



VIREMENT POLICY

2019-2020

1. Background and Purpose

1.1 Each year, the Municipality produces an annual budget which must be approved by Council. In practice, as the year progresses, circumstances may change so that certain estimates are under-budgeted and others over-budgeted due to unforeseen expenditure (for example, due to the occurrence of disasters or savings). As a result, it becomes necessary to transfer funds between votes and line items. It is not practical to refer all transfers between line items within a specific vote to the Council, and as the **Local Government: Municipal Finance Management Act ("MFMA")** is largely silent as to such transfers, it is necessary to establish a policy which governs the administrative transfer between line items.

1.2 The purpose of this policy is therefore to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of certain officials.

1.3 Changing circumstances and priorities during a financial period may give rise to a need for virement (transfer) of funds within or between approved Votes, as defined in the Municipal Finance Management Act 56 of 2003 (MFMA). The treatment of such instances may however be dependent on whether an Adjustments Budget is required or not.

1.4 A virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year.

2. Definitions

1. Virement means the process of transferring an approved budgetary provision from one operating cost element or capital project to another within a vote during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the previous budget adoption.

2. Vote: For ease of reference, the definition of “vote” as contained in Section 1 of the MFMA is set out hereunder:

‘vote’ means –

(a) “one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and

(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.”

3. “Accounting Officer (MFMA)” means the Municipal Manager of the Municipality.

4. “Approved Budget (MFMA)” means an annual budget-

(a) approved by a municipal council; or

(b) approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an Adjustments Budget in terms of section 28.

5. “Chief Financial Officer (MFMA)” is a municipal official designated by the Accounting Officer of the Municipality

6. “Cost Centre” is a cost collector which represents a logical point at which cost (expenditure) is collected and managed by a responsible cost centre owner.

7. “Cost Element” distinguish between primary and secondary cost elements.

(a) Primary cost elements are expenditure items mainly generated outside the organisation.

(b) Secondary cost elements are utilised to reallocate cost by means of assessments, internal billing or activity based recoveries.

8. “Head of Department (Executive Director (MFMA))” - Section 56 of the Municipal Systems Act states inter alia that: “Appointment of managers directly accountable to municipal managers - (a) a municipal council, after consultation with the municipal manager, appoints a manager directly accountable to the municipal manager...”

9. “Financial Year” means a year starting on 1 July and ending on 30 June of the following year.

10. “Line Item” is an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditure.

11. Overspending (MFMA)

“(a) in relation to the budget of a Municipality, means causing the operational or capital expenditure incurred by the Municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

(b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

(c) in relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section;”

12. “Service Delivery and Budget Implementation Plan” means a detailed plan approved by the Mayor of a Municipality in terms of section 53(1)(c)(ii) of the MFMA for implementing the Municipality’s delivery of municipal services and its annual budget.

13. “Unauthorised Expenditure (MFMA)” “in relation to a Municipality, means any expenditure incurred by a Municipality otherwise than in accordance with section 15 or 11(3), and includes:-

(a) overspending of the total amount appropriated in the Municipality's approved budget;

(b) overspending of the total amount appropriated for a vote in the approved budget;

(c) expenditure from a vote unrelated to the department or functional area covered by the vote;

(d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;

(e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or

(f) a grant by the Municipality otherwise than in accordance with this Act;”

14. “mSCOA” Municipal Standard Charts of Accounts

2.1 Background and statutory requirements

2.1.1 The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. A Municipality’s virement policy and its underlying administrative process within the system of delegations is one of these controls. Section 81(1)(d) of the MFMA states inter alia that “The Chief Financial Officer of a Municipality-...must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79:...”

2.1.2 It is the responsibility of each Head of each Department (Vote) to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted and to ensure that funds are utilised effectively and efficiently.

2.1.3 Section 78(1)(b) of the MFMA states inter alia that “Each senior manager of a Municipality and each official of a Municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure... (b) that the financial and other resources of the Municipality are utilised effectively, efficiently, economically and transparently;...”

2.1.4 This policy applies only to transfers between line items within votes of the municipality's operating budget. **No transfers between or from capital projects / items or between departments shall be performed under this policy in compliance with mSCOA regulations.**

Any variations from or adjustments within capital projects or between departments shall be dealt with in terms of the adjustment budget process provided for in terms of section 28 of MFMA.

2.2 MFMA REGULATIONS ON BUDGET VERSUS EXPENDITURE

2.2.1 The MFMA regulates the following regarding the incurring of expenditure against budgetary provisions: -

2.2.1.1 Section 15 – Appropriation of funds for expenditure: -

“A Municipality may, except where otherwise provided in this Act, incur expenditure only:-

(a) in terms of an approved budget; and

(b) within the limits of the amounts appropriated for the different votes in an approved budget.”

2.2.1.2 Section 71(1)(g)(iii) states inter alia “(1) *The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:...(g) when necessary, an explanation of-...(iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget....*”

3. Policy options identification, analysis and assessment

3.1 This policy applies only to transfers between line items within votes of the Municipality's operating budget.

3.2 Section 28(2) (d) of the MFMA provides that “***An adjustments budget - may authorise the utilisation of projected savings in one vote towards spending in another vote.***” **Transfers between votes may therefore be authorised only by the Council of the Municipality.**

3.3 This policy shall not apply to transfers between or from capital projects or items and no such transfers may be performed under this policy.

