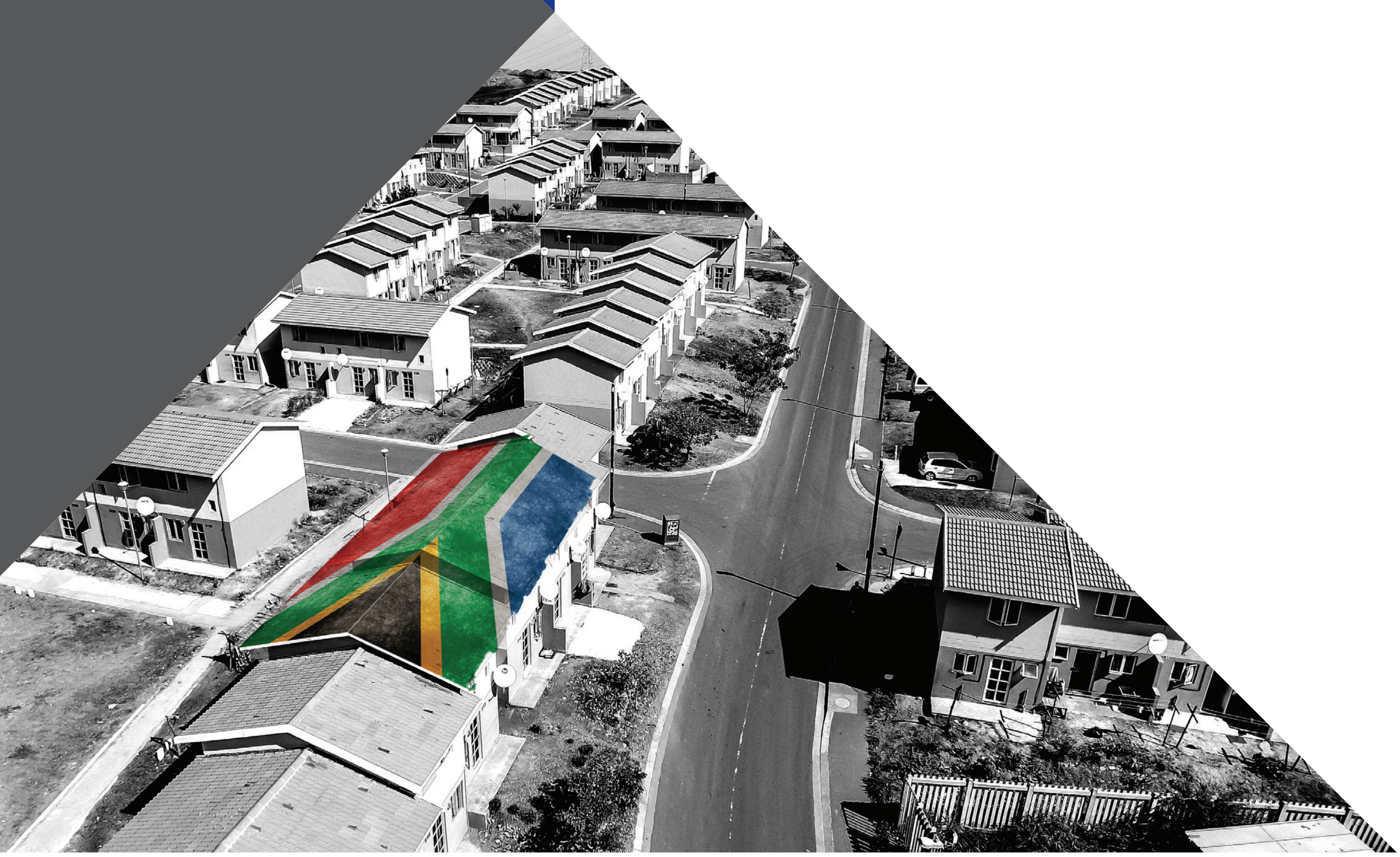
NATIONAL HOME BUILDERS
NHBRC
REGISTRATION COUNCIL

ANNUAL REPORT

2019/20



ABBREVIATIONS AND ACRONYMS

ARCO	Audit and Risk Committee
BCM	Business Continuity Management
BEE	Black Economic Empowerment
CEO	Chief Executive Officer
CETA	Construction and Education Training Authority
CIDB	Construction Industry Development Board
COC	Code of Conduct
CPI	Consumer Price Index
CRHI	Centre for Research and Housing Innovation
CSI	Corporate Social Investment
DoA	Delegation of Authority
ECPDHS	Eastern Cape Provincial Department of Human Settlements
EEA	Employment Equity Act
EHBT	Emerging Home builders Training
ERP	Enterprise Resource Planning
GDP	Gross Domestic Product
GIBS	Gordon Institute of Business Studies
GIS	Geographical Information Systems
HCPMA	Housing Consumers Protection Measures Act
HDA	Housing Development Agency
HBM	Home Building Manual
IBT	Innovative Building Systems
HSTA	Human Settlement Training Academy
IHHWA	International Housing and Home Warranty Association
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
NDHS	National Department of Human Settlements
NEPAD	New Partnership for Africa Development
NHBRC	National Home Builders Registration Council
NURCHA	National Urban Reconstruction and Housing Agency
NYC	National Youth Commission
OHS	Occupational Health and Safety
PFMA	Public Finance Management Act
POE	Portfolio of Evidence
ROI	Return on Investment
SACPMP	South African Council for Project and Construction Management Professions
SDL	Skills Development Levy
SHE	Safety Health and Environment
VFP	Valuable Final Products
WEP	Women Empowerment Programme
YTP	Youth Training Programme

NHBRC: AN OVERVIEW

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

VISION

To be a champion of the housing consumer

MISSION

To protect the housing consumer and regulate the homebuilding environment

MOTTO

Assuring quality homes

STRATEGY

one	To ensure that housing consumers and home builders are educated on their rights and obligations
two	To entrench a culture of compliance through fair and efficient enforcement mechanisms
three	To research and introduce innovative products, methods and technologies within the homebuilding industry
four	To maintain a sustainable warranty fund

OUR VALUES

excellence & integrity

To be the best and deliver the best honestly

commitment & accessibility

To do work diligently and reach out to our stakeholders

transparency & accountability

To be fair and open in delivering our functions responsibly

STRATEGIC OBJECTIVES

Aligned to the budget structure

administration

- To maintain operational efficiencies
- To improve accessibility and visibility of NHBRC products and services

regulation

- To effect regulatory compliance

consumer protection

- To effect regulatory compliance
- To research and introduce innovative products, methods and technologies within the homebuilding industry
- To improve cost effectiveness and internal efficiencies of operations

NHBRC: KEY MOMENTS IN OUR HISTORY

2007

Launched the Eric Molobi Housing Innovation Hub in Soshanguve, Pretoria

2008

Development of Integrated Human Settlements ("Breaking New Ground")

2009

Relocated Gauteng Provincial Customer Service Centre to Woodmead

2010

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

2011

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

2012

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

2013

Commencement of testing materials at Eric Molobi Innovation hub

2014

- Launched the transformation charter
- Employed a fully in sourced inspectorate service for NHBRC

2016

Launch of the two mobile offices to serve as office units

2017

- Online technical assessment for home builders
- Implementation of the transformation charter

2018

Construction of nine Innovative Building Technologies

2019

Cabinet approval of Housing Consumer Protection Bill and subsequent publication in Government Gazette for comments

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SECTION 1: LEADERSHIP OVERVIEW

1.1 COUNCIL

The Council is the accounting authority of the NHBRC and is appointed by the Minister of the Human Settlements, Water and Sanitation. The Council leads the organisation in its achievement of strategic objectives by directing and approving the organisation's overall strategy and associated operational objectives. It monitors the organisation's performance against the targets outlined in the Annual Performance Plans and ensures that adequate processes are in place for budget planning and allocation to advance the NHBRC's mandate. This includes oversight of the organisation's socio-economic programmes.

The current Council was appointed by the Minister with effect 01 August 2018 and its term of office will come to an end on 31 July 2021. Dr Julieka Bayat was appointed as Chairperson in December 2019, after the resignation of Mr Enoch Godongwana in November 2019.

Table 1: Members of Council

No.	Council Members	Position	Qualifications
1	Dr. Julieka Bayat	Chairperson (Appointed in December 2019)	DLitt & DPhil (Unisa) Masters in Town and Regional Planning (University of Natal – Durban) BA (University of Durban – Westville) International Education Program: Partnerships & Financing Strategies for Local Government (Harvard University – USA) Extending Finance Down Market (Wharton – USA/Wits University) Corporate, Business Management Training: Finance for Non-Financial Managers Bessie Global Management Practice: Project Management
2	Mr. Enoch Godongwana	Chairperson (Resigned in November 2019)	MA Finance & Economics (University of London)
3	Ms. Mampe Kotsi	Deputy Chairperson	Advanced Diploma in Economics Policy (University of the Western Cape)
4	Mr. Mziwonke Jacobs	Council Member	Project Management (University of Cape Town Business School)
5	Ms. Bongiwe Duba	Council Member	Executive Leadership Development for Municipal Management (University of Pretoria) BA Psychology (University of South Africa)
6	Mr. Unathi Hoyana	Council Member	BSc Property Development (University of KwaZulu-Natal)
7	Mr. Choeu Makabate	Council Member	Master of Engineering in Engineering Management (UJ)
8	Mr. Roy Mnisi	Council Member	LLB and Postgraduate Certificate in Compliance Management (UJ) (Admitted Attorney of the High Court)
9	Ms. Noluthando Molao	Council Member	MSc Quantity Surveying (Honours) and Postgraduate Diploma Property Development and Management (Wits)
10	Mr. Roseberry Sonto	Council Member	Various Developmental Courses
11	Ms. Nthabiseng Tsenase	Council Member	Degree in Marketing (UJ)
12	Mr. Zenzele Myeza	Council Member	BCom (UNIZUL) and MBA (UDW)
13	Dr. David Mapikitla	Council Member (Deceased November 2019)	MBA Potchefstroom Business School (PBS) of the (NWU)
14	Mr. Goolam Manack	Council Member	MSc Public Policy and Management (University of London)
15	Mr. Kumkani Siphamandla	Council Member (Resigned)	Masters Degree in International Trade Law (University of Stellenbosch)

> “We continue to develop systems to respond to new ways of doing business, ensuring that our home builders can deliver quality housing to homeowners.”

DR JULIEKA BAYAT

Chairperson of the Council

1.2 CHAIRPERSON OF COUNCIL REPORT

On behalf of the Council of the National Home Builders Council (NHBRC), it is my pleasure to present the Annual Report for the 2019/2020 Financial Year to our Honourable Minister of Human Settlements, Water and Sanitation, Ms LN Sisulu (MP).

In the past few years, our country has experienced declining growth patterns in the built environment. This has necessitated the need to seek alternative methodologies to the current ways of doing business. Chief amongst these is the alternative revenue streams and further entrenchment of housing consumer rights. In light of this, Cabinet approved the Housing Consumer Protection Bill and its subsequent publication in the Government Gazzette. This Bill is testimony to the NHBRC's commitment to its mandate to improve the quality of houses, to protect the housing consumer and the transformation of the homebuilding sector through regulations. The Bill also ensures that the legislation aligns with the prevailing and changing built envrionment.

As a Regulator, our main role is to ensure that builders and consumers understand their rights and responsiblilities in the sector. As the Chairperson of the NHBRC Council, I am mindful of the efforts of the builders/contractors, developers and consumers in complying with legislation.

Finance and supply chain

As a Council, we are heartend that the NHBRC heeded National Treasury's call for State Entities to tighten their purses and to exercise prudence in managing public funds. In line with this, the NHBRC's operating surplus for the reporting period was greater than its budget and it is noteworthy that our surplus was R87 million against a budget of R47,5 million. In so far as the overall financial and supply chain aspects are concerned, the NHBRC spent 72% of its budget on BEE suppliers and, on average, we took 21 days to facilitate supplier payments.

Disciplinary committee turnaround

A total of 673 disciplinary hearings were conducted by the NHBRC which resulted in a total of 64 home builders being suspended, for the year under review. The offences before the Disciplinary Committee generally related to the failure by home builders to rectify major structural defects, their failure to rectify workmanship-related defects, their failure to enrol homes or violations of the code of conduct. Arising from the information of the Disciplinary Hearings, a database of defaulting home builders was compiled and then circulated to all the provinces with the sole aim of ensuring that non-compliant home builders were prevented from practicing in the construction sector, until their suspensions were lifted.

Recoveries

Recoveries included amounts disbursed out of the Warranty Fund for the rectification of defects which arose as a result of the failure by home builders to honour their obligations to rectify defects. The recovery of monies, as per the Housing Consumer Protection Measures Act, 1998 (Act No.95 of 1998), continued to improve. This was as a result of the verdicts handed down by the Disciplinary Committee and the payment of the penalties by the home builders - as they abided by the Disciplinary Committee's rulings.

The NHBRC recovered R2,6 million during the financial year 2019/20. This amount increased by 53% compared to R1,7 million that was recovered for the 2018/2019 financial year. In addition, 15% of the monies recovered was in respect of legal costs that were awarded to the NHBRC in litigation matters.

Inspection of homes

The inspection of home construction lies at the heart of the NHBRC's mandate and the organisation views inspection as a mitigating factor from claims against the Warranty Fund. We therefore ensured that the Inspectorate Division was adequately capacitated to enable speedy and quality inspection of homes for both the subsidized and the non-subsidized sectors. During the 2019/2020 Financial Year, a total of 22, 418 non-subsidized homes and a total of 27, 228 subsidized homes were inspected by the NHBRC. These figures reflect our inspections of completed houses, only.

Training within the sector

The housing construction sector has the potential to create considerable employment opportunities. To this end, the NHBRC has, through its Social Transformation and Empowerment Programme, focused on training and building the capacity of women, youth, people with disabilities and military veterans. We also trained home builders, inspectors and artisans. In total, 9,554 individuals were trained on various skills for the 2019/20 Financial Year and it is important to note that 60% of the total number of individuals trained, were women.

The Eric Molobi Centre of Excellence continued to be used as a base for coordinating training events. Our strategy is to ensure that training is carried out where construction is in progress to give trainees the necessary exposure to both the theoretical and practical sides of the training.

Stakeholder engagements

The NHBRC maximised its presence and intesified Consumer Education during the Housing Consumer Protection Bill stakeholder engagements. These engagements afforded the NHBRC the opportunity to provide public information on the new Bill in seven (7) languages. In order to achieve this, we partnered with the National Department of Arts and Culture to translate the relevant documents.

Another important highlight of the year was the partnership with the National Department of Human Settlements when Public Information Sessions were hosted in all the provinces. These sessions were targeted at both the housing consumers and potential home builders.

Anti-Fraud and Corruption

As the Chairperson, I am committed to ethical behaviour and respect for corporate governance structures. In this regard, I am very grateful for the support of the Council members in the NHBRC's drive for an anti-fraud and corruption culture within the entity. In line with this and in support of the approved Risk Management Framework, the organisation has established the Anti-Fraud and Corruption Unit.

The NHBRC has a legal responsibility in terms of the Public Finance Management Act (Act No.1 of 1999) (PFMA), to take appropriate steps to prevent unauthorised, irregular, fruitless, wasteful expenditure and losses as a result of criminal conduct. Aligned with this responsibility, the NHBRC established an independent Whistleblowing Solutions facility which administered and distributed reports on a monthly basis. Based on these reports, fraudulent conduct was investigated by the Forensic Investigation's Team and these reports were presented to Audit and Risk Committee on a quarterly basis.

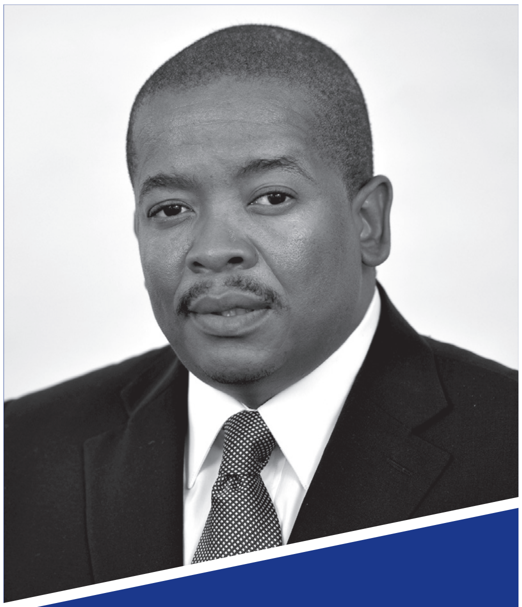
Overall, I'm pleased to note that the NHBRC achieved 81% of its performance targets in 2019/20. This is an improvement of 2% in the achievement of its targets from the 2018/19 Financial Year.

In closing, may I thank our Minister of Human Settlements, Water and Sanitation, Ms. Lindiwe Sisulu (MP), the Members of the Council of the NHBRC, the National Department of Human Settlements and the Management and staff members for their support and goodwill.

Respectfully,

Dr Julieka Bayat
Chairperson of Council

1.3 CHIEF EXECUTIVE OFFICER'S REPORT



OTSILE MASENG

Acting Chief Executive Officer

"As an organisation, we continue to develop systems to respond to the new ways of doing business, to ensure that our home builders can deliver quality housing for our homeowners."

We ended the 2019/20 financial year at the time when the world was confronting one of the greatest health threats "COVID-19" of this generation, one that directly impacts the global economy, society and businesses. The magnitude of this pandemic not only threatens the property and construction sectors, but has also resulted in job losses in many industries, food insecurity, increased unemployment rates, and the closure of some big companies. It is for this reason that our thoughts remain with South Africans, medical and all other frontline employees serving the country during the COVID-19 pandemic.

To support our employees and their family members during these difficult times, the NHBRC intensified access to our employee wellness programmes. This programme serves all NHBRC employees and their immediate household/ family members.

As an organisation, we continue to develop systems to respond to the new ways of doing business, to ensure that our home builders can deliver quality housing for our homeowners. Equally so, we strive to find minimal risk strategies when investing the warranty fund to ensure housing consumers whose homes are enrolled with the NHBRC are not affected in the time of need.

We have created an environment that embraces zero tolerance against fraud and corruption and all forms of discrimination and abuse, while encouraging a spirit of constructive dialogue amongst employees. In our bid to promote engagement around ethics in the organisation, we launched an Ethics Blog during November 2019, where employees are encouraged to share ideas, thoughts and insights on how we can best drive an ethical culture in the organisation, one that supports our vision for a formidable NHBRC.

On the performance of 2019/20, we are encouraged by the increase in the number of new home builders registered with the NHBRC on an annual basis. We witnessed an increase in the number of new home builders for three consecutive financial years, despite a slow growth in the residential market. There were 3 880 home builders registered in the financial year 2019/20 and 14 561 home builders renewed their membership. This represents an increase of 8% and 3% respectively. We envisage that majority of our home builders will continue to renew membership in order to participate in infrastructure projects that the government will be investing in. We believed that once the Bill is passed for mixed developments and alterations/extensions to be enrolled, most home builders will require the NHBRC certificate to trade.

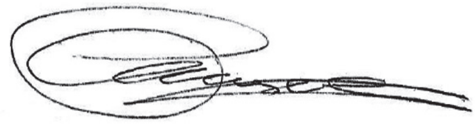
The enrolment of homes in the non-subsidy sector decreased to 48 166 during the financial year from 51 585 in the previous financial year. Late enrolments have decreased slightly from 1 894 in 2018/19 to 1 697 this year and this can be attributed to awareness campaigns to educate home builders and housing consumers of their rights and obligations. With the lowest interest rates currently offered by mortgage lenders following the South African Reserve Bank decision to reduce the prime rate, we may see a slight demand for new houses, although this is threatened by the increased job losses. In the subsidy sector, 69 761 homes were enrolled which is a decrease from 76 537 from the previous financial year.

In the year under review, 22 418 homes were inspected in the non-subsidy sector and 27 228 were inspected in the subsidy sector. These are the houses that were constructed and completed in the year, although some of them commenced construction in the previous financial year(s).

The NHBRC continues to empower home builders, youth, women, people with disabilities and military veterans through training. Training offered by the NHBRC include amongst others bricklaying, plumbing, plastering, construction management, electrical etc. To ensure that the inspectors employed by the NHBRC remain up-to-date with the changes in the construction industry, courses are also offered to our inspectors and those employed by the provincial departments and municipalities to ensure alignment during inspection. In the year under review, there were 9 554 individuals trained, which is an increase from 9 023 in the previous financial year.

We concluded the year in a position of strength with the record performance of 81% of our balance scorecard. This was achieved despite unprecedented challenges during a year in which the economy has been volatile, and as the Executive of this organisation we are proud of our more than 600 employees for this extraordinary accomplishment. We also thank our Executive Authority and the Council for the exceptional leadership they have shown under the most difficult of circumstances.

Respectfully,



Otsile Maseng
Acting Chief Executive Officer

1.4 EXECUTIVE COMMITTEE

The NHBRC Executive Committee is a top management committee responsible for strategic and operational matters. The committee is constituted by all executive managers, with the Chief Executive Officer as the Chairperson of the committee.

MR. MZIWONKE DLABANTU
Chief Executive Officer

MR. OTSILE MASENG
Chief Operations Officer

MS. JULIA MOTAPOLA
Executive Manager: Legal Compliance and Enforcement

MR. HULISANI MMBARA
Acting Executive Manager: Legal Compliance and Enforcement

MR. SONGEZO BOOI
Chief Financial Officer

MS. THITINTI MOSHOEU
Executive Manager: Business Services

MR. CRAIG MAKAPELA
Acting Executive Manager: Business Services

MS. GUGU MKHIZE
Executive Manager: Corporate Services

MR. LESLIE KWAPENG
Acting Executive Manager: Corporate Services

Table 2: Position and Highest Qualification of Executive Committee (EXCO) Members

	Position	Name	Qualifications
1	Chief Executive Officer	Mr. Mziwonke Dlabantu (April 2019 to July 2019)	BCom (University of Fort Hare)
	Acting Chief Executive Officer	Mr. Otsile Maseng (From 01 August 2019 to date)	BLuris (University of the North), MBA (Milpark Business School), PDP (University of Cape Town)
2	Chief Operations Officer	Mr. Otsile Maseng (April 2019 to 30 July 2019)	BLuris (University of the North), MBA (Milpark Business School), PDP (University of Cape Town)
	Acting Chief Operations Officer	Ms. Julia Motapola (From 19 August 2019 to date)	BProc (University of Venda), LLB (University of Pretoria), LLM (Emory School of Law, USA)
3	Executive Manager: Legal Compliance and Enforcement	Ms. Julia Motapola (April 2019 to 18 August 2019)	B.Proc (University of Venda), LLB (University of Pretoria), LLM (Emory School of Law, USA)
	Acting Executive Manager: Legal Compliance and Enforcement	Mr. Hulisani Mmbara (From 19 August 2019 to date)	BLuris (University of South Africa), LLB (University of South Africa), LLM (University of Johannesburg)
4	Chief Financial Officer	Mr. Songezo Booi	BCom & BCom (Hons) (University of Natal), CA (SA)
5	Executive Manager: Business Services	Ms. Thitinti Moshoeu (April 2019 to February 2020)	BCom & BCom (Hons) (University of the North), MSc (Business Studies) (Salford University, UK)
	Acting Executive Manager: Business Services	Mr. Craig Makapela (From March 2020 to date)	BSc Civil Engineering (University of Cape Town), BEng (Hons)(Geotech Eng)(University of Pretoria), PrEng, PrCPM
6	Executive Manager: Corporate Services	Ms. Gugu Mkhize (From 1 October 2019)	BA & BA (Hons) (University of KwaZulu-Natal), Dip. HRM (Damelin College SA), MBA (Regent Business School)
	Acting Executive Manager: Corporate Services	Mr. Leslie Kwapeng (From 1 April to 30 September 2019)	BCom (Vista University), Postgraduate Diploma in Management (PDM) (Wits Business School), MBA (Wits Business School)

SECTION 2: FINANCIAL HIGHLIGHTS

The housing outlook for the construction of new homes points to subdued growth in homes with a value greater than R5 million, while growth is anticipated in the segment for flats and town houses with a value below R1 million.

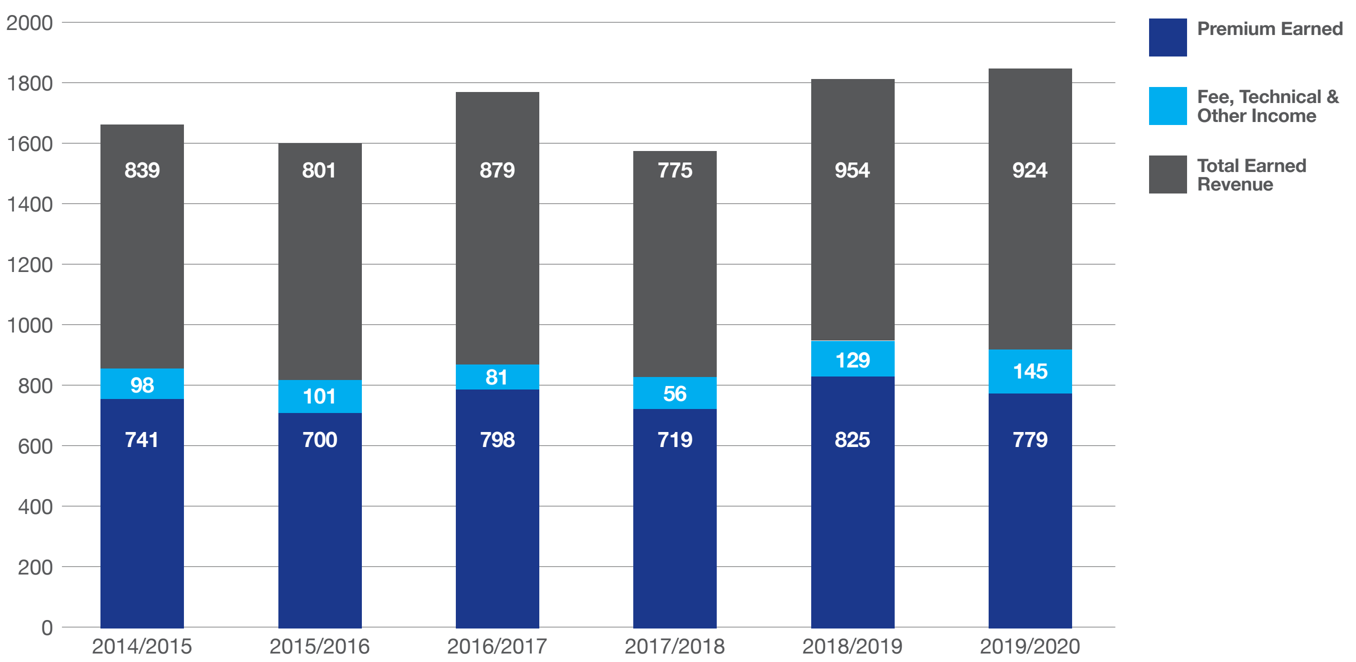
Future demand for and supply of new homes will be driven by developments with regard to the economy in general, but specifically by trends in respect of:

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

In the subsidy market, growth is subdued due to budget constraints within Government due to declining revenue collections and the introduction of other priorities. At the same time demand for subsidy housing continues, resulting in the increase in the existing housing backlog.

