

NYANDENI LOCAL MUNICIPALITY



VIREMENT POLICY

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DRAFT

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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 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.
- 1.3 The MFMA and the Municipal Budget and Reporting Regulations seek to move municipalities away from the traditional approach of appropriating/approving budgets by line item. The aim is to give the Directors/Managers greater flexibility in managing their budgets. To further facilitate this, each municipality must put in place a council approved Virement Policy, which should provide clear guidance to managers of when they may shift funds between line items, capital projects, programmes and votes.

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 them in terms of section 79:..."
- 2.3 It is the responsibility of each Senior Manager 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.
- 2.4 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;..."
- 2.5 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 and to allow flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.

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*

3.4.1 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.

3.5 *Cost element*

3.5.1 Cost elements distinguish between primary and secondary cost elements.

Primary cost elements are expenditure items mainly generated outside the organisation. Secondary cost elements are utilised to reallocate cost by means of assessments, internal billing or activity based recoveries.

3.6 *Senior Manager*

3.6.1 Section 56 of the 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...”

3.7 *Financial Year*

3.7.1 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 *Ring Fenced*

3.9.1 an exclusive combination of line items grouped for specific purposes for instance salaries and wages.

3.10 *Line Item*

3.10.1 an appropriation that is itemized on a separate line in a budget adopted with the intention of greater control over expenditures.

3.11 *Service Delivery and Budget Implementation Plan*

3.11.1 means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (ii) for implementing the municipality's delivery of municipal services and its annual budget.

3.12 *Virement*

3.12.1 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.

4. MFMA REGULATION ON BUDGET VERSUS EXPENDITURE

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

4.1.1 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."

4.1.2 *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 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;”

4.1.3 *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;”

4.1.4 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....*”

5. VIREMENT REQUIREMENTS AND RESTRICTIONS

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

5.2 In order for a “vote” 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.

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 without approval of both vote holders and the CFO.

- 5.7 Virements between Trading-, Economic- 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 A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years. (section 19 and 21 MFMA)
- 5.9 Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustments budget to the Council with altered outputs and measurements for approval. (MFMA Circular 13 page 3 paragraph 3)
- 5.10 No virement may commit the Municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of the Council.
- 5.10.1 This refers to expenditures such as entering into agreements into lease or rental agreements such as vehicles, photo copier's or fax machines.
- 5.11 No virement may be made where it would result in over expenditure. (section 32 MFMA)
- 5.12 No virement shall add to the establishment of the Municipality without the approval of Municipal Manager.
- 5.13 If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.
- 5.14 Virements may not be made in respect of ring-fenced allocations.
- 5.15 Budget may not be transferred from Support service (interdepartmental) costs, Capital financing, Depreciation, Contributions, Grant Expenditure and Income Foregone.
- 5.16 Budget may only be transferred from Salaries if approved by the CFO and the relevant Manager
- 5.17 Virements in capital budget allocations are only permitted within specified action plans and not across funding sources and must in addition have comparable asset lifespan classifications.
- 5.18 Virements are permitted each month with the express agreement of the CFO. Upon, processing the virement, the six segments will be affected.
- 5.19 No virement proposal shall affect amounts to be paid to another Department without the agreement of the Manager of that Department, as recorded on the signed virement form. (Section 15 MFMA)
- 5.20 Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 MFMA)
- 5.21 An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the procurement/supply chain management policy of Council as periodically reviewed.

- 5.22 Virements may not be made between Expenditure and Income.
- 5.23 All virements must be signed by the Manager of the vote within which the cost is allocated (section 79 of MFMA)
- 5.24 All virements should be approved in line with the Council's System of delegations
- 5.25 All documentation must be in order and approved before any expenditure can be committed or incurred (section 79 of MFMA)
- 5.26 All virements of funds between votes (directorates) must be approved by the Municipal Manager and reported to the Executive Committee on a monthly basis.
- 5.27 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);
- 5.28 Virements from the capital budget to the operating budget should not be permitted;
- 5.29 Virements towards personnel expenditure should not be permitted;
- 5.30 Virements should not result in adding 'new' projects to the Capital Budget;
- 5.31 Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and

The policy must also indicate how the virements process is to be managed within the municipality so as to enable the tracking and reporting of funding shifts.

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.
- 6.3 **Salaries, Wages and Allowances Subjective Category:**
 - 6.3.1 Virements are allowed between cost elements of - and only if these virements are within - this subjective category.
 - 6.3.2 Virements from this subjective expenditure category are subject to the approval of the CFO and relevant Manager
- 6.4 **Remuneration of Councillors**
 - 6.4.1 Virements within this category are allowed.

6.4.2 No virements to and from this category are allowed.

6.5 General Expenditure and Repairs and Maintenance (Primary)

6.5.1 Virements to and from cost elements within these categories are allowed (Virements are allowed from General Expenditure to Repairs and Maintenance).

6.5.2 The following cost elements categories are not to be used as sources of virements, but virements are allowed within each category:

- Training related expenditure
- Bargaining Council provisions and skills development levies
- Insurance related provisions
- Pensioner and Continued Members Contributions
- Repairs and Maintenance

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

- Capital Expenditure-related elements
- Scrapping of Assets / Stock
- Insurance Fund

6.5.4 Repairs and Maintenance (primary) virements are to be processed via Internal Orders

6.5.5 Contracted Services and Collection Costs

- Virements to and from these elements are allowed.

6.5.6 No virements will be permitted to and from the following expenditure categories, unless such amendments are effected within the cost element:

- Bulk Purchases
- Bad Debts
- Interest Charges and Depreciation
- Indigent Relief and Income Forgone

6.5.7 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 affect 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 and life expectancy.
- 7.5 Implementation of the project from which funds are viremented 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 manifests with the head of the relevant directorate.
- 8.2 Completed virement documentation is to be effected by the CFO.
- 8.3 Virements approved and processed will be reported for information to the Mayor on a quarterly basis.