

UMDONI MUNICIPALITY



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PREAMBLE

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 for virement (transfer) of 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 Adjustments Budget is required or not.

The MFMA and the Municipal Budget and Reporting Regulations, 2009 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. In furtherance of this objective, each Municipality must put in place a Council approved Virement Policy, which should provide clear guidance to managers on when they may shift funds between items, projects, programmes and votes.

1. INTRODUCTION

Virement policy is developed to ensure that there are sound principles relating to the virement processes followed by the municipality and also to ensure full compliance with the Municipal Standard Chart of Accounts regulation in effecting those virements.

2. DEFINITIONS

The Municipality:	Refers to UMdoni Local Municipality as established in terms of the prescription.
“Accounting Officer (MFMA)”	means the Municipal Manager of the Municipality
“Approved Budget (MFMA)”	means an annual budget- (a) approved by a municipal council; or (b) approved by a provincial or the national 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.
“Chief Financial Officer (MFMA)”	is a municipal official designated by the Accounting Officer of the Municipality
“Department”	is a cost collector which represents a logical point at which cost (expenditure) is incurred and managed by a responsible department owner.
“Cost Element”	distinguish between primary and secondary cost elements. (a) Primary cost elements are expenditure items mainly generated outside the organisation. (b) Secondary cost elements are utilised to reallocate cost by means of assessments, internal billing or activity based recoveries.
“Head of Department (Director (MFMA))”	- Section 56 of the Municipal 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...”
“Financial Year”	means a year starting on 1 July and ending on 30 June of the following year.

Line Item"	is an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditure
"Overspending (MFMA)"	<p>(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;</p> <p>(b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or</p> <p>(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;"</p>
"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's delivery of municipal services and its annual budget.
"Unauthorised Expenditure (MFMA)"	<p>"in relation to a Municipality, means any expenditure incurred by a Municipality otherwise than in accordance with section 15 or 11(3), and includes:-</p> <p>(a) overspending of the total amount appropriated in the Municipality's approved budget;</p> <p>(b) overspending of the total amount appropriated for a vote in the approved budget;</p> <p>(c) expenditure from a vote unrelated to the department or functional area covered by the vote;</p> <p>(d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;</p> <p>(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</p> <p>(f) a grant by the Municipality otherwise than in accordance with this Act;"</p>
"Virement"	means 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.
Budget Splitting on revenue	Splitting of budget of one revenue category into sub-categories. The splitting does not change the total per category or revenue source.
"Vote (MFMA)"	<p>"(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</p> <p>(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.</p>
Function Segment (MSCOA)	It's the location within mSCOA for creating a standardised "vote" structure throughout municipalities. The segment makes distinction between "core-" and "non-core functions" or also known as "funded-" or "unfunded/ under-funded mandates" and agency services. The functions are listed in Schedule 4B and 5B of the

Constitution. In the Schedules (both 4B and 5B), Local municipality's core functions will be those functions listed for local government but not listed as functions of the district municipality. Non-core functions will be those functions listed in the schedules as the district municipality's functions.

Fund Segment (MSCOA)

it identifies the various sources of funding available to municipalities for financing expenditure relating to the operations of the municipality for both capital and operational spending.

3. POLICY OBJECTIVES

The objectives of this policy are as follows:

- 3.1 To provide a framework within which Umdoni Local Municipality's virement process shall be dealt with;
- 3.2 To ensure compliance with legislative Framework including MSCOA regulations;
- 3.3 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.
- 3.4 This policy also allows 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.
- 3.5 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 Municipality's system of delegations.
- 3.6 To provide a framework within which Umdoni Local Municipality's virement process shall be dealt with;
- 3.7 To ensure compliance with legislative Framework including MSCOA regulations;

4. PRESCRIPTIVE/LEGAL FRAMEWORK

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 virements policy and its underlying administrative process within the system of delegations is one of these controls. 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..."

It is the responsibility of each Head of each Department (Vote) to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted and to ensure that funds are utilised effectively and efficiently.

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 utilised effectively, efficiently, economically and transparently..."

5. POLICY APPLICATION

This Policy will be effective with effect from 01st July 2019.

6. POLICY PRINCIPLES

6.1 MFMA REGULATIONS ON BUDGET VERSUS EXPENDITURE

6.1.1 The MFMA regulates the following regarding 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.”

6.1.2 Section 71(1)(g)(iii) states inter alia;

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

6.2 CONDITIONS FOR VIREMENT

6.2.1 The Municipality appreciates that unforeseen and necessary expenditure may arise which have not been adequately accounted for in the approved budget for the financial year.

