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VIREMENT POLICY

Council Resolution No: CR128 – 29/06/20 SP

Object

To provide virement guidelines over the transfer of funds between budget votes due to changing circumstances and priorities during a financial period, and in line with relevant financial legislations, regulations and circulars.

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1. INTRODUCTION

“Virement” is “a Regulated transfer or re-allocation of money from one account to another, especially public funds. A Virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year. Changing circumstances and priorities during a financial period may give rise to a Need to virement (transfer) 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 adjustment Budget is required or not.

2. PURPOSE

- (a) 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 delegation is one of these controls.
- (b) 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,”
- (c) It is the responsibility of each Director of each Directorate 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 utilized effectively and Efficiently.
- (d) 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 utilized effectively, efficiently, economically and transparently,”
- (e) This policy aims to provide guidelines to senior management in the use of Virement as a mechanism in their day-to-day management of their budgets. In addition it specifically aims to empower senior managers with an efficient Financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the Council’s system of Delegations.

3. DEFINITIONS

“**Accounting Officer**” (MFMA)- in relation to a municipality, means the municipal official referred to in Section 60, or ...”

“**Approved Budget** (MFMA)”-means an annual budget- Approved by a municipal council, or 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;”

“**Chief Financial Officer**” (MFMA) - a person designated in terms of section 80(2)(a)”

“**Cost Centre**” - 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.

“COST ELEMENT” - Cost elements distinguish between primary and secondary costs elements. Primary costs elements are expenditure items mainly generated outside the organization. Secondary cost elements are utilized to relocate cost by means of assessments, internal billing or activity based recoveries.

“EXECUTIVE DIRECTOR” - Section 56 of the Systems Act states inter alia that: “Appointment of managers directly accountable to municipal manager – (a) a municipal Council, after consultation with the municipal manger, appoints a manager Directly accountable to the manager”.

“FINANCIAL YEAR” - the 12 month period between 1 July and 30 June.

“VOTE” (MFMA) - (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 function arrears of the municipality. The council then approves, the budget according to these vote via resolution e.g. Water Management, Director: Public Safety.

“VIREMENT” - the process of transferring an approved budgetary provision form 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.

4. MFMA REGULATION ON BUDGET VERSUS EXPENDITURE

- (1) The MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions.
- (2) 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.”
 - (c) Unauthorized Expenditure (MFMA Definition) “In relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11 93), and includes –
 - (i) overspending of the total amount appropriated in the municipality’s approved budget;
 - (ii) overspending of the total amount appropriated for the vote in the approved budget;
 - (iii) Expenditure from a vote unrelated to the department or functional area covered by the vote;
 - (iv) expenditure of money appropriated for a specific purpose, other than for that specific purpose;
 - (v) spending of an allocation referred to in paragraph (b), (c), (d) of the definition of allocation otherwise than in accordance with any conditions of the allocation; or
 - (vi) A grant by the municipality otherwise than in accordance with this Act;”
 - (vii) Over spending (MFMA Definition)
 - (viii) 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;

- (ix) In relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or
- (x) in relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section;”

(3) 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 of 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”.

5. VIREMENT REQUIREMENTS

- (a) The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within a Directorate during a financial year.
- (b) In order for a “vote” (Directorate) to transfer funds from one cost element or capital project to another cost element or capital project, a saving has to be identified within the monetary limitations of the approved “giving” cost element or capital project allocations on the respective budgets.
- (c) Sufficient, (non-committed) budgetary provision should be available within the “giving” vote’s cost element or project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost element or capital project the budget provision will be transferred to and provide a clear motivation for the transfer.
- (d) Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustment budget (per MFMA Section 28)
- (e) In terms of Section 17 of the MFMA a municipality’s budget is divided into an operating and capital budget and consequently no virements are permitted between Operating and Capital Budgets.
- (f) Virements are not permissible across, or between, votes.
- (g) Virements between Trading – and Rate-funded functions are not allowed, due to the differing impacts on respective tariff- or rates-borne services’ budgets, unless adopted via adjustment budgets (per MFMA Section 28).

6. OPERATING BUDGET VIREMENTS

- (a) Virements are not allowed to utilize special purpose budgetary allocations adopted by Council as such and to which specific Council recommendations apply (e.g. budget strategy for growth in repairs and maintenance provisions) and which results from specific resolution adopted when adopting the budget, as a virement sources.

