



Reporting on COVID-19 using the *m*SCOA chart

The purpose of this circular is to provide guidance to municipalities on how to report on the COVID-19 specific funding allocations and expenditure using the Municipal Chart of Accounts (*m*SCOA).

This circular must be read in conjunction within the framework of the Disaster Management Act, 2002, all applicable COVID-19 Regulations and circulars (in particular the annexure to MFMA Circular No. 99 dated 8 April 2020) and the National Treasury Instruction No. 05 of 2020/21. Municipalities should also refer to *m*SCOA Circular No 7 (dated 2 March 2020) for guidance on how to budget, transact and report for Construction Work in Progress (CWIP) in the *m*SCOA chart in cases where construction projects are being delayed due to COVID-19.

Importantly, this guidance is provided in respect of the current legislative reporting requirements and does not pertain to the manual weekly COVID-19 reporting to National and Provincial Treasuries. The weekly reporting is an interim arrangement that will continue to allow NT and PTs to monitor COVID-19 related expenditure during the crisis period.

Any queries relating to the guidance provided in this circular must be logged on the *m*SCOA Frequently Asked Questions (*m*SCOA FAQ) Database. The database can be accessed on the *m*SCOA website on the following link:

<http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx>

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1. Introduction

Since the declaration of the National State of Disaster on 15 March 2020, municipalities have been required to perform certain essential and emergency municipal services to address, prevent and combat the spread of COVID -19 in South Africa.

To ensure the proper oversight and monitoring of COVID-19 related expenditure, municipal Accounting Officers and Chief Financial Officers must ensure that internal controls are in place to ascertain that expenditure is authorised, valid, complete, accurate and correctly classified.

The multi-dimensional nature of the chart provides for any combination of segments to be used for reporting purposes if the chart is used correctly. This circular provides guidance on which posting levels must be created under the relevant categories and which segments must be used to record COVID-19 funding and spending. This will enable municipalities to identify and report on COVID-19 expenditure and related projects.

Accounting Officers should also ensure that appropriate delegations of authority related to budgeting, revenue, procurement and expenditure control management are in place during the COVID-19 pandemic. Financial records must also be kept up to date and budgets, reporting and financial statements must be submitted in line with the MFMA deadlines or any exemptions granted thereof.

2. Funding of COVID-19 expenditure

The Minister of Finance issued a conditional Exemption Notice in terms of section 177(1)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) on 30 March 2020 to facilitate and enable the performance of legislative responsibilities by municipalities and municipal entities during the national state of disaster. To respond to the COVID-19 pandemic, municipalities may be required to expand their scope of basic services and free basic services to respond directly to the socio-economic impacts of the pandemic and prevent the transmission of communicable diseases.

Considering that South Africa is facing tough economic times compounded by the COVID-19 pandemic and the down grading of the economy, municipalities should anticipate lower consumer affordability levels, reduced revenues and cash reserves, despite the additional COVID-19 expenses. In response to the impact of COVID-19, municipalities should firstly reprioritise their 2019/20 and 2020/21 MTREF budgets, secondly reconsider the manner in which grants will be used in both these MTREF periods (i.e. the repurposing of grants), and lastly anticipate/obtain additional funding from National Government, donors and borrowing.

Reprioritising own budgets

Municipalities must assess the immediate, short- and medium-term financial impact of COVID-19, identify the financial risks and take action to mitigate the financial risk and ensure financial sustainability. The existing Long-Term Financial Model (LTFM) can be utilised to forecast the likely financial impact of COVID-19 on the municipality and to reposition your municipality for economic recovery.

In addition, municipalities need to reprioritise their 2019/20 and 2020/21 MTREF budgets to align their expenditure to available revenue. Value for money and productivity must be maximized and tough decisions needs to be taken.

Collection rates and expenditure must be closely monitored and municipalities should continue billing consumers. Importantly, municipalities should continue to perform their core mandate and not spend on unfunded or under-funded mandates. It should be emphasized that National and Provincial Treasuries will not bail out any municipality that cannot pay their commitments and municipalities, therefore, should not over commit themselves.

Capital budgets also need to be reprioritised within the affordable envelope as per the municipality's Long-Term Financial Strategy. Municipalities are also cautioned to exercise prudence when taking decisions with long-term consequences (e.g. recruitment, additional service obligations, service delivery choices).

