



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Human Settlements Departments: Transition Guide on Classification of Expenditure

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1. Purpose

- 1.1 The purpose of this document is to provide budgeting and accounting classification guidance on expenditure by Human Settlements departments pertaining to goods and services, payments for capital assets as well as transfers and subsidies expenditure categories in line with the Economic Reporting Format (September 2009) (ERF).

2. Background

- 2.1 In terms of section 26 of the Constitution of the Republic of South Africa, 1996, everyone has the right to have access to adequate housing, and the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.
- 2.2 The Housing Act of 1997 as amended and other housing and human settlements legislation assigns the roles and responsibilities to the three spheres of government; national, provincial and local government.
- 2.3 The Human Settlements departments had a special dispensation for classification of payments. This was stipulated in the *Sector Specific Guide: Human Settlement Departments* issued by National Treasury in March 2012.
- 2.4 The *Sector Specific Guide: Human Settlement Departments* issued in March 2012 was based on the ultimate use of funds. For this reason, it prescribed that housing-related payments which are made by a Human Settlements departments must be classified as *transfers to households*.
- 2.5 Classification of payments as transfers to households for most of housing-related expenditure leads to misalignment with the ERF. This transition guide seeks to align the Human Settlements Departments classification with the ERF classification principles. These principles are further explained in *Classification Circular 21 - Classification of Transfers and Subsidies versus Goods and Services or Capital Assets* issued by the Standard Chart of Accounts (SCOA) Technical Committee in May 2018. Classification Circular 21 serves as a guide to the ERF for application by all departments. and does not introduce any new classification principles.

3. Scope

- 3.1 This transition guide deals with classification and accounting for expenditure pertaining to goods and services, payments for capital assets as well as transfers and subsidies by Human Settlements departments. It is only applicable to Human Settlements departments.
- 3.2 The accounting framework for departments is the Modified Cash Standard (MCS). Classification principles in the MCS are aligned to the ERF. Departments should apply the MCS and related guidance for recognition, recording and presenting accounting transactions. For example, departments should apply MCS Chapter 16 on *Accounting by Principals and Agents* to account for principal-agent arrangements. Another example is accounting for prepayments which should be in line with MCS Chapter 9 on *General Departmental Assets and Liabilities*.
- 3.3 Housing Funds are excluded from the scope of this transition guide. Accounting for Housing Funds should be dealt with in accordance with the framework directed by the relevant legislation and Directive on *The Selection of an Appropriate Reporting Framework by Public Entities* issued by the Accounting Standards Board (ASB).

4. Approach

- 4.1 In classifying the arrangements as either goods and services, capital assets or transfers and subsidies, an assessment should be conducted against each individual arrangement that the Department of Human Settlements undertakes in terms of the National Housing Programmes rather than applying a one-size-fits-all approach. Classification should be in terms of the ERF.

5. SCOA Expenditure Classification

- 5.1. According to the principle in the ERF, the immediate use of funds should be applied when classifying transactions. When classifying expenditure, one should identify "what is being bought".
- 5.2. In identifying "what is being bought", the immediate use of funds is considered. Immediate use provides for the description of the item being bought and refers to its actual form (i.e. purchase of bricks, use of consultants, contractors, etc.).
- 5.3. When items are bought (or services are paid for), the payment is classified as goods and services and/or payments for capital assets.
- 5.4. Goods, services or capital assets that are purchased by government but later transferred in kind to beneficiaries, are recorded as part of goods and services or payments for capital assets. The principle consistently applied is that departments record the immediate use of funds ("what is being bought") and not the ultimate use which is the eventual purpose for which the item being bought will be used.
- 5.5. Where a department uses another organ of the state or agent for acquisition of goods and services or capital assets, the payment to the organ of state or agent is classified as goods and services for payments for capital assets respectively.
- 5.6. For a payment to be classified as transfers and subsidies the department does not buy any item or pay for a service.
- 5.7. Where funds transferred are transferred to another entity for the entity to further its operations in line with the entity's mandate, these are classified as transfers and subsidies. The funds for operations would be requested by the entities through the budget process.

6. Classification in a Human Settlements Departments

- 6.1 Legislation should be considered to determine the legal responsibilities of the department when entering into arrangements. In most housing arrangements service providers or agents such as project managers and developers/contractors are involved in the construction of houses. An accredited municipality can be a service provider or agent.
- 6.2 SCOA uses the item segment to identify the goods, services and other payments made in achieving the legislative mandate of a department. A principle discussed in the ERF focusses on the immediate use of funds. It identifies "what is being bought". The payment categories show either what has been bought or to whom funds have been transferred.
- 6.3 When a Department of Human Settlements buys items (or pays for services), the payment is classified as goods and services and / or payments for capital assets.
- 6.4 Where a Department of Human Settlements transfers funds to another entity for the entity to further its operations in line with the entity's mandate, these are classified as transfers and subsidies.

