- As of 31 March 2006, the Minister of Human Settlements and Members of the Executive Committee (MinMec) approved that subsidy projects will be subject to a two-phase enrolment process in order for the NHBRC to achieve the required risk management before a home enrolment certificate is issued. These phases are project enrolment and home enrolment.

6.3 Performance:

- Figure 8 illustrates the performance of the subsidy sector with respect to project and home enrolments over the last five years. In the current year, 35 426 houses were enrolled for project enrolment and 138 883 for home enrolment.
- The NHBRC still faces challenges with a number of provincial Departments of Human Settlements in terms of ensuring that all projects are enrolled timeously. Proactively, the NHBRC has engaged the departments with the objective of ensuring that all houses, including rural and peoples housing process (PHP) projects, are enrolled. A positive response was received, and it is envisaged that enrolments will increase in the next financial year, in line with the National Department of Human Settlements' housing delivery plan.

Figure 8: Enrolment in the subsidy sector over the last five years



	2007/08	2008/09	2009/10	2010/11	2011/12
Project Enrolment	89 997	75 633	29 846	27 348	35 426
Home Enrolment	72 929	70 087	69 456	72 394	138 883

6.4 NHBRC strategic intervention

In order to align to the National Department of Human Settlements' delivery plan, the NHBRC implemented the following strategies:

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

6.5 Subsidy inspection

The NHBRC also embarked on a strategy to ensure that all subsidy housing units constructed in South Africa were inspected by the NHBRC, in order to mitigate the risk of possible future rectification by government. Table 10 shows the number of inspections conducted in the subsidy sector in the year under review.

A total of 290 826 inspections were conducted on 156 134 houses. It should be noted that the number of inspections was dependent on the speed of construction. Most of the houses shown in Table 10 are still under construction; on completion, a minimum of four inspections would have been done per house.

Table 10: The number of subsidy inspections conducted

Province	Homes inspected	Number of inspections conducted
Eastern Cape	15 465	20 832
Free State	39 288	44 574
Gauteng	10 442	15 668
KwaZulu-Natal	28 687	83 297
Limpopo	24 384	56 823
Mpumalanga	12 582	19 820
Northern Cape	3 651	8 132
North West	8 138	14 541
Western Cape	13 497	27 139
Total	156 134	290 826

7. Rectification of unenrolled houses

7.1 Strategic context:

Section 5(5) of the Act empowers the Council to engage in undertakings to improve ethical and technical standards in the home building industry, and engage in undertakings to promote the improved structural quality of homes constructed in South Africa.

7.2 Key activities:

- The NHBRC was appointed by the KwaZulu-Natal and Eastern Cape Departments of Human Settlements to assess the structural condition of houses that were built and not enrolled by NHBRC. This project was a pilot rectification project initiated by the National Department of Human Settlements.
- Most of the houses were either built prior to 2002 or were built as part of Peoples Housing Process (PHP) projects or were rural houses.

7.3 Performance:

- A provisional summary of the houses assessed is presented in Table 11. The general findings indicated that most of the houses did not comply with National Building Regulations.
- The NHBRC has engaged with all provinces in order to ensure that all houses are enrolled in the future, so as to avoid future rectification.

Table 11: Summary of houses assessed (not enrolled)

Item	Number of units in KwaZulu-Natal	Number of units in Eastern Cape
Units to be demolished	25 093	46 052
Units to be rectified	29 202	7 340
Vacant stands	6 555	331
Sub-total	60 850	53 723
Units requiring no rectification	3 168	45
Total number of units assessed	**64 018**	**53 768**

8. Training of home builders

8.1 Strategic context:

Section 3 of the Act requires that the Council assists home builders, through training and inspection, to achieve and maintain satisfactory technical standards of home building.

8.2 Key activities:

- The NHBRC identifies home builders through its partnerships with provincial departments and municipalities.
- Learners are trained on-site in a number of trades in the home building industry.

8.3 Performance:

The total number of emerging builders trained for the review period amounted to 651. The target in 2012/2013 is 3500 emerging home builders to be trained across all provinces.

8.3.1 Emerging Home Builder Training (EHBT)

A total of 609 learners were trained, as presented in Table 12. The major focal point of Emerging Home Builder Training was KwaZulu-Natal, as a major rectification programme was implemented in that province.

8.3.2 Youth in Human Settlements (YiHS) and Youth Build programmes

- The YiHS was implemented at Mount Pleasant, Eastern Cape. A total of 96 youths were trained in bricklaying and plastering, of which 28 were female.
- In Limpopo, as part of Youth Month celebrations in June 2011, 94 youths were trained in a CETA-accredited construction health and safety course as part of the Youth Build programme. The Youth Build concept fosters a spirit of voluntarism, so it was

gratifying that of the 94 youth volunteers, 71 were female.

- It is envisaged that in 2012/2013, the YiHS programme will be implemented in six provinces with 1 040 youths trained in various construction courses.

8.3.3. Women Build

- The Free State was chosen to host the 2011 Women Build programme as part of Women's Month celebrations, with the training being held at the historic Brandfort Township.
- A total of 113 women were trained in bricklaying and plastering by accredited NHBRC registered and women-owned training providers.

8.3.4 Community development programmes (including the Gauteng Disability Programme and the Women Build programme)

- In Gauteng, a ground-breaking training programme aimed at people living with disabilities was launched. The Gauteng Provincial Department of Housing and Local Government in partnership with the NHBRC piloted the Gauteng Disability Programme in December 2011. A total of 10 emerging contractors living with disabilities were identified for the training. Given the nature of some of the contractors' disabilities, they were allowed to nominate proxy learners, as the training programme covered both managerial and technical development. In total 18 learners were trained. The management courses covered construction management and project management, while the technical courses focused on bricklaying and plastering.
- In Buffalo City, Eastern Cape, a community development programme aimed specifically at women was implemented in April 2011. In total, 21 women were trained in bricklaying and plastering.
- In 2012/2013, the NHBRC will continue to be relevant in development programmes that add value and restore dignity to local communities.

Table 12: Emerging home builders trained

Programme	Courses	Province	Males	Females	Total
1. Emerging Home Builder Training	Bricklaying, plastering	KwaZulu-Natal	486	123	609
2. Gauteng Disability Programme	Bricklaying, construction management, project management, plastering	Gauteng	15	3	18
3. Women Build	Bricklaying, plastering	Free State	0	113	134
		Eastern Cape		21	
4. Youth Build	Construction health and safety	Limpopo	23	71	94
5. Youth in Human Settlements	Bricklaying, plastering	Eastern Cape	68	28	96
TOTAL			**592**	**359**	**951**

9. Contribution to Outcome 8

As part of its contribution to Outcome 8, the NHBRC:

- Ensures compliance to national norms, standards and quality within the home building sector.
- Assists the public and private sectors in improving programme and project management through training and skills transfers.
- Assists in the protection of the interests of the public within the human settlements sector.
- Assists government in the development of appropriate norms and standards in the provision of services, infrastructure and housing.
- Assists the National Department of Human Settlements in the improvement of governance and performance in the sector.

To assist government in providing services and infrastructure to housing, the NHBRC assisted the KwaZulu-Natal Department of Human Settlements with a rainwater harvesting project. Approximately 8 000 water tanks were provided to the housing units in question, mainly in the rural areas, with the NHBRC ensuring that the structural integrity of these homes was not compromised in the process.

ENFORCEMENT AND COMPLIANCE

The Enforcement and Compliance Division's goal is to provide cutting-edge legal advisory services to ensure efficient and effective regulation of the home building industry as well as the protection of housing consumers' rights.

The division's main service offerings entail:

- Ensuring compliance with applicable legislative and regulatory frameworks, including relevant policies.
- Facilitating successful enforcement of the Act through the prosecution of defaulters.
- Initiating and/or defending civil and/or criminal litigation processes for or against the NHBRC, including recoveries and alternative dispute resolution (ADR).
- Providing innovative legal advisory services, including legislative reviews.
- Developing and implementing a functional contract management system.

1. Prosecution of home builders

1.1 Strategic context:

In terms of Section 11(3) of the Act, Council may suspend the registered home builder's registration or

Table 15: Disciplinary hearings held in the financial year

Provinces	No. of DC hearings	No. of builders found guilty	No. of builders found not guilty	No. of matters settled	No. of verdicts outstanding	No. of matters withdrawn	No. of matters postponed
Gauteng	23	7	4	7	1	4	0
Limpopo	5	3	0	1	0	1	0
Mpumalanga	8	6	0	0	0	2	0
North West	13	10	1	0	2	0	0
Western Cape	38	20	2	7	1	6	2
TOTAL	**87**	**46**	**7**	**15**	**4**	**13**	**2**

refuse to enrol homes for the period that the Council deems necessary to investigate the matter or until the registered home builder has complied with the relevant provisions, condition or obligation in terms of the Act. In addition, the Act empowers the NHBRC's Disciplinary Committee, after following due process, to impose withdrawal of registration of a home builder, a fine not exceeding R25 000 or a warning in instances where a home builder has been found guilty of contravening the provisions of the Act.

1.2 Key activities:

The disciplinary prosecution process entails:

- Reviewing files to ensure that the enforcement procedural and substantive requirements were complied with before deciding whether or not to prosecute a home builder.
- Sending a 30 days' notice of intention to prosecute a home builder, which affords the home builder an opportunity to respond to the allegations against them.
- Issuing summons instructing a home builder to appear before the NHBRC's Disciplinary Committee.
- Disciplinary hearing proceedings.
- Implementing disciplinary committee rulings.

1.3 Performance

During the year under review, disciplinary hearings against home builders were held in Gauteng, Western Cape, Limpopo, Mpumalanga and North West, as presented in Table 15.

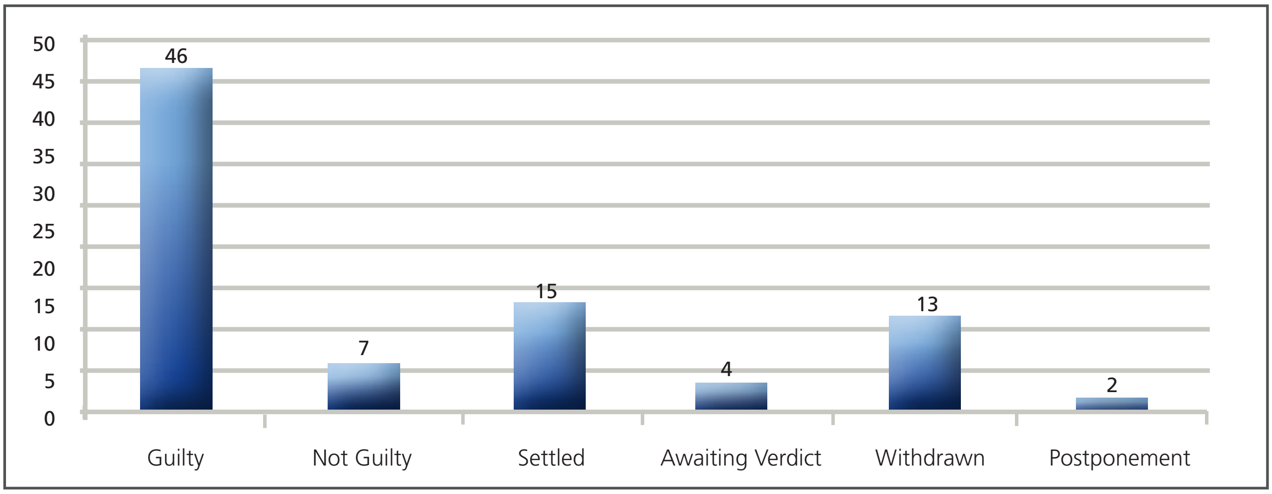
In the year under review, a total of 87 matters were adjudicated upon by the NHBRC's Disciplinary Committee, where offences included failure to rectify major structural defects; failure to rectify workmanship related problems; failure to enrol homes and failure to attend to correspondence from the NHBRC. Of the total number of matters prosecuted, 53% resulted in guilty verdicts. The turnaround time in respect of the finalisation of prosecution matters was reduced from three years to 180 days, and there was an improvement in the payment of fines by defaulting home builders. Figure 10 summarises the outcome of the disciplinary matters.