Importantly, the Integrated Development Plans (IDP) and SDBIP must also be revised to reflect the reprioritisation of the 2019/20 and 2020/21 MTREF budgets.

Repurposing of existing grants

Some COVID-19 related projects had to be implemented urgently (such as provision of water infrastructure) and a number of grant funded projects had to be postponed and restructured due to the nationwide lockdown and will therefore not be fully spent by year-end. In light of this, a portion of the Division of Revenue Act (DoRA) allocations for the 2019/20 financial year may be repurposed.

What does it mean to repurpose a conditional grant?

In terms of section 20(6) of the Division of Revenue Act, 2019 (Act No.16 of 2019) (DoRA), National Treasury may approve that a conditional allocation (schedule 4, 5, and 6 or a portion thereof) be reallocated to pay for the alleviation of the impact of a declared disaster or the reconstruction or rehabilitation of infrastructure damage caused by a declared disaster. The Act further requires that before National Treasury approves, the receiving officer of the conditional allocation listed under schedules 4 or 5 must confirm that the affected funds are not committed in terms of any statutory or contractual obligation.

The following DoRA grants have been repurposed through section 20(6) of the 2019/20 DoRA:

- R306 million of Rural Bulk Infrastructure Grant (RBIG) funding can be utilised for water tanks in the 2020/21 national financial year for delivery by the transferring department responsible for the RBIG;
- R151 million has been approved from the 2020/21 Municipal Disaster Relief Grant to support non-metropolitan municipalities with the costs of sanitisation, and increased provision of other municipal services;
- Approximately R2 billion in Urban Settlements Development Grant (USDG) may be used for informal settlements;
- Public Transport Network Grant (PTNG) can be reprioritised up to 15 per cent; and

- Allocations of approximately R1.5 billion in respect of the Municipal Infrastructure Grant (MIG), Water Services Infrastructure and the Integrated Urban Development Grants are currently being processed.

Municipalities had to write to National Treasury by 17 April 2020 to confirm what amount they wish to have repurposed. The re-allocation of conditional grants for the relief of the COVID-19 pandemic will still be subjected to the reporting requirements of section 11 of DoRA, the provisions of the grant framework and the conditions prescribed by the transferring department in terms of Section 20(6)(d) of the Act. Importantly, in terms of clause 20(6)(c) of DoRA the funds must be used in 2019/20, but are subject to the roll-over provisions of the Act. To utilise the existing grant funding for the purposes listed above, reprioritisation within existing business plans must be done and the respective transferring officers will advise municipalities on the process in this regard.

Additional funding to respond to COVID-19

Grant funding/equitable share allocations:

Municipalities have been responsible for implementing many aspects of the COVID-19 response. In his address to the Nation on 20 April 2020, the President said that, *additional funding of R20 billion will therefore be made available to municipalities for the provision of emergency water supply, increased sanitisation of public transport, etc.* This R20 billion is likely to include additions through the local government equitable share and additions and reprioritisations within selected conditional grants that have already been allocated to municipalities.

Details on the allocation of the R20 billion will be made available through the 2020/21 adjusted DoRA once the national 2020/21 adjustment budget has been appropriated.

Borrowing:

When reprioritising the 2019/20 and 2020/21 MTREF budgets, some municipalities might experience budget shortfalls and challenges to pay their financial commitment or implement their capital budgets. Municipalities are cautioned to be prudent and avoid any frivolous short-term borrowings to fund operational expenses and to give careful consideration to the affordability of the borrowing. This is within the context of the poor economic conditions and increased inability of consumers to pay for services rendered which will lead to under-collection of revenue.

Municipalities are also reminded of the following provisions of the MFMA in this regard:

Short-term debt (Overdraft):

In terms of Section 45(1) of the MFMA, a municipality may only incur short-term debt to bridge shortfalls within the financial year during which the debt is incurred:

- In expectation of specific and realistic anticipated income to be received within that financial year; or
- For capital needs that will be repaid from specific funds to be received from enforceable allocations or long-term debt commitments within that financial year.

A municipality **must** pay off short-term debt within the financial year and may not renew or refinance short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year.