- 6.5 Immediate use of cash distributed to identified beneficiaries does not involve buying of goods, buying of capital assets or paying for services and thus such cash distribution is classified as transfers and subsidies.
- 6.6 The type of funding received by a Department of Human Settlements does not change the classification of the payment.
- 6.7 The execution of the activity or transaction for or on behalf of the department by service providers or agents should not change the classification of the expenditure.
- 6.8 Although the relevant Department of Human Settlements and a municipality can enter into an arrangement that requires the municipality to identify potential contractors and/or service providers, appoint contractors and/or service providers on behalf of the department, prepare agreements, monitor contract implementation and/or make payments to contractors and/service providers, if the municipality is a project manager, the department remains responsible to fulfil the rights and obligations in terms of the arrangement entered into on its behalf by the municipality.
- 6.9 A Department of Human Settlements that is a developer, will classify items acquired or payment for services relating to the project as *goods and services*, for houses constructed for distribution to beneficiaries, or *payments for capital assets*, for property constructed for rental or own use.
- 6.10 If the Department of Human Settlements is responsible for development of property and contracts an accredited municipality or any developer, that Department of Human Settlements will classify items acquired or payment for services relating to the project as either *goods and services*, for houses constructed for distribution to beneficiaries or *payments for capital assets*, for property constructed for rental or own use.
- 6.11 In the event that an accredited municipality has the responsibility of being a developer and obtains funding from the provincial Department of Human Settlements, the department will classify funding for operations of the entity or municipality as *transfers and subsidies*.

7. Classification summary

- 7.1 In summary, although not exhaustive, the following classification is relevant in the books of the department when the department makes a payment:

No.	Reason for Payment	Classification
7.1.1	Funding operations of own entity or a level 2 accredited municipality.	Transfers and subsidies
7.1.2	Department pays for the building material for its own use in construction of houses.	Inventory
7.1.3	Department pays a service provider or agent for construction of houses.	Inventory
7.1.4	Department buys capital assets, such as graders, for use in construction of houses.	Machinery and Equipment

No.	Reason for Payment	Classification
7.1.5	Department pays for construction of property that will be rented out.	Buildings and fixed structures

8. Transitional Provisions

8.1 Departments of Human Settlements (DHSs) should implement the following transitional provisions:

Financial Year	Transitional Provisions
<p><u>2019/20</u> 1 April 2019 to 31 March 2020</p>	<p>Current financial year</p> <ol style="list-style-type: none"> <u>Continue classifying construction of housing-related expenditure in the budget and annual financial statements as <i>transfer to households</i>.</u> Budget: Budget 2019 will retain classification as <i>transfers to households</i> throughout the MTEF period. Accounting: The annual financial statements (AFS) retain classification as <i>transfers to households</i>
<p><u>2020/21</u> 1 April 2020 to 31 March 2021</p>	<p>Transition year 1</p> <p>DHSs should implement transitional provisions stipulated below with effect from 1 April 2020. Treasuries will provide the required support.</p> <p>2020/21 Transitional provisions to be implemented by DHSs</p> <ol style="list-style-type: none"> <u>Continue classifying housing-related expenditure in the budget and annual financial statements as <i>transfer to households</i>.</u> Budget: Budget 2020 will retain classification as <i>transfers to households</i> throughout the MTEF period. Accounting: The annual financial statements (AFS) retain classification as <i>transfers to households</i>, with an additional (unaudited) Annexure. This 2020/21 additional Annexure to the AFS should reflect the correct classification of housing-related expenditure in line with the ERF. The 2020/21 additional Annexure will not have comparatives.
<p><u>2021/22</u> 1 April 2021 to 31 March 2022</p>	<p>Transition year 2</p> <p>Human Settlements Departments will perform actions listed below as part of the transition to align the classification in the budget and reporting to the ERF. Treasuries will provide the required support.</p> <p>2021/22 Transitional provisions to be implemented by DHSs</p> <ol style="list-style-type: none"> <u>Continue classifying housing-related expenditure in the budget and annual financial statements as <i>transfer to households</i>.</u> Budget: Budget 2021 will retain classification as <i>transfers to households</i> throughout the MTEF period. Accounting: The annual financial statements (AFS) retain classification as <i>transfers to households</i>, with an additional (unaudited) Annexure. This 2021/22 additional Annexure to the AFS should reflect the correct classification of housing-related expenditure in line with the ERF. The