3.4 Any deviation from or adjustment to an annual budget or transfer within a budget which is not specifically permitted under this policy or any other policy may not be performed unless approved by the council through an adjustments budget

4. Authorisation of Virements

A transfer of funds from one line item to another under this policy may, subject to the provisions of this policy, be authorised as follows:

4.1 If the amount does not exceed R 5,000.00, the transfer may be authorised by the Budget Specialist or the Senior Accountant: Treasury of the Municipality after consultation with the Manager: Budget & Treasury;

4.2 If the amount exceeds R 10,000.00 but does not exceed R 30,000.00, the transfer may be authorised by the Manager: Budget & Treasury after consultation with the Chief Financial Officer;

4.3 If the amount exceeds R 30,000.00 but does not exceed R 60,000.00, the transfer may be authorised by the Chief Financial Officer of the Municipality on the recommendation of the Municipal Manager.

4.4 Notwithstanding the provisions above, a transfer of funds between cost centres within a particular vote may not be authorised by the Chief Financial Officer but may only be authorised by **Municipal Manager**.

5. Limitations on amount of Virement

5.1 Notwithstanding the provisions of section 3:

5.1.1 The total amount transferred from and to line items within a particular vote in any financial year may not exceed 10% of the amount allocated to that vote;

5.1.2 The total amount transferred from and to line items in the entire budget in any financial year may not exceed 10 % of the total operating budget for that year;

5.1.3 The amount of any one transfer of funds between line items may not exceed the sum of R 2 000,000.00.

5.2 A transfer which exceeds, or which would result in the exceeding of, any of the limits referred to in 4.1 above may, however, be performed if the Council, by resolution approves thereof.

6. Virement Permitted only if Savings are Projected

A transfer of funds from one line item to another may take place only if savings within the first-mentioned line item are projected, and such transfer may, subject in any event to the provisions of this policy, not exceed the amount of such projected savings.

7. Further Restrictions on Virement

7.1 A transfer of funds between line items shall not be permitted under this policy if the effect thereof would be to:

7.1.1 contravene any policy of the Municipality; or

7.1.2 alter the approved outcomes or outputs of an Integrated Development Plan; or

7.1.3 result in any adjustment to the Service Delivery and Budget Implementation Plan.

7.2 If any line item has been specifically ring-fenced, no transfer of funds may be made under this policy to or from such line item.

7.3 Transfers of funds may not be made under this policy between or from capital items or projects .

7.4 To the extent that it is practical to do so, transfers within the first three months and the last month of the financial year should be avoided.

7.5 By definition, transfers may not be made under this policy from a line item administered by one department to a line item administered by another.

7.6 In accordance with Section 30 of the MFMA, no transfer of funds may be made from a line item of a budget for a particular year to a line item of a budget for a subsequent year.

7.7 The transfer of funds in any year in accordance with this policy shall not give rise to any expectations of a similar transfer occurring in a subsequent year.

7.8 The approval of any transfer shall not *per se* constitute authorisation for expenditure, and all expenditure resulting from approved transfers must, be carried out in accordance with the Municipality's Supply Chain Management Policy.

7.9 The transfer of funds must in any event not contravene the provisions of paragraph 4.6 of MFMA Circular 51(Municipal Budget Circular for the 2010/2011 MTREF) issued on 19 February 2010, which provides, inter alia, as follows:

1. *"Virements should not be permitted in relation to the revenue side of the budget;*
2. *Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);*
3. *Virements from the capital budget to the operating budget should not be permitted;*
4. *Virements towards personnel expenditure should not be permitted;*
5. *Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;*
6. *Virements should not result in adding 'new' projects to the Capital Budget;*
7. *Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted."*

8 Procedure for Virement

8.1 Approval for transfers must be made by the Executive Manager of the concerned department.

8.2 The Budget Office shall prescribe a form on which all proposals for transfers of funds under this policy shall be made, which form shall include, but not be limited to, provisions for the following:

8.2.1 the name of the department concerned;

8.2.2 descriptions of the line items from and to which the transfer is to be made;

8.2.3 the amount of the proposed transfer;

8.2.4 the cause of the saving in the line item from which the transfer is to be made;

8.2.5 the justification or motivation for the transfer;

8.2.6 a description of any consequences that such transfer may have for the Integrated Development Plan or the Service Delivery and Budget Implementation Plan.

8.3 Each proposal for a transfer shall be submitted by the Executive Manager concerned to the Budget Office and if:

8.3.1 the amount of the transfer does not exceed the amount referred to in **paragraph 3.1 and 3.2**, and the transfer is not between cost centres, the Specialist Budget or Manager: Budget & Treasury shall:

8.3.1.1 approve the proposal, or

8.3.1.2 reject the proposal; or

8.3.1.3 refer the proposal to the Chief Financial Officer for approval or rejection;

8.3.2 the amount of the transfer does not exceed the amount referred to in **paragraph 3.3** but the transfer is between cost centres, or if it falls within the range of amounts referred to in **paragraph 3.4**, the Chief Financial Officer shall refer the proposal to the Municipal Manager who, after consultation with the Chief Financial Officer, shall approve or reject the proposal;

8.4 Upon a proposal for transfer being approved, such transfer shall be implemented subject to compliance with the Municipality's Supply Chain Management Policy.

9. Implementing Strategy

The Municipal Manager shall submit a report on all transfers made under this Policy to the Mayor every quarter (September; December; March; June).

The Municipal Manager shall be responsible for the implementation and administration of this Policy.

This policy will be effective on the date of adoption by Council.

10. Policy Evaluation and Review

The Municipality would evaluate and review the policy on an annual basis and make changes if it is necessary.