RESULTS FOR THE YEAR

Figure 1: Revenue (R'million)



Revenue from enrolments (premiums written) decreased by R46 million to R779 million, while in 2019 the premiums written had increased by R112 million. The increase in the provision for unearned premiums of R164 million (2019: R31 million decrease) was decreased by the change in the unexpired risk provision amounting to R36 million (2018 increase: R80 million). Insurance premiums are recognized over the period of the policy commensurate with the expected incidence of risk from the date of occupation of the home.

Non-subsidy enrolment value decreased by 6%, while subsidy enrolment of homes also decreased by 7%. The decrease in subsidy home enrolments is primarily due to the lack of budget availability at the Government departments, whilst the decrease in non-subsidy premiums written is attributable to a lower than anticipated performance in the home building industry as compared to the previous financial year.

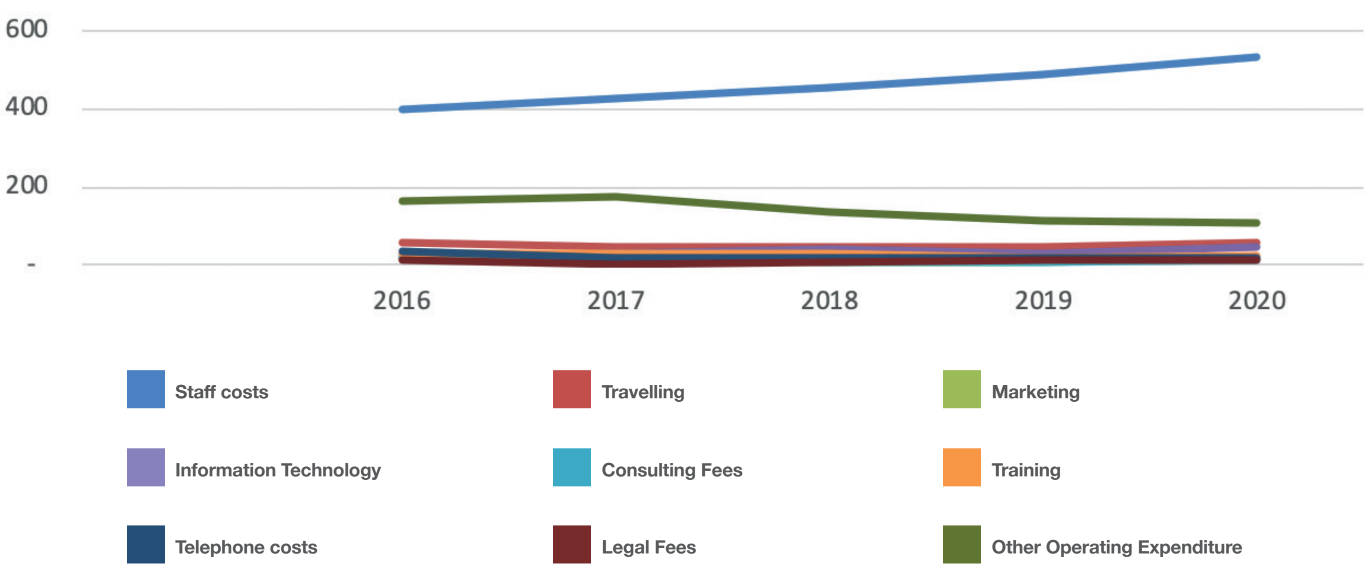
Fee revenue decreased from R101 million to R80 million (21%), which was mainly attributable to the decrease in subsidy project enrolments by R21 million (2019: increase by R56 million). Fee revenue includes annual registration fees, annual renewal fees, late enrolment fees, builder manual fees, subsidy project enrolments and document sales.

Technical services revenue represents rectification and forensic technical service fees earned in the subsidy market in KwaZulu Natal, North West and the Free State provinces.

Income earned from investments amounts to R475 million (2019: R452 million) and represents a year on year increase of R23 million.

ADMINISTRATIVE COSTS OVER 5 YEARS

Figure 2: Operating Expenditure



Since the publication by National Treasury of Instruction Note 1 of 2015/16 on cost containment measures, the NHBRC has reviewed its operating costs structure, with a view to containing its operating costs.

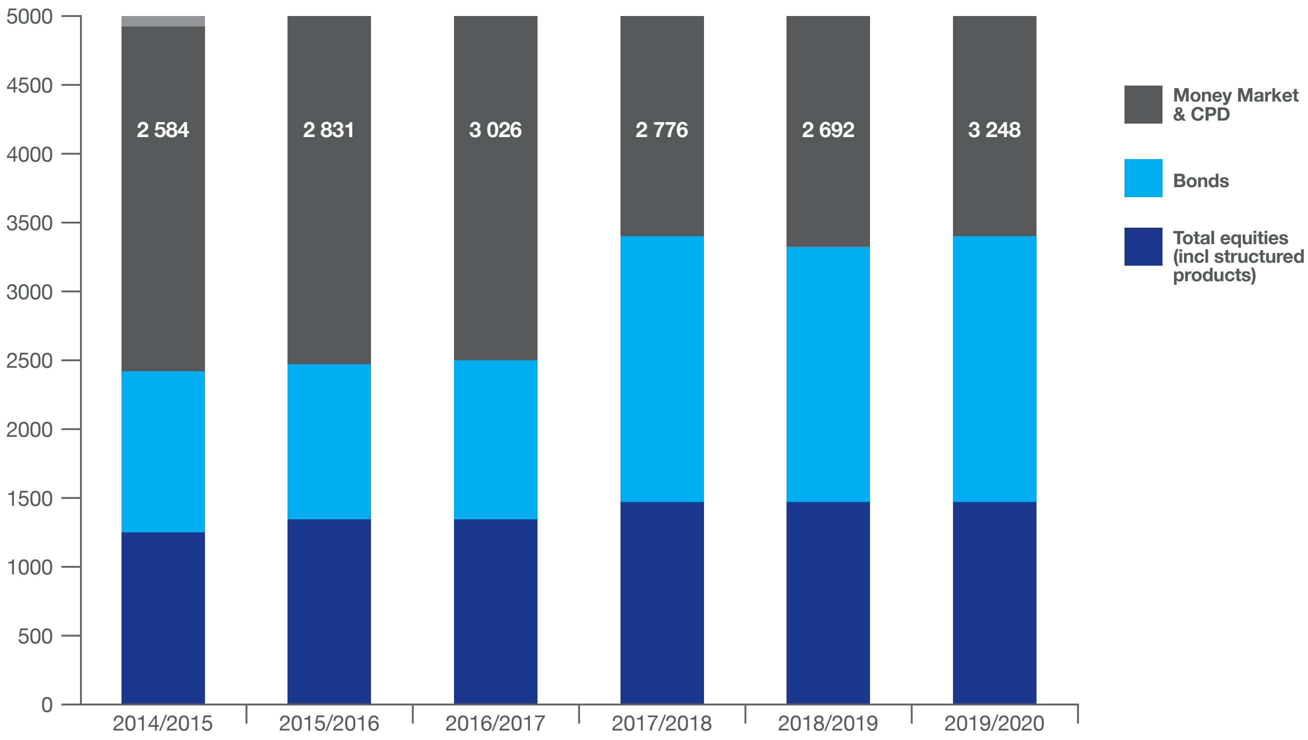
With the high cost to income ratio, Council has implored Management to continue to implement cost containment measures by reviewing the cost mix to ensure long term sustainability. The cost escalation has been contained at less than CPI, whilst ensuring efficiency in operations and financial sustainability. This will enable the NHBRC to continue to deliver on its mandate in the coming years. Concern however remains on some of the expenditure items which have been identified as being excessive, with a view to reducing them in the coming years.

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

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

Risk mitigation costs increased with the enhancement of the inspection model during the year under review, with greater emphasis being placed on the introduction of a new travel model.

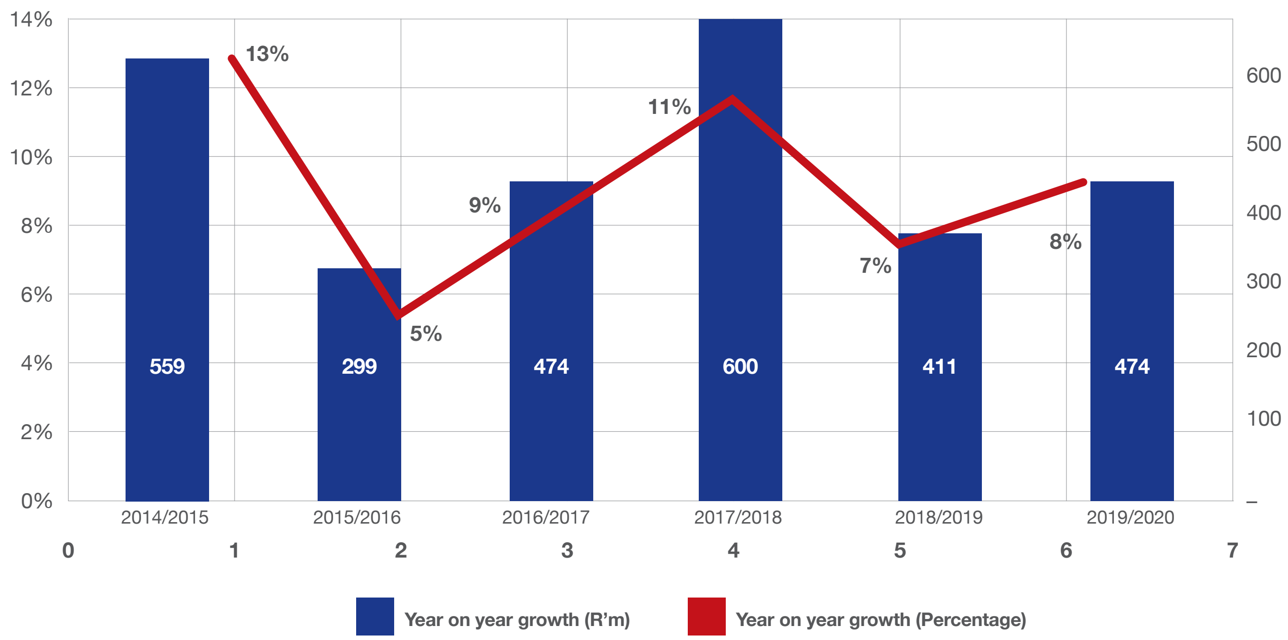
Figure 3: Investments



The NHBRC is regulated in terms of the Housing Consumers Protection Measures Act,1998 (Act 1 of 1998) to establish a fund for the purposes of providing assistance to housing consumers under circumstances where a home builder fails to meet their obligations under section 13(e)(b)(1) of the Act. The investment mandate concentrates on the preservation of capital so as to ensure that the NHBRC remains financially sound to meet housing consumer claims as they arise.

Investments are held in Local Bonds, Local Equities, Money market instruments, structured equity linked notes and the Corporation for Public Deposits. These portfolios are managed on behalf of the NHBRC by external asset managers, with investment performances tracked against predetermined benchmarks. The market value of the investment portfolio increased to R6.6 billion (2019: R6.0 billion). The fair value loss adjustment of (R331 million) (2019: R17 million gain) is taken to the Statement of Financial Performance in terms of GRAP 104.

Figure 4: Growth in Investments

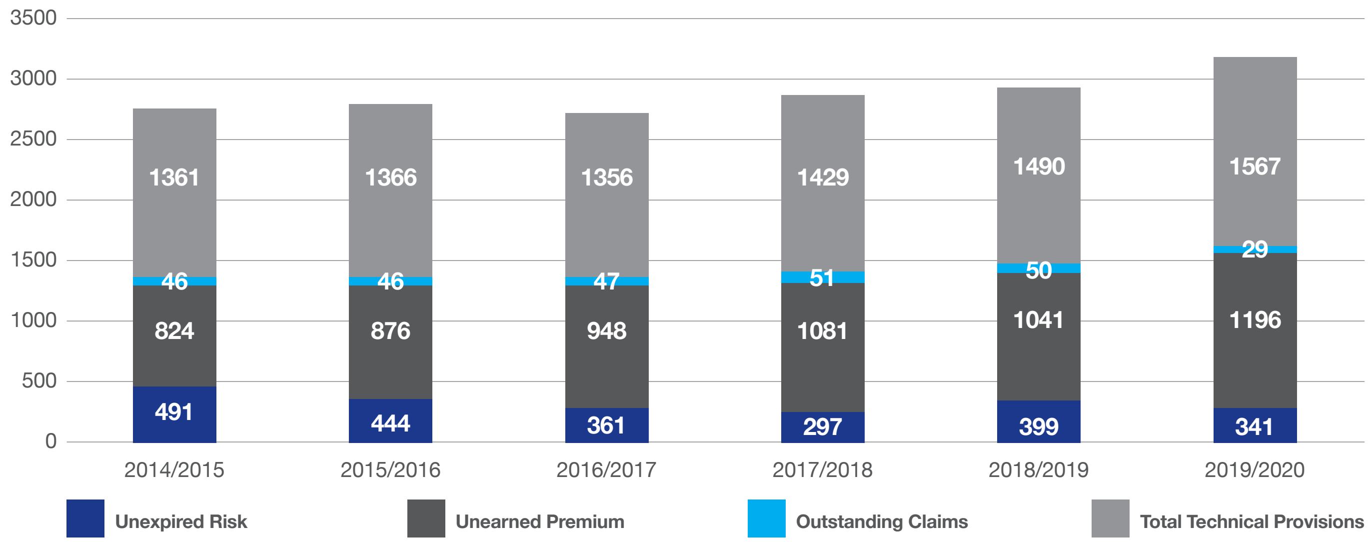


EMERGING CONTRACTOR RESERVE

The emerging contractor training reserve was established to develop programmes to assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of homebuilding 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 R2.4 million (2019: R9.4 million) for home builder training in the current financial year.

Figure 5: Technical Provisions



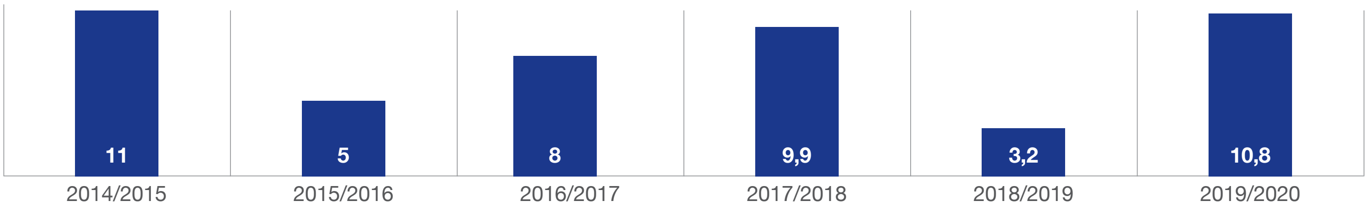
The technical liabilities of the NHBRC are actuarially determined annually as part of the solvency valuation of the warranty fund. The technical liabilities consist of the outstanding claims provision, Unearned premium and Unexpired risk provisions which are defined below.

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

During the current year, the NHBRC settled warranty claims amounting to R10.8 million (2019: R3.2 million). The outstanding claims provision increased by R9.6 million (2019: increased by R1.7 million).

Figure 6: Claims against the Warranty Fund

Rand value of warranty claims paid



UNEXPIRED RISK PROVISION

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

In calculating the estimated cost of future insurance claims, actuarial and statistical projections of the frequency and severity of future insurance claims events are used to project ultimate settlement costs. The unexpired risk arises primarily in the subsidy housing market, so as to ensure that this market is independently solvent. The provision decreased from R377 million to R341 million, thereby increasing insurance premium revenue earned for the year by R36 million (2019: R88 million).

The results of the independent actuarial valuation indicate that the NHBRC, as a whole, including both subsidy and non-subsidy houses, is solvent and in a sound financial position as at 31 March 2020 when valued on a run-off basis. The actuarial liabilities are 437% (2019: 443%) funded and the actuarial surplus is 325% (2018: 338%) of provisions.

SUSTAINABILITY REPORTING

The cash inflow from operating activities decreased from R208 million to R139 million in the current financial year.

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

The NHBRC is also governed by activities that take place in the construction industry. Residential building activities are expected to continue to reflect conditions in the economy, household finances, consumer confidence and factors impacting the market for new and existing housing. These factors will be reflected in the demand and supply of new housing.

The NHBRC has endeavoured to adhere to the provisions of the Housing Consumer Protection Measures Act of 1998, the Public Finance Management Act of 1999 (PFMA) and the principles related to integrated sustainability reporting as stipulated by the King III Report when it implemented its strategies and operations in the period under review.

ECONOMIC SUSTAINABILITY

The NHBRC is a self-sustaining organisation that depends on the provision of the Housing Consumers Protection Measures Act, 1998 (Act No.95 of 1998) and its ability to build up reserve funds. The main aim of the NHBRC as a warranty scheme is to ensure its ability to honour claims arising from the warrant cover provided. The NHBRC Warranty Fund, which was valued on a run-off basis by independent actuaries, was found to be both solvent and in a sound financial position as at 31 March 2020.

FINANCIAL PERFORMANCE

Table 3: Financial Performance Summary for 2016/17 – 2019/20

	2016/2017	2017/2018	2018/2019	2019/2020
Surplus for the year (Rm)	488	619	585	137
Return on equity	8.6%	12%	11%	2.3%
Total assets (Rm)	6 064	6 747	7 372	7 608
Total reserves (Rm)	4 556	5 175	5 756	5 898
Total Technical Liabilities (Rm)	**1 356**	**1 429**	**1 476**	**1 567**

The NHBRC continued with the implementation of stringent expenditure controls and reviewing of contracts to ensure sustainable savings due to adverse trading conditions. One of the main focuses of the NHBRC for the 2019/20 financial year was to increase and improve organisational efficiency and effectiveness.

SECTION 3: CORPORATE GOVERNANCE

RESPONSIBILITIES OF THE COUNCIL

The statutory functions of the NHBRC's Council are determined in terms of the provisions of the Housing Consumers Measures Act (Act No 95 of 1998) and the Public Finance Management Act, 1999 (Act No 1 of 1999) (the PFMA). These include the following: To be the Accounting Authority; approval of the corporate business plan, strategic plan and the policies of the NHBRC; and setting of performance targets for the organization. The Council is responsible inter alia for approval of the prepared Annual Financial Statements that accurately reflect the NHBRC's financial position and results at the end of the financial year, which is set at 31 March each year. The Office of the Auditor General is responsible for auditing the Annual Financial Statements of the NHBRC.

BOARD MEMBERS' REMUNERATION

Council members, who are not Government officials, receive fees for the services they render to the NHBRC in accordance with the relevant tariffs as determined by National Treasury and approved by the Minister of Human Settlements, Water and Sanitation. Members of the Audit & Risk Committee are remunerated in accordance with an agreed tariff set by the NHBRC. The annual financial statements include disclosures of Council members, Audit and Risk Committee members and executive member's emoluments in accordance with the reporting standards determined by the National Treasury Regulation 28.1.1.

BOARD MEMBERS' INTERESTS IN CONTRACTS

None of the Board members are involved in/ have any interest on contracts entered into by the NHBRC in the year under review.

PUBLIC FINANCE MANAGEMENT ACT

The NHBRC is fully committed to comply with the provisions of the Public Finance Management Act (PFMA). The internal and external auditors continue to provide the Council with assurance on the degree of compliance with the PFMA.

MATERIALITY FRAMEWORK

In accordance with the PFMA and Treasury Regulations 28.1.5, the NHBRC has developed a framework of acceptable levels of materiality and significance.

CORPORATE GOVERNANCE

In the governance of the NHBRC, the Council is responsible for policy making and control while the NHBRC's CEO has been delegated the responsibility for the day-to-day execution of the policies and objectives as directed by the Council. The members of the Council are appointed by the Minister of Human Settlements, Water and Sanitation on the basis of their representative of the interest of housing consumers, home builders, the suppliers of housing goods and services and associated professions, expertise regarding structural defects in homes and the prevention thereof and, financial management, law, research, technology development and representatives of the interests of the National Governments departments responsible for Housing, Trade and Industry, Finance and Public Works. Council members are appointed for a maximum period of three years and eligible for re-appointment. None of the members of the Council hold an executive position in the NHBRC. The Council may obtain independent professional advice if deemed necessary.

COUNCIL MEETING ATTENDANCE

In line with good governance principles as adopted by the King IV Report of Good Corporate Governance, the

PFMA and the Council Charter, Council is required to hold at least four quarterly meetings in each financial year in order to exercise proper oversight and accountability in relation to the activities of the NHBRC. The table below illustrates the meetings that were held in the year under review and each member's attendance of those meetings.

Table 4: Council Meeting and Attendance in the Year Under Review

Member Name	Capacity	Council Meetings										Total per Member
		30/04/19	30/05/19	28/06/19	30/07/19	16/08/19	08/10/19	29/10/19	09/12/19	30/01/20	14/02/20	
Dr. Julieka Bayat	Chairperson	–	–	–	–	–	–	–	✓	✓	✓	3
Mr. Enoch Godongwana	Chairperson	✓	✓	×	✓	×	✓	×	–	–	–	4
Ms. Mampe Kotsi	Deputy Chairperson	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Ms. Bongiwe Duba	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Mr. Unathi Hoyana	Member	✓	✓	✓	✓	×	✓	✓	✓	✓	✓	9
Mr. Mziwonke Jacobs	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Mr. Choeu Makabate	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Mr. Goolam Manack	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Mr. David Mapikitla	Member	✓	✓	×	✓	✓	✓	✓	–	–	–	6
Mr. Roy Mnisi	Member	✓	×	✓	✓	✓	✓	✓	✓	✓	✓	9
Ms. Noluthando Molao	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Mr. Zenzele Myeza	Member	✓	✓	×	×	×	×	×	×	✓	×	3
Mr. Roseberry Sonto	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Ms. Nthabiseng Tsenase	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Total Members		**13**	**12**	**10**	**12**	**10**	**12**	**11**	**11**	**12**	**11**	**114**

GOVERNANCE STRUCTURES

In order to comply with these principles, the NHBRC has and continues to design and implement appropriate governance structures across the organization. NHBRC acknowledges that, for it to set up an effective governance framework, robust governance structures need to be in place. The following Council Committees operate as at 01 August 2018 together with their respective terms of reference in the form of Committee Charters. Council delegates powers to its committees, of which committee members are specialists in their respective fields and areas of governance. The Council has established seven committees to ensure effective corporate governance.

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 to the warranty fund, and the administration of its fund or any other Council fund. The committee regularly reviews management's financial reports before submission to Council for approval, recommends the budget for approval by Council and advises Council on all other financial matters.

Table 5: Fund Advisory and Finance Committee

Name	Position
Ms. Noluthando Molao	Chairperson and Council Member
Mr. Choeu Makabate	Council Member
Mr. Zenzele Myeza	Council Member
Mr. Goolam Manack	Council Member
Ms. Mampe Kotsi	Council Member

REGISTRATION COMMITTEE

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

Table 6: Registration Committee

Name	Position
Mr. Whitey Jacobs	Chairperson and Council Member
Mr. Roy Mnisi	Council Member
Mr. Roseberry Sonto	Council Member
Ms. Noluthando Molao	Council Member
Dr. Julieka Bayat	Council Member

HUMAN CAPITAL AND REMUNERATION COMMITTEE

The Human Capital and Remuneration Committee advise Council on employees' remuneration policies and makes recommendations to the Council in relation to employees' annual salary adjustments and performance bonus pay out. This committee also maintains a corporate overview of the Council's human capital policies such as employees.

Table 7: Human Capital and Remuneration Committee

Name	Position
Mr. Zenzele Myeza	Chairperson and Council Member
Dr. Julieka Bayat	Council Member
Mr. Roy Mnisi	Council Member
Mr. Whitey Jacobs	Council Member
Ms Bongiwe Duba	Council Member

INDUSTRY ADVISORY COMMITTEE

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

Table 8: Industry Advisory Committee

Name	Position
Mr. Choue Makabate	Chairperson and Council Member
Mr. Ntsikana Hoyana	Council Member
Dr. Julieka Bayat	Council Member
Ms. Nthabiseng Tsenase	Council Member

SOCIAL ETHICS AND TRANSFORMATION COMMITTEE

The Social Ethics and Transformation Committee's role is to advocate for ethics throughout the NHBRC's operations by:

- Determining clearly articulated ethical standards

(Code of Ethics) and ensuring that the NHBRC takes measures to adhere to these in all aspects of the business;

- Overseeing the review of material risks relating to the provisions of the Code of Ethics and of the management of risks to ensure that such are part of the NHBRC's risk management programme;
- Obtaining independent assurance on the NHBRC's ethics performance on an annual basis; and
- Providing guidance on the review and approval of the NHBRC's Safety, Health and Environment policy and strategy.

Table 9: Social Ethics and Transformation Committee

Name	Position
Ms. Bongiwe Duba	Chairperson and Council Member
Ms. Mampe Kotsi	Council Member
Mr. Ntsikana Hoyana	Council Member
Mr. Roseberry Sonto	Council Member
Ms. Nthabiseng Tsenase	Council Member

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. The Committee is constituted by a panel of legally qualified chairpersons and technical assessors who are all independent Non-Council members appointed by Council for the term of office of Council.