Financial Year	Transitional Provisions
	2021/22 Annexure to the AFS will have comparatives obtained from the 2020/21 Annexure to the AFS.
2022/23 1 April 2022 to 31 March 2023	<p>Implementation year</p> <p>Departments of Human Settlements are required to classify all expenditure in the budget and the financial statements in line with the ERF. Treasuries will provide the required support.</p> <p>2022/23 Full implementation by DHSs</p> <ol style="list-style-type: none"> <u>Classify construction of housing expenditure in the budget and annual financial statements in line with the ERF.</u> Budget: The MTEF will be in line with the ERF. Budget 2022 historic figures will retain classification as <i>transfers to households</i> (with the option to restate for consolidation purposes). The in-year budget will be revised using the figures from the Annexure to the annual financial statements of 2021/22. The step change between the historic, current and future budget years will be explained as a change in classification. Accounting: Expenditure in line with the ERF for the current financial year and comparatives should be recognised and recorded in the AFS. The figures in the 2021/22 Annexure to the AFS should be used as the comparatives for the 2022/23 AFS.

8.2 During the transition period, which is up to 31 March 2022, Departments of Human Settlements should continue classifying for housing-related expenditure in the budget and the annual financial statements as *transfers to households*. This in line with the Human Settlements Departments' special dispensation stipulated in the *Sector Specific Guide: Human Settlement Departments* issued by National Treasury in March 2012.

8.3 The information provided by Departments of Human Settlements in the Annexure to the annual financial statements of the 2020/21 and 2021/22 should be accurate as it will be utilised as **comparatives** for recognition and recording in the AFS for the financial year beginning on 1 April 2022. The information will also be utilised for the in-year budget.

8.4 **The effective date of classifying housing-related expenditure in line with the ERF without any deviation is 1 April 2022.**

9. Classification in the financial statements

9.1 In the financial year beginning on 1 April 2022, the Departments of Human Settlements change classification relating to payments for housing-related expenditure from *transfers to households* in order to align the classification to the ERF.

9.2 Departments of Human Settlements should inform users of the financial statements about the change by including a narrative under the Transfers and Subsidies note and Goods and Services sub-note and/or to the Transfers and Subsidies note and Capital Assets sub-note.

9.3 The suggested wording to achieve this for the financial year beginning on 1 April 2022 is as follows:

In the previous financial years Departments of Human Settlements classified housing-related expenditure as transfers to households under Transfers and Subsidies. With effect from 1 April 2022, Departments of Human Settlements classify housing-related expenditure as (specify new classification) to align the classification to the Economic Reporting Format (ERF).

9.4 From the financial year beginning on 1 April 2022 onwards, should there be a misclassification, it should be corrected in that financial year's financial statements as such misclassification is an error as defined by the MCS Chapter on *Change in Accounting Policies, Estimates and Errors*.

Annexure A: Examples of Classification of Human Settlements Departments Funds

The table below shows examples of funds that are available to the Human Settlements Departments and the classification thereof. This list of arrangements is not exhaustive and should be used as guidance. The SCOA Technical Committee sourced the information about the funds and description thereof from the Public Finance and Inter-Governmental Relations (IGR) divisions in National Treasury, and the Human Settlements Departments CFOs. Information was also sourced from the DoRA and the National Housing Policy and Subsidy Programme issued by the National Department of Human Settlements.

No.	Programme	Description of the programme	Recipient of funds	Classification in line with the ERF	Commentary on classification
1.	Title deeds restoration	The grant aims to provide title deeds to beneficiaries of housing projects.	Professional service providers such as Lawyers and Conveyancers	Goods and services items/such as Legal Services	The department is acquiring services pertaining to planning functions, property registration and the issuing of title deeds.
2.a)	Consolidation Subsidy	The subsidy is aimed at completing houses on the serviced sites. The consolidation subsidy is available for a beneficiary who has already received assistance through government to acquire a serviced residential site under the pre-1994 housing scheme. Beneficiaries of such stands may apply under this programme for further assistance to construct a house on their stands or to upgrade / complete their house they may have constructed from their own resources. The department is responsible for construction and this is not a cash subsidy to the beneficiary.	Contractor	Inventory ¹	The department is responsible for construction of houses and constructs houses through the third party (contractor, which can be a municipality), to be distributed to the beneficiaries. The Department is therefore procuring goods and services in an effort to fulfil its responsibilities. The department retains accountability for the houses until these are distributed. <i>(Note: Work in Progress pertaining to construction will also be accounted for by the department.)</i>
2b)	Consolidation Subsidy	The subsidy is aimed at completing houses on the serviced sites.	Level 2 Accredited Municipality	Municipal Bank Accounts	The Municipality or Traditional council is responsible for the project. The department transfers funds to the Municipality which is responsible and accountable for construction of houses to be distributed to the

