



Municipal Budget Circular on disaster funding framework

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TO: ACCOUNTING OFFICERS OF MUNICIPALITIES AND MUNICIPAL ENTITIES**1 Purpose:**

The purpose of this budget circular is to summarise the sources of funding available for municipalities to respond in terms of the disaster funding provisions in the Division of Revenue Act, 2021 (Act No. 9 of 2021 – “the 2021 DoRA”), Division of Revenue Bill, 2022 (“the 2022 DoRB”), Disaster Management Act, 2002 (Act No. 57 of 2002 - “the DMA”) and Municipal Finance Management Act, 2003 (Act No. 56 of 2003 - “the MFMA”).

2 Background:

Following the severe weather events and the consequent damage caused in various provinces, a national disaster was declared in terms section 27(1) of the Disaster Management Act, 2002. The response, as announced by the President in his address to the nation on 18 April 2022, will be undertaken in a phased approach; the first being immediate humanitarian relief, second phase relates to stabilisation and recovery which includes rehousing people who have lost homes and restoring provision of services; and the third phase will focus on reconstruction and rehabilitation.

3 Available funding sources:

There are four main sources of funding available:

- Reprioritisation within the existing municipal budget;
- Disaster relief/response conditional grants;
- Reallocations within other conditional grants; and
- Utilisation of the contingency reserve for 2022/23.

The first two sources of funding are available to support spending in the remaining months of the current financial year ending June 2022. However, all four sources of funding will be considered as part of the ongoing response to the severe weather events.

3.1 Reprioritisations within the existing municipal budget

Section 56(2)(a) of the DMA provides that when a disaster occurs, the national, provincial and local organs of state may contribute financially to the response efforts, post-disaster recovery and rehabilitation. Municipalities are therefore expected to also contribute from their own resources and budgets. The affected municipalities have probably already begun to reprioritise resources in response to the disaster. Such measures are consistent with the requirements of the DMA. In doing so, municipalities are advised to adhere to the requirements outlined in section 29 of the MFMA. These requirements provide that municipalities may in emergency or other exceptional circumstances authorise unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.

Municipalities are advised to consider the option to use section 29 of the MFMA to fund the response to the disaster in both the 2021/22 and 2022/23 financial years, noting that assessments on the damage and resources required to address them, may take time to be confirmed.

3.2 Disaster response grants

Funds for immediate relief can be applied for from the *Municipal Disaster Response Grant (formerly known as the Municipal Disaster Relief Grant)* (“MDRG”). This grant is provided for

in Schedule 7 to the Division of Revenue Act, which provides for the immediate release of disaster relief funds. The funds from this grant for the 2021/22 financial year are depleted, so the 2022/23 grant allocation of R371.4 million will be the main source of additional funding for immediate relief for municipalities. Applications for funding from the MDRG need to be submitted to the National Disaster Management Centre (NDMC), which assesses the applications and recommends the amount of funding to be released.

A further R175.4 million is available in the *Municipal Emergency Housing Grant* (“MEHG”) for the 2022/23 financial year. Municipalities are required to submit applications to the national Department of Human Settlements (DHS) within 14 days of the agreement by the mayor that a housing emergency exists in terms of section 2.3.1(a) and (b) of the Emergency Housing Programme as per the Housing Code. DHS assesses the applications and recommends the amount of funding to be released to the National Treasury.

Table 1: Funds for immediate relief in 2022/23

	R'000	2022/23
Municipal Disaster Response Grant		371 420
Municipal Emergency Housing Grant		175 412
Total		546 832

Source: *Division of Revenue Bill, 2022*.

The frameworks setting out the grant rules and application process for the *Municipal Disaster Response Grant* and *Municipal Emergency Housing Grant* can be found on pages 207 and 227 of the 2022 DoRB.

As the 2022 DoRB is yet to be enacted (the 2022 DoRB is expected to be enacted in June 2022), only 45 per cent (R246 million) of the R549 million allocated in 2022/23 can be released prior to the enactment of the Bill. This will be done in terms of section 27 of 2021 Division of Revenue Act, which permits the transfer of 45 per cent of the 2022/23 equitable shares and conditional grants to provinces and municipalities before commencement of the DoRA for the 2022/23 financial year.

Schedule 7 allocations can also be converted between provinces and municipalities. Section 21(7), read with section 27, of the 2021 DoRA allows for the conversion of funds between the provincial and municipal *disaster relief* grants and the provincial and municipal *emergency housing* grants if the allocation for one sphere is exhausted and additional funds are needed for that sphere before the allocation for the other sphere is fully used. Such a conversion can be done at the request of the NDMC, or on National Treasury’s initiative, after consulting the NDMC.

As Schedule 7 grants are intended to allow for the rapid transfer of funds, the allocation to each municipality only has to be gazetted after the funds have already been transferred. The provisions allowing for the rapid release of these funds are set out in section 26(3), read with section 27, of the 2021 DoRA. i.e Funds can be released immediately upon approval by the National Treasury.

