



KWAZULU-NATAL PROVINCE

HUMAN SETTLEMENTS
REPUBLIC OF SOUTH AFRICA



Policy Communiqué

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CONTRACTS MANAGEMENT POLICY

The effective management of contractual commitments is a critical aspect of service delivery improvement. The appropriate handling and processing of legal agreements from beginning to end will ensure compliance with agreed timelines, targets and allocated budgets. The Contracts Management Policy was approved by the MEC for implementation with effect from April 2026.

The policy is applicable to all formal contracts entered into between the Department and the relevant service provider. There are many types of formal contracts which can be used, depending on the type of goods, works and services which will be provided, the timeframe of the contract as well as the risks associated with the execution of the agreement.

For the purposes of this policy, the following formal contracts are applicable, namely:

- a) Bilateral agreements
- b) Tripartite agreements
- c) Service level agreements
- d) Memorandum of agreement (MOA)

1. CONTRACT MANAGEMENT

The Contracts Management Unit must undertake the following in order to ensure proper management of a contract:

- a) **Contract File**
A contract file should be opened for each contract and must include the following documentation:
 - Letter of Award
 - Purchase Order (if applicable)
 - A contract, signed by all parties' post-award
 - All correspondence between the contracting parties
 - Record of payments
 - Evidence of delivery as provided for in the agreement
 - Record of amendments to the contract (including extension of time frames or expansion of scope)
 - Record of reviews and audits conducted on the contract; and
 - Risk assessment reports, where applicable.
- b) **Contract Register**
The contract administrator must update the contract register on a regular basis to ensure that the register is complete and accurate. The contract register should include the following information:
 - Contract identifiers (unique ID, corresponding bid/ quotation/ requisition number and purchase order number)
 - Contract type and category

- Service provider details (Name of appointed bidder, Provincial database registration number, type of service provider)
- Description of Goods/Services/Works/Projects
- Contract Value (if applicable, include percentage escalation and any other financial value)
- Contract period (start date, end date, duration, extension date where applicable, and early termination date where applicable); and
- Payment history (milestones/deliverables, actual dates of payment, payment penalties levied).

N.B: A Drafting/Vetting Checklist is attached as Annexure A.

2. COMPLIANCE

The Departments Accounting Officer and delegated officials must take all reasonable steps to:

- a) ensure that a contract or agreement awarded by the Department is properly enforced
- b) monitor on a monthly basis the performance of the contractor under the contract or agreement
- c) administrate the contract with the necessary competencies and delegations, ensuring effective management of contracts

3. ROLES AND RESPONSIBILITIES

ROLE	RESPONSIBILITY
Contract Owner	The contract owner should undertake the following: a) Monitor the service provider's progress and performance to ensure goods, services and/ or works conform to the contract requirements. b) Regular meetings with the service provider to review progress, discuss problems and consider necessary changes. c) Consider project reports to advise the Contract Administrator of the performance or non-performance of the service provider and risks associated with the project. d) Recommend the processing of payments consistent with the contract terms and conditions of payment. e) Resolve operational issues as they arise.
Contract Manager	The Contract Manager should undertake the following: a) Establish procedures and guidelines for managing all contracts. b) Authorize payments consistent with the contract terms and conditions of payment. c) Manage risks and resolve disputes in a timely manner. d) Maintain appropriate records. e) Monitor performance data and address non-conformance. f) Be the first line of dispute resolution. g) Receive and consider performance reports from the service provider.
Contract Administrator	The contract administrator must undertake the following: a) Keep all contract records, including bid documents, letters of awards, purchase orders, signed contract documents and amendments or variations to the contract. b) Create and maintain the contract registers. c) Manage contract amendments and variations. d) Issue warning letters to non-performing service providers. e) Open and close projects on the contract management system

* The roles and responsibilities should be guided by the relevant Standard Operating Procedures

4. AMENDMENT OF CONTRACTS

A contract or agreement procured via the Department may be amended by the parties, such amendments may only be made after the proposed amendments have been submitted via the relevant directorate to the HOD and thereafter MEC for approval and further instruction, where applicable.

Amendments to contracts are applicable in the following circumstances:

- a) Amendments to contracts where the expansion or variation is not more than
 - 20% (construction related goods, services and/or infrastructure projects), and
 - 15% (all other goods and/or services) of the original value of the contract.
- b) Amendments to the contract, without influencing the value or term of the contract, within the scope of the original terms and conditions, may be altered, provided that both parties have consensus on the amendment and the contract amendment is in writing and signed by both parties.
- c) No agreement to amend or vary a contract shall be valid and of any force unless such agreement to amend or vary is entered into in writing and signed by the contracting parties.
- d) The Department shall remain liable for the fulfilment of its outstanding obligation six months after the contract term has ended.
- e) Amendments to the contract must be filed in the contract file.