During this financial year, Council established a panel of independent Chairpersons and Assessors with the required professional and technical expertise.

AUDIT AND RISK COMMITTEE

The function of the Audit and Risk Committee (the Committee) of the NHBRC is to assist the Council of the NHBRC in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of financial reports and statements. These tasks are conducted in line with all applicable legal requirements and accounting standards as prescribed in the Public Finance Management Act of 1999 (Act no. 1 of 1999) (the PFMA). The Committee operates in terms of written Terms of Reference (The Audit and Risk Committee Charter) which provides clear guidelines with regard to the membership, authority and responsibilities. The Audit & Risk Committee Charter was reviewed and updated in the financial year under review.

Table 10: Audit and Risk Committee

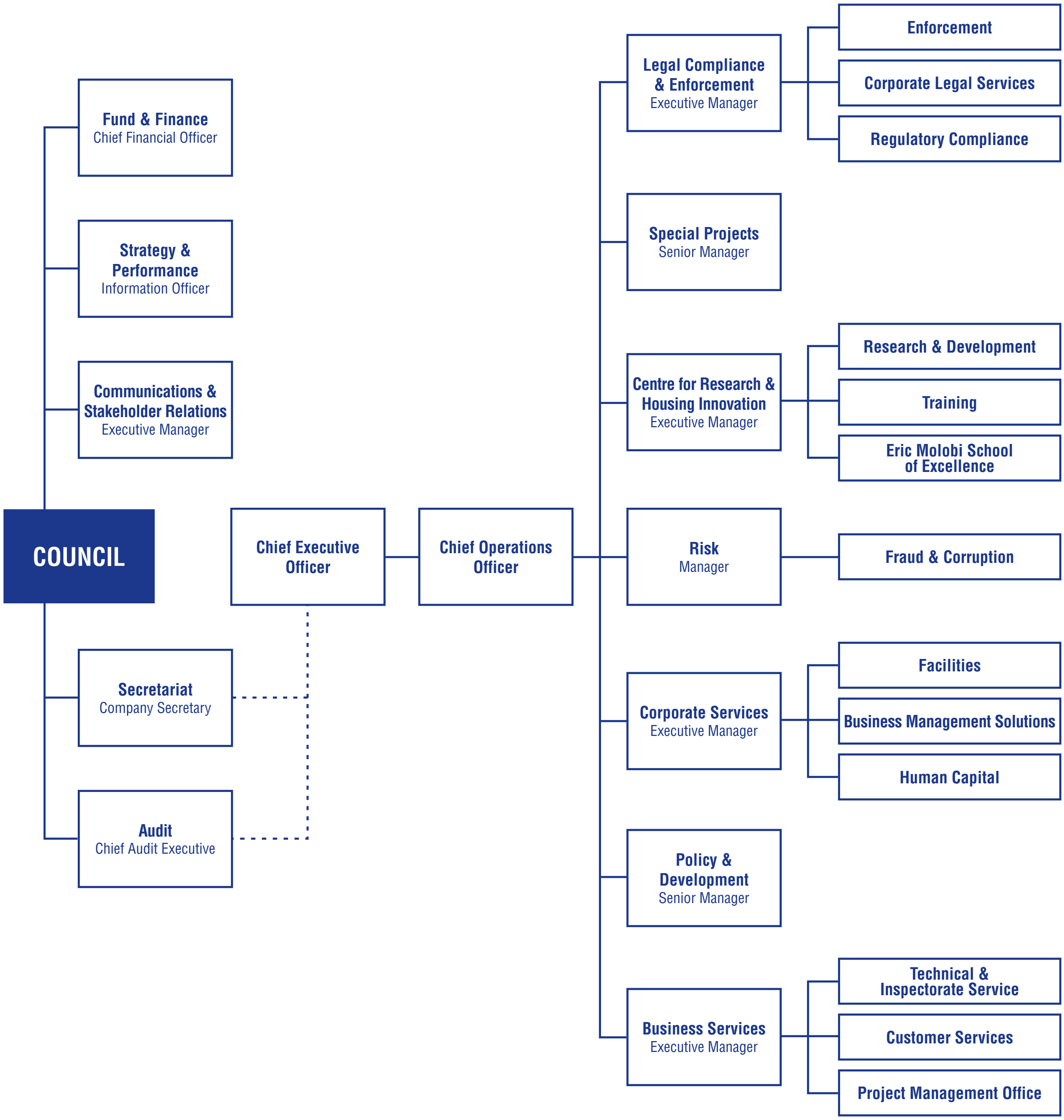
Name	Position
Mr. Sathie Gounden	Chairperson and Independent Non-Council Member
Mr. Zenzele Myeza	Council Member
Mr. Goolam Manack	Council Member
Mr. Roy Mnisi	Council Member
Ms. Bongiwe Duba	Council Member

Table 11: Attendance of Committees of Council Meetings

Member Name	Capacity	Committee Meetings						Total per Member
		FAFC	HCREMCO	STEC	IAC	REGCOM	ARCO	
Dr. Julieka Bayat	Chairperson	1	1	1	1	–	–	4
Mr. Enoch Godongwana	Chairperson		–	–	–	–	–	0
Ms. Mampe Kotsi	Deputy Chairperson	5	–	–	–	5		10
Ms. Bongiwe Duba	Member	–	1	4	–	–	5	10
Mr. Unathi Hoyana	Member	–	–	4	3	–	–	7
Mr. Mziwonke Jacobs	Member	–	–	4	–	5	–	9
Mr. Choeu Makabate	Member	6	–	–	4		–	10
Mr. Goolam Manack	Member	6	–	–	–	–	3	9
Mr. David Mapikitla	Member	–	–	–	3	–	–	3
Mr. Roy Mnisi	Member	–	5	–	–	4	–	9
Ms. Noluthando Molao	Member	6	–	–	3	–	–	9
Mr. Zenzele Myeza	Member	–	–	3		–	5	8
Mr. Roseberry Sonto	Member	–	5	–	–	5		10
Mr. Siphamandla Kumkani	Member		1	–	–	–	–	1
Ms. Nthabiseng Tsenase	Member	–	5	–	–	5	–	10
Total Attendance		**24**	**18**	**16**	**14**	**24**	**13**	**109**

SECTION 4: ORGANISATIONAL ARRANGEMENTS

The organisational arrangements of the NHBRC are reflected in the organogram below:



4.1 RISK MANAGEMENT

In terms of the Public Finance Management Act (PFMA) section 51 sub-section 41(a)(i), the Accounting Authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial, risk management, and internal controls. Further to that, in terms of regulation 27.2.1 of the National Treasury, the Accounting Authority must ensure that a risk assessment is conducted regularly to identify the emerging risks of the public entity.

The NHBRC ensures improvement in the management of identified strategic risks through its risk monitoring activities. It is also committed to improving its risk performance on an ongoing basis, where high risk areas have been identified. As a result, the NHBRC has adopted and implemented an integrated risk based approach which is underpinned by the following principles:

- A positive risk culture is the cornerstone of good governance;
- The decision making process takes into consideration both real and potential risks facing the organisation;
- The acceptance that risk management should be embedded in daily operations;
- Risk management must take into account the micro and macro environments;
- Acceptance that the accountability for risk management cannot be deferred or shifted; and
- Balance between risk and control is vitally important.

RESPONSIBILITIES OF THE DIFFERENT ENTERPRISE RISK MANAGEMENT UNITS WITHIN THE NHBRC

The organisation's Enterprise Risk Management (ERM) function is managed under the leadership of the Chief Risk Officer (CRO). Her main responsibility is to provide specialist expertise to assist in embedding risk management into the NHBRC culture and to direct and enhance performance. One of the main responsibilities of the CRO is to assist management in developing the organisation's vision for risk management as well as the organisation's Risk Management framework.

ENTERPRISE RISK MANAGEMENT (ERM)

Monitoring of the risk management function is done by the Council through the Audit and Risk Committee (ARCO). The ARCO monitors strategic risks of the NHBRC through the strategic register which is developed annually. Management therefore develops its operational risk register based on the strategic risk register. The ERM Unit, at an operational level is responsible for creating and maintaining a risk awareness culture.

SAFETY, HEALTH & ENVIRONMENT (SHE)

The Occupational Health and Safety Act, 1993 (Act No.85 of 1993) (OHS Act) has been prioritised by the NHBRC to provide a safe workplace for employees, while staff members have a duty to work and behave in compliance with the safety directives of the organisation. The SHE Unit has been charged with ensuring that the organisation provides a safe and healthy working environment for its employees, contractors, visitors and stakeholders by establishing safety policy, procedures, guidelines, and standards. This is vital because embedding a workplace health and safety culture within the NHBRC is essential for the well-being of both employers and employees.

SECURITY RISK MANAGEMENT

The core responsibility of the Unit is to safeguard the NHBRC's assets and resources through implementing and enforcing the desired security risk culture, processes and structures that are focused on increasing the benefits of security in favour of organisational objectives. Adopting a risk-based approach to

security management allows the NHBRC to prioritise its business activities founded on the likelihood and consequence of a security related risk being realised. This is done to enhance positive business outcomes while reducing the occurrences or events that may have a negative effect on the desired outcomes.

ANTI-FRAUD & CORRUPTION

In support of the approved Risk Management Framework, the organisation has established an Anti-Fraud and Corruption Unit. The NHBRC has a legal responsibility in terms of PFMA to take appropriate steps to prevent unauthorised, irregular, fruitless, wasteful expenditure and losses as a result of criminal conduct. The NHBRC also has an independent Whistle blowing Solutions facility which is administered by Advance Call. Reports are issued on a monthly basis and fraudulent conduct is investigated by a forensic investigation team who present these reports to Audit and Risk on a quarterly basis. The Anti-Fraud and Corruption policy together with the investigation manual are in place to address any fraudulent activities.

BUSINESS CONTINUITY MANAGEMENT (BCM)

In accordance with the requirements of the International Standard Organisation (ISO) 22301 Business Continuity Management System Standard and good practice, the NHBRC has developed a business continuity plan devised to maintain business continuity in the event of any business disruption. This plan would be invoked should the NHBRC primary facility somehow be damaged or inaccessible. Through the programme, the organisation has identified activities and critically facilitated the consideration of threats and risks, resulting in the identification of strategies for risk reduction, recovery and management.

ETHICS OFFICE

The NHBRC is committed to upholding and maintaining high ethical standards in all its dealings with both internal and external stakeholders. The organisation takes into cognisance that ethical conduct forms the foundational pillars of good governance. Awareness sessions on ethics are conducted across the organisation and monthly ethics messages are sent to all staff through internal communication to promote an ethical culture.

4.2 INTERNAL AUDIT

The Internal Audit Section provides an independent view of the effectiveness of risk and control management while enhancing and protecting organisational value by providing risk-based and objective assurance, advice, and insight. The NHBRC has an in-house Internal Audit (IA) that utilises external subject matter expertise in key areas that cover, amongst others, the following:

- Investments in Financial Markets
- Ethics and Corporate governance
- Financial audits
- IT/Cyber Security
- Quality housing
- Business sustainability and continuity

The annual internal audit activities are informed and guided by the approved Internal Audit Charter, Annual Performance Plan and Strategic Corporate Plan. Internal Audit has adopted the agile methodology in its planning and the audit plans and projects are assessed on a quarterly basis or more often driven by the volatile, uncertain, complex environment in which the NHBRC operates. Internal Audit was also instrumental in assisting business units to ensure they are focused and prioritised addressing significant governance, risk and control findings that emerged from both Internal Audit, Risk Management and the 2017/18 External Audit Report. Furthermore, Internal Audit has effectively implemented the internal audit plan as approved by the Audit and Risk Management Committee.

BUSINESS ASSURANCE ENHANCEMENT PROJECTS

The NHBRC governance, risk management and compliance environment is under-going significant changes driven mainly by the increasingly challenging external macro operating environment which has become characterised by volatility, uncertainty and complexity that challenges business planning and operations. It has required audit to improve on its assurance and advisory strategies to assist in ensuring that NHBRC has in place effective and responsive governance, risk management and control processes to survive and thrive in its challenging operating environment.

In response to growing Stakeholder demands for effective and visible governance, risk management and good corporate citizenship, The Internal Audit Section is driving the development and implementation of the concept of Combined Assurance within the NHBRC to ensure integration of business, risk management, compliance and internal audit efforts in identifying, managing and reporting on significant business risks.

COMBINED ASSURANCE PROJECT

This project has gained traction and it is co-driven by the Internal Audit, Risk Management and the Compliance sections. The end-goal is to ensure that there is integrated assurance and reporting by strengthening the governance, risk management and compliance processes within the NHBRC operations, systems and processes.

The project entails leveraging on/off technology to achieve the integrated goal. The Audit section has rolled out the utilisation of automated auditing software which now encompasses tracking and monitoring of audit findings, risk management activities and compliance issues in a near real-time manner to allow relevant business management to act on these issues and account accordingly using the technology. The technology is currently under implementation.

The automation of the combined assurance process will enable business management to access and address audit, risk management and compliance deficiencies in their area of responsibility, and in turn Council's oversight role will be significantly enhanced in this area as Executive Management accountability will be entrenched.

Coupled with enhanced Council oversight on governance, risk management and compliance, the NHBRC will be able to implement consequential management in instances where serious governance, risk management or compliance failure has occurred.

DATA ANALYTICS

Internal Audit has also started a process to develop and implement continuous auditing technology which will dramatically audit to access and utilize the huge data and information that resides within and outside the NHBRC to produce better and deeper audit services for Executive and Council.

These audits will greatly empower business and Council especially by providing frequent reports that will provide better insight and foresight and trends that traditional audits have not been able to provide because of failure to exploit data and information resources.

4.3 CORPORATE COMMUNICATION & MARKETING

During the 2019/20 financial year, the Corporate Communication and Marketing unit continued to roll-out the approved integrated marketing and communications strategy informed by the following key objectives:

- Awareness of NHBRC positioning, mandate, services, values and benefits to create relevance;
- Education about property related transactions in order to produce property-savvy consumers;
- Promoting access to our products and services using digital media and mobile offices in order to improve service delivery and interaction with all stakeholders; and
- Relationship building in order to develop win-win relations with all key stakeholders internally and externally.

These objectives are delivered through programmes focusing on the following strategic areas, namely: stakeholder and media engagement, external communications and branding, digital media, and internal engagement.

PUBLIC RELATIONS AND MEDIA ENGAGEMENT

The NHBRC implemented its housing consumer's awareness campaign through its media-buying agreement with the Government Communication and Information System (GCIS). The partnership with the GCIS has managed to unlock other opportunities in communications, marketing, media, advertising, content production and communication research which aims to improve brand awareness activities and yield increased utility of the approved budget for the financial year under review.

The objective of the housing consumer awareness campaign is to educate and create awareness about consumers' rights and responsibilities, our mandate, and our products and services. The campaign ran on various media platforms which included generic radio, in-taxi television adverts and TV using digital brand integration in popular youth, drama and soapies.

In addition to this, NHBRC entered into a media partnership with the DSTV's Home Channel through which NHBRC had an opportunity to engage in a tactical sponsorship during Season 3 of the popular All About Property programme. Lasting a period of 13 weeks, produce 30 seconds of commercial, 3 six-minute non-branded interviews with NHBRC representatives, thirteen 30 second home-building tips. On the digital front, the NHBRC was able to engage in two-way communications with key stakeholders about home building related matters.

In terms of media engagement, the NHBRC issued 11 media statements, conducted 17 media interviews and provided responses to a number of issues ranging from developer irregularities, partnership programmes, and the Housing Consumers Protection Bill, to illegal building of homes in Lenasia, scams by home builders, consumer complaints, and Council members' oversight visits to provinces, amongst others. These received extensive media coverage which can be categorised as neutral.

DIGITAL MEDIA

There has been significant surge in all our social media engagement statistics. These recorded increases can be attributed to fresh and engaging content and bringing on-board our new marketing agency. The NHBRC continued to run monthly campaigns with engaging content and real-time response which has aided us in gaining more followers and thus increasing our digital footprint. Currently we have 8 172 Twitter and 10 814 Facebook followers respectively and plans are afoot to expand this to include Instagram and LinkedIn platforms.

BRANDING

Nationally, there has been an increase in the branding of provincial housing projects under construction where the NHBRC is actively assuring quality of these developments. The signs displayed on the construction sites reflect the name of the inspector allocated to the project as well as the responsible provincial manager's contact details.

With the assistance of the marketing agency, a comprehensive Housing Consumer Warranty pack was developed and these will be distributed to those consumers receiving their title deeds. The corporate identity manual, which regulates the use of our brand was successfully updated and work-shopped, in order to comply with internal audit findings. All the strategic publications, the corporate strategic plan, annual performance plan and annual report were published in time and in compliance with our shareholder requirements ultimately being presented at Parliament.

STAKEHOLDER ENGAGEMENTS

In the 2019/20 financial year the NHBRC took a number of initiatives to increase awareness. These include home builder's renewal digital campaigns and the Housing Protection Bill road shows in all our provinces. In the fourth quarter, there were engagements with 5 974 of our primary stakeholders i.e. housing consumers and home builders. There are a total of 956 STEP stakeholders of whom were 695 women, 247 young people, and 14 disabled.

Since the start of the national road show which aimed to inform the public about the proposed Housing Consumer Protection Bill, there was a need to provide public information on the new bill in all the official languages. The team partnered the National Department of Arts and Culture who offered to translate the presentation on the new bill into 7 of the major languages – these were also published on our website. These road shows were also broadcast live on our digital platforms, resulting in increases of followers on these platforms. Another key highlight of the year was the partnership with the National Department of Human Settlements, by hosting Public Information Sessions in all the provinces, targeting housing consumers and potential home builders.

The Minister of Human Settlements, Water and Sanitation, Lindiwe Sisulu, MP hosted the 2020 Human Settlements Indaba and Exhibition. The main objective of the Indaba was to strengthen partnerships with different stakeholders for sustainable human settlements through innovation, intergovernmental relations, infrastructure development and maintenance and inclusive special planning. A ministerial Awards Dinner took place on the eve of the Indaba where leadership from NHBRC was in attendance. The NHBRC also continue to support the four designated groups, namely youth, women, disabled people and military veterans through its Social Corporate Investment programme.

INTERNAL ENGAGEMENT

Internally, the NHBRC strive to keep its employees engaged through daily messages which seek to inform and educate teams on operational achievements and challenges. The internal communications channels continue to be updated and expanded to include bulk SMSes and WhatsApp messages.

The team also successfully ran an internal branding campaign for the digital services journey aimed at the NHRBC employees, who also participated in the selection of the campaign name - Phambile. As part of entrenching a value-based ethical culture within the organization, the team partnered with the Change Management office to launch "The NHBRC Way" internally.

The monthly Ethics Messages communicated to employees were changed to Safety Messages in light of the recent COVID-19 pandemic and the need to keep our teams informed on how to keep safe by following recommended hygiene habits and the practice of social distancing.

4.4 STRATEGY AND PERFORMANCE INFORMATION MANAGEMENT

The purpose of the strategy and performance information management section is to ensure that the organisation achieves its broader strategic objectives and key performance indicators that are contained in the approved annual performance plan. The strategy and performance information section is responsible for the management of strategic planning process for sections, provinces and divisions. The various sections, provinces and divisions are guided on the process to be followed so that they can produce the divisional scorecards, provincial scorecards and sectional scorecards. The scorecards are then evaluated for compliance so that they are monitored and evaluated on a monthly and quarterly basis.

The section is responsible for coordinating the performance of the organisation and for ensuring the compilation of the quarterly performance information report which is then sent to the National Department of Human Settlements at the end of each quarter, after it has been approved by Council. The Section is responsible for ensuring that the portfolio of evidence (POE) that supports the claimed performance is loaded in the correct way in the relevant portals. The process has been designed in such a way that Internal Audit ensures that the report is audited before it is submitted to the Executive Authority.

The section ensures that performance is coordinated and an annual report is produced and submitted to the Executive Authority and presented to the Portfolio Committee in a timely manner.

The Section is also tasked with the management of the Promotion of Access to Information Act so that no individual releases information from the organisation to outside parties without it being signed off by the Information Officer.

4.5 CENTRE FOR RESEARCH AND HOUSING INNOVATION

The Centre for Research and Housing Innovation (CRHI) has the objective is to generate, provide and test knowledge related to the home building sector. To be more specific, this includes the application of research, technical training and material testing. In terms of this objective, there were a number of projects that the CRHI executed and below is an elaboration of some of the projects successfully completed during the year under review.

During the 2019/20 financial year, the NHBRC partnered with the women-owned company to construct an IBT home for an 80 year old grandmother who lives with her two grandchildren in a dilapidated mud hut in the Free State province. The NHBRC continues to introduce new technology in the country by using IBT-approved service providers on its database to construct houses for needy citizens.

TRAINING

The NHBRC is required by the Law (Section 3(h)) of the Housing Consumer Protection Measures Act (Act 95 of 1998) to establish, build capacity and improve the technical competence level of home builders and inspectors. Subsequently the NHBRC established continual education and training programmes for home builders and inspectors. These programmes remain instrumental in improving home builders' and inspectors' knowledge, skills, understanding and motivation to deliver quality homes.

The NHBRC identifies home builders through its partnerships with provincial departments, municipalities and other organisations involved in training and empowering the designated groups. Learners are trained through theory and on-site in a number of trades in the homebuilding industry.

Training is done either in-house, or outsourced and the NHBRC is accredited in the following courses by the Construction Education and Training Authority:

- National Certificate: Building and Civil;
- National Certificate: Construction Contractors; and
- National Certificate: Community Home builder.

The following are the key programmes of the Education, Training and Development Unit:

- Emerging Home Builder Training;
- Technical Professional Training (Inspectors);
- Military Veterans Training;
- Artisan Development Training;
- The training of People with Disabilities;
- Youth Brigade Training; and
- Women in Human Settlements.

The total number of emerging home builders trained for the review period amounted to 3 145 up from 2 541 trained in the previous financial year. This training programme focuses on supporting home builders with technical and management skills. Majority of training conducted in this category is triggered by non-compliances identified on site during inspections where contractors are recommended for training to improve the quality standard.

There were 2 214 youth trained in the year under review, up from 2 184 in the previous financial year. This is the training aimed at capacitating youth brigades participating in the home building environment. The NHBRC, in partnership with the Western Department of Human Settlements, trained a group of youth in bricklaying at the Boland College in Paarl.

The women's training programme aimed at empowering women contractors in Human Settlements show 2 021 women trained in the year under review, which is a slight decrease from 2 042 trained in the previous financial year.

The total number of artisans trained in the year under review was 514, up from 448 in the previous financial year. These programmes assist youth that wish to continue studying at the institution of higher learning by the enrolling them and paying their tuition fees. The learners are then encouraged and assisted to establish entities and undertake sub-constructive contracts within construction projects.

The NHBRC, in partnership with the various government departments, provincial and local governments and associations, participates in programmes aimed at supporting military veterans. For the year under review there were 385 military veterans trained, up from 262 in the previous financial year.

To support people living with disabilities, the NHBRC trained 384 learners in this category which is an improvement from the 262 trained, in the previous financial year.

In ensuring that inspectors employed by the NHBRC, provincial government and municipalities continually improve the technical competency level, the NHBRC trained 891 technical professionals in the year under review. This is an improvement from the 602 trained in the previous financial year.

Table 12: Summary of Training Performance by Category for 2019/20

Training Programme	Male	Female	Total
Emerging home builders	1668	1477	3145
Technical professionals, building inspectors	548	343	891
Military veterans	285	100	385
Artisans	202	312	514
People living with disabilities	201	183	384
Youth	927	1287	2214
Women	–	2021	2021
Total	**3831**	**5723**	**9554**

During the financial year under review, the NHBRC trained 5 723 women and 3 831 men and this is evidence that the construction industry is transforming.

4.6 BUSINESS MANAGEMENT SERVICES

The purpose of the Business Management Solutions (BMS) section is to provide an effective and efficient ICT platform and services to support and enhance business functions and operations. The main focus for BMS during the 2019/20 financial year has been implementation of e-services for home builders and housing consumers to make NHBRC services accessible through internet and applications.

4.7 CHIEF OPERATIONS OFFICER

The Chief Operating Officer's area consists of the following divisions:

- Business Services division
- Corporate Services division
- Legal Compliance and Enforcement division

The performance for the areas for the 2019/20 financial year is as outlined below:

4.7.1 BUSINESS SERVICES DIVISION

The Business services division is centred on protecting the housing consumers, organisational efficiency and effectiveness, and contributing to broad macroeconomic objectives related to the sector. The division consists of three sections which are Customer Services, Technical and Inspectorate as well as the Project Management Office.

CUSTOMER SERVICES SECTION

The customer service section consists of nine provincial customer service centres across the country. These centres serve as a central point of contact with housing consumers and stakeholders, where all service offerings such as registration of home builders and enrolment of homes are processed. In addition, the provincial customer service centres are supported by satellite offices to cater for home builders and housing consumers who finds it difficult to access the services at the central point.

