NURCHA

CONSTRUCTION FINANCE AND PROGRAMME MANAGEMENT

ANNUAL PERFORMANCE PLAN

2016/2017

Submitted by: Managing Director
Mr Viwe Gqwetha

Date: 29 January 2016

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FOREWORD

NURCHA has developed its five-year Strategic Plan 2014/15 – 2018/19 based on the Medium Term Strategic Framework (MTSF) and more particularly, the human settlements sector delivery targets as captured in the MTSF. The development of this Strategic Plan has taken into account the National Development Plan. The five-year Strategic Plan has not yet been approved by the Executive Authority however it has been approved by the Accounting Authority. The development of this Annual Performance Plan (APP) is based on ideas contained in the five-year Strategic Plan.

The Strategic Plan outlines the short to long term view of how NURCHA is gearing itself to deliver on the strategy and targets.

In light of what is outlined in the Strategic Plan, the Annual Performance Plan (APP) addresses priority areas of focus in the implementation of the strategy in the 2016/17 financial year, which is the third year of the five-year strategy.

The impact that will arise out of the merger the three Development Finance Institutions (DFI's) is not taken into account when developing this document. The APP's from the three DFI's will be consolidated later on. The effect of megaprojects as envisaged by the Department of Human Settlements is also not accounted for as details are not yet made public.

1. Accelerating delivery of affordable houses:

Key area of focus in the affordable housing lending stream remains that of growth in response to national delivery targets in this category of the housing market as captured in MTSF**.** This includes:

- Growing the programme to meet set annual and multi-year targets as outlined in the plan.
- Strengthen expertise and systems to improve project assessment and risk management throughout the life cycle of projects.
- Actively search for opportunities and innovations to push house prices downwards into the **"Gap Market"**. The re-modelling of Financed Linked Individual Subsidy Programme (FLISP) and streamlined implementation as led by NHFC will advance this goal significantly.
- Actively search for opportunities to fund Affordable Housing projects in the Special Presidential Project's ("SPP") of 14 prioritized mining towns and Rental and Student accommodation.
- Closer cooperation with municipalities and other role players to identify and resolve upstream bottlenecks and facilitate generation of good pipeline housing projects particularly in under serviced provinces.
- To establish provincial capabilities to enable closer interaction with clients and stakeholders.

2. **Restore financial viability to the financing of Small to Medium Contractors:**
   - Implement the Contractor Finance and Development Programme (CFDP) as a platform to finance qualifying contractors in this segment.
   - Continue with the implementation of the new lending criteria and procedures to mitigate lending risks to contractors doing subsidy housing and Infrastructure and Community Facilities. This was introduced for the first time in 2012 financial year.
   - Continue with the administration and management of the whole value chain of the lending business in-house. This includes systematic winding down the intermediary supported lending model.
   - Intensify the collections effort and early intervention on defaulting borrowers.

3. **Application of NURCHA's programme and fund management capabilities to support service delivery and normalise lending risks environment**

   The Portfolio started in 2011 with 4 flagship programmes namely; Free State Support, Contractor Finance and Development, Vulindlela Rural Housing and Eastern Rural Development Programme. As of March 2015, the portfolio has grown to five assignments which includes:

   - KZN Department of Human Settlements – Vulindlela Rural Housing Project
   - Free State Department of Human Settlements Programme Management Support
   - Eastern Cape Rural Development Programme
   - Contractor Finance and Development Programme (CFDP)
   - Eastern Cape Bucket Eradication Programme

   Partnership agreements on the above programmes have been concluded for implementation but the growth of the portfolio will drop significantly following the strategic decision taken of focusing more on CFDP and fund management, and less on programme management. The decision is taken in view of the capacity constraints that NURCHA is facing in terms of technical skills required to run programme management. The composition of the programme portfolio in the 2016/17 financial year will mainly consist of business currently in the pipeline as one of the programmes mentioned above (EC Bucket Eradication) has been completed, the FS Department of Human Settlements Support Programme expired on 30 September 2015. The contract with the Eastern Cape Department of Human Settlements on Rural Development Programme has been terminated. For the 2016/17 financial year, this business stream will consist of 2015/16 existing programmes which will continue into 2016/17 and those in the current pipeline which includes City of Cape Town – Ceilings Retrofit Project, CFDP and Vulindlela account administration.

Viwe Gqwetha
Managing Director

OFFICIAL SIGN-OFF

It is hereby certified that this Annual Performance Plan was developed by the management of NURCHA and was prepared in line with the five year Strategic Plan of NURCHA.

The Annual Performance Plan accurately reflects the performance targets which NURCHA will endeavour to achieve given the resources made available in the budget for the 2016/17 financial year.

Mr Sindisa Nxusani Chief Financial Officer	Signature:
Mr Viwe Gqwetha Managing Director	Signature:
Mr Khehla Shubane Chairperson	Signature:
LN Sisulu, MP Minister For Human Settlements Date:.......................................	Signature:

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1. INTRODUCTION

NURCHA's strategy, annual performance plans and budgets are informed by its vision and mission which are as follows:

Vision: 'To be regarded as a partner of choice for those seeking innovative bridging finance solutions.'

Mission: 'NURCHA initiates programmes and takes considered risks to ensure a sustainable flow of finance for the construction of low-income and affordable housing, community facilities and infrastructure. We work in partnership with all role players in these markets to maximise the development of human settlements.'

The main business of NURCHA, as stated in its Company Memorandum of Incorporation, is to facilitate the delivery of housing and related community facilities and infrastructure to low and middle-income communities.

To give effect to our vision and mission, and in pursuit of our business purpose, NURCHA has focused on programmes that provide bridging finance for projects that deliver fully subsidised housing, infrastructure and community facilities and affordable housing for ownership and rental. NURCHA has been active in one or more of these programmes since its inception in 1995. Over the past 9 years, NURCHA has delivered on all 3 financing programmes on an annual basis. In addition, NURCHA has not only provided bridging finance, but has also been involved in contractor/enterprise development and programme management initiatives, since these are important elements in facilitating the delivery of human settlements.

Values: 'NURCHA's values **(PRIDE)** have for the past twenty years served as fundamental pillars that have guided our behaviour, ethics and business approach.

Prudent use of resources entrusted to us,
Respect and Integrity in our interactions with each other and our clients and our partners,
Innovation and the Willingness to take considered risks in testing the limits of sustainable finance,
Development of individuals, communities and the country,
Excellence in everything we do.

Constitutional and Legislative mandates: The constitution and other legislation have a fundamental impact on the National Housing Policy and programmes aimed at satisfying these two specific rights enshrined in our Constitution:

- Section 26 of the Constitution states that all South Africans have the right to have "access to adequate **housing", therefore Government has the duty to take legislative and other measures** within its available resources to achieve this right on a progressive basis.
- Schedule 4 of the Constitution sets out the powers of the different spheres of Government that can do the following:

- National Government develops laws that are in the national interests of its people.
- Provincial Government has the power to develop provincial laws and housing as a function area is included.
- Municipalities have the power to administer functions such as housing and other related infrastructure and the provision of service delivery.

Legislative mandate: The Housing Act of 1997 sets out the macro policy position and spells out the roles of the different spheres of Government.

All spheres of Government are encouraged to apply the following principles:

a) The needs of the poor must be prioritized.
b) The housing process should provide a wide choice of housing and tenure options that should be economical and financially affordable and sustainable.
c) The housing process must be administered in a transparent and equitable manner.
d) Housing development should occur in an integrated manner that creates socially and economically viable communities.
e) Government should encourage and support all individuals and community based bodies in fulfilling their own housing needs in a way that ensures skills transfer and community empowerment.
f) The active participation of all relevant stakeholders in housing development should be facilitated.
g) The gearing of Government investment in housing by the provision of additional finance and other investments by the private sector and individuals should be facilitated.

Other auxiliary legislation that has a bearing on the delivery of Human Settlements products and services include:

a) The Rental Housing Act, 1999
b) The Social Housing Act, 2008
c) The Housing Development Agency Act, 2008
d) National Development Plan

Policy mandate: Policy in the Human Settlements environment is derived from the following sources:

a) The Housing Code, 2000 and 2007. These codes set out the roles of the National, Provincial and Local governments. The subsidy scheme is the core of the delivery programme.

The second edition of the code expanded on the financial interventions and provided for more implementation of powers at the local level.

The types of financial institutions included are the following:

- Accreditation of municipalities
- Enhanced extended discount benefit scheme
- Financial Subsidy Scheme
- Operational capital budget for subsidy project implementation
- The inclusion of a housing chapter in the Integrated Development Plans of municipalities
- Provision of social and economic facilities
- Rectification of pre 1994 houses
- Incremental Housing Intervention:
    - Consolidation of the subsidy programme
    - Emergency housing programme
    - Integrated residential development programme
    - Upgrading of informal settlements
- Rural intervention comprising the rural subsidy communal land rights
- Social and rental interventions:
    - Community and residential units programme
    - Institutional subsidies

The Financial Sector Charter of 2003 was a voluntary commitment by the financial services sector to transform an activity of a wide variety of infrastructure, housing and empowerment programmes to create an equitable society. (Post 2008, after R42 billion investment contributions by the private sector spent, particularly in the mortgage environment, came to an abrupt end).

In 2010, an Extended Cabinet Lekgotla framed the “12 Outcomes” that have now set the scene for a Developmental State.

In respect of NURCHA's mandate, it is primarily focused on Outcome 8 which deals with the creation of Sustainable Human Settlements. While this does not reflect a new policy, it does represent a shift in emphasis from state delivery of free homes to improved quality of life through the provision of basic services, sites and facilitating the property market development in South Africa. It is also worth noting that NURCHA's bridging finance mandate touches many of the other outcomes through its three programmes.

Under this programme government has committed to support Outcome 8 (Sustainable Human Settlements and Improved Quality of Household Life). This shift in emphasis entails realignment of current budgets, programmes and capacities.

In summary, the new programmes consist of the following delivery outputs:

Upgrading of 400 000 households in well-located informal settlements with access to basic services and secure tenure.

Improve access to basic services by increasing:

Water from 92% to 100%

Sanitation from 69% to 100%

Refuse removal from 64% to 75%

Electricity from 81% to 92%

(Note: Primary responsibility for this is allocated to the Department of Cooperative Governance and Traditional Affairs; Human Settlements will play a supportive role)

Mobilisation of well-located public land for low income and affordable housing.

Improve property market through the financing and/or facilitation of 600 000 housing opportunities for people earning between R3 500 and R12 800.

Development finance for the above is generally provided by the public and private sector. Much of the loan financing to contractors for subsidy housing and developers of affordable housing is channeled through NURCHA. NURCHA has since 2005 also taken on the financing of contractors that produce infrastructure and community services and amenities for the public sector. NURCHA blends both private and public money to lend to projects that are in support of the creation of sustainable Human Settlements. This in many instances cuts across many of the other secondary outcomes listed in the table above.

Therefore, from a financing perspective, NURCHA's programmes are inextricably linked to the delivery of subsidy homes, water and sanitation projects and amenities such as schools and clinics and affordable housing that comprise a functional and integrated town or city.

In the last two years, NURCHA has ventured into the construction industry by supporting Provinces and Municipalities that have capacity and skills constraints. In this respect NURCHA's technical and management skills are being used to unblock projects to assist local government complete projects successfully.

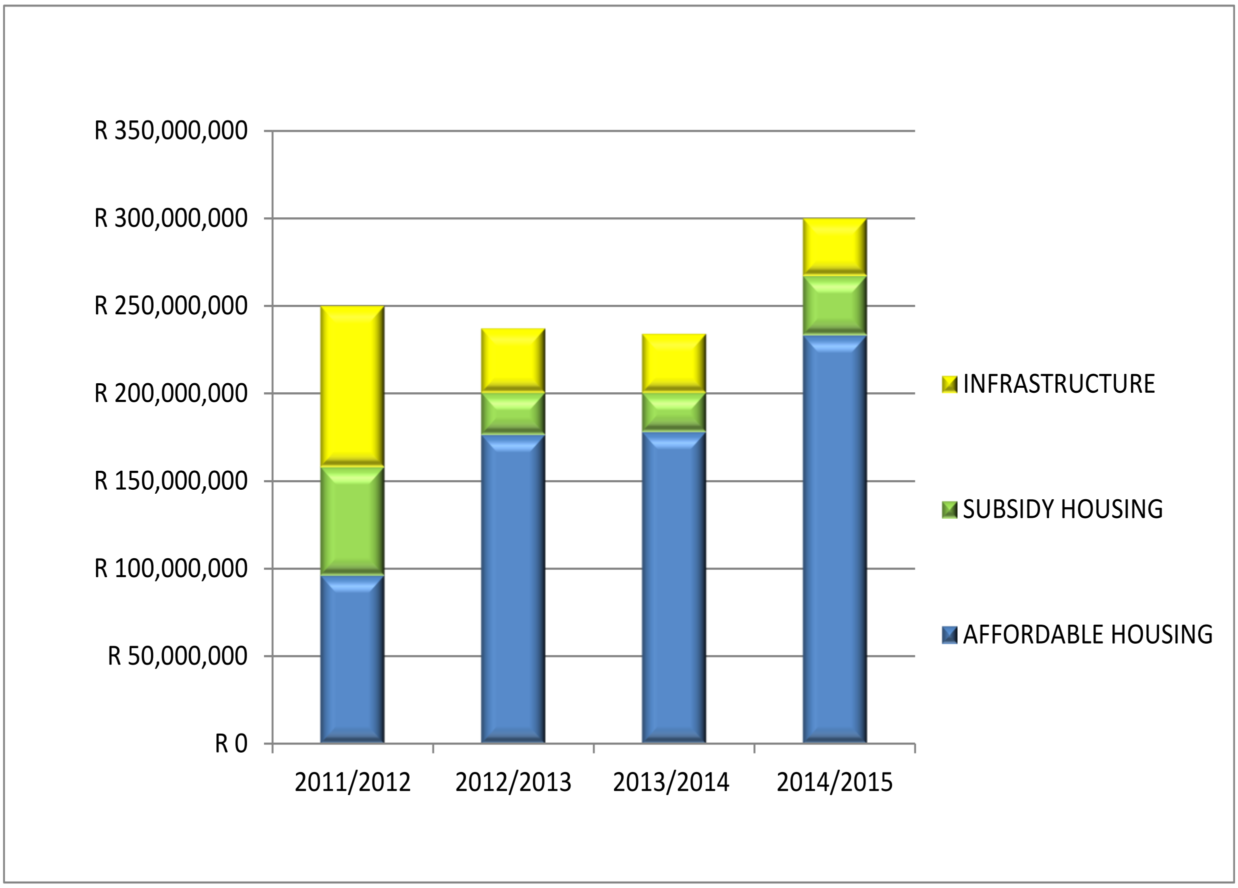
2. UPDATED SITUATIONAL ANALYSIS

NURCHA's five-year strategic plan 2014/15 to 2018/19 has been developed in line with the MTSF and the National Development Plan. It is a plan crafted in times of turbulence in the economy, the construction and the development finance sector. The difficult lending environment affected NURCHA's business significantly and threatened its financial sustainability. The five-year strategic plan was a direct response to these challenges and triggered fundamental changes in the way NURCHA fulfils its developmental mandate in order to restore organizational and financial sustainability.

At the end of 2014/15 financial year, NURCHA reported a surplus of R10.5 million after impairments of R2.5 million and fully functioning operations in all streams of the business.

The two strategic pillars, **relevance to development mandate** and **restoration of financial sustainability**, are intertwined and essential elements of the strategic drive to restore organizational sustainability. NURCHA has made good inroads in restoring health volume in its loan book and the lending activities in the affordable housing category have been pleasing in spite of the subdued economic environment. Figure 1 shows growth in the Affordable Housing loan book and reflects a change NURCHA's investment approach devoting 78% of lending capacity towards financing affordable housing in line with governments priorities.

