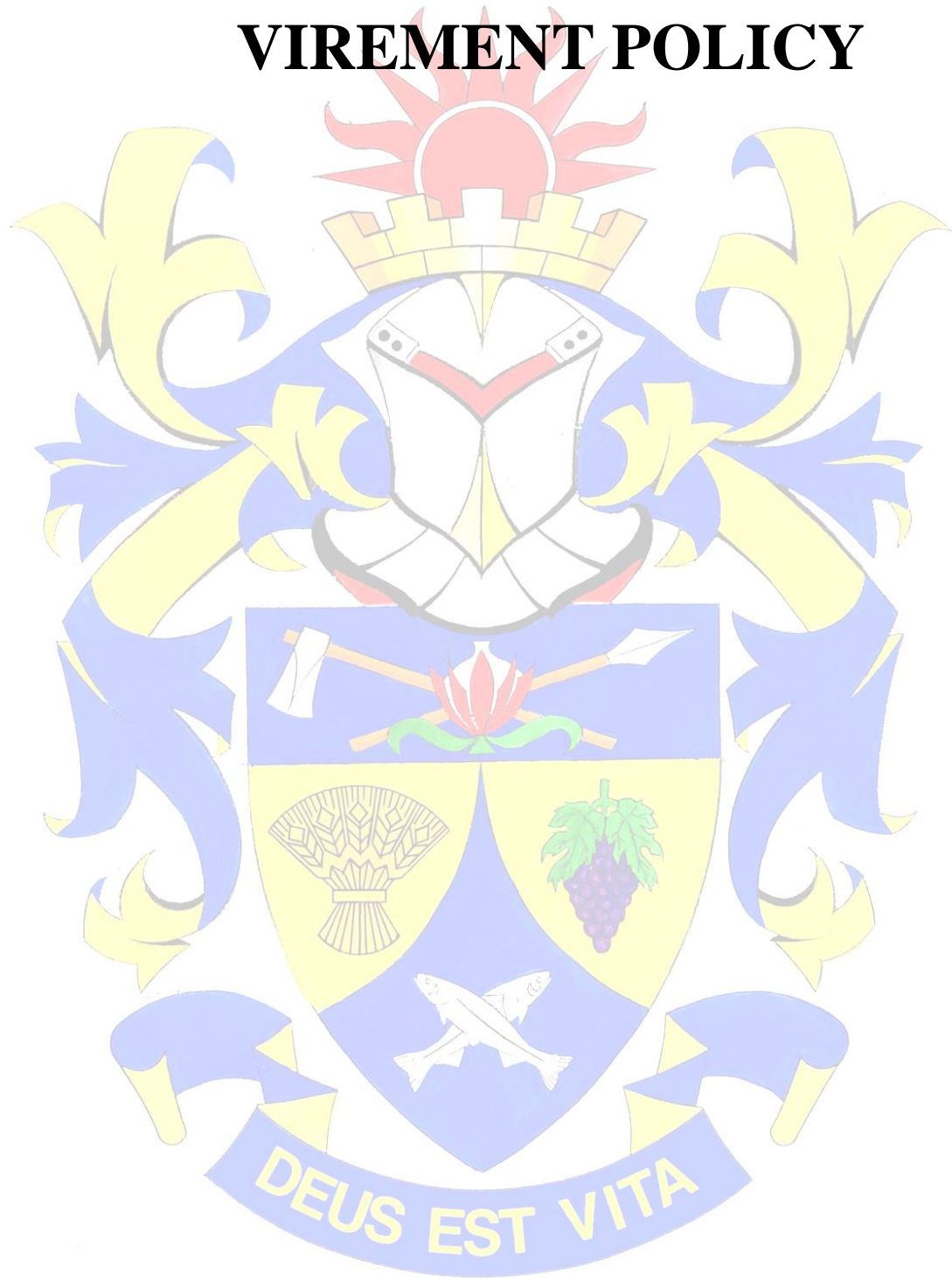


BERGRIVIER MUNICIPALITY

VIREMENT POLICY



VIREMENT POLICY

1 INTRODUCTION

- 1.1 Webster's New Millennium Dictionary of English defines "Virement" as "a regulated transfer or reallocation 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 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 Director 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.
- 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...that the financial and other resources of the municipality are utilized 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 municipal official referred to in Section 60 of the MFMA

3.2 **Approved budget (MFMA)**

(a) means an annual budget 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

3.3 **Chief Financial Officer (MFMA)**

“a person designated in terms of section 80(2)(a)”

3.4 **Cost Centre**

A Cost Centre is a logical point at which cost (expenditure) is managed by a responsible cost centre owner. A cost centre is identified by the second 3 digits of the ledger account number.

3.5 **Cost Item**

Cost items distinguish between different cost sections or categories of expenditure. These are identified by the next 4 digits of the ledger account number.

3.6 **Director**

Section 56 of the System 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...”

3.7 **Financial Year**

The 12 month period between 1 July and 30 June of the following year.

3.8 **Vote (MFMA)**

3.8.1 “(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.”

3.8.2 In the case of the Bergrivier Municipality the definition of Vote is set at Directorate level, with the exception being tariff funded services as a result of their closed account nature e.g. Electricity (*Cost Centre 621&622*), Water (*Cost Centre 511*), Waste Management (*Cost Centre 171*) and Waste Water Management (*Cost Centre 291*). In these cases “vote” is set at cost centre level.

3.9 **Virement**

The process of transferring an approved budgetary provision from one operating cost centre 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 budget adoption.

4 **MFMA REGULATIONS ON BUDGET VERSUS EXPENDITURE**

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

4.1.1 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.”

4.1.2 Unauthorized Expenditure (MFMA Definition)

“in relation to a municipality, means any expenditure incurred by a Municipality otherwise than in accordance with section 15 of 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 or functional area 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”

4.1.3 Overspending (MFMA Definition)

“in relation to the budget of a municipality means

- (a) 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;”

4.1.4 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 or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget....”

5 VIREMENT REQUIREMENTS

- 5.1 The virement process represents the major mechanism to align and take corrective (financial/budgetary) action within a vote (Directorate) during a financial year.
- 5.2 In order for a vote (Directorate) to transfer funds from one cost centre or capital project to another cost centre or capital project, a saving has to be identified within the monetary limitations of the approved “giving” cost centre or capital project allocations on the respective budgets.
- 5.3 Sufficient, (no committed) budgetary provision should be available within the “giving” vote’s cost centre or project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost centre 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 (per MFMA Section 28)
- 5.5 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.
- 5.6 Virements are not permissible between votes.
- 5.7 Virements between Trading and Rate funded functions are not allowed, due to the differing impacts on respective tariffs or Rates borne services’ budgets, unless adopted via adjustment budgets (per MFMA Section 28)

6 OPERATING BUDGET VIREMENTS

- 6.1 Virements are not allowed to utilize special purpose budgetary allocations, adopted by Council as such and to which specific Council recommendations apply.

- 6.2 Sound motivations should be provided for all virements, as provided for on pro forma virement application documentation.
- 6.3 Specific virement limitations:
 - 6.3.1 No virements are permitted between cost item of employee related costs (100) and other cost items within a cost centre or vote without the written consent of both the municipal manager and the CFO.
 - 6.3.2 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.

7 CAPITAL BUDGET VIREMENT

- 7.1 Specific virement limitations
 - 7.1.1 Sound motivations should be provided for all virements, as provided for on pro forma virement documentation.
 - 7.1.2 No virements are permitted to and from assets financed from different financial sources within a vote.
 - 7.1.3 Virements are only allowed between asset classes within a vote at the discretion of the relevant Director and the Municipal Manager.