

## Presentation to the Human Settlements' Portfolio Committee

# STRATEGIC PLAN AND ANNUAL PERFORMANCE PLAN

26 MARCH 2013



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# NURCHA's Mandate

## NURCHA Mandate

“NURCHA ensures the availability of bridging finance to small, medium and established contractors, building low and moderate income housing and related community facilities and infrastructure.”

## NURCHA Vision

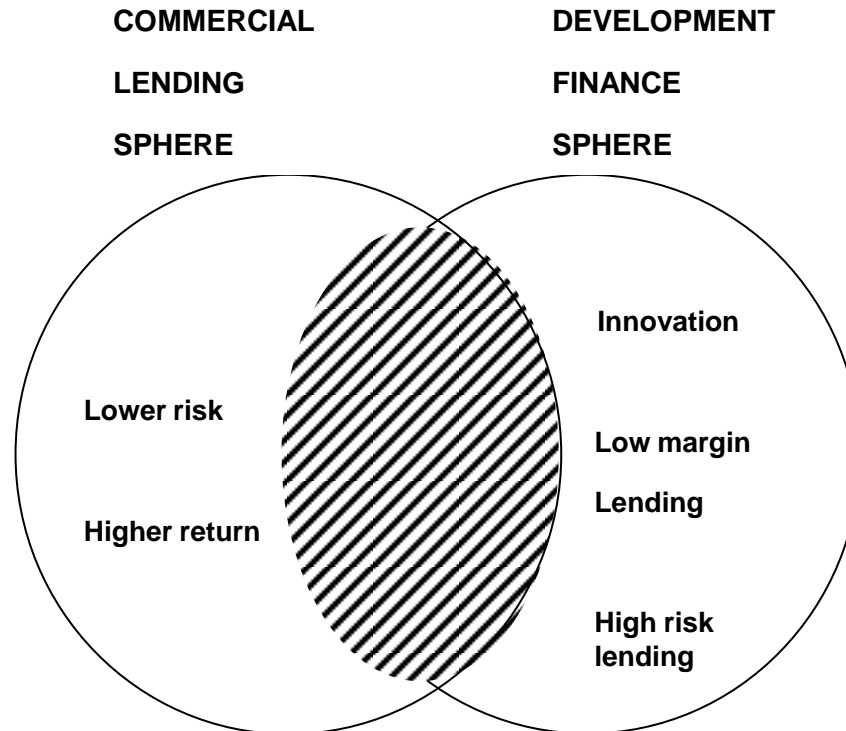
“To be regarded as a partner of choice for those seeking innovative bridging finance solutions”

## NURCHA 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 maximize the development of sustainable human settlements”



# Role Of DFI's: Private Sector and DFI's



- Financial and non-financial (developmental impact).
- Instrument of state policy yet separate entity.
- Innovation and testing new ideas.
- Appropriate funding structure.
- Additionality.
- High risk and high likelihood of losses.



# NURCHA's Products and Service Offerings



# NURCHA's Core Business



## NURCHA'S CORE BUSINESS

LENDING PORTFOLIO

PROGRAMME AND FUND  
MANAGEMENT PORTFOLIO

Affordable  
Housing  
Lending  
Programme

Subsidy  
Housing  
Lending  
Programme

Infrastructure  
Lending  
Programme

Contractor  
Financer and  
Development  
Programme

Provincial and  
Municipal  
Support  
Programmes

Account  
Administration  
Programmes

# Strategic Plan – Operating Environment

- International economy
  - Subdued economic recovery prospects.
  - Sourcing international concessionary funding.
- South African economy
  - slow down in the lending towards affordable the end user home loan market.
  - Higher input costs and reducing contractor profitability.
- Local and Provincial Government –
  - Administrative and capacity constraints in contract and programme management.
  - Procurement of service providers and budgetary expenditure remains a challenge.
- Construction Industry
  - Subdued activity and tight competition.
  - High lending risks and high provisions for losses.

