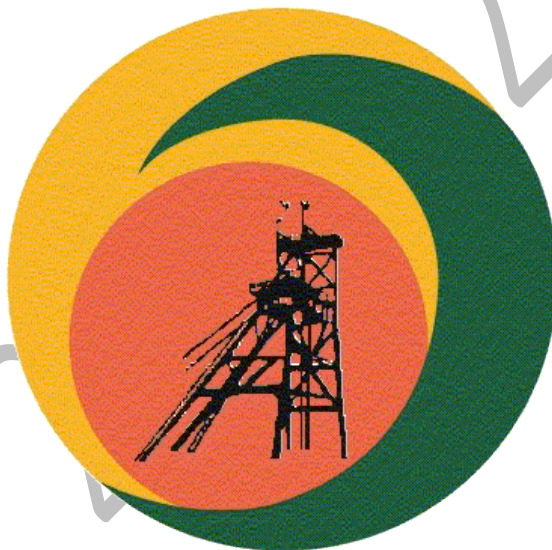


WEST RAND DISTRICT MUNICIPALITY



VIREMENT POLICY

DATE OF APPROVAL:
COUNCIL RESOLUTION NUMBER:

Table of Contents

| | |
|--|---|
| DEFINITIONS | 1 |
| 1. OBJECTIVES OF VIREMENT POLICY | 1 |
| 2. LEGISLATIVE BACKGROUND | 1 |
| 3. POLICY PRINCIPLES | 2 |
| 4. AUTHORISATION AND APPROVAL OF VIREMENTS | 2 |
| 5. VIREMENT REQUIREMENTS | 2 |
| 6. VIREMENT RESTRICTIONS AND LIMITATIONS | 3 |
| 7. ACCOUNTABILITY AND PROCESS FOR TRANSFERS AND VIREMENT | 4 |
| 8. SHIFTING OF FUNDS BETWEEN MULTI-YEAR APPROPRIATIONS | 4 |
| 9. REPORTING | 5 |

DEFINITIONS

| | |
|-----------------|--|
| “Appropriation” | money set aside by council for a specific purpose |
| “Cost Centre” | a cost collector which represents a logical point at which cost (expenditure) is collected and managed by a responsible cost center manager. |
| “Line Item” | an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over. |
| “Transfer” | shifting of allocated funds from one department, line-item or both to the other |
| “Virement” | the agreed transfer of appropriated funds from one line item to another within vote |

1. OBJECTIVES OF VIREMENT POLICY

- ◆ To provide greater flexibility to the senior managers (heads of departments) of the municipality in managing their budgets; and
- ◆ To provide clear guidance to senior managers on when they may shift funds between items, projects and programmes.
- ◆ To enable senior managers to act on occasions such as disasters, emergency and unforeseen events as they arise so as to accelerate service delivery in a financially responsible manner.
- ◆ 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.

2. LEGISLATIVE BACKGROUND

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

- that the resources of the municipality are used effectively, efficiently, economically and transparently;*
- that full and proper records of the financial affairs of the municipality are kept;*
- that the municipality has and maintains effective, efficient and transparent systems-*
 - of financial and risk management and internal control; and*
 - of internal audit complying with and operating in accordance with any prescribed norms and standards;*
- that irregular and fruitless and wasteful expenditure and other losses are prevented;*
- 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.*

3. 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 municipal exercising financial management responsibilities must take all 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.
- c) This policy applies only to transfers between line items within votes of the municipality's operating budget. **No transfers between or from capital projects / items or between departments shall be performed under this policy.** 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.
- d) The total amount transferred from and to line items within a particular cost centre in any financial year may not exceed 10% of the total operating budget allocated to that cost centre.
- e) The total amount transferred from and to cost centres within a particular department in any financial year may not exceed 10% of the total operating budget allocated to that department.

4. AUTHORISATION AND APPROVAL OF VIREMENTS

A transfer of funds from one line item to another and from one cost center within a department to another subject to this policy shall be approved and authorized as in line with the municipality's system of delegations as approved by the Council from time to time.