3.3 Reallocation of conditional grant funds

Funds from any conditional grants to municipalities may also be reallocated to pay for the alleviation of the impact of a classified disaster. Section 20(6)(a), read with section 27 of the 2021 DoRA provides for such a reallocation, if it is requested by both the department that administers that conditional grant and the NDMC. Section 26(6)(b), read with section 27, requires that the receiving officer must confirm that the funds proposed to be reallocated are not already committed before National Treasury can approve such a reallocation. Section 26(6)(c), read with section 27, of the 2021 DoRA, then requires that the funds be used in the same financial year, same sphere and for the same functional area they were originally allocated for. Reprioritised funds can be made subject to new conditions set by the

transferring officer – after consulting the NDMC and receiving approval for the conditions from National Treasury.

Given that municipalities are in the last quarter of the 2021/22 financial year, it is possible that some funds can be repurposed to respond to the disaster especially as in the affected areas, implementation of some projects has been affected by the extreme weather events. The 2022 MTEF conditional grant allocations, as outlined in the 2022 DoRB, also present a wider scope for reprioritisation in 2022/23. The national departments that administer municipal conditional grants will need to do assessments with the receiving municipalities and agree on the amounts that can be repurposed and submit to National Treasury for approval.

Municipalities are advised to balance the need to provide resources for the response to this disaster, while maintaining as much as possible of the planned implementation of projects in the 2022 MTEF as possible.

3.4 Utilisation of the contingency reserve for 2022/23

Following a disaster, the repair and rebuilding of damaged infrastructure is typically funded through ring-fenced allocations in the Adjustment Budget or the next Budget. While the funding sources outlined above emphasise making funding available rapidly to address the immediate impacts of a disaster, it typically takes longer to assess and plan for the rebuilding or repair of damaged infrastructure, as rebuilt infrastructure has to be redesigned so that it will not be vulnerable to damage in a similar disaster in the future. All disaster recovery requests are assessed by the NDMC, and it then recommends to the National Treasury the amounts to be funded.

Because disasters do not necessarily align with the budget process, which allows for funding, in terms of section 30(2)(d) of the PFMA, to be appropriated for unforeseeable and unavoidable expenditure, funding for post-disaster reconstruction and recovery is typically provided for in the contingency reserve.

Despite section 30 of the PFMA, clause 6 of the 2022 Appropriation Bill allows the Minister of Finance to approve expenditure if it cannot be reasonably delayed without negatively affecting service delivery. However, this provision only comes into effect once the Appropriation Bill is enacted. Similar provisions to allow for this type of expenditure in municipalities are provided for in clauses 6(4) and 8(4) of the 2022 DoRB. These clauses provide that if any expenditure from the contingency reserve is approved in terms of section 6 of the 2022 Appropriation Act, any increases to the equitable share or conditional grants to municipalities may be released after the National Treasury has published the additional allocations by notice in the Gazette. The use of these provisions, however, will only come into effect once the 2022 DoRB is enacted.

4 Reporting and monitoring:

4.1 Reporting and monitoring of expenditure and the procurement process

Funding to respond to this disaster will be subject to the procurement processes and reporting conditions. Municipalities are urged to spend funds in line with the applicable conditions and adhere to the relevant reporting requirements in DoRA. Furthermore, municipalities will have to record the expenditure on disaster relief in their respective financial systems. The National Treasury will issue further guidance on the weekly and monthly reporting of disaster relief expenditure in terms of the Municipal Standard Chart of Accounts (*mSCOA*).

The need for increased pro-active governance measures with regard to supply chain management and procurement processes during this time needs to be stressed. Municipalities are advised consider using their internal audit committees to undertake preventative audits for quality assurance on procurement to respond to the effects of the damage caused by the 2022 April floods.

4.2 Real time auditing

The Auditor-General of South Africa (AGSA) will conduct real-time audits on the disaster response funds made available to provide much-needed relief to affected communities. The audits will provide independent assurance on whether public funds have been appropriately accounted for and used for their intended purpose.

A real-time audit is still reactive and, therefore, transactions must take place for the audit to provide independent assurance that the transaction was performed correctly, that the purchased goods or services were of the right quality and that it reached the intended beneficiaries. It must also determine that the transactions that took place complied with the requisite laws and regulations.

In essence, a real-time audit is an early audit aiming to prevent, detect and report on the findings to ensure an immediate response to prevent leakage, potential fraud, financial mismanagement and wastage. Real-time audits will equip municipal accounting officers to act quickly on weaknesses in controls and prevent further losses. They also enable immediate oversight and consequence management.

The focus of the real-time audits will be on:

- Prevention – the AGSA will be testing the implementation of the preventative controls to address the increased risks and significant changes in operations and will report to the accounting officer on the remaining risks;
- Detection – high-risk transactions will be subjected to an audit and any key observations are reported to the accounting officer as soon as they are identified to be addressed before any additional payments are made; and
- Reporting – work done by the AGSA, the outcome thereof and the responses by the accounting officers to any weaknesses identified are reported in a special report.

Through an early audit, the AGSA will provide real-time insights into the management and usage of funds earmarked for disaster relief in accordance with the objectives and targets set for those funds.

5 Dissemination of information contained in this circular:

Accounting officers are requested to bring the contents of this circular to the attention of all relevant municipal officials, municipal entities, councillors and municipal support personnel. There has also been huge interest from the general public on the utilisation of disaster relief funds and hence it will also be imperative that the municipality and municipal entity prepare special detailed reports that must be published on their websites on a monthly basis on projects, spending, and progress made.

6 Notification to the Auditor-General:

A copy of this circular will be submitted to the Auditor-General for notification.

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