KWAZULU-NATAL PROVINCE
HUMAN SETTLEMENTS
REPUBLIC OF SOUTH AFRICA

A NATION THAT WORKS FOR ALL

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

JANUARY 2026

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DEFINITIONS

For the purposes of this guideline, the following definitions shall apply:

Inflation Alignment / Inflation Adjustment

The process of adjusting the approved subsidy amount or project budget to account for verified increases in construction costs resulting from inflation over the project life cycle. Inflation alignment is intended to ensure that approved Human Settlements projects remain financially viable and capable of delivering the approved scope of work in line with prevailing costs.

Blocked Project

A Human Settlements project that is unable to proceed to the next stage of implementation or has been suspended due to insufficient funding, unresolved statutory or planning approvals, community-related challenges, or other constraints, including cost escalation resulting from inflation, which prevent delivery within the originally approved subsidy amount.

Implementing Agent (IA)

An entity appointed or approved by the Department to plan, manage, and implement a Human Settlements project on its behalf. This may include municipalities, provincial entities, or other approved service providers, and includes responsibility for contract management, reporting, and compliance with approved project agreements.

Subsidy Quantum

The approved monetary value allocated per housing unit or per project by the National Department of Human Settlements for a specific financial year, programme, and income category. The subsidy quantum is subject to review and adjustment at national level and serves as the funding cap for project approval and inflation alignment.

Development Programme

An approved project implementation schedule setting out key activities, milestones, timeframes, and deliverables over the full life cycle of a Human Settlements project. The development programme forms the basis for performance monitoring, cash flow planning, and assessment of project progress.

External Delay

A delay in project implementation arising from factors beyond the reasonable control of the implementing agent, contractor, or municipality. External delays may include, but are not limited to, adverse weather conditions, community unrest or protests, supply chain disruptions, statutory or regulatory approval delays, force majeure events, or public health emergencies.

Internal Delay

A delay attributable to factors within the control of the implementing agent, contractor, or municipality, including poor planning, inadequate project management, non-performance, failure to comply with contractual obligations, or insufficient coordination among project stakeholders. Internal delays do not qualify for inflation adjustment and may attract penalties in terms of the applicable agreement.

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1. INTRODUCTION

1.1 BACKGROUND

The KwaZulu-Natal Department of Human Settlements approved the *Policy Guideline for the Adjustment of the Subsidy Amount as a Result of Inflation* in 2009.That guideline was developed in response to a growing number of blocked housing projects across the province, where construction could not proceed because inflation had eroded the real value of approved subsidies.

At the time, the provincial department faced several implementation challenges:

- Delays in township establishment, planning, and statutory approvals;
- Capacity constraints at both municipal and provincial levels;
- A national subsidy quantum that, while adjusted annually, did not adequately cover project cycles that typically spanned three to five years.

The 2009 guideline provided a mechanism to unblock stalled projects and align subsidies to the then-prevailing rates. While effective in addressing immediate crises, it remained reactive, focused primarily on blocked projects and not on proactive cost management during ongoing implementation.

This guideline must be read together with the National Housing Code, the subsidy quantum, the PFMA, the Department's Project Management SOPs and the Project Agreement.

1.2 CURRENT CONTEXT AND EMERGING CHALLENGES

Since 2009, the Department has made significant progress in implementing a variety of housing and human settlements programmes. However, inflationary pressures remain a key challenge across the sector. Over the past decade, the cost of construction materials, transport, and labour has continued to rise at rates above general inflation. Projects approved in one financial year often span multiple years, resulting in funding shortfalls by the time actual construction occurs.

Further complications arise due to:

- Global and national supply chain disruptions (as experienced during the COVID-19 pandemic);
- Weather-related delays and natural disasters;
- Political unrest, civil disturbances, or community protests; and
- Extended statutory processes in planning, design, and approvals.

The Department currently manages these risks through an Inflation Alignment Process, whereby project costs are reviewed and adjusted based on the Building Cost Index (BER-

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BCI), actual supplier quotations, or the latest national subsidy quantum. This process is intended to proactively mitigate inflationary impacts rather than waiting for projects to become blocked.

2. OBJECTIVE OF THE GUIDELINE

The objective of the updated 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.

3. GUIDING PRINCIPLES

The application of this guideline is informed by the following principles, which seek to ensure that the process of inflation alignment is transparent, equitable, and contributes meaningfully towards sustainable human settlements delivery:

a) Inflation alignment is a financial management tool to maintain project viability and ensure continued delivery within the Human Settlements Programme. It is not intended to compensate for poor performance or project mismanagement.

b) All requests must be supported by verifiable cost data, such as current Building Cost Index (BER-BCI) values, valid supplier quotations, or updated subsidy quanta. Adjustments will only be considered where cost escalation is clearly substantiated.

c) Projects delayed due to negligence, poor planning, or non-performance by the implementing agent, contractor, or municipality will not qualify for alignment. Such cases may attract contractual penalties as per the Project Agreement.

d) Inflation alignment applies only to work that has not yet been completed at the time of application. Completed units or phases will not qualify for retrospective adjustment.

e) All approved adjustments must be capped at the prevailing national subsidy quantum and must demonstrate value for money in line with the Department's fiscal responsibilities.