KEY FOCUS AREAS

In line with the vision that we are "Champions of the Housing Consumer" the Business Services Division renders the timeous quality services for its stakeholders and housing consumers through the following service offerings:

REGULATION AND PROTECTION

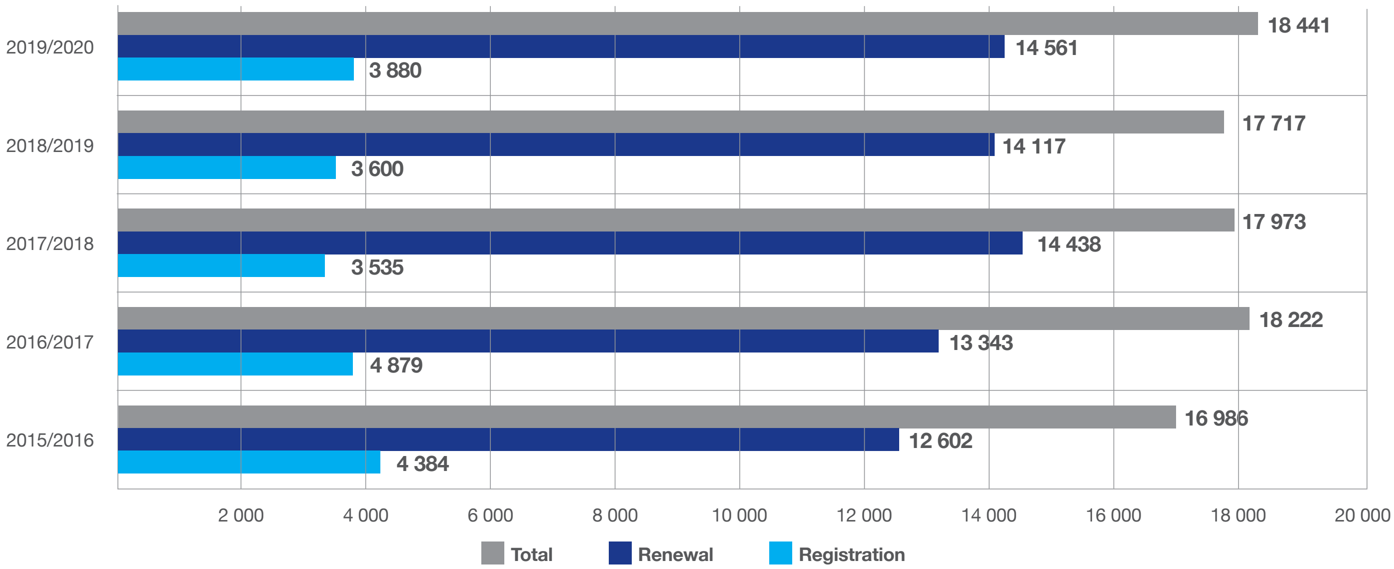
Registrations of home builders and renewal of registration

Any person who is in the business of home building is required to register with the NHBRC in terms of the Act. Registration refers to the process undertaken by the applicant to register with the NHBRC as a home builder. Renewal refers to the process undertaken by a home builder to renew their registration with the NHBRC.

The graph on the following page highlights the number of new home builders who registered with the NHBRC over a five year period. A total of 3 880 new home builders registered with the NHBRC during the 2019/20 financial year. This represents a growth of 8% compared to the performance of the previous financial year.

For the year under review 14 561 home builders renewed their registration with the NHBRC, which represents an increase of 3% when compared to the renewal of home builders in the previous financial year. The financial year 2019/20 recorded the highest number of renewal over the last five years.

Figure 8: Registrations and Renewal of Registrations



Enrolment of homes

Enrolment of a home refers to an application submitted by a home builder for a particular home to be entered into the records of the NHBRC. The Act prescribes that a home builder shall not commence the construction of a home unless the home builder has submitted the prescribed documents, information and prescribed enrolment fees to the NHBRC, and the NHBRC has issued a certificate of proof of enrolment. This includes the construction or acquisition of a home which will be financed from the state housing subsidy.

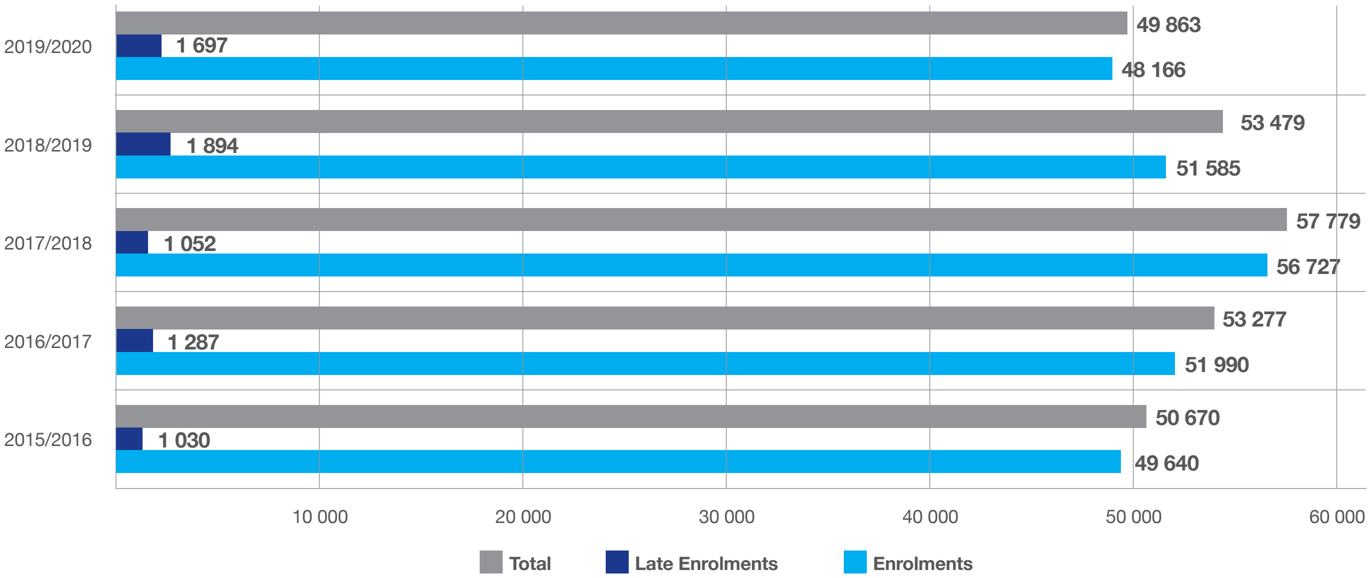
Enrolment of homes in the non-subsidy sector

The chart (Figure 9) indicates that 48 166 homes were enrolled as normal and 1 697 homes were enrolled late, which total 49 863 homes enrolled with the NHBRC during the financial year 2019/20. This represents a decrease of 7% when compared with the performance of the previous financial year which was 53 479 (51 585 normal enrolment and 1 894 late enrolments).

49 863

homes enrolled with the NHBRC during the financial year 2019/20

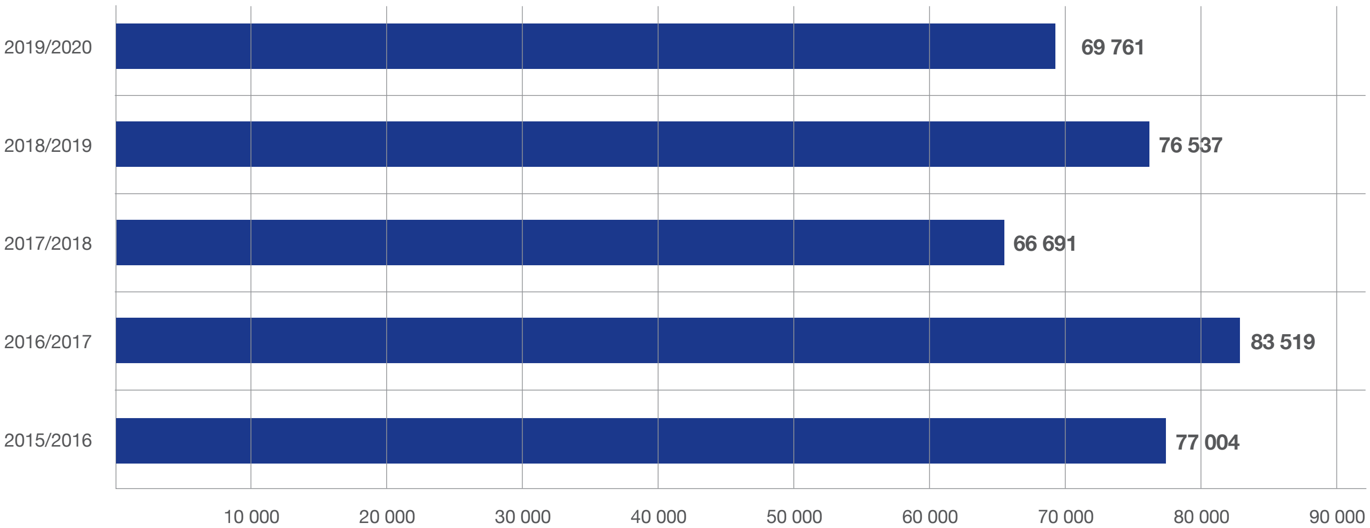
Figure 9: Non-Subsidy Enrolment and Late Enrolment of Homes



Enrolment of homes in the subsidy sector

During the financial year 2019/20, a total of 69 761 homes in the subsidy sector were enrolled with the NHBRC. This represents a 9% decrease when compared to the performance of previous financial year.

Figure 10: Subsidy Enrolments



Inspection of homes

Section 5(4)(b) of the Act, mandates the NHBRC to enrol and inspect the categories of all new homes under construction to confirm quality and compliance in terms of workmanship and materials used for construction. In line with the NHBRC payoff line of "assuring quality homes" the NHBRC, through its inspection process, ensures that homes are constructed in accordance with the Home Building Manual and other technical building standards and regulations. The NHBRC conducts a minimum of four and maximum of eight inspections for every new home enrolled and under construction.

Inspection of homes built in the non-subsidy and subsidy

During 2019/20, a total of 22 418 non-subsidy and 27 228 subsidy enrolled homes were inspected by the NHBRC. These are the houses that were completed in the financial year, whereas 2018/19 performance included both completed homes and those that were still under construction at the end of the reporting period.

Figure 11: Non-Subsidy and Subsidy Homes Inspected over 5 Year Period

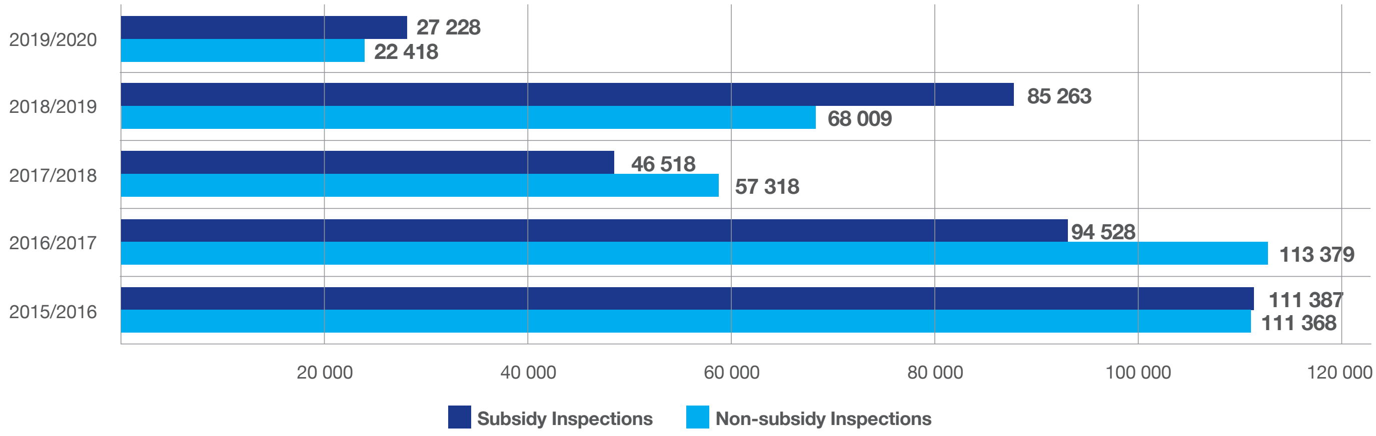
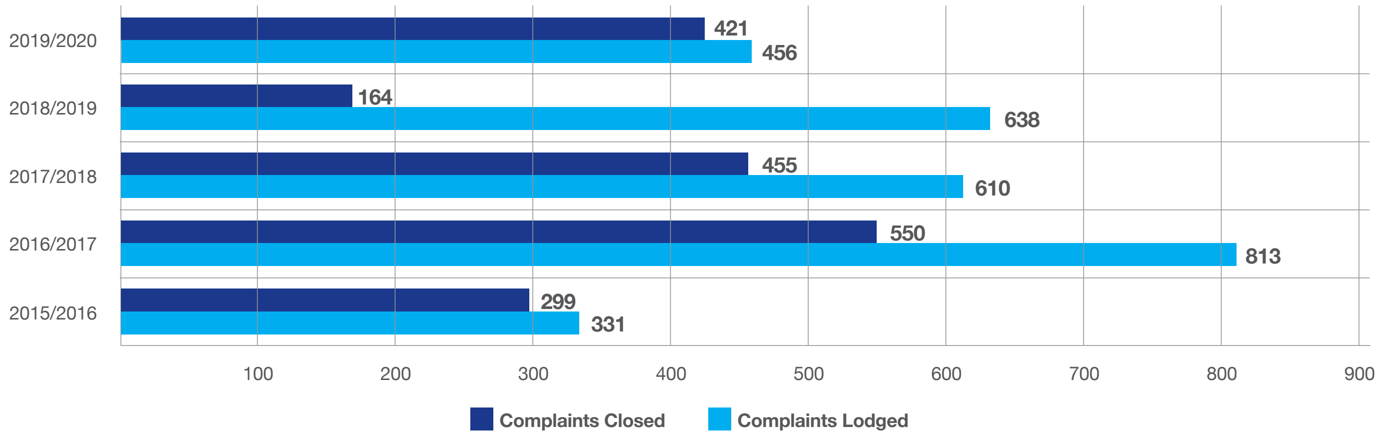


Figure 12: Complaints Lodged and Closed



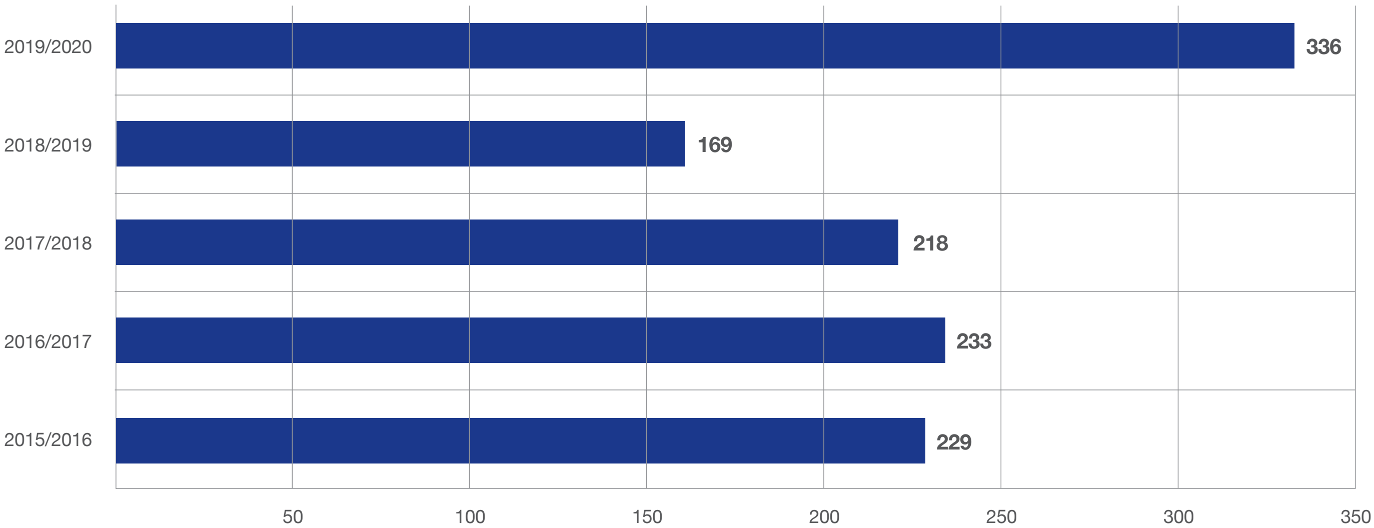
The NHBRC's strategic intent is to ensure that home builders deliver sustainable quality homes without infringing on the rights of housing consumers. Housing consumers refer complaints to the NHBRC where the home builder has failed to respond within a specified time frame, or fails to honour his/her obligation, or declines the liability. For the NHBRC to process the complaint, the home builder should be unwilling or unable to rectify defects.

The types of complaints are as follows:

- Complaints relating to three months non-compliance from the date of occupation, with or without deviation of terms, plans and specifications of the agreement or any deficiency related to design workmanship.
- Complaints relating to roof leaks which have emanated within the first 12 months of occupation
- Complaints relating to five year major structural defect from the date of occupation.

During the 2019/20 financial year, the NHBRC had 456 active complaints on its system and a total of 421 were closed successfully. These are complaints in the non-subsidy sector only. The number of complaints registered represent a decrease of 27 compared to the complaints received during the 2018/19 financial year.

Figure 13: Conciliation Matters Addressed by NHBRC



The NHBRC had 336 matters escalated from the complaints stage to the conciliation stage. Conciliations include the process of engaging with the homeowner and initial home builder that enrolled the house to address the nature of defects reported by the homeowner.

Remedial works

Where the home builder is unable or unwilling to rectify the reported defects, the NHBRC will utilise its warranty fund for the rectification. For the financial year 2019/20 the NHBRC spent a total of R10.8m from its warranty fund.

Table 13: Remedial Claims for the Past Five Years

Claims against the Fund (R')	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Foundation	353 386	–	–	20 769	–
Substructure	1 605 413	1 198 581	321 724	25 336	372 819
Superstructure	869 915	634 128	68 899	552 419	1 059 145
Roof structure	34 709	24 515	–	–	386 500
Professional fees	332 875	4 721	–	331 705	808 720
Settlement	1 015 589	6 277 572	7 759 509	1 917 662	8 065 829
Transport and storage	4 059	–	–	–	1 484
Accommodation	238 980	25 000	25 000	96 668	118 534
Total claims against fund	**4 481 925**	**8 164 518**	**8 176 132**	**2 944 587**	**10 813 031**

4.7.2 CORPORATE SERVICES DIVISION

The purpose of the Corporate Services division is to support the organisation to achieve its objectives by ensuring that the organisation possesses capable and skilled employees, that there is provision of a safe and conducive work environment and space, and that change is managed both strategically and operationally. The division consists of three sections, namely human capital, facilities management and organisational change management. Annually, corporate services implements its activities in line with its operational plan and these are measured and reported quarterly. In the year under review, there were critical milestones that were achieved such as the implementation of the new Travel Model, filling of critical positions, and the launching of the New NHBRC Way.

To enable employees to maximise their potential and get the most out of their careers, the NHBRC promotes the continuous professional and personal development of its staff. Investment in skills and accelerating employees' professional and personal development are key priorities. In the year under review, 464 employees were trained in various development programmes which were job-specific and business-focused. Additionally, the NHBRC awarded 27 bursaries to the employees to further their studies, this brings the total bursary-holder number to 157 in the financial year under review.

Human Capital

The human capital section provides professional support to improve the human assets of an organization and increases the employee efficiency. This is achieved through talent management, employee relations and wellness, training and development as well as payroll and benefits management. The underlying objective of the section is to ensure that the current and future skills and competencies match with the organisational mandate.

Headcount and Workforce Profile

As at the end of the 2019/20 financial year there were 633 (634 in 2018/19) permanent staff members at the NHBRC which represents 97% of positions filled. During the year under review, some of the critical positions were filled namely, Executive Manager: Corporate Services, Supply Chain Manager, Regional Manager: Coastal and the Finance Manager. The table below provides the total number of employees, internship placement, temporary and permanent employees and independent contractors.

Table 14: Workforce Profile as at 31 March 2020

Occupational Levels	Male				Female				Foreign Nationals		Total
	A	C	I	W	A	C	I	W	M	F	
Top Executive Management/Executive (Grade 1 – 3)	3 60%	0 0%	0 0%	0 0%	2 40%	0 0%	0 0%	0 0%	0	0	5
Senior Management (Grade 4 – 5)	6 40%	0 0%	2 13,3%	2 13,3%	3 20%	0 0%	0 0%	2 13,3%	0	0	15
Professionally qualified and experienced specialists and middle management (Grade 6 – 7)	45 50%	3 3,3%	2 2,2%	4 4,4%	33 36,6%	2 2,2%	1 1%	0 0%	0	0	90
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents (Grade 8 – 9)	79 43,9%	10 5,5%	3 1,7%	5 2,7%	76 42,2%	3 1,7%	3 1,7%	1 0,5%	0	0	180
Semi-skilled and discretionary decision making (Grade 10 – 13)	101 32%	10 3,1%	1 0,3%	4 1,3%	174 55,2%	13 4,1%	2 0,6%	10 3,1%	0	0	315
Unskilled and defined decision making (Grade 14 – 17)	6 21,4%	0 0%	0 0%	0 0%	21 75%	0 0%	0 0%	1 3,5%	0	0	28
Total Permanent	**240** **38%**	**23** **3,6%**	**8** **1,25**	**15** **2,3%**	**309** **49%**	**18** **2,8%**	**6** **0,9%**	**14** **2,2%**	**0**	**0**	**633**
Temporary employees	37 53,6%	1 1,4%	0 0%	1 1,4%	30 43,6%	0 0%	0 0%	0 0%	0	0	69
Grand Total	**277** **39,4%**	**24** **3,4%**	**8** **1,1%**	**16** **2,2%**	**339** **48,3%**	**18** **2,6%**	**6** **0,1%**	**14** **2%**	**0**	**0**	**702**

A = African; C = Coloured; I = Indian; W = White

In terms of annual staff turnover rate, the NHBRC was at 2,6% by the end of the financial year, which is below the set target of 5% which is considered an acceptable benchmark.

The table below provides the breakdown of the overall staff complement in the previous years:

Table 15: Breakdown of Workforce

Description	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Workforce	605	729	681	677	702
Permanent staff	578	632	636	634	633
Temporary staff	27	97	36	31	15
Interns	0	0	2	6	49
Consultants	0	0	7	6	5

Transformation

This highlights progress made by human capital management on the transformation targets set as per the approved social transformation charter and the NHBRC's employment equity plan. The dimensions include the employment targets for the women, youth and persons living with disabilities. It is in the interest of all organisations that are juristic persons, subject to the Employment Equity Act or 1995, to ensure that the workplaces are reflective of the demographics of the country, province and inclusion. The NHBRC is continuously committed to implementing its employment equity plan:

Table 16: Human Capital Social Transformation Scorecard

Designated Groups	Indicator	Target	Actual Achievement
Women	Percentage of women employees	At least 50% of the workforce	55%
	Women representation in senior management (1 – 3)	50% of executive and senior management	40%
	Women representation in middle management	At least 35% of middle management	35,6%
Youth	Percentage of employees who are classified as youth	At least 30% of the workforce	37%
People with disabilities	Number of employees with disabilities	At least 2% of the workforce	1,1%

Facilities Management

The Facilities Management (FM) section provides support to the organisation in four key areas namely:

- Real Estate and Property Management through acquisition and management of office space;
- Travel Model Management which include the provision of the tools of trade for the Inspectorate;
- Building Maintenance through the provision of facilities soft and hard services; and
- Document Management through the provision of a centralised information management.

During the year under review, the FM section developed and finalised a Real Estate and Facilities Management Strategy aimed at guiding the process of managing its property assets, facilities, and the acquisition thereof. The organisation has, in the 2019/20 financial year, seen a large number of leases coming up for renewal and new opportunities to enter into new leases. The process to renew these leases or enter into new ones was carried out within the provisions of the applicable supply chain management legislation policies as well as applicable circulars and practice notes issued by the National Treasury. In addition, the organisation took all practical measures to ensure that the buildings it leases in are compliant with the National Building Regulations as well as all applicable SHE frameworks and the requirements stipulated in the NHBRC transformation charter (such as accessibility for people with disabilities). Also, a number of general building maintenance and minor works were kick-started in 2019 including inter-alia, parking refurbishment and construction, lift installation and modernisation to address universal accessibility challenges.

The section led the development and implementation of a new travel model for field workers which was ultimately approved by Council. The model was developed to maximise management control and to reduce the risk of missed inspections while stabilizing the cost of doing business. The model includes the provision of a capital portion of acquiring a tool of trade Vehicle, as well as the operational requirements (fuel, oil & toll, and maintenance and tracking). The implementation date for the new model was 1 August 2019 and this was successfully achieved.

Organisational Change Management

The Organisational Change Management (OCM) section focuses on supporting the organisation to manage change at strategic and operational levels. Universally, it is understood that change affects employees in a particular company from an individuals and teams perspective. We strive to manage change both incrementally and discontinuously to promote efficiency and effectiveness within the organisation. All programmes and projects that are impacted by change are coordinated, communicated and managed in a structured approach. The diagram below highlights the key elements that Organisational Change Management which were contained in the OCM 2019/2020 plan.

Figure 14: Elements of Organisational Change Management

In line with the OCM strategy and plan, change was managed in line with the business strategy, strategic and operational programmes which are undertaken by business units in order to support employees to navigate through change.

In the financial year under review, the Organisational Change Management (OCM) launched the "NHBRC Way" campaign in conjunction with Marketing & Communications. This campaign was intended to drive and promote a value-based culture. A notable achievement by the section was the emergency office move for the Cape Town office. Furthermore, OCM section has collaborated with the Business Management Services for the development of the Organisational Change Management Strategy and driving the Digitization Project through cross-functional teams. It is anticipated that these initiatives will meaningfully contribute towards creating a healthy working environment in a purpose-led organisation. The OCM partnered with various divisions and sections to implement change management interventions.

4.7.3 LEGAL COMPLIANCE AND ENFORCEMENT DIVISION

The Division is divided into three sections with the following key strategic objectives:

a) Entrench a culture of compliance with applicable legislative and regulatory frameworks within the organisation;
b) Contribute to the execution of the organisational mandate through fair, effective and efficient enforcement of the Act; and
c) Safeguard the interests of the organisation through efficient contract management services, cutting edge legal advisory services and prudent litigation management.

Corporate Legal Services Section

Interdicts

The Legal Services Section is tasked with, amongst others, the responsibility to facilitate the interdict processes against home builders who:

a) Carry on the business of a home builders without being registered in terms of section 10 of the Housing Consumers Protection Measures Act
b) Commence with construction of a home without enrolment with the NHBRC in terms of section 14 of the Act; and
c) Prevents officials or agents of the NHBRC from carrying out their functions in terms of the Act.

Table 17: Interdicts Facilitated from 2015/16 to 2019/2020 Financial Year

Financial Year	Orders granted by the courts	% Orders granted by the courts	Builder complied: Internal intervention	% Builder complied: Internal intervention
2015/16	14	8%	30	12%
2016/17	14	8%	54	20%
2017/18	35	19%	39	15%
2018/19	49	27%	73	27%
2019/20	72	39%	72	26%
Total	**184**	**100%**	**268**	**100%**

The above table shows a consistent increase in respect of court orders granted in favour of the NHBRC as well as initiatives to ensure compliance with the Act by home builders without having to resort to court. It further shows that a total of 49 and 72 orders were granted by the courts in favour of the NHBRC for the periods 2018/19 and 2019/20 financial years, respectively. This represents an increase of 47% in 2019/20 financial year.

