

BEYERS NAUDE LOCAL MUNICIPALITY

VIREMENT POLICY

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1. PREAMBLE

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

The Council approve a medium term expenditure framework budget (3-year budget) before the start of the financial year. The approved budget is an estimation of the activities in financial terms period. The budget consists of an operating and a capital budget based on the strategic objectives of the local government.

In practice, as the year progresses, circumstances may change such that certain estimates are under-budgeted and others over-budgeted. Changing circumstances and priorities during a financial period may give rise to a need to transfer funds within or between approved Votes, as defined in the Municipal Finance Management Act 56 of 2003 (MFMA), where there is a saving. The treatment of such instances may, however, be dependent on whether an adjustment budget is required or not.

2. DEFINITIONS AND INTERPRETATION

This Section also contains definitions explaining the meaning of certain words used in the Policy as well as provisions regarding the interpretation of the Policy. In this policy, unless the context shows that another meaning is intended:

- a) “**Accounting Officer**”: the municipal manager of a municipality is the accounting officer of the municipality in terms of section 60 of the MFMA.
- b) “**Adjustment budget**”: means a budget as described in section 28 of the MFMA and in Part 4 of the Municipal Budget and Reporting Regulations
- c) “**Approved budget**”: means an annual budget approved by a municipal council.
- d) “**Budget related Policy**”: means a policy of a municipality affecting or affected by the annual budget of the municipality.
- e) “**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 80 & 81 of the MFMA be delegated by the accounting officer to the chief financial officer.
- f) “**Capital Budget**”: This is the estimated amount for capital item in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost which is normally written off over a number of fiscal periods.
- g) “**Council**”: means the council of the BEYERS NAUDE municipality referred to in section 18 of the Municipal Structures Act.
- h) “**Financial Year**”: means a 12 month period commencing from 1 July and

ending on 30 June.

- i) **“Line Item”**: an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditures
- j) **“Municipal Budget and Reporting Regulations”**: means the regulations contained in the General Notice No. 393 of 2009 published in Government Gazette 32141 of 17 April 2009.
- k) **“Operating Budget”**: the towns financial plan, which outlines proposed expenditure for the coming financial year and estimates the revenues used to finance them.
- l) **“Ring Fenced”**: an exclusive combination of the items grouped for specific purposes for instance salaries and wages.
- m) **“Senior Manager”**: means a manager of a department as envisaged in section 56 of the Municipal Systems Act No. 32 of 2000 and includes any person acting as such and to whom financial powers and duties for purposes of this policy have been delegated in terms of section 79 of the MFMA.
- n) **“Service delivery and budget implementation plan”**: means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (ii) for implementing the municipality's delivery of municipal services and its annual budget.
- o) **“Virement”**: is 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.
- p) **“Vote”**: means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality and which specifies the total amount that is appropriated for the purpose of the department or functional area concerned.

3. ACRONYMS

- a) AO - Accounting Officer
- b) CFO – Chief Financial Officer
- c) CM - Council Minute/s
- d) IDP – Integrated Development Plan
- e) MM – Municipal Manager
- f) MBRR - Municipal Budget and Reporting Regulations
- g) MFMA – Municipal Finance Management Act No. 56 of 2003
- h) MSA – Municipal Systems Act
- i) SDBIP – Service Delivery and Budget Implementation Plan

4. OBJECTIVES OF THE POLICY

The main objectives of the policy are as follows:

- to allow limited flexibility in the use of budgeted funds.
- to enable management, to act on occasions such as disasters, unforeseen expenditure and unavoidable expenditure or savings as they arise to accelerate service delivery in a financially responsible manner.
- to provide guidelines to senior management in the use of virements as a mechanism in their day-to-day management of their budgets.
- to empower management with an efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the municipality's system of delegations.

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.

It is the responsibility of each Head of Department (S57 managers) to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted and to ensure that allocated funds are utilized economically, effectively and efficiently and for approved purpose(s).