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4. GUIDELINE

4.1 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.

4.2 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.

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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.

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Example (based on actual project practice):

PROJECT NAME:
PROJECT NUMBER: K
TOTAL PROJECT YIELD: 200

Sub-Milestone	Original Amount approved per Unit (R)	Current (2023/4) Subsidy Amount (R)	Alignment/adjustment per Unit (R)	No. of Sites	Total Alignment (R)
Transfer Cost	1,000.00	1,350.00	350.00	200	70,000.00
Foundation	40,000.00	55,000.00	15,000.00	100	1,500,000.00
Wall Plate	35,000.00	48,000.00	13,000.00	134	1,742,000.00
Roof	30,000.00	42,000.00	12,000.00	134	1,608,000.00
Completion	25,573.00	35,140.00	9,567.00	200	1,913,400.00
Project Management	30,000.00	42,000.00	12,000.00	134	1,608,000.00
TOTAL					R 8,441,400.00

(This example illustrates the principle of alignment but does not refer to a specific project.)

This example demonstrates the principle that inflation alignment is calculated on the portion of work still outstanding and is based on the gap between the original subsidy value and the prevailing cost of delivering the same product at the time of review.

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).

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N.B. No Inflation Adjustment may be approved if it results in irregular, fruitless and wasteful expenditure as contemplate 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.

5. ROLES & RESPONSIBILITIES

Stakeholder	Key Responsibilities
Implementing Agent (IA)	Prepare motivation, supporting documentation, and revised programme; ensure timely delivery and accurate reporting.
Municipality	Verify local conditions, confirm progress, and endorse motivation.
Departmental Project Manager	Verify delays, review documentation, calculate proposed adjustment, and recommend approval.
Finance Directorate	Validate cost calculations and confirm budget availability.
Contracts Management Sub-Directorate	Draft and review addenda, enforce penalty provisions, and ensure contractual compliance.

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6. APPLICATION CONSIDERATIONS

To minimise the risks and financial impacts associated with inflation on Human Settlements projects, the following considerations must be applied consistently throughout the project life cycle:

a) **Complete and Accurate Project Applications**
All project applications submitted for approval or adjustment must be complete, accurate, and accompanied by all relevant supporting documentation. Incomplete submissions delay processing and contribute to inflationary exposure. Applications must include all signed forms, professional certifications, approved designs, and any statutory approvals required prior to implementation.

b) **Phased Project Structuring**
Projects should, wherever possible, be structured and implemented in phases. This approach allows serviced stands (Phase 1) and top structures (Phase 2) to be aligned to the relevant subsidy quantum applicable to each financial year. Phasing provides flexibility to accommodate annual cost changes and helps prevent large-scale financial shortfalls caused by inflation over extended project periods.

c) **Formal Approval of Revised Programmes and Cash Flows**
Any proposed revision to the project programme or cash flow must be formally motivated and submitted to the Department for approval before the implementation of changes. The revised programme must be realistic, align with site conditions, and include measurable milestones. Approved cash flows must reflect accurate expenditure timelines in line with the Department's budget planning cycle.

d) **Geotechnical Alignment:**
Geotechnical investigations must be conducted only for parts of the project that have not yet been constructed.

e) **Rainwater Harvesting Tank Alignment:**
The alignment of rainwater tanks must be done in accordance with the Departmentally approved directive, ensuring that these installations are budgeted and scheduled correctly within project phases.

f) **Verification of Budget Availability**
The Project Management Directorate in consultation with the Finance Directorate must review each inflation adjustment request to confirm the availability of funds and compliance with the applicable financial year's allocation. No inflation adjustment or subsidy revision may be approved unless adequate budget provision exists. This ensures fiscal discipline and prevents overcommitment of departmental funds.

g) **Legal Review and Compliance Assurance**
All project amendments, addenda, or contractual adjustments arising from approved inflation adjustments must be submitted to the Contracts Management Sub-Directorate for review. Legal Services must ensure that all addenda clearly define the terms of adjustment, enforcement of penalties, obligations of the contracting parties, and compliance with the Tripartite Agreement. This guarantees that all approved adjustments remain legally sound and enforceable.

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7. MONITORING & EVALUATION

The Policy, Research and Product Development Directorate will undertake a review of the Guideline after three (3) years and/or when the need arises to evaluate the effectiveness of the guideline and to ensure that it is updated with the most recent information necessary for compliance and implementation.

8. EFFECTIVE DATE

The effective date for the implementation of the Revised Guideline for the Adjustment of the Subsidy Amount as a result of Inflation shall be the date of signature of the MEC.

APPROVED BY:

MR S.A. DUMA, MPL
HONOURABLE MEC FOR TRANSPORT & HUMAN SETTLEMENTS

9/4/26
DATE

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