



# **JB MARKS LOCAL MUNICIPALITY**

## **DRAFT VIREMENT POLICY**

*(Virement: derived from the French term meaning - commerce transfer, an authorized transfer of funds from one use to another)*

## AMENDED VIREMENT POLICY

### 1. INTRODUCTION

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

**The word "Virement" is derived from the French meaning a commerce transfer, an authorized transfer of funds from one use to another.**

- 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 to virement (transfer) funds within or between approved votes, as defined in the Local Government: Municipal Finance Management Act, 2003 (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 "That 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 Manager of each Department 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 utilized 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 utilized 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 with the current legislative framework of the MFMA and the system of delegations of the Ventersdorp/Tlokwe Local Municipality NW 405.

### 3. DEFINITIONS

- 3.1 **Accounting Officer (MFMA)** *"-(a) in relation to a municipality, means the municipal official referred to in section 60; or ...." and in terms of Section 82(1) of the Municipal Structures Act.*

- 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 **Capital Budget** “- this is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of financial years.”
- 3.4 **Chief Financial Officer (MFMA)** “a person designated in terms of section 80(2)(a)”.
- 3.5 **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.
- 3.6 **Cost elements** - distinguish between primary and secondary cost elements. Primary cost elements are expenditure items mainly generated outside the organization. Secondary cost elements are utilized to reallocate cost by means of assessments, internal billing or activity based recoveries.
- 3.7 **Council** “- means the council of a municipal referred to in Section 18 of the Municipal Structures Act”.
- 3.8 **Financial year** - the 12 month period between 1 July and 30 June.
- 3.9 **Manager** - 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...”.
- 3.10 **Ring fenced** - An exclusive combination of line items grouped for specific purposes for instance salaries and wages.
- 3.11 **Service delivery and budget implementation plan** - Means a detailed plan approved by the mayor of a municipality in terms of Section 53(1)(c)(ii) of the MFMA for implementing the municipality delivery of municipal services and its annual budget.
- 3.12 **Virement** - 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.
- 3.13 **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 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.”

In case of the Ventersdorp/Tlokwe Local Municipality NW 405 the definition of Vote is set at department level, with the exception being tariff-funded services as a result of their closed account nature, e.g. Electricity, Water and Solid Waste.

#### 4. ABBREVIATIONS

- 4.1 **CFO** - Chief Financial Officer.
- 4.2 **IDP** - Integrated Development Plan.
- 4.3 **MFMA** - Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003).
- 4.4 **SDBIP** - Service Delivery and Budget Implementation Plan.
- 4.5 **Structures Act** - Local Government: Municipal Structures Act, 1998 (Act 117 of 1998).

#### 5. MFMA REGULATION ON BUDGET VERSUS EXPENDITURE

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

##### 5.1.1 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.”*

##### 5.1.2 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.”*

##### 5.1.3 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 appropriate 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;”.*

5.1.4 *Section 71(1)(g)(iii) states inter alia “(1) The accounting officer of a municipality must by no later than 10 workings 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 the 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....”.*

## **6. FINANCIAL RESPONSIBILITIES**

6.1 Strict budgetary control must be maintained throughout the financial year in order that potential over-expenditure and/or income under-recovery within individual vote departments are identified at the earliest possible opportunity (Section 100 of the MFMA).

6.2 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. The budget virement process is one of those controls [Section 27(4) of the MFMA].

6.3 It is the responsibility of each manager or head of a department or activity to which funds are allotted, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA Sections 78 and 102.

## **7. VIREMENT REQUIREMENTS**

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

7.2 In order for a “vote” (Department) to transfer funds from one 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.

7.3 Sufficient (non-committed) budgetary provision should be available within the “giving” votes 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.

7.4 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).

7.5 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.

7.6 Virements are not permissible across, or between, votes.

- 7.7 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).

## **8. OPERATING BUDGET VIREMENTS**

- 8.1 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 (MFMA Circulars 12 and 13).

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

### **8.3 Specific virement limitations:**

- 8.3.1 No virements are permitted between primary and secondary cost elements.

- 8.3.2 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.

### **8.3.3 Salaries, Wages and Allowances Subjective Category:**

- 8.3.3.1 Virements are allowed between cost elements of – and only if these virements are within this subjective category.

- 8.3.3.2 Salaries are budgeted for specific approved posts in the organisational structure are thus non-discretionary expenditure. No virement may be done from this expenditure category.

### **8.3.4 Remuneration of Councillors**

- 8.3.4.1 Virements within this category are allowed.

- 8.3.4.2 No virements to and from this category are allowed.

### **8.3.5 General Expenditure and Repairs and Maintenance (Primary)**

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

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

- (a) Training related expenditure
- (b) Bargaining Council provisions and skills development levies
- (c) Insurance related provisions
- (d) Pensioner and Continued Members
- (e) Repairs and Maintenance.

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

- (a) Capital Expenditure-related elements
- (b) Capital Financing
- (c) Scrapping of Assets/Stock

- (d) VAT
- (e) Insurance Fund
- (f) Inter-departmental costs
- (g) Contribution and grant expenditure.

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

8.3.5.5 Contracted Services and Collection Costs

- (a) Virements to and from these elements are allowed.

8.3.5.6 No virements will be permitted to and from the following expenditure categories, unless such amendments are effected 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) Non-discretionary expenditure (expenditure that are considered to be costs that must be incurred) in a specific vote may not be transferred to another vote (MFMA Circular 12 and 13).

