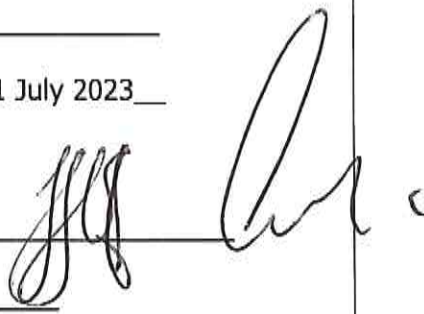


# KAROO HOOGLAND MUNICIPALITY



## VIREMENT POLICY 2023/2024

**REVIEWED MAY 2023**

Date of Adoption :	_____
Implementation :	___1 July 2023___
Signature of Mayor :	
Date :	_____

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## 1. Definitions

- 1.1. **"Accounting officer"** The municipal manager of a municipality is the accounting officer of the municipality in terms of section 60 of the MFMA.
- 1.2. **"Approved budget"** means an annual budget approved by a municipal council.
- 1.3. **"Budget-related policy"** means a policy of a municipality affecting or affected by the annual budget of the municipality.
- 1.4. **"Chief Financial Officer"** means a person designated in terms of the MFMA who performs such budgeting, and other duties as may in terms of section 79 of the MFMA be delegated by the accounting officer to the Chief Financial Officer.
- 1.5. **"Capital Budget"** This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.
- 1.6. **"Council"** means the council of a municipality referred to in section 18 of the Municipal Structures Act.
- 1.7. **"Financial year"** means a 12-month year ending on 30 June.
- 1.8. **"Line Item"** an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditures.
- 1.9. **"Operating Budget"** The Entity's financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.
- 1.10. **"Ring Fenced"** an exclusive combination of line items grouped for specific purposes for instance salaries and wages.
- 1.11. **"Service delivery and budget implementation plan"** means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (c) (ii) for implementing the municipality's delivery of municipal services and its annual budget.
- 1.12. **"Virement"** is the process of transferring an approved budget allocation from one operating line item or capital project to another, with the approval of the relevant Manager and Council. To enable budget

managers to amend budgets in the light of experience or to reflect anticipated changes.

**1.13. "Vote" (strategic objective)** means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality; and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

## **2. Abbreviations**

**2.1. CFO** – Chief Financial Officer

**2.2. IDP** – Integrated Development Plan

**2.3. MFMA** – Municipal Finance Management Act No. 56 of 2003

**2.4. SDBIP** - Service delivery and budget implementation plan

**2.5. CM** – Council Minute/'s

## **3. Objective**

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. It allows limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.

## **4. Virement Clarification**

Virement is the process of transferring budgeted funds from one line item number to another, with the approval of the Accounting officer, IDP Manager, the relevant Head of Department and CFO, to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes (Section 28 (2) (c) MFMA).

## 5. Financial Responsibilities

Strict budgetary control must be maintained throughout the financial year in order for potential overspending and / or income under-recovery within individual vote departments are identified at the earliest possible opportunity (Section 100 MFMA). 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. The budget virement process is one of these controls (Section 27(4) MFMA). It is the responsibility of each manager or head of a department or activity to which funds are allotted, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA sections 78 and 102.

## 6. MFMA Regulation on Budget versus Expenditure

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

### 6.1.1 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."*

### 6.1.2 Unauthorized Expenditure (MFMA Definition)

*"In relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 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;"

### **6.1.3** Overspending (MFMA Definition)

- 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;"

**6.1.4** 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...."

## **7. Virement Restrictions**

- 7.1** No funds may be viremented between votes (strategic objectives) without approval of Council during an Adjustment Budget process.
- 7.1.1** No funds may be viremented between functional areas as per Annexure A, except for the expenditure pertaining to provisions for employee benefits and depreciation which can only be done by the CFO.
- Virements may not exceed a maximum of 5% of the total approved operating expenditure budget, except with the approval of Council.
- 7.2** 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 except for classification differences between the A1 Schedules and the DORA. A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years (Section 19 and 21 MFMA).
- 7.3** Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustment budget to the Council with altered outputs and measurements for approval (MFMA Circular 13 page 3 paragraph 3).
- 7.4** No virement may commit the Municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of the Council.
- 7.4.1** This refers to expenditures such as entering into agreements into lease or rental agreements such as vehicles, photocopier's or fax machines
- 7.5** No virement may be made where it would result in over expenditure (Section 32 MFMA).
- 7.6** No virement shall add to the establishment of the Municipality without the approval of Municipal Manager.
- 7.7** If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.
- 7.8** Virements may not be made in respect of ring-fenced allocations.
- 7.9** Budget may not be transferred from Support service (interdepartmental) costs, Capital financing, Depreciation, Contributions, Grant Expenditure and Income Foregone.

- 7.10 Budget may not be transferred from Employee related costs to any other expenditure category.
- 7.11 Virements in capital budget allocations are only permitted within specified action plans and not across funding sources and must in addition have comparable asset lifespan classifications.
- 7.12 No virements are permitted in the first month or the final month of the financial year without the express agreement of the CFO.
- 7.13 Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets (Section 30 MFMA).
- 7.14 An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the procurement/supply chain management policy of Council as periodically reviewed.
- 7.15 Virements may not be made between Expenditure and Income unless there is a change in accounting policies which reclassify items.

## **8. Virement Procedure**

- 8.1 All virement proposals must be approved by the Municipal Manager before it is submitted to the CFO in the form of an item disclosing the following information:

- 8.1.1 A sound motivation why a virement is necessary.

- 8.1.2 Current budget amount of the transferring line item as well as the new budget amount should the transfer be approved.

- 8.1.3 Current budget amount of the receiving line item as well as the new budget amount should the transfer be approved.

- 8.2 The CFO must be informed of all approved virements.

## **9. Process and Accountability**

- 9.1 Accountability to ensure that virement applications 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 department.
- 9.2 Completed virement documentation is to be effected by the Accountant Budget and Treasury.



- 9.3** Virements approved and processed will be reported for information to the Mayor as part of the Section 71 and Financial Management Report on a monthly basis.

## **10. Sources**

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- 10.1** Local Government: Municipal Finance Management Act, 2003 (Act No. of 2003)
- 10.2** MFMA Circular No.13 - Service Delivery and Budget Implementation Plan
- 10.3** Mark Pearson National Treasury Advisor
- 10.4** Airedale Primary Care Trust Budget Virement Policy: 2004-5 UK
- 10.5** George Mason University Virginia USA