Figure 1: Total Outstanding Debt per Lending Programme

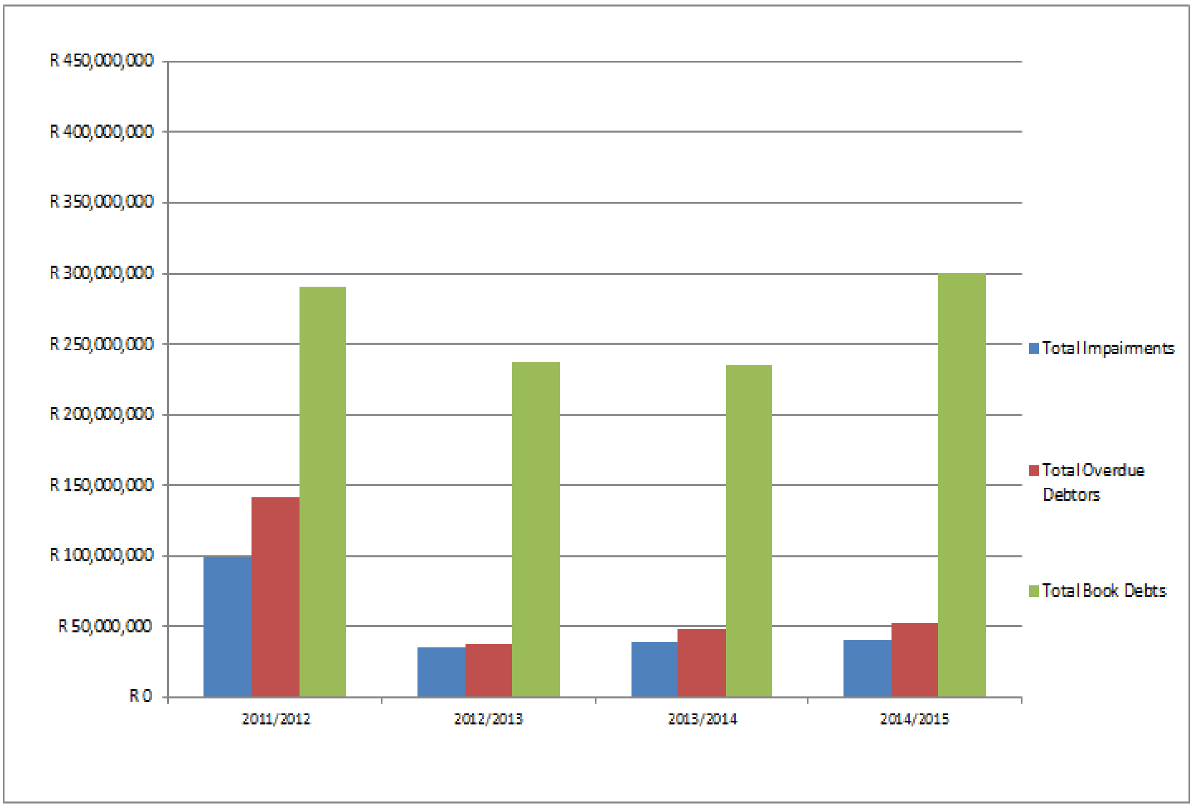


Further, NURCHA has forged ahead with securing co-funding partnerships with leading commercial financiers and asset managers.

The other area of significant attention is around interventions to improve service delivery within human settlements, most notably achieved through our programme management interventions. Finally, NURCHA has started the investment towards contractor development initiatives which provide emerging contractors with much needed access to financial and non-financial support, the spin-off effect being employment creation which is a further key deliverable of MTSF targets.

The drive towards organizational sustainability has also prioritised interventions to improve the health of the loan book, implementing the direct lending model, introducing new credit rules and a rigorous collections strategy on the delinquent book. Figure 2 below shows a good progression towards a healthier book albeit with significant write-offs of delinquent debt.

Figure 2: Total Provisions versus Total Overdue Debtors versus Total Debtors



NURCHA has a healthier loan book with the impairments reducing from a high of 34% in 2011/12 to 16% by end of March 2014. The level of impairments reduced further during the 2014/15 financial year as 14% of the total loan book is reported at the end 2014/15 financial year. The goal and effort is to drop this indicator to within 10% of the loan book.

2.1 Financial Performance for 2014/15 financial year and first two quarters of 2015/16 Financial year

In line with the goal of restoring final sustainability, the area of financial performance has received close attention. Table 1 below shows financial performance for 2014/15 financial year and the first two quarters of 2015/16 financial year. NURCHA has reported a surplus of R10.6 million after impairments in 2014/15 financial year. This is a significant improvement when this is compared to the R7.2 million reported in 2013/14 financial year and the deficit that was reported in prior years. This improvement has come about due to successful diversification of main sources of income and cost management strategies.

Table 1: **Financial Performance for 2014/15, Forecast for 2015/16, Budget for 2016/17 and first six months of 2015/16 Financial Performance**

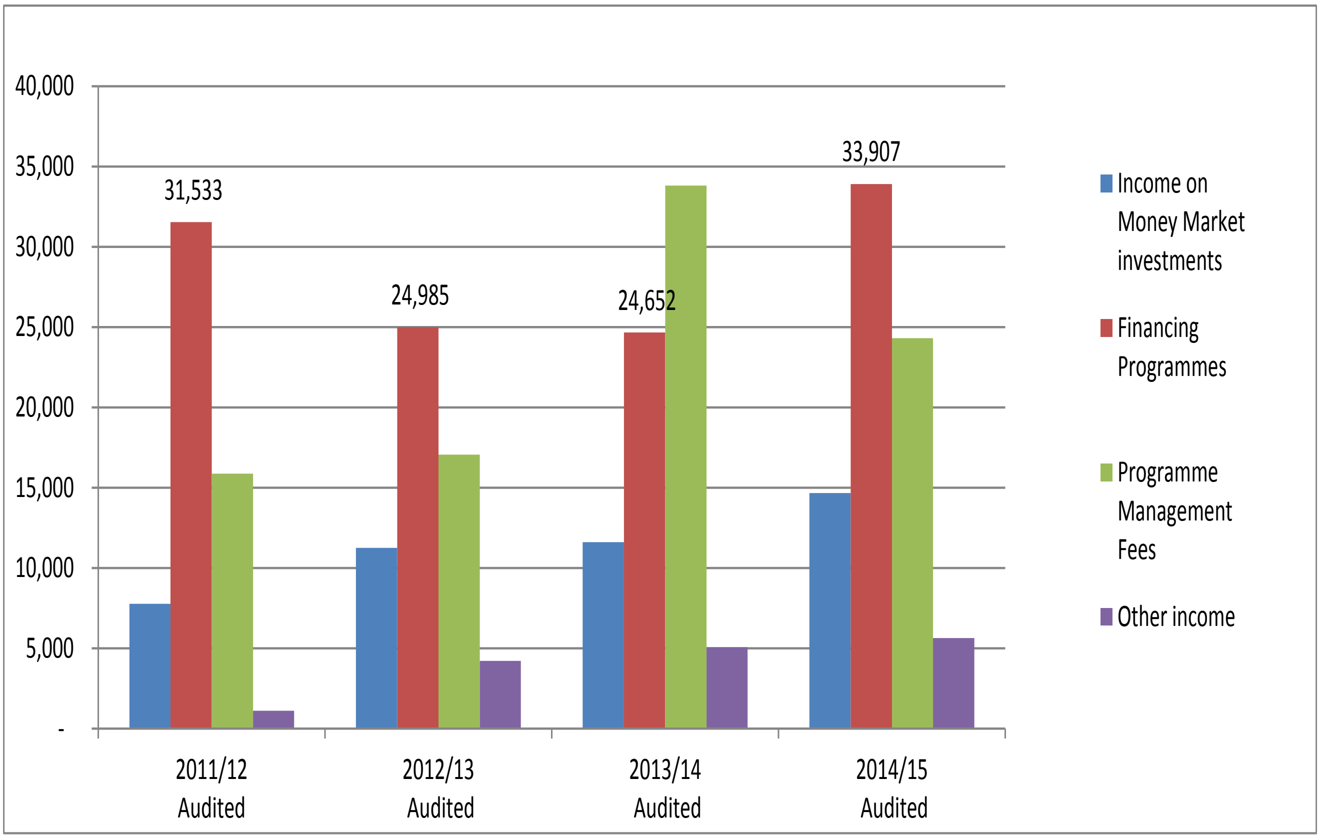
ABRIDGED STATEMENT OF FINANCIAL PERFORMANCE	2014/2015		2015/2016	2016/2017	YEAR TO DATE APR - AUG 2015	
	ACTUAL	BUDGET	LATEST ESTIMATES	BUDGET	ACTUAL	BUDGET
	R'000					
INCOME FROM OPERATIONS						
Income on money market investment	13 823	17 063	13 134	2 772	6 079	3 407
Interest on loans for construction projects	30 925	19 246	39 141	54 245	14 949	20 686
Fees on loans for construction projects	8 409	7 108	8 853	8 450	4 266	2 800
Programme management fee	24 294	44 138	16 339	12 153	6 198	22 751
Interest Expense	(5 427)	(8 092)	(9 853)	(10 500)	(3 011)	(3 769)
Other income	**6 470**	**14 900**	**3 685**	**3 027**	**1 125**	**1 561**
SURPLUS BEFORE ADMIN EXPENSES	**78 494**	**94 363**	**71 300**	**70 147**	**29 606**	**47 436**
Administration expenses	(65 536)	(96 856)	(65 486)	(69 644)	(24 113)	(39 502)
NET OPERATING (DEFICIT)/SURPLUS	**12 958**	**(2 493)**	**5 814**	**502**	**5 493**	**7 934**
(Increase) / decrease in impairments and bad debts	(2 353)	4 402	(1 251)	1 050	275	(2 791)
Other gains / (losses)	(79)	-	-	-	(29)	-
(DEFICIT) / SURPLUS FOR THE YEAR	**10 526**	**1 909**	**4 562**	**1 552**	**5 739**	**5 143**

As we are pleased with this operating surplus and surplus after impairments reported in 2014/15 financial year, this performance continues to improve in the 2015/16 financial year as a surplus after impairments of R4.8 million is reported as at 30 September 2015. This is against a budgeted surplus during the same period of R6.7 million. The budget in our Annual Performance Plan had projected a higher target in line with the performance in the 2014/15 financial year and the pipeline of new projects. The lending programme portfolio has contributed significantly in our 2014/15 financial performance as 43% of the income from operations is derived from this portfolio. However the programme and fund management portfolio contributed 31% towards the income from operations in the 2014/15 financial year. This picture is pleasing as it is in line with our core business of granting loans to contractors. The lending programme portfolio has continued to perform well in the first six months of the 2015/16 financial year as 62% of the income from operation is contributed by this portfolio whilst Programme and Fund Management portfolio contributed 18%.

One of the harder decisions NURCHA had to confront in prior financial years is around high and growing provisions for losses that were reported year-on-year since 2009. Since June 2011, management interventions successfully arrested the high occurrence of loan defaults but remained with a contagion of growing provisions largely due to compounded effect of interest accumulating on the delinquent book as well as continuing diversion of funds by the contractors.

A gross sum of R92 million was written off in the 2012/13 financial year and this made up a significant portion of the delinquent book. In most cases, legal processes are at advance stages, but provisions had to remain in the loan book due to the general sluggishness of legal processes. As such, NURCHA continues to pursue recoveries on most of these write-offs during the 2016/17 financial year. Of particular interest in the context of the turnaround strategy is the diversification of sources of income. Figure 3 below depicts a comparison of the revenue streams.

Figure 3: Revenue Trends from 2011/12 to 2014/15 financial years



In the 2013/14 financial year NURCHA reported income sources which showed a good movement towards balancing between lending portfolio, programme and fund management portfolio and money market investments at 40%, 45% and 15% respectively. In the 2014/15 financial year the picture is changing slightly between income from the lending portfolio and income from programme and fund management portfolio. Income from various sources is reported as follows during the 2014/15 financial year; lending portfolio: 51%; programme and fund management portfolio: 31% and money market: 18%. The picture by the lending portfolio has continued to improve in the first six months of 2015/16 financial year. The following contribution is reported - lending portfolio 58%; Programme and Fund Management portfolio: 20% and money market: 22%. Growth in income from lending portfolio remains an area of emphasis for the 2016/17 APP. It is also expected that the recoveries from debts written off will continue to contribute to gross income in the 2016/17 financial year as the recovery drive continues.

In the last three financial years NURCHA has taken strides to ensure that administrative expenses were kept under control in line with income growth and government cost containment measures. In the last financial year NURCHA managed to keep administrative expenses static despite operational changes. This cost containment strategy is continuing during the 2015/16 financial year as well as in the 2016/17 financial year.

3.2 Lending Portfolio

The change in business strategy has brought with it opportunities and challenges within the lending environment. The migration to direct lending from the intermediary supported lending model is receiving positive outcome in NURCHA's targets market and the marketing drive will continue to be intensified and address reputational issues where they exist. Direct lending comes with a leverage of complete control of all aspects related to its lending business processes including ability to interact directly with clients. This has also brought NURCHA closer to clients and provided much needed insight into the suitability of our products, emerging risks and areas of growth.

Table 2: Distribution of Debt between Regular and Non-Performing Loan Portfolios: 31 March 2015

	TOTAL DEBTORS	TOTAL DEBTORS	IMPAIRMENTS
REGULAR PORTFOLIO			
Affordable Housing	R233 233 530	R14 314 681	R7 348 046
Subsidy Housing	R31 211 132	R6 278 116	R1 183 881
Infrastructure & CommunityFacilities	R11 492 726	R8 352 175	R8 216 053
SUB-TOTAL	**R275 937 388**	**R28 944 972**	**R16 747 980**
NON-PERFORMING LOANS			
Affordable Housing	R 1	R 1	R 1
Subsidy Housing	R2 510 474	R2 488 568	R2 510 474
Infrastructure & CommunityFacilities	R21 372 000	R20 990 940	R21 372 000
SUB-TOTAL	**R23 882 475**	**R23 479 509**	**R23 882 475**
TOTAL	**R299 819 863**	**R52 424 481**	**R40 630 455**

Table 2 above captures the total loan book including non-performing loans of R23.9 million. The majority (89%) of the non-performing loans are in the Infrastructure and Community Facilities Programme. Total impairments as at 31 March 2015 is reported at R40.6 million. Out of this amount R29.6 million (73%) relates to the Infrastructure and Community Facilities programme.

3.2.1 Affordable Housing Programme

The Affordable Housing Programme has grown to be the most prominent pillar of the current loan book. With approximately 85% of the regular loan book exposure in this programme, NURCHA believes this programme will continue to be the main driver behind the lending portfolio expansion. This programme falls within government's priorities and with coordinated planning and implementation of human settlements, affordable housing delivery will grow as a strong contributor of housing delivery in South Africa.

In addition, the programme is making inroads in mining towns to finance the supply of affordable housing stock. NURCHA is aggressively marketing the Affordable Housing products in the priority mining towns where government will be supporting the growth of housing and infrastructure developments. Government has initiated a 'Special Presidential Project' (SPP) to assist with growth in identified and prioritized 14 mining towns in 6 district municipalities located across 5 provinces. NURCHA had budgeted to attract 13 project applications from these towns during 2014/15. This target was not achieved but NURCHA continues to put more effort to improve performance in mining towns during the 2015/16 financial.

NURCHA will visit each of the mining towns to assess the housing and infrastructure needs and identify opportunities to assist in housing delivery.

Even as government continues to provide instruments to stimulate access to the market such as the Finance Linked Individual Subsidy Programme (FLISP), discussions are underway on feasibility for tax incentives and the Mortgage Default Insurance Scheme. There is still much work to be undertaken to address supply-side dynamics around land release, financing, densification parameters, bulk infrastructure and lowering input costs. Addressing the backlog in this segment requires multi-pronged approaches.

NURCHA has investments (existing and pipeline opportunities) in the Western Cape, Eastern Cape, Mpumalanga, KwaZulu-Natal, Gauteng and Northern Cape and will continue to drive expansion to all nine provinces. In 2014/15 financial year the lending team conducted "Road Shows" across the country to convey to potential clients our lending model and products. A favourable response was achieved and we anticipate that this will bear fruit in the coming months. We also conveyed the message that NURCHA would like to contribute to the student accommodation and in particular the rental housing market. NURCHA will provide funding for the development on the undertaking that take-out finance exists from an institutional funders.

Evidence of the focus in affordable housing is evident in the performance of the programme loan book which has seen an increase in exposure from R96 million by end of March 2012 to R233 million by March 2015. Cumulatively from inception to end of March 2015, the Affordable Housing Programme has signed loans to the value of R1.74 billion. This programme has also seen growth in higher-density projects such as those located in KwaZulu-Natal, Gauteng and Western Cape.

In 20013/14 financial year the NDHS capitalized NURCHA with R300 million to be used towards the Affordable Housing Programme. This grant has been used to leverage private sector funding to the tune of R100 million. Co-funding partnership currently exist with Public Investment Corporation (PIC). The loan facility of R75 million by Cadiz Asset Management has been terminated and the outstanding loan amount was repaid. The FNB co-funding agreements expired in October 2013 and FNB was not able to extend this facility further. Although NURCHA was keen to develop these co-funding partnerships in order to reduce concentration risk on big developers these funding partners are now not keen to commit to any arrangement in view of the pending merger of the three DFI's.

3.2.2 Subsidy Housing and Infrastructure and Community Facilities Programme

NURCHA has adopted a Lending led approach to the Contractor Finance Development Programme. The unique challenges faced by Emerging Contractors and Municipalities in each Province are vastly different. NURCHA will play its role as a catalyst funder and partner with other institutions such as the Small Enterprise Development Agency "SEDA" for support.

