



Dr Nkosazana Dlamini Zuma Local Municipality

# VIREMENT POLICY

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## 1. DEFINITIONS

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

- a) **“Accounting Officer”** means the Municipal Manager for the Municipality within the meaning of Section 82 of the Municipal Structures Act, 1998 (Act No.117 of 1998);
- b) **“CFO”** means Chief Financial Officer;
- c) **“Council”** the oversight structure comprising of councilors for Dr Nkosazana Dlamini Zuma Local Municipality;
- d) **“MFMA”** means the Municipal Finance Management Act (Act No. 56 of 2003);
- e) **“Senior manager”** is an official reporting directly to the accounting officer;
- f) **“mSCOA”** Municipal standard Chart of Account
- g) **“Virement”** means the transfer of budgetary provision from one budget head or vote to another budget head or vote;
- h) **‘Vote’ means –**
  - i. 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
  - ii. That specifies the total amount that is appropriated for the purposes of the Department or functional area concerned. The municipality’s votes are –
    - Executive & Council – Vote 1
    - Finance and Administration (BTO) – Vote 2
    - Community Services – Vote 3
    - Corporate Services – Vote 4
    - Infrastructure Services (Public Works and Basic Services) – Vote 5
    - Planning & Development – Vote 6

## 2. OBJECTIVE OF VIREMENT POLICY

2.1 The Municipality resolves in terms of the MFMA to implement a Virement Policy that -

- a) Enables the Council, Executive Committee, Portfolio Committees, Accounting Officer, senior managers and their staff, to manage budgets with a degree of flexibility within the overall policy framework determined by the Council;
- b) To provide clear guidance to senior managers (heads of departments) of the municipality in managing their budgets
- c) To empower senior manager with an efficient financial and budgetary system to ensure optimum service delivery within current legislative framework of the MFMA and the Municipality's system of delegations
- d) To provide clear guidance to senior managers on when they may shift funds between items, projects and programmes.
- e) Optimizes the use of resources by ensuring adequate funding is available to defray expenditure that is incurred in a vote or sub-vote by offsetting savings in another, vote or sub-vote or additional revenue.

## 3. LEGISLATIVE BACKGROUND

Section 62 (1) of Municipal Finance Management Act, 56 of 2003 (MFMA) stipulates that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- a) *that the resources of the municipality are used effectively, efficiently, economically and transparently;*
- b) *that full and proper records of the financial affairs of the municipality are kept;*
- c) *that the municipality has and maintains effective, efficient and transparent systems*
  - i. *of financial and risk management and internal control; and*
  - ii. *of internal audit complying with and operating in accordance with any prescribed norms and standards;*
- d) *that irregular and fruitless and wasteful expenditure and other losses are prevented;*
- e) *that expenditure is in accordance with the operational policies of the municipality; and*
- f) *that disciplinary or, when appropriate, criminal proceedings, are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15.*

#### **4. POLICY PRINCIPLES**

The following principles shall apply in dealing with transfers and virement of budgeted funds: -

- a) It is the responsibility of each Head of each Department (Vote) 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 utilized effectively and efficiently.
  
- b) Each official of a municipality exercising financial management responsibilities must take reasonable steps within that official's area of responsibility to ensure that the provisions of section 78 of MFMA to the extent applicable to that official, including any delegations in terms of section 79, are complied with.
  
- d) The total amount transferred from and to line items within a cost centre in any financial year may not exceed 25% of the total budget allocated to that cost code.
  
- e) The total amount transferred from and to cost centres within a department in any financial year may not exceed 50% of the total budget allocated to that department.
  
- f.) Any variations from or adjustments within capital projects or between departments shall be dealt with in terms of the adjustment budget process provided for in terms of section 28 of MFMA.

#### **5. DELEGATION OF VIREMENT POWERS AND DUTIES**

- 5.1 The Council hereby delegates such additional powers and duties to the Accounting Officer to enable the Accounting Officer:
  - a) To discharge the financial management responsibilities conferred on him in terms of –
    - i. chapter 8 of the Municipal Finance Management Act; and
    - ii. ensuring an effective control system for this virement policy;
  - b) To maximize administrative and operational efficiency in the implementation of this Policy;
- 5.2 Sections 79 and 106 of the MFMA apply to the sub-delegation of powers and duties delegated to an accounting officer in terms of paragraph 3.1 of this Policy.
- 5.3 There can be no virement between capital and operating budgets, at any level, unless approved in advance by the Council.
- 5.4 Virement from an employee budget to a non-employee budget, and vice versa, is not permitted without the specific prior approval of the Council.
- 5.5 The Council or accounting officer may not delegate or sub-delegate any virement powers or duties to a person who is not an official of the municipality.