In respect of instances where there was intervention from the NHBRC prior to resorting to the courts, a total of 73 and 72 home builders complied during the periods 2018/19 and 2019/20 financial years, respectively, representing a decline of 1%.

Recoveries

The Corporate Legal Services Section is tasked with the responsibility to recover the following:

a) amounts disbursed out of the warranty fund for rectification of defects in accordance with section 17(1) of the Housing Consumers Protection Measures Act, from the defaulting home builders, developers and/or any person who caused or contributed to the failure of the home builder in respect of his or her obligations to rectify structural defects;
b) fines imposed by the Disciplinary Committee against home builders for failing to comply with the Act and other legislations thereto; and
c) legal costs in instances where the NHBRC was

awarded costs in terms of a court judgment or arbitration.

As per the table below, the NHBRC recovered R2,6 million during the financial year 2019/20. This amount has increased by 53% compared to R1,7 million for the financial year 2018/19.

Recovery of monies as per the Act continues to improve. This is as a result of the Disciplinary Committee imposing penalties as required by the Act and the home builders abiding by the committee's verdicts. In addition, 15% of the monies recovered is in respect of legal costs awarded to the NHBRC in litigation matters.

Table 18: Recoveries from Defaulting Home Builders for the Last Five Years

Financial Year	Recovery Amount
2015/16	R1.5m
2016/17	R1.6m
2017/18	R1.6m
2018/19	R1.7m
2019/20	R2.6m

Regulatory Compliance Section

The Regulatory Compliance Function focused on the following key performance areas as contained in the 2019/2020 approved regulatory compliance annual plan:

a) internal governance targets including the maintenance of the regulatory universe and the compliance frameworks;

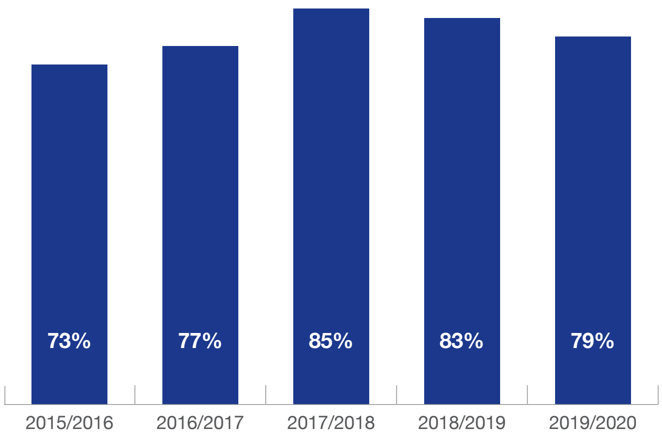
b) compilation of the compliance risk management plans for the legislation included in the annual plan for the year;

c) monitoring and reporting on high priority compliance risks in the various sections of the NHBRC;

d) provision of on the job practical training and mentoring of compliance champions in order to empower them to conduct efficient monitoring and reporting on compliance risks in their respective sections or provincial offices;

e) reporting to the Executive Committee, Committees of Council, specifically, the Audit and Risk Committee and Council on progress relating to the approved annual plan.

Figure 15: % Implementation of Approved Annual Performance Plan



The table above demonstrates that the division achieved a performance of 73% for the 2015/16 financial year which increased to 77% in the 2016/17 financial year. The performance continued to improve to 85% in 2017/18. However, performance declined to 83% in the 2018/19 financial year, representing a decline of 2%, due to the inability to complete awareness and monitoring in respect of some of the medium risk pieces of legislation as the focus was more on high priority legislation for the period. The performance achieved for 2019/20 financial year is 79%, representing a decline of 4% due to the function taking on a wider range of compliance monitoring activities than in previous years on secondary topical issues. The core legislation applicable to the NHBRC is routinely monitored on a monthly basis.

Enforcement Section

In terms of section 11 (3) of the Act, Council may suspend a registered home builder's registration or refuse to enrol such home builder's 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.

Further, 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 000.00 or a warning, in instances where a home builder has been found guilty of contravening the provisions of the Act.

During the 2019/20 financial year, 64 home builders were suspended for failure to comply with specific provisions of the Act and 673 matters were adjudicated upon by the Disciplinary Committee

The offences before the Committee are generally in relation to failure by the home builder to rectify major structural defects, failure to rectify workmanship related defects, failure to enrol homes, and code of conduct related matters.

Suspensions turnaround times

The NHBRC approved annual performance plan 2019/20 demonstrates that 80% of home builders will be suspended within 10 days from the date of receipt of instruction by the paralegals.

The performance achieved for 2019/20 financial year is 95% and the target was exceeded by 15%.

Table 19: Suspensions Matters for the Last Five Years

	2015/16		2016/17		2017/18		2018/19		2019/20	
Province	**Suspensions**	**%**	**Suspensions**	**%**	**Suspensions**	**%**	**Suspensions**	**%**	**Suspensions**	**%**
Eastern Cape	10	4%	0	0%	3	1%	0	0%	0	0%
Freestate	2	1%	5	4%	3	1%	1	0.7%	3	5%
Gauteng	13	5%	55	39%	70	33%	48	36%	7	11%
KwaZulu-Natal	44	18%	19	13%	29	14%	1	0.7%	6	9%
Limpopo	69	28%	17	12%	16	8%	39	29%	25	39%
Mpumalanga	35	14%	15	11%	16	8%	11	8%	4	6%
Northern Cape	6	2%	1	1%	3	1%	0	0%	2	3%
North West	22	9%	9	6%	5	2%	1	0.7%	0	0%
Western Cape	45	18%	21	15%	66	31%	33	25%	17	27%
Total	**246**	**100%**	**142**	**100%**	**211**	**100%**	**134**	**100%**	**64**	**100%**

Figure 16: Suspension of Defaulting Home Builders

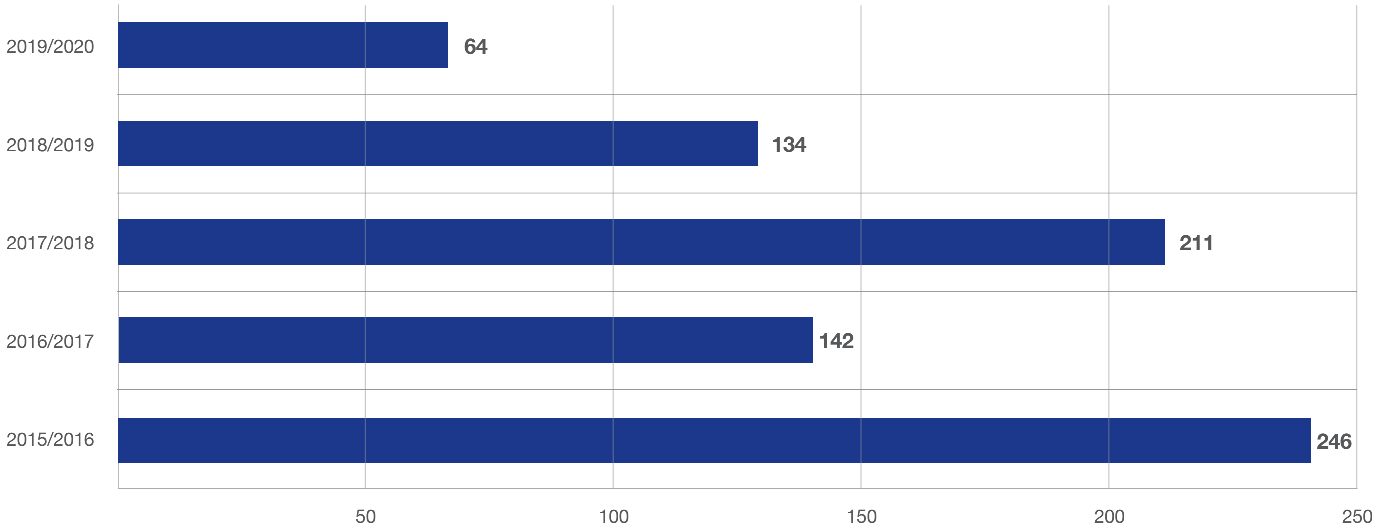


Table 19 indicates that a total of 134 home builders were suspended in the 2018/2019 financial year compared to 64 home builders who were suspended in the 2019/20 financial year. This represents a decrease of 52% for the latter financial year. Numerous training and awareness programmes that are undertaken with various stakeholders (both internal and external) on the legislative framework are part of the key reason for the said decline. These are part of the organisation's initiatives not only to ensure visibility in the industry, but also to ensure compliance with the Act.

The consistent enforcement of the Act is instilling a culture of compliance amongst home builders due to the fact that home builders are aware that corrective action will be taken against them if they contravene the Act.

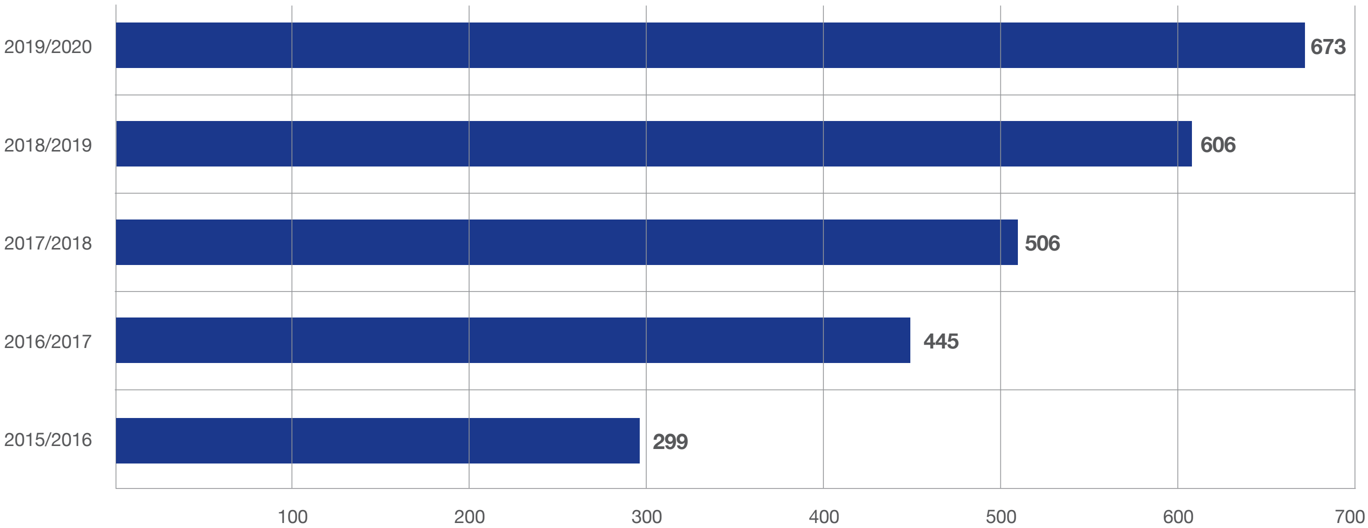
Disciplinary committee turnaround

The NHBRC approved Annual Performance Plan 2019/20 demonstrates defaulting home builders must be prosecuted within 120 days from the date of suspension. The performance achieved for 2019/20 financial year is 57% and the target was missed by 23%. This target was missed due to an increased number of instructions, especially for code of conduct matters which are more involved than administrative non-compliance matters. In order to address this challenge, two (2) more prosecutors have been appointed to ensure that there is sufficient capacity to handle the increasing number of matters.

Table 20: Disciplinary Hearings Matters for the Last Five Years

	2015/16		2016/17		2017/18		2018/19		2019/20	
Province	**DC Hearings**	**%**	**DC Hearings**	**%**	**DC Hearings**	**%**	**DC Hearings**	**%**	**DC Hearings**	**%**
Eastern Cape	20	7%	8	2%	28	6%	30	5%	29	4%
Free State	12	4%	11	2%	26	5%	25	4%	27	4%
Gauteng	96	32%	101	23%	106	21%	166	27%	142	21%
KwaZulu-Natal	54	18%	71	16%	141	28%	134	22%	197	29%
Limpopo	19	6%	72	16%	44	9%	38	6%	41	6%
Mpumalanga	18	6%	71	16%	39	8%	47	8%	70	11%
Northern Cape	12	4%	4	1%	3	1%	12	2%	17	3%
North West	29	10%	42	9%	35	7%	54	9%	43	6%
Western Cape	39	13%	65	15%	84	17%	100	17%	107	16%
Total	**299**	**100%**	**445**	**100%**	**506**	**100%**	**606**	**100%**	**673**	**100%**

Figure 17: Disciplinary Matters



The above table and chart indicate that a total of 606 home builders were prosecuted in the 2018/2019 financial year compared to 673 in 2019/20 financial year.

There has been a consistent increase in the number of matters adjudicated upon by the Committee with the 2016/17 to 2017/18 financial year showing 14% and 18% increase for the period 2017/18 to 2018/19 and 11% increase for the period 2018/19 to 2019/20 financial years.

Criminal matters handled in the financial year

The number of criminal matters opened with the South African Police Services (SAPS) as required by section 21 of the Housing Consumers Protection Measures Act. All these matters are in respect of home builders who carry on the business of building homes without having registered as such in terms of section 10 of the Act.

The NHBRC, continues to forge relations with a number of key stakeholders such as the National Prosecuting Authority(NPA) and the SAPS by exploring various initiatives to ensure compliance with the Act and where there is none, to ensure that the defaulters are held accountable as prescribed by the law. These initiatives have resulted in a constant increase of criminal cases registered by NHBRC investigators since 2015/16.

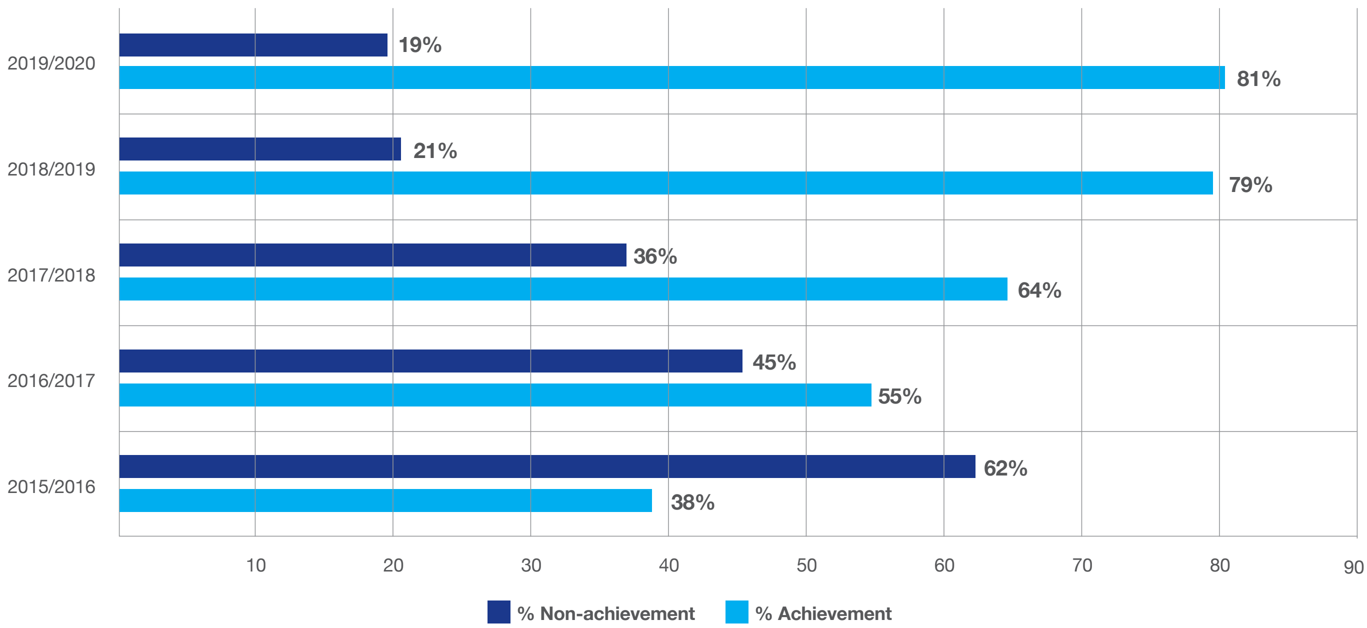
In 2019/20 financial year, 123 cases were opened with the SAPS and it is anticipated that the number of prosecutions will increase in the upcoming years as housing consumers become more aware of their rights against unscrupulous home builders. The above performance represent a decline of 25% and this is attributed to home builders complying with the notices of non compliance issued.

The involvement of the NPA and SAPS also contributed to the success rate of prosecutions matters as all parties understand the mandate and the role of the NHBRC.

SECTION 5: PERFORMANCE INFORMATION 2019/20

The NHBRC performance achievement is measured on the number of key performance indicators where targets were achieved against the total number of key performance indicators as outlined in the annual plan. The performance for the 2019/20 shows that 81% of the set targets were achieved. This achievement represents an improvement from the 79% achieved in 2018/19.

Figure 18: Summary of Performance Information Trends over the Last Five Years



PROGRAMME 1: ADMINISTRATION AND GOVERNANCE

Strategic Objective: To improve the cost effectiveness and internal efficiencies of operations

#	KPA	KPI	Annual Target	Target Met/ Not Met	Actual Achievement	Reason for Variation
1.1	% Maintenance of network availability	% Maintenance of network availability	99% Maintenance of network availability	Target Not Met	98%	Load shedding interrupted availability of network
1.2	% Maintenance of SAP system availability	% Maintenance of SAP system availability	99% Maintenance of SAP system availability	Target Met	99.88%	The system availability was maintained to ensure there is no service interuptions
1.3	% Implementation of human capital plan	% Implementation of human capital plan	100% Implementation of human capital plan	Target Met	100%	The plan was achieved to ensure complaince with regislative frameworks
1.4	% Implementation of facilities management plan	% Implementation of facilities management plan	100% Implementation of facilities management plan	Target Met	100%	The plan was achieved to ensure that NHBRC has compliant facilities and contracted are renewed/extended for stability of offices.

#	KPA	KPI	Annual Target	Target Met/ Not Met	Actual Achievement	Reason for Variation
1.5	% Implementation of policy management plan	% Implementation of policy management plan	100% Implementation of policy management plan	Target Met	100%	The plan was achieved to ensure that the organisation has responsive and updated policies.
1.6	Operating surplus > budget	Operating surplus > budget	Operating surplus > budget	Target Met	Actual is R87 million against a budget of R47.5million	The budget was effectively managed as part of cost containment measures.
1.7	% BEE spend	% BEE spend	Achieve BEE spend of 65%	Target Met	72%	The procurement process prioritizes the BEE companies to ensure complaince with the legislation and to uplift previously disadvantaged companies.
1.8	Number of days within which suppliers are paid	Number of days within which suppliers are paid	Suppliers paid within 30 days	Target Met	21 days	The suppliers were paid on time as required by the Treasury regulations and to ensure suppliers are not discouraged to offer services to the NHBRC.

PROGRAMME 2: REGULATION

Strategic Objective: To ensure an effective regulatory compliance

#	KPA	KPI	Annual Target	Target Met/ Not Met	Actual Achievement	Reason for Variation
2.1	Number of home builders to be registered	Number of home builders to be registered	2 885 home builders to be registered	Target Met	3 880	The increase is due to housing consumer awareness conducted by the Communication department and a need for emerging contractors to register with the NHBRC in order to participate in government tenders.
2.2	Number of home builders to renew their registration	Number of home builders to renew their registration	12 903 home builders to renew their registration	Target Met	14 561	The increase in the number of renewal was due to renewal reminders communicated to home builders and tenders advertised by the department of human settlements which makes it mandatory for accredited home builders.
2.3	Number of homes to be inspected in the non-subsidy sector	Number of homes to be inspected in the non-subsidy sector	50 130 homes to be inspected in non-subsidy sector	Target Not Met	22 418	The target was based on the number of enrolled homes where constriction was completed in the year. There were additional homes under construction but not completed at the end of the financial year.
2.4	Number of homes inspected in the subsidy sector	Number of homes inspected in the subsidy sector	75 379 homes to be inspected in the subsidy sector	Target Not Met	27 228	The target was based on the number of enrolled homes where construction was completed in the year. There were additional homes under constriction but not completed at the end of the financial year.

PROGRAMME 2: REGULATION

Strategic Objective: To ensure an effective regulatory compliance

#	KPA	KPI	Annual Target	Target Met/ Not Met	Actual Achievement	Reason for Variation
2.5	% of prosecutable matters suspended within 10 working days of receipt of instruction by Paralegal	% of prosecutable matters suspended within 10 working days of receipt of instruction by Paralegal	80% of prosecutable matters suspended within 10 working days of receipt of instruction by Paralegal	Target Met	95%	Due to the screening process that takes place before the home builders are recommended for suspension, more home builders were suspended within 10 working days.
2.6	% of prosecutable matters set down for hearing before Disciplinary Committee (DC) within the 120 working days from date of suspension OR from date of receipt of instruction	% of prosecutable matters set down for hearing before Disciplinary Committee (DC) within the 120 working days from date of suspension OR from date of receipt of instruction	80% of prosecutable matters set down for hearing before the DC within 120 working days from date of suspension OR from date of receipt of instruction	Target Not Met	57%	The NHBRC continued to experience an increased number of instructions, especially for code of conduct matters which are more involved than administrative non-compliance matters.

Strategic Objective: To research and introduce innovative product methods and technologies within the home building industry

#	KPA	KPI	Annual Target	Target Met/ Not Met	Actual Achievement	Reason for Variation
2.7	Conduct a study on the impact of NHBRC builders training within the home built environment	Conduct a study on the impact of NHBRC builders training within the home built environment	Conduct a study on the impact of NHBRC builders training within the home built environment	Target Met	Study on the impact of NHBRC builders training within the homebuilt environment was conducted	Target achieved as planned
2.8	% Completion of a design, construction and evaluation of a green edge rated IBT house	% Completion of a design, construction and evaluation of a green edge rated IBT house	50% completion of a green edge rated compliant IBT house as per project plan	Target Met	50%	Target achieved as planned
2.9	Number of home builders to be trained	Number of home builders to be trained	2 400 home builders to be trained	Target Met	3 145	Training requests are often received from home builders who have deviated from approved building standards and/or home builders who want to undergo training for registration purposes. In both instances particularly this financial year the NHBRC received overwhelming requests that we could not turn away since this request talks directly to the mandate of NHBRC. The NHBRC employs a hybrid model to train. The NHBRC utilises the services of TVETS - the only service provider of choice when such training cannot be offered utilising the services of internal trainers. NHBRC staff members conducted the majority of the training therefore there were minimal expenses.
2.10	Number of youth to be trained	Number of youth to be trained	2 000 youth to be trained	Target Met	2 214	Youth training is requested by government establishments -the Departments and Municipalities that has running projects or new projects planned, NHBRC accommodate the empowerment of Youth from those communities without reservations. NHBRC staff members conducted majority of the training therefore there were minimal expenses.

#	KPA	KPI	Annual Target	Target Met/ Not Met	Actual Achievement	Reason for Variation
2.11	Number of women to be trained	Number of women to be trained	1 980 women to be trained	Target Met	2 021	Women training is requested by government establishments - the Departments and Municipalities and in some isolated cases recognised women in construction organisation that has running projects or new projects planned, NHBRC accommodates the empowerment of Women from those communities without reservations. NHBRC staff members conducted majority of the training therefore there were minimal expenses.
2.12	Number of military veterans to be trained	Number of military veterans to be trained	300 military veterans to be trained	Target Met	385	NHBRC accepts all the learners from Military Veterans institutions, (Department of Military Veterans) NHBRC has an MOU with DMV to train military veterans especially for projects that are constructed for Military Veterans purposes so that they can participate in the mainstream economy through construction of projects. Because of the utilisation of internal staff, NHBRC is able to accommodate more numbers than target where additional numbers are sent by the respective government institution.
2.13	Number of people with disabilities to be trained	Number of people with disabilities to be trained	365 people with disabilities to be trained	Target Met	384	NHBRC accepts requests to train learners with disabilities from government establishments and recognised institutions that represents the interest of people with disabilities) the NHBRC introduced new modules to the NHBRC training package which appetised a number of this targeted group. And because of the utilisation of internal staff, the NHBRC was able to accommodate more numbers than targeted where additional numbers are sent by the respective government institution.
2.14	Number of technical professionals to be trained	Number of technical professionals to be trained	695 technical professionals to be trained	Target Met	891	The training number was exceeded due to the introduction of IBT training and continuation of Home Building Technical Skills to Technical Professionals in Municipalities and in the Departments. Internal NHBRC staff conducted these trainings.
2.15	Number of artisans to be trained	Number of artisans to be trained	500 artisans to be trained	Target Met	514	When recruitment is done at the institutions, the NHBRC makes provision of extra learners to accommodate those that may dropout during the programme.

PROGRAMME 3: CONSUMER PROTECTION

Strategic Objective: To ensure an effective regulatory compliance

#	KPA	KPI	Annual Target	Target Met/ Not Met	Actual Achievement	Reason for Variation
3.1	Number of homes to be enrolled in the subsidy sector	Number of homes to be enrolled in the subsidy sector	63 614 homes to be enrolled in the subsidy sector	Target Met	69 761	Target achieved as planned
3.2	Number of homes enrolments non-subsidy	Number of homes enrolments non-subsidy	50 130 homes to be enrolled in the non-subsidy sector	Target Not Met	48 166	Established contractors are being liquidated due to the construction industry being on the decline caused by the economic crisis faced in South Africa.

Strategic Objective: To improve cost effectiveness and internal efficiencies of operations

#	KPA	KPI	Annual Target	Target Met/ Not Met	Actual Achievement	Reason for Variation
3.3	% Implementation of communication plan	% Implementation of communication plan	100% Implementation of communication plan	Target Met	100%	Target achieved as planned

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

1. I have audited the financial statements of the National Home Builders Registration Council set out on pages 66 to 116, which comprise the statement of financial position as at 31 March 2020, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Home Builders Registration Council as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

BASIS FOR OPINION

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the entity in accordance with sections 290 and 291 of the Code of Ethics for Professional Accountants and parts 1 and 3 of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board for Accountants (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

EMPHASIS OF MATTERS

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

Restatement of corresponding figures

7. As disclosed in note 25 to the financial statements, the corresponding figures for 31 March 2019 were restated as a result of an error in the financial statements of the entity at, and for the year ended, 31 March 2020.