Long-term debt:

Section 46(1) of the MFMA states that a municipality may incur long-term debt only for the purpose of capital expenditure or to re-financing existing long-term debt.

A municipality must adjust the revenue and expenditure estimates in an approved annual budget downwards through an adjustments budget if there is material under-collection of revenue during the current year in terms of section 28(2) of the MFMA. Additional revenues that have become available over and above those anticipated in the annual budget may also be appropriated, ***but only to revise or accelerate spending programmes already budgeted*** for and if ***sufficient funds are available for the increase without incurring further borrowing beyond the annual budget limit***. New capital projects can therefore not be included in the adjustments budget, unless provided for in terms of section 28(2) of the MFMA.

Based on National Treasury's analysis, all municipalities with existing long terms loans will be able to honour their redemption and interest repayments in June 2020. However, should a municipality not be able to do so, they need to negotiate a payment arrangement with the respective financial institution. Guidance on the Refinancing of existing loans has been provided in the original MFMA Circular No. 99 dated 9 March 2020.

Donations and sponsorship:

Regulation 48 of the Municipal Supply Chain Management Regulations provides that the accounting officer of a municipality or municipal entity must promptly disclose to the National Treasury and the relevant provincial treasury any sponsorships promised, offered or granted to the municipality or municipal entity. Municipalities or municipal entities are reminded to report all donations/sponsorships received from the local or international donor community to the National Treasury and the relevant provincial treasury within 30 days of receipt, as part of the envisaged reporting in terms of MFMA Circular No. 100.

3. Categories of COVID-19 reporting

It should be noted that the weekly manual COVID-19 reporting by municipalities to National and Provincial Treasuries does not replace the legislated and regulated reporting. The weekly COVID-19 reporting is based on expenditure within the following five categories and as per the items listed below.

1. **General** including employee related costs, overtime, travel and subsistence, danger allowance, overdraft facilities, flu vaccine to staff, protective clothing (other general workers not only health workers), sanitisation of office building, litigations relating to COVID-19 and other;
2. **Community and Social Services**, including tankering of water, chemical toilets, feeding of homeless/ food distribution, sanitisation of taxi ranks/ public facilities/ inner cities, community and awareness campaigns, cemetery sites and preparation, community and social services and other;

3. **Public Safety**, including Implementing roadblocks, monitoring of burial sites, monitoring informal settlements/ relocations, monitoring during social grant payments, provision for massive pauper burials, identification of specific mortuaries for COVID-19 related corpses, security, metro police and other;
4. **Housing**, including provision for the homeless, quarantine facilities, hired venues, hired/ bought tents, temporary relocation areas, decanting of informal settlements, installation of VIP toilets (informal settlements), provision of waste containers for informal settlements and other; and
5. **Health**, including cost of tracing, mobile testing, screening and testing, inventory (gloves, sterile goggles/face-shields/visors, respirators, surgical masks, boot covers, aprons, gowns, sanitisers, biohazard bags), ventilators, flu vaccines, disinfectants, cleansing costs, decontamination of affected premises, disposal of healthcare waste and other.

To ensure that consistency is applied when municipalities reflect the expenditure that are reported weekly to National and Provincial Treasuries in their financials systems, guidance is provided on linking manual weekly reporting on COVID-19 expenditure to the *m*SCOA segments in **Annexure A**.