A replacement funder for the First National Bank (FNB)/ Overseas Private Investment Corporation "(OPIC)" has not been secured. OPIC had provided NURCHA with a guarantee of $20 million (twenty million US dollars) from 2002/03 to 2014/15 financial years. They were also not keen to extend this facility further. NURCHA has applied for capital grant in order to finance the Subsidy Housing Programme and/or government guarantee which will be used to replace the OPIC guarantee if the capital grant is not received. The response received from the Department of Human Settlement regarding a capital grant to replace this facility was a negative one. Therefore NURCHA will not be allocated funds towards this programme. Futuregrowth has indicated that their facility (which also expired in February 2014) can in future be used to finance both Subsidy Housing Programme and Infrastructure and Community Facilities Programme. Negotiation are continuing with Futuregrowth to extend the R132 million facility and with the Department of Human Settlements (and National Treasury) for a government guarantee of R200 million. Should a guarantee not be secured, the ability to finance projects under Subsidy Housing Programme will be limited in view of the limited own resources.

In order to create awareness and generate greater volumes of business NURCHA embarked on workshops for Contractors and Developers. The purpose of the workshops is to create awareness about NURCHA, NURCHA's lending products and the direct lending led model. In 2014/15 financial year over six hundred (600) Contractors attended the workshops that were held. The areas covered were Cape Town, Port Elizabeth, East London, Mthatha, Durban and Johannesburg which was attended by Contractor's as far afield as Mpumalanga and North West. The workshop for Free State contactors and developers was held during the 2015/16 financial year.

Table 3: Performance against Targets for 2013/2014, 2014/2015 and Performance for first six months of 2015/16 financial years

OUTPUTS - APP		2013/2014		2014/2015		2015/2016		
		Budget	Actual	Budget	Actual	Budget	Budget (Apr - Sept 2015)	Actual (Apr - Sept 2015)
1.	AFFORDABLE HOUSING (Houses and Serviced Sites)							
1.1	Contract Signed	23	14	20	16	21	10	8
1.2	Houses and sites in signed contracts	3,220	1,983	2,800	2,564	3,150	1,576	1,483
1.3	Value of Loans (Rand)	345,000,000	230,729,433	300,000,000	246,625,590	315,000,000	165,000,000	224,230,618
1.4	Value of Projects (Rand)	690,000,000	873,072,445	440,000,000	925,805,198	630,000,000	315,000,000	463,526,056
1.5	Houses built and Sites serviced	2,245	1,619	1,950	1,606	2,200	1,100	918
2.	SUBSIDY HOUSING (Houses and Serviced Sites)							
2.1	Contract Signed	26	11	28	15	32	14	8
2.2	Houses and sites in signed contracts	10,164	4,428	9,660	9,773	16,000	8,000	3,866
2.3	Value of Loans (Rand)	124,000,000	55,481,861	112,000,000	81,791,461	128,000,000	64,000,000	41,300,000
2.4	Value of Projects (Rand)	687,000,000	349,911,460	724,500,000	864,035,302	1,200,000,000	600,000,000	341,477,755
2.5	Houses built and Sites serviced	5,084	3,108	5,500	5,962	7,044	3,522	699
3.	INFRASTRUCTURE & COMMUNITY FACILITIES (Projects							
3.1	Contract Signed	20	0	4	2	4	2	0
3.2	Value of Loans (Rand)	79,000,000	0	17,380,000	15,109,078	18,000,000	9,000,000	0
3.3	Value of Projects (Rand)	400,000,000	0	88,000,000	56,647,370	100,000,000	50,000,000	0
3.4	Project Completed	10	0	8	0	2	0	0

In addition, the most notable point in this programme is the good performance of the loan book as illustrated in Table 2 on page 17 which itself serves as a clear indication that the direct lending product coupled with stricter credit criteria has a market segment to service.

NURCHA believes that the future of the Subsidy Housing Programme will be positively impacted through the implementation of the Contractor Finance Development Programme (CFDP). The National Department of Human Settlements (NDHS) transferred the first payment of R20 million towards this initiative during the third quarter of 2012/13. To date the CFDP implementation was effected in the Nelson Mandela Bay Metropolitan Municipality. NURCHA is currently negotiating with other provinces including Mpumalanga; Gauteng and KwaZulu Natal in order to rollout this programme in these provinces.

Discussions with the Nelson Mandela Bay Metropolitan Municipality together with various stakeholders have progressed well. The CFDP seeks to assist emerging contractors with non-financial support through the provision of accredited training, both on and off-site assistance with contract administration, management and procurement. NURCHA will directly support this initiative through the provision of loan facilities to qualifying contractors thereby enabling them to access credit facilities and supporting them in becoming sustainable trading entities.

The Subsidy Housing Programme lost its main funding partner being the Overseas Private Investment Corporation (OPIC) who has been the primary guarantor behind this lending facility for the last 12 years. NURCHA had secured a favourable repayment term with OPIC which allowed final repayment of the facility in February 2015. However the facility was fully settled in July 2014 with First National Bank and the guarantors have been released from any obligation in September 2014. Discussions with NDHS are ongoing to secure a new guarantee and with Futuregrowth for the extension of their loan facility to finance Subsidy Housing Programme, ideally at concessionary rates in order to keep the cost of finance low for the contractor. This will be achieved if the government guarantee is provided.

The Infrastructure and Community Facilities Programme has suffered from low project volumes and the inability to meet forecasted outputs. This programme has historically provided the highest risk category to the NURCHA's lending model and it is the intention of NURCHA to slow down lending in this investment stream. The migration to certificate-based lending has significantly impacted on project volumes. Budgeting processes were also limiting in that current output targets were based on historical targets without factoring in the negative impact of certificate-based lending.

The implementation of the direct lending model has established a platform where NURCHA retains full accountability of these loans thereby offering opportunities for early detection of events of default.

However, given the intolerable risks in this segment, the Board of NURCHA together with the associated co-funding partners are cautious of this programme. Accordingly, new loans in the Infrastructure and Community Facilities Programme will be considered only to existing clients and due consideration of contract management systems of the employer.

3.3 Programme and Fund Management Portfolio

The decision made three years ago to enter the programme management arena was largely spearheaded by the need to address the shortfall in programme management capabilities within the various spheres of the public sector. Primary motivation to the establishment of this portfolio is the evident inadequate programme management expertise in the public sector. Any shortfall of this expertise in the public sector directly affects the timeous delivery of housing units and escalates the lending risks. The establishment of the Programme Management portfolio has within a relatively short period of time provided much-needed expertise in terms of project management practices and capabilities, cost management, financial accounting, contract administration, procurement and social facilitation to our various clients. Our view is that delivery within human settlements can be accelerated through collaboration and broad-based participation of various stakeholders and the role of programme management is pivotal in providing coordination to this objective.

The Programme Management portfolio has achieved the income diversification impact that was initially envisaged. The total fee generated from this portfolio contributed 31% to the overall income for the year ended 31 March 2015 and 20% in the first six months of 2015/16 financial year. This contribution of the portfolio is due to drop following a strategic decision taken that NURCHA should focus more on CFDP and Fund Management. Work on programme management is due to decrease as some of the programmes have matured and have not been replaced. The technical capacity constraints also contribute to this reduction in performance. Brief outline on the programmes is as follows:

Free State Support Programme

The objectives of the Free State Support Programme was to assist the Department strengthen its head office and district level technical capacity by deploying technical and competent construction project managers in each district. This 2 year Change Management and Support Programme for the Free State Department of Human Settlements implemented by NURCHA came to an end on 30 March 2014. However, a 12 month period extension was granted in order to handover and ensure a smooth transition of activities previously performed by NURCHA. This assignment ended at 31 March 2015, however there were two staff members who were assisting the Department with GIS implementation. Their assignment with the department came to an end on 30 September 2015.

Vulindlela Rural Housing Programme

Our role in the Vulindlela Enhanced Peoples Housing Programme (EPHP) has provided continued fund management services. The programme, being the single largest EPHP undertaking by the NDHS had as at 30 September 2015 facilitated the delivery of ten thousand eight hundred and eighty five (10 885) houses and thirteen thousand nine hundred and forty seven (13 947) platforms and has disbursed R1.2 billion on programme and construction activities.

Our ongoing success in this flagship programme has elevated NURCHA's profile in fund and account administration interventions.

Eastern Cape Bucket Eradication

NURCHA had been commissioned to provide programme management services for the bucket eradication programme in the Eastern Cape. To this end the NDHS was allocated a total budget of R94M for 9 projects across 8 municipalities in the Eastern Cape for the eradication of buckets in formalised areas. The programme commenced in February 2014 and ended on 31 March 2015. NURCHA also submitted a business proposal for Phase 2 of the programme which was going to focus on the bucket eradication in the informal areas but this proposal was rejected due to the change of policy within the National Department of Water and Sanitation.

3.4 National Department of Human Settlements and Other Entities

NURCHA is greatly appreciative of the support provided by the NDHS. With increased engagements occurring at national and provincial levels, NURCHA is keen to continue fostering collaborative working relationships with the various departments and municipalities. NURCHA is also engaging with other human settlements entities on opportunities of collaboration.

2.5 Merger of the three DFI's

The board of directors of NURCHA supports the merger of the three DFI's. The three Chief Executive Officers (Managing Directors) are main drivers of the process in consultation with the National Department of Human Settlements. NURCHA participates in the Steering Committee and other task teams set up to drive the merger.

2.6 Conclusion: Performance Delivery on Strategy and Current Annual Performance Plan

Having completed a challenging 2013/14 and 2014/15 financial years, in the current financial year and into the future NURCHA is focusing its energies on driving revenue growth mainly from the Lending portfolios. Parallel to this will be the cost management measures that have already been implemented which include reduction in legal costs, staff and travel expenses and considering procurement alternatives. The focus on recovery of the delinquent book and arresting further growth in provision for losses will be a key area of performance over the next period.

3. PERFORMANCE PLAN FOR 2016/2017

4.1 Introduction

The situational analysis presented in section 3 above provides the context for the Performance Plan for the 2016/17 financial year. NURCHA will continue with the implementation of the turnaround plan that is articulated in the five-year strategic plan through in this 2015/16 financial year and strive to achieve a continuing business growth in the financial year 2016/17.

4.2 Strategic Focus

The strategic focus areas for 2016/17 remain in line with the five-year strategy and revolve around the two strategic pillars of striving to deepen development relevance and restore financial sustainability. The Medium Term Strategic Framework (MTSF) is also taken into account in developing the 2016/17 APP. The nature of the challenges faced by NURCHA was such that we required a bold turnaround plan as encapsulated in the previous five year plan. The last 24 months, as outlined in the situational analysis, saw implementation of a range of changes. Some of these had negative impact on the business performance as the fundamentals on how NURCHA was executing its mandate were revisited.

Whilst the strategy has taken root, a lot of energy has to be invested in consolidating the positive elements and minimizing any unintended consequences and most importantly for successes to translate into positive financial results. All this has to be achieved whilst demonstrating improved development impact. The two strategic pillars therefore remain anchors of the 2016/17 APP:

4.2.1 Deepen Development Relevance

4.2.1.1 Accelerating delivery of affordable houses:

Key area of focus in the affordable housing lending stream remains that of growth in response to national delivery targets in this category of the housing market as captured in MTSF **objectives and the National Development Plan.** This includes:

- Growing the programme to meet set annual and multi-year targets as outlined in the APP.
- Strengthen expertise and systems to improve project assessment and risk management throughout the life cycle of projects.
- Actively search for opportunities and innovations to push house prices downwards into the **"Gap Market"**. The re-modelling of Financed Linked Individual Subsidy Programme (FLISP) and streamlined implementation as led by NHFC will advance this goal significantly.
- Closer cooperation with municipalities and other role players to identify and resolve upstream bottlenecks and facilitate generation of a good pipeline of affordable housing projects particularly in under serviced provinces.
- New product design for Rental Housing and Student Accommodation funding.
- Improved focus with NDHS on targeted rapid growth areas including fourteen (14) mining towns in six district municipalities located across 5 provinces.
- Engagement with developers and contractors forums, and revival of previous NURCHA clients

4.2.1.2 Application of NURCHA's programme and fund management capabilities to support service delivery and normalise lending risks environment

The last two financial years have demonstrated good progress in the implementation of the Programme and Fund Management stream. Consolidation in this area has to focus on various aspects such as operational efficiencies, market positioning and business development and talent development.

4.2.2 Restoration of Financial Viability to NURCHA

- Reduction and/or maintenance of non-performing loans to within 10% of the loan book.
- Register positive financial results from core business activities commensurate to NURCHA status as a DFI.
- Intensify the collections effort and early intervention on defaulting borrowers.

4.3 Key Performance Determinants

The subdued international economic outlook and uncertainties thereto, are likely to continue to affect NURCHA's medium to long term strategy formulation

The effects of the continued economic downturn and the financial risk profile down grader have a profound effect on NURCHA's future business growth prospects, particularly as these will affect NURCHA's pricing structures with related effects on the already high risk and economically stressed clients. The introduction and implementation of Basel III and capital adequacy requirements affect how commercial banks structure their lending criteria. This, combined with the tightening of the regulatory framework governing credit granting, will require innovative ways of managing NURCHA's funding requirements and lending criteria to ensure sufficient loan volumes, additional revenue sources such as fee-based programmes, and adequate loan management to ensure sustainability.

The termination of the intermediary supported lending model and the changes in NURCHA's lending criteria and procedures were introduced in July 2011 and the full impact has been measured at the end of the 2013/2014 and 2014/15 financial years. Therefore, in defining the strategic focus for 2016/2017 financial year, the following assumptions were made:

4.3.1 The primary form of lending for subsidy housing and infrastructure and community facilities projects will continue to be on the certificate-based lending model taking into account the new lending rules approved by the board of directors. This may see a continued slow to moderate flow of loans signed on the Subsidy Housing Programme. Due to the high risk nature of the Infrastructure and Community Facilities programme, combined with the losses suffered by NURCHA on this programme, NURCHA will continue to curb marketing on this product. NURCHA will however continue to explore potential funding roles in subsidy housing delivery, in order to increase loan volumes in this market. Low or slow project allocations by local and provincial government in the Subsidy Housing market will potentially have an adverse effect on NURCHA's lending volumes.

4.3.2 The Affordable Housing Programme remains the cornerstone of NURCHA's sustainability and will be maintained at a minimum of 60% of NURCHA's total loan book. Predicted deal flow and business performance also assumes sustained end user mortgage lending by commercial banks. Growth in the affordable housing market also requires improved performance by the public sector with regards to land assembly, provision of bulk infrastructure and regulation of township establishment and other administrative approvals that are key in the property development value chain. Additional funding by National Treasury and National Department of Human Settlement also ensure growth in this programme during the MTEF period.

4.3.3 NURCHA's ability to generate alternative revenues is a critical strategic focus area. NURCHA has successfully introduced new fee-based business streams. NURCHA will continue to identify and secure additional fee-based opportunities in the 2016/17 financial year focusing more on CFDP and fund management.

The first four fee-based flagship programmes have demonstrated that NURCHA is well positioned to contribute to strategic initiatives aimed at responding to the service delivery challenges faced by sector. NURCHA will be focusing on sector priority focus areas and forge multi-stakeholder collaborative initiatives, and continue with the primary partnership with the NDHS in identifying areas where programme and fund management support is required as this will ensure that service providers on government initiatives are paid on time, emerging contractors are developed and limited programme support services are provided. NURCHA's programme management scope covers four broad areas and current four flagship support programmes are well spread across these areas.

4.3.3.1 *Fund Management* – This entails fund management or account administration, with funds administered on behalf of clients and payments effected to contractors and material suppliers.

4.3.3.2 *Programme Management* – Involves planning, implementation, monitoring and delivery of all housing programmes for clients within time and budget, ensuring administration of the entire delivery value chain. Finances are accounted for through acting as a Programme Management Unit on behalf of clients.

4.3.3.3 *Institutional Capacity Development* – This programme focuses on establishing coherent programme management capacity, maturity assessment, maturity road mapping, mapping of project management business processes, re-engineering and establishing programme management units, deploying tools, systems and technologies.

4.3.3.4 *Contractor Finance and Development Programme* - Through this programme NURCHA provides comprehensive construction and enterprise development support to small contractors, through technical mentorship, financial management support, and benchmarking progress to ensure that small contractors deliver on time, within quality and budget and against reasonable profit margins. Past experience indicate a need to adjust the programme implementation approach from “support steered” to “bringing finance steered” with lending criteria suited for emerging contractors.

4.3.4 Equally important to business performance is NURCHA's ability to manage its loan book, keep impairments to below 10% of the total book debt and prevent bad debts. Significant emphasis is placed on the collection of outstanding loans and a panel of debt collectors has been appointed to assist with the recovery of historical write-offs. NURCHA's success on the Subsidy Housing and Infrastructure and Community Facilities Programmes is heavily dependent on the performance and efficient administration by employers which will result in a decrease in non-performing loans. There is a drive to establish close working relationships with employers (three spheres of government and entities) to facilitate timely processing of payments and prevent the diversion of project proceeds. NURCHA is planning to escalate the concerns of late payments, non-payments and non-compliance with payment undertakings by employer departments and municipalities to the NDHS Executive Management Team (EMT) and MINTEC.

