

GREATER TZANEEN MUNICIPALITY



VIREMENT POLICY

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TABLE OF CONTENT

	PAGE
PRE-AMBLE	3
1. Introduction	4
2. Purpose	4
3. Definitions	5
4. Virement Principals	6
5. MFMA Regulations on Budget versus Expenditure	7
6. Virement Requirements	8
7. Operating Budget Virements	9
8. Capital Budget Virements	10
9. Segment guidance regarding mSCOA virements	10
10. Process and Accountability	12
11. Delegations	13

GREATER TZANEEN MUNICIPALITY

FINANCE DEPARTMENT

VIREMENT POLICY

PREAMBLE

The Local Government Municipal Finance Management Act, no. 56 of 2003 (MFMA) provides that a Municipality may, except where otherwise provided for in this Act, incur expenditure only in terms of an approved Budget and within the limits of the amounts appropriated for the different votes in an approved budget.

The MFMA and Municipal Budget Reporting Regulation also determine that an Adjustment Budget referred to in Section 28 of the Municipal Finance Management Act may be tabled in the Municipal Council at any time after the mid-year Budget and the performance assessment have been tabled in the Council, but not later than 28 February of the current year. It also determines that only one Adjustment Budget referred to in sub-section (1) may be tabled in the Municipal Council during a financial year except when additional revenues are allocated to a Municipality in a National or Provincial Adjustment Budget.

There are however always elements that cannot be predicted which may lead to overspending on line items. The need to transfer funds within or between approved votes will always be there due to changing circumstances and priority changes during a financial year. The Municipality may revise the approved Annual Budget through transfers as defined in Section 28 (2)(d) of the MFMA.

For this reason, the Council of Greater Tzaneen Municipality adopts the following 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 for a 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 transfer may, however, be dependent on whether an adjustments budget is required or not.
- 1.4 The mSCOA Regulations that were promulgated on 22 April 2014 prescribed not only a standardised financial classification for municipalities but also introduced a new era in planning, budgeting, transacting, and reporting for Local Government. mSCOA is not limited to the recording of transactions in the financial system, but also impacts on the application of basic processes and procedures for the daily operation of a municipality and municipal policies in respect of financial management.

2. PURPOSE

The purpose of this policy is to provide guidelines to senior managers in the use of virements as a mechanism in the day-to-day management of their budgets. It also aims:

- 2.1 To assist the Accounting Officer to ensure that adequate policies and procedures are in place to ensure an effective system of financial control.
- 2.2 To enable the Chief Financial Officer to advise the Accounting Officer and to assist senior managers in the exercising of powers and duties assigned to them in terms of Section 78 of the MFMA.
- 2.3 To empower the Accounting Officer and senior managers with an efficient financial and budgetary system to ensure optimum service delivery within the current legislative framework of the Act and the municipality's system of delegations
- 2.4 To allow limited flexibility in the use of budgeted funds to enable Management to act on occasions such as disaster, unforeseen

expenditure, or savings, etc., as they arise to accelerate service delivery in a responsible manner.

2.5 To illustrate how a virement should be applied in the mSCOA environment

3. DEFINITIONS

“Approved budget” means an annual budget (original or an adjustment budget) referred to in Section 15 of the Act approved by the Municipal Council in terms of Section 24 and 28 of the MFMA.

Accounting Officer” means the Accounting Officer appointed in terms of Section 82 of the Local Government: Municipal Structures Act, No 117 of 1998 and being the head of administration and Accounting Officer in terms of Section 55 of the Local Government: Municipal Systems Act, No. 32 of 2000 as well as Section 60 of the Local Government: Municipal Finance Management Act, No 56 of 2003.

“Chief Financial Officer” means an official designated by the Accounting Officer as the Chief Financial Officer in terms of Section 80(2)(a) of the Act.

“Senior Manager / Director” means a person appointed by Council in terms of Section 77(1)(c) of the Act as a manager directly accountable to the Municipal Manager

“Financial Year” means the twelve (12) month period between 1 July and 30 June of the following year.