6.2.2 Therefore, funds may need to be made available urgently with the result of incurring expenditure that cannot be deferred for consideration during the budget adjustment review.

6.2.3 A budget vote transfer may then be authorised, provided that the following circumstances have been met:

6.2.4 the expenditure is unforeseen and considered necessary in achieving the Municipality's strategic goals or operational functions; or

6.2.5 the expenditure is unforeseen and considered necessary to correct a material error in the approved budget;

6.2.6 adequate funds for the expenditure have been made available from a saving from an existing vote/s;

6.3 VIREMENT REQUIREMENTS AND RESTRICTIONS

6.3.1 The virement represents a flexible mechanism to affect budgetary amendments within a municipal financial year, and is the major mechanism to align and take corrective (financial / budgetary) action within a Department (Vote) during a financial year.

6.3.2 In order for a “function” to transfer funds from one project; whether capital or operational; to another project, a saving has to be identified within the monetary limitations of the approved budget.

- 6.3.3 Sufficient, (non-committed) budgetary provision should be available within the “giving” function’s operational or capital project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which item and project; whether capital or operational project the budget provision will be transferred to and provide a clear motivation for the transfer.
- 6.3.4 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).
- 6.3.5 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 other than through an Adjustments Budget.
- 6.3.6 Virements between different functions and funding are not allowed. Virements between votes may not exceed a maximum of 10% of the total approved operating expenditure budget of the Department.
- 6.3.7 Should not result in adding “new” projects/items to the capital budget (capital vote transfers will only be made to existing votes in order to fund any shortfall);
- 6.3.8 Virements resulting in adjustments to the approved SDBIP by the user Directorate 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).
- 6.3.9 No virement may commit the Municipality to increase operating 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.
- 6.3.10 No virement may be made to cover/ allow for unauthorised, irregular or fruitless and wasteful expenditure (MFMA Section 32)
- 6.3.11 No virements are permitted within the first three months of the financial year without prior consent of the CFO.
- 6.3.12 Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets (MFMA Section 30).
- 6.3.13 All virements should be approved in line with the Council’s System of delegations.
- 6.3.14 For capital budget may be authorised up to R 15 000 by the Accounting Officer. Any amount between R 15 000 and R 200 000 shall be submitted to Exco for approval and any amount greater than R 200 000 shall be submitted to Council.
- 6.3.15 Of conditional grant funds for purposes outside of that specified in the relevant conditional grant framework will not be permitted.
- 6.3.16 For operational votes will be limited to 40% of the value of the function to a maximum of R 100 000;
- 6.3.17 for operational votes to a maximum of R15 000 may be delegated to General Manager: Financial Services.
- 6.3.18 between capital projects funded from the same grant may be authorised by the Accounting Officer irrespective of the value of the transfer.

- 6.3.19 Budget Splitting of revenue into sub- categories where that revenue source has different categories is only allowed provided the total revenue source or category does not change.

6.4 OPERATING BUDGET VIREMENTS

6.4.1 Salaries, Wages and Allowances Subjective Category and Remuneration of Councillors

Virements are allowed between cost elements and only if these virements are within this subjective category (salaries, wages and allowances).

6.4.2 No Virements from this subjective expenditure category are allowed.

6.4.3 General Expenditure and Repairs and Maintenance (Primary). Virements to and from cost elements within these categories are allowed. Virements are also allowed from General Expenditure to Repairs and Maintenance.

6.4.4 Contracted Services and Collection Costs

- Virements to and from these elements are allowed.

6.4.5 No virements will be permitted from the following expenditure categories, unless such amendments are effected within the cost element: -

- Bulk purchases.
- Debt impairment.
- Interest charges.
- Depreciation.
- Revenue forgone.
- Grants to individuals.
- Insurance related provisions.
- VAT.
- Conditional grant funds for any purpose not related to the conditions of the specific grant.

6.5 CAPITAL BUDGET VIREMENTS

6.5.1 Only virements which relate to projects approved as part of Annual or Adjustments Budgets will be permitted.

6.5.2 No virements, of which the effect will be to add “new” projects onto the Capital Budget, will be allowed. This needs to be effected through an Adjustments Budget.

6.5.3 Virements may not cause an increase to the individual projects’ total project cost.

6.5.4 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 classifications.

