

# **Richtersveld Municipality**

## **Virement Policy**

## TABLE OF CONTENT

	<u>Page</u>
PART 1: PREAMBLE	3
PART 2: PURPOSE	3
PART 3: ALIGNMENT WITH THE MUNICIPALITIES STRATEGIC GOALS AND OBJECTIVES	3
PART 4: CONTEXT, PRINCIPLES, VALUES AND ISSUES	4
PART 5: SCOPE OF APPLICATION	5
PART 6: MAINTENANCE	5
PART 7: IMPLEMENTATION	5
PART 8: GOVERNANCE AND REGULATORY FRAMEWORK	5
PART 9: VIREMENT REQUIREMENT AND RESTRICTIONS	6
PART 10: OPERATING BUDGET VIREMENTS	8
PART 11: CAPITAL BUDGET VIREMENTS	9
PART 12: APPEALS, COMPLAINTS, DISPUTES OR OBJECTIONS	10
PART 13: DEFINITIONS	10
PART 14: ABBREVIATIONS	11
ANNEXURE A- VOTE CLASSIFICATION	12

## **PART 1: PREAMBLE**

- 1.1 WHEREAS** Section 81(1)(d) of the MFMA states inter alia that *“The Chief Financial Officer of a municipality – must advise senior managers and other 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;....and*
- 1.2 WHEREAS** the Chief Financial Officer therefore has a statutory duty to ensure that adequate policies and procedures are in a place to ensure an effective system of financial control; and
- 1.3 WHEREAS** a municipality virement policy and its underlying administrative process within the system of delegation in one of those controls; and
- 1.4 WHEREAS** 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;...”*
- 1.5 WHEREAS** the Municipal Budget and Reporting Regulations, 2008 and related annual Municipal Budget Preparations Circulars (e.g. Circulars 51 of 2010/11, clause 4.6) provide for a Municipal Virement Policy and
- 1.6 NOW THEREFORE** the Richtersveld Municipality Council adopts the Municipal Virement Policy as set out in this document

## **PART 2: PURPOSE**

**2.1** 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 the efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the municipality’s system of delegation

## **PART 3: ALIGNMENT WITH THE MUNICIPALITIES STRATEGIC GOALS AND OBJECTIVES**

**3.1** This Policy support the following municipal strategic directions drawn from Integrated Development Plan (IDP) and Strategic Development Business and Implementation Plan (SDBIP):

- **IDP:** *“To facilitate economic development and integration of communities by utilising the resources of Council to increase the participation of local people in the mainstream economy and improve their livelihoods without compromising the financial viability of the municipality.”*
- **SDBIP:** *“To manage municipal resources in such a way that it improves the sustainability of the municipal assets and the financial planning budget linkages can be optimised for improved service delivery and development”*

## **PART: 4 CONTEXT, PRINCIPLES, VALUES AND ISSUES**

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

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

4.3 Changing circumstances an 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).

4.4 The treatment of such instances may, however, be dependent on whether an adjustments budget is required or not and for this purpose the Virement Policy has been developed.

4.5 The principles guiding the Virement Policy are to promote:

- a) Efficiency thereby
  - reducing unnecessary bureaucratic red tape
  - timely decision – making
  - proper record system
- b) Effectiveness
  - economies of scale
  - quality of decisions
  - public benefit
  - cost benefit analysis
  - decision risk
- c) Sustainability
  - continuity
  - financial viability
  - durability
  - affordability
- d) Democracy
  - consultation
  - participation
  - accountability
  - transparency
  - accessibility
- e) Co-operation & Co-ordination
  - with municipal departments
  - inter-governmental
  - extra-governmental
- f) Redress
  - levelling the playing field
- g) Equity
  - fairness
  - equality
- h) Flexible and dynamic
  - less rigidity
  - adapting and changing with times
- i) Developmental
  - internal
  - external
- j) Informed
  - Identification of environmental impacts
  - Identification of cumulative effects
  - Provision of site specific data

## **PART 5: SCOPE OF APPLICATION**

5.1 This policy is applicable to all municipal officials and must be complied within every case where virements are dealt with.

5.2 All applications must be referred in the first instance, to the CFO for consideration and advice (refer to Annexure B).

## **PART 6: MAINTENANCE**

6.1 Given the changing nature of the regulatory, control and operational environment of the Municipality this policy will regularly reviewed and updated on an ongoing basis.

6.2 For clarification of any matter contained in this Policy, please address queries to the CFO.

## **PART 7: IMPLEMENTATION**

7.1 This policy is effective from the date of approval by Council

7.2 It is the responsibility of the various Line Department Managers to bring the content of this policy to the attention of all parties concerned.

7.3 Enquiries on this policy can be solicited from the Office of the CFO.

## **PART 8: GOVERNANCE AND REGULATORY FRAMEWORK**

8.1 All disposals or letting of assets in terms of this Policy shall comply with the:

8.1.1 Constitution of the Republic of South Africa, 1996 as amended;

8.1.2 Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) – section 118 – (MSA)

8.1.3 Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) – section 71(1)(g)(iii) – MFMA

8.1.4 Municipal Budget and Reporting Regulations, 2008 and related annual Municipal Preparation Circulars; and

8.1.5 Any other applicable legislation, regulations and policies that may govern virements and that are not in contradiction with the primary.

