CAPE WINELANDS DISTRICT
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VIREMENT POLICY

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1. Definitions

1.1. **"Accounting officer''** means the municipal official referred to in section 60 of the MFMA and includes a person acting as the accounting officer;

1.2. **''Approved budget''** means an annual budget approved bya 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 termsof section 80(2)(a) of the MFMA.

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 ina 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 combinationof line items grouped for specific purposes for instance salaries and wages.

1.11. **''Service delivery and budget implementation plan''** means a detailed planapproved 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 annualbudget.

1.12. **"Virement"** is the process of transferring an approved budget allocation from one operating line item within a Vote (Strategic Objective) or capital item to another, with the approval of the Accounting Officer 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 **[See annexure "A" for the old Vote structure and annexure "B" for the revised Vote structure to be used].**

1.14. **"Cost center"** means the lowest level in a Vote (strategic objective) at which a transaction is recorded.

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. 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 of the MFMA). The Accounting 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) of the MFMA). It is the responsibility of each Senior Manager and official, exercising financial management responsibilities within their respective areas of responsibility, to plan and conduct assigned operations to ensure that expenditure incurred does not exceed the allocated budget amount. In addition, they have the responsibility to identify and report any unauthorised, irregular or fruitless and wasteful expenditure in terms of the MFMA sections 78 and 102.

5 MFMA Regulation on Budget versus Expenditure

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

5.1.1 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."*

5.1.2 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;"*

5.1.3 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 Virement Restrictions

6.1 No funds may be viremented between votes (strategic objectives) without approval of Council during an Adjustments Budget process.

6.2 No funds may be viremented between votes (strategic objectives) as per Annexure B, except for the expenditure pertaining to provisions and depreciation which can only be approved by the Accounting Officer.

6.3 No virements are allowed between items with different funding sources, except with the approval of an adjustments budget and/or virements approved by the Accounting Officer.

6.4 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. 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 of the MFMA).

6.5 Virements resulting in adjustments to the approved SDBIP 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).

6.6 No virement may be made where it would result in over expenditure (Section 32 of the MFMA).

6.7 No virement shall add to the staff establishment of the Municipality without the approval of Accounting Officer.

6.8 If the virement relates to an increase in the staff establishment, then the Council's existing recruitment policies and procedures will apply.

6.9 Virements may not be made in respect of ring-fenced allocations.

6.10 Virements are not allowed from and to Interdepartmental costs, Capital financing, Depreciation and Amortisation, Contributions to provisions, Income Foregone and Expenditure funded by grants, except for virements done at yearend.

6.11 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, except for virements done at year end, on recommendation of the Chief Financial Officer.

6.12 Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets (Section 30 of the MFMA).

6.13 An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the Supply Chain Management Policy of the Municipality as periodically reviewed.

6.14 Virements may not be made between Expenditure and Income unless there is a change in accounting policies which reclassify items.

6.15 Virement transactions for individual line items related to operational expenditure must not exceed 5% of the budget of that department or functional area of the municipality.

6.16 Virement transactions for individual line items related to capital expenditure must not exceed 5% of the budget of that department or functional area of the municipality.

7 Virement Procedure

7.1 All virement proposals must be submitted to the Budget and Treasury Office for verification after authorisation by the relevant Senior Manager. Thereafter, the Director: IDP & Performance & Risk Management recommends to the CFO recommends to the Accounting Officer for approval.

7.2 The request for a virement should be completed on the prescribed form and must contain the following information:

7.2.1 A sound motivation why a virement is necessary.

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

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

8 Sources

8.1 Local Government: Municipal Finance Management Act, 2003 (Act No. of 2003)

8.2 MFMA Circular No.13 - Service Delivery and Budget Implementation Plan

8.3 Mark Pearson National Treasury Advisor

8.4 Airedale Primary Care Trust Budget Virement Policy: 2004-5UK

8.5 George Mason University Virginia USA

Annexure "A"

Vote Structure/ Strategic Objective

Vote Structure/ Strategic Objective Vote	Cost Centre	
	Code	Description
1. Community Development and Planning Services:		
	1004	Local Economic Development
	1103	Tourism
	1521	Spatial Planning and Environmental Management
	1441	Municipal Health Services
	1610	Disaster Management
	1620	Fire Services
	1475	Social Development
	1477	Rural Development
	1478	Management: Rural and Social Development
2. Technical Services:		
	1165	Buildings : Maintenance
	1330	Projects
	1332	Regional Landfill Site
	1301	Technical Services: Management
	1210	Information Technology
	1215	Telecommunication Services
	1615	Public Transport Regulation
	1361	Roads Main/Division Indirect
	1362	Management: Roads
	1363	Roads: Workshop
	1364	Roads: Plant
3. Financial and Strategic Services:		
	1102	Administration Support Services
	1010	Public Relations*
	1110	Human Resources Management
	1164	Property Management
	1166	Communication / Telephone
	1310	Transport Pool
	1001	Office of the Municipal Manager*
	1020	Internal Audit*
	1511	Performance Management*
	1512	IDP*
	1000	Expenditure of Council
	1002	Sundry Expenditure of Council
	1003	Office of the Mayor

	~~1005~~	~~Office of the Speaker~~
	~~1007~~	~~Office of the Deputy Mayor~~
	~~1101~~	~~Councillor Support~~
	~~1201~~	~~Management: Financial Services~~
	~~1202~~	~~Financial Management Grant~~
	~~1205~~	~~Budget and Treasury Office~~
	~~1235~~	~~Procurement~~
	~~1238~~	~~Expenditure~~

Annexure "B"

Vote Structure/ Strategic Objective

Vote	Cost Centre Code	Description
1. Office of the Municipal Manager		
	1001	Office of the Municipal Manager
		Legal Services
	1020	Internal Audit
	1010	Public Relations
2. Corporate Services:		
	1210	Information Technology
	1215	Telecommunication Services
	1102	Administration Support Services
	1164	Property Management
	1166	Communication / Telephone
	1310	Transport Pool
	1000	Expenditure of Council
	1002	Sundry Expenditure of Council
	1003	Office of the Mayor
	1005	Office of the Speaker
	1007	Office of the Deputy Mayor
	1101	Councillor Support
	1110	Human Resources Management
	1511	Performance Management*
	1512	IDP
3. Financial and Strategic Services:		
	1201	Management: Financial Services
	1202	Financial Management Grant
	1205	Budget and Treasury Office
	1235	Procurement
	1238	Expenditure
4. Community Development and Planning Service		
	1004	Local Economic Development
	1103	Tourism

	1521	Spatial Planning and Environmental Management
	1441	Municipal Health Services
	1610	Disaster Management
	1620	Fire Services
	1475	Social Development
	1477	Rural Development
	1478	Management: Rural and Social Development
4. Technical Services:		
	1165	Buildings : Maintenance
	1330	Projects
	1332	Regional Landfill Site
	1301	Technical Services: Management
	1615	Public Transport Regulation
	1361	Roads-Main/Division Indirect
	1362	Management: Roads
	1363	Roads: Workshop
	1364	Roads: Plant