5. LEGAL FRAMEWORK

- In terms of section 15 of the MFMA, no expenditure may be incurred unless provision has been made thereof in the approved operating and capital budgets.
- In terms of section 28 (2) (d) of the MFMA, an adjustment budget may authorize the utilization of projected savings in one vote towards spending under another vote.
- Section 78(1)(b) of the MFMA also states 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 that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently”
- Section 81 (1) (d) of the MFMA states that “the chief financial officer of a municipality must advise senior managers and other senior officials in the exercise of the powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79 of the Act”.
- MFMA Circular 51 of 2010 which states that 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

6. REGULATION OF BUDGETARY EXPENDITURE

6.1 Appropriation of funds for expenditure

Section 15 of the Act provides that a municipality may, except where otherwise provided therein, incur expenditure only -

- a) in terms of an approved budget; and
- b) within the limits of the amounts appropriated for the different votes in the approved budget

6.2 Unauthorised Expenditure

The Act defines “unauthorized expenditure” as any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11 (3) thereof 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 concerned;
- 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 the Act.

6.3 Overspending

The Act defines “overspending” as follows:

- 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 that vote to exceed the amount appropriated for the vote concerned; or
- c) in relation to expenditure under section 26, means causing expenditure under that section to exceed the limits in subsection (5) of that section

6.4 Budget Reporting

Section 71 (1) of the Act provides that 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 –
 - i. any material variances from the municipality’s projected revenue by source and from the municipality’s expenditure projections per vote
 - ii. any material variances from the SDBIP
 - 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.

7. VIREMENT CLASSIFICATION

Virement is the process of transferring budgeted funds from one line item number to another, to enable budget managers to affect budgetary amendments within a municipal financial year and represents the major mechanism to align and take corrective (financial / budgetary) action within a department during a financial year.

In order for a Directorate 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 on the respective budgets. In addition, the transferring vote 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.

Any budgetary amendments 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 (as per section 28 of the MFMA).

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.

8. FINANCIAL RESPONSIBILITIES

Strict budgetary control measures must be maintained throughout the financial year to ensure that potential overspending and or income under-recovery within individual vote departments is identified at the earliest possible opportunity and that corrective actions are taken to rectify such problems (Section 100 MFMA).

The Chief Financial Officer has a statutory duty to ensure that adequate and effective procedures are in place to ensure an effective system of financial control.

Nevertheless, it is the responsibility of each manager or head of a department or activity to which funds are allotted, to plan and conduct assigned operation so as not to expend more funds than budgeted.

Furthermore, all managers have the responsibility to prevent unauthorized expenditure in terms of the MFMA section 32

9. VIREMENT RESTRICTIONS

9.1 General

- a) No funds may be transferred between votes (GFS Classification) without approval of Council.
- b) Virements may not exceed a maximum of 5% of the total approved budget of the affected vote as on the 30 June each year
- c) A virement may not create a new policy, significantly vary current policy, or alter the approved outcome / outputs as approved in the IDP for the current or subsequent years (section 19 and 21 MFMA)
- d) Virements resulting in adjustment to the approved SDBIP needs to be submitted with an adjustment budget to the council with altered output and measurements for approval together with explanations, reasons and motivation for such virements (MFMA Circular 13 page 3 para 3).
- e) 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 expenditure such as entering into agreements into lease or rental agreements such as vehicles, photo copiers, fax machines, etc.
- f) No virement may be made where it would result in over expenditure (Section 32 MFMA)
- g) No virement shall pass to the establishment of the Municipality without the approval of the Municipal Manager or Council .
- h) No virements are permitted in the first three months or the final month of the financial year without the agreement of the Municipal Manager.
- i) No virement proposal shall affect amounts to be paid to another Department without the agreement of the Head of the Department, as recorded on the signed Virement form (Section 15 of the MFMA).
- j) Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets (Section 9 of the MFMA).
- k) An approved Virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the procurement / supply chain management policy of Council as periodically reviewed.