4.3.5 The tight fiscal conditions as a direct result of muted economic growth rate projection will affect some of those areas that require grant funding and/or government guarantees. One of these areas is the replacement of subsidy housing financing facility which for the last 11 years was made possible at the back of guarantees from the Overseas Private Investment Corporation (OPIC). First National Bank was not keen to extend the facility any further and NURCHA is now negotiating with other private funders to finance Subsidy Housing Programme. NURCHA will pursue the application for both government grant and government guarantee in order to finance this programme and grow its business.

4.4 Overview of 2015/16 Budget and MTEF Estimates

4.4.1 Financial Performance Indicators and Annual Targets

Table 4 below presents the financial performance indicators in an abridged format. The anticipated decrease in income from operations and decrease in net operating surplus for the 2015/16 financial year, is due to a decline in lending business and the budgeted fee income from the fee-based initiatives outlined in 4.5.2 and Table 5D.

Table 4: Financial Performance Indicators and Annual Targets

PERFORMANCE INDICATORS AND ANNUAL TARGETS	AUDITED ACTUAL PERFORMANCE			LATEST ESTIMATES	BUDGET	MEDIUM-TERM TARGETS	
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
		(R'000)		(R'000)	(R'000)	(R'000)	
INCOME FROM OPERATIONS	**52 355**	**70 049**	**72 024**	**67 614**	**67 120**	**71 001**	**98 666**
- INCOME ON MONEY MARKET INVESTMENTS	7 764	10 319	13 823	13 134	2 772	2 207	25 127
- FINANCING PROGRAMMES	31 533	24 985	33 907	38 142	52 195	63 114	67 360
- PROGRAMME MANAGEMENT FEES	15 856	17 051	24 294	16 339	12 153	5 679	6 179
OTHER INCOME	1 108	5 136	6 470	3 685	3 027	2 329	2 591
ADMINISTRATION EXPENSES	(57 050)	(57 074)	(65 536)	(65 486)	(69 644)	(74 143)	(78 544)
NET OPERATING SURPLUS OR (DEFICIT)	**417**	**9 793**	**12 958**	**5 814**	**502**	**(813)**	**22 714**
(INCREASE)/DECREASE IN IMPAIRMENTS AND LOSSES	(44 570)	(17 714)	(2 353)	(1 251)	1 050	1 440	(6 334)
OTHER GAINS / (LOSSES)	1 236	(18 334)	(79)	-	-29,00	-	-
SURPLUS OR (DEFICIT) FOR THE YEAR	**(35 631)**	**7 178**	**10 526**	**4 562**	**1 523**	**626**	**16 379**

- The quarterly breakdown of income and administration expenses for the 2016/17 financial year is provided in Appendix A.

4.4.2 Expenditure Relating to Outcome Targets

Details of the administration expenses are provided in Appendix G. A consolidated budget, as opposed to separate income and expenditure budgets for each programme is presented. This approach allows for cost allocation to programmes for services rendered to the programme by service departments within the organisation. The planned outputs for the different programmes are outlined in Tables 5A, 5B and 5C.

4.5 Programmes

4.5.1 Lending Programme Portfolio

As is evident from the situational analysis and strategic focus, NURCHA will continue with the provision of bridging finance for affordable and subsidy housing projects but limit finance to infrastructure and community facilities projects. The lending will be done within the parameters of the new business model and operational procedures. The last 24 months has demonstrated successes in minimizing losses, however the ability to support SMME contractors through the CFDP has been minimal.

The emphasis on the Affordable Housing Programme will be growth in the scale of delivery and geographical spread of projects that deliver housing to the low-income sector that fall outside the scope of fully subsidised housing. This is well-aligned to the objective in MTSF for delivery of 600 000 housing opportunities.

NURCHA also intends to continue with the fee-based programmes as it is well-aligned with MTSF and NDP, in that the programme seeks a role for NURCHA in facilitating and supporting the different spheres of government in achieving MTSF objectives.

Table 5A below, presents NURCHA's audited performance targets the three bridging finance lending programmes for the 2012/13, 2013/14 and 2014/15 financial years, latest estimates for the 2015/16 and targets for 2016/17, 2017/18 and 2018/19 MTEF period.

Table 5A: Bridging Finance Lending Programmes – Actual/Audited Performance for the three years: 2012/13 to 2014/15, Estimated Performance for 2015/16 and Budgeted Performance for the 2016/17, 2017/2018 and 2018/2019 MTEF Period

	OUTPUTS - APP	AUDITED/ACTUAL PERFORMANCE			LATEST ESTIMATES	MEDIUM-TERM TARGETS		
		2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
1.	**AFFORDABLE HOUSING (Houses and Serviced Sites)**							
1.1	Contract Signed	11	14	16	21	23	24	26
1.2	Houses and sites in signed contracts	1,813	1,983	2,564	3,150	3,450	3,600	3,900
1.3	Value of Loans (Rand)	157,810,953	230,729,433	246,625,590	315,000,000	345,000,000	360,000,000	390,000,000
1.4	Value of Projects (Rand)	654,804,353	873,072,445	925,805,198	630,000,000	690,000,000	840,000,000	900,000,000
1.5	Houses built and Sites serviced	1,195	1,619	1,606	2,200	2,500	2,650	2,800
2.	**SUBSIDY HOUSING (Houses and Serviced Sites)**							
2.1	Contract Signed	12	11	15	32	35	38	40
2.2	Houses and sites in signed contracts	9,109	4,428	9,773	16,000	17,500	19,000	20,000
2.3	Value of Loans (Rand)	67,300,000	55,481,861	81,791,461	128,000,000	140,000,000	152,000,000	160,000,000
2.4	Value of Projects (Rand)	611,000,000	349,911,460	864,035,302	1,200,000,000	1,750,000,000	1,900,000,000	2,000,000,000
2.5	Houses built and Sites serviced	8,298	3,108	5,962	7,044	12,830	16,750	18,250
3.	**INFRASTRUCTURE & COMMUNITY FACILITIES (Projects)**							
3.1	Contract Signed	4	0	2	4	4	4	6
3.2	Value of Loans (Rand)	12,427,755	0	15,109,078	18,000,000	18,000,000	18,000,000	27,000,000
3.3	Value of Projects (Rand)	38,976,586	0	56,647,370	100,000,000	100,000,000	100,000,000	150,000,000
3.4	Project Completed	17	8	0	2	4	4	4

Assumptions for the MTEF output targets for the various bridging finance lending programmes have been influenced by the current pipeline of projects; and the performance and experiences in previous and current financial years.

Table 5B reflects the annual performance targets for the 2015/16 and 2016/17 financial years for the three bridging finance lending programmes. The table also provides the planned targets for each quarter of the year.

Table 5B: Bridging Finance Lending Programmes - Annual Performance Targets for Financial Years 2015/16 and 2016/17

OUTPUTS		2015/2016 Budget	Reporting	BUDGET 2016/2017				
			Period	YEARS BUDGET	1st Q Budget	2nd Q Budget	3rd Q Budget	4th Q Budget
1.	**AFFORDABLE HOUSING (Houses and Serviced Sites)**							
1.1	Application Received	21	Quarterly	**35**	9	10	6	10
1.2	Contract Signed	21	Quarterly	**23**	7	8	3	5
1.3	Houses and sites in signed contracts	3 150	Quarterly	**3 450**	1050	1200	450	750
1.4	Value of Loans (Rand)	315 000 000	Quarterly	**345 000 000**	105 000 000	120 000 000	45 000 000	75 000 000
1.5	Value of Projects (Rand)	630 000 000	Quarterly	**690 000 000**	210 000 000	240 000 000	90 000 000	150 000 000
1.6	Houses built and Sites serviced	2 200	Quarterly	**2 500**	756	864	330	550
2.	**SUBSIDY HOUSING (Houses and Serviced Sites)**							
2.1	Application Received	32	Quarterly	**58**	17	17	11	13
2.2	Contract Signed	32	Quarterly	**35**	10	10	6	9
2.3	Houses and sites in signed contracts	16 000	Quarterly	**17 500**	5 000	5 000	3 000	4 500
2.4	Value of Loans (Rand)	128 000 000	Quarterly	**140 000 000**	40 000 000	40 000 000	24 000 000	36 000 000
2.5	Value of Projects (Rand)	1 200 000 000	Quarterly	**1 750 000 000**	500 000 000	500 000 000	300 000 000	450 000 000
2.6	Houses built and Sites serviced	7 044	Quarterly	**12 830**	3 670	3 660	2 206	3 294
3.	**INFRASTRUCTURE & COMMUNITY FACILITIES (Projects)**							
3.1	Application Received	4	Quarterly	**10**	3	2	3	2
3.2	Contract Signed	4	Quarterly	**4**	1	1	1	1
3.3	Value of Loans (Rand)	18 000 000	Quarterly	**18 000 000**	4 500 000	4 500 000	4 500 000	4 500 000
3.4	Value of Projects (Rand)	100 000 000	Quarterly	**100 000 000**	25 000 000	25 000 000	25 000 000	25 000 000
3.5	Project Completed	2	Quarterly	**4**	1	1	1	1

The targets set by NURCHA in previous financial years were difficult to meet for various reasons. Assumptions for the MTEF output targets for the various bridging finance lending programmes have been influenced by the current pipeline of projects; and the performance and experiences in previous financial years as detailed below:

4.5.1.1 Subsidy Housing Programme

Marginal growth is expected in the number of loans signed but contract values will be higher than in previous financial years. NURCHA will continue to support viable projects that can be completed at reasonable profit margins. Constant monitoring of the contractor performance and midterm reviews will be conducted to assess progress towards meeting annual targets.

4.5.1.2 Infrastructure and Community Facilities Programme

Marketing of this programme will be curbed. NURCHA will focus on preventing losses and managing risk by providing bridging finance only on projects that can be successfully completed within realistic project budgets. A reduction in the number of loan signed is therefore anticipated. Historical performance of government departments issuing the contracts in terms of contract administration systems and payment processing will be key determinants.

4.5.1.3 Affordable Housing Programme

Performance targets on this programme are informed by economic conditions and end user mortgage lending by commercial banks. It is expected that there will be an increase in the actual number of houses delivered by metropolitans in the 2016/17 financial year. NURCHA is actively pursuing the delivery of GAP and affordable housing units in mining towns and in strategic rapid growing areas as identified by the NDHS.

4.5.2 Programme and Fund Management Portfolio

In order to align the fee-based business with the framework for strategic plans and annual performance plans budgeted development outputs of each fee-based programme for the 2016/17 financial year is outlined in Table 5C below. The budgeted gross income from the fee-based initiatives is outlined in Table 5D.

Table 5C: Programme and Fund Management - Annual Performance Targets for Financial Year 2016/17

Programme Management	2016/2017 Budget	Annual Budget	QTR 1	QTR 2	QTR 3	QTR 4
City of Cape Town Retrofit Ceilings Project	Number of houses to be retrofitted	3 360	0	0	2 520	840
	Number of local SMME to be involved	15	0	0	12	3
	Number of jobs created	100	0	0	80	20
Contractor Finance and Development Programme	Number of Contractors given bridging finance	20	5	5	5	5
	Number of Contractors trained and Mentored	60	15	15	15	15
	Number of Houses delivered	3 000	375	750	750	1 125
	Number of Jobs created	630	105	210	210	105
Vulindlela Programme	Compliance with payment turnaround times	100%	100%	100%	100%	100%
	Internal Audit report on fund management	Good	Good	Good	Good	Good

Table 5D: Programme and Fund Management - Budgeted Fee Income for Financial Year 2016/2017 (R'M)

Programme	2016/2017 Budget	QTR 1	QTR 2	QTR 3	QTR 4
Fund Management - KZN DOHS (VDA)	1.92	0.48	0.48	0.48	0.48
Contractor Finance and Development Programme (CFDP) - NDOHS	6.93	1.73	1.73	1.73	1.73
Ceiling Retrofit Programme - CCT	3.30	0.83	0.83	0.83	0.83
TOTAL	**12.15**	**3.04**	**3.04**	**3.04**	**3.04**

NURCHA will continue to utilize its existing programme and fund management expertise and systems in support of delivery efforts in the human settlements sector to enhance delivery capacity of implementing agents. The intention is to focus more on Fund Management and CFDP, and less of Programme Management. The following is a summary of the focus areas of the existing initiatives that will commence in the 2016/17 financial year:

4.5.2.1 *Fund Management* - NURCHA acts as account administrator on the KZN Vulindlela Rural Housing Project. The project will continue in the 2016/17 financial year and NURCHA's role facilitates the delivery of approximately 5 000 subsidy houses per annum. NURCHA will seek similar opportunities in other regions. NURCHA is in negotiations with the Free State Department of Human Settlements regarding EPHP project. If this is successful it will continue until 2016/17 financial year.

4.5.2.2 *Small Contractor Finance and Development Programme* - The programme provides construction support, management support and financial training to small contractors, in an attempt to grow viable SMME's. As the programme budget was reduced to R20 million, the programme continued with the training of 15 contractors as opposed to 120 contractors originally envisaged. During the 2016/17 financial year this programme will assist with the delivery of 3 000 housing units, in line with the 2015/16 targets.

NURCHA has developed a funding model that specifically caters for the unique characteristics of CFDP Contractors. In order for funding to be viable, additional construction support services have to be provided. The Pilot in Nelson Mandela Bay Metro was made possible by the once-off R20 million grant made by the NDHS. A construction support grant is required in order to scale up the construction support services.

4.5.2.3 *Ceilings Retrofit Project* – In May 2015 NURCHA was appointed by the City of Cape Town as an implementing agent for the Ceilings Retrofit Project. Prior to 2005 the City of Cape Town had almost 40 000 RDP houses built without ceilings or electricity. The City has therefore prioritised a total of 8 001 units to be retrofitted in the current financial year using a co-fund between the Green Fund & the City budget. NURCHA has been appointed to do 4 387 of 8 001 units. The appointment is for a period of 18 months from May 2015 and according to the current progress the last project will be completed by 30 October 2016.

4.5.3 Administration Programme

NURCHA has since inception obtained an unqualified audit report. The control environment has been fairly good over the years. The areas of improvement include the following: Supply Chain Management unit and automated Management Information Systems.

TABLE 5E: Performance Objectives over the MTEF

KEY PERFORMANCE INDICATOR	PERFORMANCE TARGETS OVER THE MTEF PERIOD
1. Financial Control.	1. Unqualified audit report. 2. Number of audit observations reduced. 3. Finalise the development of financial management and management information systems (Pastel Evolution including Procurement and Fixed Assets Register modules)
2. Stable information and communication systems.	1. Reduced downtime on internal network system to at most one day.
3. Loan management control	1. Maintain the level of impairments to: a. 10% of the loan book for Subsidy Housing Programme and b. 5% of the loan book for the Affordable Housing Programme. 2. Level of overdue kept at 10% for Subsidy Housing and 2% for Affordable housing programmes
4. Corporate Governance Structures	1. Governance structures compliant with King 3 as agreed on with Accounting Authority

4.6 Funding From the Public Sector

The NDHS provided NURCHA with a recapitalization grant of R300 million, allocated in tranches of R100 million over a period of 3 years, to increase investment in the affordable housing market. The final tranche was paid over to NURCHA in July 2013. Some of this capital allocation is subordinated to NURCHA's subsidiaries and it is through these subordinated loans that NURCHA has been able to raise facilities in partnership with the private sector, thus ensuring sufficient funding for the bridging finance lending programmes.

The application for R700 million capitalisation by the state was not successful, however, the application for a guarantee to use as collateral to secure private sector funding will be pursued. This will be used to replace the OPIC facility which came to an end in February 2013. The Subsidy Housing Programme is currently funded from NURCHA's limited own funds. NURCHA would like to use part of these funds to grow the business in the two main portfolios. The new application for funding will be submitted during the next budget cycle.

The availability of the Cadiz facility expired on 7 July 2015 and the repayment date was set for July 2017. Cadiz has since written to NURCHA that their investment mandate has been terminated and the R75 million available to NURCHA has been terminated with immediate effect. NURCHA repaid the R8 million outstanding in October 2015. This has a major impact on the delivery of houses under the Affordable Housing Programme as some of the existing projects were financed out of Cadiz loan facility.

The PIC loan facility will also expire in July 2017 with repayment date in July 2019.

The Department of Human Settlements has approved the allocation of R61 million which was transferred to NURCHA in August 2015. These funds are provided to enable NURCHA to have capacity to repay the R62 million loan by SEDF which is due in February 2016.

As the application for the R700 million grant is not successful NURCHA will source funds from the private sector or other development institutions in order to meet its performance targets. The challenge however is that funders are not keen to negotiate funding with NURCHA until the merger of the three entities is finalised.

