



VIREMENT POLICY FOR JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY

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NEW POLICY

2018/2019

JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY

VIREMENT POLICY



JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY

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1. ABBREVIATIONS

CFO – Chief Financial Officer

CM – Council Minute/s

IDP – Integrated Development Plan

MBRR – Municipal Budget Reporting Regulations

MFMA – Municipal Finance Management Act, Act No. 56 of 2003

MSA – Municipal Systems Act, Act No.32 of 2000

MSTA – Municipal Structures Act

MTREF – Medium term revenue and expenditure framework

SDBIP - Service delivery and budget implementation plan

2. DEFINITIONS

"Accounting Officer" a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act; and also refers to the municipal manager of a municipality in terms of section 60 of the MFMA;

"Approved budget" the annual budget approved by a municipal council; and includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

"Capital Budget" the approved budget for capital items in a given fiscal period.

"Capital Items" capital assets with a life expectancy of more than one financial year such as property, plant and equipment, intangible assets, heritage assets and investment properties and of which the cost is normally written off over a number of fiscal periods;

"Chief Financial Officer" a person designated in terms of section 80(2) (a) of the MFMA;

"Cost Centre" is a cost collector which represents a logical point at which cost (expenditure) is collected and managed by a responsible cost centre owner.

"Cost Element" distinguish between primary and secondary cost elements.

(a) Primary cost elements are expenditure items mainly generated outside the organisation.

(b) Secondary cost elements are utilised to reallocate cost by means of assessments, internal billing or activity-based recoveries.

"Council" the municipal council of John Taolo Gaetsewe District Municipality

"Councillor" a member of council;

"Creditor" a person to whom money is owed by the municipality;

"Current year" the financial year, which has already commenced, but not yet ended;

"Delegation" the power to perform a function or duty which is given to office bearer, councillor or staff members either in terms of section 59 of the MSA or section 79 of the MFMA;

"Executive Mayor" the councillor elected as the executive mayor of the municipality in terms of section 55 of the MSA;

"Financial year" a twelve-month period commencing on 1st July and ending on 30th June each year;

"Line Item" is an appropriation that is itemised on a separate line in a budget adopted with the idea of greater control over expenditure.

"Municipal Structures Act" the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

"Municipal Systems Act" the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

"Municipality" John Taolo Gaetsewe District Municipality; **Municipality** and it referred to in section 18 of the Municipal Structures Act;

"National Treasury" the National Treasury established by section 5 of the Public Finance Management Act;

"Official" –

(a) An employee of the municipality;

(b) A person seconded to the municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or

(c) A person contracted by the municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

"Overspending" -

(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, causing expenditure under the vote to exceed the amount appropriated for that vote; or

(c) in relation to expenditure under section 26 of the MFMA, causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

"Previous financial year" the financial year preceding the current year;

"Senior Manager" all officials reporting directly to the Accounting Officer as contemplated in section 56 of the MSA;

"Service delivery and budget implementation plan" a detailed plan approved by the executive mayor of the municipality, in terms of section 53(l) (c) (ii) of the MFMA, for implementing the municipality's delivery of municipal services;

"Unauthorised Expenditure" 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;"

"Virement" means the process of transferring an approved budgetary provision from one operating cost element 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 previous budget adoption.

"Vote" one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different directorates of the municipality; and which specifies the total amount that is appropriated for the purposes of the directorate concerned.

"Vote holder" means the senior manager to which the vote is assigned.

3. INTRODUCTION

3.1 A virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year.

3.2 Changing circumstances and priorities during a financial period may give rise to a need for virement (transfer) of 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 Adjustments Budget is required or not.

- 3.3 The MFMA and the Municipal Budget and Reporting Regulations, 2009 seek to move Municipalities away from the traditional approach of appropriating/ approving budgets by line item. The aim is to give the Senior Managers of Municipal Departments and programmes greater flexibility in managing their budgets. In furtherance of this objective, each Municipality must put in place a Council approved Virement Policy, which should provide clear guidance to managers on when they may shift funds between items, projects, programmes and votes.

4. BACKGROUND AND STATUTORY REQUIREMENTS

4.1 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. 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..."

4.2 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 utilised effectively and efficiently.

4.3 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..."

5. OBJECTIVE

5.1 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. This policy also allows 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 so as to accelerate service delivery in a financially responsible manner.

5.2 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.

6. MFMA REGULATIONS ON BUDGET VERSUS EXPENDITURE

6.1 The MFMA regulates the following regarding the incurring of expenditure against

budgetary provisions: -

6.1.1 Section 15 – Appropriation of funds for expenditure: -

6.2 "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."

6.3 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 REQUIREMENTS AND RESTRICTIONS

- 7.1. The virement represents a flexible mechanism to affect budgetary amendments within a municipal financial year and is the major mechanism to align and take corrective (financial / budgetary) action within a Department (Vote) during a financial year.
- 7.2. In order for a “vote” to transfer funds from one cost element or capital project to another cost element or capital project, a saving has to be identified within the monetary limitations of the approved “giving” cost element or capital project allocations on the respective budgets.
- 7.3. Sufficient, (non-committed) budgetary provision should be available within the “giving” vote’s cost element or capital project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost element or capital project the budget provision will be transferred to and provide a clear motivation for the transfer.
- 7.4. 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).
- 7.5. 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 other than through an Adjustments Budget.
- 7.6. Virements are not permissible across, or between, votes without approval of both vote holders and the CFO.

