

BUDGET VIREMENT POLICY



Approval of Policy

Please note that the implementation of the policy contained in this document is subject to approval and signing off by all relevant Heads and/or Committees, including but not limited to:

- Chief Financial Officer (CFO) or HOD: Finance
- Accounting Officer
- Council

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1. DEFINITIONS AND ABBREVIATIONS

Abbreviations

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

CFO: Chief Financial Officer

Definitions

Accounting Officer

“- (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).

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).

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).

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 cost elements. Primary cost elements are expenditure items where costs are mainly generated as a result of transactions with external service providers. Secondary cost elements are utilised to reallocate cost by means of assessments, internal billing or activity based recoveries.

Head of Department

Section 56 of the 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..."

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 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

“(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).

Virement

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

2. AIM AND PURPOSE OF THE POLICY

- The aim of this policy is to give senior managers of directorates, greater flexibility in managing their budget;
- Provides guidelines to senior management in the use of virements as a mechanism in their day-to-day management of their budgets;
- 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 so as to accelerate service delivery in a financially responsible manner; and
- 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 City’s system of delegations.

3. SCOPE OF THE POLICY

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

4. STRATEGIC INTENT

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.

5. REGULATORY CONTEXT OR PRESCRIPTS

The MFMA 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.”*

6. KEY RESPONSIBILITIES OF MANAGEMENT

- 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 delegations 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 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.
- d) 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-...(b) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;...”

7. ROLE PLAYERS AND STAKEHOLDERS

a) Directorates and departments

- Responsible to prepare the virement application form.
- Must obtain required signatures in terms of Systems of delegations.
- Line finance manager must verify financial correctness.
- Responsible to submit completed forms to budget department for approval and processing.

b) Executive Mayor

- To authorise the transfer of operational and capital expenditure (within a single budget vote) for amounts over R2 million but not exceeding R5 million.

c) Budget and Treasury department (BTO)

- Responsible to check and verify financial correctness and submit virement application to General Manager Budgets or delegated official for approval.
- General Manager or delegated officials in the BTO will approve virement application in terms of system of delegations
- The relevant section within the budget and treasury department will be responsible for the processing of the virement application after approval by the General Manager or delegated officials in the BTO office.

8. GUIDING PRINCIPLES

- The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within a directorate (vote) during a financial year.
- 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.
- Virements across directorates (votes) are not permissible and will only be effected via an adjustment budget.
- Virements between Tariff- and Rate-funded functions are not allowed as Rates and Trading funded services are balanced separately and transfers across these services will result in an unbalanced budget between Rate- and Tariff-funded services. Such transfers can only be adopted via an adjustment budget (per MFMA Section 28).
- In order for a directorate (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.
- 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). 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 why a saving exists on the sending element or project and the reason for the additional requirement on the receiving element or project.
- 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 (MFMA Sections 19 and 21).
- Virements resulting in adjustments to the approved SDBIP need to be submitted with an Adjustments Budget to the Council with revised targets and indicators for approval. (MFMA Circular 13).

- 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.
- No virement may be made to cover/ allow for unauthorised, irregular or fruitless and wasteful expenditure (MFMA Section 32).
- 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.
- All virements should be approved in line with the Council's System of delegations.
- 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).

9. OPERATING BUDGET VIREMENTS

- Sound motivations should be provided for all virements, as provided for on the virement application form.

9.1. *Specific virement limitations:*

9.1.1. *Employee related costs Category:*

- a) Virements are allowed between cost elements within an expenditure classification.
 - i. To correct errors in the budget due to employees linked to an incorrect cost centre in the payroll system etc; and
 - ii. To transfer unallocated funds budgeted for at a centralised cost centre/s for prioritised vacant positions to be filled to the cost centre where appointments have been made. Proof of these appointments must accompany the virements application form.

- b) Virements to and from this expenditure classification are subject to the approval of the Chief Financial Officer.

9.1.2. Remuneration of Councillors Category

- a) Virements in this expenditure category are allowed only if these virements are within this category.
- b) Virements are allowed between cost items and cost centres within this category but only to correct errors in the budget due to councillors linked to an incorrect cost centre in the payroll system.
- c) Virements in this expenditure category are subject to the approval of the Chief Financial Officer.

9.1.3. General Expenditure and Repairs and Maintenance (Primary)

- Virements to and from cost elements within each category are allowed.
- Virements are allowed from General Expenditure to Repairs and Maintenance.
- The following cost elements categories are not to be used as sources of virements, but virements are allowed within each category:
 - Training related expenditure, with special reference to the SITA related training budget.
 - Bargaining Council provisions and skills development levies.
 - Insurance related provisions.
 - Pensioner and Continued Members.
 - Repairs and Maintenance.

9.1.4. Contracted Services and Collection Costs

- Virements to and from cost items, cost centres and votes within these categories of expenditure are allowed.

9.1.5. Revenue Category

- a) No virements will be allowed on any revenue element.
- b) Revenue amendments are to be adopted via an adjustments budget.

10. OPERATING PROJECTS AND CAPITAL BUDGET VIREMENTS

- All virements to capital projects will only be considered for budgetary adoption in accordance with the amount stipulated in the preceding paragraph 7(b).
- Virements will only be considered if recommended by a director responsible for the vote or functional area and supported by the Chief Financial Officer.
- Motivations for virements between projects should clearly state the reason for the saving within the “giving” project, as well as the reason for the additional amount required.
- No “new” capital projects onto the capital budget will be permitted except for where it is necessary to accelerate capital projects spending of capital projects already approved by Council in the IDP and capital budget of the indicative years.
- Virements to allow an increase to the total project cost that are caused by award contract value, however not to allow variation order increases and these to be approved via the adjustment budget.
- Virements in capital budget allocations are only permitted within specified action plans and not across funding sources.
- Implementation of the project may not be prejudiced due to the virement of funds (i.e. must not hinder completion of the project).
- Virements will only be considered upon submission of revised business plans for both the “giving” and the “receiving” operating and capital project.

11. PROCESS AND ACCOUNTABILITY

- a) Accountability to ensure that virement application forms are completed in accordance with Council’s virement policy and systems of delegations and are not in conflict with the directorate’s strategic objectives manifests with the head of the relevant directorate.
- b) The relevant General Manager or delegated Senior Official will ensure that the virement application form is duly completed, the virement duly motivated and signed by the Head of Department. Supporting documentation, proving savings on a cost item/s, must accompany the application form that needs to be handed over to the budget and treasury office (BTO).
- c) The budget office will verify the virement application form and the Chief Financial Officer will authorise the virement application verified should it

- comply with the Virement Policy of Council. If not, the virement application form will be returned to the relevant General Manager or delegated senior official.
- d) Completed virement documentation is to be kept by the Chief Financial Officer (budget office) for audited purposes.

12. EVALUATION AND REVIEW

- a) This policy shall be implemented once approved by Council.
- b) This policy must be reviewed on an annual basis.
- c) Changes in and legislation must be taken into account for future amendments to this policy.
- d) Any amendments must be tabled to Council for approval as part of the budget process.

13. Relevant Legislation Applicable to this Policy

This policy gives effect to the provision of the following legislation.

- The Constitution of the Republic of South Africa, 1996
- The Local Government Municipal Finance Management Act (MFMA), Act No. 56 of 2003
- Municipal Budget & Reporting Regulations