4.6.1 Affordable Housing

4.6.1.1 The NDHS allocated a R300 million recapitalization grant to NURCHA and this was applied in leveraging private sector funding and to date NURCHA has secured funding facilities from Cadiz Asset Management and Public Investment Corporation for R75 million and R100 million respectively. As stated above the Cadiz loan facility has since been terminated.

4.6.1.2 At times NURCHA may also enter into ad-hoc co-funding arrangements with private sector funders in order to share risk where concentration risk to a single debtor exceeds NURCHA's risk appetite.

4.6.2 Subsidy Housing

4.6.2.1 A replacement funding partner for the FNB/OPIC facility has not yet been secured, and as a result NURCHA has to finance all new contractor loans on the Subsidy Housing Programme from its own funds.

4.6.2.2 NURCHA is negotiating with various private sectors funders to secure a replacement fund. The challenge is however to secure a fund at reasonable interest rates, in order for NURCHA to make loans available to small and medium contractors at market related pricing. Guarantee by the state can be used as collateral to secure private sector funding at sub prime rates. Futuregrowth Asset Management has indicated their keenness to avail funds to finance this programme however it will come as commercial rate if guarantee is not provided. The application for a government guarantee was submitted but a response has not yet been received.

4.6.3 Infrastructure and Community Facilities

4.6.3.1 NURCHA does not have sufficient funding capacity for the Infrastructure and Community Facilities Programme as the Futuregrowth facility expired in February 2014. All new project are financed from NURCHA own funds. Talks are currently in place between NURCHA and Futuregrowth for the extension of this facility.

4.6.3.2 A management decision has now been taken that NURCHA should minimize the marketing of this programme as it continues to attract high level of loan defaults.

NURCHA will continue to explore avenues to access lower cost of capital funds in order to ensure increased income earnings, sustainability and contractor profitability.

4.7 Private Sector Funding

Currently, the funding arrangements in place which attract private sector investments are indicated on Table 6 below. These funds are committed but only R70 million of the PIC facility has been drawn down. The R75 million Cadiz facility has been terminated and R8 million outstanding was repaid on 23 October 2015.

Table 6: Funding Of Lending Programmes

	PROGRAMME FUNDING	PRIVATE SECTOR PARTNER	PRIVATE SECTOR FACILITY	NURCHA CONTRIBUTION
1.	AFFORDABLE HOUSING			
	Nurcha Loan Fund : Nurcha Subsidiary	Public Investment Corporation	R100m	R66m
			R100m	R66m

APPENDIX A

LATEST ESTIMATES FOR 2015/2016 AND BUDGET FOR 2016/2017 FINANCIAL YEARS

2016 LATEST ESTIMATES AND 2017 BUDGET	LATEST ESTIMATES 2015/16 (R'000)	BUDGET 2016/17 (R'000)	1Q2017 (APR. - JUN.) (R'000)	2Q2017 (JUL. - SEPT.) (R'000)	3Q2017 (OCT. - DEC.) (R'000)	4Q2017 (JAN. - MAR.) (R'000)
INCOME FROM OPERATIONS	**67 614**	**67 120**	**5 593**	**11 187**	**22 373**	**27 967**
- Income on money market investments	13 134	2 772	231	462	924	1 155
- Financing Programmes	38 142	52 195	4 350	8 699	17 398	21 748
- Programme Management fee	16 339	12 153	1 013	2 026	4 051	5 064
OTHER INCOME	3 685	3 027	252	504	1 009	1 261
ADMINISTRATION EXPENSES	(65 486)	(69 644)	(5 804)	(11 607)	(23 215)	(29 019)
NET OPERATING SURPLUS OR (DEFICIT)	**5 814**	**502**	**42**	**84**	**167**	**209**
MOVEMENT IN PROVISIONS AND LOSSES	(1 251)	1 050	87	175	350	437
SURPLUS OR (DEFICIT) FOR THE YEAR	**4 562**	**1 552**	**129**	**259**	**517**	**647**

APPENDIX B

LATEST ESTIMATES FOR 2015/16 FINANCIAL YEAR AND PERFORMANCE TARGETS FOR THE MTEF PERIOD: 2016/17 - 2018/19

OUTPUTS - APP		2015/2016 Budget	2016/2017 Budget	2017/2018 Budget	2018/2019 Budget
1.	**AFFORDABLE HOUSING (Houses and Serviced Sites)**				
1.1	Application Received	21	35	36	39
1.2	Board Approvals	21	23	24	26
1.3	Houses in Board Approvals	3 150	3 450	3 600	3 900
1.4	Contract Signed	21	23	24	26
1.5	Houses and sites in signed contracts	3 150	3 450	3 600	3 900
1.6	Value of Loans (Rand)	315 000 000	345 000 000	360 000 000	390 000 000
1.7	Value of Projects (Rand)	630 000 000	690 000 000	840 000 000	900 000 000
1.8	Sites serviced built	2 200	2 500	2 650	2 800
1. A.	**AFFORDABLE HOUSING (Serviced Sites)**				
1.A.1	Application Received	15	25	25	27
1.A.2	Board Approvals	15	16	17	18
1.A.3	Houses in Board Approvals	2 205	1 960	2 520	2 730
1.A.4	Contract Signed	15	16	17	18
1.A.5	Houses and sites in signed contracts	2 205	1 960	2 520	2 730
1.A.6	Value of Loans (Rand)	220 500 000	241 500 000	252 000 000	273 000 000
1.A.7	Value of Projects (Rand)	441 000 000	483 000 000	594 000 000	636 000 000
1.A.8	Sites serviced built	1 540	1 750	1 855	1 960
1.B.	**AFFORDABLE HOUSING (Houses)**				
1.B.1	Application Received	6	10	11	12
1.B.2	Board Approvals	6	7	7	8
1.B.3	Houses in Board Approvals	945	1 490	1 080	1 170
1.B.4	Contract Signed	6	7	7	8
1.B.5	Houses and sites in signed contracts	945	1 490	1 080	1 170
1.B.6	Value of Loans (Rand)	94 500 000	103 500 000	108 000 000	117 000 000
1.B.7	Value of Projects (Rand)	189 000 000	207 000 000	246 000 000	264 000 000
1.B.8	Houses built and Sites serviced	660	750	795	840
2.	**SUBSIDY HOUSING (Houses and Serviced Sites)**				
2.1	Application Received	32	58	63	66
2.2	Board Approvals	32	35	38	40
2.3	Houses in Board Approvals	16 000	17 500	19 000	20 000
2.4	Contract Signed	32	35	38	40
2.5	Houses and sites in signed contracts	16 000	17 500	19 000	20 000
2.6	Value of Loans (Rand)	128 000 000	140 000 000	152 000 000	160 000 000
2.7	Value of Projects (Rand)	1 200 000 000	1 750 000 000	1 900 000 000	2 000 000 000
2.8	Houses built and Sites serviced	7 044	12 830	16 750	18 250
3.	**INFRASTRUCTURE & COMMUNITY FACILITIES (Projects)**				
3.1	Application Received	4	10	10	15
3.2	Board Approvals	4	4	4	6
3.3	Contract Signed	4	4	4	6
3.4	Value of Loans (Rand)	18 000 000	18 000 000	18 000 000	27 000 000
3.5	Value of Projects (Rand)	100 000 000	100 000 000	100 000 000	150 000 000
3.6	Project Completed	2	4	4	4

APPENDIX C
TECHNICAL INDICATOR DEFINITIONS – LENDING PORTFOLIO

Indicator 1: Applications Received

Indicator title	Applications Received
Short definition	Loan applications received from clients for bridging finance for the construction of Affordable Housing, Subsidy Housing or Infrastructure or Community Facility projects.
Purpose/importance	Appetite on the market for NURCHA products offered.
Source/collection of data	Lending portfolio and Marketing Department (Customer Relationship Management system)
Method of calculation	Count the number of loan application received.
Data limitations	Applications may be received but the contractor or developer is unable to meet all minimum requirements for the loan application to be considered.
Type of indicator	Quantity indicator – measure the number of loan applications received.
Calculation type	Cumulative – for the year
Reporting cycle	Quarterly
New indicator	No
Desired performance	Equal to or more than the agreed target
Indicator responsibility	Director: Lending Portfolio

Indicator 2: Board and Committee Approvals

Indicator title	Board and Committee Approvals
Short definition	The loan applications that have been approved by NURCHA board and committees such as Credit Committee, FINCOM.
Purpose/importance	This indicates level of approval or rejection of new loan applications.
Source/collection of data	Lending portfolio and Marketing Department (Customer Relationship Management system)
Method of calculation	Count the number of loan application approved by the board and committees.
Data limitations	Approved loan may not always be taken by the contractor/developer and reasons for not taking up the loan approved may not always be known.
Type of indicator	Quantity indicator – measure the number of new loan applications approved.
Calculation type	Cumulative – for the year
Reporting cycle	Quarterly
New indicator	No
Desired performance	Equal to or more than the agreed target
Indicator responsibility	Director: Lending Portfolio

Indicator 3: Number of Houses (or sites) in Board and Committee Approvals

Indicator title	Number of Houses (or sites) in Board and Committee Approvals
Short definition	The potential number of housing opportunities that will be delivered should the client take up the NURCHA loan offer, upon successful completion of the projects.
Purpose/importance	This indicates the potential number of housing opportunities financed by NURCHA that are delivered to the housing sector.
Source/collection of data	Lending portfolio and Marketing Department (Customer Relationship Management system)
Method of calculation	Count the number of housing units in each loan application submitted for consideration.
Data limitations	Reliance on information provided by the developers/contractors
Type of indicator	Quantity indicator – measure the number of housing opportunities.
Calculation type	Cumulative – for the year
Reporting cycle	Quarterly
New indicator	No
Desired performance	Equal to or more than the agreed target
Indicator responsibility	Director: Lending Portfolio

Indicator 4: Number of Contracts signed

Indicator title	Number of contracts signed
Short definition	Loan applications approved by NURCHA board and/or committees and taken up by NURCHA clients
Purpose/importance	This indicates the number of new projects where NURCHA funds are committed.
Source/collection of data	Lending portfolio and Marketing Department (Customer Relationship Management system)
Method of calculation	Count the number of new contracts signed with developers/contractor.
Data limitations	Contract may be signed but not taken up by the clients
Type of indicator	Quantity indicator – measure the number of contracts signed.
Calculation type	Cumulative – for the year
Reporting cycle	Quarterly
New indicator	No
Desired performance	Equal to or more than the agreed target
Indicator responsibility	Director: Lending Portfolio

Indicator 5: Number of houses and sites in signed contract

Indicator title	Number of houses and sites in signed contracts.
Short definition	The potential number of housing opportunities that will be delivered upon successful completion of the projects financed by NURCHA.
Purpose/importance	This indicates the number housing opportunities that will be delivered if the projects is complete.
Source/collection of data	Lending portfolio and Marketing Department (Customer Relationship Management system)
Method of calculation	Count the number of new housing opportunities in contracts signed with developers/contractor.
Data limitations	The project may not be completed due to factors outside the control of NURCHA
Type of indicator	Quantity indicator – measure the number of houses and sites to be delivered.
Calculation type	Cumulative – for the year
Reporting cycle	Quarterly
New indicator	No
Desired performance	Equal to or more than the agreed target
Indicator responsibility	Director: Lending Portfolio

Indicator 6: Value of Loans

Indicator title	Value of Loans.
Short definition	The Rand value of loans that will ultimately be advanced to clients under the contracts signed.
Purpose/importance	This indicates the Rand value of funds committed on approved loans. This is also used to calculate fee income and interest income.
Source/collection of data	Lending portfolio and Marketing Department (Customer Relationship Management system)
Method of calculation	The calculation is based on the size of the project and the projected project cash-flows.
Data limitations	The delays in paying claims by contractors can impact on peak cash-flow of the project.
Type of indicator	Quantity indicator – funds required to complete the project.
Calculation type	Cumulative – for the year
Reporting cycle	Quarterly
New indicator	No
Desired performance	Equal to or more than the agreed target
Indicator responsibility	Director: Lending Portfolio

Indicator 7: Value of Projects

Indicator title	Value of Projects
Short definition	The Rand value of the assets to be created from the projects financed by NURCHA (contracts signed), based on the cost of servicing the site and construction of the house.
Purpose/importance	This indicates size of the project. Ability of the contractor to complete projects.
Source/collection of data	Lending portfolio
Method of calculation	The calculation is based on the size of the project taking into account the cost of servicing the site and construction of top structure.
Data limitations	No specific limitaions.
Type of indicator	Quantity indicator.
Calculation type	Cumulative – for the year
Reporting cycle	Quarterly
New indicator	No
Desired performance	Equal to or more than the agreed target
Indicator responsibility	Director: Lending Portfolio

Indicator 8: Houses built and sites serviced (or projects completed – infrastructure projects)

Indicator title	Houses build and sites serviced.
Short definition	The number of houses built and sites serviced and handed over to the Employer or transferred to the purchaser/end user from projects financed by NURCHA
Purpose/importance	This indicates how efficient the developer or contractor will be in completing houses/sites in the approved loan.
Source/collection of data	Lending portfolio and/or completion certificates produced.
Method of calculation	The calculation is based on the size of the project taking into account the cost of servicing the site and construction of top structure.
Data limitations	The works in progress may continue to grow. Quality may also be a challenge.
Type of indicator	Quantity indicator.
Calculation type	Cumulative – for the year
Reporting cycle	Quarterly
New indicator	No
Desired performance	Equal to or more than the agreed target
Indicator responsibility	Director: Lending Portfolio

APPENDIX D
STATEMENT OF FINANCIAL PERFORMANCE FOR THE MTEF PERIOD

STATEMENT OF FINANCIAL PERFORMANCE	LATEST ESTIMATES 2015/16	BUDGET 2016/17	FORECAST 2017/18	FORECAST 2018/19
INCOME FROM OPERATIONS	**67 614 302**	**67 119 932**	**71 000 501**	**98 666 425**
Interest on money market investments	13 133 928	2 771 913	2 207 130	25 127 183
Interest on loans for construction projects	39 141 172	54 244 683	64 451 012	67 921 966
Fees on loans for construction projects	8 853 117	8 450 000	9 163 000	9 938 132
Programme management fees	16 338 777	12 153 336	5 679 360	6 179 144
Less: Interest paid	(9 852 693)	(10 500 000)	(10 500 000)	(10 500 000)
OTHER INCOME	**3 685 398**	**3 026 912**	**2 328 964**	**2 591 164**
Net surplus before administration expenditure	**71 299 699**	**70 146 844**	**73 329 465**	**101 257 589**
Administration expenses	(65 486 127)	(69 644 409)	(74 142 944)	(78 543 765)
Net operating surplus before project losses	**5 813 572**	**502 435**	**(813 479)**	**22 713 824**
Provision for project losses and losses	**(1 251 140)**	**1 049 780**	**1 439 732**	**(6 334 355)**
(Increase) / decrease in provisions for project losses	4 225 336	1 049 780	1 439 732	(6 334 355)
Bad debts written off and other gains / (losses)	(5 476 476)	-	-	-
	4 562 432	1 552 215	626 253	16 379 469
(DEFICIT) / SURPLUS FOR THE YEAR	**4 562 432**	**1 552 215**	**626 253**	**16 379 469**

APPENDIX E
STATEMENT OF FINANCIAL POSITION FOR THE MTEF PERIOD

STATEMENT OF FINANCIAL POSITION		LATEST ESTIMATES 2015/16	BUDGET 2016/17	FORECAST 2017/18	FORECAST 2018/19
ASSETS	**Notes**				
Current assets		**689 740 525**	**713 965 421**	**1 015 493 763**	**1 432 641 978**
Loans for construction projects		536 598 820	633 007 156	687 702 151	740 748 552
Trade and other receivables		11 288 346	9 802 664	8 854 664	8 916 664
Cash and cash equivalents		141 853 359	71 155 600	318 936 948	682 976 762
Non-current assets		**1 997 031**	**1 283 829**	**781 739**	**594 823**
Property, plant and equipment		642 229	549 842	435 442	394 072
Intangible assets		1 354 802	733 987	346 298	200 750
TOTAL ASSETS		**691 737 556**	**715 249 250**	**1 016 275 503**	**1 433 236 801**
LIABILITIES					
Current liabilities		**87 791 202**	**109 750 681**	**110 150 680**	**110 732 510**
Trade and other payables		16 791 462	16 591 462	16 991 462	17 573 291
Provision for leave		2 133 250	2 133 250	2 133 250	2 133 250
Managed funds		68 866 490	91 025 969	91 025 969	91 025 969
Non Current Liabilities		**100 000 000**	**100 000 000**	**100 000 000**	**100 000 000**
PIC Loan		100 000 000	100 000 000	100 000 000	100 000 000
NET ASSETS		**503 946 354**	**505 498 569**	**806 124 821**	**1 222 504 291**
Formation grants		38 300 000	38 300 000	38 300 000	38 300 000
Capital contributed by Government		361 000 000	361 000 000	661 000 000	1 061 000 000
Other reserves		199 284 442	199 284 442	199 284 442	199 284 442
Accumulated surplus / (deficit)		(94 638 088)	(93 085 873)	(92 459 621)	(76 080 151)
TOTAL NET ASSETS AND LIABILITIES		**691 737 556**	**715 249 249**	**1 016 275 501**	**1 433 236 800**