5. CONTRACT PERFORMANCE MANAGEMENT

The aim of contract performance management is to ensure that:

- a) The service provider performs in accordance with the standards previously agreed upon;
- b) The service provider is meeting their obligations stipulated in the contract;
- c) Issues and problems are identified early in order for remedial actions to be implemented; and
- d) Price and payment terms are being adhered to.

Prior to the contract commencing the parties should discuss and agree upon the policies and procedures to be used in measuring performance. These policies and procedures must be set out in the contract. The level of performance management will depend on factors such as:

- a) Contract value
- b) Duration of the contract
- c) Expertise of the personnel involved
- d) Level of risk associated with the contract
- e) Size and nature of the contract
- f) The goods, services and/ or works to be provided; and
- g) Type of contract

6. MONITORING OF CONTRACTS

- a) A monitoring mechanism should be put in place to ensure early identification of risks, non-delivery and poor performance by the service provider, as well as early detection of other possible hindrances to service delivery.
- b) This can be achieved by the following: The administration officer of the contract's management unit must:
 - enforce adherence to terms and conditions; and
 - implement appropriate monitoring mechanisms that reflect the classification of the contract
 - information provided by a service provider for monitoring purposes should be reviewed and audited to ensure that it receives regular reports on contract performance and verifies the accuracy and reliability of the report, including conducting sample audits to authenticate performance information
 - contracts should be monitored every month and information about performance and possible problems must be added in the contract register
 - letters to the service providers/IA advising them of the expiring of contract may be structured differently depending on the duration of the contract, for example within 6 months, 3 months and 30 days of the end term of the contract
- c) The renewal and extension stage include necessary actions to renew the agreement and associated performance review where the contract is due to be renewed or extended the contract is reviewed in order to determine the service providers performance with respect to the contract deliverables.

ANNEXURE A

DRAFTING/VETTING CHECKLIST

DOCUMENTS	YES/NO N/A	COMMENTS
Departmental Approval		
MM/IA/ Contractor Resolution		
Development Programme		
Professional Indemnity		
Signed Progress Payment Schedule		
Correspondence between the contracting parties		
Signed Contract Agreement (with all attachments initialed)		
Evidence of delivery as provided for in the agreement		
Approved price escalations /Alignments or variations		
Record of amendments to the contract (Extension of time, Renewal; or Expansion of scope)		
Record of reviews and Audits conducted on contract		
Evaluation by Internal M&E		
Risk Assessment Report		

Prepared By: _____ Signature: _____ Date: _____

Verified By: _____ Signature: _____ Date: _____

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REVISED GUIDELINE FOR THE ADJUSTMENT OF THE SUBSIDY AMOUNT AS A RESULT OF INFLATION

The Revised Guideline for the Adjustment of the Subsidy Amount as a result of Inflation was approved for implementation with effect from April 2026.

The objective of the guideline is to:

- Bring the 2009 guideline in line with current departmental practices and the current housing delivery environment;
- Provide a standardized, step-by-step process for requesting and approving inflation adjustments;
- Introduce clear accountability, supporting documentation requirements, and penalties for non-performance; and
- Ensure that inflation-related adjustments are managed in a transparent, auditable, and equitable manner.

This guideline also recognises that:

- Inflation alignment is not automatic but must be motivated and justified;
- The process should not reward project delays caused by poor management; and
- Three development programme revisions may apply per project life cycle, subject to MEC approval in exceptional circumstances.

1. CATEGORIES OF APPLICATION

Inflation adjustment may apply under the following circumstances:

- a). Blocked Projects: Projects that have become blocked due to circumstances beyond the implementing agent's or municipality's control (e.g., community unrest, prolonged statutory processes, or material shortages).
- b). Ongoing Projects Requiring Alignment: Projects in progress that are impacted by inflationary cost increases on materials and labour, causing the original budget to become insufficient.

2. PROCESS FOR INFLATION ADJUSTMENT

A consistent process shall be followed for all applications:

Step 1: Conditions for Inflation Adjustment

Inflation adjustments are primarily considered as a standard process when the National Department of Human Settlements revises or increases the subsidy quantum, and such changes must be reflected in the provincial programme to ensure that approved projects remain aligned with the prevailing national subsidy framework.