Significant uncertainty

8. With reference to note 26 to the financial statements, the public entity is a defendant in various legal claims. The public entity is opposing claims of R543 million as it believes it has reasonable grounds to defend each claim. The ultimate outcome of the matters could not be determined and no provision for any liability that may result was made in the financial statements.

OTHER MATTER

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

Unaudited supplementary schedules

10. The supplementary information set out on page 116 does not form part of the financial statements and is presented as additional information. We have not audited these schedules and, accordingly, we do not express an opinion thereon.

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

11. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with Standards of GRAP and the requirements of the PFMA, 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.

12. In preparing the financial statements, the accounting authority is responsible for assessing the public entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

AUDITOR-GENERAL'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

13. My objectives are to obtain reasonable assurance about whether financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

INTRODUCTION AND SCOPE

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

16. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators / measures included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programme presented in the annual performance report of the public entity for the year ended 31 March 2020:

Programme	Pages in the annual performance report
Programme 2 – Regulation	55 – 57

18. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

19. I did not identify any material findings on the usefulness and reliability of the reported performance information for this programme:
    - Programme 2: Regulation.

OTHER MATTERS

20. I draw attention to the matters below.

Achievement of planned targets

21. Refer to the annual performance report on pages 54 to 57 for information on the achievement of planned targets for the year and explanations provided for the under and overachievement of a number of targets.

Adjustment of material misstatements

22. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Programme 2 - Regulation. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

23. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the public entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

24. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance and annual report

25. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1) (b) of the PFMA. Material misstatements of liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

26. Effective and appropriate steps were not taken to prevent irregular expenditure of R1,4 million as disclosed in note 23.3 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The irregular expenditure was caused by non-compliance with supply chain prescripts on emergency procurement.

OTHER INFORMATION

27. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected programme presented in the annual performance report that have been specifically reported on in the auditor's report.
28. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
29. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with financial statements and the selected programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
30. I did not receive the other information prior to the date of this auditor's report. When I do receive and read the other information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract the auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

INTERNAL CONTROL DEFICIENCIES

31. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
32. Management did not adequately review the financial statements submitted for auditing, as evidenced by the identified material misstatements, which were corrected due to the audit process.
33. The public entity's implementation and monitoring processes have not been effective to ensure compliance with its legislation.

Auditor General

Pretoria
31 October 2020

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information selected and on the entity's compliance with respect to the selected subject matters.

FINANCIAL STATEMENTS

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
   - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
   - obtain an understanding of internal control relevant to the audit 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.
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the council, which constitutes the accounting authority.
   - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the entity to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause the entity to cease operating as a going concern.
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that | achieves fair presentation.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

3. I communicate with accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

AUDIT AND RISK COMMITTEE (ARCO) ANNUAL REPORT ON THE NHBRC

The Audit and Risk Committee (ARCO) confirms that it has complied with its responsibilities arising from section 38(1) of the PFMA and Treasury Regulations 3.1.13. ARCO has adoption of formal terms of reference as its Audit & Risk Committee Charter, has regulated its activities in compliance with the Charter and has discharged all its responsibilities as contained therein. In the conduct of its duties, ARCO has, inter alia, reviewed the following:

i. The effectiveness of the internal control systems;

ii. The operational risk areas covered in the scope of internal and external audits;

iii. The adequacy, reliability and accuracy of financial information provided to management and other users of such information; Any accounting and auditing concerns identified as a result of internal and external audits;

iv. Compliance with legal, accounting and regulatory frameworks; and

v. The activities of the Internal Audit Function, including its annual work program, co-ordination with external auditors,

vi. These tasks are conducted in line with all applicable legal requirements and accounting standards as prescribed in the Public Finance Management Act of 1999 (Act no. 1 of 1999) (the PFMA). The Audit and Risk Committee Charter provides clear guidelines with regard to the membership, authority and responsibilities. The Audit & Risk Committee Charter is reviewed and updated annually. The membership of ARCO as at 31 March 2020 comprised of one (1) independent external member, who was serving as Chairperson and four members of Council and their attendance is reflected in the table, below:

Members	Qualification	Scheduled Meetings	Total Meetings Attended
Mr. Sathie Gounden (Chairperson)	B. Compt. (UNISA), Diploma in Accountancy – Post Graduate (UDW), Chartered Accountant (SA), Chartered Director (SA)	5	5
Ms. Bongiwe Duba	Executive Leadership Development for Municipal Management (University of Pretoria), BA Psychology (UNISA)	5	5
Mr. Zenzele Myeza	Bcom (UNIZUL), MBA (UDW)	5	4
Mr. Goolam Manack	M.Sc. - Public Policy and Management (University of London)	5	4
Mr. Roy Mnisi (Appointed Feb 2020)	LLB (UJ), Postgraduate Certificate in Compliance Management (UJ), Admitted Attorney of the High Court	1	1

Invitees

The CEO, COO, CFO, Internal Audit Manager and the Chief Risk Officer have a standing invitation to attend the meetings of ARCO. For the year under review the Committee met five times to discharge its mandate. These meetings were well attended by ARCO members. The Auditor General and Internal Audit are invited to attend all the meetings of ARCO. The NHBRC Company Secretary acts as secretary of ARCO.

Functions

The functions discharged by ARCO, in accordance with its charter, included the following:

Oversight of:

- the financial and performance reporting process,
- the activities of the internal and external audits, and facilitation of a coordinated approach between these functions,
- the effectiveness of risk management, compliance and governance processes.

Review of:

- Quarterly and year-end financial statements to ensure that they are prepared in the manner required by the PFMA and GRAP,
- The external audit plan, budget, and reports on the Annual Financial Statements,
- The internal audit charter, annual audit plan and reports,
- The Internal Audit's three-year audit plan, and annual budgets,

- The risk management reports,
- The audited Annual Financial Statements and annual performance report.

Approval of:

- The internal audit charter, budget, and three-year audit plan,
- Auditor-General's audit fees, engagement terms and audit strategy,
- Auditor-General's engagement team's independence.

Audit and Risk Committee responsibility

- ARCO reports that it has discharged its responsibilities arising from Section 51(1) (a) (ii) of the PFMA and Treasury Regulation 27.
- ARCO further reports that it has discharged all its responsibilities as contained in the ARCO Charter.

Internal Audit

- ARCO acknowledges that an effective internal audit function is central to the proper operation of the Committee. The Internal Audit of the NBRC, compiled and presented its three-year rolling strategic plan for the review and approval of ARCO. The plan was approved by ARCO after it was satisfied that the plan was in line with the requirements of the PFMA, Treasury Regulations and is risk-based, as required by Internal Auditing Standards.
- ARCO is satisfied that Internal audit has discharged its functions objectively and with independence in compliance with its Charter.

Auditor-General

- ARCO reviewed the external audit plan, as prepared and presented by the Auditor-General in terms of the Public Audit Act for the year ended 31 March 2020. ARCO confirms that this plan was in line with Regulations and standards, and that the plan takes into consideration the NHBRC risk register for the year under review.

Risk management and internal control

- ARCO continued to review and to report on NHBRC's risk management practices, internal policies, and procedures that they are effective and adequate to safeguard the NHBRC resources and promote the achievement of its objectives. ARCO is satisfied with the progress made in the risk management processes.
- Based on internal audits that were performed during the 2019/20 financial period, the overall control environment of the related processes subject to internal audit has improved from the previous year. ARCO is still concerned that the internal control environment is not totally effective. Mnagement has undertaken to correct the deficiencies in the control environment.

Evaluation of the Audit & Risk Committee

- ARCO is required to have its adequacy and effectiveness evaluated annually. During the year under review a self-evaluation was carried out and the results were satisfactory. One member was added onto ARCO during the year, in order to complement the skills and expertise of ARCO.

Evaluation of financial statements and annual performance report

- ARCO reviewed the annual financial statements and annual performance report of the NHBRC for the financial year ended 31 March 2020 and is satisfied that, in all material respects, the financial statements and annual performance report comply with the relevant provisions of the PFMA, GRAP including any interpretations, guidelines and directives issued by the Accounting Standards Board.
- ARCO reviewed and discussed the NHRC's annual financial statements and annual performance report to be included in the Annual Report, with the Auditor-General of South Africa and the Accounting Officer of NHBRC.

Conclusion

ARCO concurs with and accepts the Auditor-General's conclusions on the annual financial statements, the annual performance report and compliance with legislation, and recommends that the audited report of the Auditor-General be accepted and approved by the Council for inclusion in the anuual report for submission to the Shareholder and NHBRC stakeholders.

Sathie Gounden
Chairperson of ARCO **Date:** 30 October 2020

SECTION 6: FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITY
for the year ended 31 March 2020

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 2020 presented on pages 67 to 116 have been prepared in accordance with 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 regulations 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 29 October 2020 for submission to the Auditor General and are signed on its behalf:

Chairperson of Council

Acting Chief Executive Officer

STATEMENT OF FINANCIAL POSITION

as at 31 March 2020

	Notes	2020 R	Restated 2019 R
ASSETS			
Non-current assets			
Property, plant and equipment	2	86 818 067	88 375 634
Intangible assets	3	56 013 992	71 291 392
Investments	4	3 393 858 883	3 350 168 302
Other receivables	6	784 695	566 466
		3 537 475 637	3 510 401 794
Current assets			
Investments	4	3 247 553 756	2 692 623 178
Inventories	5	10 473 048	11 940 689
Trade and other receivables	6	45 850 716	60 891 965
Cash and cash equivalents	7	766 870 143	1 096 606 145
		4 070 747 663	3 862 061 976
TOTAL ASSETS		**7 608 223 300**	**7 372 463 770**
EQUITY AND LIABILITIES			
Equity			
Accumulated surplus		5 892 884 741	5 753 715 961
Emerging contractor reserve	8	4 875 642	7 325 576
		5 897 760 384	5 761 041 536
LIABILITIES			
Non-current liabilities			
Provision for outstanding claims	9	19 163 056	34 896 160
Provision for unearned premium	9	738 104 845	606 857 366
Provision for unexpired risk	9	341 225 085	376 934 263
Deposits for guarantees	11	23 713 966	16 646 009
		1 122 206 951	1 035 333 799
Current liabilities			
Trade and other payables	10	100 239 977	100 385 833
Deposits for guarantees	11	19 999 665	17 775 071
Provision for outstanding claims	9	10 028 345	14 711 478
Provision for unearned premium	9	457 987 978	443 216 052
		588 255 965	576 088 435
TOTAL EQUITY AND LIABILITIES		**7 608 223 300**	**7 372 463 770**

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 31 March 2020

REVENUE	Notes	2020 R	Restated 2019 R
REVENUE FROM EXCHANGE TRANSACTIONS			
Insurance premium revenue	12	668 700 379	776 184 317
Fee revenue	13	80 016 941	101 043 788
Technical services revenue	14	15 346 610	675 000
Other revenue	15	37 210 893	24 911 453
Interest received and investment income	16	474 708 950	451 500 505
Unrealised gain on financial assets	4	–	12 646 639
Realised gain on financial assets	4	42 044 125	–
TOTAL REVENUE FROM EXCHANGE TRANSACTIONS		**1 318 027 898**	**1 366 961 702**
REVENUE FROM NON-EXCHANGE TRANSACTIONS			
Other income	15	12 241 228	5 501 057
TOTAL REVENUE		**1 330 269 127**	**1 372 462 759**
EXPENDITURE			
Insurance claims and loss adjustment expenses	17	9 603 207	(1 660 884)
Accreditation, builders manual and certificate cost	30.2	(1 487 823)	(1 184 935)
Technical services expenditure	30.3	(12 555 351)	(917 468)
Depreciation and amortisation	30.4	(22 073 948)	(23 357 650)
Employee cost	30.4	(534 444 533)	(485 737 251)
Administration expenses	30.4.25	(292 646 823)	(228 461 329)
Asset management service fees	4	(8 906 968)	(10 611 322)
Unrealised loss on financial assets	4	(331 033 076)	–
Realised loss on financial assets	4	–	(29 996 934)
Finance costs	19	(4 964)	(31 289)
TOTAL EXPENDITURE		**(1 193 550 279)**	**(781 959 060)**
SURPLUS FOR THE YEAR	**25**	**136 718 848**	**590 503 699**

STATEMENT OF CHANGES IN NET ASSETS
for the year ended 31 March 2020

	Notes	Accumulated Surplus R	Emerging Contractor Reserve R	Total R
Balance at 31 March 2018		**5 153 844 441**	**16 693 397**	**5 170 537 838**
Restated surplus	25	590 503 699		590 503 699
As previously reported		584 811 731	–	584 811 731
Restatement of prior year surplus		5 691 968	–	5 691 968
Reserve utilised	8	9 367 821	(9 367 821)	–
Balance at 31 March 2019-Restated	25	**5 753 715 961**	**7 325 576**	**5 761 041 536**
Surplus for the year ended 31 March 2020		136 718 848	–	136 718 848
Reserve utilised	8	2 449 933	(2 449 933)	–
Balance at 31 March 2020		**5 892 884 741**	**4 875 642**	**5 897 760 384**

CASH FLOW STATEMENT
for the year ended 31 March 2020

	Notes	2020 R	Restated 2019 R
Cash flows from operating activities			
Cash generated from operations	20.1	108 786 060	184 062 540
– Cash receipts from customers		792 906 406	840 129 620
– Cash paid to suppliers and employees		(684 120 346)	(656 067 080)
Interest paid	19	(4 964)	(31 289)
Interest received	16	30 003 499	23 905 549
Net cash inflow from operating activities		138 784 595	207 936 800
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(5 339 373)	(3 693 155)
Purchase of intangible assets	3	–	(352 499)
Purchase of financial assets	4	(14 009 771)	(2 366 877)
Net proceeds on sale of financial assets	20.2	(438 358 422)	567 262 899
Net cash outflow from investing activities		(457 707 566)	560 850 368
Cash flows from financing activities			
Claims paid	17	(10 813 031)	(3 231 118)
Net cash outflow from financing activities		(10 813 031)	(3 231 118)
Net increase/(decrease) in cash and cash equivalents		(329 736 002)	765 556 050
Cash and cash equivalents at beginning of year	7	1 096 606 145	331 050 095
Cash and cash equivalents at the end of the year	20.3	**766 870 143**	**1 096 606 145**

STATEMENT OF COMPARISON OF BUDGET INFORMATION WITH ACTUAL INFORMATION

for the year ended 31 March 2020

		2020	2020		Restated 2019	2019
Description	**Notes**	**Actual**	**Budget**	**Difference: Actual & Budget**	**Actual**	**Budget**
Revenue	1					
Fee income	1.1	80 016 941	32 008 642	48 008 299	101 043 788	21 050 969
Non-subsidy enrolments	1.2	559 494 346	680 610 281	(121 115 935)	592 533 678	547 818 089
Subsidy enrolments	1.4	219 516 260	175 278 978	44 237 282	232 361 454	244 870 212
Technical revenue	1.5	15 346 610	23 100 000	(7 753 390)	675 000	23 000 000
Other Revenue	1.6	49 452 122	2 100 000	47 352 122	30 412 510	2 000 000
Interest received & investment income	3	474 708 950	435 586 171	39 122 779	451 500 505	305 359 571
Unrealised gain on financial assets	3	–	51 154 861	(51 154 861)	12 646 639	119 101 600
Realised gain on financial assets	3	42 044 125	–	42 044 125	–	–
Total revenue		**1 440 579 354**	**1 399 838 933**	**40 740 421**	**1 421 173 574**	**1 263 200 441**
Actuarial Adjustments	1.3	(110 310 227)	–	(110 310 227)	(48 710 815)	(34 980 000)
Expenses	2					
Insurance claims & loss adjustment expenses		9 603 207	(9 200 000)	18 803 207	(1 660 884)	(7 950 000)
Accreditation, builders manual & certificate costs		(1 487 823)	(1 956 038)	468 215	(1 184 935)	(1 873 193)
Technical services expenditure	2.1	(12 555 351)	(16 000 000)	3 444 649	(917 468)	(8 800 000)
Council costs	2.2	(4 571 330)	(5 382 900)	811 570	(5 259 004)	(4 736 400)
Employee cost	2.3	(534 444 533)	(524 523 462)	(9 921 071)	(453 805 821)	(482 433 317)
Asset management services		(8 906 968)	(12 058 268)	3 151 300	(10 611 322)	(11 429 632)
General & administration costs	2.4	(310 149 440)	(308 488 637)	(1 660 803)	(278 491 404)	(287 933 802)
Unrealised loss on financial assets	3	(331 033 076)	–	(331 033 076)	–	–
Realised loss on financial assets	3	–	–	–	(29 996 934)	–
Finance costs		(4 964)	–	(4 964)	(31 289)	–
Total expenditure		**(1 193 550 279)**	**(877 609 305)**	**(315 940 974)**	**(781 959 060)**	**(805 156 343)**
Surplus for the period		**136 718 848**	**522 229 628**	**(385 510 781)**	**590 503 699**	**423 064 098**

NOTE

1. REVENUE

1.1. FEE INCOME

Fee income includes registration fees, renewal fees and project enrolments. The positive variance is due to the project enrolments being better than planned and this was a recovery from the prior year's backlog.

1.2. NON-SUBSIDY ENROLMENTS

The decrease of R121,1m is due to enrolment of homes at a lower value than anticipated.

1.3. CHANGE IN UNEARNED PREMIUM AND UNEXPIRED RISK

The budgeted unearned premium provision was based on past trends. Due to a change in assumption of six months, from the date of occupation as the result of lockdown and COVID-19, the unearned premium has increased.

1.4. SUBSIDY ENROLMENTS

Subsidy home enrolment revenue decreased by R44 million compared to budget. This is mainly due to the recovery of outstanding enrolment fees from provincial Human Settlement departments.

1.5. TECHNICAL REVENUE

SLA's were finalised with Provincial Department of Human settlement in order for work to commence as well as a decrease in the provision for doubtful debts resulted in a positive variance.

1.6. Other revenue

Other revenue is due to bad debt recovery and increase in DC fines in the current year.

2. EXPENDITURE

2.1. TECHNICAL SERVICE EXPENDITURE

This expenditure is in relation to technical service revenue.

2.2. COUNCIL COSTS

The council cost includes the council remuneration of R2 745 598 and the balance of R1 825 732 relates to council travel and accomodation, catering and conferences.

2.3. EMPLOYEE COSTS

The over expenditure in permanent staff cost is due to temporary positions that were filled due too backlog in inspections and stabilisation of the SAP system.

2.4. GENERAL AND ADMINISTRATION EXPENSES

General and administration expenditure were stringently managed by the organisation.

3. INCOME FROM INVESTMENTS

Decrease in investments was largely driven by weak commodity markets and its impact on equities, while poor economic conditions contributed to lower bond values.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2020

1. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act 1 of 1999). These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand and rounded to the nearest Rand. A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

1.1 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from the estimates that may be material to the financial statements.

1.1.1 Trade receivables and other financial assets

The entity assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are determined based on the history of defaults by its debtors. Each debtor is allocated a loss ratio based on indicators prevailing at reporting date. The loss ratio is applied to balances owed to estimate the estimated future cash flows receivable from the debtor.

1.1.2 Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 1.9.

1.1.3 Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption will change which may then affect our estimations and may then require a material adjustment to the carrying value of tangible assets and intangible assets.

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable or may have changed from previous estimates. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including entity specific variables together with economic factors such as inflation and interest rates.

1.1.4 Useful lives and residual values of property, plant and equipment

Management determines the estimated useful lives and residual values for its depreciable assets. These estimates are based on management's experience, knowledge and current expectations for the use of the depreciable assets. The annual depreciation charge will be adjusted for any changes in these estimates.

1.2 PROPERTY, PLANT AND EQUIPMENT

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- The cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item is fair value was not determinable, it has deemed cost is the carrying amount of the asset(s) given up. When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The company has established guidelines to determine which components they consider as significant. These guidelines are applied to each item of property plant and equipment recognised by the entity. At each reporting period these guidelines are reviewed to align with information that is available and reliable. Any changes in the guidelines are accounted for as a change in accounting estimate and as such are adjusted for prospectively in the financial statements.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. The useful lives of items of property, plant and equipment have been assessed as follows:

Items	Depreciation Method	Average Useful Life
Computer equipment	Straight line	12 years
Office furniture	Straight line	30 years
Office equipment	Straight line	20 years
Motor vehicles	Straight line	13 years
Buildings	Straight line	20 years
Minor assets	Straight line	1 year

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.

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The entity assesses at each reporting date whether there is any indication that the entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the recognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 2).

1.3 INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identifiable if it either:

- Is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- Arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- The cost or fair value of the asset can be measured reliably.

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

An intangible asset arising from the development phase of an internal project is recognised when:

- It is technically feasible to complete the asset so that it will be available for use or sale.
- There is an intention to complete and use or sell it.
- There is an ability to use or sell it.
- It will generate probable future economic benefits or service potential.

- There are available technical, financial and other resources to complete the development and to use or sell the asset.
- The expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets reviewed at each reporting date. Reassessing the useful life of an intangible asset with a finite useful life after it was classified as an indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Items	Depreciation Method	Average Useful Life
Computer software	Straight line	8 years

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

1.4 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset can be exchanged, reliability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- Cash;
- A residual interest of another entity; or
- A contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- Deliver cash or another financial asset to another entity; or
- Exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is 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 currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- Equity instruments or similar forms of unitised capital;
- A formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as
- forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- A formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- The entity designates at fair value at initial recognition; or are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- Derivatives;
- Combined instruments that are designated at fair value;
- Instruments held for trading. A financial instrument is held for trading if:
  - It is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - Non-derivative financial assets or financial
  - liabilities with fixed or determinable payments that
  - are designated at fair value at initial recognition; and
  - Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial assets	Financial asset measured at amortised cost
Receivable from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalent	Financial asset measured at fair value
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

1.5 PREPAYMENTS

Prepayments are payments that the entity has made at the reporting date for economic benefits or service potential to be received in future periods. Prepayments are made in accordance with contracts between the entity and third parties.

The entity recognises as an asset the extent to which payments made exceed the value of economic benefits or service potential received

The entity measures prepayments at the fair value of the consideration paid, to the extent that it exceeds the value of goods or services received. As the entity receives the related goods or services, it shall reduce the carrying amount of prepayments made by the fair value of those goods or services received. Any related asset or expense will be recognised in accordance with the applicable GRAP standard.

1.6 LEASES

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 IMPAIRMENT OF CASH-GENERATING ASSETS

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the Cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Useful life is either:

- The period of time over which an asset is expected to be used by the entity; or
- The number of production or similar units expected to be obtained from the asset by the entity.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash- generating assets, are as follows:

- Whether assets are acquired to earn a commercial return
- Whether assets are acquired to deliver services for which the entity is mandated other than those, which generate an economic return.

1.8 GOING CONCERN ASSUMPTION

The annual financial statements have been prepared based on the expectation that the economic will continue to operate as a going concern in the foreseeable future.

1.9 PROVISIONS AND CONTINGENCIES

A provision is a liability of uncertain timing or amount. Provisions are recognised when:

- The entity has a present obligation as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

An onerous contract is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 27.

A contingent liability is a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

A present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

1.10 COMMITMENTS

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

A commitment is an agreement or a pledge to assume a financial obligation at a future date. The company has the following type of commitment:

- Those for the receipt of goods or services from suppliers and

A commitment arises out of a contractual agreement between the company and another party which entitles the company or the third party to enforce the delivery of the agreed upon goods or services at an agreed amount.

Contractual commitments are not recognised but are disclosed in the notes to the financial statements.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.11 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Revenue arising from registration, renewal, late enrolment, non-subsidy enrolments, and subsidy home enrolments are recognised when the cash is receipted i.e. matched to the open invoice. Revenue arising from subsidy project enrolments fees and technical services are recognised on the accrual basis

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- The stage of completion of the transaction at the reporting date can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is post-poned until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably. Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed

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

Unexpired risk provisions

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

The provisions are inevitably subject to inherent uncertainties because of the range of factors, which could give rise to potentially significant insurance claims over the five year period covered by the "unexpired risk provision".

The time expected to elapse between the inceptions of policies, the manifestation of events giving rise to insurance claims, and the notification to and settlement by the Council of such insurance claims accentuate these uncertainties.

In calculating the estimated cost of future insurance claims, actuarial and statistical projections of the frequency and severity of future insurance claims events are used to project ultimate settlement costs.

Such projections are based on current facts and circumstances. Due to inherent uncertainties a significant degree of caution has been included in exercising the judgement required for setting the unexpired risk provision at a level such that the Council is confident that it is not understated.

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.

1.12 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

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Measurement
Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Revenue arising from DC fine and legal recoveries are recognised on the cash basis.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fines
Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fine are measured at the best estimate of the inflow of resources to the entity.

1.13 INSURANCE TECHNICAL RESULT
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.

Liability adequacy test
An independent actuarial service company tests the solvency of the warranty fund annually. 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 is 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.

1.14 COMPARATIVE FIGURES
Where necessary, comparative figures have been reclassified to conform to GRAP 3.

1.15 FRUITLESS AND WASTEFUL EXPENDITURE
Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 IRREGULAR EXPENDITURE
Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including

(a) This Act; or

(b) The State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or

(c) Any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.17 BUDGET INFORMATION

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives. The approved budget covers the fiscal period from 2019/04/01 to 2020/03/31.

The financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the financial statements.

Comparative information is not required.

The company presents a comparison of the budget amounts for which it is held publicly accountable and actual amounts as a separate additional financial statement in accordance with Standards of GRAP. The entity discloses an explanation of material differences between the budgets for which the entity is held publicly accountable and actual amounts.

1.18 INVESTMENT INCOME

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 RELATED PARTIES

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

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Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity

The entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate, where the entity is exempt from the disclosures in accordance with the above, the entity discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements

1.20 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.

1.21 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.

1.22 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.