“Cost Centre

“means a functional area which represents a logical point at which cost (expenditure) is managed.

“Vote” means one of the main segments (departments) into which a budget of a municipality is divided for the appropriation of money which specifies the total amount that is appropriated for the purposes of the department’s concerned.

“Virement” means 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 due to changed circumstances which prevailed at the time of the previous budget adoption.

“mSCOA” means the Municipal Standard Chart of Accountant.

“MFMA or the ACT” means the Municipal Finance Management Act, Act no. 56 of 2003.

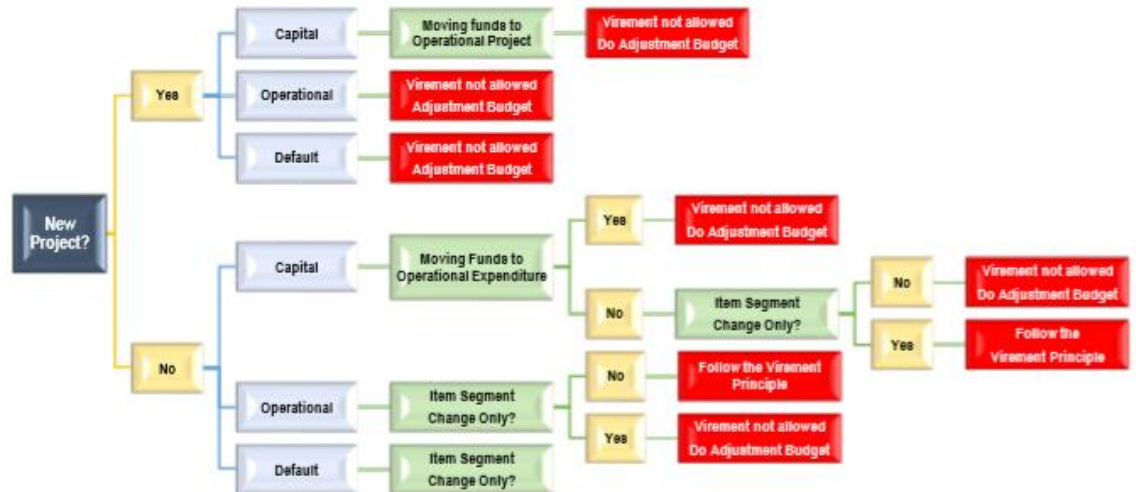
4. VIREMENT PRINCIPLES

Greater Tzaneen Municipality wishes to record that the following virement principles will apply:

- 4.1 In order for the Accounting Officer to authorise the transfer of funds from one cost item or capital project to another cost item or capital project within or across a vote (department); a saving has to be identified within the budgetary limitations and within a similar funding segment of the approved cost item or capital project.
- 4.2 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 (Section 28 of the Act)
- 4.3 In terms of Section 17 of the Act a municipality's budget is divided into an operational and capital budget and consequently no virements are permitted between the operational and capital budgets.
- 4.4 Virements between votes (departments) will be permitted where the shifts proposed in funding facilitate sound risk and financial management.
- 4.5 Virements are not permitted in relation to the revenue side of the operational budget except where the Policy specifically caters for such virements.
- 4.6 Virements are not permitted in relation to the expenditure side of the capital budget except where the Policy specifically caters for such virements.
- 4.7 A Project extending over/ incorporating more than one mSCOA function or sub function, then savings in the budgetary allocation in a function or sub-function may be applied across the functions and/ or sub-functions directly linked to the same Project and Funding Source;
- 4.8 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 versa². Therefore, virement between Rates Services and Trading Services and across Trading Service are not allowed.

4.9 Project segment guidance: Expenditure and Revenue

The flow chart diagrams below provide guidance on how a virement should be applied in the mSCOA environment.



5. MFMA REGULATION ON BUDGET VERSUS EXPENDITURE

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

5.1.1 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”*

5.1.2 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;”*

5.1.3 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.*

5.1.4 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....”

