

Pacific Disaster Risk Finance and Insurance in the Kingdom of Tonga

Post-disaster budget execution guidelines

Secretariat of the Pacific Community





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Suva, Fiji 2015

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About the Pacific Catastrophe Risk Assessment and Financing Initiative

The Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI), is a joint initiative of the World Bank, SPC, and the Asian Development Bank, with financial support from the Government of Japan, the Global Facility for Disaster Reduction and Recovery and the European Union. PCRAFI, launched in 2007, aims to provide Pacific nations with disaster risk assessment and financing tools for enhanced disaster risk management and climate change adaptation.

The Pacific Island countries involved in PCRAFI are: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

The Pacific Disaster Risk Financing and Insurance programme

One component of PCRAFI is the Pacific Disaster Risk Financing and Insurance programme, a programme designed to increase the financial resilience of Pacific Island countries to natural disasters by improving their capacity to meet post-disaster funding needs. Through this programme, advisory services are available for public financial management of natural disasters, including: (i) the development of a national disaster risk financing strategy, recognising the need for ex-ante and ex-post financial tools; (ii) post-disaster budget execution to ensure that funds can be accessed and disbursed easily from the onset of a disaster; and (iii) the insurance of key public assets to contribute to post-disaster reconstruction financing.

For further information, please visit: <http://pcrafi.spc.int>.

Purpose of the guidelines for post disaster financing

The purpose of these guidelines is to provide a desk reference to be used by the staff of the Ministry of Finance and National Planning (MoFNP) and the National Emergency Management Office (NEMO) during a period of disaster response. The guidelines are designed to provide a simple action-checklist to assist in ensuring that funds for disaster relief and recovery from the various financing instruments and sources available are accessed and disbursed as quickly and effectively as possible.

It is important, however, that even in a post-disaster situation, standards of transparency and accountability are not compromised. The guidelines therefore also include references to relevant disaster-related legislation; relevant sections of legislation and regulations, including Treasury Instructions, related to post-disaster financing are provided in Schedules 1, 2 and 3 for ease of further reference.

Annex 1

- Emergency Management Act 2007 (EMA2007)
- Emergency Fund Act 2008 (EFA2008)
- National Disaster Management Plan 2007 (NDMP2007)

Annex 2

- Public Finance Management Act 2002 (PFMA2002)
- Public Finance Management Act (Treasury Instructions) 2010 (PFMATI)

Annex 3

- Public Procurement Regulations 2010 (PPR2010)

Post-disaster budget and finance mobilisation: sources of post-disaster finance

Tonga has a range of post-disaster financing tools available. Table 1 summarises these and indicates the broad timeframes over which each financing instrument may be accessed and utilised for post-disaster financing.

Table 1: Post-disaster finance sources for Tonga

Post-disaster finance sources	Time-frame for access
A1: Ex-ante financing measures in place	See note
National Emergency Fund (EMFA 2008 S4(1))	Short term
Parametric insurance (PCRAFI insurance based on event trigger)	Short term
Traditional insurance (based on damage/losses)	Medium/long term
A2: Ex-ante financing measures: potential	
Contingent-debt financing facility	Short/medium term
B1: Ex-post financing measures in place or available	
Contingency budget (PFMA2002 S122(1))	Short/medium term
Post-Disaster Trust Fund (PFMA2002 S22(1))	Short/medium term
Development partners and international agency assistance and relief	Short/medium term
In-year budget reallocation (PFMA2002 S10(1) and S12(3))	Short/medium term
Domestic credit from banking system	Medium/long term
External credit from international agencies	Medium/long term
Capital budget realignment (domestic and external funds)	Medium/long term
Development partner assistance (reconstruction)	Medium/long term
Tax and other revenue measures	Medium/long term
Note: Short-term – within one month; Medium-term – within two-to-four months; Long-term – beyond four-months	

The responsibilities and legislative mandates for activating/mobilising these various post-disaster finance sources are summarised in Figure 1.

