

CITY OF MATLOSANA



VIREMENT POLICY

2024/2025

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VIREMENT POLICY

1. INTRODUCTION

The compilation of a virement policy is based on the guidelines issued in Budget Circular No 51 published by National Treasury. The MFMA as amended and the Municipal Budget and Reporting Regulations 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. To further facilitate this, 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.

- 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) as amended. The treatment of such instances may, however, be dependent on whether an adjustment 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 to them in terms of section 78 or delegated to them in terms of section 79."

- 2.3 It is the responsibility of each senior manager of each Directorate 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.
- 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;”
- 3.2 **Chief Financial Officer (MFMA)**
“a person designated in terms of section 80(2)(a)”
- 3.3 **Senior Manager**
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...”
- 3.4 **Municipal Council**" or "council" means the council of a municipality referred to in section 18 of the Municipal Structures Act;
- 3.5 **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 28;”
- 3.6 **Budget transfer**" means transfer of funding within a vote subject to limitations.
- 3.7 **Capital budget**" means a financial plan catering for large and long-term sums for investment in property, plant and machinery, over a period greater than the period considered under an operating budget.
- 3.8 **Operating budget**" An operating budget is the annual budget of an activity stated in terms of Budget Classification Code, functional/sub-functional categories and cost accounts. It contains estimates of the total value of resources required for the performance of the operations in terms of revenue and expenditure including reimbursable work or services for others;

3.9 **Cost Centre**

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

3.10 **Financial year**

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

3.11 **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.”

3.12 **"Overspending"-**

- a) 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 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

3.13 **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.

4 LEGISLATION REQUIREMENTS

Chapter 4 of the Municipal Finance Management Act, No. 56 of 2003, states that the approval of the budget/appropriation is the responsibility of Council. This does not mean the approval of every line item but rather the approval of the budget which will give effect to the planned strategic priorities of the municipality's (IDP & SDBIP). There is no legislation that prevents Council from delegating authority to other levels as far as line items are concerned.

The process, format and other compliance requirements are regulated by the Municipal Finance Managements Act, No. 56 of 2003, the Municipal Budget and Reporting Regulations and National Treasury MFMA Circular No.51.

5 OBJECTIVES OF POLICY

This policy shall give effect to the requirements and stipulations of the Municipal Finance Management Act, Municipal Budget and Reporting Framework in terms of the Approved budget.

The policy sets out the virement principles and processes which City of Matlosana will follow during a financial year.

These virements will represent a flexible mechanism to effect budgetary amendments within

a municipal financial year.

6. VIREMENT RESTRICTIONS

In terms of Circular 51 issued by National Treasury, the following principles must be incorporated into municipal virements policies:

- Virements should not be permitted in relation to the revenue side of the budget;
- Virements 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);
- Virements from the capital budget to the operating budget should not be permitted;
- Virements towards personnel expenditure should not be permitted;
- 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;
- Virements should 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 must not be permitted; and
- 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.).

An approved virement does not give expenditure authority outside of what is allowed by Council's Supply Chain Management Policy.

Virements will only be approved if they facilitate and promote sound risk and financial management.

7. BUDGET TRANSFERS

The amount of a saving under a main expenditure category of a vote that may be transferred to another main expenditure category may not exceed ten per cent (10%) of the amount appropriated under that main expenditure category. Savings in an amount appropriated for capital expenditure may not defray operational expenditure.

7.1 TRANSFERS FROM REPAIR AND MAINTENANCE

As per directive from National Treasury only transfers to Repair and Maintenance votes will be allowed. No transfers from Repair and Maintenance to any other cost functions like Salaries; General Expenditure will be allowed.

7.2 YEAR-END TRANSFERS

This policy make provision for the transfer of funds at any financial year end to avoid any unauthorised expenditure. Such transfers must be approved within the framework set out in the delegations below.

