



CHRIS HANI
DISTRICT MUNICIPALITY

SUSTAINING GROWTH
THROUGH OUR PEOPLE

VIREMENT

POLICY

Adopted in an ordinary council meeting held 31 May 2023

TABLE OF CONTENTS

1. DEFINITIONS AND ABBREVIATIONS	3
2. INTRODUCTION	4
3. PURPOSE OF POLICY	4
5. GUIDING PRINCIPLES	6
6. VIREMENTS REQUIREMENTS	8
7. OPERATING BUDGET VIREMENTS	9
8. CAPITAL BUDGET VIREMENTS	11
9. PROCESS ACCOUNTABILITY	11
10. MUNICIPAL COST CONTAINMENT REGULATION (MCCR)	12
11. EVALUATION AND REVIEW	13
12. EFFECTIVE DATE	13

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.

The compilation of a virement policy is based on the guidelines issued in Budget Circular No.51 published by National Treasury. 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 heads of municipal departments and programmes greater flexibility in managing their budgets. To further facilitate this, each municipality must put in place a council approved virements policy, which should provide clear guidance to managers of when they may shift funds between items, projects, programmes and votes.

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;

Adopted in an ordinary council meeting held 31 May 2023

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. VIREMENTS REQUIREMENTS

- 6.1 The virement process represents the major mechanism to align and take corrective (financial/budgetary) action within a department or functional area during a financial year.
- 6.2 Virement with the mSCOA Function is permitted as the total amount appropriated for the purpose of the functional area will not increase or reduce. Virement from one mSCOA Function to any other mSCOA Function is not permitted in terms of the National Treasury Circular 89.
- 6.3 Virement is only permitted to transfer within the same the Funding Source. Any virements to or from a different Funding Source should be done through adjustment budget.
- 6.4 Virement to or from the Municipal Classification segments in order for a function (department) to transfer funds from one cost center to another cost center, a saving has to be identified within the monetary limitation of the approved “giving” cost center allocations on the respective budgets.
- 6.5 Virement to or from mSCOA Regional segment is permitted on condition that it does not hinder service delivery with regards to the delivery of ward priorities as approved in the adopted or adjustment budget.
- 6.6 Sufficient, (non-committed) budgetary provision should be available with the “giving” vote or project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost center or capital project the budget provision will be transferred to and provide a clear motivation for the transfer.
- 6.7 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).
- 6.8 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.

Circular 51 issued by National Treasury gives the following guiding principles which could be incorporated into the virements policy:

- Virements should not be permitted in relation to the revenue side of the budget;
- Virements to 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 claims from separate votes);
- Virements from the capital budget to the operating budget should not be permitted;
- Virements towards personnel expenditure should not be permitted.

- Virements to or from the following items should not be permitted; bulk purchases; debt impairment; interest charges; depreciation; grants to individuals; revenue forgone; insurance and VAT;
- Virements should not result in adding 'new' projects to the Capital Budget;
- Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and
- There should be prudent limits on the amount of funds that may be moved to and from votes and sub-votes (e.g. not more than 5 per cent of the budget may be moved to or from a vote, programme, project etc.

7. OPERATING BUDGET VIREMENTS

7.1 Virements are not allowed to utilize special purpose budgetary allocations; adopted by Council as such and to which specific Council recommendations apply and which result from specific resolutions adopted when adopting the budget, as virement sources

7.2 Virement is not permitted from the repairs and maintenance projects being part of the Operational project segment. Virement to or with the repairs and maintenance projects is allowed.

7.3 Virement to or from the municipality running cost projects and virements or from typical work stream projects is allowed.

7.4 Sound motivations should be provided for all virements, as provided for on the virement documentation. 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.

7.5 Revenue items:

7.5.1 Except for Operating and Capital Transfers and Subsidies revenue items, no virements will be approved on any Revenue elements. Revenue provisions amendments are to be adopted via an adjustment budget.

7.5.2 Virement of the income budget between the various CCA's are allowed, as long as the income category is not increased/decreased. (motivation though the total per category is not changing, it might be necessary to adjust the income budgets between the various income line items or CCA budgets.

