VIREMENT POLICY

2022/23

INDEX

1.	**INTRODUCTION**	**3**
2.	**PURPOSE**	**3**
3.	**DEFINITIONS**	**4**
4.	**MFMA REGULATION ON BUDGET VERSUS EXPENDITURE**	**5**
5.	**VIREMENT REQUIREMENTS**	**6**
6.	**OPERATING BUDGET VIREMENTS**	**7**
7.	**CAPITAL BUDGET VIREMENTS**	**8**
8.	**PROCESS AND ACCOUNTABILITY**	**9**
9.	**DELEGATION OF POWER**	**9**
10.	**REVIEW OF POLICY**	**9**

ANNEXURES

Annexure A: Operating Budget Virement Form

Annexure B: Capital Budget Virement Form

VIREMENT POLICY FOR METSIMAHOLO LOCAL MUNICIPALITY

1 INTRODUCTION

1.1 *Webster's New Millennium Dictionary of English defines" Virement" as "a regulated transfer or re-allocation of money from one account to another, especially public funds."*

1.2 A Virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year.

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.

2 PURPOSE

2.1 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.

2.2 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 the in terms of section 79, ……."

2.3 It is the responsibility of each Executive Director of each Directorate to which funds are allocated, to plan and conduct assigned operations so as not expend more funds than budgeted and to ensure that funds are utilised effectively and efficiently.

2.4 Section 78(1) 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, …"

2.5 This policy aims to provide guidelines to Senior Management in the use of virements 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 Municipality's system of delegations.

3 DEFINITIONS

3.1 ***Accounting Officer (MFMA)***
"- (a) in relation to a municipality, means the municipal official referred to in section 60; or …"

3.2 ***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;"

3.3 ***Chief Financial Officer (MFMA)***
"a person designated in terms of section 80(2)(a)"

3.4 ***Cost Centre***
Cost centre is a cost collector which represents a logical point at which cost (expenditure) is incurred and managed by a responsible manager within the cost centre. (Identifiable department, division or section)

3.5 ***Cost element***
Cost elements are utilised to reallocate cost by means of assessments, internal billing or activity based recoveries (from where costs occur within the cost centre [line item]).

3.6 ***Director***
Section 56 of the Systems Act states *inter alia* that: "Appointment of managers directly accountable to municipal managers – (a) municipal council, after consultation with the municipal manager, appoints a manager directly accountable to the municipal manager …"

3.7 ***Financial year***
The 12-month period between 1 July and 30 June.

3.8 ***Vote (MFMA)***

3.8.1 "(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."

3.9 **Function**

Function is the standardised vote structure referred to in Section 1 of the Municipal Finance Management Act. Function is one of the main segments into which the budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality specifying the total amount appropriated for the purposes of the department or functional area.

3.10 **Funding**

Funding sources available to the municipalities to invest in municipal activities

3.11 **Project**

A specific project and is so, the specific type of project that the transaction relates to.

3.10 ***Virement***

The process of transferring an approved budgetary provision from one operating cost element to another or from one capital project to another within a vote function 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

(Local Government: Municipal Finance Management Act (56/2003): Municipal Budget and reporting regulations, Government Gazette No 32141, 17 April 2009.)

4.1 The MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions.

4.2 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."*

4.3 Unauthorised Expenditure (MFMA Definition)

"*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 of 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;"

4.4 Overspending (MFMA Definition)

"*(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;"

4.5 Section 71(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….."*

5 VIREMENT REQUIREMENTS

5.1 The virement process represents the major mechanism to align and take corrective (financial/budgetary) action within a Directorate during a financial year.

5.2 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 of capital project allocations on the respective budgets.

5.3 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.

5.4 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 adjustments budget (per MFMA Section 28).

5.5 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.

5.6 Virements are not permissible across, or between, votes (different directorates).

5.7 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).

5.8 With the implementation of *m*SCOA, virements can only take place within a function or sub-function **and the same source of funding**.

5.9 The creation of new projects or savings across functions can only take place through an adjustment budget. Virements should not be allowed **from** the repairs and maintenance project in the project segment.

5.10 Virements between the capital budget to the operating budget is not permitted

6 OPERATING BUDGET VIREMENTS

6.1 Virements are not allowed to utilise 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 result from specific resolutions adopted when adopting the budget, as virement sources.

6.2 **Sound** motivations should be provided for all virements, as provided for on pro forma virement documentation. ***Motivations such as insufficient funds will not be acceptable***.

6.3 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.