**NURCHA's 5 year strategy is in the first year of implementation and targets have not been revised.**



# Programmes Challenges and Response: **Subsidy Housing**



- High risk and high provisions.
- Implementation of the certificated based lending
  - reduced project volumes.
  - decline in the default rate.
- Lower volume of projects issued.
- Replace fund for subsidy lending programme,
  - OPIC/SEDF/FNB with primary guarantor (OPIC).
  - A replacement guarantor – engagements with NDHS and National Treasury.
  - Efforts to secure partner to issue lending facility at concessionary rates.
  - Deliver a lending programme at Prime +2% to Prime +5%.



# Programme Challenges and Responses: **Subsidy Housing**

- NURCHA lends directly
  - Discontinued intermediary model.
  - Building closer relations with Departments.
  - Responsive to emerging risks.
- Vigorous collection drive to recover the delinquent book.
- Development and implementation of the Contractor Finance and Development Programme (CFDP)
  - Non financial services – mentoring and accredited training (R20million grant from government).
  - Lending.
  - Targeting women, youth and disabled for two year participation.
- Programme management portfolio
  - ‘Lends a hand’ on contract management and service delivery challenges.
  - Establish sustainable solutions for effective execution of contract and programme management functions.
  - Capacity to plan and execute programme.



# Programme Challenges and Responses: Infrastructure



- Suffered significant losses despite various interventions and risk mitigation measures that have been implemented.
- Reduced interest revenue.
- The programme has a high provision ratios
  - Main contributor to provisions and write-offs.
- Board concerned about this stream of lending; review due in August for the future of the programme.
- Consultation with the NDHS key on any decision.

# Programme Challenges and Responses: **Affordable Housing**



- Sufficient funded for this programme:
  - Governments recapitalization (R300million over 3 years).
  - Leveraged lending facilities with the PIC, Cadiz and Futuregrowth Asset Management.
- Drive to improve geographical spread – Limpopo, Gauteng, KZN, Western Cape and Mpumalanga.
- Internal concentration limits - (exposure to a single client) have restricted NURCHA from signing certain loans which have resulted in reduced volume.
- Slow conversion of applications into lending business deals – developers not meeting requirements.
- Slow administrative approvals
- Legislative vacuum with DFI no longer applicable
- Exploration of rental finance product.

# Loan Book Performance

- Provisions as a percentage of book debts has remained between 34% and 36% for the last 12 month period.
- Long outstanding defaults some dating back five years and fully provided for - increase in provisions is primarily due to interest on the outstanding amount.
- NURCHA intensifying debt collection strategy
  - Introduced incentive in 2011.
  - Recruiting a panel of specialized debt collectors.
  - Strategy is success based to minimise fruitless legal and administrative expenses.
  - Strategy allows for varied type of interventions and legal instruments to be used including litigation, project rescue, Acknowledgement of Debt, liquidation, etc.