4. How to use the *m*SCOA Chart to record COVID-19 related allocations and expenditure

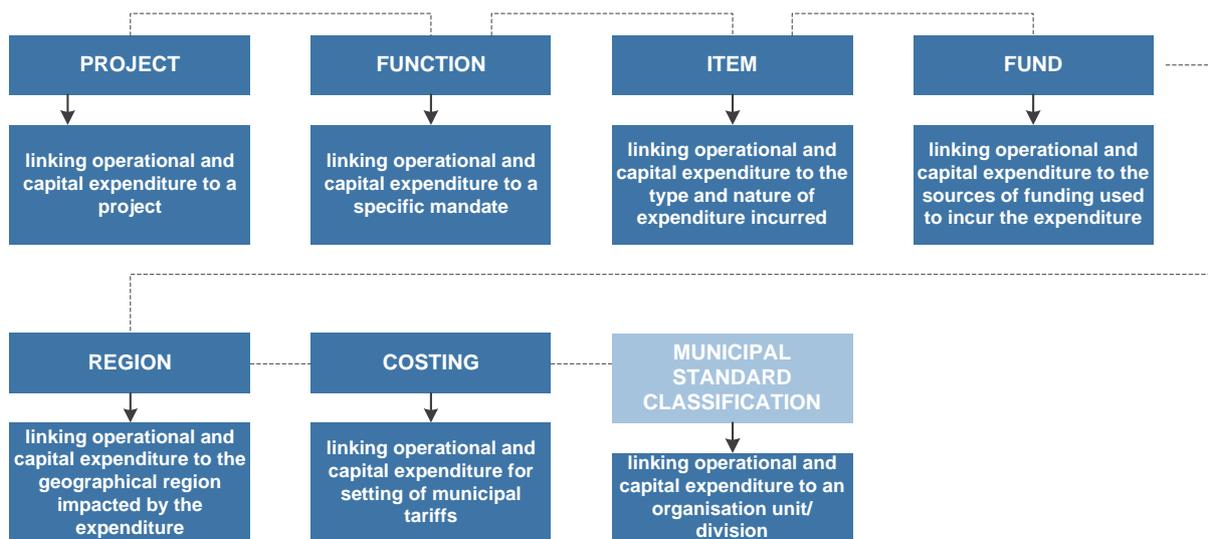
*m*SCOA prescribes the detailed (posting-level) accounts that must be used to capture transactions in the financial systems. To identify and report on COVID-19, municipalities should use the relevant *m*SCOA segments to record allocations and spending relating to the COVID-19 by using posting levels under the relevant category. Spending in the other regulated segment is recorded against the various appropriate categories depending on the department's use for the items or services procured.

The chart allows for the creation of projects and sub-projects such as COVID-19 and its related expenditure and whether it is funded from the equitable share, conditional grants, own revenue or other sources of funding. Details on specific COVID-19 expenditure items (such as masks, ventilators, etc. which will be reported as a collective item under inventory) are captured in the municipal sub-systems. It should be noted that municipalities can also use the expenditure item for uniform and protective clothing under operational costs for direct purchases. If the purchase is through inventory, then inventory consumed for the Item-Expenditure segment will be used.

If the Project segment is combined with the other *m*SCOA segments, in particular the project, fund and item segments, COVID-19 related allocations and expenditure can be ring fenced for monitoring and reporting purposes. **Therefore, there is no need to make changes to versions 6.3 and 6.4 of the chart to accommodate COVID-19 items if the municipal chart of accounts is used correctly.** Guidance on the use of the *m*SCOA segments to monitor and report on COVID-19 is provided below.

The seven mSCOA segments

The diagram below summarises the seven segments of *m*SCOA. All segments except for the Municipal Classification Framework are regulated. It should be emphasized that data streams follow a specific order of relevance, as indicated below.



Project Segment:

Step 1: Include COVID-19 in IDP

The Project segment links the projects in the IDP to the budget, thereby allowing for the monitoring of COVID-19 project **expenditure**.

For the remainder of the 2019/20 financial year, municipalities are required to reprioritise their 2019/20 IDP and MTREF budgets to respond to COVID-19. Towards this end, COVID-19 must be included as a project in the 2019/20 IDP, 2019/20 adjusted Project File (PRAD) and 2019/20 special adjustments budget (ADJB). Municipalities should refer the Annexure to MFMA Circular No. 99 dated 8 April 2020 and point 5 of this circular for guidance on the special adjustments budget.

For the 2020/21 MTREF, COVID-19 should be included as a project in the 2020/21 revised IDP, Project File (PROR) and adopted budget (ORGB).

Details on the maintenance projects budgeted for in the MTREF that relates to COVID-19 must be identified in the Project File.

Step 2: Create a COVID-19 project and sub-projects in the project segment

The creation of a COVID-19 project will depend on whether the project is a capital, operational or default project. It is anticipated that the COVID-19 related expenditure will mainly be operational.

Operating projects:

The mSCOA chart makes provision for Disaster Management projects under the account number: Operational: Typical Work Streams: Emergency and Disaster Management: Disaster Management. Breakdown must be provided to indicated that it is COVID-19 related project. The sub-projects should be created as per the COVID-19 categories and items listed under paragraph 3 above. In this regard, those categories that are projects such as

the provision for the homeless and implementing roadblocks should be used as sub- projects but where a category is an item, it should be recorded in the items segment.