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

8.2.1 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 approved budget”.

8.2.2 Unauthorised Expenditure (MFMA Definition) “in relation to a municipality, means any expenditure incurred by the 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 a department or functional are 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.”

8.2.3 Overspending (MFMA Definition)

(a) in relation to the budget of a municipality, means causing the operational or capital expenditure incurred by a municipality during a financial year to exceed the total amount

appropriated in that years budget for its operational or capital expenditure, as the case me 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

8.2.4 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 the month and for the financial year up to the end of the month: ... (g) when necessary, a explanation of- ... (iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remains within the municipality's approved budget..."

8.3 The Municipal Budget and Reporting Regulation, 2008 and related annual Municipal Budget Preparation Circulars (e.g. Circular 51 of 2010/11, clause 4.6) provide that: "The MFMA and the Municipal Budget and Reporting Regulations seek to move municipalities away from the traditional approach of appropriating/approving budget line item. The aim is to give the heads of municipal departments and programmes 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 manager of when they may shift funds between items, projects programmes and votes

The following principles must be incorporated into municipal policies:

1. Virements should not be permitted in relation to the revenue side of budget;
2. Virement 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 insurance claims from separate votes;
3. Virements from the capital budget to the operating budget should not be permitted;
4. Virements towards personnel expenditure should not be permitted;
5. 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;
6. Virements should not result in adding "new" projects to the Capital Budget;
7. Virements of conditional grants funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and
8. 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.)

The policy must also indicate how the virements process is to be managed within the municipality so as to enable the tracking and reporting of funding shifts."

## **PART 9: VIREMENT REQUIREMENTS AND RESTRICTIONS**

9.1 The virement process represent the major mechanism to align and take corrective (financial/budgetary) action within a Vote during a financial year:

9.2 Virements can be approved as follows:

9.2.1 >0 - <500 000 - Directors and CFO

9.2.2 >500 000 - <1 000 000 - Accounting Officer, CFO and Director

9.2.3 >1 000 000 - Council

9.3 In order for a "vote" 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 as approved "giving" cost element or capital project allocation on the respective budgets.

9.4 Sufficient, (non committed) budgetary provision should be available within the "giving" vote's 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.

9.5 Any budgetary amendment of which the net impact will be 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 adjustment budget (as per MFMA Section 28).

9.6 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.

9.7 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 MFMA).

9.8 Virement resulting in adjustment to the approved SDBIP need to be submitted with an adjustment budget to the council with altered outputs and measurements for approval (MFMA Circular 13 page 3 paragraph 3)

9.9 No virement may commit the Municipality to increase recurrent expenditure, which commits the Councils resources in the following financial year, without the prior approval of the Mayoral Committee. This refers to expenditure such as entering into agreement into lease or rental agreements such as vehicles, photo copier's or fax machines.

9.10 No virement may be made where it would result in unauthorised expenditure..

9.11 No virement shall add to the staff establishment of the Municipality without the approval of the Municipal Manager and the CFO.

9.12 Budget may only be transferred from Salaries if prior approval is obtained from the CFO.

And existing recruitment policies and procedures will apply.

9.14 Virements may not be made in respect of ring-fenced allocations.

9.15 No virements are permitted in the first three months or the final month of the financial year without the express prior approval of the CFO.

9.16 Virements amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 MFMA)

9.17 An approved virement does not give expenditure authority and all expenditure resulting from approved virement must still be subject to the Municipal Supply Chain Management Policy and the System as periodically reviewed.

## **PART 10 : OPERATING BUDGET VIREMENTS**

10.1 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 resolution adopted when adopting the budget as virement sources.

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

### **10.3 Specific virement limitations:**

10.3.1 No virements are permitted between primary and secondary cost elements.

10.3.2 No virements are permitted to and from Grants and Subsidies paid, except if supported by Council decision for such transfer and as per approved Grants-in Aid Policy.

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

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

10.4.2 Virement to and from this subjective expenditure category are subjected to the approval of the CFO.

### **10.5 Remuneration of Council**

10.5.1 No virements to and from this category allowed

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

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

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

10.7.1 Training related expenditure

10.7.2 Bargaining Council provision and skills development levies

10.7.3 Insurance related provisions

10.7.4 Pensioner and Continued Members

### **10.8 Repairs and Maintenance**

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

- (i) CIDS
- (ii) Capital Expenditure – related elements
- (iii) Scrapping of Assets/Stock
- (iv) VAT
- (v) Insurance Fund

10.8.2 Repairs and maintenance (primary) virements are to be processed via Internal Orders.

### **10.9 Contracted Services and Collection Cost**

10.9.1 Virements to and from these elements are allowed.



**10.10 No virements will be permitted to and from the following expenditure categories, unless such amendments are effected within the cost element:**

- (i) Bad Debts
- (ii) Interest charges and depreciation
- (iii) Appropriation Accounts

**10.11 Revenue**

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

**10.12 Secondary Operating Cost Elements**

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

10.12.2 Internal Utilities virements are permissible, on condition that the respective Internal Utilities Revenue and Bulk Internal Utilities Revenue are amended simultaneously .