Figure 1: Post-disaster financing options for Tonga

Funding: immediate access		Funding available from week two		Funding available from week three onwards	
<p>Emergency Fund EMFA2008 S4(1); Minimum \$5 million may be appropriated to Emergency Fund each year (EMFA2007 S4(2))</p> <p>Ministry of Finance and National Planning (MoFNP) staff to be assigned to National Emergency Coordination Centre (NECC) to manage expenditure from the Emergency Fund PDTF</p>	<p>Contingency Fund Annual appropriation not exceeding 5% of the Tonga Government Fund (PFMA2002 S12(1)) MoF with approval of Privy Council may allocate to other programmes (PFMA 2002 S12(2)) MoFNP officer(s) assigned to NECC to be accountable for receipts and expenditure records</p>	<p>Budget reallocation a) Within programmes in the same ministry Minister/CEO approval; submits documents to MoFNP MoFNP takes budget action b) Between programmes in the same ministry Minister approves (PFMA2002 S10(1)) CEO submits documents to MoFNP MoFNP takes budget action c) Sequestration from ministry budgets to contingency fund 'Sequester' means the permanent transfer of an appropriated amount of funds from a programme within a Ministry to the Contingency Fund (PFMA 2002 S12(3)). Minister submits to Privy Council for approval (PFMA 2002 S12(3)). CEO submits documents to MoFNP MoFNP takes budget action</p>	<p>PCRAFI insurance Insurance payment triggered by confirmation of parametric insurable event World Bank/PCRAFI/ MoFNP payment received either to Emergency Fund or to the Post Disaster Trust Fund</p>	<p>Specific Post-Disaster Trust Fund Account (PDTF) Post-Disaster Trust Fund (PDTF) may be established by MoFNP under PFMA2002 S22(1) MoFNP to establish PDTF at commercial bank/RBT to receive: • Insurance payment (PCRAFI insurance) • Donations from development partners, communities, businesses, individuals and the Tongan diaspora. MoFNP officer(s) assigned to NECC to be accountable for receipts and expenditure records Expenditure to be incurred in accordance with relevant finance instructions and the provisions of the Ministry of Works, NECC standard operating procedures, section 2.8.4</p>	<p>Development Partner Support a) Immediate donations of cash Funds received to be allocated to PDTF Account Aid Management Division MoFNP to record and monitor MoFNP officer(s) assigned to NECC to be accountable for receipts and expenditure records b) Re-allocation of available project resources Aid Management Division MoFNP to record and monitor MoFNP officer(s) assigned to NECC to be accountable for receipts and expenditure records c) Reconstruction and recovery pledges (additional funds); longer-term programmes Aid Management Division MoFNP to record and monitor MoFNP officer(s) assigned to NECC to be accountable for receipts and expenditure records</p>
<p>Emergency Fund EMFA2008 S4(1); Minimum \$5 million may be appropriated to Emergency Fund each year (EMFA2007 S4(2))</p> <p>Ministry of Finance and National Planning (MoFNP) staff to be assigned to National Emergency Coordination Centre (NECC) to manage expenditure from the Emergency Fund PDTF</p>		<p>MoFNP – Ministry of Finance and National Planning NECC – National Emergency Coordination Centre PDTF – Post-Disaster Trust Fund RBT – Reserve Bank of Tonga</p>			

Post-disaster budget, financing and procurement processes

Budget and financing

The standard budget management processes are set out in the PFMA2002 and Treasury Instructions 2010; relevant passages from these documents are included at Annex 2. These regulations/processes remain in force unless specifically suspended or varied in accordance with an interim emergency instruction (IEI) or other directive issued by the Minister for Finance under PFMA2002.

Following a state of emergency

When a **state of emergency** has been declared under the Emergency Management Act 2007, the Minister for Finance, under section 45 of the PFMA2002, may issue an IEI governing receipts, disbursements and accounting for public funds and public resources during the disaster period. The minister may also authorise a temporary suspension of some or all of the provisions contained in the Treasury Instructions in addition to, or in place of, an IEI.

If invoked by the minister, the detailed provisions of the IEI and/or the suspension of sections of Treasury Instructions must be clearly and properly documented, and communicated to all relevant ministries, departments and agencies.

