



**CHRIS HANI**  
**DISTRICT MUNICIPALITY**  
**SUSTAINING GROWTH**  
**THROUGH OUR PEOPLE**

**VIREMENT**

**POLICY**

## **TABLE OF CONTENTS**

1. Definitions and Abbreviations	2
2. Introduction	4
3. Purpose of Policy	4
4. Regulatory Context	5
5. Guiding Principles	6
6. Process and Accountability	7
7. Municipal Cost Containment Regulation (MCCR)	7
8. Evaluation and Review	8

## 1. DEFINITIONS AND ABBREVIATIONS

**"Accounting officer"** The municipal manager of a municipality is the accounting officer of the municipality in terms of section 60 of the MFMA

**"Approved budget"** means an annual budget approved by a municipal council.

**"Budget-related policy"** means a policy of a municipality affecting or affected by the annual budget of the municipality.

**"Chief financial officer"** means a person designated in terms of the MFMA who performs such budgeting and other duties as may in terms of section 79 of MFMA be delegated by the accounting officer to the chief financial officer.

**"Capital budget"** This is the estimated amount for capital items in a given fiscal period. Capital items are fixed asset such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.

**"Council"** means the council of a municipality referred to in section 18 of the Municipal Structures Act.

**"Financial year"** means a 12-month year ending on 30 June.

**"Operating Budget"** The Town's financial plan, which outlines proposed expenditures for the coming financial and estimates the revenues used to finance them.

**"Ring Fenced"** an exclusive combination of line items grouped for specific purposes for instance salaries and wages.

**"Services 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's delivery of municipal services and its annual budget.

**"Virement"** is the process of transferring an approved budget allocation from one operating line time or capital project to another with the approval of the relevant Manager. To enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.

**"Vote"** one of the main segment into which a budget of a municipality is divided for the appropriation of funds for the different department of functional areas of the municipality and specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

**"CFO"** - Chief Financial Officer

**"IDP"** - Integrated Development Plan

**"MFMA"**- Municipal Finance Management Act No. 56 of 2003

**"SDBIP"**- Service delivery and budget implementation plan

**"MCCR"**- Municipal Cost Containment Regulations

**"MAYCO"**- Mayoral Committee established in terms of Part 1 of Chapter 4 of the Municipal Structures Act which performs the roles and functions of an Executive Committee.

## **2. INTRODUCTION**

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

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

## **3. PURPOSE OF POLICY**

- 3.1 The aim of this policy is to give senior manager greater flexibility in managing the budgets, in order to ensure they can effectively and efficiently deliver on the Municipality 's strategic objectives.
- 3.2 The CFO 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
- 3.3 Section 81(1)(d) of the MFMA states that "The chief financial officer of the 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."
- 3.4 It is the responsibility of each senior manager, to plan and conduct assigned operations in a manner that ensures that not more funds are spent than what was budgeted for and to ensure that funds are utilised effectively and efficiently.

- 3.5 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...(n) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently..."
- 3.6 The 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 in accordance with the District objectives and mandate and within the current legislative framework of the MFMA and District's system of delegations.

#### 4. REGULATORY CONTEXT

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

##### 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 appropriate for the different votes in an approved budget."

##### 4.1.2 Unauthorised Expenditure (as per the MFMA's 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 of 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 (as per the MFMA's 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)

"(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 on or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget..."

5. GUIDING PRINCIPLES

5.1 Project extending over/incorporating more than one MSCOA function or sub function, savings in the budgetary allocation in a function and / or sub-functions directly linked to the same Projects and Funding Source.

5.2 Where the Finance and Administrative function or sub function is directly linked to another function or sub function, then savings in the linked function/sub-function may be applied in the Finance and Administrative function or vice versa. Therefore, virement between Rates Services and Trading Services and across Trading Services are not allowed;

Virements should not be permitted in relation to the revenue side of the budget;

5.3 Virements between functions 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);

5.4 Virements from the capital to the operating budget should not be permitted, operational funds to the Capital budget may be done, but via an Adjustments budget;

5.5 Virements towards personal expenditure should be permitted except where:

- Temporary/ contracted (budget for as contracted services in terms to the MSCOA Classification) staff status has changed to the permanent staff; or
- The budget savings resulted from Outsourced Services within the same function in terms of a Council delegated authority.

5.6 Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;

5.7 Virements should not result in adding new projects to the capital budget;

5.8 Virements of conditional grants funds to purposes outside that specified in the relevant conditional grant framework must not be permitted; and

5.9 There should be prudent limits on the amount of funds that may be moved between the function and its sub-function. In terms of national best practice in maximum percentage or monetary value of the budget of a Function/programme /project may be reallocated/shifted through virement e.g. not more than 5 percent of the budget may be moved to or from the function, project etc.) The policy must also indicate how the virement process is to be managed within the municipality so as to enable the tracking and the reporting of funds shift.

5.10 Council's approved virement policy must have a clear structure that:

- Clarifies definitions;
- Identifies the specific senior management posts to whom virements delegated powers are granted and
- Specified the principles and the maintenance\9 aligning with Mscoa) for the keeping of record of any budgetary movements.

## **6. PROCESS ACCOUNTABILITY**

6.1 Accountability to ensure that virement application are completed in accordance with Council's virement policy, system of delegations are not in conflict with the directorate's strategic objectives and rests with the head of the relevant directorate.

6.2 The relevant 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).

6.3 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 manager or delegated senior official.

6.4 Completed virement documentation is to be kept by the Chief Financial Officer (budget office) for audited purposes.

## **7. MUNICIPAL COST CONTAINMENT REGULATION (MCCR)**

7.1 Section 62(1)(a) and 95(a) of the MFMA stipulates that the accounting officer of a municipality is responsible for managing the financial administration of a

municipality and must for this purpose take all reasonable steps by implementing cost containment measures to ensure that all resources of the municipality are used effectively, efficiently and economically.

- 7.2 Municipalities are required to utilise existing reporting requirements, to report internally and externally on cost saving measures. This include reporting such savings in the Annual Report.
- 7.3 Cost containment measures will be applicable on various items as indicated in the MCCR.
  - 7.3.1 Virements to top-up the expenditure items listed below will be reviewed and motivations duly scrutinised.
    - (i) Travelling and Accommodation
    - (ii) Air Transport
    - (iii) Vehicle Hire
    - (iv) Catering
    - (v) Entertainment and
    - (vi) Conferences

## 8. EVALUATION AND REVIEW

- 8.1 This policy shall be implemented once approved by Council.
- 8.2 In terms of section 17(1) ( e) of the MFMA this policy must be reviewed on an annual basis and the reviewed policy must be tabled at Council for approval as part of the budget process.
- 8.3 The effectiveness of this policy in achieving the prescribed outcomes as well as any changes in legislation must be taken into account for future amendments to this policy.

This Policy takes effect on the 01st July 2021

Policy Adopted an the Chris Hani District Municipality council meeting, dated

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Council Resolution number C1011 .....

Signed by Municipal Manager:



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