¹ If a department buys goods for construction of houses which will be distributed to beneficiaries on completion, these meet the definition of *inventory*. At the time of publication of this transition guide, *Inventory* formed part of *Goods and Services* on the SCOA thus also in the financial statements. In the event that, following research and consultation, the SCOA Technical Committee concludes that *Inventory* should no longer form part of *Goods and Services*, Departments of Human Settlements will be informed and should classify the *Inventory* as advised by the SCOA Technical Committee.

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No.	Programme	Description of the programme	Recipient of funds	Classification in line with the ERF	Commentary on classification
		<p>The consolidation subsidy is available for a beneficiary who has already received assistance through government to acquire a serviced residential site under the pre-1994 housing scheme. Beneficiaries of such stands may apply under this programme for further assistance to construct a house on their stands or to upgrade / complete their house they may have constructed from their own resources. The department is responsible for construction and this is not a cash subsidy to the beneficiary.</p>			<p>beneficiaries. The Department is not procuring goods, services or capital assets. It provides the funds to the Municipality</p>
3.a)	<p>Rural Subsidies: Communal Land Rights</p>	<p>Subsidy for services and houses in rural areas where the land is state owned and governed by tribal authorities.</p> <p>This subsidy is only available on a project basis and beneficiaries are supported by implementing agents.</p> <p>Beneficiaries also have the right to decide how to use their subsidies either for service provision, on building of houses or a combination thereof.</p> <p>Funding under this Programme is only available within the context of an approved housing development project and may not be accessed on an individual basis.</p>	<p>Service provider or agent</p>	<p>Inventory¹ above</p>	<p>The department is responsible for construction of houses and constructs houses through the third party (contractor), to be distributed to the beneficiaries. The Department is therefore procuring goods and services in an effort to fulfil its responsibilities.</p> <p>The department retains accountability for the houses until these are distributed.</p> <p><i>(Note: Work in Progress pertaining to construction will also be accounted for by the department.)</i></p>
3.b)	<p>Rural Subsidies: Communal Land Rights</p>	<p>Subsidy for services and houses in rural areas where the land is state owned and governed by tribal authorities.</p>	<p>Level 2 Accredited Municipality</p>	<p>Municipal Bank Accounts</p>	<p>The Level 2 Accredited Municipality is responsible for the project. The department transfers funds to the Municipality which is responsible and accountable for construction of houses to be distributed to the beneficiaries. The Department is not procuring goods,</p>

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No.	Programme	Description of the programme	Recipient of funds	Classification in line with the ERF	Commentary on classification
		<p>This subsidy is only available on a project basis and beneficiaries are supported by implementing agents. Beneficiaries also have the right to decide how to use their subsidies either for service provision, on building of houses or a combination thereof. Funding under this Programme is only available within the context of an approved housing development project and may not be accessed on an individual basis.</p>			<p>services or capital assets. It provides funds to the Municipality</p>
4.a)	Project Linked Subsidies	<p>Subsidies on houses built by contractors for ownership by the identified beneficiary. According to the National Housing Policy, Project Linked Subsidies was replaced by Integrated Residential Development Programme (IRDP). Thus, it can no longer be utilised for projects initiated after 2005/06.</p>	Service Provider/Agent	Inventory ¹ above	<p>The department is constructing houses through the third party to be distributed to the beneficiaries. The responsibility and the accountability of having these houses constructed remains with the department. The Department is therefore procuring services in an effort to fulfil these responsibilities. <i>(Note: Work in Progress to be accounted for by the department)</i></p>
4.b)	Project Linked Subsidies	<p>Subsidies on houses built by contractors for ownership by the identified beneficiary. According to the National Housing Policy, Project Linked Subsidies was replaced by Integrated Residential Development Programme (IRDP). Thus, it can no longer be utilised for projects initiated after 2005/06.</p>	Level 2 Accredited Municipality	Municipal Bank Accounts	<p>The Level 2 Accredited Municipality is a developer and applies for funding from the MEC. The municipality undertakes all planning and project activities. The Department is not procuring goods, services or capital assets. It provides funds to the Municipality.</p>
5.a)	Integrated Residential Development	<p>The programme replaced the Project Linked Subsidy Programme. The programme provides for planning and</p>	Service provider or agent	Inventory ¹ above	<p>The department is constructing houses through the third party to be distributed to the beneficiaries. The responsibility and the accountability of having these houses constructed remains with the department. The</p>