The issue of an IEI or the temporary suspension/variation of provisions in Treasury Instructions will be intended to facilitate a rapid response to a disaster situation. Nothing in these instruments should be allowed to detract from the need for transparency and accountability in public expenditure.

The IEI and the suspension of Treasury Instructions issued under the State of Emergency will remain in force until cancelled by the Minister.

Post-disaster budget execution

The Ministry of Finance and National Planning has overall responsibility for coordinating the financial response to a disaster and for ensuring that transparency and accountability are maintained within the disaster response framework.

Once a **state of emergency** has been declared and the Emergency Management Plan has been invoked, the ministry has the following specific responsibilities under the plan:

- a. management of the financial aspects of relief operations, including the recording of donor contributions;
- b. preparation of a financial record of expenditure following major operations;
- c. assistance in the co-ordination of the recovery and reconstruction process; and
- d. provision of a representative to the National Emergency Operations Committee.

Centralising all post-disaster finance and procurement through a single Post Disaster Trust Fund account is central to achieving this objective. This enables the sources and disposition of all disaster-related expenditure to be easily tracked and accounted for.¹

¹ Although this has been effective for disbursing funds, the final accounts of the PDTFs set up for the tsunami (2009) and Tropical Cyclone Ian (2014) have not been published separately from the audited accounts of government.

Emergency procurement procedures

Standard procurement processes are documented in the Public Procurement Regulations (PPR) 2010.

When a **state of emergency** has been declared, the standard procurement procedures may be varied through: a) the issuance of an interim emergency instruction; or b) through the suspension or waiving of specific provisions in the regulations in accordance with PFMATI Part 4.

During a post-disaster situation, staff may use limited bidding, detailed in section 25 of PPR 2010. Relevant passages from PPR 2010 are in Annex 3.

Guide to post-disaster budget execution

The process steps and action responsibilities for post-disaster budget execution and procurement are summarised in Table 2.

Table 2: Guide to post-disaster budget execution following a declaration of a state of emergency in Tonga

Process step		Action
Upon declaration, the Chief Executive Officer of the Ministry of Finance and Planning nominates staff for secondment to the National Emergency Management Office as required by the Emergency Management Plan.		
Procedural steps	Interim emergency instruction (IEI) to govern the process for receipts, disbursements and accounting for public funds in the emergency situation (PFMATI2010 S34)	<p>The Minister for Finance may issue an IEI detailing how standard budget processes may be varied to expedite disaster response.</p> <p>MoFNP publishes/circulates IEI to all ministries/ departments/agencies (MDAs) for information and compliance.</p> <p>MoFNP staff prepare and circulate any revised forms or instructions for accounting, procurement or acquittal processes as necessary.</p>
	Temporary suspension of some or all of the provisions contained in Treasury Instructions (PFMATI2010 S34).	<p>The Minister for Finance may issue a notice of any suspension and/or variation of Treasury Instructions to expedite disaster-related procurement and payments. This may be used instead of, or in addition to, the issue of an IEI.</p> <p>Notice of any variation/suspension in Treasury Instructions is circulated to ministries/departments/agencies for information and compliance.</p> <p>MoFNP staff prepare and circulate any revised forms or instructions for accounting, procurement or acquittal processes as necessary.</p>
	A post-disaster trust fund (PDTF) may be established to receive donations from the public, businesses and other sources, e.g. PCRAFI Insurance payment (PFMA2002 S22(1) and (2))	<p>MoFNP opens PDTF account (Reserve Bank of Tonga or commercial bank).</p> <p>MoFNP, in consultation with the National Emergency Management Office, allocates funds from the PDTF to individual ministry/department/agency budget lines.</p> <p>MoFNP maintains records of all expenditure from the PDTF and/or the allocation of expenditure authority to ministries/ departments/agencies (MDAs).</p> <p>MoFNP maintains bank reconciliation on a daily/weekly basis.</p> <p>MoFNP Aid Management Division records donor contributions to PDTF.</p>