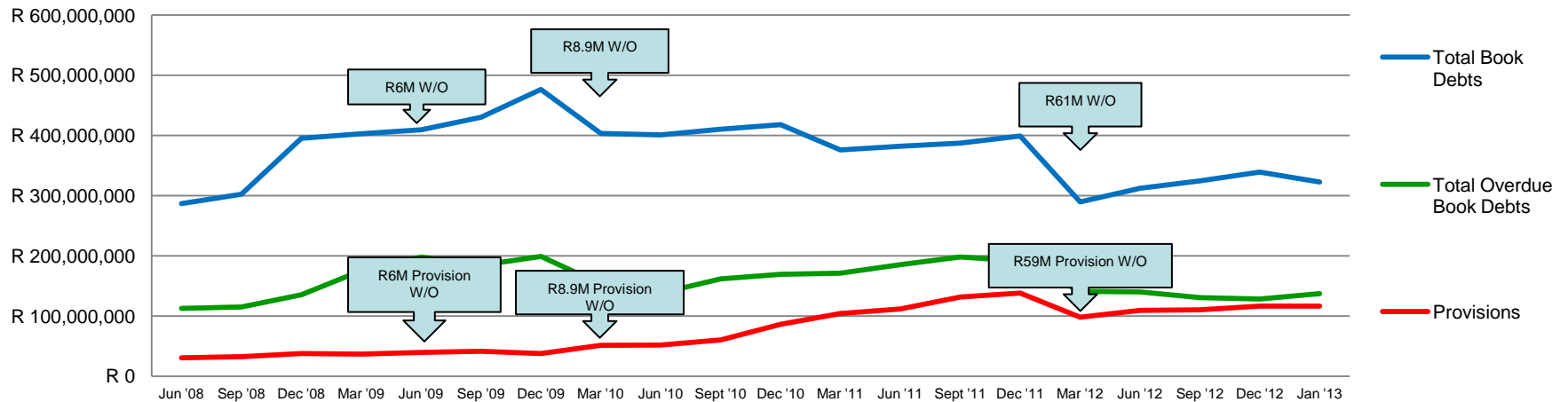




## TREND TOTAL BOOK DEBTS, OVERDUE BOOK DEBTS AND PROVISIONS (mill's)

	Mar '10	Mar '11	Mar '12	Jun '12	Sep '12	Dec '12
<b>Total Book Debts</b>	R 404	R 376	R 290	R 312	R 325	R 339
<b>Total Overdue Book Debts</b>	R 153	R 171	R 141	R 140	R 130	R 128
<b>Provisions</b>	R 51	R 104	R 98	R 109	R 110	R 117
<b>Overdue as % of Total Book Debts</b>	38%	46%	49%	45%	40%	38%
<b>Provisions as % of Total Book Debts</b>	13%	28%	34%	35%	34%	34%

**TREND - TOTAL BOOK DEBTS, OVERDUE BOOK DEBTS AND PROVISIONS**



# Programmes and Fund Management - Highlights

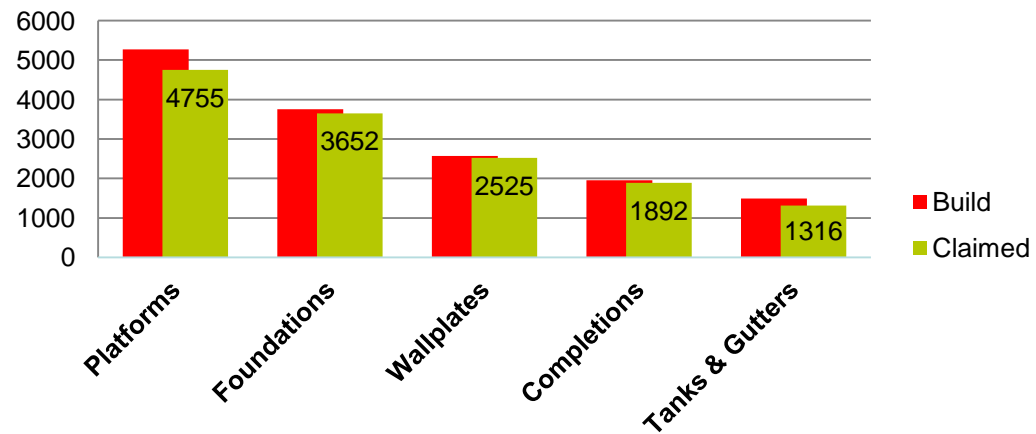


- The programme management portfolio has achieved significant milestones over the last 12 month period.
- Critical support in turn around the Free State DHS, Support implementation of the Eastern Cape Rural Housing Project.
- Fund management role for the Vulindlela EPHP.
- Conceptualization, fund mobilisation and imminent roll out of the CFDP programme.
- All the above mark noteworthy intervention through the NURCHA programme and fund management portfolio.

# Programmes and Fund Management



## Vulindlela Construction Progress



- The above table highlights progress to date at the Vulindlela EPHP.
- The difference between the build and claimed amount is caused by the normal payment cycle.

# Programmes and Fund Management - Opportunities



- NURCHA has developed programme management capacity for utilisation in the human settlement sector.
- Available and keen to make a difference in programme such as
  - informal settlement upgrade programme and,
  - the sanitation programme.
- NURCHA has also submitted tenders to various Departments and Municipalities in order to provide support to multi-year programmes and where critical service delivery gaps exist.