2. Criminal enforcement

2.1 Strategic context:

Section 21 of the Act makes it a criminal offence for any person to build a home without being registered as a home builder or without enrolling such home with the

Figure 10: Outcome of prosecutions of home builders



NHBRC. The penalty, upon conviction, is a fine of up to R25 000 per contravention or imprisonment for a period not exceeding one year on each charge.

2.2 Key activities:

The criminal enforcement process involves working in collaboration with law enforcement agencies in the investigation and prosecution of statutory offences, as per Section 21 of the Act.

2.3 Performance:

In an effort to maximise the efficient enforcement of the provisions of Section 21, the NHBRC:

- Forged collaborative efforts with relevant stakeholders, including government institutions and law enforcement agencies, in order to ensure that the rights of housing consumers were adequately protected.
- Engaged with the Gauteng Deputy Director of Public Prosecutions to explore various means of cooperation in the criminal prosecution of Section 21 offences.
- Assisted and cooperated with the special investigative unit, The Hawks; various Commercial Crimes Units and the South African Police Services in their investigations of offences relating to Section 21 of the Act.

3. Repeal of the Housing Consumers Protection Measures Act (Act No.95 of 1998)

3.1 Strategic context:

- The NHBRC, as a regulator, has an obligation to constantly ensure that its legislative and regulatory framework remains relevant and responsive to the needs of the people it is designed to protect. In recent years, the country has evidenced the promulgation of various pieces of legislation and a number of changes in the social, economic, environmental and political arena that have contributed to the growing and changing needs and expectations of housing consumers and the home building industry.
- It was on this basis that the NHBRC undertook a legislative review of the Act and proposed amendments that will provide more protection to housing consumers; strengthen regulatory efficacy; and introduce effective enforcement tools and appropriate penalties to encourage compliance with the Act.
- Originally, the intention was to finalise the bill – entitled the Housing Consumer Protection Bill – during the current financial year. However, Council resolved during the course of August 2011 that there was a need to consult all the relevant industry stakeholders. As a result, the NHBRC extended the deadline in order to afford these stakeholders an opportunity to provide input to the bill. This process was only finalised during December 2011.
- The bill will be approved by the NHBRC's Council during April 2012 and submitted to the office of the minister immediately thereafter. The ministerial process will culminate in the parliamentary process, anticipated to commence during 2012/13.

3.2 Key activities

The drafting of the bill involved the following processes:

- Consultation with the NHBRC's internal stakeholders.
- Research on industry best practices.
- Consultation with the Department of Human Settlements.
- Consultation with industry stakeholders.
- Various engagements between the drafters and technical experts.
- Drafting of the bill.
- Council's Legislative Review Steering Committee approval process.
- Council approval process.
- Submission of the memorandum and the bill to the minister.

4. Contract Management

4.1 Strategic context:

The objective of contract management is to ensure that the NHBRC enters into valid, fair and value added contracts that protect the interests of the NHBRC in the procurement of goods or services.

4.2 Performance:

During this period:

- A total of 62 contracts for the provision of various services and/or the supply of goods were drafted.
- A contract management policy was developed and approved by the NHBRC's Executive Committee and will be submitted to Council for approval during the first quarter of 2012.

5. Litigation

5.1 Strategic context:

One of the inherent objectives of the division is to maintain a comprehensive litigation management programme in order to protect the interests of the NHBRC against adverse litigation and to reduce litigation fees and costs.

5.2 Key activities:

Litigation management involves the following activities:

- Reviewing matters to decide whether to institute, defend or settle a case.
- Instructing and briefing external legal representatives to act on behalf of the NHBRC.
- Deposing and filing necessary court documents.
- Monitoring and reviewing the performance of external representatives to ensure prudent attendance to, and the expeditious finalisation of, cases.
- Attending court hearings/trials.
- Implementing court rulings.

5.3 Performance:

During this period a total of 33 matters were dealt with; 12 of these matters were finalised, with most of the matters being dealt with internally, thereby reducing litigation fees and costs.

Table 13: Headcount and workforce profiles

Occupational levels	Grades	Male				Female				Foreign nationals		Total
		A	C	I	W	A	C	I	W	Male	Female	
Top management	**1**	1	0	0	0	0	0	0	0	0	0	1
Senior management	**3 - 4**	1	0		1	1	0	1	0	0	0	4
Middle management Professionally qualified	**5 - 6**	15	1	2	6	4	0	1	1	0	0	30
Skilled/ technical qualified /junior management	**7-12**	95	11	5	1	138	8	4	13	0	0	275
Skilled and discretionary decision making	**13 - 15**	2	0	0	0	4	0	0	0	0	0	6
Semi-skilled and defined decision-making	**17**	0	0	0	0	10	0	0	0	0	0	10
TOTAL PERMANENT		**114**	**12**	**7**	**8**	**157**	**8**	**6**	**14**	**0**	**0**	**326**

CORPORATE SERVICES

Human capital

A key strategic project during this year was the finalisation of the organisational redesign process and the finalisation of processes in terms of Section 189 of the Labour Relations Act, 1995.

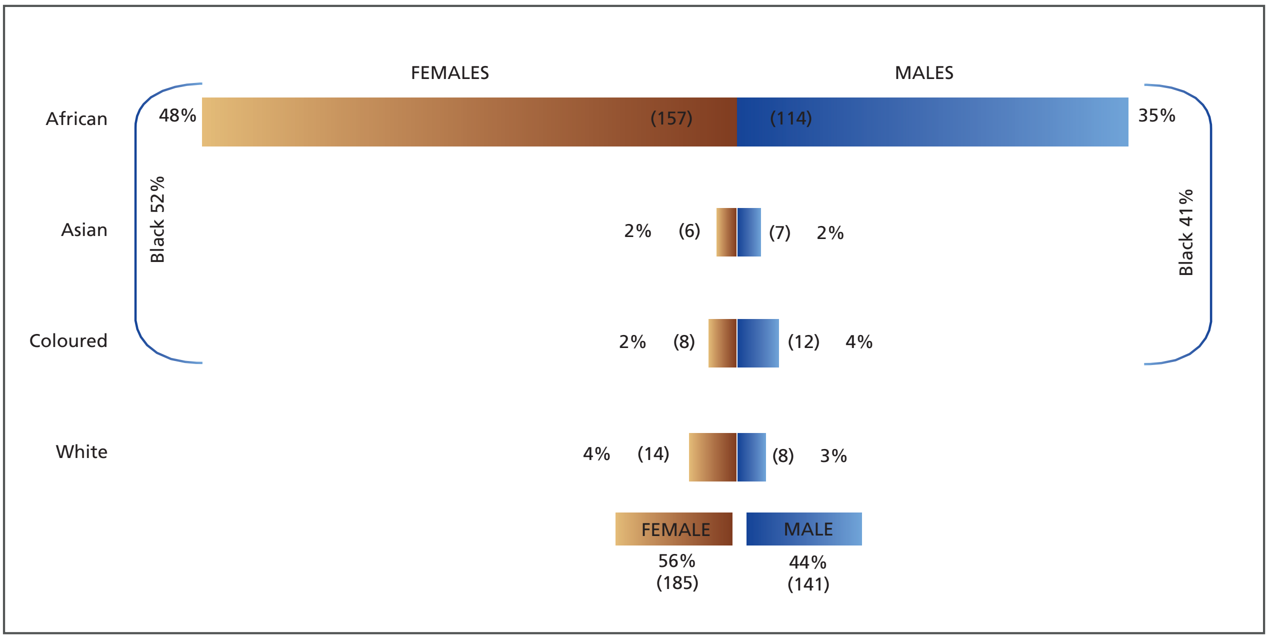
A number of positions were realigned as part of these processes, with a strong focus on skills at the delivery end. A major outcome was the reduction in the number of staff at head office and an increase in the number of staff at the interface with clients. These changes required consultations with the National Education Health and Allied Workers Union (NEHAWU) and compliance with the provisions of the Labour Relations Act. Extensive communication strategies were employed and an external facilitator engaged to expedite the consultative processes.

Headcount and workforce profiles

The headcount was 326 permanent staff as at 31 March 2012, as shown in Table 13.

Black (African, Coloured and Indian ACI) levels remained high at 93% against a national demographic of 90.8%. White levels reflected 7% of the total NHBRC equity complement against a national demographic of 9.2%. A focused effort was made to acquire women at management levels. Post implementation of

Figure 9: Employment equity within the NHBRC



Note: The numbers shown in brackets () are actual head counts.

this new organisational structure, people with disabilities will be actively targeted for designated posts. The emphasis for 2012 is to expand diversity levels, as reflected in the Council's Employment Equity Plan.

Employment equity by gender

As at 31 March 2012, there were 141 males (44%) and 185 females (56%) employed by the NHBRC. In terms of race, 41% of the employee total reflected black males and 52% black females.

Employee equity by race

The NHBRC had 326 employees as at 31 March 2012. Of these, 83% were African, 6% were Coloured, 4% were Indian and 7% were White. There was an oversubscription in certain areas and an under-subscription in the White and Coloured categories. This will be corrected through targeted recruitment processes in the future.

Amendments to operational human capital policies

All human capital policies and procedures were revised and reduced to a manageable policy handbook that will be published in the new financial year and distributed to all employees. This policy handbook provides a guideline and framework for operational procedures in the expediting of employee duties within the NHBRC, and will form part of the induction programme for all new employees.

Annual staff turnover

A total of 56 new appointments were made against the approved organogram. The annual staff turnover was 31, as illustrated in Table 14. A total of 11 staff requested voluntary severance packages (VSPs) due to changes in the organisational structure and the restructuring of jobs. There were 13 voluntary resignations. The organisational change process is now complete and will be embedded in all future change efforts in optimising the NHBRC into a high-performance organisation.

Table 14: Appointments and terminations within the NHBRC

	APPOINTMENTS	TERMINATIONS			Other		
Quarter	Appointments	Voluntary Resignation	Dismissals	Retirement	Death in service	VSPs	Termination of contracts
Q1	9	3	0	0	0	4	0
Q2	26	6	1	1	1	4	1
Q3	10	3	0	0	0	2	2
Q4	11	1	0	0	1	1	0
	56	13	1	1	2	11	3

BUSINESS MANAGEMENT SOLUTION

During the year under review, the Information Technology Division made significant progress. In this financial year, 90% of issues raised in the Deloitte Audit Report were addressed, with the remaining issues being addressed through projects still underway. Based on the report, a continuous business improvement programme was initiated to address significant changes in the business requirements.