6. VIREMENT REQUIREMENTS

- 6.1 The virement process represents the mechanism to align and take corrective (financial / budgetary) action within a department during a financial year.
- 6.2 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.
- 6.3 Sufficient, (non-committed) budgetary provision must 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.

- 6.4 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).
- 6.5 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.
- 6.6 Virements are permitted to shift funds between items, projects, programmes and votes on condition that the requirements of the Virement Policy are adhered to. Not more than 5 percent of the budget may be moved to or from a vote, programme and project.

7. OPERATING BUDGET VIREMENTS

- 7.1 Sound motivations should be provided for all virements, as provided for on proforma virement documentation.
- 7.2 Virements may not increase the total approved budget of that department.
- 7.3 Virements are not allowed to utilise special purpose budgetary allocations, adopted by Council as such and to which specific Council resolution apply.
- 7.4 Virements towards personnel expenditure are not permitted, except where:
 - 7.4.1 Temporary/Contracted staff has changed to permanent staff.
 - 7.4.2 The budget savings resulted from outsourced services within the same function in terms of Councils delegated authority, or
 - 7.4.3 Virements within the same department but between divisions
- 7.5 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
 - Debt impairment

7.6 Remuneration of Councillors

7.6.1 Virements within this category are allowed.

7.7 Revenue

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

8. CAPITAL BUDGET VIREMENTS

8.1 Virements must not result in adding new projects to the Capital Budget.

8.2 Virements of Conditional Grant funding for purposes outside of that specified in the relevant conditional Grant framework must not be permitted.

8.3 Virements must be between projects of similar funding sources.

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

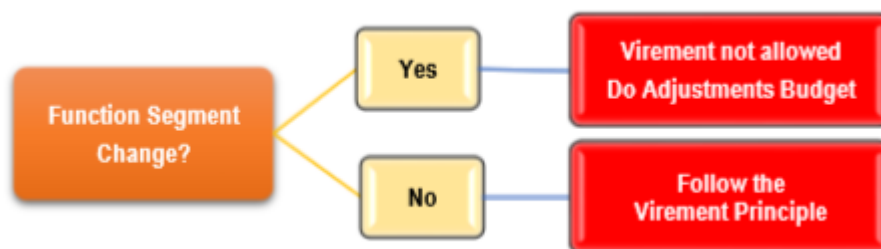
8.5 Motivations for virements should clearly state the reason for the saving within the “giving” project, as well as the reason for the additional amount required.

9. SEGMENT GUIDANCE REGARDING mSCOA VIREMENTS

The following segments should be considered in terms of the impact of the virement process.

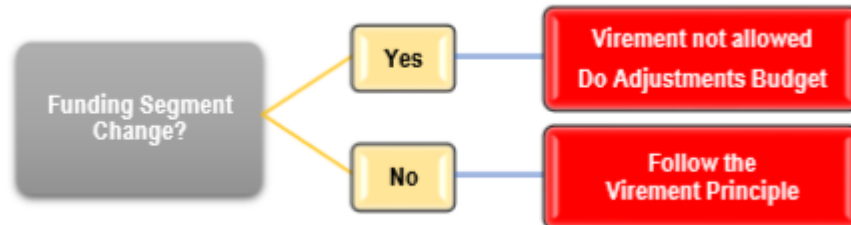
9.1 Function segment guidance

If there is no change to the function segment, a virement may be done subject to the virement principles above.



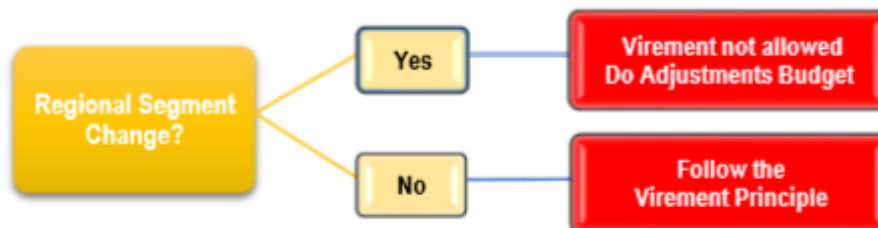
9.2 Function segment guidance

If there is no change to the funding segment, a virement may be done subject to the virement principles above.