Expenditure management	Emergency Management Fund (EMF); Minister for Finance may authorise transfer of funds from the EMF to the PDTF	MoFNP transfers funds from the Emergency Management Fund to PDTF. MoFNP records all transactions into and out of PDTF.
	Contingency Fund ; funds may be allocated from the Contingency Fund to individual ministries/departments/agencies (MDAs).	MDAs request funds from the Contingency Fund. MoFNP reviews and checks applications for release of contingency funds; on approval by the Minister for Finance, processes requests to Cabinet and Privy Council for final approval. MoFNP officer maintains records of all expenditure from the Contingency Fund and/or the allocation of expenditure authority to MDAs. MDAs file a copy of all disaster-related transfers from the Contingency Fund or a post-disaster trust fund. Any budget variations are recorded in MDA expenditure votes/SunSystem and reconciled with MoFNP for supplementary appropriation as necessary.
	PCRAFI insurance	MoFNP submits request for payment to World Bank under the PCRAFI Insurance facility. MoFNP credits insurance payment to PDTF (or other appropriate account) when received.
	Budget reallocation ; funds may be reallocated between budget lines or sequestered to the contingency fund	Ministries/ departments/agencies (MDAs) may make virement of funds to meet post-disaster expenditure. Unless otherwise authorised by IEI: <ul style="list-style-type: none"> • CEOs may vire funds within a programme; • CEOs may request MoFNP to approve virement of funds between programmes in the same ministry. The Minister for Finance may, with approval of Privy Council, sequester funds from any budget line to the Contingency Fund for reallocation.
Procurement	Emergency procurement of goods and services after state of emergency declaration	MDAs may adopt limited bidding procedures (Procurement Regulations 2010 S25, see Schedule 3 for relevant extract). MDAs should check if pre-approved contractors/ suppliers or supply specifications have been established for any procurement under limited bidding procedures.
	Post-disaster expenditure by ministries/ departments/agencies (MDAs)	MDAs maintain a vote book as prescribed by MoFNP or expenditure is recorded direct to the SunSystem. MDAs must comply with the provisions of any interim emergency instruction or other instruction waiving, suspending or changing Treasury Instructions in the post-disaster period.
	Normal acquittal procedures apply Unless otherwise authorised under an interim emergency instruction or other suspension/ waiver of procedures, the acquittal of post-disaster expenditure must be in accordance with normal process and Treasury Instructions.	MDAs record all payments made in the SunSystem and/or the vote book. MDAs maintain normal vote book as prescribed by Treasury Instructions or in the SunSystem. MDAs reconcile expenditure records or vote books with the MOFNP Treasury Division vote records and/or SunSystem on a monthly basis. The accountable officer for each MDA shall review or assign an appropriate senior officer to review the vote book on a monthly basis to ensure the vote book reconciliation has been carried out, and then sign as evidence of the review.
	Post-disaster supplementary expenditure appropriation	MoFNP prepares a supplementary appropriation bill, where disaster-related expenditure has caused MDA expenditure to exceed original budget appropriations and authorised reallocations within the budget.

Options for consideration

Tonga has a well-established post-disaster response and financing process. Recent experience has, however, suggested that there are opportunities for improvements to be made, which could further enhance the speed and effectiveness of the response.

The following actions are therefore recommended for consideration.

- Develop a model set of interim emergency instructions relating to post-disaster financing and procurement processes so that clear instructions are immediately available for circulation to all stakeholders.
- Ensure that the procurement and accounting staff of the Ministry of Finance and National Planning are integral to the National Emergency Management Committee.
- Develop specifications for a list of core items, such as:
 - o food rations for relief staff and those directly affected by the disaster;
 - o supplies of basic agricultural and maintenance tools;
 - o emergency shelters;
 - o rental vehicles, etc.;
 - o supplies of safety clothing and equipment; and
 - o emergency communications equipment and services.
- Support the development of a list of preferred suppliers/contractors for core items and services (e.g. emergency road clearance and reconstruction, public infrastructure repairs), in order to expedite procurement and minimise costs.