Virements on various mSCOA item expenditure are discussed below:

7.6 Employee related costs:

7.6.1 Virements are allowed between line items of – and only if these virements are within – this item expenditure.

Adopted in an ordinary council meeting held 31 May 2023

- 7.6.2 Virements are allowed between the various cost centers due to the changes of the organizational structure of Council (motivations – staff move in a department to other divisions or even CCA's)
- 7.6.3 Virements are allowed in cases where a general provision was made for certain type of salary expenses (i.e general provision made for temporary appointments for staff on maternity leave or long extensive sickness, allocation of pooled funds for new positions, etc.)
- 7.7 Remuneration of Councillors
- 7.7.1 Virements within this category are allowed.
- 7.7.2 No virements to and from this category are allowed.
- 7.8 Transfers and subsidies- Operational:
- 7.8.1 No virements are permitted to and from Transfers and Subsidies – Operational, except if supported by a Council decision for such transfer and as per the approved Grants-in-Aid Policy.
- 7.9 Any other expenditure items (general expenditure)
- 7.9.1 Virements to and from General Expenditure are allowed.
- 7.10 The following categories are not to be used as sources of virements, but virements are allowed within each line item:
- 7.10.1 Training related expenditure
- 7.10.2 Bargaining Council provisions and skills development levies
- 7.10.3 Insurance related provisions
- 7.10.4 Pensioner and Continued Members
- 7.10.5 All vehicle operating budget line items.
- 7.11 Contracted Services
- 7.11.2 Virements to and from these line items are allowed.
- 7.12 Departmental charges and internal cost line items
- Provision is made for the charges of some internal costs to various departments including departmental costs of municipal services. However, the Chief Financial Officer may effect virements within this category of line items, both in terms of expenditure and income recoveries.
- 7.13 No virements will be permitted to and from the following expenditure categories, unless such amendments are affected within the line item:
- 7.13.1 Bulk purchases (unless it directly relates to additional income from sales)

Adopted in an ordinary council meeting held 31 May 2023

- 7.13.2 Bad Debts
- 7.13.3 Interest Charges and Depreciation.
- 7.13.4 Indigent Relief and Income Forgone.
- 7.13.5 Appropriation Account.
- 7.14 Virements may not increase or decrease the total approved budget.
- 7.15 Virements will be approved on condition that the requirements of all mSCOA segment are met.

8. CAPITAL BUDGET VIREMENTS

- 8.1 Only virements which relate to projects approved as part of annual or adjustments budget, will be permitted.
- 8.2 No virements of which the affect will be to add “new” projects onto the Capital budget will be allowed.
- 8.3 Virements must be between projects of similar funding sources (e.g. MIG, RBIG etc)
- 8.4 Implementation of the project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the project).
- 8.5 Virements are not allowed if the IDP goal or the SDBIP target is affected. Such cases must be addressed in the Adjustment Budget.
- 8.6 Motivation 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. PROCESS ACCOUNTABILITY

- 9.1 Accountability to ensure that virement application are completed in accordance with Council’s virement policy, system of delegations is not in conflict with the directorate’s strategic objectives and rests with the head of the relevant directorate.
- 9.2 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).
- 9.3 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.
- 9.4 Completed virement documentation is to be kept by the Chief Financial Officer (budget office) for audited purposes.

10. MUNICIPAL COST CONTAINMENT REGULATION (MCCR)

10.1 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.

10.2 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.

10.3 Cost containment measures will be applicable on various items as indicated in the MCCR.

10.3.1 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

11. EVALUATION AND REVIEW

11.1 This policy shall be implemented once approved by Council.

11.2 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.

11.3 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.

12. EFFECTIVE DATE

This policy has been reviewed and will be effective as from **1 July 2023**.

Council Resolution No. : C1232

Signed by Municipal Manager:

G. Mashiyi

Initial & Surname

[Handwritten Signature]

Signature

Date

Signed by Speaker of the Council: **J CENGANI**

[Handwritten Signature]

Initial & Surname

Signature

Date