- (b) Sound motivations should be provided for all virements, as provided for on pro forma virement documentation.

7. SPECIFIC VIREMENT LIMITATIONS

- (1) **No virements** are permitted to and from Grants and Subsidies Paid, except if supported by Council decision for such transfer and as per the approved Grants-in-Aid Policy.
- (2) **Salaries, Wages and Allowances Subjective Category:**
- (a) Virements are allowed between costs elements of 0 and only if these virements are within – this subjective category.
 - (b) Virements to and from this subjective expenditure category are subject to the approval of the Director: Budgets.
- (3) **Remuneration of Councilors**
- (a) Virements within this category are allowed.
 - (b) No virements to and from this category are allowed.
 - (c) General Expenditure and Repairs and Maintenance (Primary)
 - (d) Virements to and from cost elements within these categories are allowed (Virements are allowed from General Expenditure to Repairs and Maintenance).
 - (e) The following cost elements categories are not to be used as sources of virements, but virements are allowed within each category:
 - (i) Training related expenditure
 - (ii) Bargaining Council Provisions and skills development levies
 - (iii) Pensioner and Continued Members
 - (iv) Repairs and Maintenance
- (4) **No virements** are allowed to and from the following cost elements or provision:
- (a) Capital Expenditure-related elements
 - (b) Scrapping of Assets / Stock
 - (c) VAT
 - (d) Insurance Fund
- (5) **Repairs and Maintenance (primary) virements** are to be processed on approval by delegated personnel.
- (6) **Contracted Services and Collection Costs** Virements to and from these elements are allowed.
- (7) **No virement** will be permitted to and from the following expenditure Categories, unless such amendments are affected within the cost element:
- (a) Bulk Purchases
 - (b) Bad Debts
 - (c) Interest Charges and Depreciation

- (d) Indigent Relief and Income Forgone
- (e) Appropriation Accounts
- (f) No virement will be approved on any Revenue element. Revenue provisions' amendments are to be adopted via an adjustment budget.

(8) Secondary Operating Cost Element

- (a) Virement are allowed within the same cost elements. The service requestor and service provider must both endorse such virements.
- (b) Virements may not increase the total approved budget of that cost element.
- (c) Virements are not permissible in relation to Support Service Charges.
- (d) No virements which relate to Internal Capital Charges will be permitted.

8. CAPITAL BUDGET VIREMENTS

- (a) Only virements which relate to projects approved as part of annual or adjustment budget, will be permitted.
- (b) No virements of which the affect will be to add "new" projects onto the Capital Budget, will be allowed.
- (c) Virement may not cause an increase to individual projects' total project cost.
- (d) Virement must be between projects of similar funding sources (e.g. EFFEFF)
- (e) Implementation of the project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the project).
- (f) Motivation for Virement should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

9. SCHEME OF VIREMENT

- (1) There is no limit on the amount of Virement within a vote;
- (2) Virement can only be authorized at the following levels:
 - (a) between votes – Council
 - (b) between Cost Centres in a vote – Mayor;
 - (c) between main expenditure classifications in a Cost Centre Municipal Manager;
 - (d) within a main expenditure classification in a Cost Centre – Directors;
 - (e) Capital Budget – Mayor
 - (f) Virement is not allowed where this will increase the commitment into future years e.g. moving money from say furniture to appoint new employee;
 - (g) Virement must not cause the budget to become unbalanced within a year;
 - (h) Virement is not allowed from Capital Charges, Inter Departmental Charges and contributions.
- (3) Utilizing additional income to fund new expenditure is not Virement and should be separately reported.

- (4) All Virement must be recorded and submitted to the Chief Financial Officers Office who will update the Venus accounting system. Virement is only effective when this has been undertaken.

10. PROCESS AND ACCOUNTABILITY

- (a) Accountability to ensure that Virement applications are done in accordance with Council's Virement policy and are not in conflict with the directorate's strategic objectives linked with the municipal objectives;
- (b) Virement approved and processed will be reported for information to the Mayor on a quarterly basis as part of an adjustment budget.

11. COMMENCEMENT

This commences upon approval by council and signing by the mayor of the municipality.

12. REVIEWAL

The policy shall be reviewed as and when the need arises.

Signed by:

MAYOR: Cllr. SHIBAMBU B.A

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SIGNATURE

29/06/2020
DATE

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