6.4 **Salaries, Wages and Allowances:**

6.4.1 Virements are allowed within cost elements of salaries, wages and allowances.

6.5 **Remuneration of Councillors**

6.5.1 Virements within this category are allowed.

6.5.2 No virements to and from this category are allowed.

6.6 **Operational cost, Inventory, Operating leases and Operational transfers and subsidies (in-kind and monetary)**

6.6.1 Virements to and from cost elements within these categories are allowed

6.6.2 The following cost elements categories are not to be used as sources of virements, although virements are allowed within the cost centre:

- Training related expenditure
- Bargaining Council provisions and skills development levies

6.6.3 **No virements** are allowed to and from the following cost elements or provisions:

- Capital Expenditure-related elements
- Long Service Awards
- Medical Aid

6.6.4 No virements from different sources of funding

6.7 **Contracted Services and Inventory**

- Virements to and from these elements are allowed.
- No virements **from** repair and maintenance projects
- No virements from different sources of funding

6.8 **No virements** will be permitted to and from the following expenditure categories:

- Bulk Purchases (electricity and sewer)

- Inventory –water bulk purchase
- Bad Debts
- Interest Charges and Depreciation
- Indigent Relief (equitable share)

6.9 Virements may not exceed a maximum of 15% of the total approved operating budget per
Directorate, without prior approval of the Mayoral committee (for each quarter) **– *This will ensure that user departments do their planning correctly and use their funds accordingly instead of doing virements every month for 'certain vote''***

6.10 Virements are only allowed within the same programme
(e.g. Mandela Day: from catering services to transport services)

6.11 Entertainment budgets may not be increased through virements.

Budget for entertainment is limited to R2 000, per director, per financial year, as National Treasury may periodically review the entertainment vote.
(MFMA Circular No.82 and Municipal Cost Containment Regulations, 2019)

In case of events that will require funds to be shifted -virement (Strategic sessions, interviews, meetings with National/Provincial government, etc.), a detailed report must be submitted to Council at its next meeting following the occurrence of meetings and/or sessions.

6.12 Due to mSCOA implementation and challenges with classification and interpretation of certain expenditure and revenue votes, virements to amend budgets to be in line with mSCOA classification will be permitted ***their planning correctly and use their funds accordingly instead of doing virements every month for 'certain vote''***
In cases of emergency (electrical networks, disaster management, etc. and not programmes), virements shall be submitted by the relevant Director to the Municipal Manager and Chief Financial Officer for authorization and be reported to Council at its next meeting following the occurrence of emergency.

6.13 **Revenue**

- No virements will be approved on any Revenue element.
- Revenue provisions' amendments are to be adopted via an adjustments budget.

7 CAPITAL BUDGET VIREMENTS

7.1 Only virements which relate to projects approved as part of annual or adjustments budgets, will be permitted.

7.2 No virements of which the effect will be to add "new" projects onto the Capital Budget, will be allowed.

7.3 Virements may not cause an increase to individual projects' total project cost.

7.4 Virements must be between projects of similar funding sources (e.g. grants to grants).

7.5 Implementation of the project from which there has been a virement may not be prejudiced (i.e. must not hinder completion of the project.)

7.6 Motivations for virements should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

8 PROCESS AND ACCOUNTABILITY

8.1 Accountability to ensure that virement application forms are completed in accordance with Council's virement policy and are not in conflict with the directorate's strategic objectives vests with the head of the relevant directorate. `

8.2 Recommendations of virements from political offices must be signed and vested to the relevant managers.

8.3 Virement forms must be completed by the relevant manager and be signed by the relevant director

8.4 Duly completed and approved virement documentation is to be effected by the Chief Financial Officer.

8.5 Virements approved and processed will be reported for information in the (Sec 71) Financial Indicators report on a monthly basis.

8.6 As proper records of all virements must be kept by the budget office for future reference and audit purposes, no virement may be captured without the prescribed documents and authorisation

8.7 All virements for operational budget must be checked and processed by budget office.

8.8 All virements for capital budget must be checked by asset office and processed by budget office.

9 DELEGATION OF POWER

9.1 The Chief Financial Officers be authorized to approve virements up to R200 000 (per virement request)

9.1.1 This delegation may be sub delegated to the budget manager.

9.1.2 Virements for salaries due to filling vacancies, be approved by Chief Financial Officer

9.2 The Municipal Manager must approve virements above R200 000 (per virement request)

10. REVIEW OF POLICY

10.1 The policy shall be reviewed annually

ANNEXURES

Annexure A: Operating Budget Virement Form

Annexure B: Capital Budget Virement Form