APPENDIX F
STATEMENT OF CASH FLOWS FOR THE MTEF PERIOD

STATEMENT OF CASH FLOWS	Notes	LATEST ESTIMATES 2015/16	BUDGET 2016/17	FORECAST 2017/18	FORECAST 2018/19
Cash generated/(utilised) in operating activities		**13 594 175**	**25 006 797**	**1 351 611**	**23 733 570**
(Deficit) / surplus for the period		4 562 433	1 552 215	626 253	16 379 469
Adjusted for non cash flow items:					
- Depreciation		375 317	403 386	304 400	254 369
- Amortisation		804 411	655 816	512 689	245 547
- Interest on SEDF loan		4 439 326	-	-	-
- Increase / (decrease) in provision for project losses		(1 872 763)	(1 049 780)	(1 439 732)	6 334 355
(Profit)/ loss on disposal of fixed assets		29 188	-	-	-
Movement in gross accounts receivables		(4 136 237)	1 485 682	948 000	(62 000)
Movement in accounts payables		(830 751)	(200 000)	400 000	581 829
Movement in managed funds		10 223 251	22 159 479	-	-
Cash flows from investing activities		**(274 218 997)**	**(95 704 556)**	**(53 570 263)**	**(59 693 755)**
Loan disbursements for construction projects		(276 414 299)	(95 358 557)	(53 255 263)	(59 380 755)
Movement in investment in associates		3 138 097	-	-	-
Acquisition of fixed assets		(458 566)	(310 999)	(190 000)	(213 000)
Acquisition of intangible assets		(484 229)	(35 000)	(125 000)	(100 000)
Cash flows from financing activities		**91 340 000**	**-**	**300 000 000**	**400 000 000**
Grants received - Nat. Dept. of Human Settlements		61 000 000	-	300 000 000	400 000 000
Increase / (decrease) in loans obtained	1	30 340 000	-	-	-
Net cash (used)/generated		(169 284 822)	(70 697 759)	247 781 347	364 039 814
Balance at beginning of year		311 138 181	141 853 359	71 155 600	318 936 948
Balance at end of the period		**141 853 359**	**71 155 600**	**318 936 948**	**682 976 762**

Notes :

1. Loans

Cadiz Facility	(8 000 000)	-	-	-
PIC facility	100 000 000	-	-	-
SEDF Loan	(61 660 000)	-	-	-
	30 340 000	**-**	**-**	**-**

APPENDIX G
STATEMENT OF CHANGES IN NET ASSETS

STATEMENT OF CHANGES IN NET ASSETS	LATEST ESTIMATES 2015/16	BUDGET 2016/17	FORECAST 2017/18	FORECAST 2018/19
BALANCE AT BEGINNING OF PERIOD				
Formation grants	38 300 000	38 300 000	38 300 000	38 300 000
Other reserves	199 284 442	199 284 442	199 284 442	199 284 442
Capital Grant - National Dept. of Human Settlements	300 000 000	361 000 000	361 000 000	661 000 000
Accummulated surplus / (deficit)	(99 200 619)	(94 638 187)	(93 085 972)	(92 459 720)
Balance beginning of period	**438 383 823**	**503 946 255**	**505 498 470**	**806 124 722**
CHANGES IN NET ASSETS				
Surplus / (deficit) for the period	4 562 432	1 552 215	626 253	16 379 469
Capital Grant - National Dept. of Human Settlements	61 000 000	-	300 000 000	400 000 000
Total net changes	**65 562 432**	**1 552 215**	**300 626 253**	**416 379 469**
Formation grants	38 300 000	38 300 000	38 300 000	38 300 000
Other reserves	199 284 442	199 284 442	199 284 442	199 284 442
Capital Grant - National Dept. of Human Settlements	361 000 000	361 000 000	661 000 000	1 061 000 000
Accummulated surplus / (deficit)	(94 638 187)	(93 085 972)	(92 459 720)	(76 080 250)
BALANCE AT END OF PERIOD	**503 946 255**	**505 498 470**	**806 124 722**	**1 222 504 192**

APPENDIX H
DETAILS OF ADMINISTRATION EXPENSES BY MAJOR CATEGORIES

DETAILS OF ADMINISTRATION EXPENSES BY MAJOR CATEGORIES	LATEST ESTIMATES 2015/16 (R'000)	BUDGET - 2016/17 (R'000)	FORECAST - 2017/18 (R'000)	FORECAS - 2018/19 (R'000)
Salaries and wages	26 517	35 531	37 948	40 148
Performance bonus	1 464	2 597	2 748	2 907
Social contributions	862	1 078	1 151	1 218
Contract and temporary staff	3 908	976	1 042	1 113
Marketing and branding	1 597	1 520	1 608	1 701
Outsourced services	-	-	-	-
Assets less than R5000	30	32	34	36
Audit fees & expenses	1 549	1 788	1 892	2 002
Bank charges	110	149	157	166
Director fees & expenses	1 197	1 293	1 368	1 447
Catering internal activities	87	131	138	146
Communications	690	732	774	819
Computer services	1 563	1 460	1 545	1 634
Consultancy fees & expenditure	4 919	3 278	3 468	3 669
Entertainment	28	31	33	35
Lease payments	3 234	2 671	2 880	3 104
Legal fees & expenses	4 325	6 332	6 699	7 088
Non life insurance	660	317	335	355
Printing and publication	281	368	390	412
Repairs and maintenance	264	274	290	307
Training and staff development	1 129	1 450	1 534	1 623
Travel and subsistence	2 013	1 565	1 656	1 752
Water and electricity	863	996	1 084	1 179
Depreciation and amortisation	831	698	739	782
Collection fees	1 631	900	952	1 007
Other overhead expenses	5 733	3 476	3 678	3 891
	65 486	**69 644**	**74 143**	**78 544**

APPENDIX H continued

EXPLANATION ON MAJOR VARIANCES IN THE 2015/16 LATEST ESTIMATE VERSUS 2016/2017 BUDGET

1. Employee costs – Increase by 34% (Appendix F)

Vacancies were filled in the current year, but not necessarily at the beginning of the year. Four staff members will also be appointed in the next financial year to fill some of the vacancies on the approved organogram. An average of 7.2% increase in salaries has also been budgeted for in line with the Treasury guidelines.

2. **Consultancy fees and Expenditure – Decrease by 33% (Appendix F)**

NURCHA has taken a decision that because of its relatively small size, certain identified services should be outsourced. The Programme and Fund Management Portfolio requires some technical support services that are not available in-house. CFDP as detailed in paragraph 4.5.2.2 is one area which requires these support services.

3. **Legal fees – Increase by 46% (Appendix F)**

The increase is in line with the increase in the increase in the loan book and the legal costs that will be incurred as the DFI consolidation progresses.

APPENDIX I
COST ESTIMATES BY PROGRAMME

PROGRAMME : AFFORDABLE HOUSING LOANS	LATEST ESTIMATES 2015/16 (R'000)	BUDGET 2016/17 (R'000)	MEDIUM-TERM TARGETS 2017/18 (R'000)	2018/19 (R'000)
Compensation of employees	**2 321**	**3 260**	**3 481**	**3 683**
Salaries and wages	2 251	3 165	3 380	3 576
Social contribution	70	95	102	107
Performance bonus	-	-	-	-
Goods and services	**894**	**807**	**853**	**903**
Temporary staff / outsourced services	-	-	-	-
Communication	30	51	54	57
Computer services	-	-	-	-
Consultants	-	-	-	-
Lease payments	-	-	-	-
Repairs and maintenance	-	-	-	-
Training and staff development	7	21	22	24
Travel and subsistence	66	104	110	116
Depreciation and amortisation	-	-	-	-
Other expenditure	791	631	668	706
TOTAL EXPENDITURE	**3 216**	**4 066**	**4 335**	**4 586**

PROGRAMME : INFRASTRUCTURE & COMMUNITY SERVICES LOANS	LATEST ESTIMATES 2015/16 (R'000)	BUDGET 2016/17 (R'000)	MEDIUM-TERM TARGETS 2017/18 (R'000)	2018/19 (R'000)
Compensation of employees	**-**	**-**	**-**	**-**
Salaries and wages	-	-	-	-
Social contribution	-	-	-	-
Performance bonus	-	-	-	-
Goods and services	**167**	**577**	**610**	**645**
Temporary staff / outsourced services	-	-	-	-
Communication	-	-	-	-
Computer services	-	-	-	-
Consultants	-	-	-	-
Lease payments	-	-	-	-
Repairs and maintenance	-	-	-	-
Training and staff development	-	-	-	-
Travel and subsistence	16	46	49	52
Depreciation and amortisation	-	-	-	-
Other expenditure	151	530	561	594
TOTAL EXPENDITURE	**167**	**577**	**610**	**645**

PROGRAMME : SUBSIDY HOUSING LOANS	LATEST ESTIMATES 2015/16 (R'000)	BUDGET 2016/17 (R'000)	MEDIUM-TERM TARGETS 2017/18 (R'000)	2018/19 (R'000)
Compensation of employees	**2 289**	**2 969**	**3 171**	**3 355**
Salaries and wages	2 220	2 885	3 081	3 260
Social contribution	70	84	90	95
Performance bonus	-	-	-	-
Goods and services	**914**	**1 183**	**1 253**	**1 327**
Temporary staff / outsourced services	430	150	160	171
Communication	32	59	62	66
Computer services	-	-	-	-
Consultants	-	-	-	-
Lease payments	-	-	-	-
Repairs and maintenance	-	-	-	-
Training and staff development	7	20	21	22
Travel and subsistence	60	142	150	159
Depreciation and amortisation	-	-	-	-
Other expenditure	385	812	859	909
TOTAL EXPENDITURE	**3 203**	**4 152**	**4 424**	**4 682**

PROGRAMME : PROGRAMME MANAGEMENT	LATEST ESTIMATES 2015/16 (R'000)	BUDGET 2016/17 (R'000)	MEDIUM-TERM TARGETS 2017/18 (R'000)	2018/19 (R'000)
Compensation of employees	**4 093**	**7 276**	**7 771**	**8 222**
Salaries and wages	3 954	7 073	7 554	7 993
Social contribution	139	203	216	229
Performance bonus	-	-	-	-
Goods and services	**11 810**	**4 315**	**4 579**	**4 858**
Temporary staff / outsourced services	3 214	690	737	787
Communication	56	32	34	36
Computer services	101	-	-	-
Consultants	4 423	2 500	2 645	2 798
Lease payments	338	321	347	374
Repairs and maintenance	-	-	-	-
Training and staff development	26	-	-	-
Travel and subsistence	966	233	246	261
Depreciation and amortisation	-	-	-	-
Other expenditure	2 685	538	569	602
TOTAL EXPENDITURE	**15 903**	**11 591**	**12 349**	**13 080**

APPENDIX I Continued

PROGRAMME : ADMINISTRATION	LATEST ESTIMATES 2015/16 (R'000)	BUDGET 2016/17 (R'000)	MEDIUM-TERM TARGETS 2017/18 (R'000)	2018/19 (R'000)
Compensation of employees	**20 140**	**25 701**	**27 423**	**29 014**
Salaries and wages	18 093	22 408	23 932	25 320
Social contribution	584	696	743	786
Performance bonus	1 464	2 597	2 748	2 907
Goods and services	**22 858**	**23 557**	**25 002**	**26 536**
Temporary staff / outsourced services	264	136	145	155
Communication	573	590	624	660
Computer services	1 462	1 460	1 545	1 634
Consultants	903	1 428	1 510	1 598
Lease payments	-	-	-	-
Repairs and maintenance	264	274	290	307
Training and staff development	1 089	1 409	1 490	1 577
Travel and subsistence	906	1 040	1 101	1 165
Depreciation and amortisation	831	698	739	782
Other expenditure	16 567	16 521	17 557	18 658
TOTAL EXPENDITURE	**42 998**	**49 258**	**52 425**	**55 550**

PROGRAMME : TOTAL	LATEST ESTIMATES 2015/16 (R'000)	BUDGET 2016/17 (R'000)	MEDIUM-TERM TARGETS 2017/18 (R'000)	2018/19 (R'000)
Compensation of employees	**28 844**	**39 206**	**41 846**	**44 273**
Salaries and wages	26 517	35 531	37 948	40 148
Social contribution	862	1 078	1 151	1 218
Performance bonus	1 464	2 597	2 748	2 907
Goods and services	**36 643**	**30 438**	**32 297**	**34 270**
Temporary staff / outsourced services	3 908	976	1 042	1 113
Communication	690	732	774	819
Computer services	1 563	1 460	1 545	1 634
Consultants	5 326	3 928	4 155	4 396
Lease payments	338	321	347	374
Repairs and maintenance	264	274	290	307
Training and staff development	1 129	1 450	1 534	1 623
Travel and subsistence	2 013	1 565	1 656	1 752
Depreciation and amortisation	831	698	739	782
Other expenditure	20 581	19 033	20 214	21 470
TOTAL EXPENDITURE	**65 486**	**69 644**	**74 143**	**78 544**

APPENDIX J
MATERIALITY AND SIGNIFICANCE FRAMEWORK

OBJECTIVE

The objective of this document is to identify considerations to assist in the development of a materiality/significance framework of NURCHA.

1. BACKGROUND

Public entities are required to develop a materiality and significance framework, to be submitted as part of the strategic or corporate plan of the entity in terms of the following section of the Treasury Regulations:

(a) Chapter 28.3.1 Materiality and significance

28.3.1 "For purposes of material (55(2) of the Act) and significant (section 54(2) of the Act), the accounting authority must develop and agree a framework of acceptable levels of materiality and significance with the relevant executive authority".

This is specifically required in order to better understand/interpret/broaden the use of the word "material" and "significant" as mentioned in the following section of the PFMA.

(b) Section 55: Annual Report and financial statements

55.2(b) (i) "The annual report and financial statements referred to in subsection 1(d) must include particulars of – Any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year".

(c) Section 54 : Information submitted by accounting authorities

54.2 "Before the Public Entity (PE) concludes any of the following transactions, the accounting authority for the PE must promptly and in writing inform the relevant treasury and submit relevant particulars of the transaction to its Executive Authority for approval of the transaction:

a) Establishment or participation in the establishment of a company;

b) Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement;

b) Acquisition or disposal of a significant partnership, trust, unincorporated joint venture or similar arrangement;

d) Acquisition or disposal of a significant asset

e) Commencement or cessation of a significant business activity; and

f) A significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement".

(d) Section 50: Fiduciary duties of accounting authorities (AA)

1. The AA must –

a) On request, disclose to the Executive Authority (EA) for that PE or legislature to which the PE is accountable, all material facts, including those reasonably discoverable, which in any way may influence the decisions or actions of the EA or legislature.

Though the above mentioned transaction might not necessarily occur in the financial year, it is still a legal “administrative” requirement to put such framework in place and disclose the framework with the annual financial statements and to the executive authority along with the corporate plan.

Accordingly, the materiality framework should be put in place to comply with the regulations.

2. CONSIDERATIONS IN DEVELOPING THE FRAMEWORK

(a) External auditors materiality
(b) Public interest
(c) Specific mentioned transactions (section 54)
(d) Normal operations and authorisation levels within the entity
(e) Non-routine transactions of the entity

Refer also to **annexure 2** for a summary of the quantitative and qualitative considerations.

The materiality calculation set by the external auditor will give some guidance in determining an appropriate materiality framework of the entity to be agreed with the Executive Authority.

2.1 External Auditors materiality

SAAS 320 – Audit materiality

The objective of an audit of financial statements is to enable the auditor to express an opinion as to whether or not the financial statements fairly present, in all material respects, the financial position of the entity at a specific date, and the results of its operations and cash flow information for the period ended on that date, in accordance with an identified financial reporting framework and/or statutory requirements.

The assessment of what is material is a matter of professional judgement.

The auditor should consider materiality and its relationship to audit risk when conducting an audit.

“Materiality” is defined in the Statement of Generally Accepted Accounting Practice AC 000 “Framework for Preparation and Presentation of Financial Statements”, issued by South African Institute of Chartered Accountants, in the following terms:

“Information is material if its omission or misstatement could influence the economic decision of users taken on the basis of the financial statements. Material depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point, rather than being a primary qualitative characteristic which information must have if it is to be useful.”

Public sector perspective

In an audit of financial statements in the public sector, the auditor’s assessment of materiality may be influenced by the public accountability of the audited entity, and the sensitivity of the entity’s accounts, activities and functions regarding matters of public interest.

The reference to “economic” decisions in paragraph .03 may, therefore not always be appropriate in the public sector.

Planning and final audit materiality for the 2014/15 financial year by the external auditors was set at R5.0 million. This figure will be used to set up materiality limit for 2016/17 financial year.