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Annex 1: Legislation for the declaration of a state of emergency or state of disaster

EMERGENCY MANAGEMENT ACT 2007

PART IV – DECLARATION OF STATE OF EMERGENCY

32. Declaration of state of emergency

- (1) The Prime Minister may declare a state of emergency for the Kingdom, or a part of the Kingdom, if satisfied that:
 - (a) an emergency has happened, is happening or may happen in the Kingdom; and
 - (b) it is necessary for emergency powers to be exercised to prevent or minimise:
 - (i) loss of human life;
 - (ii) illness or injury to humans;
 - (iii) property loss or damage; or
 - (iv) damage to the environment.
- (2) A declaration made under subsection (1) applies only to the area specified in the declaration and remains in force for 28 days.

33. Duration of declaration

A state of emergency commences when it is declared and ends 28 days after the day it is declared, unless the Prime Minister ends it earlier.

34. Renewal of declaration

- (1) The Prime Minister may renew the declaration of a state of emergency from time to time for a period of up to 28 days.
- (2) The declaration or its renewal shall be published in such manner as the Prime Minister deems necessary for bringing it to the notice of the public.

35. Expiration of declaration

The declaration ceases to have effect on the expiration of 28 days from the date on which it was made, or if renewed, on the expiration of the time it was renewed for.

EMERGENCY MANAGEMENT FUND ACT 2008

5. (1) The Fund and the accumulated interest shall be used exclusively for the purpose of providing timely and efficient relief and reconstruction in any emergency.
- (2) The Minister shall, with the approval of Cabinet and the consent of Privy Council, and after consultation with the National Emergency Management Committees, authorise expenditure from the Fund for the purposes specified in sub-section (1).
6. The Minister shall, within six months of the commencement of this Act, in consultation with the National Emergency Management Committee and Cabinet, determine criteria for how funds are to be allocated under section 5(1) for relief and reconstruction and such criteria may be amended from time to time.

NATIONAL DISASTER MANAGEMENT PLAN 2007

Roles and Responsibilities

Ministry of Finance and Planning

- Management of the financial aspects of relief operations including the recording of donor contributions
 - Preparation of a financial record of expenditure following major operations
 - Provision of a representative to the National Emergency Management Committee
 - Assistance in the co-ordination of the recovery and reconstruction process.
8. (5) The financial statements shall include the names of each person to whom the Fund has made payment, and the amount paid, during the period to which the financial statements relate.

Annex 2: Public finance management and Treasury Instructions

PUBLIC FINANCE MANAGEMENT ACT (TREASURY INSTRUCTIONS) 2010

PART IV: EXPENDITURE

Section 1 – Authority for Expenditure

13. Expenditure Appropriations

- (1) Authority to spend public money is only conferred upon by the Appropriation Act. Budgetary appropriations shall be spent only on the statutory expenditures.
- (2) Each Accountable Officer shall ensure that every Budgeting Agencies for which he or she is responsible has in place appropriate internal controls to ensure that at any time their expenditure do not exceed the amount appropriated for that specific vote.

14. Authorities to Transfer of Funds

- (1) Where the Accountable Officer considers that amounts specified in the Appropriation Act are insufficient to meet the purpose of the appropriation, a request for additional funds or for the transfer of funds between programs shall be forwarded to the MOFNP by the budgeting agency authorising officer.
- (2) Transfer of appropriations between programs under the same budgeting agencies is granted only if:-
 - (a) the program to which the funds are applied for may not increase its appropriation by more than 10%;
 - (b) the implementation of the program from which the funds are appropriated remains unaffected.
- (3) MDAs shall file a copy of all the related transfers made and approved during the financial year, and record the budget variations in its own vote due to the transfers.

15. Contingency Fund

- (1) Contingency fund shall be maintained and controlled by the MOFNP.
- (2) All applications for contingency fund shall be made in writing in the prescribed application form to the Minister.
- (3) The MOFNP shall review and check applications for contingency funds and upon approval by the Minister, process it to the Cabinet and Privy for final approval.

- (4) MDAs shall file a copy of all the related transfers made and approved during the financial year, and record the budget variations in its own vote due to the transfers.