Repairs and maintenance is classified under operational projects and the *mSCOA* chart structure must be followed to determine the type of maintenance. Thereafter, breakdown must be provided to indicate that it is COVID-19 related maintenance.

Capital projects:

Capital projects must be created as per asset class and the breakdown must indicate that it is a COVID-19 project. Any assets purchased for COVID-19 purposes will become part of the Fixed Assets of the municipality. If the municipality has undertaken capital expenditure with the aim of transferring such an asset to another sphere of government, the expenditure must first meet the recognition criteria as per GRAP 17 to be capitalised in the books of the municipality before transfer. Council must approve the transfer of assets (fixed or moveable). Where District Councils undertake COVID-19 projects on behalf of the Local Municipality they will record the project under Operational: Infrastructure / Operational: Non Infrastructure Project and the breakdown must indicate it's a COVID-19 project. These projects will be capitalised in the books of the Local municipality once completed.

Default projects:

Default transactions are used to record a transaction within all the segments of the *mSCOA*. Revenue, assets (excluding capitalised expenditure), liabilities and net assets must be captured as default projects.

Function Segment:

The function segment links expenditure to a specific mandate. For the purposes of COVID-19, the functions must align to the *mSCOA* chart. The key question to answer in classifying transactions within this segment is *against which function or sub-function should the transaction be recorded?*

In addition, the segment makes distinction between core and non-core functions, also known as funded or un(der)funded mandates and agency services. Any costs related to unfunded mandates must be listed as non-core functions. Municipalities are advised not to incur cost in respect of un(der) funded mandates unless a service level agreement is signed to recover costs where unfunded/ underfunded mandates are performed on behalf of other spheres of government. However, it will not constitute an unfunded/ underfunded mandate if the municipality provides services beyond what is stipulated in the service level agreement.

What constitutes a funded mandate?

Section 153 of the Constitution requires that budgeting processes must prioritise the basic needs of the community. Municipalities must therefore prioritise the provision of basic services such as electricity, water, sanitation and refuse removal in their MTREF budgets. Municipality may only budget for non-core functions such as crèches, sports fields, libraries, museums, health services, etc. if:

- The function is listed in Schedule 4B and 5B of the Constitution;
- The function is assigned to municipality in terms of national and provincial legislation;
- The municipality has prioritised the provision of basic services; and
- It does not jeopardise the financial viability of the municipality.

Extract from Municipal Budget Circular for the 2015/16 MTREF 12 December 2014

Item segment

The item segment specifies the type and nature of expenditure incurred. The expenditure items under the five COVID-19 categories reported on in the weekly reporting to National and Provincial Treasuries (see paragraph 3 above) must be used to classify COVID-19 expenditure in the item segment, where applicable.

Whether it relates to the purchasing of non-current assets, inventory or operational expenditure, the data string must be linked to the COVID-19 projects per function that was created under the project segment. Importantly, a balanced data string must be provided.

Funding Segment

The Funding segment identifies the various sources of funding available to municipalities for financing expenditure relating to the operation of the municipality for both capital and operational spending. The key question in finding the appropriate classification code for this segment is against *which source of funding is the payment allocated and against which source is revenue received?*

The possible funding sources for the COVID-19 expenditure have been discussed under paragraph 2 of this circular. Municipalities must ensure that the correct funding source is linked to the relevant COVID-19 project that was created in the project segment.

With regards to transfers and subsidies in respect of COVID-19 (including the additional allocations through the local government equitable share added to the municipal disaster relief grant), funding sources must be identified in terms of the institution that provided the funding. The chart makes provision for this. The municipality must ensure that conditional grant accounting principles are correctly applied within the item and funding segment respectively. Furthermore, where existing conditional grants for 2019/20 have been repurposed to respond to COVID-19, it will be effected through a roll-over process.

Therefore, any COVID-19 related expenditure pertaining to 2019/20 and funded through existing conditional grants that have been approved by National Treasury for repurposing and must be included in the special COVID-19 adjustments budget (refer to paragraph 5 of this circular) and the required journals must be done to make the relevant transactional

changes in the general ledger of the financial system. This may impact on the project, function, funding, item, and costing segments.