To this end, a number of significant projects were embarked on:

- A tender was issued in the third quarter of 2011, evaluated responses submitted and Council resolution obtained to procure an integrated enterprise resource planning (ERP) solution and deployment partner to implement the solution. The deployment of the solution is scheduled to go live in 2013/14.
- The Information Technology Department was restructured; the process of transforming it into a Business Management Solutions Department – focused on supporting the NHBRC and external stakeholders in a more business oriented manner – is currently underway.
- The process of significantly upgrading the data and voice networks to ensure quality connectivity is also still in progress.
- A project is currently underway to centralise and improve the email and internet facilities for the NHBRC and its external stakeholders. The project is scheduled for completion in 2012/13.
- The PABX facilities are also being reviewed from a centralisation perspective in order to enhance both internal and external stakeholder support.
- Another project is underway to upgrade the technology facilities at all NHBRC provincial offices.
- The Public Call and Contact Centre project was initiated this year, and is scheduled for completion in the next financial year.

While these are very significant projects, the most important by far is deploying an integrated solution that will allow external stakeholders to communicate directly, online, into the NHBRC's systems. This will allow:

- The Department of Human Settlements and municipalities to instantly register and communicate subsidised housing schemes.
- Home builders to register and enrol online.
- Banks to obtain information online.
- Professional organisations to directly communicate with each other.

The roll out of this project is anticipated to begin in 2013/14. In instances where home builders and homeowners do not have access to online facilities, public facilities will be provided in various contact support centres. The new technology will be deployed with much greater effort, and render major cost- and time-saving benefits to the NHBRC and its business partners.

MARKETING AND COMMUNICATION

During the year under review, a number of marketing and communication activities were implemented nationally to promote and create awareness of the NHBRC.

These are summarised as follows:

- During April 2011, a 16-page advertorial supplement was developed to inform and educate NHBRC customers and stakeholders about the NHBRC's mandate. A total of 364 000 copies were distributed through City Press (244 000), Beeld (115 000) and all NHBRC provincial customer service centres.
- A major milestone for the NHBRC in 2011 was being the proud host, in partnership with the National Department of Human Settlements, of the 2011 International Housing and Home Warranty Conference (IHHWC), held from 25-28 September 2011 in Cape Town. It was the first time this prestigious conference was hosted in Africa in its 30-year history. The NHBRC was responsible for conference marketing and logistics, as well as reviewing the conference papers. The conference, which drew close on 300 prominent speakers and delegates from across the globe, entailed an action-packed mix of sessions and seminars; a housing project tour; charity golf day and three networking events. The conference garnered a high level of national and local media interest.
- As part of IHHWC, the NHBRC – in association with its industry partners – developed the Legacy Project, an initiative to build eight housing units using alternative building technologies in a low-income village in Blue Downs, Cape Town. The project was launched on Mandela Day by the Minister of Human Settlements, with the handover ceremony taking place during the proceedings of the IHHWC.
- A new NHBRC website was launched in December 2011, creating a platform for the NHBRC to engage its stakeholders and customers by providing updated and relevant information.
- To increase visibility of the NHBRC, especially with regards to its involvement in subsidy projects, the Marketing and Communications section embarked on a campaign to erect billboard signage on enrolled projects throughout South Africa.
- The NHBRC continued to participate in provincial exhibitions and roadshows during the year to ensure increased awareness and education of its role, most notably among housing consumers and home builders. Provincial exhibitions and roadshows are frequently undertaken in conjunction with the national and provincial Departments of Human Settlements.
- As part of the NHBRC's strategy to be more accessible to its customers, the Marketing and Communications Department supported the Limpopo NHBRC Provincial Customer Service Centre with the launch of a new service point at the Thulamela Municipality in the Vhembe district.
- The department also initiated the process of procuring

a creative agency to assist the NHBRC with a range of branding and marketing toolkits; corporate identity manual; and aids and materials to position the NHBRC as a world-class regulator and protector of housing consumer rights.

SUPPLY CHAIN

The NHBRC remains committed in its endeavours to empower historically disadvantaged individuals, as it posts another report on its preferential procurement spend of 93.5% against a 51% target. This reflects an annual performance of 42.5% above target. The cost of doing business remains a challenge in every entity, as the prices of all commodities and inflation continue to rise. However, the socio-economical objective of achieving targeted preferential procurement goals remains a daily operational priority within the NHBRC's supply chain, while at the same time ensuring that the quality of goods and services is not compromised.

The following legislative acts govern the supply chain activities of the NHBRC and, as the pillars of regulatory compliance, are taken into account in daily procurement operations:

- Constitution of the Republic of South Africa (Act No.108 of 1996).
- Public Finance Management Act (Act No.1 of 1999) (as amended).
- Housing Consumers Protection Measures Act (Act No.95 of 1998).
- Broad-Based Black Economic Empowerment Act (Act No.53 of 2003) and Codes of Good Practices.
- Preferential Procurement Policy Framework Act (Act No.5 of 2000).
- Promotion of Just Administration Act (Act No.3 of 2000).
- Protected Disclosures Act (Act No.26 of 2000).
- Promotion of Access to Information Act (Act No.2 of 2000).
- Prevention and Combating of Corrupt Activities Act (Act No.12 of 2004).

The NHBRC serves to ensure compliance with the approved Preferential Procurement Policy, the Preferential Procurement Policy Framework Act and the Broad-Based Black Economic Empowerment Act.

Table 16 shows the actual value of purchases placed with suppliers with shareholdings by historically disadvantaged individuals (HDIs).

Table 16: Procurement spend for the year under review

Procurement spend: HDI institutions	R180 298 059	93.5%
Procurement spend: non-HDI institutions	R12 587 004	6.5%
Total procurement spend	**R192 885 063**	**100%**

Of the R192 885 063 spent on procurement for the year, R180 298 059 was through HDI institutions, representing 93.5% of the total expenditure. The figures shown in Table 16 are an indication of the NHBRC's efforts to ensure that it meets the targets set in contributing to the empowerment of historically disadvantaged individuals.

The R180m spent on HDI included provision for the following services:

- Inspection of houses
- Forensic engineering investigations
- Actuarial evaluations
- Water tanks
- Geotechnical services.

PERFORMANCE INFORMATION FOR THE 2011/2012 FINANCIAL YEAR

Financial perspective

Strategic objective: To grow, protect and sustain the NHBRC Warranty Fund

KPA	KPA budget allocation	KPI No.	KPI	Key activities	Yearly targets	Target met/not met	Actual achievement	Reason for variation
1. Revenues	R86.5m	1.1	R264.2m to be collected from non-subsidy enrolments	• Review and revise NHBRC product pricing model • Diversify NHBRC product and service offerings • Develop NHBRC sustainability model • Reduce operational costs • Improve customer service levels • Diversify incentives and monitor investment advisors • Increase debtors collection days • Market and brand NHBRC • Implement the risk-based insurance strategy	R264.2m to be collected from non-subsidy enrolments	Target met	A total of R279 million was collected from non-subsidy enrolments	
		1.2	R10.7m to be collected from registrations & renewals		R10.7m to be collected from registrations & renewals	Target met	A total of R12.1 million was collected from registrations & renewals	
		1.3	R159m to be collected from subsidy enrolments		R159m to be collected from subsidy enrolments	Target met	A total of R191 million was collected from subsidy enrolments	
		1.4	R16m to be collected from technical services		R16m to be collected from technical services	Target met	A total of R184 million was collected from technical services	
		1.5	R72m to be collected from NHBRC debtors		R72m to be collected from NHBRC debtors	Target met	A total of R204 million was collected from debtors	
2. Warranty fund	R6.6m	2.1	8% return on investment to be achieved (R3 billion)		8% return on investment to be achieved (R256 million)	Target not met	6.2% achieved (R197.3 million)	Market did not perform well. Returns lower by 5% in the equity portfolio and 1.2% lower in the bond portfolio.

Customer perspective

Strategic objective: To provide innovative quality products and services that satisfy the customer.

KPA	KPA budget allocation	KPI No.	KPI	Key activities	Yearly targets	Target met / not met	Actual achievement	Reason for variation
1. Home enrolments	R86.5m	1.1	33 170 housing units to be enrolled in the non-subsidy sector within 15 days	• Improve operations quality service levels • Diversify and improve NHBRC product and service offerings • Market the NHBRC brand • Build the capacity of NHBRC service centres • Expand housing consumer education initiatives • Research and respond to NHBRC stakeholder needs and issues • Monitor customer satisfaction levels	33 170	Target met	A total of 37 671 housing units were enrolled in the non-subsidy sector	
		1.2	210 100 home & project enrolments to be enrolled in the subsidy sector within 15 days		210 100	Target met	A total of 217 428 applications for home and project enrolments were received for the year, however 43 119 did not meet technical requirements, and therefore 174 309 units were enrolled	
2. Home builder registration		2.1	12 000 home builders to renew their registration within 1 day		12 000	Target met	A total of 12 092 applications for renewal of membership were received, however 872 did not meet the qualifying criteria. Therefore, a total of 11 220 home builders renewed their membership	
		2.2	3 337 new home builders to be registered within 5 days		3 337	Target met	A total of 3 557 applications for renewal of membership were received, however 871 did not meet the qualifying criteria. Therefore, a total of 2 844 new home builders registered	
3. Consumer education	R2.2m	3.1	80% of registered home builders to receive NHBRC induction		80%	Target met	90% of home builders were inducted	
		3.2	70% of housing consumers whose homes are enrolled & under construction to be inducted		70%	Target not met	No housing consumers were inducted in the non-subsidy sector, however housing consumer education was conducted in the subsidy sector	Database of housing consumers is not available
		3.3	Two sessions per quarter to be held with NHBRC stakeholders		8	Target met	10 sessions were held with NHBRC stakeholders in the Western Cape, Mpumalanga, Eastern Cape, Gauteng, Limpopo and KwaZulu-Natal	

KPA	KPA budget allocation	KPI No.	KPI	Key activities	Yearly targets	Target met / not met	Actual achievement	Reason for variation
4. Legal services	R8.5m	4.1	Reduce the number of days taken to produce legally enforceable opinion from 6 weeks to 7 working days	• Implement revised Act • Improve legal service delivery capacity	7 days	Target met	Legal opinions were done within 7 working days	
		4.2	Reduce the number of days taken to produce legally enforceable contracts from 3 weeks to 7days		7 days	Target met	Legal contracts were done within 7 working days	
		4.3	Reduce the number of days taken to prosecute from date of suspension from 3 years to 180 days		180 days	Target met	Prosecutions were done within 180 days	
		4.4	At least 200 stakeholders to be reached through legal education		200	Target not met	Only 106 stakeholders were reached through legal education	Only 106 stakeholders were reached through legal education due to lack of capacity
		4.5	70% completion of legislative reviews		70%	Target met	100% of the draft bill completed	
		4.6	100% completion of regulations		100%	Target not met	The regulations process is still to be undertaken	The bill is to be finalised prior to initiating the regulations process. The provisions in the regulations must be influenced by the Act
5. Home builder training and development	R15m	5.1	100% accreditation of the Eric Molobi Centre for Occupational Excellence to be achieved	• Develop and design best practice home builder training materials • Identify and recruit trainees • Conduct NHBRC home builder training • Monitor and track NHBRC graduate development • Provide business opportunities for NHBRC graduates	100%	Target not met	Eric Molobi Centre was not accredited	Training facilities are still under development
		5.2	At least 4 inspector training events to be undertaken		4	Target met	Workshops were held in KwaZulu-Natal and Mpumalanga	
		5.3	At least 3 500 emerging home builders to undergo training in various home building skills		3 500	Target not met	A total of 951 home builders were trained	Strategy of training was changed to identify learners who are currently working on projects in the subsidy market

