

5 January 2011

GREATER TZANEEN MUNICIPALITY

FINANCE DEPARTMENT

VIREMENT POLICY

1. INTRODUCTION

- 1.1 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.***"
- 1.2 A virement represents a flexible mechanism to effect budgetary amendments within a Municipal financial year.
- 1.3 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 adjustments budget is required or not.

2. PURPOSE

- 2.1 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.
- 2.2 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 o them in terms of section 78 or delegated to the in terms of Section 79;...*"
- 2.3 It is the responsibility of each Director of each Department to which funds are allocated, to plan and conduct assigned operations so as not expend more funds than budgeted and to ensure that funds are utilised effectively and efficiently.
- 2.4 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;...”

- 2.5 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 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. DEFINITIONS

- 3.1 Accounting Officer (MFMA)

“(a) in relation to a municipality, means the municipal official referred to in section 60; or...”

- 3.2 Approved Budget (MFMA)

“..means an annual budget:-

a) Approved by a municipal council; or

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 29;”

- 3.3 Chief Financial Officer (MFMA)

“a person designated in terms of Section 80(2)(a)

- 3.4 Director

3.4.1 Section 56 of the 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...”

- 3.5 Financial Year

- 3.5.1 The 12 month period between 1 July and 30 June.

3.6 Vote (MFMA)

3.6.1 *“a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments of the municipality; and*

b) which specifies the total amount that is appropriated for the purposes of the department concerned.”

3.7 Virement

The process of transferring an approved budgetary provision from one operating division or capital project to another within a vote or department during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the previous budget adoption.

4. MFMA REGULATION ON BUDGET VERSUS EXPENDITURE

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

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 appropriated for the different votes in an approved budget”

4.1.2 Unauthorised Expenditure (MFMA 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 for a vote in the approved budget;

c) Expenditure from a vote unrelated to the department 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 (MFMA 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) 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 to ensure that projected revenue and expenditure remain within the municipality’s approved budget....”

5. VIREMENT REQUIREMENTS

- 5.1 The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within a department during a financial year.
- 5.2 In order for a “vote” (department) to transfer funds from one division or capital project to another division or capital project, a saving has to be identified within the monetary limitations of the same department.
- 5.3 Sufficient, (non-committed) budgetary provision should be available within the “giving” vote’s division or project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must

clearly indicate to which division or capital project the budget provision will be transferred to and provide a clear motivation for the transfer.

- 5.4 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 adjustment budget (per MFMA Section 28).
- 5.5 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.
- 5.6 Virements are permitted to shift funds between items, projects, programmes and votes on condition that the requirements of the Virement Policy is adhered to. Not more than 5 percent of the budget may be moved to or from a vote, programme and project.

6. OPERATING BUDGET VIREMENTS

- 6.1 Virements are not allowed to utilise special purpose budgetary allocations, adopted by Council as such and to which specific Council resolution apply.
- 6.2 Sound motivations should be provided for all virements, as provided for on proforma virement documentation.
- 6.3 Specific Virement Limitations
 - 6.3.1 Salaries, Wages and Allowances:
 - 6.3.1.1 Virements are allowed between divisions.
 - 6.3.2 Remuneration of Councillors
 - 6.3.2.1 Virements within this category are allowed.
 - 6.3.3 The following cost elements categories are not to be used as sources of virements.
 - Insurance related provisions
 - Bulk purchases
 - Interest Charges
 - Depreciation
 - Grants to individuals

- Revenue foregone
- VAT

6.3.4 No virements will be permitted to and from the following expenditure line item:

- Bad Debts

6.3.5 Revenue

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

6.3.6 Secondary Operating Cost Elements

6.3.6.1 Virements may not increase the total approved budget of that department.

6.3.7 The following National Treasury Guidelines are also provided for:

- Virements between votes are permitted where the proposed shifts in funding facilitate sound risk and financial management.
- Virements from the Capital budget to the Operating budget are not permitted.
- Virements towards personnel expenditure are not permitted.
- Virements must 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 are not permitted.

7. CAPITAL BUDGET VIREMENTS

7.1 Virements must be between projects of similar funding sources.

7.2 Implementation of the project from which funds are viremented may not be prejudiced.

7.3 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.

8. PROCESS AND ACCOUNTABILITY

- 8.1 Completed virement documentation is to be effected by the relevant director.