6.5.5 Implementation of the project may not be prejudiced due to the virement of funds (i.e. must not hinder completion of the project).

6.5.6 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.

7. PROCESS AND ACCOUNTABILITY

7.1 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 Department

7.2 Completed and approved virement documentation is to be effected by the Finance Department.

7.3 Virements approved and processed will be reported for information by the Municipal Manager to the Mayor on a monthly basis.

7.4 Recording of budget vote transfers:

7.4.1 A Vote Transfer Requisition ("VTR") Book will be maintained for each department.

7.4.2 The VTR Forms shall be duplicated, with the first copy being filed by the budget office and the duplicate maintained in the VTR Book.

7.5 Procedure to requisition a vote transfer:

7.5.1 Should a vote transfer of funds be considered necessary, the requesting official shall complete a VTR which needs to clearly dictate the reason for the vote transfer and the vote from which the funds will be made available.

7.5.2 The VTR shall be authorised by the relevant head of department; by authorising the vote transfer, the head of department acknowledges the following:

7.5.2.1 the vote transfer is considered necessary for performing day-to-day operational functions or meeting the strategic needs of the organization;

7.5.2.2 the expenditure is considered to be unforeseen or has been erroneously budgeted for in the approved budget;

7.5.2.3 the relevant department has or anticipates adequate savings to fund the vote transfer.

7.5.2.4 The VTR is then submitted to the Manager: Budget and Compliance for signature.

7.5.3 By signing the VTR, the Manager: Budget and Compliance provides assurance that:

(a) the vote where savings has been identified by the department is adequate to fund the vote transfer; and;

(b) in case of a capital budget vote transfer in excess of R 15,000.00 the relevant Exco /Council resolution has been taken authorizing the vote transfer in accordance with paragraph 8.1(4) of this Policy;

(c) Upon signature of the Manager: Budget and Compliance, the VTR shall be submitted to the Accounting Officer for final authorisation.

7.6 Processing of vote transfers:

7.6.1 The Manager: Budget and Compliance or his/her delegate may process a vote transfer.

7.6.2 The vote transfer may only be processed upon completion of the VTR form together with the following:

(a) signature by the relevant head of department;

(b) signature by the Manager: Budget and Compliance;

(c) signature by the Accounting Officer; and

(d) Council resolution, where applicable.

7.7 The Budget and Compliance office shall ensure that the relevant head of department and the Head: Procurement is notified, in writing, of the completion of the vote transfer and the appropriate vote number that is to be utilised from thereon.

7.8 The completed VTR form (first copy), print screens of the selected vote numbers prior and subsequent to the vote transfer, Council resolution (where applicable) and the letter of notification for completion of the transfer shall be filed and maintained by the Budget office for all transfers.

7.9 Reconciliation processes:

7.9.1 The Budget and Compliance Office shall ensure that a VTR Register is maintained for all vote transfers.

7.9.2 This VTR Register shall be updated per vote transfer and reviewed by the Manager: Budget and Compliance at least once a month.

7.9.3 A reconciliation of the approved budget to the budget as per the SAMRAS system shall be performed on a monthly basis, and reviewed by the Manager: Budget and Compliance.

7.9.4 Any unreconciled differences i.e. any differences which cannot be agreed to authorized vote transfers, shall be investigated and reported to Council within 30 days of such unauthorized transfers.

8. MONITORING AND EVALUATION

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 annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

9. COMMENCEMENT OF THE POLICY

9.1 This Policy shall come into effect on the 01st July 2019 after adoption by the UMdoni Local Municipality Council.

10. AMENDMENT AND/OR ABOLITION

10.1 This policy may be amended or repealed by the Municipality through a Council Resolution.

11. COMPLIANCE AND ENFORCEMENT

11.1 Violation or non-compliance with this policy will give a just cause for disciplinary steps to be taken.

12. POLICY REVIEW

12.1 This Policy will be reviewed annually.

13. APPEAL PROCESS/ GRIEVANCE PROCEDURE

13.1 The committees concerned to evaluate the impracticality taking into account the legislative requirements and seek advice and guidance from Provincial and National Treasury where necessary.

14. ADOPTION AND APPROVAL

The Council of the Umdoni Local Municipality resolves to adopt the official Virement Policy of the Umdoni Local Municipality.

This Policy has been considered and approved by the Council of the Umdoni Local Municipality as follows:

- Resolution No:

APPROVED:

Municipal Manager: Dr VP Tsako

DATE: _____

