

UBUHLEBEZWE LOCAL MUNICIPALITY

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 dependant 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) 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 of the act.
- 2.3 It is the responsibility of every Head of Department 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 virement 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 UBUHLEBEZWE MUNICIPALITY's system of delegation.

3. **DEFINATIONS**

3.1 *Accounting Officer (MFMA)* - “(a) in relation to a municipality means the municipal official referred to in section 60;

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 adjustment budget in terms of section 28;”

3.3. *Chief Financial Officer (MFMA)* –“ a person designated in terms of section 80(2)(a)

3.4. *Financial Year* – “the 12 months period 1 July and 30 June.

3.5. *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.

3.6. *Virement*

The process of transferring an approved budgetary provision from one operating line item within a vote during a municipal financial year and which results in changed circumstances from that which prevailed at the time of the budget adoption

4. **MFMA REGULATION ON BUDGET VERSUS EXPENDITURE**

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

- (a) Section 15 – Appropriation of funds for expenditure “A municipality may, except where otherwise provided in this Act, incur expenditure only-
- (i) In terms of the approved budget
 - (ii) Within the limits of the of the amounts appropriated for the different votes in an approved budget
- (b) Section 28(2) (d) read together with section 69 of the MFMA provides that *“An adjustments budget...may authorise the utilisation of projected savings in one vote towards spending in another vote.”* Transfers between votes may therefore be authorised only by the Council of the Municipality.

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 line (cost element) item to another, a saving has to be identified within the monetary limitations of the approved “giving” line item budget allocation on the respective budgets.
- 5.3. 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 Budget.
- 5.4. Virements are not permissible across, or between votes.
- 5.5. 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)
- 5.6. Sufficient, (non-committed) budgetary provision should be available within the “giving” votes line item to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to

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which line item the budget provision will be transferred to and provide a clear motivation for the transfer.

6. Authorisation of Virements

A transfer of funds from one line item to another under this policy may, subject to the provisions of this policy, be authorised as follows:

- 6.1 If the amount does not exceed R50 000, the transfer may be authorised by the Chief Financial Officer of the Municipality or the Municipal Manager of the Municipality after consultation with the Chief Financial Officer;
- 6.2 If the amount exceeds R50 000 but does not exceed R 100 000, the transfer may be authorised by the Municipal Manager after consultation with the Chief Financial Officer;
- 6.3 If the amount exceeds R100 000, the transfer may be authorised by the Executive Committee of Council, on the recommendation of the Municipal Manager.
- 6.4 Notwithstanding the provisions of 6.1, a transfer of funds between cost or functional centres within a particular vote may not be authorised by the Chief Financial Officer but may only be authorised by:
 - (a) The Municipal Manager, if the amount does not exceed the amount of R100 000;
 - (b) The Executive Committee of Council, if the amount exceeds the amount of R100 000.

7 Procedure for Virement

- 7.1 Proposals for transfers may be made by the Head of Department concerned.

7.2 The Municipal Manager shall prescribe a form on which all proposals for transfers of funds under this policy shall be made, which form shall include, but not be limited to, provisions for the following:

- the name of the department concerned;
- descriptions of the line items from and to which the transfer is to be made;
- the amount of the proposed transfer;
- the cause of the saving in the line item from which the transfer is to be made;
- the justification for the transfer;
- a description of any consequences that such transfer may have for the Integrated Development Plan or the Service Delivery and Budget Implementation Plan

7.3 Each proposal for a transfer shall be submitted by the Head of Department concerned to the Chief Financial Officer and if :

7.3.1 the amount of the transfer does not exceed the amount referred to in section 6.1 and the transfer is not between cost or functional centres, the Chief Financial Officer shall:

- approve the proposal, or
- reject the proposal; or
- refer the proposal to the Municipal Manager for approval or rejection;

7.3.2 the amount of the transfer does not exceed the amount referred to in section 6.1 but the transfer is between cost or functional centres, or if it falls within the range of amounts referred to in section 6.2, the Chief Financial Officer shall refer the proposal to the Municipal Manager who, after consultation with the Chief Financial Officer, shall approve or reject the proposal;

7.3.3 the amount of the transfer falls within the range of the amounts referred to in section 6.3, the Chief Financial Officer shall refer the matter to the Municipal Manager who in turn shall refer the matter to the

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Executive Committee, together with his recommendations, and the Executive Committee shall either approve or reject the transfer.

- 7.4 Upon a proposal for transfer being approved, such transfer shall be implemented subject to compliance with the Municipality's Supply Chain Management Policy.

8 Reporting

The Municipal Manager shall submit a report on all transfers made under this Policy to the Mayor every quarter.

9. General

- 9.1 The Municipal Manager shall be responsible for the implementation and administration of this Policy.
- 9.2 Accountability to ensure that the virement application forms are completed in accordance with Council's virement policy and are not in conflict with the department's strategic objectives manifests with the head of the relevant department
- 9.3 This Policy shall come into effect on **1 July 2018**.

ANNEXURE A

DOCUMENT NO.

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REQUESTED BY:.....

REQUEST DIRECTED TO: The Chief Financial Officer

DATE:

FINANCIAL YEAR:

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PLEASE EFFECT VIREMENT AS
FOLLOWS.....
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FROM VOTE NUMBER:.....

FROM VOTE DESCRIPTION:.....

VOTE CATEGORY:.....

TO VOTE NUMBER:.....

TO VOTE DESCRIPTION:

VOTE CATEGORY:.....

AMOUNT: R.....

AMOUNT IN WORDS:.....

REASON OF VIREMENT:
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1. Are the above votes within your directorate? Y N

If no, obtain the approval of the relevant Executive Director

NAME:

DATE:

2. Has the total virement on the above votes exceeded the limit as disclosed in paragraph 6b of the Virement Policy? Y / N

3. Will the above virement cater to the approved outcomes/ output of the IDP or adjust service delivery targets, as set in the SDBIP, downwards? Y / N

4. Is the virement required to increase recurrent expenditure, such as leases? Y / N

5. Will the virement affect the following line items and categories of expenditure:

- Employment Costs Category Y / N
- Departmental Charges Y / N
- Charge out Allocations Y / N
- Grant Expenditure Y / N
- Income Category Y / N

I hereby declare that I fully understand the contents of the Virement Policy and request that the above virement be approved.

DIRECTOR:(Signature)
NAME IN FULL :(print name)
DATE:
CHIEF FINANCIAL OFFICER:.....
NAME IN FULL :(print name)
DATE:.....
CAPTURED BY..... (signature)

DATE:.....
CHECKED BY :.....(signature)
DATE:.....

UBUHLEBEZWE MUNICIPALITY

VIREMENT POLICY: APPROVED BY COUNCIL ON THE 25 APRIL 2018