7.3 CAPITAL BUDGET TRANSFERS

- a) Only virements which relate to projects approved as part of annual or adjustments budgets, will be permitted.
- b) No virements that will result in the adding of “new” projects onto the Capital Budget, will be allowed.
- c) Virements must be between projects of similar funding sources (e.g. grant funded ↔ grant funded).
- d) Implementation of the project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the project).
- e) 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. DELEGATIONS ON CAPITAL BUDGETS

A Capital Budget is approved per line items or per project. This in effect means that Council does not allow any discretion to an official other than delivering on the decision. Any saving or shortfall must be reported to Council for Council to decide on the future utilisation of the savings as well as to seek additional funds for the execution of a project in the case of a shortfall in the budgeted amount to complete the project. Because of the fact that Council in fact decide on the individual projects or purchases this cannot be delegated and any discussion around such an item and changes must be approved by the Council.

9. DELEGATION ON VIREMENTS TRANSFERS ON IN - OPERATING BUDGETS

9.1 VIREMENTS TRANSFERS BETWEEN VOTES (FUNCTIONS)

A “Vote” in terms of the MFMA National guidelines is defined determined as one of the main segments into which a budget of a municipality is divided for the appropriation of funds money for different departments or functional areas. This specifies the total amount that is appropriate for the purpose of the department or functional area.

Council therefore decide on the total amount that is allocated to that specific function and classifies it as a vote, because council approves the “vote” only the shifting of funds within the “vote” can be delegated to Executive Mayor in consultation with the Accounting Officer and the Chief Financial Officer. As far as the reallocation of funds between “Votes” is concerned, it cannot be delegated and Council has to decide on each of them.

9.2 VIREMENTS BETWEEN COST CENTRES

Transfer of line item budgets between cost centres within a specific “Vote” is delegated to the Executive Mayor. The Executive Mayor is a chairperson of the Budget Steering committee where he/she will play their political oversight and where he/she can be informed by the Accounting Officer, the Chief Financial Officer and other senior functional managers. Any transfer of funds between cost centres by the Executive Mayor must be informed in writing by comments from the Accounting Officer and the Chief Financial Officer. The amount of transfer by the Executive Mayor is limited to R 1 000 000 per line item and any amount larger that this must be approved by Council. It is also a requirement that any transfer approved by the Executive Mayor be reported to full Council on a monthly basis.

9.3 VIREMENTS BETWEEN DIFFERENT CATEGORIES WITHIN COST/FUNCTIONAL CATEGORIES

The transfer of budgets between different categories within a functional or cost centre can be delegated. The approval will then be signed by the Municipal Manger on condition that a report for information must be submitted to Council every quarter. Any transfer application must be accompanied by comments from the Chief Financial Officer. Transfers in terms of this delegation is limited to R 500 000 per line item. In cases where this amount is exceeded, it will have to be submitted to the Executive Mayor for approval under his/her limitation of R1 000 000 or Council for approval for any case above R1 000 000.

9.4 VIREMENTS WITHIN CATEGORIES

The transfer of budgeted amount within categories is delegated to the Senior Manager and can only be considered on advice in writing by the Chief Financial Officer who will report to the Budget Steering Committee on a monthly basis on all transfers that were approved. The Accounting Officer can delegate his authority to the Chief Financial Officer. The maximum amount that can be transferred in terms of this delegation is R 250 000 per case. Anything above that amount must be referred to the Accounting Officer for approval under his/her limitation of R 500 000 per case. Anything above R 500 000 must be referred to the Executive Mayor under his/her limitation of R1 000 000 or Council for approval for any case above R1 000 000.

9.5 YEAR-END TRANSFERS

Year-end transfers will be allowed within the parameters set in section 9 above to avoid unnecessary unauthorized expenditure.

10. GENERAL

The purpose of this delegation is to improve the pace at which service delivery is done and to make functionaries more accountable for their actions. The delegation can be withdrawn at any stage for whatever reason.

Virements between existing line items or from existing line items to new line items as prescribed in the Municipal Standard Chart of Accounts (MSCOA) be allowed to eventually comply fully with the line items as per MSCOA within the parameters of the above delegations.

11. DEVIATION FROM THE PROVISIONS OF THIS POLICY

The Accounting Officer or his/her delegated official(s), may, deviate from the provisions(s) of this policy, where there is an existence of bona fide organizational or operational requirements.

12. IMPLEMENTATION OF THIS POLICY

This policy shall be implemented after adoption by Council and it will be applicable to City of Matlosana as from 1 July 2023.