



POLICY DOCUMENT

POLICY

VIREMENT (TRANSFER OF FUNDS)





POLICY: VIREMENT POLICY (TRANSFER OF FUNDS)

PREAMBLE

WHEREAS the Municipal Finance Management Act (MFMA) aims to enable managers to manage, but to make them more accountable by introducing regular and consistent reporting requirements. The challenge facing all the role-players is to improve the efficiency and effectiveness of the municipality through the best use of management information.

WHEREAS this policy assists management in complying with the MFMA and ensures that financial information is correctly recorded in the financial system.

1. DEFINITIONS

In this policy unless the context indicates otherwise, the following definitions are applied:

1.1 Act

“ - means the Municipal Finance Management Act (MFMA), 2003 (Act No. 56 of 2003)

1.2. Accounting Officer (MFMA)

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

1.3 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;”



1.4 Chief Financial Officer (Deputy Municipal Manager – Financial Services)

“ means the officer of the uMhlathuze Municipality designated by the City Manager to be administratively in charge of the budgetary and treasury functions.”

1.5 Financial year/Budget year

The 12 month period between 1 July and 30 June.

1.6 MFMA

The Municipal Finance Management Act (Act No.56 of 2003)

1.7 Vote (MFMA)

- 1.6.1 (a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments 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.”

- 1.6.2 In the case of the City of uMhlathuze the definition of Vote is defined in terms of mSCOA function segment.

1.8 mSCOA

is Municipal Regulations on a Standard Chart of Accounts and provides a uniform and standardised financial transaction classification framework.

1.9 mSCOA Function segment

is one of the main segments into which the budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality and has been broken up into the following functions:

- Community and Social Services
- Energy Sources
- Environmental Protection
- Executive and Council
- Finance and Administration
- Health
- Housing
- Internal Audit



- Other
- Planning and Development
- Public Safety
- Road Transport
- Sport and Recreation
- Waste Management
- Waste Water Management
- Water Management

1.10 Operational sub-functions

are defined as sub-functions of the mSCOA function segment and to where transactions are posted to. Refer to **Appendix A (DMS 1191385)** for a list of functions and sub-functions including their definitions.

1.11 Virement

The process of transferring an approved budgetary provision from one operating sub-function 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 approved budget.

1.12 Overspending (MFMA)

- “(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;”

1.13 Unauthorised expenditure (MFMA)

“in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA”

1.14 Any other word or expression to which a meaning has been assigned in the Municipal Finance Management Act, Act No 56 of 2003, and the Local Government Municipal Systems Act, Act No. 32 of 2000, unless



inconsistent with the context shall, wherever such word or expression appears in the policy, bear the same meaning as that assigned to it in the said legislation.

2. LEGISLATIVE FRAMEWORK

- 2.1 Section 81(1)(d) of the Act 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;”
- 2.2 Section 78(1)(b) of the Act 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;”
- 2.3 National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009 (Dms 605152). These regulations set out the manner in which Municipalities are required to report their annual, monthly, mid-year and adjustments Budgets.

The objectives of the budget formats reforms in terms of these regulations are:

- ❖ To ensure that the municipal budget and financial reporting formats support the other financial management reforms introduced by the Act;
 - ❖ To formalise the norms and standards governing municipal budget and financial reporting formats, so as to improve the credibility, sustainability, transparency, accuracy and reliability of budgets and in-year reports of municipalities.
 - ❖ To improve Council's ability to deliver basic services to all by addressing issues of financial sustainability;
 - ❖ To facilitate informed policy choices by Council and medium term planning of service delivery by aligning targets to achieve backlog elimination.
- 2.4 MFMA Circular No 51 (DMS633560) issued on 19 February 2010 states that each municipality must put in place a Council approved virement policy, which should provide clear guidance to managers of when they may shift funds between items, projects, programmes and votes.



3. OBJECTIVES OF THIS POLICY

- 3.1. 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.
- 3.2 It is the responsibility of each Deputy Municipal Manager 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.
- 3.3 This policy aims to provide guidelines to management in the use of virement as a mechanism in their day-to-day management of their budgets. In addition it specifically aims to empower Deputy Municipal Managers with an efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the Act and the City's system of delegations.

4. BUDGET REGULATIONS

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

4.1 Section 15 of the Act – 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.”

4.2 Section 28 of the Act – Municipal Adjustments Budget

“A municipality may, revise an approved annual budget through an adjustments budget.