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No.	Programme	Description of the programme	Recipient of funds	Classification in line with the ERF	Commentary on classification
	Programme (IRDP)	development of integrated housing projects. Projects can be planned and developed in phases and provides for holistic development orientation.			Department is therefore procuring services in an effort to fulfil these responsibilities. <i>(Note: Completed services to be transferred to the municipalities. Work in Progress to be accounted for by the department)</i>
5.b)	Integrated Residential Development Programme (IRDP)	The programme replaced the Project Linked Subsidy Programme. The programme provides for planning and development of integrated housing projects. Projects can be planned and developed in phases and provides for holistic development orientation.	Level 2 Accredited Municipality	Municipal Bank Accounts	A Level 2 Accredited Municipality is a developer and applies for funding from the MEC responsible for human settlements. The municipality undertakes all planning and project activities. The Department is not procuring goods, services or capital assets. It provides funds to the Municipality.
6.	Individual subsidies: Finance Linked Individual Subsidy Programme	This Programme provides access to state assistance where qualifying households wish to acquire an existing house or a vacant serviced residential stand, linked to a house construction contract through an approved mortgage loan. These properties are available in the normal secondary housing market or have been developed, as part of projects not financed through one of the National Housing Programmes.	Individuals (Beneficiaries)	Transfers to Households	These subsidies are available to individual beneficiaries who wish to buy an existing house or a stand, linked to a house building contract in the market. These subsidies are available on a first-come-first-serve basis and may be credit linked or non-credit linked. The Department is not procuring goods, services or capital assets.
7.a)	Community Residential Units	The programme aims to facilitate the provision of secure, stable rental tenure for lower income persons/households. Government provides grant funding for the re-development of these hostels to establish low cost rental opportunities for families and single persons.	Service provider or agent	Buildings & Other Fixed Structures	Provincial Department of Human Settlement is the owner of the public housing asset and fulfils the developer role. The Provincial Department of Human Settlements is procuring capital assets.

No.	Programme	Description of the programme	Recipient of funds	Classification in line with the ERF	Commentary on classification
7.b)	Community Residential Units	<p>The funds may also be utilised for the development of new public rental housing assets, if a viable opportunity to acquire and develop such new assets has been identified.</p> <p>The housing stock funded by the Community Rental Units Programme remains property of the State and cannot be sold or transferred to individual residents.</p> <p>The programme aims to facilitate the provision of secure, stable rental tenure for lower income persons/households.</p> <p>Government provides grant funding for the re-development of these hostels to establish low cost rental opportunities for families and single persons.</p> <p>The funds may also be utilised for the development of new public rental housing assets, if a viable opportunity to acquire and develop such new assets has been identified.</p> <p>The housing stock funded by the Community Rental Units Programme remains in public ownership and cannot be sold or transferred to individual residents.</p>	Level 2 Accredited Municipality	Municipal Bank Accounts	The level 2 accredited municipality is the owner of the public housing asset and fulfils a developer role. The Provincial Department of Human Settlements is not procuring capital assets.
8.	Institutional Subsidies	The grant provides capital grants to housing institutions registered under companies act, share block act, cooperatives act, Communal property act or any other form of legal entity to develop stock and provide this to beneficiaries and possibly beneficiaries that do not qualify on a	Social Housing Institutions	Transfers and Subsidies to Public Corporation	The housing institution is responsible for the construction/provision of the rental stock, all maintenance of the said stock and to operate the stock in terms of the conditions of accreditation. The Department is not procuring any goods and services or capital assets.