KPA	KPA budget allocation	KPI No.	KPI	Key activities	Yearly targets	Target met / not met	Actual achievement	Reason for variation
6. Marketing and branding	R10.8m	6.1	100% marketing and branding strategy to be completed	• Develop NHBRC marketing and branding strategy and specification • Develop tender specification for a marketing and branding agency • Appoint a marketing agency and implement marketing strategy • Monitor brand value as a function of the marketing and branding strategy	100%	Target met	Marketing strategy was developed and completed	
		6.2	4 advertorials to be undertaken in relevant publications		4	Target met	14 advertorials/ adverts were undertaken	
		6.3	50% improvement in NHBRC perception by the public		50%	Target not met	No survey conducted	Management decided to conduct the perception survey every second year
		6.4	Successful IHHW conference to be implemented		1	Target met	Conference held in Cape Town from 24-28 September 2011	
		6.5	At least 4 housing expos to be held		4	Target met	24 housing expos were held	
		6.6	Annual NHBRC stakeholder conference to be held		1	Target not met	No NHBRC stakeholder conference was held	No conference was planned due to the IHHWC, which the NHBRC hosted
7. Quality assurance	R135m	7.1	100% of houses to be audited by internal quality assurance	• Develop NHBRC quality assurance plan • Institute quality assurance plan • Monitor quality assurance output	100%	Target met	100% of enrolled houses under construction were inspected	
		7.2	20% of all inspected houses under construction to be audited		20%	Target met	20% of inspected houses were audited	
		7.3	Quality assurance support structures to be strengthened in the provincial Departments of Human Settlements		9	Target met	Structures were strengthened in all 9 provinces (technical staff appointed in all provinces)	

Internal business process

Strategic objective: Strengthen NHBRC operating processes, systems and procedures.

KPA	KPA budget allocation	KPI No.	KPI	Key activities	Yearly targets	Target met /not met	Actual achievement	Reason for variation
8. IT and technical support	R14.1m	8.1	2 technical compliance audits to be undertaken per province per quarter	• Develop fit for purpose, world-class IT and technical solutions • Research and identify new and value-adding NHBRC products and services • Acquire, embed and support NHBRC IT and technology systems and business processes • Enter into strategic and value-adding industry partnerships • Develop NHBRC standards and brand • Publish NHBRC solutions to assist with quality home building standards	72	Target not met	No technical audits were undertaken	Audits were supposed to be done by the central office's technical section. However, technical services were decentralised, no need for technical services
		8.2	Reduce dispute resolution cases from 90 days to 60 days		60 days	Target met	Disputes were resolved within 60 days	
		8.3	Reduce number of days for assessing non-subsidy enrolments (dolomites) from 2 days to 1 day, from date of receipt		1 day	Target met	Dolomites were assessed within 1 day	
		8.4	Number of days for assessing subsidy enrolments to be retained at 15 days		15 days	Target met	Subsidy enrolments were accessed within 15 days	
		8.5	Number of days for assessing multi-storey buildings enrolments to be retained at 10 days		10 days	Target met	Multi-storey buildings were accessed within 10 days	

KPA	KPA budget allocation	KPI No.	KPI	Key activities	Yearly targets	Target met /not met	Actual achievement	Reason for variation
		8.6	100% of all inspections to be done on the PDA system	• Develop fit for purpose, world-class IT and technical solutions • Research and identify new and value-adding NHBRC products and services • Acquire, embed and support NHBRC IT and technology systems and business processes • Enter into strategic and value-adding industry partnerships • Develop NHBRC standards and brand • Publish NHBRC solutions to assist with quality home building standards	100%	Target met	100% of all non-subsidy inspections done on PDA, and 15% of all subsidy inspections done on PDA	
		8.7	18 events to be held in support of Human Settlements programmes		18	Target met	Events were held in support of Human Settlement programmes	
		8.8	4 strategic partnership agreements to be implemented with industry players		4	Target not met	4 strategic partnership agreements were implemented with industry players	
		8.9	100% of the BI system to be completed and fully functioning		100%	Target met	The BI system was completed and is fully functioning	
		8.10	100% of the e-VFP system to be completed and functioning		100%	Target met	The e-VFP system was completed	The e-VFP was completed, but its implementation into production was stopped due to the new ERP system
		8.11	100% of the enterprise service framework to be completed and fully functioning		100%	Target met	The enterprise service framework was completed	
		8.12	100% of the NHBRC GIS to be completed and fully functioning		100%	Target met	The development of the GIS was completed	The GIS was completed, but its implementation into production was stopped due to the new ERP system
		8.13	100% of the NHBRC Home Building Manual to be simplified and completed		100%	Target not met	A project plan and concept document was developed. The process is awaiting approval of SANS10400, which was only published in November 2011	Awaiting publication of SANS10400
		8.14	100% of the energy efficiency guidelines to be completed		100%	Target met	Energy efficiency guidelines were completed	
		8.15	At least 1 article to be published per quarter		4	Target met	4 articles were published	

Innovation learning and growth

Strategic objective: Create a learning environment and build capacities to products and services.

KPA	KPA budget allocation	KPI No.	KPI	Key activities	Yearly targets	Target met/ not met	Actual achievement	Reason for variation
9. Human capital	R25.7m	9.1	100% of workplace skills plan to be completed	• Review and develop NHBRC business partner human capital strategy • Provide timely and high quality talent management and other human capital solutions to support NHBRC business processes • Improve and strengthen NHBRC human resources skills base • Review and develop NHBRC performance and business environment enhancing solutions	100%	Target met	100% of workplace skills plan completed	
		9.2	100% of all identified staff to be trained against the workplace skills plan		100%	Target met	100% of identified employees were trained	
		9.3	Leadership development module to be implemented		100%	Target not met	None	Training postponed due to a number of vacant positions
		9.4	100% of the DoL and other statutory returns to be complied with		100%	Target met	All DoL and other statutory returns were complied with	
		9.5	100% of performance agreements to be completed and acted upon		100%	Target met	Performance agreements were completed and acted upon	
		9.6	100% of the succession policy to be implemented		100%	Target not met	Draft policy was developed, but has yet to be approved	Development delayed due to consultative process with relevant stakeholders
		9.7	50% of all staff to participate in the NHBRC wellness programme		50%	Target met	80% of staff participated in the wellness programme	
		9.8	Reduce recruitment of specialised skills from 60 days to 40 days		40 days	Target not met	Recruitment of specialised skills done in 60 days	Specialised skills not attracted to NHBRC

SECTION 7

NATIONAL HOME BUILDERS REGISTRATION COUNCIL

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2012


Living

REPORT OF THE AUDITOR_GENERAL

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 ("NHBRC") set out on pages 68 to 101, which comprise the statement of financial position as at 31 March 2012, the statement of financial performance, statement of changes in net assets and the statement of cash flows for the year then ended, and 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 (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No.1 of 1999)(PFMA) and section 15(6)(c) of the Housing Consumer Protection Measures Act (Act No.95 of 1998), and for such internal control as 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 the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice 839 of 2011 issued in Government Gazette 34783 of 28 November 2011 issued* in terms thereof and 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 qualified audit opinion.

Basis for qualified opinion

Irregular expenditure

6. Section 55(2)(b)(i) of the PFMA requires the entity to include particulars of all irregular expenditure that had occurred during the financial year in its financial statements. Furthermore section 51(1)(a)(iii) of

REPORT OF THE AUDITOR-GENERAL

the PFMA requires that an appropriate procurement and provisioning system be maintained which is fair, equitable, transparent, competitive and cost-effective.

7. The entity did not have an adequate system for identifying and recognising all irregular expenditure and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all irregular expenditure had been properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure relating to the current year stated at R201 304 808 in note 24 to the financial statements.

Qualified opinion

8. In my opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* paragraph, the financial statements present fairly, in all material respects, the financial position of the National Home Builders Registration Council as at 31 March 2012 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the PFMA and section 15(6)(c) of the Housing Consumer Protection Measures Act.

Emphasis of matters

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

Significant uncertainties

10. With reference to note 26 'contingent liabilities' to the financial statements, relating to pending court cases which have been disclosed as contingent liabilities, the ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

11. As disclosed in note 28 to the financial statements, the corresponding figures for 31 March 2011 have been restated as a result of an error discovered during 31 March 2012 in the financial statements of the NHBRC at, and for the year ended, 31 March 2011.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

PREDETERMINED OBJECTIVES

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 52 to 58 of the annual report.

14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well-defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for Managing Programme Performance Information.*

REPORT OF THE AUDITOR_GENERAL

15. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

16. The material findings are as follows:

Usefulness of information

17. The National Treasury Framework for Managing Programme Performance Information (FMPPI) requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 39% of the indicators relevant to Program 2: Customer Perspective was not well-defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.

Additional matter

18. I draw attention to the following matter below. This matter does not have an impact on the pre-determined objectives audit findings reported above.

Achievement of planned targets

19. On the total number of planned targets, 13 targets were not achieved during the financial year under review. This represents 24% of the total planned targets that were not achieved during the financial year under review.

COMPLIANCE WITH LAWS AND REGULATIONS

20. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual Financial Statements

21. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(a) and (b) of the PFMA.

22. Material misstatements of revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the potential undisclosed irregular expenditure resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

23. The accounting authority did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the Public Finance Management Act.

Revenue management

24. The accounting authority did not take effective and appropriate steps to collect all money due, as required by section 51(1)(b)(i) of the Public Finance Management Act and Treasury Regulations 31.1.2(a) and 31.1.2(e).

REPORT OF THE AUDITOR-GENERAL

Financial misconduct

25. Investigations into allegations of financial misconduct against officials were not instituted within 30 days of discovery thereof, as required by Treasury Regulation 33.1.2.

Internal Audit

26. Internal audit did not evaluate the reliability and integrity of financial and operational information, as required by Treasury Regulation 27.2.10(b).

27. Internal audit did not evaluate compliance with laws and regulations, as required by Treasury Regulation 27.2.10(e).

28. Internal audit did not evaluate the effectiveness and efficiency of controls and did not make recommendations for its enhancement and improvement, as required by Treasury Regulation 27.2.10.

Non compliance with Housing Consumers Protection Measures Act

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

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

31. Unless the above approvals were obtained Public Entities listed in schedule 3A must invest all surplus funds with the Corporation of Public Deposits. The NHBRC has not received approval from the Minister of Finance, or National Treasury as required.

32. NHBRC is in contravention with the Housing Consumers Protection Measures Act (Act No.95 of 1998) and Treasury Regulation 31.3.3 as the surplus funds of R133 564 122 were not invested at the Corporation for Public Deposits.

Procurement and contract management

33. 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.

34. Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulation 16A6.1.

35. The preference point system was not applied in the procurement of goods and services above R30 000 (Vat included) as per PPPF Act section 2(a).