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

- (i) Activity Based Recoveries
- (ii) Internal Utilities
- (iii) Bulk Internal Utilities

10.12.4 Virements may not increase the total approved budget as cost element.

10.12.5 Virements are not permissible in relation to Support Service Charges.

10.12.6 No virement which relate to insurance departmental premiums or Internal Capital Charges will be permitted.

**10.13 Ward Allocations Projects**

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

10.13.2 Only virements between existing projects approved by Council, within the same Vote will be permitted.

10.13.4 Motivation for virements between existing projects should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

**PART 11: CAPITAL BUDGET VIREMENTS**

11.1 Only virements which relate to projects approved as part of annual or adjustments budget will be permitted

11.2 No virements of which affect will be to add "new" projects onto the Capital Budget will be allowed.

11.3 Virements may not cause an increase to individual projects total project cost.

11.4 Virements must be between projects of similar funding sources (e.g EFF,CRR)

11.5 Implementation of the projects from which funds are vimented may not be prejudiced (i.e must not hinder completion of the project).

11.6 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.

**11.7 Secondary Capital Cost Element**

11.7.1 Virements are permissible only within the same cost element of different projects.

- 11.7.2 The service requestor and service provider must endorse such virements.  
11.7.3 Proposed secondary capital expenditure virements must be approved by the CFO.

### **11.8 Ward Allocations Projects**

- 11.8.1 Only virements between existing projects approved by council, within the same vote will be permitted.  
11.8.2 Virements will only be considered if approved by the relevant project managers and finance managers of the projects involved.  
11.8.3 Motivation 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.

## **PART 12: APPEALS, COMPLAINTS, DISPUTES OR OBJECTIONS**

13.1 In the event of an appeal raised in relation to a decision made in terms of this Policy the provisions of section 62 of the Municipal Systems Act, 2000 will apply.

## **PART 13: DEFINITIONS**

**Accounting Officer/AO (MFMA)** “ (a) in relation to a municipality means the official referred to in section 60; or

**Approved Budget (MFMA)** – means an annual budget-

- (a) Approved by a municipal council; or
- 1.1 (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;”

**Budget Related Policy** means a policy of the municipality affecting or affected by the annual budget of the municipality.

**Capital Budget** 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 fiscal periods.

**Chief Financial Officer/CFO (MFMA)**” a person designated in terms of section 80(2)(a)”.  
**Council** means the council of a municipality referred to in section 18 of the Municipal Structure Act.

**Cost Centre** – cost centre is a cost collector which represent a logical point at which cost (expenditure) is collected and managed by a responsible cost centre owner.

**Cost element** – cost element distinguish between primary and secondary cost elements. Primary costs elements are expenditure items mainly generated outside the organization. Secondary cost elements are utilised to reallocate costs by means of assessments, internal billing or activity based recoveries.

**Director** – Section 56 of the Systems Act states inter alia that: “ Appointment of managers directly accountable to municipal managers- (a) a municipal manager, appoints a manager directly accountable to the municipal manager...” also include Section 57 of the Systems Act.

**Financial year** - the 12 month period between 1 July – 30 June

**Line item** – an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditures.

**Unauthorised expenditure (MFMA Definition)**

**Overspending** (MFMA Definition) 1.2 “Operating Budget” – the towns financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenue used to finance them

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

**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) for implementing the municipality’s delivery of municipal services and its annual budget.

**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.” **(See annexure “A1” for current Vote structure)**

**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.

**MFMA** – The Municipal Finance Management Act, 2003 (Act no. 56 of 2003).

**PART 14: ABBREVIATIONS**

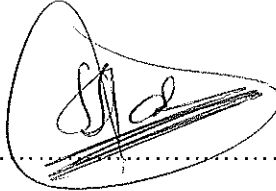
- C** - **Council**
- MM** - **Municipal Manager**
- HOD’S** - **Heads of Department**
- CFO** - **Chief Financial Officer**
- IDP** - **Integrated Development Plan**
- MFMA** - **Municipal Finance Management Act No. 56 of 2003**
- SDBIP** - **Service Delivery and Budget Implementation Plan**
- CM** - **Council Minute/s**
- FC** - **Finance Committee**
- CIDS** - **Central Inventory distribution system**
- DIR** - **Director (Sec 56 or 57 appointments)**

**ANNEXURE A – VOTE CLASIFICATION**

DEPARTMENT	VIREMENT VOTE	DIVISIONS
EXECUTIVE AND COUNCIL	VOTE 1	
ADMINISTRATION: CORPORATE	VOTE 2	
ADMINISTRATION: COMMUNITY	VOTE 3	
FINANCE SERVICES	VOTE 4	
INFRASTRUCTURE	VOTE 5	

**APPROVAL**

Approved by: Municipal Manager: .....



Date: 2018/07/06 .....