5. VIREMENT REQUIREMENTS

In order for a department to transfer funds from one line item to another or cost center to another, a saving has to be identified within the monetary limitations of the approved "giving" line item or cost center allocations within the department.

There must be sufficient, 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 center and to which line item and / or cost center, 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).

6. VIREMENT RESTRICTIONS AND LIMITATIONS

- a) No virements are permitted within the first three months of the financial year unless in an emergency situation as stipulated in this policy.
- b) Virements are not be permitted in relation to the revenue side of the budget;
- c) Virements from the capital budget to the operating budget are not permitted;
- d) Virements to or from the following items are not permitted:
 - i. bulk purchases;
 - ii. debt impairment,
 - iii. interest charges;
 - iv. depreciation,
 - v. revenue foregone,
 - vi. insurance,
 - vii. Value Added Tax (VAT),
 - viii. Ring-fenced allocations, and
 - ix. Statutory Funds
- e) No virement may commit the municipality to increase recurrent expenditure, which commits the municipality's resources in the following financial year, without the prior approval of 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).*
- f) No virement may be made to cover/ allow for unauthorized, irregular or fruitless and wasteful expenditure.
- g) Virements must not be made where it would result in over expenditure; and
- h) Virement amounts shall not be rolled over to subsequent years, or create expectations on the following budgets.

- i) Virement from and between capital assets already approved by the Council is not allowed.
- j) Virements towards personnel expenditure are not be permitted; unless if specifically approved by Council.

7. ACCOUNTABILITY AND PROCESS FOR TRANSFERS AND VIREMENT

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.

Virements shall be permitted where the proposed transfer of funds facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);

Permissible budget transfers and virements shall be recommended by the Head of Department, by completing the appropriate documentation and forward to the Municipal Manager for verification and further processing for approval.

All the necessary virements documentations must be signed for by the Head of Department and the manager within which the cost center is allocated.

The Chief Financial Officer shall prescribe a form on which all proposals for virements under this policy shall be made, which form shall include, but not limited to the following requirements:

- a) the name of the department concerned;
- b) particulars of the person making request for virement / transfer;
- c) descriptions and vote numbers of the line items from and to which the transfer is to be made;
- d) the amount of the proposed transfer;
- e) the cause of the saving in the line item from which the transfer is to be made;
- f) motivation for the transfer;
- g) a narrative of any consequences that such transfer may have for the multi-year business plan and SDBIP;
- h) signature of the Head of Department

8. SHIFTING OF FUNDS BETWEEN MULTI-YEAR APPROPRIATIONS

When funds for a capital programme are appropriated in terms of section 16(3) of MFMA for more than one financial year, expenditure for that programme during a financial year may exceed the amount of that year's appropriation for that programme, provided that :

- a) the increase does not exceed 20 per cent of that year's appropriation for the programme;

- b) the increase is funded within the following year's appropriation for that programme;
- c) the Municipal Manager certifies that actual revenue for the financial year is expected to exceed budgeted revenue; and sufficient funds are available for the increase without incurring further borrowing beyond the annual budget limit;
- d) prior written approval is obtained from Council for the increase; and
- e) the documents referred to in paragraphs (c) and (d) are submitted to the Council of West Rand District Municipality.
- f) Where a capital asset has been budgeted for over multiple years in terms of MFMA, the municipality shall plan for the funding needed for every financial year of the project to ensure its financial sustainability.

In cases where capital appropriations are unable to be spent during the allocated financial year, the projected roll-overs shall be included as part of the adjustment budget within the framework of section 28(2)(e) of MFMA or the Chief Financial Officer shall provide for an adjusted capital appropriation as part of the next annual budget.

9. REPORTING

The Chief Financial Officer shall, report to the Accounting Officer (Municipal Manager) on all the virements, and the Municipal Manager shall, within seven working days of the end of each month following any virement / transfer, submit a report of all the virements and budget transfers in the preceding month.