No.	Programme	Description of the programme	Recipient of funds	Classification in line with the ERF	Commentary on classification
		<p>rental instalment sale, shareblock, cooperative or alternative tenure and provide long term management services in respect of housing stock which construct and manage affordable rental units.</p> <p>The subsidy enables housing institutions to undertake approved projects and to enable them to create affordable housing stock for beneficiaries to live in subsidised residential properties.</p> <p>The rental unit may not be transferred to the beneficiary within the first four years of Occupation.</p> <p>Housing Institutions apply to the MEC for the subsidy. Qualifying beneficiaries apply to the housing institution to occupy rental stock.</p>			
9.	Social Housing Subsidies- the Restructuring Capital Grant	<p>The aim of the programme is to provide households, especially poor, with convenient access to employment opportunities and the full range of urban amenities.</p> <p>In so doing, it provides grant funding to establish, capacitate and capitalise social housing institutions which may develop, hold and administer affordable rental units within identified restructuring zones.</p>	Social Housing Institutions	Transfers and Subsidies to Public Corporation	The housing institution is responsible for the construction/provision of the rental stock, all maintenance of the said stock and to operate the stock in terms of the conditions of accreditation. The Department is not procuring any goods and services or capital assets
10.a)	Informal Settlements Upgrading Programme	The programme aims to upgrade the living conditions of millions of poor people by providing secure tenure and access to basic services and housing.	Level 2 Accredited Municipality	Municipal Bank Accounts	A level 2 accredited municipality identifies informal settlements to be upgraded within their areas of jurisdiction, and apply to the Provincial Departments for funding for projects under this Programme. This is

No.	Programme	Description of the programme	Recipient of funds	Classification in line with the ERF	Commentary on classification
10. b)	Informal Settlements Upgrading Programme	<p>This includes provision of water, sanitation, electricity, etc. to households in informal settlements.</p> <p>The programme aims to upgrade the living conditions of millions of poor people by providing secure tenure and access to basic services and housing.</p> <p>This includes provision of water, sanitation, electricity, etc. to households in informal settlements.</p>	Service Provider or Agent	Inventory ¹ above	<p>generally undertaken in close collaboration with relevant communities.</p> <p>Municipalities usually fulfil the developer role.</p> <p>In some instances, the municipality cannot meet the project commitments or lacks capacity. The Provincial Department takes responsibility for the project and can assume the role of a developer.</p> <p><i>(Note: Work in Progress pertaining to construction will also be accounted for by the department.)</i></p>
11.a)	The Emergency Housing Assistance Programme	<p>The programme aims to provide temporary housing relief to households in stress following natural or man-made disasters (e.g. where settlements have been destroyed by fire or houses have been rendered uninhabitable by storms and need to be repaired).</p> <p>Once a Municipality has identified a need for Emergency Housing, it applies to the Provincial Department for funding for projects under this Programme. Communities may approach municipalities for assistance under this Programme.</p> <p>The amount of the grant is determined by the MEC based on the nature and extent of the emergency housing situation and a properly prepared project plan.</p>	Municipality	Municipal Bank Accounts	<p>Funding under the Programme is made available to municipalities as grants for the provision of temporary aid and assistance will be limited to absolute essentials. The department is funding the operations of the Municipality.</p>
11.b)	The Emergency Housing	<p>The programme aims to provide temporary housing relief to households in stress following natural or man-made disasters (e.g. where</p>	Contractor	Inventory	<p>Provincial Department of Human Settlements buys material for emergency housing programme. The Provincial Department of Human Settlements is procuring items.</p>

No.	Programme	Description of the programme	Recipient of funds	Classification in line with the ERF	Commentary on classification
	Assistance Programme	<p>settlements have been destroyed by fire or houses have been rendered uninhabitable by storms and need to be repaired).</p> <p>Once a Province has identified a need for Emergency Housing, it applies to the Provincial Department for funding for projects under this Programme. Communities may approach municipalities for assistance under this Programme.</p> <p>The amount of the grant is determined by the MEC based on the nature and extent of the emergency housing situation and a properly prepared project plan.</p>			
12.a)	Rectification of pre-1994 Stock	<p>This is a dedicated programme for the improvement of certain dwellings constructed under the pre-1994 state financed housing dispensation which do not comply with the acceptable standards. The programme is also aligned with the Enhanced Extended discount benefit Scheme. The programme facilitates the improvement of residential properties created through the state housing programme</p>	Service provider or agent	Goods and services	<p>Funding under the Programme is made available to municipalities as grants for the improvement of housing units and will be regarded as an individual housing subsidy allocation. The work is only done after the dwellings are assessed and verified by a structural engineer who will do the necessary design work and prescribe precautionary work that may be required and support the rectification work</p>
12.b)	Rectification of pre-1994 Stock	<p>This is a dedicated programme for improvement of certain dwellings constructed under the pre-1994 state financed housing dispensation which do not comply with the acceptable standards. The programme is also aligned with the Enhanced Extended</p>	Municipality	Municipal Bank Accounts	<p>Funding under the Programme is made available to municipalities as grants for the improvement of housing units and will be regarded as an individual housing subsidy allocation. The work is only done after the dwellings are assessed and verified by a structural engineer who will do the necessary design work and</p>