## **6. SUB-DELEGATIONS**

- 6.1 The Accounting Officer may in terms of section 79 or 106 of the MFMA sub-delegate any Virement responsibilities, including those delegated to the Accounting Officer in terms of this Policy, but any such sub-delegation must be consistent with other provisions within this Policy.
- 6.2 The power to approve a virement.
- a) Between votes may not be sub-delegated except as outlined in paragraph 5.1;

## **7. AUTHORISATION AND APPROVAL 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

- 7.1 If the amount does not exceed R250 000 may be sub-delegated by the Accounting Officer to senior managers.
- 7.2 If the amount exceeds R250 000 but not exceeding R500 000, between different departments or within the same department, and within the same vote, may be authorized by the Chief Financial Officer or the Accounting Officer of the Municipality.
- 7.3 If the amount exceeds R500 000 but not exceeding R 1000 000, the transfer may be authorised by the Accounting Officer.
- 7.4 If the amount is above R 1 million this level requires Council approval.

## **8. REQUIREMENTS OF VIREMENT**

For a department to transfer funds from one-line item to another or cost code to another, a saving must be identified within the monetary limitations of the approved “giving” line item or cost code allocations within the department.

There must be enough, non-committed budgetary provision available within the “giving” line item and / or cost concerned to give effect to the budgetary transfer.

In addition, the department concerned must clearly indicate from which line item and / or cost code and to which line item and / or cost code, including clear identification of vote numbers, transfers will be made, the amount involved and a clear motivation for the transfer.

In cases of emergency situations virements shall be submitted by the Heads of the Departments to the Municipal Manager for authorization and be reported by the Municipal Manager to Council at its next meeting following the occurrence of emergency.

Virement resulting in adjustments to the approved SDBIP by the user Department need to be submitted with an Adjustments Budget to Council with altered outputs and measurements for approval, and must indicate changes to the (SDBIP), and the impact that this will have on the performance objectives as set out in the municipality’s Multi-Year Business Plan.

An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the prescribed procurement processes as contained in the municipality's approved Supply Chain Management Policy.

Any transfers or adjustments falling outside the scope of this policy must be dealt with in accordance with budget adjustment process in terms of section 28 of the Municipal Finance Management Act (MFMA).

## **9. VIREMENTS RESTRICTIONS AND LIMITATION AND MSCOA IMPLEMENTATION**

- a.) The virement must be within the same funding
- b.) No virements are permitted within the first three months of the financial year unless in an emergency.
- c.) Virements are not be permitted in relation to the revenue side of the budget;
- d.) Virements from the capital budget to the operating budget are not permitted;
- e.) Virements from an employee budget to a non-employee budget, and vice versa, are not permitted.
- h) Virement amounts shall not be rolled over to subsequent years, or create expectations on the following budgets.

## **10. REPORTING**

All virement must be reported to, and recorded by, the CFO, Senior managers must provide the CFO with relevant and timely information in accordance with the prescribed format as determined by the CFO

All virement must be reported to Council as required in terms of sections 71 and 72 of the MFMA and, if required, as part of the adjustments budget in accordance with section 28 of the MFMA

### **1. COMMENCEMENT OF THIS POLICY**

- 1.1 This Policy will come into effect on the date of adoption by Council.

### **2. INTERPRETATION OF THIS POLICY**

- 2.1 All words contained in this Policy shall have an ordinary meaning attached thereto, unless the definition or context indicates otherwise.
- 2.2 Any dispute on interpretation of this Policy shall be declared in writing by any party concerned.

- 2.3 The Office of the Municipal Manager shall give a final interpretation of this Policy in case of a written dispute.
- 2.4 If the party concerned is not satisfied with the interpretation, a dispute may then be pursued with the South African Local Government Bargaining Council/ or Arbitration

### **3. PERMANENT/TEMPORARY WAIVER OR SUSPENSION OF THIS POLICY**

- 3.1 This Policy may be partly or wholly waived or suspended by the Municipal Council on a temporary or permanent basis after consultation with Management and Trade Unions.
- 3.2 Notwithstanding clause No. 10.1 the Municipal Manager may under circumstances of emergency temporarily waive or suspend this policy subject to reporting of such waiver or suspension to Council and Trade Unions.

### **4. AMENDMENT AND/OR ABOLITION OF THIS POLICY**

- 4.1 This Policy may be amended or repealed by the Council after consultation with Management and Trade Unions.

### **5. COMPLIANCE AND ENFORCEMENT**

- 5.1 Violation of or non-compliance with this Policy will give a just cause for disciplinary steps to be taken.
- 5.2 It will be the responsibility of all Managers, Supervisors, Executive Committee and Council to enforce compliance with this policy.

### **6. ADOPTION AND APPROVAL OF POLICY BY COUNCIL**

This Policy is adopted and approved by the Council for implementation.