9.2 Operating Budget

- a) Virements are not permissible in order to fund any special purpose operating budgetary allocations approved by the council and which are specifically mentioned and highlighted as such during the approval of the budget.
- b) Only the Council may consider the virements of the funds referred to in 9.2(a) above and only after full valid motivations are provided for these virements.

9.3 Capital Budget

- a) Budgeted amounts in respect of approved capital projects which are, due to changed circumstances, not executed, can only be vired by means of an authorizing council resolution.
- b) Virements aimed at adding “new” projects to the capital budget are not permitted unless approved by the council.
- c) Virements in respect of savings on capital projects will only be permitted if allocated to projects approved as part of the annual or adjustment budgets or the 3 year capital program of the municipality
- d) Virements of conditional grants for purposes otherwise than specified in the relevant conditional grant approvals, are not permitted
- e) Virements of capital project allocations can only be approved in respect of projects funded by similar funding sources (e.g. MIG to MIG).
- g) Virements in capital budget allocations are only permitted within specified action plans and not across funding sources and must in addition have comparable asset lifespan classification.
- h) Virements from capital to operating expenditure are not permissible.

9.4 Revenue

- a) No virements are permitted in relation to the revenue side of the budget.
- b) Revenue adjustments are to be adopted via an adjustments budget.
- c) Virement may not be made between Income and Expenditure items / votes.

9.5 Salaries, Wages and Allowances

- a) Virements to and from salaries, wages and allowance are not permitted unless approved by the council.
- b) Any savings identified for the filling of approved, vacant posts not budgeted for, can only be vired by means of a council resolution adopted after consideration of the financial impact thereof in future financial years.
- c) If the virement relates to an increase in the work force establishment, then the council's existing recruitment policies and procedure will apply.

9.6 Other expenditure

- a) Virements to and from the following items are not allowed: bulk purchased; debt impairment; interest charges; depreciation; grants to individuals; revenue foregone; insurance; VAT and other non-cash backed items as determined by the CFO
- b) Virements may not be made in respect of ring-fenced allocations.
- c) Budget may not be transferred from support service (interdepartmental) costs, Capital financing, Depreciation, Contributions, Grant Expenditure and Income Foregone.
- d) Virement may not be made between Expenditure and Income items / votes.
- e) Virements in respect of expenditure votes financed from grants or any other external source of finance must be approved by the Council

10. VIREMENT PROCEDURES

- a) All Virement proposals must be completed on the appropriate documentation and forwarded to the relevant Finance Officer for checking and implementation.
- b) All virements must be signed by the Vote holder (per department) and the Manager within which the vote is allocated.
- c) The Head of Directorates must ensure that virement application forms are completed in accordance with Council's virement policy and are not in conflict with the directorate's strategic objectives.
- d) A virement form must be completed for all Budget Transfers.
- e) All virements, excluding the virement between votes and capital budget, requires the approval of the Municipal Manager unless certain threshold is delegated to the CFO.

- f) Where the virement will have an effect to the IDP / SDBIP, those changes must be included so as to reflect as such in the IDP / SDBIP. Adequate motivations for virements should clearly state the valid reason for the saving within the “giving” vote, as well as the reason for the additional amount required by the receiving vote.
- g) All valid, accurate and complete documentation must be in order and approved before any expandability can be committed or incurred (Section 79 of MFMA).
- h) After the approval of the virement has been obtained, the virement application form together with the supporting documentation must be sent to the Budget Officer for loading the virements into the financial system.
- i) After the virements have been loaded into the system, the Budget Officer must sign the virement form as proof that s/he has loaded the virements into the system.
- j) All approved virements documentation must be kept safely to ensure proper management of records and audit trail.

11. DELEGATIONS ON TRANSFERS

11.1 Transfers between Votes

During the budget process the council decides on the total amount that is allocated to each specific function and classifies it as a vote. The re-allocation of funds between “Votes” cannot be delegated to anyone other than the Council as this affects the IDP and service delivery to the communities. A council resolution must be sought as approval of such virement.