4.3 Unauthorised Expenditure

As defined 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 or functional area covered by the vote;
 - (d) expenditure of money appropriated for a specific purpose, otherwise than for a 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;"
- 4.4 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 or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget....”*
- 4.5 Section 72 (3)(a) states inter alia *“The accounting officer of a municipality must assess the performance during the first half of the financial year, taking into account:-...(3)(a) make recommendations as to whether an adjustments budget is necessary and (b) recommend revised projections for revenue and expenditure ...”*
- 4.6 MFMA Circular No 51 (DMS 633560) guides Municipalities on what principles should be incorporated into the municipal virement policies:
- 4.6.1 Virements should not be permitted in relation to the revenue side of the budget;
 - 4.6.2 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);
 - 4.6.3 Virements from the capital budget to the operating budget should not be permitted;
 - 4.6.4 Virements towards personnel expenditure should not be permitted;
 - 4.6.5 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;



- 4.6.6 Virements should not result in adding 'new' projects to the Capital Budget;
- 4.6.7 Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and
- 4.6.8 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.) and in the event that this limit is exceeded Council approval be obtained prior to virement.

5. VIREMENT PROCESS

- 5.1 The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within a vote during a financial year.
- 5.2 In order for a "vote" to transfer funds from one sub-function to another sub-function, a saving has to be identified within the monetary limitations of the approved "giving" sub-function or capital project allocations on the respective budgets.
- 5.3 Sufficient, (non-committed) budgetary provision should be available within the "giving" vote's sub-function concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which sub-function 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 adjustments budget as set out in terms of Act Section 28 and the Municipal Budget and Reporting Regulations.
- 5.5 In terms of Section 17 of the Act 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 not permissible across, or between, votes unless adopted via an Adjustment budgets as set out in terms of Act Section 28 and the Municipal Budget and Reporting Regulations.
- 5.7 Virements across votes will only be allowed by a formal agreement between Deputy Municipal Managers of affected departments and the Chief Financial Officer in order to ensure accurate reporting in financial



statements. These virements will be submitted quarterly to Council for approval.

- 5.8 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 resolutions adopted when adopting the budget, as virement sources.
- 5.9 Sound motivations should be provided for all virements, as provided for on the pro-forma virement documentation. Refer to **Appendix “B” (DMS 1191392)** for the virement (transfer of funds) form that is required to be utilized. This document can be amended from time to time as may be required.

5.10 Specific virement limitations:

- 5.10.1 No virements are permitted to and from Grants and Subsidies Paid, except if supported by Council decision for such transfer and as per the approved Grants-in-Aid Policy.
- 5.10.2 Virements towards personnel expenditure including Councillors remuneration is not be permitted unless adopted via an Adjustment Budget.
- 5.10.3 No virements are permitted to and from the following **cash** mSCOA item expenditure:
- ☐ Bulk Purchases
 - ☐ Interest Charges
 - ☐ Employee Related costs
 - ☐ Indigent Relief and Revenue Forgone
 - ☐ Insurance
- 5.10.4 No virements are permitted to and from the following **non-cash** mSCOA item expenditure:
- ☐ Debt Impairment
 - ☐ Depreciation
 - ☐ Departmental Charges
- 5.11. No virements will be approved on any Revenue element. Revenue provisions' amendments are to be adopted via an adjustments budget.



- 5.12 As Council approves a detailed Capital Budget by individual project no virements are permitted between capital projects unless Council approval is obtained **prior to the commencement of the project subject to the following exception:**
- 5.12.1 Virements for movable assets up to a value not exceeding R 500 000 will be permitted to be actioned prior to obtaining Council's approval after completion of a virement form that has been duly authorized by the respective Deputy Municipal Manager.
- 5.13 No virements of which the affect will be to add "new" projects onto the Capital Budget, will be allowed unless Council approval is obtained **prior to the commencement of the project subject to the following exception:**
- 5.13.1 Virements for movable assets up to a value not exceeding R 500 000 will be permitted to be actioned prior to obtaining Council's approval after completion of a virement form that has been duly authorized by the respective Deputy Municipal Manager.
- 5.14 Virements may not cause an increase to individual projects' total project cost unless Council approval is obtained.
- 5.15 Virements must be between projects of similar funding sources (e.g. External Financing Fund ↔ External Financing Fund).
- 5.16 Implementation of the project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the project).
- 5.17 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.
- 5.18 Any capital budget amendments as approved by Council to be incorporated adjustments budget as set out in terms of Act Section 28 and the Municipal Budget and Reporting Regulations.
- 5.19 With regards to Repairs and Maintenance mSCOA item expenditure the following is applicable:
- 5.19.1 **Prohibiting** transfers from Repairs and Maintenance (Labour and transport component – non-cash) to other mSCOA item expenditure;
- 5.19.2 **Limitation** of transfers of Repairs and Maintenance (materials and contracted services) to other Repairs and Maintenance mSCOA item expenditure and



6. ACCOUNTABILITY

- 6.1 Accountability to ensure that virement application forms are completed in accordance with Council's virement policy and are not in conflict with the directorate's strategic objectives manifests with the head of the relevant directorate.
- 6.2 Approval of virement lies with the Deputy Municipal Manager – Financial Services or such other senior delegated official in Financial Services Department.
- 6.3 Completed virement documentation is to be effected by the Manager: Budgets.
- 6.4 Virements approved and processed will be reported for information to Council on a quarterly basis.