

*RAY NKONYENI*

*LOCAL MUNICIPALITY*

**2023/24 VIREMENT POLICY**

## **PREAMBLE**

The Municipality in terms of section 15 of the MFMA may, except where otherwise provided in the MFMA, incur expenditure only in terms of an approved budget and within the limited of the amounts appropriated for the different function (vote) in an approved budget.

In terms of section 28 of the MFMA, a municipality may revise an approved annual budget through an adjustment budget. In terms of section 29 of the MFMA, the Mayor of the municipality may in emergency or other exceptional circumstances authorize unforeseeable an unavoidable expenditure for which no provision was made in an approved budget subject to such expenditure being in accordance with a prescribed framework and may not exceed a prescribed percentage of the approved annual budget and should be reported by the mayor to the municipal council at its next meeting and must be appropriated in an adjustment budget and such adjustment budget must be passed within 60 after the expenditure was incurred failing which such expenditure is unauthorized and consequences apply.

The Municipality in 2005 adopted Financial Regulations Policy that seek some level of delegation. This policy had some spaces that were left unfilled making it difficult to implement this delegation. The following represents the delegation necessary to give effect to section 29.

### **1. Virement**

The aim of the virement is to allow Departments freedom to manage their services up to agreed limits and to provide flexibility so as to assist the Council in meeting its objectives. If however, the application of this virement powers results in difficulty for the Council, Council has the right to withdraw or suspend their use.

The general Regulations relating to virement are.

- The transfer of a budget does not involve a change of a policy or extra spending in future years.
- The cost centre from which the budget is being transferred has sufficient resources for the remainder of the financial year taking into account all known commitments.
- The virement does not involve the creation of new staff posts.
  - if any of the above Regulations are not met then the virement cannot proceed without the approval of the Council.
  - The Chief Financial Officer will report to the Council on virements quartely, summarizing any variations to any budget.

All reports concerning supplementary function (vote)s or re-allocation between function (vote)s shall indicate the function (vote) numbers and in all cases, prior comments of the Chief Financial Officer shall be obtained.

- (a) Budget transfers within the same function (vote) shall be requested by the Head of Department, recommended by the by the Chief Financial Officer and approved by the Municipal manager.
- (b) No budget transfers or virement shall be made to or from salaries except with the prior approval of the Chief Financial Officer in consultation with the Director Corporate Services and approved by the Municipal Manager.
- (c) No Budget transfers or virement shall be made in the first 3 months of the financial year.
- (d) No Budget transfers or virement shall exceed 5% of the Total Budget per line item within the function (vote) in a financial year.
- (e) The budget for personnel expenditure may not be increased without prior approval of the Chief Financial Officer after consultation with the Director Corporate Service and approved by the Municipal Manager.
- (f) Savings on allocations earmarked for specific operating and capital projects may not be used for other purposes except with the approval of council.
- (g) Directors may utilize a saving in the amount appropriated under a main expenditure category (e.g. Salaries, General Expenses, Repairs & Maintenance, etc.) within a function (vote) which is under their control towards the defrayment of excess expenditure under another main expenditure category within the same function (vote), with the approval of the Chief Financial Officer or such senior delegated official in the Budget & Treasury Department.
- (h) The amount of a saving under a main expenditure category of a function (vote) that may be transferred to another main expenditure category may not exceed ten per cent of the amount appropriated under that main expenditure category.
- (i) Savings in an amount appropriated for capital expenditure may not be used to defray operational expenditure.
- (j) Virements between function (vote)s shall be included in the adjustment budget.
- (k) Virements from capital budget to the operating budget is not permitted.
- (l) Virements should not result in adding new projects to the Capital Budget
- (m) No transfer between income and expenditure is permitted.

## **2. AUTHORIZATION OF REQUESTS FOR VIREMENTS**

- 2.1. Requests for supplementary function (vote)s or re-allocation of function (vote)s in respect of both the Capital and Operating Estimates must be authorized by the Head of Department.

## **3. RECOMMENDATION FOR APPROVAL OF THE VIREMENT REQUEST**

The CFO recommends the approval of the virement after checking the availability of funds from the affected function (vote).

## **4. APPROVAL OF THE VIREMENT**

All virements must be approved by the municipal manager.

## **5. CONSIDERATION OF VIREMENTS BY COUNCIL**

All virements must be considered by municipal council when tabling adjustment budget within the same financial year.

## **6. LIMITS FOR VIREMENT APPROVAL**

Virement limit is limited to 5% within a function (vote) per line item and per capital programme on operating and capital budget respectively.

## **7. BUDGET MONITORING**

### **7.1. OPERATING BUDGET**

#### **7.1.1 Performance**

The Chief Financial Officer shall monitor the performance of budgetary control of Heads of Departments. He/She shall coordinate the presentation of a council wide financial report, including details of the performance of budgetary control.

Heads of Departments shall monitor income and expenditure each month, and will notify the Chief Financial Officer any actual, planned or expected variation from budget and provide adequate information to the Chief Financial Officer in sufficient time to enable him to report to the Council on the overall financial position of the municipality. The information provided by Heads of Departments will include details of the action taken or planned to deal with variances from budget.

#### **7.1.2. Additional Estimates**

- 7.1.2.1 The Council's general policy is that additional expenditure estimates will be granted only in exceptional circumstances. Additionally or supplementary estimates, for items of expenditure not provided for in the budget, require Council approval.