Adjustment for Contingency Fund (PFMA2002)

- 12.(1) The Estimates presented to the Legislative Assembly shall contain a Vote for a Contingency Fund, with a proposed appropriation not exceeding 5 percent of the Tonga Government Fund.
- (2) Where the Minister considers that expenditure from the Public Fund in any financial year in excess of, or without, appropriation by the Legislative Assembly should be approved, he may with the approval of Privy Council, transfer to one or more nominated programmes from the Contingency Fund such some or sums as he considers necessary up to but not exceeding the amount of the balance from time to time available in the Contingency Fund.
- (3) If, during any review of economic and fiscal performance, the Privy Council determines that it is necessary to redirect spending, the Minister, with the consent of Privy Council, may sequester any amounts from any programme or programmes and such amounts shall made available to the Contingency Fund.

PUBLIC FINANCE MANAGEMENT ACT (TREASURY INSTRUCTIONS) 2010

PART IV: EXPENDITURE

Section 3 – Accounting for Expenditure (PFMATI2010)

31. Recording of Expenditure

- (1) All MDAs shall maintain a vote book as prescribed by the MOFNP or similar expenditure records such the SunSystem.
- (2) All payments for refund/rebate, including CT (consumption tax), shall be immediately recorded in the SunSystem and/or the vote book.

32. Reconciliation of Expenditure Records

- (1) MDAs shall reconcile their expenditure records or vote books with the MOFNP Treasury division's vote records and SunSystem on a monthly basis.
- (2) For those MDAs who maintain a SunSystem, there shall be no need to carry out monthly vote reconciliation. However, they shall frequently check their vote balances in the SunSystem to ensure that all expenses incurred are being recorded.

33. Regular Review of the Expenditure Record

The Accountable Officer shall review or assign appropriate senior officer to review the vote book on a monthly basis to ensure the vote book reconciliation has been carried out, and then sign as evidence of the review.

Section 4 – Emergency Expenditure

34. Interim Emergency Instructions

In the case where a State of Emergency has been declared, the Minister, under section 45 of the PFMA 2002, may issue Interim Emergency Instructions governing receipts, disbursements and accounting for public funds and public resources. This may be in addition to, or temporary suspension of some or all of the provisions contained in these Treasury Instructions. It shall only cease to be operational by the authority and the advice of the Minister.

Annex 3: Emergency Procurement Procedures

The standard procurement regulations and processes may be varied in the following circumstances:

Procurement Regulations

Section 19: Selection of procurement method

- (2) The choice of procurement method shall take into account:
 - (d) the circumstances surrounding the procurement, such as the existence of an emergency need or of situations which might justify use of limited bidding.

Section 20: Competitive Bidding Method

- (2) Methods of procurement other than competitive bidding are permitted only in the circumstances identified in regulations Sections 21 to 26 (see next paragraph).
- (3) When a method of procurement other than competitive bidding is used, the procuring entity shall include in the record of the procurement proceedings a written justification of the decision to utilise the procurement method, including the grounds for taking that decision.

Section 25: Limited Bidding Method

Procuring entities may use the limited bidding method in the following cases:

- (c) for reasons of extreme urgency brought about by events not attributable to and unforeseen by the procuring entity, the products or services could not be obtained in time by means of competitive or selective bidding procedures.

Under this method:

- (a) the procuring entity shall prepare a written description of its needs and any special requirements as to quality, quantity, terms and time of delivery;
- (b) a bid shall be invited from either one, or where possible, more suppliers or contractors;
- (c) where feasible, a time limit as may be given to the bidders to prepare and submit their bids or agreed by mutual agreement;
- (d) the compliance of the offer or offers with the specifications, terms and conditions shall be considered; and
- (e) negotiations to bring down the prices may be carried out if the prices offered are deemed to be excessive or substantially in excess of the prevailing market prices.

Section 52: Methods of selection and conditions for use (of consultants)

- (2) The following methods shall only be used with the prior approval of the Head of a procuring entity:
 - (b) Selection amongst community service organisations (CSO): This method may be used where involvement and knowledge of community needs, local issues, and community participation are paramount in the preparation, implementation and operation of community development projects;
 - (c) Single source selection (SSS): This method shall be used only in exceptional cases, such as:
 - (v) owing to a catastrophic event there is an emergent need of the services;