1.23 EVENTS AFTER THE REPORTING PERIOD

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

Two types of events can be identified:

- Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.24 EMPLOYEE BENEFITS

Short-term employee benefits

The cost of short term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

NEW STANDARDS AND INTERPRETATIONS

1.25 STANDARDS AND INTERPRETATIONS ISSUED, BUT NOT YET EFFECTIVE

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 April 2020 or later periods:

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1 Summary of amendments are:

Materiality and aggregation - the amendments clarify that: information should not be obscured by aggregating or by providing immaterial information; materiality considerations apply to all parts of the financial statements; and even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance - the amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure - the amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies - remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful. An entity applies judgement based on past experience and current facts and circumstances.

The effective date of this standard is for years beginning on or after 01 April 2020.

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to th entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition. An entity applies judgement based on past experience and current facts and circumstances.

The effective date of the interpretation is for years beginning on or after 01 April 2020.

IGRAP 20: Accounting for Adjustments to Revenue

As per the background to this Interpretation of the Standards of GRAP, there are a number of legislative and regulatory processes that govern how entities levy, charge or calculate revenue, in the public sector. Adjustments to revenue already recognised in terms of legislation or similar means arise from the completion of an internal review process within the entity, and/

or the outcome of an external appeal or objection process undertaken in terms of legislation or similar means. Adjustments to revenue include any refunds that become payable as a result of the completion of a review, appeal or objection process.

The adjustments to revenue already recognised following the outcome of a review, appeal or objection process can either result in a change in an accounting estimate, or a correction of an error.

As per the scope, this Interpretation of the Standards of GRAP clarifies the accounting for adjustments to exchange and non-exchange revenue charged in terms of legislation or similar means, and interest and penalties that arise from revenue already recognised as a result of the completion of a review, appeal or objection process. Changes to the measurement of receivables and payables, other than those changes arising from applying this Interpretation, are dealt with in accordance with the applicable Standards of GRAP. The principles in this Interpretation may be applied, by analogy, to the accounting for adjustments to exchange or non-exchange revenue that arises from contractual arrangements where the fact patterns are similar to those in the Interpretation. The interpretation sets out the issues and relating consensus with accounting for adjustments to revenue.

The effective date of the interpretation is for years beginning on or after 01 April 2020.

GRAP 104 (amended) Financial Instrument

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS.

1.26 NEW STANDARDS AND INTERPRETATIONS

Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect: financial guarantee contracts issued, loan commitments issued, classification of financial assets, amortised cost of financial assets, impairment of financial assets and disclosures.

The Minister of Finance does not yet set the effective date of the standard.

1.27 STANDARDS AND INTERPRETATIONS NOT EFFECTIVE OR RELEVANT

The following standards and interpretations have been published and are mandatory for the entity's accounting periods beginning on or after 01 April 2020 or later periods but are not relevant to its operations:

Standard/Interpretation	Effective date: Years beginning on or after	Expected impact
GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
GRAP 35: Coonsolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
GRAP 37: Joint Agreements	01 April 2020	Unlikely there will be a material impact
GRAP 38: Disclosure of Interest in Other Entities	01 April 2020	Unlikely there will be a material impact

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 31 March 2020

2. PROPERTY, PLANT AND EQUIPMENT

	Computer Equipment R	Office Furniture & Equipment R	Motor Vehicles R	Land R	Buildings R	Total R
Year ended 31 March 2020						
Opening net book amount	8 661 671	10 489 439	1 188 730	17 751 947	50 283 846	88 375 634
Additions	3 709 524	1 629 849	–	–	–	5 339 373
Disposals	(4 476 964)	(558 599)	–	–	–	(5 035 563)
Depreciation on disposal	4 389 760	550 411		–	–	4 940 170
Depreciation charge	(1 682 374)	(1 221 076)	(112 711)	–	(3 785 388)	(6 801 548)
Closing net book amount	**10 601 617**	**10 890 025**	**1 076 019**	**17 751 947**	**46 498 458**	**86 818 067**
At 31 March 2020						
Cost	20 983 905	25 662 956	1 565 239	17 751 947	75 707 782	144 671 830
Accumulated depreciation	(10 382 289)	(14 772 932)	(489 220)	–	(29 209 323)	(54 853 763)
Net book amount	**10 601 617**	**10 890 025**	**1 076 019**	**17 751 947**	**46 498 458**	**86 818 067**
Year ended 31 March 2019						
Opening net book amount	8 742 812	11 382 654	1 227 232	17 751 947	53 982 369	93 087 014
Additions	2 075 355	1 617 800	–	–	–	3 693 155
Disposals	(1 427 157)	(538 837)	(355 652)	–	–	(2 321 646)
Depreciation on disposal	1 207 141	475 701	315 651	–	–	1 998 493
Depreciation charge	(2 017 655)	(2 384 188)	1 499	–	(3 681 040)	(8 081 384)
Reclassification	81 175	(63 692)	–	–	(17 483)	
Closing net book amount	**8 661 671**	**10 489 439**	**1 188 730**	**17 751 947**	**50 283 846**	**88 375 634**
At 31 March 2019						
Cost	21 751 346	24 591 706	1 565 239	17 751 947	75 707 782	141 368 020
Accumulated depreciation	(13 089 674)	(14 102 267)	(376 509)	–	(25 423 936)	(52 992 386)
Net book amount	**8 661 671**	**10 489 439**	**1 188 730**	**17 751 947**	**50 283 846**	**88 375 634**

LAND

Land comprises of ERFs 1085 & 1086 situated in Leeuwkop Road, Sunninghill and Soshanguve A Township, Registration Division JR, Province of Gauteng; under General Plan No. A9923/1996 and held by Certificate of Registered Title No. T4866/1997. the register of land is available at the Council's premises.

BUILDINGS

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

USEFUL LIVES

The residual values and estimated useful lives are reflected under 1.1 Significant judgements and sources of estimation uncertainty policies.

3. INTANGIBLE ASSETS

	Computer Software R	Total R
Year ended 31 March 2020		
Opening net book amount	71 291 392	71 291 392
Additions	–	–
Disposals	(61 537)	(61 537)
Amortisation on disposals	56 537	56 537
Amortisation charge	(15 272 400)	(15 272 400)
Closing net book amount	**56 013 992**	**56 013 992**
At 31 March 2020		
Cost	122 168 587	122 168 587
Accumulated amortisation	(66 154 595)	(66 154 595)
Net book amount	**56 013 992**	**56 013 992**
Year ended 31 March 2019		
Opening net book amount	86 215 158	86 215 158
Additions	352 499	352 499
Amortisation charge	(15 276 266)	(15 276 266)
Closing net book amount	**71 291 392**	**71 291 392**
At 31 March 2019		
Cost	122 230 124	122 230 124
Accumulated amortisation	(50 938 732)	(50 938 732)
Net book amount	**71 291 392**	**71 291 392**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 31 March 2020

4. INVESTMENTS

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

Investments carried at fair value comprise the following:

	2020 R	2019 R
Money Market investments	2 769 269 189	2 478 278 267
CPD Money Market	451 284 567	214 344 911
Listed bond securities and equity		
– Short-term < 7 years	1 165 966 447	1 235 730 034
– Medium-term 7 to 12 years	217 094 451	131 725 562
– Long-term > 12 years	969 340 146	961 151 702
	5 599 954 800	**5 021 230 475**
Derivative financial instruments at fair value	1 041 457 839	1 021 561 005
	6 641 412 639	**6 042 791 480**
Split between non-current and current		
Non-current portion	3 393 858 883	3 350 168 302
Current portion	3 247 553 756	2 692 623 178
Total	**6 641 412 639**	**6 042 791 480**
None of these financial assets are either past due or impaired		
Reconciliation of opening and closing balance		
Opening balance	6 042 791 480	6 208 779 009
Cash and Call accounts prior year*	645 977 096	78 714 197
Cash and Call accounts current year*	(207 618 674)	(645 977 096)
Capital additions	4 390 784 110	753 757 398
Withdrawal	(4 376 774 339)	(751 390 521)
Interest accrued	426 837 013	411 119 587
Dividend income	17 868 438	16 475 368
Transaction costs	(556 566)	(724 845)
Asset management service fees	(8 906 968)	(10 611 322)
Unrealised profit on financial assets	42 044 125	12 646 639
Realised loss on financial assets	(331 033 076)	(29 996 934)
	6 641 412 639	**6 042 791 480**

*Call accounts relate to the cash component within the investment portfolio.

4. INVESTMENTS *(continued)*

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 counter party default rates.

Financial Assets at Fair Value (Bonds, Money Market, Equities and Structured Products)

	2020 R	2019 R
Fitch		
AAA(zaf)	710 084 347	–
F1+(zaf)	18 418 422	–
F1(zaf)	16 840 326	–
AA	1 015 702 802	266 095 298
AAA	46 921 434	95 107 086
F1+	–	64 035 784
AA-	–	14 588 112
AA+	–	73 103 787
	1 807 967 331	**512 930 067**
Moody		
A-	1 255 031	–
WR	1 420 029	–
Aa1.za	146 983 234	–
Aa2.za	5 936 043	–
Aa3.za	30 743 540	–
P-1.za	905 898 300	–
AA-	4 254 193	30 231 168
AA+	13 063 301	197 871 172
AAA	10 311 257	636 362 792
A	–	17 849 607
A+	–	6 056 969
BBB-	–	21 914 312
F1+	–	489 929 348
AA	–	3 976 167
	1 119 864 928	**1 404 191 535**
GCR		
AA-	13 132 946	–
AA+	565 289 189	–
A1+(za)	47 016 309	–
AA	275 828 366	10 601 764
AAA	124 241 993	21 229 926
A+	–	29 166 571
F1+	–	7 709 881
BBB+	–	165 772 057
	1 025 508 804	**234 480 198**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 31 March 2020

4. INVESTMENTS *(continued)*

4.1 CREDIT QUALITY OF FINANCIAL ASSETS (CONTINUED)

	2020 R	RESTATED 2019 R
S&P		
A-1+	54 528 898	–
B	11 241 718	–
NR	1 445 966	–
zaA-	32 142 101	–
zaA+	9 732 952	–
zaA-1+	102 074 775	–
zaAA	3 441 170	–
zaAAA	28 718 103	–
zaA-2	510 630	–
AAA	515 357 712	419 329 769
A-	42 861 496	56 806 569
A	–	25 550 848
AA	–	710 759 062
AA+	–	156 839 141
AA-	–	9 614 992
F1+	–	68 174 162
	802 055 522	**1 447 074 544**
Amount carried forward from prior page	**4 755 396 585**	**3 598 676 344**
Insured Rated		
AA	–	41 626 351
AA+	–	509 630 744
AAA	–	150 608 385
		701 865 480
Equity Exposure	1 886 016 054	1 742 249 656
	6 641 412 639	**6 042 791 480**

Fitch, GCR, Moody, S&P and Issuer ratings were used where ratings were not available.

4.2 FAIR VALUE HIERARCHY FOR FINANCIAL ASSETS MEASURED AT FAIR VALUE

	Fair value measurement at the end of the year using:		
		Level 1	Level 2
2020	R	R	R
Financial assets at fair value through profit or loss			
Equities	375 069 001	375 069 001	–
Bonds	1 977 332 043	1 977 332 043	–
Money Market instruments	3 247 553 756	–	3 247 553 756
Other investments (structured products)	1 041 457 839	1 041 457 839	–
	6 641 412 639	**3 393 858 883**	**3 247 553 756**
2019			
Financial assets at fair value through profit or loss			
Equities	493 240 501	493 240 501	–
Bonds	1 835 366 797	1 835 366 797	–
Money Market instruments	2 692 623 178	–	2 692 623 178
Other investments (structured products)	1 021 561 005	1 021 561 005	–
	6 042 791 480	**3 350 168 302**	**2 692 623 178**

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

The fair value hierarchy has the following levels:

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

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

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

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

Description	Fair value as at 31 March 2020	Valuation techniques	Observable Input
Financial assets at fair value through profit or loss:			
Unlisted:			
Debt securities	Reference to listed bonds	Risk free yield to maturity curve, risk free zero curve	
Money Market securities	Discount cash flow valuation, black-scholes model	Published exchange swap curve, published interest rate curve, published credit spread curve/implied credit spread curve, risk free curve/implied credit spread curve, risk free yield to maturity curve, risk free zero curve, swap yield to maturity curve, swap zero curve	
Other investments	Reference to listed benchmark	Risk free yield to maturity curve, risk free zero curve	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 31 March 2020

	2020 R	RESTATED 2019 R
5. INVENTORIES		
Builders manuals at cost	10 473 048	11 940 689
6. TRADE & OTHER RECEIVABLES		
Net trade receivables	18 135 739	37 371 677
– Trade receivables	48 776 777	98 378 790
– Less provision for impairment	(30 641 038)	(61 007 113)
Other receivables:		
– Rental deposits	2 551 552	2 455 331
– Sundry debtors	25 948 119	21 631 423
	46 635 411	**61 458 431**
The fair value of trade and other receivables are as follows:		
Trade receivables	48 776 777	98 378 790
Rental deposits	2 551 552	2 455 331
	51 328 330	**100 834 121**
Ageing of past due and impaired is as follows:		
Amounts in 60 to 120 days	37 940 373	5 208 765
Amounts in 120 days+	1 676 906	69 798 709
	39 617 299	**75 007 474**
Movements on the provision for impairment of trade receivables is as follows:		
At 1 April 2019	(61 007 113)	(72 409 926)
Decrease/(Increase) in provision	30 366 075	11 402 813
At 31 March 2020	**(30 641 038)**	**(61 007 1130)**

In determining the recoverability of 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 Department of Human Settlement.

6.1 RENTAL DEPOSITS

Split between non-current and current

	2020	RESTATED 2019
Non-current portion	784 695	566 466
Current portion	1 766 857	1 888 865
	2 551 552	**2 455 331**

6.2 TRADE AND OTHER RECEIVABLES

Split between non-current and current

	2020	RESTATED 2019
Non-current portion	784 695	566 466
Current portion	45 850 716	60 891 965
	46 635 411	**61 458 431**

6.3 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 counter party default rates.

Trade receivables:
Counterparty with external credit rating (Fitch) BB+

	2020	RESTATED 2019
Total trade receivables	**48 776 777**	**98 378 790**

	2020 R	2019 R
7. CASH AND CASH EQUIVALENTS		
Cash balances	559 078 618	450 551 639
Short-term bank deposits	172 851	77 409
Call accounts*	207 618 674	645 977 096
	766 870 143	**1 096 606 145**

FNB uses the credit rating of First Rand Bank Ltd which has a credit rating of BB+

*Call accounts relate to the cash component within the investment portfolio.

8. EMERGING CONTRACTOR RESERVE

The reserve was established 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 R2 449 933 (2019: R9 367 821) for home builder training in the current financial year. The remaining reserve to be utilised for future years is R4 875 642 (2019: R7 325 576).

9. TECHNICAL ACTUARIAL LIABILITIES

	Outstanding Claims R	Unearned Premium R	Unexpired Risk R	Total R
Balance at 31 March 2017	**47 318 683**	**948 107 239**	**360 920 400**	**1 356 346 322**
Increase during the year	13 295 901	–	–	13 295 901
Utilised during the year	(9 436 711)	–	–	(9 436 711)
Increase/(decrease) during the year	–	133 336 797	(64 067 570)	69 269 277
Balance at 31 March 2018	**51 177 873**	**1 081 444 036**	**296 852 830**	**1 429 474 739**
Increase during the year	1 660 884	–	–	1 660 884
Utilised during the year	(3 231 118)	–	–	(3 231 118)
Increase/(decrease) during the year	–	(31 370 618)	80 081 433	48 710 815
Balance at 31 March 2019	**49 607 639**	**1 050 073 418**	**376 934 263**	**1 476 615 320**
Increase during the year	(9 603 207)	–	–	(9 603 207)
Utilised during the year ***(Note 19)***	(10 813 031)	–	–	(10 813 031)
Increase/(decrease) during the year ***(Note 14)***	–	146 019 405	(35 709 179)	110 310 226
Balance at 31 March 2020	**29 191 401**	**1 196 092 823**	**341 225 085**	**1 566 509 308**
Balance at 31 March 2019				
Current	14 711 478	443 216 052	–	457 927 530
Non-current	34 896 160	606 857 366	376 934 263	1 018 687 789
	49 607 639	**1 050 073 418**	**376 934 263**	**1 476 615 320**
Balance at 31 March 2020				
Current	10 028 345	457 987 978	–	468 016 323
Non-current	19 163 056	738 104 845	341 225 085	1 098 492 986
	29 191 401	**1 196 092 822**	**341 225 085**	**1 566 509 308**

9. TECHNICAL ACTUARIAL LIABILITIES *(continued)*

9.2 BASIS AND METHODOLOGY OF VALUATION

Best practise actuarial techniques were applied to value the insurance liabilities of the NHBRC on a run-off basis, using best estimate assumptions. The valuation followed as best as it could the Advisory Practice Note 401 ("APN401") of the actuarial society to prepare required disclosures as required by IFRS4.

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 enrolment date (being the assumed period between enrolment and occupation dates.)

The Outstanding Claims Provision ("OCP") has been estimated by applying chain ladder techniques to a run-off triangle of remedial work claims paid (Bornhuetter Ferguson method). It is determined at a 99.5% sufficiency level. Due to data limitations, the OCP is not split into Notified Outstanding Claims Provision and Incurred But Not Reported Claims Provision.

The methodology is consistent with that used in the previous financial year end actuarial solvency assessment.

9.3 ASSUMPTIONS

The basis of assumptions used are consistent with those used in the prior year valuation. The discount rate and the 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	2020		2019	
	Non-subsidy	Subsidy	Non-subsidy	Subsidy
Discount rate	5.6%	9.6%	7.16%	7.16%
General price inflation	3.2%	5.1%	4.12%	4.12%
Future building cost inflation	3.2%	5.1%	4.12%	4.12%
Historical building cost inflation	4.1%	4.1%	3.40%	3.40%
Ultimate complaint rate	1.15%	1.15%	1.06%	1.06%
BF complaints loss ratio	0.00%	N/A	1.22%	N/A
Remedial work rate	3.64%	3.64%	3.64%	3.64%
Average claim cost	R240 847	R54 714	R207 489	R54 714
Initial expense ratio	58%	51%	55%	69%
BF method loss ratio	2.25%	2.25%	2.50%	2.50%
BF method tail factor	2.5%	2.5%	10%	10%
Spread of risk period	Emergence of complaints from FY 2006		Emergence of complaints from FY 2006	

9. TECHNICAL ACTUARIAL LIABILITIES *(continued)*

9.4 SENSITIVITY ANALYSIS

The various components of the provisions are sensitive to various factors. The UPP is mostly driven by the initial expense ratio and the earnings curve. The UPP is sensitive to the earnings curve, even though the high level of initial expenses in the non-subsidy and subsidy sector which results in only 47% and 33% of the enrolment fees being held as the UPP negates this sensitivity to some extent. The initial expense ratio affects the current component of the UPP held to meet inspection costs still ongoing. The requirement for AURP makes the total provisions insensitive to the initial expense ratio for 2019/20. 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.

	2020 R	RESTATED 2019 R
10. TRADE & OTHER PAYABLES (NOTE 27)		
Trade payables and accrued expenses	31 869 116	27 262 684
Operating lease accrual	1 599 091	500 383
Income received in advance	3 796 158	6 603 105
Leave accrual	27 986 278	22 537 063
Cash received in advance	33 593 817	42 114 080
Retentions	1 368 518	1 368 518
	100 239 977	**100 385 833**

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

11. DEPOSITS FOR GUARANTEES

	2020 R	RESTATED 2019 R
	Deposits for Guarantees split between non-current and current	
Non-current portion	23 713 966	16 464 009
Current portion	19 999 665	17 775 071
	43 713 631	**34 421 080**

12. INSURANCE PREMIUM REVENUE

	2020 R	RESTATED 2019 R
Non-subsidy enrolments	559 494 346	592 533 678
Subsidy enrolments	219 516 260	232 361 454
Change in unearned premium provision (see note 9)	(146 019 405)	31 370 618
Change in unexpired risk provision (see note 9)	35 709 178	(80 081 433)
	668 700 379	**776 184 317**

The unearned premium provision is the portion of received enrolments that is held to meet future complaints and conciliation expenses, over heads and remedial work claims for unexpired years of cover.

The Ultimate Future Liability from inforce business is calculated on a run off basis to evaluate the efficiency of the unearned premium provision to meet future expenses and claims. If the Ultimate Future Liability exceeds the unearned premium provision and additional unexpired risk provisions are set up.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 31 March 2020

	2020 R	RESTATED 2019 R
13. FEE REVENUE		
Annual registration fees	2 033 829	2 380 974
Annual renewal fees	10 494 094	9 436 914
Registration fees	3 351 283	3 374 924
Builder manual fees	1 690 313	1 754 493
Subsidy project enrolment fees	61 619 160	82 945 375
Late enrolment fees	434 201	651 729
Document sales	394 060	499 379
	80 016 941	**101 043 788**
14. TECHNICAL SERVICES REVENUE		
Forensic engineering, geotechnical and rectification work	15 346 610	675 000
	15 346 610	**675 000**
15. OTHER REVENUE		
The amount included in the revenue arising from exchange of services are as follows:		
Sundry income	6 844 818	13 508 640
Reversal of provision for doubtful debt	30 366 075	11 402 813
	37 210 893	**24 911 453**
The amount included in the revenue arising from non-exchange of services are as follows:		
Disciplinary hearing fines	11 776 964	5 480 657
Legal recoveries	464 264	20 400
	12 241 228	**5 501 057**
	49 452 122	**30 412 510**
16. INVESTMENT INCOME		
Investment income earned on financial assets, analysed by category of asset is as follows:		
Interest received from investments	426 837 013	411 119 587
Dividend income	17 868 438	16 475 368
Interest received (cash and cash equivalents)	30 003 499	23 905 549
	474 708 950	**451 500 505**
17. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES		
Current year warranty claims (see note 9)	10 813 031	(3 231 118)
(Decrease)/increase in the outstanding claims provision	(20 416 238)	4 892 002
	(9 603 207)	**1 660 884**

	2020 R	RESTATED 2019 R
18. RESULTS FROM OPERATING ACTIVITIES		
Results from operating activities is arrived at after taking into account the following:		
Auditor's remuneration	9 814 801	5 771 511
Depreciation	6 801 548	8 081 384
Computer equipment	1 682 374	2 017 655
Office furniture and equipment	1 221 076	2 384 188
Motor vehicles	112 711	(1 499)
Buildings	3 785 388	3 681 040
Amortisation of intangible assets	15 272 400	15 276 266
Net loss on property, plant and equipment	95 393	323 177
Net loss on disposal of intangible assets	5 000	–
Rentals in respect of operating leases*	17 831 717	14 728 281

*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:	46 141 052	38 560 139
Not later than 1 year	13 688 660	9 317 532
Later than 2 years and not later than 5 years	32 452 392	29 242 606
Employee costs	534 444 533	485 737 251
– Permanent staff costs	521 043 959	469 956 538
– Temporary staff costs	13 400 574	15 780 712
Executive management and Council remuneration	20 494 220	16 536 736
Executive managers		
– For managerial services	17 579 600	13 782 938
Non-executive Council remuneration		
– For services as members of Council	2 914 620	2 753 825

19. FINANCE COSTS

	2020 R	RESTATED 2019 R
Interest paid – late payments	4 964	31 289

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 31 March 2020

	2020 R	RESTATED 2019 R
20. NOTES TO CASH FLOW STATEMENT		
20.1 CASH GENERATED FROM OPERATIONS		
Surplus for the year	136 718 848	590 503 699
Adjustments for:		
Depreciation	6 801 548	8 081 384
Amortisation	15 272 400	15 276 266
Claims paid	10 813 031	3 231 118
Transaction costs on investments	556 566	724 845
Administration fee	8 906 968	10 611 322
Write off of property, plant and equipment	95 393	323 177
Net loss on disposal of intangible assets	5 000	–
Unrealised profit on financial instruments	331 033 076	(12 646 639)
Realised loss on financial instruments	(42 044 126)	29 996 934
Decrease in provisions	–	(16 268 240)
Increase in technical liabilities	89 893 988	47 140 581
Dividend received	(17 868 438)	(16 475 368)
Interest paid	4 964	31 289
Interest received	(456 840 513)	(435 025 136)
Operating income before working capital changes	83 348 706	225 505 231
Decrease in inventories	1 467 640	1 217 543
Decrease/(increase) in trade and other receivables	14 823 020	(45 466 807)
Decrease/(increase) in trade and other payables (see note 27)	(145 857)	(7 211 912)
Increase in deposits for guarantees	9 292 551	10 018 485
	108 786 060	**184 062 540**
20.2 PROCEEDS ON SALE OF FINANCIAL ASSETS		
Proceeds/(disposal) of financial assets	438 358 422	567 262 899
	438 358 422	**567 262 899**

20.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash balances and short term bank deposits. Cash and cash equivalents included in the cash flow statement comprise of the following amounts:

	2020	RESTATED 2019
Cash on hand and balances with banks	766 870 143	1 096 606 145

21. REMUNERATION

21.1 TOTAL COST – NON-EXECUTIVE COUNCIL MEMBERS

	Fees R	Cellphone Allowance R	Subsistence & Travel R	Total 2020 R	Total 2019 R
Mr. Enoch Godongwana (Chairperson)[1]	168 359	4 800	–	173 159	245 953
Ms. Jukieka Bayat (Chairperson)[2]	86 001	2 400	609	89 010	84 988
Ms. Mampe Kotsi	303 772	11 200	409	315 381	162 826
Mr. Mziwonke Jacobs	231 795	9 600	–	241 395	181 134
Ms. Bongiwe Duba	256 431	8 800	16 815	282 046	138 440
Mr. Unathi Hoyana	155 643	8 000	–	163 643	130 985
Mr. Choeu Makabate	254 445	9 600	8 887	272 932	205 888
Mr. Roy Mnisi	202 398	10 400	5 704	218 502	158 651
Ms. Noluthando Molao	242 904	8 800	4 303	256 007	205 844
Mr. Roseberry Sonto	284 894	9 600	–	294 494	216 277
Ms. Nthabiseng Tsenase	335 547	8 800	24 565	368 912	305 241
Mr. Zenzele Myeza	87 939	2 400	675	91 014	147 731
Mr. David Mapikitla	135 471	4 800	7 855	148 125	100 564
Mr. Abbey Chikane	–	–	–	–	47 114
Ms. Xoliswa Eunice Daku	–	–	–	–	38 777
Mr. Themba Thomas Dlamini	–	–	–	–	15 144
Ms. Hlaleleni Kathleen Dlepu	–	–	–	–	44 472
Mr. Phetola Nailana Solomon Makgathe	–	–	–	–	88 345
Ms. Busisiwe Nwabisa Nzo	–	–	–	–	34 545
Ms. Esther Euphane Aetta Watson	–	–	–	–	104 323
Ambassador Segogwane Samuel Kotane	–	–	–	–	89 728
Mr. Alvin Phumudzo Rapea	–	–	–	–	6 856
	2 745 598	**99 200**	**69 822**	**2 914 620**	**2 753 825**

[1]Resigned 03 December 2019
[2]Appointed 09 December 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 31 March 2020

	Salaries	Cellphone Allowance	Subsistence, Travel & Acting Allowance	Total 2020	Total 2019
	R	R	R	R	R
21.2 TOTAL COST – EXECUTIVE MANAGEMENT					
M Dlabantu (Chief Executive Officer)[1]	3 406 449	42 000	–	3 448 449	3 201 462
O Maseng (Acting Chief Executive Officer)[2]	2 956 355	30 000	323 973	3 310 328	–
J Motapola (Acting Chief Operations Officer)[3]	2 373 075	30 000	249 039	2 652 114	238 706
S Booi (Chief Financial Officer)	2 468 109	30 000	–	2 498 109	419 140
G Mkhize (Executive Manager Corporate Services)[4]	1 186 538	15 000	–	1 201 538	2 234 360
T Moshoeu (Executive Manager Business Services)[5]	2 373 075	27 500	1 072	2 401 647	2 268 219
H Mmbara (Executive Manager Legal Service)[6]	837 332	12 000	113 429	962 761	–
C Makapela (Executive Manager Business Services)[7]	142 534	1 800	–	144 334	–
L Kwapeng (Acting Executive Manager Corporate Services)[8]	773 936	9 000	177 383	960 319	–
T Ngqobe (Chief Operations Officer)	–	–	–	–	2 200 938
S Abrahams (Chief Financial Officer)	–	–	–	–	1 299 461
K Modise (Executive Manager Corporate Services)	–	–	–	–	1 920 652
	16 517 404	**197 300**	**864 896**	**17 579 600**	**13 782 938**

[1]Secondment to Department of Water and Sanitation 15 August 2019
[2]Appointed in acting capacity from 15 August 2019
[3]Appointed in acting capacity from 19 August 2019
[4]Appointed 01 October 2019
[5]Contract ended 29 February 2020
[6]Appointed in acting capacity from 20 August 2019
[7]Appointed in acting capacity from 02 March 2020
[8]Acting ended 30 September 2019

	2020	2019
	R	R
21.3 BONUSES		
Executive Management		
J Motapola (Acting Chief Operations Officer)	167 891	–
S Booi (Chief Financial Officer)	129 479	–
T Moshoeu (Executive Manager Business Services)	156 514	–
L Kwapeng (Acting Executive Manager Corporate Services)	20 000	–
	473 884	**–**

22. RELATED PARTIES

22.1 RELATIONSHIPS

Shareholder	Department of Human Settlements (DHS)

The NHBRC was established by the National Department of Human Settlements in terms of the Housing Consumers Protection Measures Act no. 95 of 1998.

