



KWAZULU-NATAL PROVINCE

TREASURY
REPUBLIC OF SOUTH AFRICA

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Directorate: HEAD OF DEPARTMENT

Date: 01 August 2022
Enquiries: Miss K. Pillay
Our Ref: 11/6/13/6

**To: MAYORS
MUNICIPAL MANAGERS
CHIEF FINANCIAL OFFICERS
KWAZULU-NATAL MUNICIPALITIES**

Dear Sir/Madam,

PROVINCIAL TREASURY CIRCULAR PT - MF 01 OF 2022/23

REMINDER OF THE 31 AUGUST 2022 DEADLINE FOR SUBMISSION OF GRANT ROLLOVER MOTIVATIONS

I draw your attention to the deadline of **Wednesday, 31 August 2022** for the submission of motivations to National Treasury, regarding the rollover of unspent conditional grants.

In accordance with Section 214 of the Constitution, National Government is required to transfer funds to municipalities in terms of the Division of Revenue Act (DoRA) in order to assist municipalities to exercise their powers and perform their functions.

Section 21 of the 2021 DoRA, in conjunction with the Division of Revenue Amendment Act, 2021 (DoRAA), requires that any conditional grants which are not spent at the end of the municipal financial year must revert to the National Revenue Fund (NRF), unless the rollover of the allocation is approved. The receiving officer is required to prove to the satisfaction of National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

In terms of National Treasury Municipal Finance Management Act (MFMA) Circular 115, when requesting a rollover of unspent conditional allocations in terms of Section 21(2) of the 2021 DoRA, municipalities must supply National Treasury with the information as indicated in the diagram below.

A formal letter addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of Section 21(2) of the 2021 DoRA, which must be signed by the accounting officer.



Note 1: Evidence that work on each project has commenced, applicable to the respective rollover, includes the following:

- Proof that a contractor or service provider was appointed for delivery of the project before 31 March 2022; or
- Proof of project tender and tender submissions published and closed before 31 March 2022 with the appointment of contractor or service provider for delivery of service before 30 June 2022 in cases where **additional funding** was allocated during the course of the final year of the project. Further, municipalities must note the letters issued by National Treasury dated 25 February and 03 March 2022 respectively regarding the Preferential Procurement Regulation, 2017;
- Evidence that all projects linked to the allocation will be fully utilised by 30 June 2023 (Attach cash flow projections for the applicable grant).

Note 2: No conditional grant rollover requests will be considered for municipalities with vacant or acting chief financial officers (CFO) and municipal managers (MM) for a period exceeding 6 months from the date of vacancy. This also includes acting appointments as a result of suspensions of either the MM or CFO that are more than 12 months.

In instances where municipalities have vacant or acting CFO's or MM's positions, evidence must be provided to show that significant action has been taken to fill the vacant positions in a permanent capacity.

Please note that if any of the abovementioned information is not submitted or if the application for the rollover is received by National Treasury (Intergovernmental Relations Division) after the 31 August 2022, the application will be declined.

National Treasury will also take into account the following information when evaluating rollover applications and reserves the right to decline an application if there is non-performance by the municipality in any of the areas listed below:



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Compliance with the in-year reporting requirements in sections 71 and 72 of the MFMA and section 12 of the 2021 DoRA, including the municipal manager and chief financial officer signing-off on the information sent to National Treasury.

Submission of the pre-audited 2021/22 Annual Financial Statements information to National Treasury and Provincial Treasury by 31 August 2022.

Accurate and complete disclosure of grant performance in the pre-audited 2021/22 Annual Financial Statements, (i.e. clear breakdown of grant receipts and spending in the notes to the financial statements).

Cash available in the bank (net position including short term investments) as at 30 June 2022 is equivalent to the amount that is unspent as at the end of the financial year. If the amount that is requested for roll over is not entirely cash backed, such a roll over will not be approved. National Treasury will not approve portions of roll over requests.

Incorporation of the Appropriation Statement as part of the pre-audited annual Financial Statements.

Furthermore, it should be noted that under no circumstances will the National Treasury consider requests to roll-over funds in the following scenarios:

The entire allocation to the municipality will not be considered for rollover. In cases whereby the roll over request is more than 50 per cent of the total allocation National Treasury will approve the rollover amount up to 50 per cent of the 2021/22 allocation.

A municipality may not request a rollover of the same grant for the 3rd consecutive time. Furthermore rollover requests for prior rollovers will not be considered. The municipality must not include previous years unspent conditional grants as a rollover request.

No rollover application will be approved for projects constituted through Regulation 32 of the Municipal Supply Chain Management Regulations. Projects linked to additional funding and disasters are exempted.

No rollover applications will be approved for a portion of an allocation where the proof of commitment for the roll over application is linked to invoices that were issued before or on 31 May 2022. *

* This would imply that grant related expenditure was incurred before year end and if the conditions of the grant were met, then revenue should be recognised against the unspent grant balance before year end thus reducing or eliminating the unspent balance at year end.

Municipalities are required to comply with the norms and standards prescribed by different legislations, e.g. Generally Recognised Accounting Practice (GRAP) Standards, MFMA. Municipalities are however also expected to comply with provisions of DORA that relates to the rollover processes and they must accordingly disclose conditional grant performance in the Pre-Audit 2021/22 Annual Financial



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Statements in order to verify grant expenditure. Notably if a municipality has received a direct grant allocation and is acting as an agent in terms of GRAP 109 – Accounting by Principals and Agents, it is recommended that the municipality clearly disclose grant performance in the note in compliance with GRAP 109, with specific reference to this note in the rollover application letter.

National Treasury will penalise municipalities for non-performance in any of the areas above and municipalities are once again urged to submit complete grant rollover motivations including supporting evidence and accurate pre-audited Annual Financial Statements to National Treasury by the 31 August 2022.

National Treasury will confirm in writing by the 21 October 2022, whether or not the municipality may retain any of the unspent funds as a rollover. Municipalities will be required to appropriate the approved roll over funds in an adjustments budget in terms of Regulation 23 of the Municipal Budget and Reporting Regulations.

National Treasury will communicate the unspent conditional grant amount by the 8 November 2022. In terms of Section 21 of DoRA, Municipalities must within 14 days of receipt of the notice:

- Propose an alternative date for offsetting; or
- Make written submissions why the full or part of the amount should not be offset; and
- Propose an alternative date by which the amount will be paid into the NRF.

Municipalities will be required to repay the remaining unspent conditional grant funds (not subject to a repayment agreement) to the NRF by 18 November 2022 or it will be offset against the municipalities' equitable share allocation to be received on the 7 December 2022.

The failure to fully or appropriately utilise conditional grants negatively impacts the development of infrastructure and the provision of service delivery by the municipalities. It therefore becomes essential that municipalities engage in proper management of conditional grant funding and adhere to the requirements regarding the submission of motivation for rollover. In addition, we have attached a schedule to provide further guidance regarding the conditional grant process as per Section 21 of DoRA, 2021 and NT MFMA circular 115.

Provincial Treasury encourages municipalities to make reference to the Provincial Treasury's publication titled "Guide to Grant Management" for assistance in compiling thorough and complete rollover applications.

Please do not hesitate to contact my office, if you have any questions relating to the above.

Yours faithfully,

Ms. C. Coetzee

Head of Department: KwaZulu-Natal (KZN) Provincial Treasury

CC: Mr. F. Cassimjee: Chief Director: Municipal Finance Management

Mr. J. Hattingh: Chief Director: National Treasury

Attachments:

Annexure 1 – Grant Management Process

Annexure 2 – Summary of Legislation