8.3.5.7 Revenue

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

### 8.3.6 Secondary Operating Cost Elements

8.3.6.1 Virements are allowed within the same cost elements. The service requestor and service provider must both endorse such virements.

8.3.6.2 Internal utilities and bulk internal utilities virements are permissible, on condition that the respective internal utilities revenue and bulk internal utilities revenue are amended simultaneously.

8.3.6.3 Virements are only permitted within the same cost element in the following categories:

- (a) Internal Utilities
- (b) Bulk Internal Utilities.

8.3.6.4 Virements may not increase the total approved budget of that cost element.

8.3.6.5 Virements are not permissible in relation to support service charges.

8.3.6.6 No virements which relate to insurance departmental premiums or internal capital charges, will be permitted.

### 8.3.7 Ward Allocations Projects

8.3.7.1 All conditions under "Operating Budget Virements" section above should be met, as well as the following when virementing between ward allocation projects:

- (a) Only virements between existing projects approved by Council, and within the same department will be permitted.

- (b) Virements will only be considered if approved by the relevant Ward Community and supported by the Ward Councillor and departmental managers of the projects involved.
- (c) Motivations for virement between projects should clearly state the reason for the saving within the “giving” project, as well as the reason for the additional amount required.

## **9. CAPITAL BUDGET VIREMENTS**

- 9.1 Only virements which relate to projects approved as part of annual or adjustments budgets, will be permitted.
- 9.2 No virements of which the affect will be to add “new” projects onto the Capital Budget, will be allowed.
- 9.3 Should a virement cause an increase to an individual project’s total project cost, the amended total project cost must be included in the next adjustments budget or the following financial year’s draft budget.
- 9.4 Virements must be between projects of similar funding sources (e.g. EFF ↔ EFF), and must have comparable asset lifespan classification.
- 9.5 Implementation of the project from which funds are fermented may not be prejudiced (i.e. must not hinder completion of the project).
- 9.6 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.

### **9.7 Secondary Capital Cost Elements:**

- 9.7.1 Virements are permissible only within the same cost elements of different projects.
  - 9.7.1.1 The service requestor and service provider must endorse such virements.
- 9.7.2 Proposed secondary capital expenditure virements must be supported by the Chief Financial Officer and approved by the Accounting Officer.

### **9.8 Ward Allocations Projects:**

- 9.8.1 Only virements between existing projects approved by Council, within the same Ward and within the same department will be permitted.
- 9.8.2 Virements will only be considered if approved by the relevant Ward Committee and supported by the Ward Council member and departmental managers of the projects involved.
- 9.8.3 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.

## **10. ADDITIONAL VIREMENT RESTRICTIONS**

- 10.1 Virements may not exceed a maximum of R200 000.



- 10.2 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 of the MFMA).
- 10.3 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).
- 10.4 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 Budget Steering Committee.
- 10.5 No virement may be made where it would result in over expenditure (Section 32 of the MFMA).
- 10.6 No virement shall add to the establishment of the Municipality without the approval of Accounting Officer.
- 10.7 If the virement relates to an increase in the workforce establishment, then the Council's existing recruitment policies and procedures will apply.
- 10.8 Virements may not be made in respect of ring-fenced allocations.
- 10.9 No virements are permitted in the first three months or the final month of the financial year without the express agreement of the Chief Financial Officer.
- 10.10 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 of the MFMA).
- 10.11 Virement amounts may not be rolled over to subsequent years or create expectations on following budgets (Section 30 of the MFMA).
- 10.12 Any expenditure incurred that is not in accordance with a vote (or exceeds the amount for a vote/department) is classified as unauthorised expenditure, which sets off corrective and disciplinary mechanisms against the Accounting Officer. Any movement of funds between "votes" or performance indicators therefore requires an adjustment budget and a further council resolution (MFMA Circular 12, page 7).

## **11. VIREMENT PROCESS AND ACCOUNTABILITY**

- 11.1 Accountability to ensure that virement application forms are completed in accordance with Council's virement policy and are not in conflict with the department's strategic objectives manifests with the head of the relevant departments.
- 11.2 All virement proposals must be completed on the appropriate documentation and forwarded to the relevant Finance Officer for checking and implementation.
- 11.3 All virements must be signed by Vote Holder and the Manager within which the vote is allocated (Section 79 of the MFMA).
- 11.4 A virement form must be completed for all Budget Transfers.
- 11.5 Completed virement documentation is to be effected by the Assistant Chief Financial Officer (Budget).

- 11.6 Transfers below R30 000 need approval of the Chief Financial Officer and transfers in excess of R30 000 with a maximum of R200 000 need approval of the Municipal Manager (Section 79 of the MFMA).
- 11.7 Must include changes to the SDBIP.
- 11.8 All documentation must be in order and approved before any expenditure can be committed or incurred (Section 79 of the MFMA).
- 11.9 Virements approved and processed will be reported for information to the Executive Mayor on a quarterly basis or as part of an adjustments budget.
- 11.10 The Municipal Manager will report to the Mayor on a quarterly basis on those virements which have taken place during that quarter.

**12. SUPPLEMENTARY**

- 12.1 This policy replaces any other policies or Council resolutions as far as they may refer to virements as defined in this policy.
- 12.2 Once agreed, the virement policy should form part of the Municipal Manager's formal delegations and Financial Regulations of the Municipality.
- 12.3 Transfers or adjustments falling outside the ambit of this policy must be submitted to the budget adjustment process in terms of section 69 of the MFMA.

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