

Buffalo City Metropolitan Municipality Policy



1. POLICY TITLE

BUDGET VIREMENT POLICY

2. PREAMBLE

- 2.1 A virement represents a flexible mechanism to effect budget amendments within a municipal financial year.
- 2.2 Changing circumstances and priorities during a financial year may give rise to a need to virement/ transfer funds within votes, as defined in Municipal Financial Management Act 56 of 2003.
- 2.3 This is a mechanism to manage budget to ensure effective and efficient utilization of budget funds in cases such as unforeseen circumstances.
- 2.4 There is a need to regulate and guide the use of budget virements within the municipality.

3. LEGAL MANDATES AND REGULATORY FRAMEWORK

The following laws and regulations, amongst others, inform this policy:

- 3.1 The MFMA (Act 56 of 2003) regulates as follows the incurring of expenditure against budgetary provisions:
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. PURPOSE OF THE POLICY

4.1 To effectively and efficiently manage the budget virements/ transfers to ensure optimum service delivery.

5. STRATEGIC OBJECTIVES

- 5.1 The aim of this policy is to give senior managers of directorates, greater flexibility in managing their budget;
- 5.2 To provide guidelines to senior management in the use of virements as a mechanism in their day-to-day management of their budgets;
- 5.3 To allow flexibility in the use of budgeted funds to enable management to act on occasions such as unforeseen/ unavoidable expenditure or savings, etc. as they arise so as to accelerate service delivery in a financially responsible manner; and
- 5.4 In addition, the policy 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 City's system of delegations.
- 5.5 The strategic focus areas of the City are enshrined in the City's Integrated Development Plan (IDP) and the main objective of the policy is to manage the effectiveness and efficiency utilisation of the budget within votes or directorates and functional areas.



6. POLICY PRINCIPLES

6.1 Financial control

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".

6.2 Effective, efficient, economical and transparent utilisation of funds

It is the responsibility of each senior manager, to plan and conduct assigned operations in a manner not to spend more funds than budgeted for and to ensure that funds are utilised effectively and efficiently.

Section 78(1)(b) of the MFMA states *inter alia*, "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 that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently."



7. DEFINITIONS AND ABBREVIATIONS

Abbreviations:

MFMA: Municipal Finance Management Act (Act 56 of 2003)

CFO: Chief Financial Officer

Definitions:

Approved Budget

“- 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;” (MFMA, 2003).

Executive Mayor

in relation to—

- (a) a municipality with an executive mayor, means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act; or
- (b) a municipality with an executive committee, means the councillor elected as the mayor of the municipality in terms of section 48 of that Act.

Accounting Officer/ City Manager

“- (a) in relation to a municipality, means the municipal official referred to in section 60;” The municipal manager of a municipality is the accounting officer of the municipality for the purpose of this Act (MFMA, 2003).

Chief Financial Officer

“a person designated in terms of section 80(2) (a)”. A chief financial officer is designated by the accounting officer of the municipality (MFMA, 2003).



Head of Directorates

Section 56 of the Municipal Systems Act states *inter alia* “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...”

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 item/ Line item

Cost items are line items where costs are mainly generated as a result of transactions with external service providers. This is usually identified by a unique account number (vote number) for each line item description, e.g. catering services, telephones, basic salaries, etc.

Cost element/ Expenditure type

Cost elements distinguish between primary and secondary cost elements. Primary cost elements/ expenditure types are where groups of cost or line items are classified together, e.g. Employee Related Costs, Contracted Services, etc. Secondary cost elements are utilised to reallocate cost by means of assessments, internal billing or activity-based recoveries.

Financial year

The 12-month period between 1 July and 30 June (MFMA, 2003).

Unauthorised Expenditure

“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

Buffalo City Metropolitan Municipality Policy



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;"

Overspending

- 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;"

Vote / Directorate / Function

"(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." (MFMA, 2003)."

Budget Transfer

A budget transfer is a process of transferring budget from one cost / line item to another within the same function and same cost element / expenditure type.

Virement

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

Buffalo City Metropolitan Municipality Policy



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

Changing circumstances and priorities during a financial year may give rise to a need to virement (transfer) funds within 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.

8. SCOPE OR APPLICABILITY OF THE POLICY

8.1 The Policy is applicable to all employees and Councillors of Buffalo City Metropolitan Municipality.

9. GOVERNANCE ISSUES/ AUTHORITY/ DELEGATIONS

9.1 The Administration

The Accounting Officer:

- a) must annually facilitate the revision of this virement policy;
- b) must communicate and make this policy accessible to all relevant officials; and
- c) is responsible for the interpretation and administration of the policy

9.2 The Council

- a) Councillors are required to familiarise themselves with this policy's contents, and oversee its implementation by the officials; and
- b) Council to approve and adopt the virement policy



10. POLICY PROCEDURES/ IMPLEMENTATION

10.1 GUIDING PRINCIPLES

10.1.1 The virement and/or budget transfer process represents the major mechanism to align and take corrective (financial / budgetary) action within a directorate/ vote/ function during a financial year.

10.1.2 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.

10.1.3 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. This refers to expenditures such as entering into multi-year lease or rental agreements for the leasing of vehicles, photo copiers or fax machines.

10.1.4 No virement may be made to cover/ allow for unauthorised, irregular or fruitless and wasteful expenditure (MFMA Section 32).