- 7.7. Virements between Trading- and Rate-funded functions are not allowed, due to the differing impacts on respective tariff- or Rates-borne services' budgets, unless adopted via an Adjustments Budget (MFMA Section 28).
- 7.8. Virements between votes may not exceed a maximum of 10% of the total approved operating expenditure budget of the Department.
- 7.9. 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 (MFMA Sections 19 and 21).
- 7.10. Virements resulting in adjustments to the approved SDBIP by the user Directorate need to be submitted with an Adjustments Budget to the Council with altered outputs and measurements for approval. (MFMA Circular 13, page 3 paragraph 3).
- 7.11. 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. This refers to expenditures such as entering into multi-year lease or rental agreements for the leasing of vehicles, photo copiers or fax machines.
- 7.12. No virement may be made to cover/ allow for unauthorised, irregular or fruitless and wasteful expenditure (MFMA Section 32).
- 7.13. No virements are permitted within the first three months or the final month of the financial year without the approval of the CFO.
- 7.14. The virement that relates to an unfunded vacant position is subject to the approval of the Municipal Manager. The budget for such position may only be transferred from Employee related cost, if also approved by the CFO.
- 7.15. Virement amounts may not be rolled over to subsequent years or create expectations on following budgets (MFMA Section 30).
- 7.16. All virements should be approved in line with the Council's System of delegations.

- 7.17. All virements of funds between votes (Departments) must be approved by the Municipal Manager and reported to the Executive Mayor on a monthly basis.

8. OPERATING BUDGET VIREMENT

8.1 Specific virement limitations

8.1.1 No virements are permitted between Primary and Secondary cost elements.

8.1.2 Salaries, Wages and Allowances Subjective Category and Remuneration of Councillors \

8.1.2.1 Virements are allowed between cost elements and only if these virements are within this subjective category (salaries, wages and allowances).

8.1.2.2 Virements from this subjective expenditure category are subject to the approval of the CFO.

8.1.3 General Expenditure and Repairs and Maintenance (Primary)

8.1.3.1 Virements to and from cost elements within these categories are allowed. Virements are also allowed from General Expenditure to Repairs and Maintenance.

8.1.4 The following cost elements categories are not to be used as sources of virements, but virements are allowed within each category:

- Training related expenditure.
- Bargaining Council provisions and skills development levies.
- Pensioner and Continued Members.
- Repairs and Maintenance.
- Insurance related provisions.

8.1.5 Contracted Services and Collection Costs

- Virements to and from these elements are allowed.

8.1.5 No virements will be permitted from the following expenditure categories, unless such amendments are affected within the cost element: -

- Bulk purchases.
- Debt impairment.
- Interest charges.
- Depreciation.
- Revenue forgone.
- Grants to individuals.
- Insurance related provisions.
- VAT.
- Conditional grant funds for any purpose not related to the conditions of the specific grant.

8.2 Secondary Operating Cost Elements

8.2.1 Virements are allowed within the same cost elements. The service requestor and service provider must both endorse such virements.

8.2.2 Virements are only permitted within the same cost element in the following categories: -

- Activity Based Recoveries.
- Internal Utilities.

8.2.3 Virements may not increase the total approved budget of that cost element.

8.2.4 Virements are not permissible in relation to Support Service Charges.

9. OPERATING BUDGET VIREMENT

9.1 Only virements which relate to projects approved as part of Annual or Adjustments

Budgets will be permitted.

9.2 No virements, of which the effect will be to add "new" projects onto the Capital Budget, will be allowed. This needs to be affected through an Adjustments Budget.

- 9.3 Virements may not cause an increase to the individual projects' total project cost.
- 9.4 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.
- 9.5 Implementation of the project may not be prejudiced due to the virement of funds (i.e. must not hinder completion of the project).
- 9.6 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.
- 9.7 Secondary Capital Cost Elements
- 9.7.1 Virements are permissible only within the same cost elements of different projects.
- 9.7.2 The service requestor and service provider must endorse such virements.
- 9.7.3 Proposed secondary capital expenditure virements must be approved by the CFO.

10. PROCESS AND ACCOUNTABILITY

- 10.1 Accountability to ensure that 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.
- 10.2 Completed and approved virement documentation is to be affected by the Finance Department.
- 10.3 Virements approved and processed will be reported for information by the Municipal Manager to the Executive Mayor on a monthly basis.

11. IMPLEMENTATION AND REVIEW OF THIS POLICY

11.1 This policy shall be implemented once approved by Council.

11.2 In terms of section 17(1)(e) of the MFMA this policy must be reviewed annually

and the reviewed policy tabled to Council for approval as part of the budget process.

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