2.2 Public Interest

NURCHA is accountable for the utilisation of government and Soros Economic Development Funds (and re-investment thereof) to fulfil its mandate of providing bridging finance to small, medium and established contractors building low and moderate income housing and related community facilities and infrastructure.

Therefore the main public interest for NURCHA would be to ensure that funds are being applied towards this mandate. Any misuse of NURCHA's funds to some other cause would be of public interest or interest to the shareholders and would be by nature seen as "material/significant".

2.3 Specific transactions per section 54

In relation to the specific transactions referred to above (particularly section 54)

(a) Establishment or participation in the establishment of a company

By nature, this type of transaction would be significant and should thus be disclosed to the executive authority, and will require disclosure in the Annual Financial Statements (AFS). Further, the size of such transactions would also normally be of a material extent.

(b) Participation in a significant partnership, trust, unincorporated joint ventures or similar arrangements

By nature this type of transaction would be significant and would thus require disclosure to the executive authority and in the AFS. Further, the size of such transaction would also normally be of a material extent.

(c) Acquisition or disposal of a significant partnership, trust, unincorporated joint venture or similar arrangements.

By nature this type of transaction would be significant and would thus require disclosure to the executive authority and in the AFS. Further, the size of such transaction would also normally be of a material extent.

(d) Acquisition or disposal of a significant asset

The companies act guidelines give some guidance to when the shareholders needs to give approval to a significant transaction concerning acquisition/disposal of an asset.

"Section 228: Disposal of undertaking or greater part of assets of company:-

(i) Notwithstanding anything contained in its memorandum or articles, the directors of a company shall not have the powers, save with the approval of a general meeting of the company, to dispose of:-

1. the whole or substantially the whole of the undertaking of the company; or
2. the whole or the greater part of the assets of the company

(ii) No resolution of the company approving any such disposal shall have effect unless it authorises or ratifies in terms the specific transaction.

NURCHA's major assets relate mainly to the investments in and loans to construction projects, money market notice and call deposits, etc. and are thus within the normal operations of the company. Thus, if anything out of the norm occurs that would probably be significant to the users, executive authority and SEDF it would need to be disclosed.

It is more likely than not that a specific deal, or entering into a deal with a specific client base, which is disproportionate to the normal operations would be considered significant.

(e) Commencement or cessation of a significant business activity

By nature this type of transaction would be significant and would thus require disclosure to the executive authority and in the AFS.

(f) A significant change in the nature or extent of "its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement."

By nature this type of transaction would be significant and would thus require disclosure to the executive authority and in the AFS.

Note that all of these above mentioned transactions require executive authority approval prior to the transaction and the accounting authority must inform the Relevant Treasury

2.4 Normal operations and authorisation levels within the entity

Within the entity operations, specific levels or approval are required before certain transactions could be entered into. These approval levels should serve as a minimum base or starting point to depict the level of materiality and significance.

Delegation of authority has been developed and has been approved by the accounting authority.

In terms of significant/material under section 50(1), such transactions, which could possibly be of interest to the Executive authority would likely come to the board's attention under scrutiny of the financial results and performance on a quarterly basis, i.e. any concerns of significant changes would likely be questioned and further investigated by the board as should occur through normal reporting streams up to the board.

2.5 Non-routine transactions of the entity

Non-routine transactions of the entity are more likely to lead to the possible risk of fruitless, wasteful expenditure or criminal conduct.

These would require closer monitoring/control to identify whether the non-routine transaction meets the above criteria. Monitoring levels should be set in place for this.

Section 55 sets out items that would require disclosure in the Audited Financial Statements in relation to fruitless and wasteful expenditure and fraudulent activities. The extent of the reporting would be determined by the external auditors based on their assessment of the significant or materiality.

3. Conclusion

Based on the above considerations, a materiality/significant framework determination should follow the above procedures, and

Based on the different type of materiality, different materiality levels/identifiers of significance should be applied and developed with the executive authority

ANNEXURE 1: Quantitative materiality

Bases of the calculation

1. The calculation of quantitative materiality is based on the Audited Consolidated Annual Financial Statements of **NURCHA** for the year ended 31 March 2015.

2. The planning and final materiality calculated by the auditors was set at R5.0 million and therefore the qualitative materiality will be compared with the final audit materiality of the external auditors.

3. In the absence of guidelines the following percentages are used.

Percentage	**Category**	**Amount per AFS audited - (R'000)**	**Lower materiality value (R'000)**	**Higher materiality value (R'000)**
0.5% - 1%	Turnover	**N/A**	N/A	N/A
1% - 2%	Gross Profit (income)	**N/A**	N/A	N/A
2% - 5%	Assets	**R582 003**	R11 640	R29 100
2% - 5%	Equity/ Net Asset Value	**R438 384**	R8 768	R21 919
5% - 10%	Net Income	**N/A**	N/A	N/A

Conclusion

1. NURCHA is a non-profit public entity and therefore the quantitative materiality **cannot** be based on Turnover, Gross Profit or Net Profit as maximisation of profits is not the main objective of NURCHA.

2. NURCHA has a strong asset base and its continued existence is dependent on returns on these assets.

3. The nature of NURCHA's operation is risky as its main customers are the emerging and SMME contractors.

4. Based on the above logic a lower materiality based on equity would be used, i.e. R8,768 million (rounded R9 million).

5. The external audit final materiality is however set at R5.0 million and based on this the materiality level is increased from R4 million in 2015/16 to R5 million for the 2016/17 financial year.

6. **The materiality level will therefore be set at R5.0 million.**

ANNEXURE 2 – Qualitative materiality

Materiality framework in terms of Treasury Regulations 28.3.1

28.3.1 – For purposes of materiality [sections 50(1) and 55(2) of the Act] and significance [section 54(2) of the Act, the accounting authority must develop and agree a framework of acceptable levels of materiality and significance with the relevant executive authority in consultation with the external auditors

PFMA Section	Quantitative [Amount]	Qualitative [Nature]
S50 **Fiduciary duties of accounting authorities** (1) The accounting authority for a public entity must- (a) on request, disclose to the executive authority responsible for that public entity or the legislature to which the public entity is accountable, all material facts, including those reasonably discoverable, which in any way may influence the decisions or actions of the executive authority or that legislature	Any fact discovered of which the amount exceeds the materiality figure of R4 million is considered material and must be reported to the executive authority disclosed in the AFS	(1) Any item or event of which specific disclosure is required by law. (2) Any fact discovered of which its omission or misstatement, in the Board's opinion, could influence the decision or actions of the executive authority or legislature.
S55 **Annual report and financial statements** (2)The annual report and financial statements referred to in subsection (1)(d) must- (a) Fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned; (b) Include particulars of- (i) Any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year	(1) Losses through criminal conduct- any losses identified. (2) Losses through irregular/ fruitless/wasteful expenditure	Any identified loss through criminal conduct
S54 **Information to be submitted by accounting authorities** (3) Before a public entity concludes any of the following transactions, the accounting authority for the public entity must promptly and in writing inform the relevant treasury of the transaction and submit relevant particulars of the transaction to its executive authority for approval of the transaction;	Not applicable	

(a) participation in a significant partnership, trust, unincorporated joint venture or similar arrangements;		Any participation, outside of the approved strategic plan and budget
(b) acquisition or disposal of a significant shareholding in a company;	Not applicable	
(c) acquisition or disposal of a significant asset;	Not applicable	Any acquisition or disposal, outside of the approved strategic plan and budget (1) Any asset that would increase or decrease the overall operational functions of the Board, outside of the approved strategic plan and budget (2) Disposal of the major part of the assets of the Board.
(d) commencement or cessation of a significant business activity	Not applicable	Any business activity that would increase or decrease the overall operational functions of the Board, outside of the approved strategic plan and budget.

APPENDIX J

RISK

MANAGEMENT

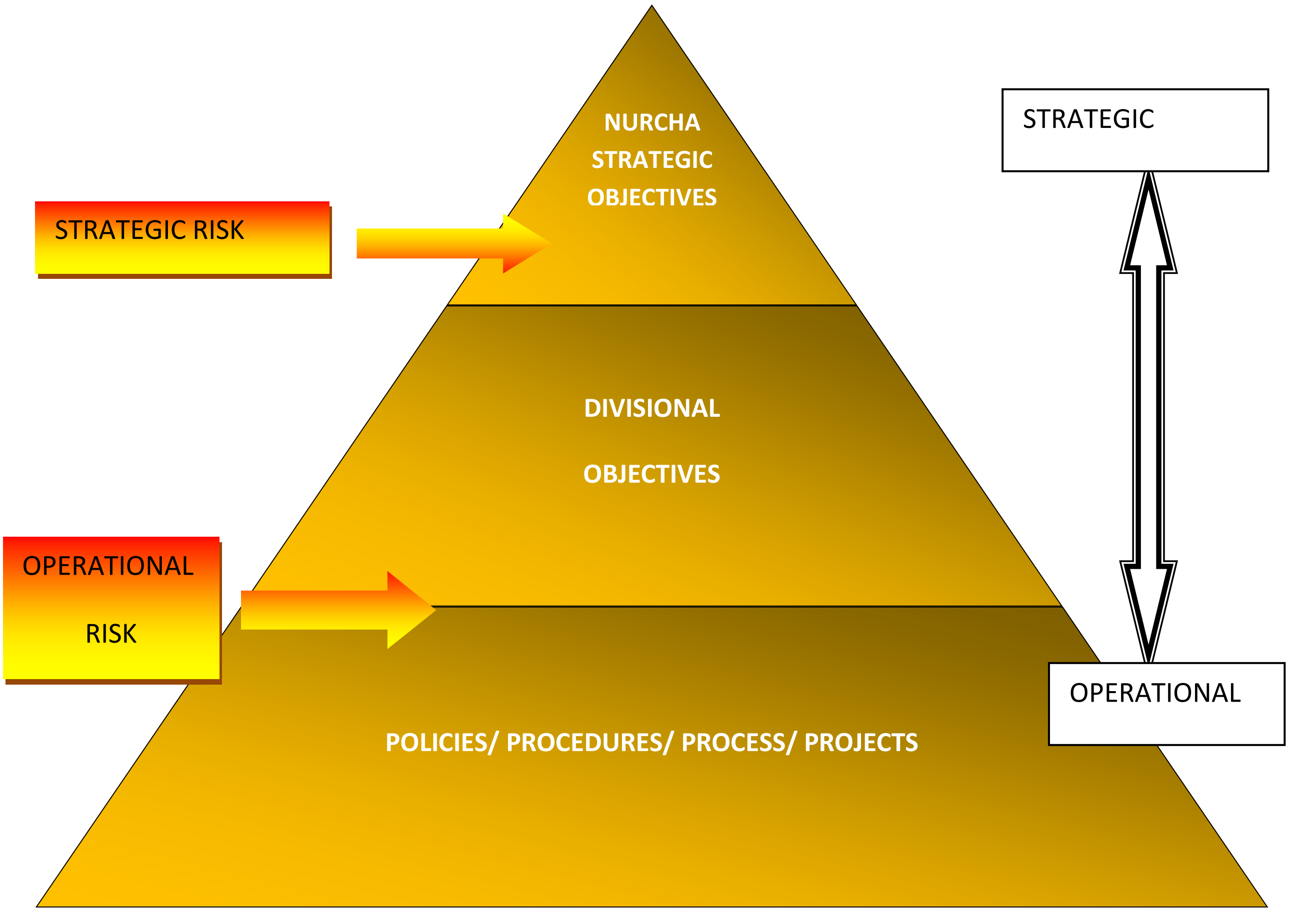
STRATEGY

1. INTRODUCTION

Management within NURCHA recognise that the management of risk is a daily task.

However, we require an overall strategy to ensure that a risk management framework and culture is embedded throughout the Company. The following pyramid can be used to establish a clear link between objectives of NURCHA and risks.

Risk Pyramid



2. PURPOSE

The purpose of this Risk Strategy is to outline the Risk Management Framework within NURCHA. NURCHA is committed to managing risk by logically and systematically identifying, evaluating, analysing, controlling, monitoring, reviewing, reporting and communicating all risks that directly or indirectly impact on NURCHA's ability to achieve the vision and strategic objectives outlined in NURCHA's Five Year Strategic Plan 2015 – 2019.

3. STRATEGY FOR 2015 – 2016

NURCHA will ensure that risk management plays an integral part in the governance and management of the company at a strategic and operational level. NURCHA has developed this strategy to outline the risk management process in managing risks that will hinder the achievements of its strategic and operational objectives

4. OBJECTIVES AND OUTCOMES

The objectives of this Strategy are to:

- Fully integrate risk management into the culture of NURCHA and into NURCHA's strategic planning and performance management processes
- Ensure that the framework for identifying, analysing, evaluating, controlling, monitoring reviewing, reporting and communicating risks across the Company is implemented and understood by all relevant staff
- Communicate to NURCHA's stakeholders the approach to risk management and to improve co-ordination of risk management activity across the Company
- Ensure that the Executive Management Team and stakeholders are provided with the necessary assurance that NURCHA is mitigating the risks of not achieving its objectives, and thus complying with good corporate governance practice.
- Ensure consistency throughout NURCHA in the management of risk.

5. PRINCIPLES

The principles contained in this strategy will be applied at both strategic and operational levels within the company.

NURCHA's risk management strategy will be applied to all operational aspects of the company. The strategy will consider external strategic risks; arising from or related to our partners in projects, government departments, the public and other external stakeholders; as well as all internal risks.

NURCHA's positive approach to risk management means that management will not only look at the risk of things going wrong, but also the impact of not taking opportunities or not capitalising on corporate strengths.

All risk management activities will be aligned to NURCHA's values and principles, objectives and organisational priorities, and aims to protect and enhance the reputation and standing of the organisation.

6. REPORTING AND RESPONSIBILITIES

6.1 Risk Management Responsibilities and Structures

All personnel have a responsibility for maintaining good internal control and managing risk in order to achieve personal, workgroup and company objectives. Collectively, staff at operating units needs the appropriate knowledge, skills, information and authority to establish, operate and monitor the system of risk control. This requires a good understanding of the entity, its objectives, the risks it faces and the people we deal with. Everyone should be aware of the risks they are empowered to take, which should be avoided and reported upwards.

The structures through which risk management will be reported are set out below.

6.1.1 Committee responsibilities

Ref.	**Activity**	**Responsibility**	**Frequency**
01	The Audit / Enterprise Risk Management Committee will meet on a quarterly basis.	Committee Chairperson	Quarterly
02	The Enterprise Risk Management Committee will review risk management progress on a quarterly basis.	Committee Chairperson	Quarterly

6.2 Reporting Responsibilities

Ref.	**Activity**	**Responsibility**	**Frequency**
04	NURCHA's Audit / Enterprise Risk Management Committee will include statements regarding risk management performance in the annual report to stakeholders.	Committee Chairperson	Annually
05	The Enterprise Risk Management Committee will submit a risk management report to the Audit Committee on a quarterly basis. The report will focus on the following:	Committee Chairperson	Quarterly

Ref.	Activity	Responsibility	Frequency
	The top strategic risks facing NURCHA (All extreme and high inherent risk exposures); The operational risks per division (linked to strategic risk) - (approximately top 5 identified risks); and Any risk developments (changes) / incidents / losses		
Ref.	**Activity**	**Responsibility**	**Frequency**
06	Each division will draft a risk management report for submission to the Enterprise Risk Management Committee on a quarterly basis. This will focus on the following: The operational objectives (strategic risks per division) - (approximately top 10 identified risks); and Any risk developments (changes) / incidents / losses	Divisional Heads	Monthly
07	The Risk and compliance Officer will be responsible for developing standard risk management reporting templates, and collate risk management information for submission from all divisions.	Risk and Compliance Officer	As scheduled

6.3 Risk assessment responsibilities

Ref.	Activity	Responsibility	Frequency
08	Enterprise Risk Management Committee will independently review the key risks of the company at least once a year.	ERM Committee	Annually
09	The Enterprise Risk Management Committee will arrange for NURCHA's key risks to be formally re-evaluated once a year.	ERM Committee	Annually
10	Each division's management together with the Risk and Compliance Officer will formally reassess the top 20 risks annually (in their environment) and report on the top 10 risks.	Head of divisions Risk and Compliance Officer	Annually
11	All divisions will review risk registers/ dashboard and update the register's contents to reflect any changes without formally reassessing the risks.	HOD's	Quarterly
12	The Risk and Compliance Officer will be responsible for the facilitation of all risk assessments, and populating the risk registers/dashboard.	Risk and Compliance Officer	As scheduled