Member of Key Management	Mr. M Dlabantu
	Mr. O Maseng
	Ms. J Motapola
	Mr. S Booi
	Ms. G Mkhize
	Ms. T Moshoeu
	Mr. H Mmbara
	Mr. C Makapela
	Mr. L Kwapeng
Non-executive Council	Mr. E Godongwana
	Ms. J Bayat
	Ms. M Kotsi
	Mr. M Jacobs
	Ms. B Duba
	Mr. U Hoyana
	Mr. C Makabate
	Mr. R Mnisi
	Ms. N Molao
	Mr. R Sonto
	Ms. N Tsenase
	Mr. Z Myeza
	Mr. D Mapikitla

22.2 TRANSACTIONS WITH OTHER RELATED PARTIES

No transactions, balances and commitments existed between the National Home Builders Registration Council and the Department of Human Settlements in the current year.

The detail of the remuneration of the member of key management and non-executive council is included in note 21 to the financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 31 March 2020

23. FRUITLESS, WASTEFUL AND IRREGULAR EXPENDITURE

23.1 RECONCILIATION OF FRUITLESS AND WASTEFUL EXPENDITURE

	2020 R	2019 R
Opening balance	21 426 355	20 215 887
Add: Fruitless and wasteful expenditure relating to prior year	–	–
Add: Fruitless and wasteful expenditure relating to current year	4 964	1 210 469
Less: Amounts condoned	–	–
Less: Amount transferred to debtors	–	–
Fruitless and wasteful expenditure awaiting condonation	21 431 320	21 426 355
Analysis of awaiting condonation per economic classification		
Current	4 964	1 210 469
Capital	–	–

23.2 ANALYSIS OF CURRENT YEAR'S FRUITLESS AND WASTEFUL EXPENDITURE

Incident	Action taken	Amount	Amount
Late payment fee	Payment procedure has been communicated	–	1 179 180
Interest paid to suppliers	Further investigation to be conducted	4 964	31 289
		4 964	**1 210 469**

23.3 RECONCILIATION OF IRREGULAR EXPENDITURE

		2020 R	2019 R
Opening balance		710 100 679	703 700 091
	25.3.1	1 362 264	6 400 588
Add: Irregular expenditure relating to prior year		–	–
Add: Irregular expenditure relating to current year		1 362 264	6 400 588
Less: Amounts condoned		–	–
Irregular expenditure awaiting condonation		**711 462 943**	**710 100 679**
Analysis of awaiting codonation per age classification			
Current year		1 362 264	6 400 588
Prior year		710 100 679	703 700 091
		711 462 943	**710 100 679**

The additional irregular expenditure from prior year relates to transaction with a value from R5 000 to R500 000 which should have been procured by means of a three quotation system.

		2020 R	2019 R
23.3.1 DETAILS OF IRREGULAR EXPENDITURE – CURRENT YEAR			
Incident	Action taken	Amount	Amount
Talas Properties[2]	National Treasury being engaged to clear out differences of interpretation of lease extensions.	–	1 152 921
Comanage[2]	National Treasury being engaged to clear out differences of interpretation of lease extensions.	–	118 765
Surego Investment[2]	National Treasury being engaged to clear out differences of interpretation of lease extensions.	–	152 871
SKG Properties[2]	National Treasury being engaged to clear out differences of interpretation of lease extensions.	–	563 281
Classic Diamond[2]	National Treasury being engaged to clear out differences of interpretation of lease extensions.	–	345 828
Hapbesigheids Trust[2]	National Treasury being engaged to clear out differences of interpretation of lease extensions.	–	519 051
De Bruyn[2]	National Treasury being engaged to clear out differences of interpretation of lease extensions.	–	435 308
Erf 2790 Bloemfontein Close[2]	National Treasury being engaged to clear out differences of interpretation of lease extensions.	–	613 383
			3 901 408
Abakholwe Community Services[1]	Irregular expenditure under investigation	461 150	–
Sankofa[1]	Irregular expenditure under investigation	401 158	–
Wenzile Phaphama Trading and Project[3]	Irregular expenditure under investigation	499 956	–
Atlego IT Solution[3]	Awaiting condonation from National Treasury	–	311 779
Enable Solution[3]	Awaiting condonation from National Treasury	–	320 191
Introstat[3]	Awaiting condonation from National Treasury	–	188 784
Konika Minolta[3]	Awaiting condonation from National Treasury	–	88 963
Livity[3]	Awaiting condonation from National Treasury	–	368 000
Nashua Kopani[3]	Awaiting condonation from National Treasury	–	951 049
Shereno Printer[3]	Awaiting condonation from National Treasury	–	270 414
		1 362 264	**6 400 588**

23.3.2 DETAILS OF IRREGULAR EXPENDITURE

[1] Goods and services with a transaction value of between R10 000 to R500 000 were procured without three quotations (NT 16 A.6.1, Practice Note 8 of 2007/08 par 3.3).

[2] BAC approved extension on leases without securing prior approval from National Treasury where contract variations were greater than 15%.

[3] Goods and services with a transaction value of R10 000 up to R500 000 were procured without inviting at least 3 written quotations from prospective suppliers (Practice Note 8 of 2007/08 par 3.3).

24. FINANCIAL INSTRUMENTS

24.1 CATEGORIES OF FINANCIAL INSTRUMENTS AND MATURITY PROFILE

	0 – 1 Year R	>1 Year R	Total R
2020			
FINANCIAL ASSETS			
Loans and receivables			
Trade and other receivables	46 635 411	–	46 635 411
Cash and cash equivalents	766 870 143	–	766 870 143
Financial assets at fair value			
Investments	3 247 553 756	2 352 401 044	5 599 954 800
Derivative financial instruments	–	1 041 457 839	1 041 457 839
Total financial assets	**4 061 059 310**	**3 393 858 883**	**7 454 918 193**
FINANCIAL LIABILITIES			
Financial liabilities at amortised cost			
Trade and other payables	69 286 090	–	69 286 090
Deposits for guarantees	19 999 665	23 713 966	43 713 631
2019			
FINANCIAL ASSETS			
Loans and receivables			
Trade and other receivables	61 458 431	–	61 458 431
Cash and cash equivalents	1 096 606 145	–	1 096 606 145
Financial assets at fair value			
Investments	2 692 623 178	2 328 607 297	5 021 230 475
Derivative financial instruments	–	1 021 561 005	1 021 561 005
Total financial assets	**3 850 687 754**	**3 350 168 302**	**7 200 856 056**
FINANCIAL LIABILITIES			
Financial liabilities at amortised cost			
Trade and other payables (Note 25)	75 979 869	–	75 979 869
Deposits for guarantees	17 775 071	16 646 009	34 421 080

24.2 CATEGORIES OF FINANCIAL INSTRUMENTS

	R	R	R	R
31 March 2020	**Loans & Receivables**	**Derivative Financial Instruments**	**Fair Value Investments**	**Total**
Derivative financial instruments	–	1 041 457 839	–	1 041 457 839
Fair value financial assets	–	–	5 599 954 800	5 599 954 800
Trade and other receivables	46 635 411	–	–	46 635 411
Cash and cash equivalents	766 870 143	–	–	766 870 143
Total	**813 505 554**	**1 041 457 839**	**5 599 954 800**	**7 454 918 193**
31 March 2019				
Derivative financial instruments	–	1 021 561 005	–	1 021 561 005
Fair value financial assets	–	–	5 021 230 475	5 021 230 475
Trade and other receivables	61 458 431	–	–	61 458 431
Cash and cash equivalents	1 096 606 146	–	–	1 096 606 146
Total	**1 158 064 577**	**1 021 561 005**	**5 021 230 475**	**7 200 856 057**

	R	R
31 March 2020	**Financial Liabilities at Amortised Cost**	**Total**
Lease liabilities	1 599 091	1 599 091
Trade and other payables	98 640 886	98 640 886
Total	**100 239 977**	**100 239 977**
31 March 2019		
Lease liabilities	500 383	500 383
Trade and other payables	99 885 450	99 885 450
Total	**100 385 833**	**100 385 833**

24.3 LIQUIDITY RISK

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

The NHBRC manages liquidity risk by maintaining adequate reserves, and banking facilities, by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

Refer to note 26.1 for the maturity profile of financial instruments.

The amounts disclosed in the table below are contractual undiscounted cash flows:

At 31 March 2020	**Less than 3 months**	**Between 3 months & 1 year**	**Between 1 year & 2 years**	**Over 2 years**
Operating lease liability	399 773	1 199 318	–	–
Trade and other payables	33 264 634	65 376 253	98 640 886	–
Total	**33 664 407**	**66 575 571**	**98 640 886**	**–**
At 31 March 2019				
Operating lease liability	125 096	375 287	–	–
Trade and other payables	10 035 593	93 512 319	98 640 886	–
Total	**10 160 689**	**93 887 605**	**98 640 886**	**–**

24. FINANCIAL INSTRUMENTS *(continued)*

24.4 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

24.5 FOREIGN CURRENCY RISK

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

24.6 CAPITAL RISK

The NHBRC manages its capital to ensure that the NHBRC will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The NHBRC's overall strategy for managing capital risk remains unchanged in 2018/2019 financial year.

24.7 CREDIT RISK

Credit risk refers to the risk that the counter party 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 regard 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 National Department of Human Settlements and does not expect any losses from non-performance by the Human Settlement Department.

24.8 MANAGEMENT RISK

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

The premiums on the non-subsidy sector are based on the selling price of the home to be constructed, and applied on a sliding scale limited to a maximum premium of 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 appropriated 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's technical liabilities. Such concentrations may arise from a single contract or through a number of related contracts in concentrated housing developments.

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

The results of the actuarial valuation indicate that the NHBRC as a whole, including both subsidy and non-subsidy houses, is solvent and in a sound financial position as at 31 March 2020 when valued on a run-off basis. The actuarial liabilities are 453% funded. However, for future business, the enrolment fees currently charged are adequate to cover expenses of the NHBRC and remedial claims for both subsidy and non-subsidy homes.

Enrolment Fee Adequacy						
	All Houses		Non-subsidy		Subsidy	
Utilisation	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Fixed expenses	(1 536)	(23,4)	(2 232)	(19,5)	(1 004)	(35,3)
Enrolment & inspections	(3 751)	(57,1)	(6 715)	(58,7)	(1 485)	(52,3)
Complaints conciliations	(450)	(6,9)	(716)	(6,3)	(246)	(8,7)
Remedial claims	(204)	(3,1)	(361)	(3,2)	(84)	(3,0)
Average	(121)		(214)		(50)	
99,5% Variation margin	(83)		(148)		(34)	
Total expenses & claims	(5 942)	(90,5)	(10 024)	(87,7)	(2 819)	(99,2)
Average fee per enrolment	6 565		11 434		2 841	
Surplus/Deficit	**623**	**9,5**	**1 410**	**12,3**	**22**	**0,8**

Enrolment fee adequacy table. In aggregate, we expect an increase in the surplus of the NHBRC by 38% of enrolment fees written in 2019/20 over the five-year term of the structural warranty.

24. FINANCIAL INSTRUMENTS *(continued)*

24.9 INSURANCE RISK

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

The risks to the warranty fund are defined in section 3 of the Act "Objectives 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 homebuilding 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 homebuilding industry;
- improve structural quality in the interests of housing consumers and the homebuilding 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 state objectives in the subsidy housing sector.

There is a 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 out 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 issues against home builders who do not comply with the provisions of the Act and in cases of a late enrolment, 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 is an insurer of last resort, as claims are only paid where a home builder fails to perform the necessary remedial work, due to liquidation or unavailability. The maximum claim per home is limited to the insured value up to a maximum claimable amount of R500 000 per home.

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

Underwriting strategy

The registration of all home builders is prescribed in terms of section 10 if 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 registration.

Reinsurance strategy

The NHBRC does not re-insure 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 high 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 initiation from the terms, plans and specification or the agreement of any deficiency related to design, workmanship or material notified to the home builder by the housing consumer within three months from the occupation date; and
- repair roof leaks attributable to workmanship, design or materials occurring and notified to the home builder by the housing consumer within 12 months of the occupation date.

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

Concentration of insurance risk

Insurance risk by geographical area

Gauteng and Western Cape make up 76,41% of exposure with 56,03% and 20,37% respectively.

Insurance risk by developer

The risk per developer is ranked by units of exposure (enrolments after Sep 2014). Liquidation of the 10 largest developers constitute R360.6 million of sum insured (comparison of 289 555 home enrolments), which could potentially increase claims against the warranty fund.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 31 March 2020

24. FINANCIAL INSTRUMENTS *(continued)*

24.10 INTEREST RATE AND PRICE RISK

Interest rate risk

Interest rate risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the 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 at fair value. However, due to the investments in equities being immaterial, the exposure to equity risk is limited.

Sensitivity analysis

	31 March 2020					
	Carrying Amount at 31 March 2020	Interest Rate Risk				
		Rand Amount Exposed to Risk	Reasonable Possible Change			
31 March 2020			Rate Increase	Rand Amount	Rate Decrease	Rand Amount
Financial Assets						
Money Market Investments	2 796 269 189	2 796 269 189	1%	27 962 692	-1%	(27 962 692)
CPD Money Market	451 284 567	451 284 567				
Listed bond securities						
– Short-term <7 years	1 165 966 447	1 165 966 447	1%	11 659 664	-1%	(11 659 664)
– Medium-term 7 to 12 years	217 094 451	217 094 451	1%	2 170 945	-1%	(2 170 945)
– Long-term > 12 years	969 340 146	969 340 146	1%	9 693 401	-1%	(9 693 401)
Derivative Financial Instruments	1 041 457 839	1 041 457 839	1%	10 414 578	-1%	(10 414 578)
Impact on financial assets on:						
Statement of changes in net assets						
Statement of financial performance				51 486 702		(51 486 702)
Impact on financial position	**6 641 412 639**	**6 641 412 639**		**113 387 983**		**(113 387 983)**

	31 March 2019					
	Carrying Amount at 31 March 2019	Interest Rate Risk				
		Rand Amount Exposed to Risk	Reasonable Possible Change			
31 March 2019			Rate Increase	Rand Amount	Rate Decrease	Rand Amount
Financial Assets						
Money Market Investments	2 478 278 267	2 478 278 267	1%	24 782 783	-1%	(24 782 783)
CPD Money Market	214 344 911	214 344 911				
Listed bond securities						
– Short-term <7 years	1 235 730 034	1 235 730 034	1%	12 357 300	-1%	(12 357 300)
– Medium-term 7 to 12 years	131 725 562	131 725 562	1%	1 317 256	-1%	(1 317 256)
– Long-term > 12 years	961 151 702	961 151 702	1%	9 611 517	-1%	(961 151 702)
Derivative Financial Instruments	1 021 561 005	1 021 561 005	1%	10 215 610	-1%	(10 215 610)
Impact on financial assets on:						
Statement of changes in net assets						
Statement of financial performance				48 068 856		(48 068 856)
Impact on financial position	**6 042 791 480**	**6 042 791 480**		**106 353 321**		**(106 353 321)**

25. ERRORS AND RECLASSIFICATIONS

25.1 ERRORS AND RECLASSIFICATIONS

The errors and reclassifications relates to the understatement of expenses and trade and other payables in prior years. The figures have been restated. The impact on the Statement of Financial Performance and Statement of Financial Position is shown below.

	NOTE	PREVIOUSLY REPORTED BALANCE	RESTATEMENT	RESTATED BALANCE
Statement of Changes in Net Assets		**5 748 023 992**	**5 691 968**	**5 753 715 960**
Accumulated surplus at 31 March 2019		5 748 023 992	5 691 968	5 753 715 960
Statement of Financial Performance		**584 811 730**	**(5 691 968)**	**579 119 762**
Surplus at 31 March 2019		584 811 730	(5 691 968)	579 119 762
Administration Expense	1	747 011 483	(5 691 968)	741 319 515
Statement of Financial Position				
		106 077 889	(5 691 968)	100 385 920
Trade and other payables (Note 10)	1	99 458 981	926 940	100 385 921
Provisions (Note 12)	2	6 618 908	(6 618 908)	–

Notes:

Note 1. In the prior year, the expenses were not accrued for due to invoices not receipted in time for payment resulting to understatement of expenses.

Note 2. In the prior year the provision was incorrectly raised resulting in understatement of expenses and over stated provision.

Cash Flow Statement			
Adjustments for:			
Decrease in provisions	(9 649 333)	(6 618 908)	(16 268 241)
Changes in working capital	**8 138 764**	**926 940**	**9 065 704**
Increase in trade and other payables	8 138 764	926 940	9 065 704
Financial Instruments (Note 24.1)			
Financial Liabilities			
– Trade and other payables (Note 10)	75 053 017	(926 940)	75 979 957

These errors resulted in the restatement of the Statement of Financial Performance, Statement of Financial Position, Statement of Financial Position, Statement of Changes in Net Assets, Note, 10, 12 and 26 relating to disclosures of financial instruments.

26. CONTINGENT LIABILITIES

	2020 R	2019 R
Claims for damages and cost	528 457 082	524 583 633
Contractual payments	12 014 412	10 214 412
Liability of the warranty fund	2 313 562	2 940 507
	542 785 056	**537 738 552**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 31 March 2020

27. CONTINGENT ASSETS

In accordance with Section 14A of the Housing Consumers Protection Measures Act (Act 95 of 1998) the Council may require a financial guarantee in cases where homes are late enrolled. The NHBRC receives these financial guarantees in the form of paper, these paper guarantees are issued by financial institutions registered with the FSB. These are required to mitigate against possible claims on the NHBRC's warranty fund. At the reporting date, the amount of the possible contingent asset cannot be quantified as it is impractical to do so due to the nature of the possible claims being unknown.

In addition, there are Disciplinary Committee fines amounting to R7 485 500 that may be due to NHBRC, pending the outcome of suspended matters at year end.

In accordance with Section 8 of the Housing Consumers Protection Measures Act (Act 95 of 1998) a home builder may make a phased payment of the enrolment fee by paying twenty percent of the enrolment fee upon submission of the enrolment form and a bank guarantee for the remaining eighty percent of the development. This can be called upon by the Council on beginning of construction of the sectional title development or six months from the date of payment of the remaining enrolment, whichever is earlier. At reporting date, the amount of the possible contingent asset is R13 267 637.

28. 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.

29. CONTRACTUAL COMMITMENTS

At 31 March 2020, the NHBRC had the following commitments:

	2020 R	2019 R
Approved and contracted		
Outsourced contracts for Risk Management Services	4 058 043	2 270 192
Outsourced contract for Actuarial Services	1 441 969	2 524 825
Outsourced contract for Consulting Service	194 321	821 957
Outsourced contracts for Facilities Management	4 871 847	5 538 196
Outsourced contracts for testing machines for Eric Molobi		
Outsourced contract for Legislative Review Project	1 809 311	836 180
Outsourced contract for Social Transformation	58 898	–
Outsourced contract for Forensic Investigations	–	2 447 773
Outsourced contracts for Information Technology Services	42 880 972	37 245 094
Outsourced contract for Media Services	6 970 815	2 854 938
Outsourced contract for Human Capital Management Service	612 345	339 515
Outsourced contracts for Telecommunications Services	3 411 879	12 414 750
Outsourced contract for Remedial Works	212 729	467 648
Outsourced contract for Technical Service	1 094 728	1 644 000
Outsourced contract for Research and Innovation (IBT)	1 182 512	1 619 772
	68 800 372	**71 024 839**

	2020 R	RESTATED 2019 R
30. DETAILED EXPENDITURE		
30.1 INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES	**(9 603 207)**	1 660 884
30.2 ACCREDITATION, BUILDERS MANUAL AND CERTIFICATE COST	**1 487 823**	**1 184 935**
– Accreditation fees	33 099	(7 965)
– Direct costs of builder manuals	1 454 724	1 192 899
– Direct cost of certificates	–	–
30.3 TECHNICAL SERVICES EXPENDITURE	**12 555 351**	**917 468**
– Forensic investigations and geotechnical service	12 555 351	917 468
30.4 OPERATING EXPENSES	**849 165 304**	**737 556 229**
– Amortisation	15 272 400	15 276 266
– Audit fees	9 814 801	5 771 511
– Bank charges	1 317 168	2 660 680
– Cleaning costs	1 650 405	2 667 940
– Conferences and seminars	4 866 991	4 515 980
– Consulting fees	16 079 917	7 982 469
– Courier and freight	612 095	165 837
– Depreciation	6 801 548	8 081 384
– Information technology costs	49 859 798	31 466 760
– Insurance paid	1 009 008	2 528 270
– Legal fees	19 619 679	12 020 177
– Marketing fees	20 990 560	8 338 190
– Motor vehicle expenses	470 474	545 202
– Office equipment and furniture expenses	8 042 747	6 359 040
– Mobile office expenses	938	4 719 600
– Other expenses	4 859 087	6 992 593
– Other rental costs	4 091 047	2 471 710
– Council	4 571 330	5 367 871
– Disciplinary committee costs	6 760 837	4 442 927
– Salaries and related costs	534 444 533	485 737 251
– Rentals	17 831 717	14 728 281
– Research and development	2 314 907	1 739 484
– Security	3 781 919	4 003 192
– General office costs (uniforms, groceries)	6 271 505	5 458 643
– Stationery	1 808 763	845 648
– Telephone expenditure	17 480 467	16 620 305
– Training	23 599 428	23 875 306
– Travelling expenditure	59 633 064	47 656 898
– Water and electricity	5 308 017	4 516 814
Total expenditure before interest paid	**853 605 271**	**741 319 515**

SUPPLEMENTARY SCHEDULE
for the year ended 31 March 2020

	NOTES	2020 R	RESTATED 2019 R
31. INCOME STATEMENT			
Insurance premium revenue	12	668 700 379	776 184 317
Fee revenue	13	80 016 941	101 043 788
Technical services revenue	14	15 346 610	675 000
Other revenue	15	49 452 122	30 412 510
Total revenue		**813 516 052**	**908 315 615**
Insurance claims and loss adjustment expenses	17	9 603 207	(1 660 884)
Accreditation, builders manual and certificate cost	30.2	(1 487 823)	(1 184 935)
Technical services expenditure	30.3	(12 555 351)	(917 468)
Administration expenses	30.4, 26	(849 165 304)	(737 556 229)
Total expenditure		**(853 605 271)**	**(741 319 515)**
Surplus from operating activities	19	**(40 089 219)**	**166 996 100**
Net investment income		**176 813 031**	**423 538 888**
Interest received and investment income	17	474 708 950	451 500 505
Realised loss on financial assets	4	(331 033 076)	(29 996 934)
Unrealised gain on financial assets	4	42 044 125	12 646 639
Asset management service fee		(8 906 968)	(10 611 322)
Net surplus before finance costs	18	136 723 812	590 534 988
Finance costs	19	(4 964)	(31 289)
Surplus for the year	25	**136 718 848**	**590 503 699**