INTERNAL CONTROL

36. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals

REPORT OF THE AUDITOR-GENERAL

of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

37. The accounting authority did not exercise adequate oversight responsibility over financial and performance reporting and compliance and related internal controls.

38. The accounting authority did not adequately review the financial statements and the report on predetermined objectives prior to the submission for audit. Several adjustments had to be made during the audit. There was material non compliance by the entity with legislation.

39. The IT governance framework was not sufficient to support and enable the business, to deliver value and improve performance. General and application controls are not adequate and focussed to achieve reliable and accurate data outputs.

Financial and performance management

40. The design and implementation of formal controls over the IT system were not adequate, as limited to no reliance could be placed on the accuracy and validity of financial information obtained from the system.

41. Management did not have adequate control to ensure compliance with legislation. The procurement process did not fully comply with the requirements of the supply chain legislation management requirements.

Governance

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

OTHER REPORTS

Investigations

43. Investigations were conducted to probe allegations of irregular tendering processes and allegations of conflict of interests and appointment of senior staff. The investigations have been finalised. Disciplinary processes are still ongoing as at year-end.

Auditor-General

Pretoria
31 July 2012

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

STATEMENT OF RESPONSIBILITY

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

The annual financial statements for the year ended 31 March 2012 presented on pages 68 to 101 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.

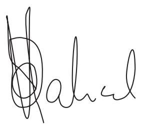
They are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable and prudent judgements and estimates. The going concern basis has been adopted in preparing the annual financial statements. The Council has no reason to believe that the NHBRC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

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

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

The annual financial statements were approved by the Council on 31 July 2012 and are signed on its behalf:

Adv. M.B Madumise
Chairperson of Council



Dr J Mahachi
Acting Chief Executive Officer

STATEMENT OF FINANCIAL POSITION

	Notes	2012 R	Restated 2011 R
ASSETS			
Non-current assets			
Property, plant and equipment	2	36,712,371	35,958,079
Intangible assets	3	11,372,762	22,552,513
Investments	4	1,662,646,580	1,252,132,156
		1,710,731,713	1,310,642,748
Current assets			
Investments	4	2,031,002,393	1,866,709,556
Inventories	5	394,530	120,264
Trade and other receivables	6	59,127,592	35,606,341
Cash and cash equivalents	7	43,050,972	354,256,747
		2,133,575,487	2,256,692,908
TOTAL ASSETS		3,844,307,200	3,567,335,656
EQUITY AND LIABILITIES			
Equity			
Accumulated surplus		2,546,896,242	2,407,928,463
Emerging contractor reserve	8	31,317,612	36,721,269
Non-distributable reserve	9	24,313,686	5,647,629
		2,602,527,540	2,450,297,361
LIABILITIES			
Non-current liabilities			
Provision for outstanding claims	10	31,816,596	39,234,521
Provision for unearned premium	10	141,344,619	115,448,951
Provision for unexpired risk	10	602,408,953	422,685,227
		775,570,168	577,368,699
Current liabilities			
Trade and other payables	11	251,762,176	328,030,526
Provisions	12	13,368,113	1,368,898
Provision for outstanding claims	10	19,942,440	22,643,723
Provision for unearned premium	10	181,136,763	187,626,450
		466,209,492	539,669,597
Total equity and liabilities		3,844,307,200	3,567,335,656

STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2012 R	Restated 2011 R
Insurance premium revenue	13	227,674,344	356,560,296
Fee revenue	14	55,986,257	31,907,933
Technical services revenue	15	183,656,462	80,396,035
Investment income	16	197,357,574	203,122,056
Realised profit on sale of available-for-sale investments		17,955,244	126,472,192
Fair value gain on financial instruments		15,928,845	-
Other income	17	42,438,202	881,299
Net income		740,996,928	799,339,811
Insurance claims and loss adjustment expenses	18	5,255,613	11,542,190
Inspections and operating expenses		76,928,941	59,041,867
Technical services expenditure		186,403,203	27,700,625
Administration expenses		329,999,135	330,631,250
Asset management services		8,845,339	8,768,668
Expenses		607,432,231	437,684,600
Results from operating activities	19	133,564,697	361,655,212
Finance costs	20	575	255
Surplus for the year		133,564,122	361,654,957
Other comprehensive income			
Gain on available for sale investments taken to equity		52,550,146	70,135,529
Other comprehensive income for the year		52,550,146	70,135,529
Total comprehensive income for the year		186,114,268	431,790,486

STATEMENT OF CHANGES IN NET ASSETS

	Accumulated surplus R	Emerging contractor reserve R	Non-distributable reserve R	Total R
Balance at 31 March 2010 restated	2,038,968,994	44,025,781	61,984,292	2,144,979,067
Surplus for the year - restated (note 28)	361,654,957	-	-	361,654,957
Reserve utilised (note 19)	7,304,512	(7,304,512)	-	-
Gain on available for sale investments taken to equity (note 4)	-	-	70,135,529	70,135,529
Realised profit on sale of available-for-sale investments (note 4)	-	-	(126,472,192)	(126,472,192)
Balance at 31 March 2011 restated	2,407,928,463	36,721,269	5,647,629	2,450,297,361
Surplus for the year	133,564,122	-	-	133,564,122
Reserve utilised (note 19)	5,403,657	(5,403,657)	-	-
Gain on available for sale investments taken to equity (note 4)	-	-	52,550,146	52,550,146
Realised profit on sale of available-for-sale investments (note 4)	-	-	(33,884,089)	(33,884,089)
Balance at 31 March 2012	2,546,896,242	31,317,612	24,313,686	2,602,527,540

CASH FLOW STATEMENT

	Notes	2012 R	Restated 2011 R
Cash flows from operating activities			
Cash (utilised in)/generated from operations	21.1	18,535,584	259,939,322
- Cash receipts from customers		443,795,812	484,469,731
- Cash paid to suppliers and employees		(425,260,228)	(224,530,409)
Interest paid		(575)	(255)
Interest received		1,534,991	719,004
Net cash inflow from operating activities		20,069,999	260,658,071
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,164,879)	(3,440,445)
Proceeds on disposal of property, plant and equipment	21.2	417,942	47,589
Purchase of intangible assets		(94,304)	-
Withdrawals		-	-
Purchase of financial assets		(2,678,834,460)	(2,438,128,471)
Proceeds on sale of financial assets	21.3	2,367,774,748	2,526,724,645
Net cash outflow from investing activities		(315,900,953)	85,203,318
Cash flows from financing activities			
Claims paid		(15,374,821)	(22,269,995)
Net cash outflow from financing activities		(15,374,821)	(22,269,995)
Net increase/(decrease) in cash and cash equivalents		(311,205,775)	323,591,394
Cash and cash equivalents at beginning of year		354,256,747	30,665,353
Cash and cash equivalents at the end of the year	21.4	43,050,972	354,256,747

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 South African Statements of Generally Accepted Accounting Practice, unless the Accounting Standards Board approves the application of 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.

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

(a) the requirements and guidance in Standards of GRAP dealing with similar and related issues; and

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements.

These accounting policies are consistent with 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)

1.2 Application of new accounting standards

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

GRAP 1: *Presentation of Financial Statements (Revised)*

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

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

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

GRAP 9: *Revenue from Exchange Transactions (Revised)*

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

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

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

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

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

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

GRAP 12: *Inventories (Revised)*

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

GRAP 13: *Leases (Revised)*

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

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

GRAP 14: *Events after the reporting date (Revised)*

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

GRAP 16: *Investment Property (Revised)*

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

GRAP 17: *Property, Plant and Equipment (Revised)*

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

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

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

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

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

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

GRAP 19: *Provisions, Contingent Liabilities and Contingent Assets*

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

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

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

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

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

GRAP 100: Non-current Assets held for sale

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

1.3 New accounting standards not yet effective

1.3.1 The following Standards of GRAP should be applied by public entities, constitutional institutions, municipalities and municipal entities for the period beginning 01 April 2012:

GRAP 21: *Impairment of Non-cash-generating Assets*

GRAP 23: *Revenue from Non-exchange Transactions (Taxes and Transfers)*

GRAP 24: *Presentation of Budget Information in the Financial Statements*

1.3.1 The following Standards of GRAP should be applied by public entities, constitutional institutions, municipalities and municipal entities for the period beginning 01 April 2012: (continued)

GRAP 26: Impairment of Cash-generating Assets

GRAP 103: Heritage Assets

GRAP 104: Financial Instruments

1.3.2 A brief summary of the transitional provisions for each Standard, along with possible first-time adoption issues, is outlined below:

GRAP 21 and 26: Impairment of Non-cash-generating Assets and Impairment of Cash-generating Assets

Impairment of Non-cash-generating Assets and Impairment of Cash-generating Assets should be applied prospectively. Previously, entities would have applied IAS 36 Impairment of Assets and IPSAS 21 Impairment of Non-cash-generating Assets in assessing their assets for impairment.

Alternatively they would have used GRAP 21 or 26 in formulating an accounting policy. As GRAP 21 and GRAP 26 are similar to IAS 36 and IPSAS 21, only limited first time adoption issues are likely to arise.

GRAP 23: Revenue from Non-Exchange Transactions

Should be applied retrospectively in accordance with GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors*. Entities should analyse their existing revenue arrangements, develop criteria and policies. These can be used to distinguish and account for exchange and non-exchange revenue.

- Public entities: Public entities have used GRAP 23 to formulate their accounting policies for non-exchange revenue since 2009. The full adoption of GRAP 23 does mean that entities will now need to comply with all the disclosure requirements in full.
- Municipalities: One of the key issues, particularly for municipalities, is the difference between GRAP 23 and GAMAP 9 *Revenue* regarding the treatment of grants and other transfers. Under GAMAP 9, entities may have deferred the recognition of revenue from grants and other transfers until the related expenditure was incurred. GRAP 23 only allows the deferral of revenue when a valid obligation exists. A valid obligation only exists where a grant or transfer is subject to conditions, i.e. the resources (which may be cash or other assets) must be used in a certain way or returned to the transferor. Entities should therefore review their existing arrangements and balances to identify whether any grants or transfers are subject to conditions (as defined in GRAP 23) and whether a liability should in fact be recognised. Any existing liabilities which arise from grants and transfers that are not subject to conditions should be derecognised and accumulated surplus or deficit adjusted using GRAP 3. Similarly, where any new liabilities are identified as a result of grants and transfers that are subject to conditions, these should be recognised as a liability. Another area where changes in accounting policy may be required is the recognition of revenue related to fines. Under GRAP 23, entities should recognise fines when the receivable meets the criteria to be recognised as an asset.

GRAP 24: *Presentation of Budget Information in the Financial Statements*

Presentation of Budget Information in the Financial Statements should be applied prospectively. In previous reporting periods, entities would have presented a brief comparison of budgeted and actual amounts in the financial statements in order to comply with the requirements of GRAP 1 *Presentation of Financial Statements*. GRAP 24 requires a detailed comparison of actual and budgeted information either by including an additional column in the financial statements (where the actual and budgeted results are on the same basis) or, by presenting a separate statement of comparison of budgeted and actual information. Where budgeted and actual information is prepared using a different basis (i.e. basis of accounting, classification and, includes different entities or activities), actual information is adjusted so that it is comparable to the budgetary basis. It is expected that the National Treasury may issue guidance outlining the format of the comparison for certain types of entities. Entities should however familiarise themselves with the requirements of the Standards, identify the differences between the basis used to prepare the budget and actual information and, develop policies to facilitate comparison and reconciliation of the information.