In addition to this standard adjustment process, an inflation adjustment may also be considered where:

- The cost of materials or labour has increased significantly since the date of project approval; or
- Delays arising from external or unforeseen factors (such as adverse weather, community unrest, supply chain disruptions, or pandemics) have extended the implementation period; and
- The current approved subsidy amount is no longer sufficient to complete the remaining works.

NB: Requests resulting from poor performance, negligence, or failure to meet contractual obligations by the implementing agent, contractor, or municipality will not be supported. Such cases may be subject to penalties in terms of the Project Agreement.

Step 2: Submission of Motivation

The Implementing Agent, in consultation with the Municipality, must prepare and submit a formal motivation to the Department in support of the inflation adjustment request. This submission must be comprehensive enough to allow the Department to assess both the justification and financial implications of the proposed adjustment.

The submission must include the following:

- a) **Formal Written Motivation:** A detailed written explanation outlining the reasons for the delay and/or escalation. The motivation must distinguish whether the cause is due to external and uncontrollable factors (such as material shortages, community unrest, or weather conditions) or internal operational delays. It should also demonstrate measures that have been taken to mitigate such delays and prevent recurrence.
- b) **Proof of Cost Escalation:** Documentary evidence substantiating the cost increase, such as recent supplier quotations, BER–BCI or Haylett Index values, or comparative cost schedules certified by the project’s professional team. The evidence should clearly show how costs have changed since the project’s initial approval.
- c) **Original and Revised Development Programme:** The full project programme showing both the *original milestones* and the *proposed revised timeline*, with clear indication of remaining activities and deliverables still to be implemented. Any revision must be realistic, achievable, and align with the Department’s project performance standards.
- d) **Updated Cash Flow Projection:** A revised financial projection that reflects the proposed inflation adjustment, broken down per milestone or financial year. The cash flow must correspond with the revised programme and demonstrate the funding implications of the adjustment.
- e) **Comparative Cost Summary Schedule:** A concise table summarising the original per-unit cost, the current verified or applicable per-unit cost, the difference per unit, and the total adjustment requested for the remaining units. This summary must be signed off by the professional team and verified by the IA’s financial representative.

All supporting documentation must be certified, clearly referenced, and submitted as a single consolidated motivation package to enable efficient departmental review. Timeframes for submission must be linked to SOPs.

Step 3: Assessment and Verification

The Department will:

- Review the motivation and verify causes of delay;
- Confirm project progress and outstanding units through site reports;
- Validate escalation using the BER-BCI; and
- Determine the per-unit and total inflation adjustment, ensuring it does not exceed the prevailing subsidy quantum.

Step 4: Approval and Funding

- Once verified, the adjustment will be submitted to the Technical Evaluation Committee: Stage 2 and 3 for assessment and recommendation to the Member of the Executive Council (MEC) for approval.
- The new amounts must be captured in an addendum to the project's agreement.
- The Department will issue a formal approval specifying:
 - a) Approved adjustment value,
 - b) Number of affected units,
 - c) Revised project budget, and
 - d) Conditions attached to the approval.
- All approvals must comply with:
 - a) PFMA Section 38 (expenditure control and effective financial management); and
 - b) Treasury Regulation 76 (2)(e) (contracts amendments and avoidance of irregular, fruitless and wasteful expenditure).

NB: No inflation adjustment may be approved if it results in irregular, fruitless and wasteful expenditure as contemplated in the PFMA and Treasury Regulations.

Step 5: Monitoring, Compliance and Penalties

The Project Manager must conduct continuous oversight of project implementation and report on progress at least quarterly to ensure that approved inflation adjustments are being implemented in line with the revised programme and approved budget. Regular monitoring must confirm that the adjustment is used strictly for its intended purpose and that project milestones are achieved within approved timeframes.

Where delays continue to occur due to factors beyond the implementing agent's or contractor's control, a revised development programme may be considered, but no more than three

programme revisions will be permitted over the lifespan of the project. Each revision must be formally motivated and approved by the Department.

If monitoring reveals that delays or cost overruns are the result of poor performance, negligence, or breach of contract by the implementing agent or contractor, the Department may:

- Disallow or withdraw the approved inflation adjustment;
- Impose financial or contractual penalties as provided for in the Project Agreement; or
- Reassign or terminate the contract in line with departmental supply chain and contract management procedures.

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The detailed policies/documents in this edition of the Policy Communique may be accessed on the Department's website using the following link: https://www.kzndhs.gov.za/index.php?option=com_content&view=article&id=23&Itemid=130