6.4 Control responsibilities

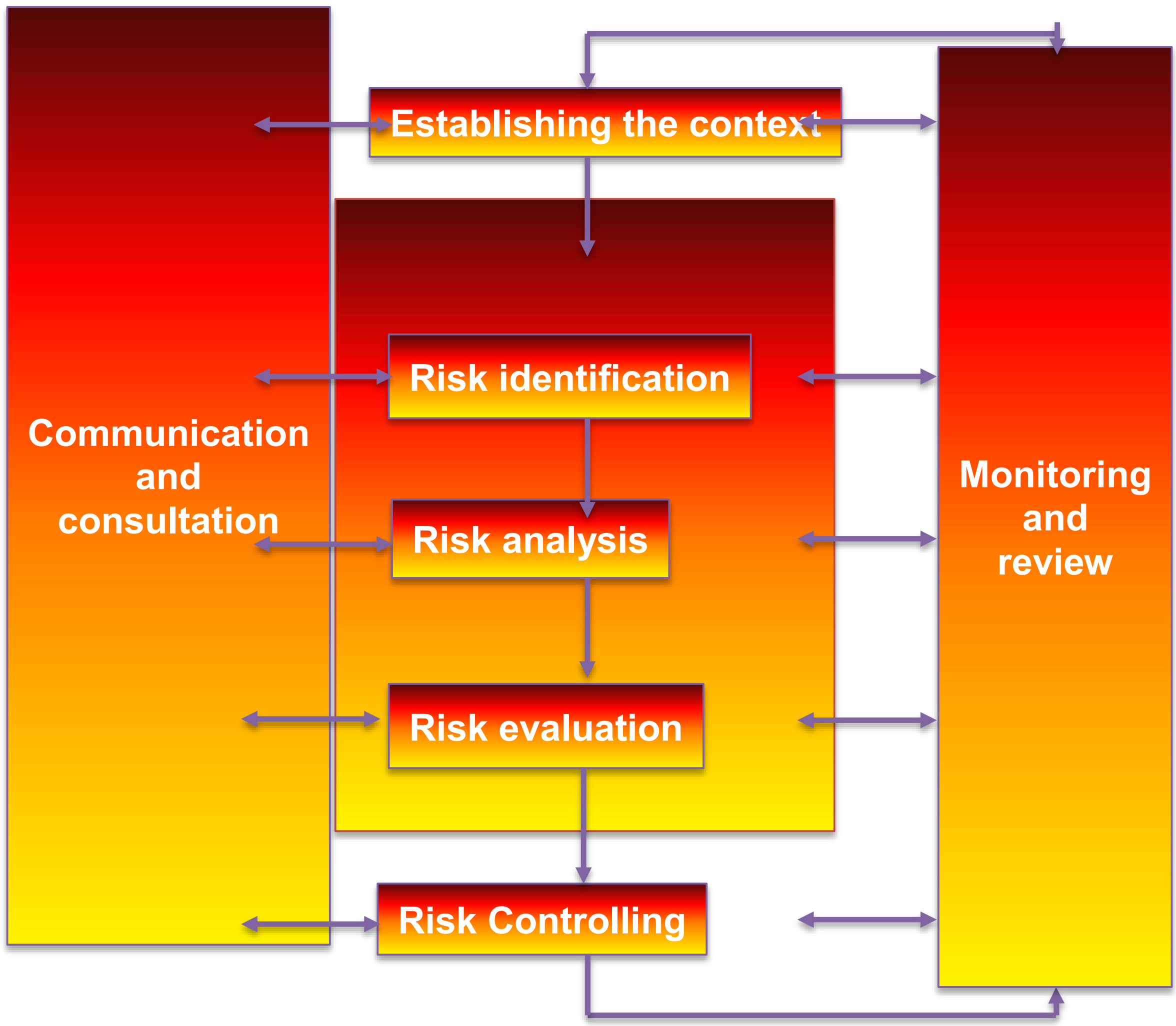
Ref.	Activity	Responsibility	Frequency
13	The Chairperson of the Audit / Enterprise Risk Management Committee will consider Internal Audit and management's report concerning the effectiveness of internal controls at least once a year.	Audit / Enterprise Risk Management Committee Chairperson	Annually
14	The Enterprise Risk Management Committee will report to the Audit Committee regarding the performance of internal controls for those risks in the risk registers.	Committee Chairperson	Quarterly
15	The divisions will report to the Enterprise Risk Management Committee regarding the performance of internal controls for those risks in the operational risk registers.	HOD's	Quarterly
16	All risk registers will contain action plans for improving risk/dashboards controls and risk interventions. Each division will review progress made with these action plans.	HOD's	As scheduled

6.5 Governance responsibilities

Ref.	**Activity**	**Responsibility**	**Frequency**
17	Each key risk will have a nominated risk owner, who will be responsible for the following: Updating the risk information;	HOD's	As scheduled

	Providing assurance regarding the risk's controls; Co-ordinate the implementation of action plans for the risk; Reporting on any developments regarding the risk.		
18	The internal audit function will use the outputs of risk assessments to compile its strategic three year rolling and annual internal audit coverage plan, and will evaluate the effectiveness of risk controls.	Internal Audit	Annually and as scheduled
19	The Internal Audit function will formally review the effectiveness of NURCHA's risk management processes.	Internal audit	Annually

7. Risk Management Process



7.1 Establishing the context

It is important to have an overall view of the environment NURCHA operates in, events or situations and the existing elements that may have an impact on the achievement of the Company's objectives. It is the responsibility of the Audit Committee to make recommendations to the Board regarding the levels of tolerance and appetite for risk. The risk appetite and Risk tolerance shall be clearly stated and articulated so that it informs management decisions.

7.2 Risk Identification

- Ensure that informed decisions are made about policy or service improvements
- Some risk identification techniques:
  - Interviews
  - Workshops

- Surveys
- Selected Groupings
- Combinations of the above

7.3 Risk Analysis/Rating

Post-identification, risks can be measured in two ways:

- Likelihood or frequency of event occurring
- Severity or impact of the risk occurring.
- Combination of the above leads to “inherent risk score” – risk of events without controls

7.3.1 Risk Analysis / Rating Methodology

- Inherent Risk Rating

  = Inherent Likelihood x Inherent Impact

- Residual Risk Rating

  = (Inherent Likelihood x Inherent Impact) x (1 – control effectiveness)

- We applied the control effectiveness rating equally to the Probability and Impact

7.4 Risk Evaluation

- Post-inherent risk assessment, controls can be identified to minimise risks
- Control effectiveness can be assessed, and its impact on the effect of the risks evaluated
- Identification of controls relevant to inherent risks leads to quantifiable residual risk value

7.5 Risk Controlling

After risk has been appreciated and in relation to the risk appetite of the business, management has a number of possible responses namely:

7.5.1 Avoidance

This action is normally applicable where there is high probability, high impact risk. An urgent decision is required to prevent the occurrence of the risk.

7.5.2 Controlling

This is usually used for low impact, high probability risks. The intervention is required in the form of controlling the frequency through enforcement of corporate policies including authority matrices, asset protection procedures, standard contract implementation, etc.

7.5.3 Retention

Retention is usually used for low impact, low probability risks. This involves the acceptance of the risk and its consequences, with periodic review to ensure it does not become a greater risk.

7.5.4 Transfer

Transfer is usually for high impact, low probability risks. This involves passing on the consequences of the risk externally through insurance and/or self-financing arrangement. Taking an insurance policy to cover this risk is the compensating control for low probability, high impact risks.

The control environment sets the tone and provides the necessary discipline and structure, and should include factors such as integrity, ethical values, culture, competence, and management's philosophy. Disaster management and recovery plans should be in place where there is probability of occurrence and the impact is high.

7.6 Monitoring and Review

- Monitoring of the controls should be put in place to assess their effectiveness in mitigating risk
- The outcome of this stage feeds back to risk identification, as monitoring results in the identification of new risks, or enable old risks to be re-evaluated, based on the success of the control process.
- It involves revising current risks and seeing if they are still applicable and identifying new risks and adding them to the risk matrix and profile.

8. Strategy Review

The strategy should be reviewed on an annual basis as part of the strategic and operational business planning process, and endorsed by the executive and governance structure on an annual basis.

APP Risk Register 2015/2016

Strategic Objectives	Ref #	Risk name	Inherent risk	Risk Owners	Risk Description	Root causes	Controls to mitigate the risk	Control effectiveness	Residual risk		Desired residual risk	Residual gap	Further control improvements to address the risk/ Action plan	Target date for completion	Action owner
1. Restructure existing business streams, pursue a cautious approach that is underscored by better quality loans with increased care devoted to monitoring and risk management 2. Pursue a selected number of fee based income opportunities utilising our existing skill set and optimize revenue for service rendered 3. Institutionalize a dedicated structure and resources to collect all outstanding debt to the fullest extent possible.	**SR12**	Merger (DFI consolidation)	25	MD	The merger can lead to: 1.Duplication of roles in the DFI structure creating staff uncertainties 2. Merger process taking too long to materialize making it difficult to make commitment to long-term plans and contracts 4. Difficulty to retain and recruit staff	1. The department is still busy with the legislative and regulatory issues around the merger 2. Merger has been on the cards for over 5 years to date with no clear reason why the process is delaying.	1.Continuous communication 2. Representation by the MD on the steering committee 3. Change management framework developed and approved by HCTC and the board which includes or addresses staff retention and anxieties 4. Continuous engagement with funders and key stakeholders	20%	High	20	3	18	1. Staff retention Intervention 2. Letter to the minister regarding how merger is affecting operations 3. Board Consolidation and detailed merger agreement to put to effect the merger	1. June 2015 2. Immediate 3. 2015/2016	1. MD
	SR8	Funding	25	CFO	1.Inability to attract and retain funding with external parties.	1. Weak balance sheet to provide sufficient security to funding partners. 2. Erosion of Capital 3. Poor/Lack of understanding of the environment NURCHA operates in by external stakeholders. 4. National treasury inability to provide more funds/guarantees 5.Inadequate compliance with funding agreements and covenants. 6. Lack of sufficient clarity on the envisaged DFI and its ability to meet long-term obligation of pre-existing organisations	1. Monthly reporting to funders 2. Loan management and Assessments of new applications 3. Stakeholder interaction. 4. Stable governance structures. 5. The department has awarded NURCHA R61 Million to repay the SEDF loan	20%	High	20	3	18	1. Issuing of reports to funders/stakeholders 2. Look for other funding opportunities. 3. Negotiating funding with future growth for subsidy housing.	1.Monthly 2.Awaiting guarantee for subsidy housing and negotiations are taking place with future growth - In progress 3. Ongoing	CFO
	SR1	Credit risk	16	Programme managers	Borrower defaults on loan repayment	1.Lack of ownership and dedication 2. Inadequate contractor interaction 3.Late detection of a default. 4. Diversion of funds 5. Non or late payments by employers	1.Monthly Risk Meetings between lending portfolio and Credit and Risk 2.Clearly defined performance measures and expectations 3.More effective loan application assessment since termination of intermediary 4.Credit Policies and collection Procedures 5. Interaction with the employer 6.Irrevocable payment undertaking by employer enabling NURCHA to take legal action in the event of diversion of funds	50%	Medium	8	2	6	1. Improve on performance management 2. Improved loan management system 3.Improve collection skills and increase capacity 4. Periodic environmental scanning 5. Follow-up on the integrity of the LMS system 6. Developing operating procedures for collections	1.Performance review dates 2. Implemented 3. In-house collection training on the new direct lending model by users - April 2015 4.Ongoing 5. Ongoing 6. April 2015	Programme managers
	SR2	Collection Process (Delinquent book)	16	Acting Credit Manager	1.Ineffective collection of overdue debt 2.Poor collection process(on the delinquent book)	1.Inadequate collection process 2.Long legal processes/complex legal system	1.Credit Policies and procedures on collection 2.Appointment of panel of debt collectors to provide diversity of skills to assist with collection of delinquent book 3.Monthly risk meetings between credit and risk and debt collectors where applicable 4. Debt Collectors Appointed 5.Collection targets agreed upon with the debt collectors	50%	Medium	8	2	6	1.Performance of debt collectors will be monitored against targets. 2. Skills transfer to improve collection skills 3. Appointment of a panel of attorneys for the legal service of NURCHA and its subsidiaries	1.Bi-annual review of debt collectors performance 2. Staff Performance review dates - Quarterly basis 3. Acting Credit Manager will draft a recommendation on whether to appoint attorneys or not	Acting Credit and risk Manager

APP Risk Register 2015/2016 Continued

Strategic Objectives	Ref #	Risk name	Inherent risk	Risk Owners	Risk Description	Root causes	Controls to mitigate the risk	Control effectiveness	Residual risk		Desired residual risk	Residual gap	Further control improvements to address the risk/ Action plan	Target date for completion	Action owner
	SR3	Skills and Capacity	16	MD	1. Critical leadership gaps at executive level and senior management(Pro-activity, Problem solving and decision making)	1.Stretched capacity to deal with the demand of the transition period 2.Poor attention to performance management 3.Poor Investment in skills development	1. Recruitment drives at various levels where gaps are experienced with emphasis on a diverse expert of competencies 2.Hardening of improved levels of accountability for managers 3.360 degree performance evaluation among managers 4.Coaching processes on areas of improvement for all senior managers 5. HR consultants appointed	50%	Medium	8	2	6	1. Review of the 360 performance evaluation forms 2.Competency and skills audit 3. Key back-up plan	1. 30 April 2015 2. In progress, to be completed by 30 April 2015 3. 30 April 2015	MD
	SR5	ICT Infrastructure and systems	16	ICT Manager	1.Non availability and inadequate ICT services (Substandard systems and services e.g. Slim)	1. Poor management of service providers 2. Poor management of ICT systems (Virtual, physical and routine maintenance) 3. Inadequate systems to support operations 4. Systems failure - down time 5. Lack of ownership by ICT department	1. Regular performance reviews with service providers are being conducted 2. Daily checklist is in place and implemented on all servers and data centre environment. 3.Critical business systems have been identified and they are on implementation phase. 4. IT systems have been bolstered with the implementation of virtualisation technologies and fail -over clustering technologies. 5. Enduring routines around maintenance and backup of related procedure have been established. 6. Error Logs repots are produced	50%	Medium	8	2	6	1. Rebuilding and reconfiguring of the server	1. 31 May 2015	ICT Manager
	SR6	Reputation	16	MD	1.Negative organisational reputation	1.Legacy of past business model 2.High levels of defaults, provision for losses and write-offs leading to litigations 3.Inadequate understanding of sector practices 4.Inadequate stakeholder management 5.Loss of critical skills.	1.Continuous engagement with stakeholders and periodic publication of good service. 2.Tightening of credit policy and improvement of the loan book management to lower over dues and provisions to acceptable levels. 3. Retooling managers to respond to challenges of new business model including training. 4.Partnering with associates that know the industry to complement the gaps. 5.Effective use of the customer relations system across the organisation..	50%	Medium	8	2	6	1.Re-orientating senior management and staff towards external orientation and client service respectively. 2. Identify key positions and develop critical skills backup plan 3. Developer and contractor workshops 4. Increase Press releases and marketing material 5. Operational improvement to consolidate programme executions 6. Do a client survey	1. & 2 Leadership orientation completed however this is ongoing to carry out NURCHA strategy. 3. Ongoing - Workshops are being scheduled with contractors. 4. Ongoing 5. Ongoing 6. June 2015	MD
	SR9	Pricing Structure	16	CFO	1. Pricing of products and offerings insufficient to support business sustainability	1.No established systems to determine the pricing structure 2.Pressure from other interest groups to reduce pricing. 3.Low economies of scale 4.Inadequate funding structure to address DFI inefficiencies 5.Pressure to remain competitive 6.High cost of funding.	1.Identify other revenue streams, such as additional fee based income and any other business in both the public and private sector. 2.Regular marketing meetings between regions and national to ensure that we access markets with agreed actions 3.There is marketing strategy and plan in place 4.Pricing Structure completed and in the implementation stage	50%	Medium	8	2	6	1.Negotiate grant funding to subsidise high risk business.	1. Awaiting guarantee for subsidy housing and negotiation are takings place with future growth - In progress	CFO
	SR10	Products relevance/Structure	16	Director: Lending Portfolio	1. Poor design of the products	1. Changes in the sector priorities requires lending products to be redesigned 2. Change in funding requirements of borrowers due to changes in business processes.	1. Testing of the products in the market	50%	Medium	8	2	6	1.New strategic business initiatives 2. Appointment of strategic initiatives manager to monitor products relevance and new products design	1. Ongoing 2. 2015/2016	Programme managers
	SR13	Markets	16	Director: Lending Portfolio	1.Lending products not meeting market requirements 2. Poor business pipelines	1.Products and services unknown to the market /Market not aware of the products NURCHA offers 2.Inadequate strategies and poor capacity to generate business 3. Lack of understanding from competitors	1.Marketing through advertising, publications, newsletters, website , walk - ins and bulk sms 2.The marketing strategy is in place and will serve as a guide. 3. Contractor workshops.	50%	Medium	8	2	6	1. Market survey at least on a 3 year basis 2. Appointment of strategic initiatives manager to monitor products relevance and new products design	1. June 2015 2. 2015/2016	Programme managers

END OF THE REPORT