GRAP 103: *Heritage Assets*

Heritage Assets should be applied retrospectively. Previously, no prescriptive accounting requirements existed for heritage assets[2]. Although GRAP 103 should be applied retrospectively, entities are granted a period of three years in which to measure their heritage assets. These transitional provisions are similar to those granted to medium and low capacity municipalities for other asset-related Standards. Although entities are allowed three years within which to comply with the initial and subsequent measurement requirements of the standard, entities should undertake a physical verification of the heritage assets on hand at 31 March/30 June 2012 to assist in determining the opening balance for the 2012/13 reporting period. To do this, entities would need to develop a policy for distinguishing heritage and other assets such as property, plant and equipment, investment properties, inventories, intangible assets etc., and apply this policy in identifying heritage assets that are to be included in the asset register. As an opening balance is required for heritage assets (both for the 2012/13 reporting period and the comparative period), entities should undertake a significant amount of work in advance of the effective date of 1 April 2012 in order to comply with the Standard and to apply it retrospectively.

GRAP 104: *Financial Instrument*

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.

1.4 Insurance technical result

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

Insurance premiums written

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

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

Unearned insurance premiums

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

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.

1.4 Insurance technical result (CONTINUED)

Unexpired risk provisions

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

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

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

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.

1.5 Revenue recognition

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

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

1.6 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.

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.

1.7 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.

1.8 Property, plant and equipment

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

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

Change in useful lives

Management re-assessed the useful lives of computer equipment and office furniture. The estimated useful lives were not revised.

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

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

Land is not depreciated

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

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

1.9 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. The following rates are used for the amortisation of intangible assets:

Computer software	20.0% p.a

1.10 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.

1.11 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.

1.12 Financial instruments

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

Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets are classified into the following specified categories: held-to-maturity, available-for-sale and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

Held-to-maturity investments

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

Available For Sale ("AFS")

Unlisted shares and listed redeemable notes, traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 25. Gains arising from changes in fair value are recognised directly in equity as a non-distributable reserve. Impairment losses are recognised directly in surplus or loss.

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

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

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

Derecognition of financial assets

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

Financial liabilities

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

Derecognition of financial liabilities

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

1.13 Cash and cash equivalents

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

1.14 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 Critical accounting judgements and key sources of estimation uncertainty

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

Insurance technical result

The accounting for the insurance technical result as disclosed in note 1.4 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 ongoing basis.

Plant and equipment

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

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 2012						
Opening net book amount	3,397,278	8,451,125	247,593	1,453,947	22,408,136	35,958,079
Additions	3,210,890	1,616,044	337,945	-	-	5,164,879
Disposals	(1,096,318)	(346,633)	-	-	-	(1,442,951)
Depreciation on disposal	689,013	195,970	-	-	-	884,983
Depreciation charge	(1,586,872)	(1,105,054)	(99,647)	-	(1,061,046)	(3,852,619)
Closing net book amount	4,613,991	8,811,452	485,891	1,453,947	21,347,090	36,712,371
At 31 March 2012						
Cost	20,395,070	17,307,734	893,391	1,453,947	25,505,793	65,555,936
Accumulated depreciation	(15,781,079)	(8,496,282)	(407,501)	-	(4,158,703)	(28,843,565)
Net book amount	4,613,991	8,811,452	485,890	1,453,947	21,347,090	36,712,371
		-				
Year ended 31 March 2011						
Opening net book amount	4,087,612	8,848,478	58,194	1,453,947	23,426,953	37,875,184
Additions	1,992,525	1,170,988	232,100	-	44,832	3,440,445
Disposals	(6,334,181)	(1,151,511)	-	-	-	(7,485,692)
Depreciation on disposal	6,311,049	1,142,645	-	-	-	7,453,694
Depreciation charge	(2,659,727)	(1,559,475)	(42,701)	-	(1,063,649)	(5,325,552)
Closing net book amount	3,397,278	8,451,125	247,593	1,453,947	22,408,136	35,958,079
At 31 March 2011						
Cost	18,280,498	16,038,323	555,447	1,453,947	25,505,793	61,834,008
Accumulated depreciation	(14,883,220)	(7,587,198)	(307,853)	-	(3,097,657)	(25,875,929)
Net book amount	3,397,278	8,451,125	247,593	1,453,947	22,408,136	35,958,079

Land

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

Buildings

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

Useful lives

The residual values and estimated useful lives are reflected under "Critical accounting judgements and key sources of estimation uncertainty" (note 1.8 and 1.9) in the summary of significant accounting policies.

3. Intangible assets

	Computer software R	Total R
Year ended 31 March 2012		
Opening net book amount	22,552,514	22,552,514
Additions	94,304	94,304
Disposals	(4,500)	(4,500)
Amortisation on disposals	4,500	4,500
Amortisation charge	(11,274,056)	(11,274,056)
Closing net book amount	11,372,762	11,372,762
At 31 March 2012		
Cost	56,931,838	56,931,838
Accumulated amortisation	(45,559,076)	(45,559,076)
Net book amount	11,372,762	11,372,762
Year ended 31 March 2011		
Opening net book amount	33,906,332	33,906,332
Additions	-	-
Disposals	(2,985,413)	(2,985,413)
Amortisation disposal	2,985,413	2,985,413
Amortisation charge	(11,353,818)	(11,353,818)
Closing net book amount	22,552,514	22,552,514
At 31 March 2011		
Cost	60,498,516	60,498,516
Accumulated amortisation as previously reported	(37,946,002)	(37,946,002)
Net book amount	22,552,514	22,552,514

Impairment

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

4. Investments

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

	2012 R	Restated 2011 R
Available-for-sale investments carried at fair value comprise the following:		
Cash investments	2,031,002,393	1,866,709,556
Listed bond securities and equity		
- Short-term < 7 years	151,283,489	317,932,557
- Medium-term 7 to 12 years	111,369,642	132,455,150
- Long-term > 12 years	569,835,395	175,317,825
- Inflation-linked bonds, equity and derivatives	364,229,209	626,426,624
	3,227,720,128	3,118,841,712
Derivative Financial Instruments	465,928,845	-
	3,693,648,973	3,118,841,712
Non-current portion	1,662,646,580	1,252,132,156
Current portion	2,031,002,393	1,866,709,556
Total	3,693,648,973	3,118,841,712
None of these financial assets are either past due or impaired		
Reconciliation of opening and closing balance		
Opening balance	3,118,841,712	2,934,899,305
Additions	2,688,143,687	2,447,028,933
Interest accrued	195,822,583	202,403,052
Disposals	(2,687,399,927)	(2,446,724,645)
Capital Additions/(Withdrawals)	335,000,000	(80,000,000)
Administration fee	(9,309,229)	(8,900,462)
Fair value (loss)/gain on available-for-sale investments	52,550,146	70,135,529
	3,693,648,973	3,118,841,712

A fair value gain of R52 550 146 (2011: gain of R70 135 529) was processed directly in equity during the year. The fair value adjustment increased the carrying value of the investments to equal the market value as at 31 March 2012. Details of investments are available at the registered office of the NHBRC for inspection.

4.1 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

	2012	2011
Counterparty with external credit rating (S & P)		
A	67,587,282	60,589,406
Total unimpaired trade receivables	67,587,282	60,589,406

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

	2012 R	Restated 2011 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.

Available for sale financial assets

(Bonds, Money Market, Equities and Structured Products)

	2012 R	Restated 2011 R
Fitch		
F1	168,226,820	100,757,706
F2	4,117,861	-
F1+	1,934,019,518	1,715,364,724
BB-	7,830,416	7,699,032
A	4,840,247	10,023,698
A-	5,219,099	1,405,208
A+	19,621,527	8,921,884
AA	96,227,311	58,042,134
AA-	72,107,164	37,609,011
AA+	239,571,395	176,392,608
AAA	470,558,860	418,838,842
BBB	234,622,545	170,600,968
	3,256,962,764	2,705,655,816
S&P		
AA+	2,503,545	-
AAA	22,953,675	23,370,890
	25,457,220	23,370,890
Moody		
A1	7,925,335	7,943,319
A2	10,775,996	2,578,991
	-	2,146,403
Aa2	9,071,539	15,454,187
Aa3	6,721,641	3,080,195
Aaa	12,843,338	23,434,579
	47,337,849	54,637,674
Issuer Rated		
A	12,192,918	
AA	8,239,614	10,859,144
	20,432,532	10,859,144
	3,694,961,329	3,120,105,356

The total available for sale investments are disclosed inclusive the management fee accrual R1 312 356, (2011:R1 263 644).

	2012 R	Restated 2011 R
5. Inventories		
Builders manuals at cost	394,530	120,264
6. Trade and other receivables		
Net trade receivables	54,147,959	30,838,395
- Trade receivables	67,587,282	60,589,406
- Less provision for impairment	(13,439,323)	(29,751,011)
Other receivables:		
- Deposits	124,237	-
- Staff loans	-	15,070
- Sundry debtors	4,855,397	4,752,876
	59,127,592	35,606,341
The fair values of trade and other receivables are as follows:		
Trade receivables	67,587,282	60,589,406
Deposits	124,237	
Staff loans	-	15,070
	67,711,519	60,604,476
Ageing of past due but not impaired is as follows:		
Amounts in 90 to 120 days	4,725,407	409,141
Amounts in 120 days +	13,409,323	15,361,748
	18,134,730	15,770,889
Movements on the provision for impairment of trade receivables is as follows:		
At 01 April	(29,751,011)	(12,605,997)
Provision for receivables impairment	-	(17,145,014)
Unused amounts reversed	16,311,688	-
At 31 March	(13,439,323)	(29,751,011)

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.

	2012 R	Restated 2011 R
7. Cash and cash equivalents		
Cash balances	43,024,034	354,209,860
Short-term bank deposits	26,938	46,887
	43,050,972	354,256,747

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 R5 403 657 (2011: R7 304 512) for home builder training in the current financial year.