No.	Programme	Description of the programme	Recipient of funds	Classification in line with the ERF	Commentary on classification
13.a)	Housing Chapters of the IDP	The programme provides for the inclusion of housing planning in the IDP process and suggests an approach to the formulation of the Housing Chapters in the IDPs	Municipality	Municipal Bank Accounts	prescribe precautionary work that may be required and support the rectification work.
13.b)	Housing Chapters of the IDP	The programme provides for the inclusion of housing planning in the IDP process and suggests an approach to the formulation of the Housing Chapters in the IDPs	Professional service providers such as Lawyers and Conveyancers	Goods and services item/s such as Legal Services	The Province appoints professional service providers for the compilation of housing chapters as part of the IDP process, to inform multi-year housing development plans of provincial sphere of government and specify which aspects of housing demand are made a priority
14.a)	Human Settlements Development Grant: Land acquisition	Purchase of land: Hectares of well-located land acquired for development of housing opportunities.	Municipality	Municipal Bank Accounts	The Municipality or Traditional council is responsible for the project. The department transfers funds to the Municipality which is responsible and accountable to acquire land. It provides the funds to the Municipality
14.b)	Human Settlements Development Grant: Land acquisition	Purchase of land: Hectares of well-located land acquired for development of housing opportunities.	Seller	Inventory	The province utilises the funds to acquire land for housing construction. Department is procuring land for construction of houses to be transferred to municipalities.

Annexure B: Example of the Financial Statements and Annexure during and after the Transitional Period

1. Background

The examples of classification to *Inventory: Assets for distribution* and *Transfers and subsidies: Municipal bank accounts* are used for illustrative purposes only and are not exhaustive classification items. There may be other classification items which that are applicable to a Department of Human Settlements.

2. Table of classification examples up to 2022/23

At the year-ends specified below, the Provincial Department of Human Settlements (PDHS) had the following amounts relating to construction of social houses for distribution to beneficiaries:

Year	Description	Amount* R'000	Classification in Financial Statements: DHS special dispensation	Classification: according to the ERF principles#	Annexure / Financial Statements
2019/20	Completed Social houses constructed by a service provider for distribution to beneficiaries	R80,000	Transfers and subsidies: Transfers to households	Inventory: Assets for distribution	No Annexure 10
2019/20	Payment to Level 2 Accredited Municipality to fund operations of the Municipality	R10,000	Transfers and subsidies: Transfers to households	Transfers and Subsidies: Municipal Bank Accounts	No Annexure 10
2020/21	Completed Social houses constructed by a service provider for distribution to beneficiaries	R81,000	Transfers and subsidies: Transfers to households	Inventory: Assets for distribution	Annexure 10
2020/21	Payment to Level 2 Accredited Municipality to fund operations of the Municipality	R11,000	Transfers and subsidies: Transfers to households	Transfers and Subsidies: Municipal Bank Accounts	Annexure 10
2021/22	Completed Social houses constructed by a service provider for distribution to beneficiaries	R82,000	Transfers and subsidies: Transfers to households	Inventory: Assets for distribution	Annexure 10
2021/22	Payment to Level 2 Accredited Municipality to fund operations of the Municipality	R12,000	Transfers and subsidies: Transfers to households	Transfers and Subsidies: Municipal Bank Accounts	Annexure 10
2022/23	Completed Social houses constructed by a service provider for distribution to beneficiaries	R83,000	DHS special dispensation no longer applicable	Inventory: Assets for distribution	Disclose in the Statement of Financial Performance and related Notes

Year	Description	Amount* R'000	Classification in Financial Statements: DHS special dispensation	Classification: according to the ERF principles#	Annexure / Financial Statements
2022/23	Payment to Level 2 Accredited Municipality to fund operations of the Municipality	R13,000	DHS special dispensation no longer applicable	Transfers and Subsidies: Municipal Bank Accounts	Disclose in the Statement of Financial Performance and related Notes

Legend:

If Departments of Human Settlements did not have a special dispensation applicable up to 31 March 2022, this would be the correct classification.

* Assumed to be the only expenditure for this item for purposes of this example.

- a) Annexure applicable to Human Settlements Departments ONLY.
- b) Annexure effective from 1 April 2020. No comparatives required for 2020/21.
- c) Comparatives are required in the annexure for 2021/22.
- d) Annexure information of 2021/22 should be used as comparatives in the 2022/23 financial statements.