9.3 Regional Segment guidance

If there are changes to the regional segment in the application of a virement, then a virement may not be done but an adjustments budget is required, because Council allocates the project and funding to a specific region. A virement may be done if it will not result in changes to the regional segment subject to the application of the virement principles below.

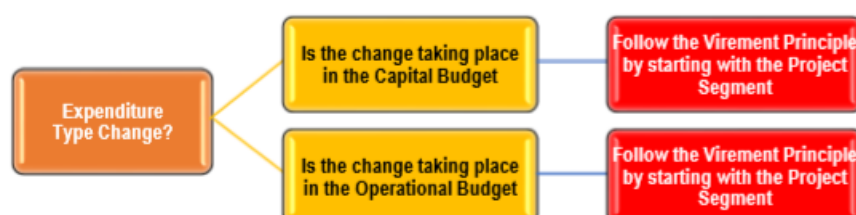


9.4 Costing Segment guidance

Changes to the costing segment should not affect the application of a virement.

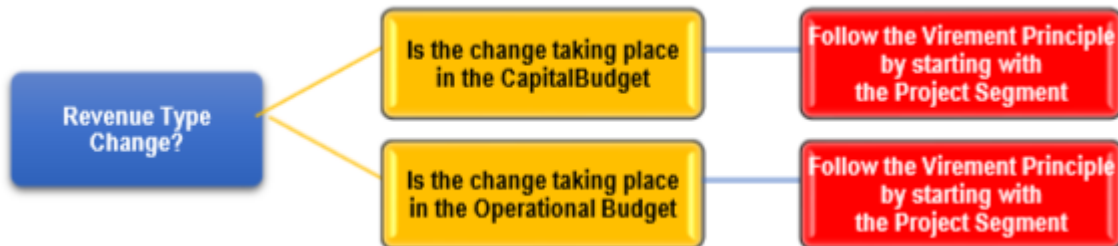
9.5 Item Segment: Expenditure guidance

If changes in expenditure are incurred in the capital or operational budget, the virement decision should start with the project segment. If a virement is allowed, it will be subject to the application of the virement principles above.



9.6 Item segment: Revenue guidance

If changes in revenue type change either in the Capital or Operational Budget. First start with the Project and apply the change to all the segments and should the Virement be allowed refer to the Virement Principals before applying the Virement.



10. PROCESS AND ACCOUNTABILITY

- 10.1 Accountability, to ensure that virement application forms are completed in accordance with council's Virement Policy, manifests with the Senior Manager/Director of a department.
- 10.2 The relevant Senior Manager/Director shall ensure that the virement application form is duly completed, motivated, and approved.
- 10.3 The Budget Office must verify the virement application form and the Chief Financial Officer must authorise the virement application if it complies with the Virement Policy of council. If not, the virement application form must be returned to the relevant Senior Manager.
- 10.4 All relevant virement application forms verified by the Budget Office and authorised by the Chief Financial Officer must be forwarded to the Accounting Officer for Approval.
- 10.5 After final approval by the Accounting Officer the Budget Office must process the virement document.
- 10.6 Completed virement documentation is to be kept by the Chief Financial Officer (Budget Office) for audited purposes.

11. DELEGATIONS

- 11.1 Any Official acting in a position of a Senior Manager, the Chief Financial Officer or the Municipal Manager will have the delegated powers to authorise or approve virement applications.
- 11.2 For operational reasons, the Chief Financial Officer may delegate his/her authorisation rights to Divisional Managers within the Financial Department. These delegations must be in writing and kept by the Budget Office for audit.
- 11.3 For operational reasons, the Municipal Manager may delegate his final approval rights to the Chief Financial Officer with the proviso that the Chief Financial Officer may not delegate that right to any other official.