# Targets (Audited and Forecasted)

	2009/2010		2010/2011		2011/2012		2012/2013	2013/2014	2014/2015	2015/2016	
	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	YEAR ESTIMATES	BUDGET	FORECAST	FORECAST	
<b>1.</b>	<b>SUBSIDY HOUSING: HOUSES, SITES AND SERVICES</b>										
1.1.	Contracts Signed	84	44	52	29	30	30	24	26	29	32
1.2.	Houses and sites in signed contracts	40 620	17 393	18 186	7 176	11 550	13 320	9 240	10 164	11 180	12 298
1.3.	Value of Loans (Rands)	255.7	148.5	151 177 213	83 316 000	77 800 000	134 883 276	112,8m	124,0m	136,0m	149,6m
1.4.	Value of Projects (Rands)	1 969	960	967 249 969	420 065 136	470 700 000	891 323 082	624,0m	687,0m	756,0m	831,6m
1.5.	Houses built and sites serviced	18 471	14 548	25 828	10 658	5 566	7 066	4 620	5 082	5 590	6 149
<b>2.</b>	<b>AFFORDABLE HOUSING: SITES AND SERVICES</b>										
2.1.	Contracts Signed	14	9	12	8	19	15	22	23	25	28
2.2.	Houses and sites in signed contracts	2 130	2 181	1 454	1 078	2 850	3 152	3 080	3 220	3 388	3 727
2.3.	Value of Loans (Rands)	118.7	140.9	106 545 600	84 983 182	285 000 000	299 476 447	330,0m	345,0m	363,0m	399,3m
2.4.	Value of Projects (Rands)	591	606.6	226 872 870	185 219 312	404 700 000	832 551 561	660,0m	690,0m	726,6m	796,6m
2.5.	Houses built and sites serviced	723	797	2 684	2 092	1 800	1 940	1 950	2 245	2 360	2 596
<b>3.</b>	<b>INFRASTRUCTURE AND COMMUNITY FACILITIES: HOUSES AND SERVICED SITES</b>										
3.1.	Contracts Signed	59	57	32	29	23	16	18	20	22	24
3.2.	Value of Loans (Rands)	176	164.4	102 250 000	99 614 399	75 200 000	62 630 000	72,0m	79,0m	87,0m	95,6m
3.3.	Value of Projects (Rands)	1 336.40	1 264.40	461 690 735	413 994 933	354 200 000	304 466 342	360,0m	400,0m	440,0m	484,0m
3.4.	Projects Completed	41	48	42	33	6	25	8	10	11	12

# Statement of Financial Position



## STATEMENT OF FINANCIAL PERFORMANCE

	LATEST ESTIMATES 2012/13	BUDGET 2013/14	FORECAST 2014/15	FORECAST 2015/16	FORECAST 2016/17
<b>INCOME FROM OPERATIONS</b>	<b>63 257 401</b>	<b>94 417 084</b>	<b>98 813 008</b>	<b>104 662 871</b>	<b>110 332 623</b>
Interest on money market investments	10 965 158	13 241 664	11 701 116	11 725 821	8 798 465
Interest on loans for construction projects	33 615 562	36 991 056	39 942 736	41 411 858	42 946 773
Fees on loans for construction projects	7 787 696	11 819 923	12 168 821	12 530 323	12 904 961
Programme management fees	22 474 345	44 124 380	48 536 818	52 419 763	55 040 752
Less: Interest paid	(11 585 360)	(11 759 939)	(13 536 483)	(13 424 895)	(9 358 327)
<b>OTHER INCOME</b>	<b>1 602 815</b>	-	-	-	-
<b>Net surplus before administration expenditure</b>	<b>64 860 216</b>	<b>94 417 084</b>	<b>98 813 008</b>	<b>104 662 871</b>	<b>110 332 623</b>
Administration expenses	(62 103 498)	(85 073 132)	(93 342 152)	(102 358 587)	(112 178 912)
<b>Net operating surplus before project losses</b>	<b>2 756 718</b>	<b>9 343 952</b>	<b>5 470 856</b>	<b>2 304 283</b>	<b>(1 846 289)</b>
<b>Provision for project losses and losses</b>	<b>(11 716 914)</b>	<b>(757 499)</b>	<b>(484 717)</b>	<b>(498 264)</b>	<b>(512 274)</b>
(Increase) / decrease in provisions for project losses	(11 716 914)	(757 499)	(484 717)	(498 264)	(512 274)
Project losses written off	-	-	-	-	-
	(8 960 196)	8 586 454	4 986 139	1 806 020	(2 358 563)
Impairments	(3 654 218)	-	-	-	-
<b>(DEFICIT) / SURPLUS FOR THE YEAR</b>	<b>(12 614 414)</b>	<b>8 586 454</b>	<b>4 986 139</b>	<b>1 806 020</b>	<b>(2 358 563)</b>