10.1.5 Virements towards personnel expenditure are not permitted.

10.1.6 **The virement that relates to an unfunded vacant position is subject to the approval of the Accounting Officer. The budget for such position may only be transferred from employee related cost, if approved by the City Manager.**

10.1.7 All virements should be approved in line with the Council's system of delegations.

10.1.8 Virements of conditional grant funds for purposes outside of that specified in the relevant conditional grant framework are not be permitted.



10.1.9 Proposed budgetary amendment of which will result in a change to the approved total budget quantum or any other budgetary amendments not covered in this policy, must be considered for adoption via an adjustments budget (per MFMA Section 28).

10.1.10 Each budget transfer or each budget virement may not exceed 5% of the municipality's total budget.

10.2 BUDGET TRANSFERS (OPERATING BUDGET)

10.2.1 Budget transfers are permissible from one cost / line item to another within the same funding, function and expenditure type.

10.2.1.1 The following cost categories are not allowed to be used as sources of budget transfers, but budget transfers are allowed within each cost category:

- a) Insurance related provisions
- b) Repairs & Maintenance
- c) Software Licenses
- d) Skills Development Levy

10.2.1.2 No budget transfers will be permitted to and from the following expenditure types:

- a) Bulk Purchases
- b) Debt Impairment
- c) Finance Charges
- d) Depreciation & Asset Impairment
- e) Transfers & Subsidies Paid

10.2.1.3 Revenue Category:

- a) No budget transfers will be allowed on revenue elements.

10.2.2 Budget transfer form must be authorized by the Head of Directorate or General Manager.



10.2.3 To submit budget transfer form to General Manager: Budget & Treasury Management or delegated official for approval.

10.2.4 General Manager or delegated officials in the BTO will approve the budget transfer form for processing into the financial system.

10.2.5 The relevant officials within BTO will be responsible for the processing of the budget transfer form after approval by the General Manager or delegated officials in the BTO office.

10.3 BUDGET TRANSFERS (CAPITAL AND OPERATING PROJECTS BUDGET)

10.3.1 Budget Transfers must not result in adding 'new' projects to the budget.

10.3.2 Budget transfers from the capital budget to the operating budget are not permitted.

10.3.3 Budget transfers can only take place within a function and the same source of funding.

10.3.4 Budget transfers across regions are not allowed.

10.3.5 Budget transfers between different item segments of the same capital project/programme are permitted.

10.4 OPERATING BUDGET VIREMENTS

10.4.1.1 All virements will only be considered if prepared and signed off by the Head of Directorate responsible for the vote or functional area, supported by the Chief Financial Officer, recommended by the City Manager and approved by the Executive Mayor.



10.4.1.2 The relevant official within BTO will be responsible for the processing of the virement after approval by the General Manager or delegated official in the BTO office.

10.4.2 Virements across funding sources are not permitted.

10.5 OPERATING PROJECTS AND CAPITAL PROJECTS BUDGET VIREMENTS

10.5.1 All virements must contain motivation that clearly stipulate the reason for the virement and whether there are identified savings in the “giving project” and that the delivery of the “giving project” will not be negatively affected as a result of the virement.

10.5.2 Virements in capital budget allocations are only permitted within budgeted projects and not across funding sources.

10.5.3 Virements will only be considered if prepared and signed off by the Head of Directorate responsible for the vote or functional area, supported by the Chief Financial Officer, recommended by the City Manager and approved by the Executive Mayor.

10.6 EVALUATION AND REVIEW

10.6.1 This policy shall be implemented once approved by Council.

10.6.2 This policy must be reviewed on an annual basis.

10.6.3 Changes in and legislation must be taken into account for future amendments to this policy.

10.6.4 Any amendments must be tabled to Council for approval as part of the budget process.

Buffalo City Metropolitan Municipality Policy



11. COMPETENCE AND CAPACITY TO IMPLEMENT THE POLICY

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| 11.1 | The policy should be available and communicated to all staff |
| 11.2 | All staff must be aware of the prescriptions of this policy |
| 11.3 | All staff must be aware of the procedures contained in this policy |
| 11.4 | Supervisors/ managers must ensure compliance with this policy |

12. CLASSIFICATION TABLE

<i>Governance</i>	2.0	Governance
<i>Sub classification</i>	N/A	None
<i>Title</i>	BUDGET VIREMENT POLICY	
<i>File Number</i>	5/1/P	
<i>Related Policies or Procedures</i>	<ul style="list-style-type: none"> • Budget Management Policy, Tariff Policy, Cash Management Policy, Credit Control and Debt Management Policy. 	
<i>Responsible Officer</i>	<ul style="list-style-type: none"> • Accounting Officer 	
<i>Original Authors</i>	<ul style="list-style-type: none"> • Chief Financial Officer 	
<i>Current Author</i>	<ul style="list-style-type: none"> • Mr. N. Sigcau, Acting Chief Financial Officer 	
<i>Date of Approval by Council & Council Minute Number</i>	<ul style="list-style-type: none"> • 30 May 2018 • BCMC 331/18 	
<i>Effective date</i>	<ul style="list-style-type: none"> • 01 July 2019 	
<i>Last Review Date</i>	<ul style="list-style-type: none"> • 30 May 2021 	
<i>Review Date</i>	<ul style="list-style-type: none"> • 30 March 2022 	