11.2 Transfers between Cost/Functional Centres

Transfer between line item budgets between cost/functional Centres within a specific “vote” is delegated to the Municipal Manager through a procedure that must be informed by the Budget Steering Committee. Any transfer of funds between cost/functional centres by the Municipal Manager must be informed in writing by comments from the Chief Financial Officer. The amount of transfer by the Accounting Officer (Municipal Manager) is limited by the Delegation of Authority, and this amount is revised from time to time in line with the revision of the delegations.

11.3 Transfer within Capital Budget

The council decides on the total amount that is allocated to each specific function and classifies it as a vote. The re-allocation of funds within the capital budgets cannot be delegated to anyone other than the Council as this may affect the IDP and service delivery to the communities.

A council resolution must be sought as approval of such virement and the budget, IDP and SDBIP should be adjusted to reflect such changes.

11.4 Transfer from Capital to Operating Budget

Transfer of funds from capital to operating budget is not permitted.

12. REPORTING REQUIREMENTS

- a) The Municipal Manager will report in writing to the Mayor on a quarterly basis on all virements that have taken place during that quarter.
- b) The report must include the following:
 - Name of directorate, section / division, vote description, vote number and amount within which the virement was transferred from and to which the funds are were re-allocated to
 - Valid reasons and adequate motivation for the virement
- c) The CFO and Municipal Manager will include all the virements for the year in the adjustment budget
- d) The Mayor must submit a report on the implementation of the budget and financial state of affairs of the municipality (including the virements that took place during the period under review) to the council within 30 days of the end of each quarter for approval where applicable.
- e) The Mayor must submit the adjustment budget together with the explanations and motivation for Council approval.
- f) The CFO must submit the approved adjustment budget to the Provincial and National Treasury in the prescribed formats within the required timelines.

13. RESPONSIBILITY FRAMEWORK

13.1 Development and Review

The development and review of this policy remains the responsibility of the Finance Department. The review of this policy to be done annually except in extra-ordinary instances where circumstances may dictate a need to review the policy earlier.

13.2 Implementation and Monitoring

The finance department has a responsibility of upholding the Virement policy. The senior managers or Heads of Departments are responsible for adhering to the policy at all times.

The CFO must monitor and report on compliance to the policy to the Municipal Manager and the Council.

The Municipal Manager must take corrective / disciplinary actions to address any non-compliance to the policy.

The Council must monitor the implementation of the policy and also play an oversight role to ensure that all municipal officials adhere to the policy at all times.

13.3 Enforcement

It is the responsibility of each Head of Department to ensure that all provisions of this policy are strictly adhered to at all times. It is also the duty of each municipal official to ensure that the policy is adhered to at all times.

14. INFORMATION AND EDUCATION

A signed copy of this policy should be placed on the municipality's website under "policies" after its tabling or approval by the council. A signed hard copy of the policy should be placed in a file of policies which must be placed in an appropriate location in each Department / section for easy access to the relevant departmental personnel.

All staff members should be made aware of the policy through workshops, information sharing sessions and provision of copies of the approved policy. All staff members should sign that they have received, read and understood the policy. New staff members to be inducted on the applicable policies of the municipality as detailed in the municipality's recruitment policy.

15. POLICY IMPLEMENTATION AND REVIEW DATES

This policy replaces any other policy or Council resolutions as far as they may refer to virements as defined in this policy.

Once agreed and approved by the Council the Virement policy should form part of Municipal Manager's formal delegations and Financial Regulations of the BEYERS NAUDE Municipality.

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.

The implementation of this policy takes effect from the date of approval and the policy must be reviewed within 12 months of its current date of effect or earlier if dictated by circumstances or any change to existing legislation.

16. POLICY APPROVAL

This policy was approved by the Council resolution number _____
_____ dated the _____ day of _____ 20____ and it will be
effective from this day onwards until the next review.