# Two key drivers of strategy

## 1) Relevance to developmental mandate

- 1) Improve delivery of affordable housing.
  - Leverage private sector and donor finance into development areas,
  - Retain and grow with subsidy housing programme
    - Extension of OPIC/FNB repayment.
    - Replacement fund to OPIC/FNB.
    - Construction Finance and Development Programme as vehicle to give access to small contractors,
  - Intervention to improve service delivery in the sector
    - Programme management – support & solutions.
    - Fund management.
    - Build relevant expertise.



## Two key drivers of strategy

### 2) Restore organisational sustainability (**arrest erosion of shareholder capital**)

- First Hurdle - strive to restore financial viability
  - Drive recoveries on the delinquent book.
  - Reduce provisions to manageable levels.
    - Write-off and recovery (R92million write off with 98% still to be pursued for recovery).
    - Manage regular book closely and intelligently.
  - Grow income from developmental activities.
  - Contain costs (**balanced budget principle**).
- Maintain clean audit track record.
- Change the delivery model from intermediary driven to direct lending,
  - Entrench direct lending operating system and lending rules,
  - Restore reputation and market presence.





# Progress on Output Performance

## Lending Portfolio

- The portfolio has sufficient funding available for Affordable Housing and a national expansion strategy is being followed.
- Implementation of direct lending has resulted in lower project volumes, however the quality of applications has improved resulting in a lower default rate on new loans.
- Closer working ties are being forged through workshops, contractor forums (NAFCOC) and the implementation of the CFDP which is anticipated to drive project volumes.
- Funding partner is being sought to replace OPIC on the subsidy housing programme.
- Despite best attempts to manage the infrastructure programme more closely, this loan book remains problematic and the key driver of the high provisions. The programme is due for NURCHA Board review in August.



# Progress on Output Performance

## Programme Management Portfolio

- NURCHA has established itself well within the Department and continues to provide core services around forward planning, setting up of the PMU and support and implementation of existing programmes.
- The Eastern Cape Rural Development Programme has seen the appointment of the first contractor for the construction of 170 units (Umzimvubu). Appointments for Mhlontlo (160 units) and Intisika Yethu (170 units) is imminent.
- The CFDP initiative is gaining momentum with Port Elizabeth targeted as the first location for roll out. Currently recruiting mentors and NURCHA have received applications from potential contractors to be included in the CFDP. It is anticipated that the CFDP will have a marked influence on the 2013/2014 targets.
- NURCHA are responding to tenders and submitting proposals to assist various Departments and Municipalities with programme management assistance and capacity measures.



# Conclusion

- NURCHA have the required competency in both the lending and programme management portfolio to drive the strategic priorities of relevance and sustainability.
- NURCHA has received a clean audit every year since inception – testimony to its systems, capabilities and governance structures.
- NURCHA have a diversified skill base and able to provide sound technical, management and financial advice to the human settlements sector.
- We work closely with other DFI's, interact actively with both the public and private sector and aim to align our deliverable to the Outcome 8 targets.



**THANK YOU**