9. Non-distributable reserve

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

10. Technical liabilities

	Outstanding claims R	Unearned premium R	Unexpired risk R	Total R
Balance at 31 March 2010	72,606,049	430,492,802	319,894,396	822,993,247
Increase during the year (note 18)	11,542,190	-	-	11,542,190
Utilised during the year (note 18)	(22,269,995)	-	-	(22,269,995)
(Decrease) increase during the year (note 13)	-	(127,417,401)	102,790,831	(24,626,570)
Balance at 31 March 2011	61,878,244	303,075,401	422,685,227	787,638,872
Increase during the year (note 18)	5,255,613	-	-	5,255,613
Utilised during the year (note 18)	(15,374,821)	-	-	(15,374,821)
(Decrease) increase during the year (note 13)	-	19,405,981	179,723,726	199,129,707
Balance at 31 March 2012	51,759,036	322,481,382	602,408,953	976,649,371
Balance at 31 March 2011				
Current	22,643,723	187,626,450	-	210,270,173
Non-current	39,234,521	115,448,951	422,685,227	577,368,699
	61,878,244	303,075,401	422,685,227	787,638,872
Balance at 31 March 2012				
Current	19,942,440	181,136,763	-	201,079,203
Non-current	31,816,596	141,344,619	602,408,953	775,570,168
	51,759,036	322,481,382	602,408,953	976,649,371

10. Technical liabilities (continued)

10.2 Basis and methodology of valuation

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

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

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

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

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

10.3 Assumptions

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

Key assumption	2012		2011	
	Non-subsidy	Subsidy	Non-subsidy	Subsidy
Discount rate	6.52%	6.52%	7.6%	7.6%
General price inflation	6.65%	6.65%	5.9%	5.9%
Future building cost inflation	7.65%	7.65%	6.9%	6.9%
Historical building cost inflation	5.60%	N/A	5.2%	N/A
Ultimate complaint rate	2.70%	2.70%	2.9%	2.9%
BF complaints loss ratio	2.55%	N/A	2.6%	N/A
Remedial work rate	2.00%	2.00%	2.0%	2.0%
Average claim cost	R172,859	R30,178	R140,193	R30,294
Initial expense ratio	68.00%	52.00%	79.0%	73.0%
BF method tail factor	10.00%	10.00%	10.0%	10.0%
BF method loss ratio	2.50%	2.50%	2.5%	2.5%
Spread of risk period	Per earnings curve (of complaints)		Per earnings curve (of complaints)	

10.4 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 sensitivity to the earnings curve is minimal at about 21% of non-subsidy enrolments and 27% of subsidy enrolments from 2011/12 were held as provision and spread over the period of cover. 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 2011/12). 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.

11. Trade and other payables

	2012 R	2011 R
Trade payables and accrued expenses	67,498,554	23,194,059
Operating lease accrual	628,862	1,995,958
Income received in advance (KwaZulu-Natal Rectification Work)	137,362,821	222,000,000
Leave accrual	9,285,630	8,418,480
Unidentified receipts	3,306,994	5,815,003
Cash received in advance	23,481,286	30,965,600
Value Added Taxation payable	-	35,641,428
Retentions	10,198,030	-
	251,762,176	328,030,526

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

12. Provisions

	Legal Fees	Other	Total
Balance at beginning of the year	1,118,305	250,593	1,368,898
- Utilised during the year	(1,118,305)	(250,593)	(1,368,898)
- Raised during the year	6,179,008	7,189,105	13,368,113
Balance at 31 March 2012	6,179,008	7,189,105	13,368,113
- Raised during the year	1,053,305	250,593	1,303,898
Balance at 31 March 2011	1,118,305	250,593	1,368,898

	2012 R	Restated 2011 R
13. Insurance premium revenue		
Premium received	426,804,051	331,933,726
Change in unearned premium provision (see note 10)	(19,405,981)	127,417,401
Change in unexpired risk provision (see note 10)	(179,723,726)	(102,790,831)
	227,674,344	356,560,296
14. Fee revenue		
Annual registration fees	1,333,413	2,082,391
Annual renewal fees	7,698,810	8,317,167
Registration fees	2,094,285	2,710,734
Builder manual fees	366,174	603,112
Subsidy project enrolments fees	43,520,150	17,220,897
Late enrolment fees	212,606	602,351
Document sales	760,819	371,281
	55,986,257	31,907,933
15. Technical services revenue		
Forensic audit, Geo-tech and rectification work	183,656,462	80,396,035
	183,656,462	80,396,035
16. Investment income		
Investment income earned on financial assets, analysed by category of asset, is as follows:		
Income from available for sale investments	195,822,583	202,403,052
Income from loans and receivables (cash and cash equivalents)	1,534,991	719,004
	197,357,574	203,122,056
17. Other income		
Sundry income	25,548,733	881,299
Movement in provision for doubtful debts	16,311,688	-
Legacy project income	496,781	-
Penalties	81,000	-
18. Insurance claims and loss adjustment expenses		
Current year warranty claims	15,374,821	22,269,995
Decrease in the outstanding claims provision	(10,119,208)	(10,727,805)
	5,255,613	11,542,190

	2012 R	Restated 2011 R
19. Results from operating activities		
Results from operating activities is arrived at after taking into account the following:		
Auditor's remuneration	3,252,806	1,995,791
Depreciation	3,852,620	5,325,947
Computer equipment	1,586,872	2,660,122
Office furniture and equipment	1,105,055	1,559,474
Motor vehicles	99,647	42,701
Buildings	1,061,046	1,063,650
Amortisation of intangible assets	11,274,056	11,353,818
Net loss/(profit) on disposal of property plant and equipment	140,025	(15,591)
Emerging contractor training	5,403,657	7,304,512
Rentals in respect of operating leases	18,975,278	14,525,067
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:	16,616,628	23,144,581
Not later than 1 year	13,290,621	12,288,088
Later than 1 year and not later than 5 years	3,326,007	10,856,493
Salaries and related costs	167,284,764	154,608,389
Directors' emoluments	8,748,498	9,009,927
Executive directors		
For managerial services	7,436,411	7,830,705
Non-executive directors		
For services as directors	1,312,087	1,179,222
20. Finance costs		
Interest paid - late payments	575	255

	2012 R	Restated 2011 R
21. Notes to the cash flow statement		
21.1 Cash (utilised in)/generated from operations		
Surplus for the year	133,564,122	361,654,957
Adjustments for:		
Depreciation	3,852,620	5,325,552
Amortisation	11,274,056	11,353,818
Net loss/(profit) on disposal of property plant and equipment	140,025	(15,591)
Realised profit on sale of available-for-sale investments	(17,955,244)	(126,472,192)
Fair value gain on financial instruments	(15,928,845)	
Increase in provisions	11,999,216	1,303,898
(Increase)/Decrease in technical liabilities	189,010,499	(13,084,380)
Interest paid	575	255
Interest received	(197,357,574)	(203,122,057)
Operating income before working capital changes	118,599,450	36,944,260
(Increase) in inventories	(274,265)	(21,049)
(Increase)/Decrease in trade and other receivables	(23,521,251)	12,513,678
(Decrease)/Increase in trade and other payables	(76,268,350)	207,410,644
	18,535,584	256,847,533
21.2 Proceeds on disposal of property, plant and equipment		
Net book value	557,968	31,998
Net (loss)/gain on disposal of property plant and equipment	(140,025)	15,591
	417,943	47,589
21.3 Proceeds on sale of financial assets		
Net book value	2,333,890,659	2,400,252,453
Realised profit on sale of available-for-sale investments	17,955,244	126,472,192
Fair value gain on financial instruments	15,928,845	-
	2,367,774,748	2,526,724,645
21.4 Cash and cash equivalents		
Cash and cash equivalents consist of cash balances and short-term bank deposits. Cash and cash equivalents included in the cash flow statement comprise the following amounts.		
(Loss) profit on sale of financial instruments		
Cash on hand and balances with banks		
	43,050,972	354,256,747

22. Remuneration

22.1 Total cost - Non-executive council members

	Fees R	Cell phone Allowance	Subsistence and travel R	Total 2012 R	Total 2011 R
S Nene [2]	137,253	8,800	-	146,053	106,483
S De Gois [2]	12,362	8,800	2,060	23,222	33,676
C Kadwa [1]	-	-	-	-	4,800
A Goliger [2]	175,002	8,800	30,817	214,619	98,410
S P Hlahane [3]	75,551	8,800	8,158	92,509	113,660
S M Maja-Masilo [3]	92,067	8,800	28,737	129,604	194,021
V C Mehana (Chairperson) [3]	359,942	8,800	4,229	372,971	87,184
B A Mhlabeni [3]	159,406	8,800	34,170	202,376	196,893
M Mkhize [3]	99,889	8,800	22,044	130,733	134,287
G Seape [4]	-	-	-	-	101,749
T D Silinda [6]	-	-	-	-	108,059
	1,111,472	70,400	130,215	1,312,087	1,179,222

[1] Resigned on 31 March 2009
[2] Re-appointed on 01 May 2009
[3] Appointed on 01 May 2009
[4] Resigned on 24 January 2011
[5] Resigned on 31 April 2010
[6] Resigned on 31 December 2010

22.2 Total cost - Top management

	Salaries R	Cell phone Allowance	Subsistence and travel R	Total 2012 R	Total 2011 R
S Mashinini (Chief Executive Officer)	2,675,000	56,300	16,694	2,747,994	2,542,584
	2,675,000	56,300	16,694	2,747,994	2,542,584
J Mahachi (Technical and Information Technology)	1,740,122	30,000	704	1,770,826	1,587,512
C Thorp (Chief Financial Officer)	1,771,610	30,000	23,730	1,825,340	1,706,480
T Moshoeu (Customer Care)[1]	-	-	-	-	813,525
L Less (Corporate Services) 2	1,059,022	22,500	10,729	1,092,251	1,180,604
	4,570,754	82,500	35,163	4,688,417	5,288,121

[1] Contract expired on 31 October 2010
[2] Resigned on 31 December 2011

	2012	Restated 2011
	R	R
22. Remuneration (continued)		
22.4 Bonuses		
Executive Managers		
S Mashinini (Chief Executive Officer)	-	60,000
J Mahachi (Technical and Information Technology)	78,402	28,771
C Thorp (Chief Financial Officer)	82,785	75,950
T Moshoeu (Customer Care)	58,863	54,003
L Less (Corporate Services)	-	31,868
	220,050	250,592
23. Related Parties		
23.1 Transactions with the Department of Human Settlements:		
Subsidy project enrolment fee (note 14)	43,520,150	17,220,897
Insurance premium revenue	147,786,648	85,551,957
Technical service revenue (note 15)	183,656,462	80,396,035
Balances with the Department of Human Settlements:		
Trade receivable (note 6)	67,587,282	60,589,406
Income received in advance (note 11)	137,362,821	222,000,000

The NHBRC provides a warranty for both non-subsidy and government subsidised homes. The fee payable by government in the subsidy market comprises 1% project enrolment fee, 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.

23.2 Transactions with other related parties are summarised below:

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

Trading transactions

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

Related parties	Expenses		Balances	
	2011/2012	**2010/2011**	**2011/2012**	**2010/2011**
	R'000	R'000	R'000	R'000
1. Ahanang Hardware and Construction CC	-	24,075	-	-

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

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

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

24. Irregular, fruitless and wasteful expenditure

	2012 R	Restated 2011 R
24.1 Fruitless and Wasteful expenditure		
Versatile Polycrete Housing CC [1]	-	400,000
Interest paid to suppliers	575	255
	575	400,255

[1]Council deliberated and condoned this expenditure

	2012 R	Restated 2011 R
24.2 Irregular expenditure		
Rebahale Consulting (Pty) Ltd [2]	5,411,627	-
Ms V Somiah[3]	1,300,000	-
Rectification and Forensics appointments [4]	113,271,499	-
Non-Subsidy Inspectorate appointments [5]	47,732,066	-
Hydrotek International	17,273,848	
Mokala Engineers International (Pty) Ltd	10,283,370	
Thekwini Geocicils CC	6,031,824	
	201,304,234	-

[2] Council appointed a task team to review the appointment of Rebahale Consulting (Pty) Ltd, and a quality assurance review was performed by the Institute of Internal Auditors on the work done by Rebahale Consulting (Pty) Limited. The reports from the Institute of Internal Auditors and the Task team were presented to Council and the Service Level Agreement with Rebahale was terminated. The appointment of Rebahale was considered irregular due to a conflict of interest during tender evaluation.

