

## **Section 1: Legal Framework**

Municipal Finance Management Act, 2003 (Act No. 56 of 2003); herein after called MFMA.

## **Section 2: Definitions per section 1 of the MFMA**

### **Accounting Officer**

In relation to a municipality, means the Municipal Manager referred to in section 60.

### **Adjustment Budget**

Means a budget

- (a) As described in Section 28 of the MFMA and
- (b) In terms of Part 4 of the Municipal Budget and Reporting Regulations.

### **Approved Budget**

“Means an annual budget –

- (a) 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 and of the Municipal Budget and Reporting Regulations.”

### **Chief Financial Officer**

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

### **Directors**

Section 56 of the Systems 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.”

### **Financial year**

Means a year ending on 30 June.

### **Vote**

- (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;
- (b) Which specifies the total amount that is appropriated for the purpose of the department or functional area concerned.”

The definition of “vote” is set at the Directorate level which includes the subjective votes assigned to the specific directorate.

## Virement

The process of transferring an approved budgetary provision from one operating cost element or capital project to another during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the previous budget adoption.

## Budget vs Expenditure

The MFMA regulates the incurrence of expenditure against budgetary provisions as follows:

### Section 15: Appropriation of funds for expenditure

“A Municipality, may except where otherwise provided in the 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 the approved budget.”

## 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, other 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.”

## Overspending

- (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 in subsection (5) of that section.”

Section 71 (1) (g) (iii) states inter alia (i) “ 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 reflected the following particulars for that month and for the financial year up to the end of that month and when necessary, an explanation of any remedial or corrective step taken or to be taken to ensure that projected revenue and expenditure remain within the Municipality’s approved budget”.

**Section 3: Purpose**

- (a) 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.
- (b) Section 81(1)(d) of the MFMA states inter alia “that The Chief Financial Officer of the 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”.
- (c) It is the responsibility of each Director of each Directorate to which funds are allocated, to plan and conduct assigned operations so as not to spend more funds than budgeted for and to ensure that funds are utilized effectively and efficiently.
- (d) Section 78 (1) 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 in terms of Section 78(1) (b) the financial and other resources of the Municipality are utilized effectively, efficiently, economically and transparently”
- (e) No expenditure may be incurred unless provision therefore has been made in the operating and capital budgets. Refer to section 15 of the MFMA.

**Section 4: Requirements**

- (a) A virement represents a flexible mechanism to affect budgetary amendments within a Municipal financial year, and represents the major mechanism to align and take corrective (financial / budgetary) action within a Directorate during a financial year.
- (b) To transfer funds from one Operating Budget Vote or capital project to another Operating Budget Vote or capital project, a saving has to be identified within the monetary limitations of the approved vote or capital project allocations on the respective budgets within the same source of funding.
- (c) Any budgetary amendments of which the net impact will result in exceeding the approved annual budget allocation for a vote and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget (per section 28 of the MFMA)
- (d) 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.

**Section 5: Delegations**

- (a) To effect section 4(b) above, the authority, as contained in the delegations approved by Council, must be applied.
- (b) Virements between votes would require a Council resolution which is confirmed through the Adjustment Budget.

**Section 6: Operating Budget**

- (a) Virements are not allowed to utilise any special purpose operating budgetary allocations approved by Council and which is specifically mentioned and highlighted as such during the approval of the budget.
- (b) Only Council may consider the virements of these funds mentioned in 6(a) above and only after full motivations were provided for these virements.
- (c) Salaries, Wages and Allowances - Any savings identified for the filling of approved vacant posts not budgeted for can only be vired with a Council's Resolution in which the future year's financial impact had also been considered.

- (d) Other Expenditure - Virements to and from the following items are not allowed: Bulk purchases; Debt Impairment, Interest Charges; Depreciation, Grants to Individuals, Revenue foregone, Insurance and Vat, as well as other non-cashed items as determined by the Chief Financial Officer. 6.4.2 Virements in respect of expenditure votes financed from grants or any other external source of finance must be approved by Council.
- (e) Revenue - No virements are permitted in relation to the Revenue side of the Budget except in the case of additional grants received; revenue amendments are to be adopted via an adjustment Budget.

#### Confirmation

The virements of any savings amount is subject to the confirmation of the Chief Financial Officer.

### **Section 7: Capital Budget**

- (a) Virements which result in adding 'new' projects to the Capital Budget will not be allowed unless approved by council.
- (b) Virements in respect of savings on capital projects will only be permitted if allocated to projects approved by Council as part of the annual- or adjustment budgets.
- (c) Budgeted amounts in respect of approved capital projects which are, due to changed circumstances, not executed, can only be vired by Council.
- (d) Virements of Conditional Grant funds for purposes outside that specified in the relevant Conditional Grant framework is not permitted.
- (e) Virements of Capital Projects can only be approved between projects of similar funding sources (e.g. MIG to MIG).

### **Section 8: Process and Accountability**

- (a) Virements application forms must be completed in accordance with Council's virements policy.
- (b) Completed virements documentation must also be verified by the Chief Financial Officer as confirmation of available funds and/or savings.

### **Section 9: Implementation and Review**

- (a) This policy will be implemented as from 01 July 2014.
- (b) This policy will be reviewed as and when required.