In the case of donations, the funding source will be the institution that provided the funding as provided for under transfers and subsidies and will be dependent on the approval by National Treasury through the Reconstruction and Development (RDP) Fund. Donations include any sponsorships promised, offered or granted to the municipality or municipal entity, whether directly or through a representative or intermediary, by any person who is (i) a provider or prospective provider of goods or services to the municipality or municipal entity or (ii) a recipient or prospective recipient of goods disposed or to be disposed of by the municipality or municipal entity. Pledges from Councillors, senior management and other employees of the municipality should be treated as normal deductions from salaries and paid in as revenue received. The Revenue transaction must be recorded as Revenue Non-Exchange Transfers and subsidies-operational-monetary allocations-households-cash-unspecified, with the corresponding Funding segment.

Costing and Regional Segments

There are no additional requirements for the use of the costing and regional segments to accommodate COVID-19 transactions and these segments must be used in the same manner as for non-COVID-19 related transactions.

Linking COVID-19 to mSCOA Segments

Examples of how to link mSCOA segments are attached as **Annexure A**.

5. Special Adjustments Budget for the 2019/20 municipal financial year

The Exemption Notice (Gazette No. 43181 dated 30 March 2020) allows municipalities to table a special adjustments budget to address any **expenditure relating to COVID-19** for the current municipal financial year ending 30 June 2020. The annexure to MFMA circular No. 99 dated 09 April 2020 further advises that only one special COVID-19 adjustments budget will be allowed between the date of the declaration of the national state of disaster and 15 June 2020. Municipalities should ensure that **all COVID-19 related expenditure** is authorised in this one special adjustments budget by **15 June 2020**.

This special adjustments budget must be provided to the National Treasury in the required mSCOA data string format as soon as possibly but by no later than 30 June 2020. Municipalities are reminded to also incorporate changes in the 2019/20 Adjustments Budget Appropriation Statement (budget and actual information).

It should be emphasized that the MFMA and Municipal Budget and Reporting Regulations (MBRR) (2009) also allows for the following types of adjustments budgets after 28 February 2020 that is **not** COVID-19 related:

- In terms of MFMA Section 28(2)(b) and MBRR Regulation 23(3), the Mayor must table an adjustments budget within 60 days after the approval of the national government's adjustment budget; and

- Section 29 of the MFMA read together with Chapter 5 of the MBRR set the framework for unforeseen and unavoidable expenditure that is not COVID-19 related. The adjustments budget to authorise unforeseen and unavoidable expenditure that is not COVID-19 related must be tabled within 60 days of the incurrence of the expenditure. It must, however, be emphasised that COVID-19 related expenditure should not be treated as unforeseen and avoidable expenditure.

6. Date of Implementation

Section 65(2)(j) of the MFMA requires that *all financial accounts of the municipality are closed at the end of each month and reconciled with its records* in the core financial system before the monthly data strings are submitted to the local government portal. Section 71 of the MFMA further stipulates that the accounting officer must submit a statement in the prescribed format on the state of the municipality's budget to the national and relevant provincial treasury by the 10th working day of the month. No more transactions should be allowed in the general ledger for the month that has been closed.

Therefore, all COVID-19 related Section 71 expenditure for the period March to May 2020 (i.e. M09 to M11) must be submitted as part of the May 2020 Section 71 data strings by 12 June 2020. Thereafter, any COVID related expenditure, as applicable, must be submitted monthly as part of the Section 71 reporting for that month.

Municipalities are reminded that, as from 01 July 2019, National Treasury only publish the municipal information from the *mSCOA* data string submissions to the Local Government portal.

7. Conclusion

Municipalities must ensure the COVID 19 funding and expenditure are ring fenced (isolated) and classified correctly in terms of the *mSCOA* chart when budgeting and transacting.

This will assist with reporting on COVID-19, as well as with the compilation and disclosure when it comes to the preparation of the Annual Financial Statements (AFS), because the transactions will have to be separately disclosed due to the nature of the transactions in terms of GRAP 1. Municipalities should also consider the disclosure requirements in the Accounting Standard Board guideline on Accounting implications of the COVID-19 crisis.

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