**ADOPTED BY COUNCIL ON THIS \_\_\_\_\_ DAY OF \_\_\_\_\_ 2019**

\_\_\_\_\_  
**MUNICIPAL MANAGER**

\_\_\_\_\_  
**DATE**

### **APPENDIX TO VIREMENT POLICY**

Municipal Finance Management Act, 2003 (Act No.56 of 2003) key sections applicable to virement policy

## SECTIONS

### Section 15 Appropriation of funds for expenditure

A municipality may, except where otherwise provided in this Act, incur expenditure only –

- (a) In terms of the approved budget; and
- (b) Within the limits of the amounts appropriated for the different votes in the approved budget.

### Section 28 Municipal adjustments budget

- 1) A municipality may revise an approved annual budget through an adjustments budget.
- 2) An adjustments budget -
  - (a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
  - (b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
  - (c) may, within a prescribed framework, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
  - (d) may authorize the utilization of projected savings in one vote towards spending under another vote;
  - (e) may authorize the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll -overs when the annual budget for the current year was approved by the council;
  - (f) may correct any errors in the annual budget; and
  - (g) may provide for any other expenditure within a prescribed framework.
- 3) An adjustments budget must be in a prescribed form.
- 4) Only the mayor may table an adjustments budget in the municipal council, but an adjustments budget in terms of subsection (2) (b) to (g) may only be tabled within any prescribed limitations as to timing or frequency. Adjustments budget must be in a prescribed form.
- 5) When an adjustments budget is tabled, it must be accompanied by:
  - (a) an explanation how the adjustments budget affects the annual budget;
  - (b) a motivation of any material changes to the annual budget;
  - (c) an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and

- (d) any other supporting documentation that may be prescribed.
- 6) Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.
- 7) Sections 22(b), 23(3) and 24(3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustments budget.

### **Section 69 Budget implementation**

- 1) The accounting officer of a municipality is responsible for implementing the municipality's approved budget, including taking all reasonable steps to ensure –
  - (a) That the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget or in the service delivery and budget implementation plan; and
  - (b) That revenue and expenditure are properly monitored.
- 2) When necessary, the accounting officer must prepare an adjustments budget and submit it to the mayor for consideration and tabling in the municipal council.
- 3) The accounting officer must no later than 14 days after the approval of an annual budget submit to the mayor
  - (a) A draft service delivery and budget implementation plan for the budget year; and
  - (b) Drafts of the annual performance agreements as required in terms of section 57(1)(b) of the Municipal Systems Act for the municipal manager and all senior managers

### **Section 71 Monthly budget statements**

- 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 –
  - (a) actual revenue, per revenue source;
  - (b) actual borrowings;
  - (c) actual expenditure, per vote;
  - (d) actual capital expenditure, per vote;
  - (e) the amount of any allocations received;
  - (f) actual expenditure on those allocations, excluding expenditure on –

- i. any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote;
  - ii. any material variances from the service delivery and budget implementation plan; and
  - 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.
- 2) The statement must include
  - (a) A projection of the relevant municipality's revenue and expenditure for the rest of the financial year, and any revisions from initial projections; and
  - (b) The prescribed information relating to the state of the budget of each municipal entity as provided to the municipality in terms of section 87(10).
- 3) The amounts reflected in the statement must in each case be compared with the corresponding amounts budgeted for in the municipality's approved budget.
- 4) The statement to the provincial treasury must be in the format of a signed document and in electronic format.
- 5) The accounting officer of a municipality which has received an allocation referred to in subsection (1) (e) during any particular month must, by no later than 10 working days after the end of that month, submit that part of the statement reflecting the particulars referred to in subsection (1) (e) and (f) to the national or provincial organ of state or municipality which transferred the allocation.
- 6) The provincial treasury must by no later than 22 working days after the end of each month submit to the National Treasury a consolidated statement in the prescribed format on the state of the municipalities' budgets, per municipality and per municipal entity.
- 7) The provincial treasury must, within 30 days after the end of each quarter, make public as may be prescribed, a consolidated statement in the prescribed format on the state of municipalities' budgets per municipality and per municipal entity. The MEC for finance must submit such consolidated statement to the provincial legislature no later than 45 days after the end of each quarter.

## **Section 72 Mid-year budget and performance assessment**

- 1) The accounting officer of a municipality must by 25 January of each year–

- (a) Assess the performance of the municipality during the first half of the Financial year, taking into account:
    - i. the monthly statements referred to in section 71 for the first half of the Financial year;
    - ii. the municipality's service delivery performance during the first half of the Financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;
    - iii. the past year's annual report, and progress on resolving problems identified in the annual report; and
    - iv. the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities; and
  - (b) Submit a report on such assessment to:
    - i. The mayor of the municipality;
    - ii. The National Treasury; and
    - iii. The relevant provincial treasury.
- 2) The accounting officer must, as part of the reviewal.
- a) Make recommendations as to whether an adjustments budget is necessary; and
  - b) Recommend revised projections for revenue and expenditure to the extent that this may be necessary.