[3] The appointment of Ms Somiah was irregular, the appointment was not within the Delegated Authority of the CEO, Council suspended Miss Somiah.

[4] The appointment of the inspectorate companies contravened the procurement policy. The appointments were above the delegated Authority of the CEO, as a result the total expenditure for the rectification programme have been classified as irregular.

The CEO was found guilty and there is a recommendation from the Disciplinary Committee for a summary dismissal.

[5] The extenstion to the Non-Subsidy Inspectorate contracts was outside the Delegation of Authority of CEO, as a result the expenditure has been classified as irregular.

The CEO was found guilty and there is a recommendation from the Disciplinary Committee for a summary dismissal.

25. Financial instruments

25.1 Categories of financial instruments and maturity profile

2012	0-1 Year R	>1 Year R	Total R
FINANCIAL ASSETS			
Loans and receivables			
Trade and other receivables	54,272,195	-	54,272,195
Cash and cash equivalents	43,050,972	-	43,050,972
Available-for-sale financial assets			
Investments	2,031,002,393	1,196,717,735	3,227,720,128
Derivative financial instruments	-	465,928,845	465,928,845
Total financial assets	2,128,325,560	1,662,646,580	3,790,972,140
FINANCIAL LIABILITIES			
Financial liabilities at amortised cost			
Trade and other payables	77,696,583	-	77,696,583
2011			
FINANCIAL ASSETS			
Loans and receivables			
Trade and other receivables	30,853,465	-	30,853,465
Cash and cash equivalents	354,256,747	-	354,256,747
Available-for-sale financial assets			
Investments	1,866,709,556	1,252,132,156	3,118,841,712
Total financial assets	2,251,819,768	1,252,132,156	3,503,951,924
FINANCIAL LIABILITIES			
Financial liabilities at amortised cost			
This trade in other payables	58,835,484	-	58,835,484

25. Financial instruments

25.2 Categories of financial instruments

31 March 2012	Loans and Receivables	Derivative Financial Instruments	Available-for-sale	Total
Derivative financial instruments	-	465,928,845	-	465,928,845
Available-for-sale financial assets	-	-	3,227,720,128	3,227,720,128
Trade and other receivables	59,127,592	-	-	59,127,592
Cash and cash equivalents	43,050,972	-	-	43,050,972
Total	102,178,564	465,928,845	3,227,720,128	3,795,827,537
31 March 2011				
Available-for-sale financial assets	-	-	3,118,841,712	3,118,841,712
Trade and other receivables	35,606,341	-	-	35,606,341
Cash and cash equivalents	354,256,747	-	-	354,256,747
Total	389,863,088	-	3,118,841,712	3,508,704,800

31 March 2012	Financial liabilities at Amortised cost	Total
Lease liabilities	628,862	628,862
Trade and other payables	251,133,316	251,133,316
Total	251,762,178	251,762,178
31 March 2011		
Lease liabilities	1,995,958	1,995,958
Trade and other payables	326,034,570	290,393,143
Total	328,030,528	292,389,101

25.3 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 25.1 for the maturity profile of financial instruments.

The amounts disclosed in table below are contractual undiscounted cashflows:

At 31 March 2012	Less than 3 Months	Between 3 months and 1 year	Between 1 year and 2 years	Over 2 years
Operating lease liability	-	628,862	-	-
Trade and other payables	77,696,585	137,362,821	-	-
At 31 March 2011				
Operating lease liability	-	1,995,958	-	-
Trade and other payables	58,835,487	222,000,000	-	-

25.4 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.

25.5 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.

25.6 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 from 2010/ 2011 financial year.

25.7 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.

25.8 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 R34 000 and a maximum claim of R500 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.

Approximately 56% of the assets of the NHBRC are invested in interest bearing instruments and 21% in equity instruments (shares and equity derivatives). Approximately R2 billion (55%) of financial assets are expected to realise within 12 months of year-end compared to approximately R514 million of liabilities expected to be settled within the same period. R1.6 billion (45%) of assets matures within 12 years, covering the remaining liability. Approximately 36% of bonds maturing in the following 12 months carry an AAA credit risk rating, equivalent to that of government (government, parastatal and quality senior corporate debt). 29% of bonds carry a rating higher than A. 35 % of bonds are rated BBB or have no rating. Approximately 76% of bonds maturing after 12 months carry an AAA credit risk rating. 20% of bonds carry a rating higher than A. 4% of bonds are rated BBB or have no rating.

The results of the actuarial valuation indicate that the NHBRC as a whole, including both subsidy and non-subsidy houses, is solvent and in a sound financial position as at 31 March 2012 when valued on a run-off basis. The actuarial liabilities are 378% funded. However, for future business, the enrolment fees currently charged are inadequate to cover future expenses and liabilities for both subsidy and non-subsidy homes.

	Enrolment Fee Adequacy					
	All Houses		Non-Subsidy		Subsidy	
Utilisation	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Enrolments & inspections	1933	65%	6315	80%	608	40%
Complaints conciliations	293	10%	550	7%	215	14%
Remedial claims	59	2%	162	2%	28	2%
average	36		99		17	
99.5% variation margin	23		63		11	
Total expenses & claims	2285	77%	7027	90%	852	56%
Average fee per enrolment	2980		7849		1509	
Surplus (Deficit)	**695.51**	**23%**	**822.21**	**10%**	**657.23**	**44%**

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

25.9 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.

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

25.9 Insurance risk (continued)

Underwriting strategy

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

Reinsurance strategy

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

Terms and conditions of Insurance contracts

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

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

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

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

Concentration of insurance risk

Insurance risk by geographical area

The geographical concentration of home enrolments is predominantly in the Gauteng province (50%) and the Western Cape province (15.6%). The Western Cape has a lower complaints ratio relative to KwaZulu-Natal, Gauteng, Free State and the Eastern Cape which have the highest complaints rate.

Insurance risk by developer

The risk per developer is ranked by units of exposure (enrolments after Sep 2006). Liquidation of the 15 largest developers constitute R226,3 million of sum insured (comparison of 300 154 home enrolments) which could potentially increase claims against the warranty fund.

25.10 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).

Price risk

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

Sensitivity analysis

	31 March 2012					
		Interest rate risk				
			Reasonable possible change			
	Carrying amount at 31 March 2012	Rand amount exposed to risk	Rate increase	Rand amount	Rate decrease	Rand amount
Financial Assets						
Cash investments	2,031,002,393	2,031,002,393	1%	20,310,024	-1%	(20,310,024)
Listed bond securities						
- Short-term < 7 years	151,283,489	151,283,489	1%	1,512,835	-1%	(1,512,835)
- Medium-term 7 to 12 years	111,369,642	111,369,642	1%	1,113,696	-1%	(1,113,696)
- Long-term > 12 years	569,835,395	569,835,395	1%	5,698,354	-1%	(5,698,354)
- Inflation-linked bonds	364,229,209	364,229,209	3%	10,926,876	-3%	(10,926,876)
Derivative financial instruments	465,928,845	465,928,845	1%	4,659,288	-1%	(4,659,288)
Impact of financial assets on:						
Statement of changes in net assets						
Statement of financial performance				39,561,785		(39,561,785)
Impact on financial position	3,693,648,973	3,693,648,973		39,561,785		(39,561,785)

	31 March 2011					
		Interest rate risk				
			Reasonable possible change			
	Carrying amount at 31 March 2012	Rand amount exposed to risk	Rate increase	Rand amount	Rate decrease	Rand amount
Financial Assets						
Cash investments	1,866,709,556	1,866,709,556	1%	18,667,096	-1%	(18,667,096)
Listed bond securities						
- Short-term < 7 years	317,932,557	317,932,557	1%	3,179,326	-1%	(3,179,326)
- Medium-term 7 to 12 years	132,455,150	132,455,150	1%	1,324,552	-1%	(1,324,552)
- Long-term > 12 years	569,835,395	569,835,395	1%	5,698,354	-1%	(5,698,354)
- Inflation-linked bonds	626,426,624	626,426,624	3%	18,792,799	-3%	(18,792,799)
Equity						
Impact of financial assets on:						
Statement of changes in net assets						
Statement of financial performance				43,716,950		(43,716,950)
Impact on financial position	3,118,841,712	3,118,841,712		43,716,950		(43,716,950)

26. Contingent liabilities

The NHBRC terminated the outsourced Service Level Agreement with Rebahale Consulting (Pty) Limited, as a result of this termination the NHBRC may have a potential liability approximating R20 074 080.

There are outstanding claims pending in the Courts in relation to disputes between the NHBRC and service providers amounting to R3 663 740, the outcome of which is unknown.

27. 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.

28. Errors and reclassifications

The errors and reclassifications relates to the understatement of revenue. The prior year financial results have been restated

The impact on the Statement of Financial Performance and Statement of Financial Position is shown below.

	Balance previously stated	Adjustment	Restated balance
Accumulated surplus at 31 March 2011	**2,381,477,402**	**26,451,061**	**2,407,928,463**
Surplus at 31 March 2011	**335,203,896**	**26,451,061**	**361,654,957**
Statement of Financial Performance			
Fee revenue (Note 14)	27,258,672	4,649,261	31,907,933
- Subsidy project enrolment fee	12,571,636	4,649,261	17,220,897
Technical Services Revenue			
- Forensic audit, Geo-tech and rectification work	58,594,235	21,801,800	80,396,035
Statement of Financial Position			
Trade and other receivables (Note 6)	9,155,280	26,451,061	35,606,341
- Net trade receivables	4,387,335	26,451,061	30,838,396
- Trade receivables	34,138,346	26,451,061	60,589,408
Notes to the Cash Flow Statement			
Changes in working capital			
Decrease/(Increase) in trade and other receivables	42,056,528	(26,451,061)	15,605,466
Financial Instruments			
Financial Assets (Note 25.1)			
- Trade and other receivables	9,155,281	26,451,061	35,606,342
- Total financial assets	2,230,121,584	26,451,061	2,256,572,644

29. Reconciliation of budget surplus with the surplus in the Statement of Financial Performance

Net surplus per approved budget	258,382,472
Adjusted for	
Movement in technical provisions	
Emerging contractor reserve	(5,403,657)
Revenue	258,527,234
Expenditure	13,577,013
Technical expenditure	(173,203,203)
Realised profit on sale of financial assets	33,884,089
interest received	(58,325,732)
Net surplus from operations	327,438,216
Movement in technical provisions not budgeted	(193,874,094)
Net surplus per the Statement of Financial Performance	133,564,122

The major variances between the budgeted surplus and Statement of Financial Performance are due to the following factors:

Revenue

Revenue increased by R61 million compared to budget. The increase in the volumes of work done for technical services contributed to this increase. The lower project enrolments fees in the subsidy sector was partly recovered by higher than budgeted non-subsidy home enrolments.

Technical provisions

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

Expenditure

Total operating expenditure and fixed expenditure were stringently managed by the organisation so as to ensure that the savings in expenditure.

Technical expenditure

The over spend in technical expenditure has been fully recovered by the increase in revenue generated in the KZN projects.

Income from investments

The investment strategy followed by the entity is to maximise the return on cash investments when the bond and equity market were declining. The repo rate remained unchanged for the financial year whilst the budget was based on the assumption that the repo rate would increase.

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