3. Reporting in the Financial Statements or Annexure

The information will be reported or disclosed as follows in the Annexure or financial statements of the respective financial year:

2019/20

Annexure 10 on Department of Human Settlements housing-related expenditure classification is not required for 2019/20.

2020/21

**ANNEXURE 10
DEPARTMENT OF HUMAN SETTLEMENTS HOUSING RELATED EXPENDITURE
CLASSIFICATION**

	2020/21 R'000	
Inventories		Comparatives not required
Assets for distribution	81 000	
Subtotal	81 000	
Transfers and subsidies		
Provinces and municipalities	11 000	
Subtotal	11 000	
TOTAL	92 000	

Include discussion here where deemed relevant

Commitments

	Note	2020/21 R'000	Comparatives not required
Capital commitments (Specify categories)			
Total Commitments			

Indicate whether a commitment is for longer than a year.

2021/22

**ANNEXURE 10
DEPARTMENT OF HUMAN SETTLEMENTS HOUSING RELATED EXPENDITURE
CLASSIFICATION**

	2021/22 R'000	2020/21 R'000
Inventories	82 000	81 000
Assets for distribution		
Subtotal	82 000	81 000
Transfers and subsidies	12 000	11 000
Provinces and municipalities		
Subtotal	12 000	11 000
TOTAL	94 000	92 000

Include discussion here where deemed relevant

Commitments

	Note	2021/22 R'000	2020/21 R'000
Capital commitments (Specify categories)			

Total Commitments

Indicate whether a commitment is for longer than a year.

2022/23

Implementation Year - No Annexure 10

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2023**

6.4 Inventory

[Expenditure par .15(f)]

	Note	2022/23 R'000	2021/22 R'000
Assets for distribution	6	83 000	82 000
Total		83 000	82 000

Include discussion here where deemed relevant

9. Transfers and subsidies

[Expenditure par .18(a) – (b)]

	Note	2022/23 R'000	2021/22 R'000
Provinces and municipalities	48, 49	13 000	12 000
Total		13 000	12 000

Include discussion here where deemed relevant

Commitments

	Note	2022/23 R'000	2021/22 R'000
Capital commitments (Specify categories)		_____	_____
Total Commitments		_____	_____

Include discussion here where deemed relevant.

4. Summary of reporting in the different financial years

The following picture summarises of the impact of the classification change in the financial statements and the Annexure for the financial years beginning on 1 April 2020.

APPROACH FOR THE DEPARTMENTS OF HUMAN SETTLEMENTS HOUSING RELATED EXPENDITURE CLASSIFICATION CHANGE

Statement of Financial Performance

	Year end 31 March 2021		Year end 31 March 2022		Year end 31 March 2023	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
	2020/21	2019/20	2021/22	2020/21	2022/23	2021/22
	R000	R000	R000	R000	R000	R000
Current expenditure	-	-	-	-	83,000	-
Transfers and Subsidies	92,000	-	94,000	92,000	13,000	94,000

Notes to the Annual Financial Statements

	Year end 31 March 2021		Year end 31 March 2022		Year end 31 March 2023	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
	2020/21	2019/20	2021/22	2020/21	2022/23	2021/22
	R000	R000	R000	R000	R000	R000
Inventory						
Assets for distribution	-	-	-	-	83,000	-
Total	-	-	-	-	83,000	-
Transfers and Subsidies						
Provinces and municipalities	-	-	-	-	13,000	-
Households	92,000	-	94,000	92,000	-	94,000
Total	92,000	-	94,000	92,000	13,000	94,000

Annexure 10: DEPARTMENT OF HUMAN SETTLEMENTS HOUSING RELATED EXPENDITURE CLASSIFICATION

	Year end 31 March 2021		Year end 31 March 2022		Year end 31 March 2023	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
	2020/21	2019/20	2021/22	2020/21	2022/23	2021/22
	R000	R000	R000	R000	R000	R000
Inventory						
<i>Specify correctly classified expenditure</i>						
Assets for distribution	81,000		82,000	81,000		
Sub Total	81,000		82,000	81,000		
Goods and services (other than Inventory)						
<i>Specify correctly classified expenditure</i>						
Sub Total	-		-	-		
Expenditure for capital assets						
<i>Specify correctly classified expenditure</i>						
Sub Total	-		-	-		
Transfers and subsidies						
<i>Specify correctly classified expenditure</i>						
Provinces and municipalities	11,000		12,000	11,000		
Sub Total	11,000		12,000	11,000		
Total	92,000		94,000	92,000		