7.1.2.2 When a report proposing additional expenditure is being considered by the Council the Chief Financial Officer shall be expected to give advice as to the potential impact, if any, upon the minimum level of financial reserves as required for the purpose of prudent financial management.

### **7.1.3 Revisions to budget**

7.1.3.1 if the Council amends a budget during a financial year then that “revised budget” shall apply from the date of the Council meeting and relate to the period covered by the budget. Such revisions will occur, for example, where the Council has approved a request from a Head of Department for an increase or a decrease in budget.

7.1.3.2 The Chief Financial Officer will have regard, in his budget monitoring reports to Council, to the level of financial reserves that are considered to be necessary for the prudent financial management of the municipality.

### **7.1.4 Carry Forward of year under spending**

7.1.4.1 No under spending on Operating Budget at the end of a financial year shall be carried forward to the next financial year.

7.1.4.2 In exceptional circumstances forwards may be allowed in terms of the year end procedure issued by the Chief Financial Officer if it can be justified that these have occurred as a result of genuine and unavoidable delays in spending or if there is a legal or contractual commitment which must be met for that particular year.

7.1.4.3 Where necessary provision was not made in the budget, the responsible HOD shall have to deal with such in terms of virement but not exceed the acceptable limit.

## **7.2. Capital Budget**

### **7.2.1 Spending of Capital Programme**

7.2.1.1 Heads of Department shall ensure that all capital spending conforms to the Financial Regulations. Expenditure can be incurred on capital procurements, as long as:

- The project is in the approved capital budget;
- The Council has approved the financial aspects of the project;
- The total cost of the project is within the amount approved;
- The process of inviting and accepting tenders keeps to the Supply Chain Management Policy and Financial Regulations.

7.2.1.2 All capital expenditure must be incurred by 30<sup>th</sup> June of the financial year for which it is approved.

7.2.1.3 Project Managers within the implementing departments will be responsible for authorizing the expenditure / income and for managing and controlling the progress and overall cost of each project. Project Managers are expected to pay regular attention to:

- Comparing actual / committed expenditure to the amount approved;
- Ensuring each stage of a project is completed within approved deadlines; and
- Monitoring the achievements of defined projects outputs and outcomes

7.2.1.4 Where a project is showing, or is expected to show, a variation in date of completion or expected outcomes / outputs from the details shown on the original Project Appraisal Schedule and on which the approval of the project was based, then the Project Manager shall submit a report to the Council at the earlier opportunity.

### **7.2.3 Virement**

7.2.3.1 Where a project is showing or is expected to show an increase in expenditure compared to the amount included in the approved Capital Programme, then the Project Manager should consider the application of virement by examining the extent to which such additional expenditure may be off set by reduced expenditure on other capital procurements. However the use if virements is subject to the following conditions:

- That the capital procurements involved are both under the control of the same Head of Department; and
- That the amount involved does not exceed 5% as set by Council for approval by the Municipal Manager.

7.2.3.2 Where a proposed virement meets the above conditions, this can only take place with the recommendation of the Chief Financial Officer and the approval of the Municipal Manager. The Project Manager shall complete a Virement Request Form and give details as to how the proposed virements may impact on achievement of corporate priorities. The Forms shall be certified by the appropriate Head of Department and passed to the Chief Financial Officer who will provide notification when the virement has been approved.

7.2.3.3 If a proposed virement does not meet the conditions shown above, then a report shall be submitted to the Council by the appropriate Head of Department in consultation with the Chief Financial Officer and the Municipal Manager.

### **7.2.4 Capital Budget Performance**

7.2.4.1 The Chief Financial Officer shall monitor the performance of budgetary control of Capital Budget. The Chief Financial Officer has responsibility for coordinating budget and shall prepare a financial report

on the Capital Budget as a whole, for consideration by the Council at least quarterly.

7.2.4.2 Project Managers shall monitor income and expenditure each month, notify the Chief Financial Officer of any actual, planned or expected variation from the approved capital programme and provide adequate information to the Chief Financial Officer in sufficient time to enable him to report to the Council on the overall financial position in respect of the Capital Budget. The information provided by the Project Managers will include details of the action taken or planned (if any) to deal with variances from the approved capital programme.

7.2.4.3 Head of Department will be required to submit progress reports on a monthly basis in respect of “key deliverables” to relevant portfolio committee to assess continuing compliances with the IDP Strategy and Corporate Plan of the Council

## **8. Urgent/Emergency Action**

8.1. Emergency means a sudden and dangerous occurrence i.e. an occurrence involving actual or potential threat to human life and / or actual or potential material financial losses to Council

8.2 Emergency or Urgent action referred to also takes into account action necessary in case of disasters taking place within the Municipal area

8.3. Where an emergency or urgent action involving an amount of R100, 000 as set by Council excluding VAT becomes necessary as a result of some unforeseen circumstances, such action may only be approved by the Municipal Manager in consultation with the Chief Financial Officer and the other appropriate Heads of Departments.

8.4. Where an emergency or urgent action exceeding an amount of R100, 000 as set by Council excluding VAT becomes necessary as a result of some unforeseen circumstances, such action may only be approved by the Mayor in consultation with the Municipal Manager, Chief Financial Officer and the other appropriate Head of Department.

8.5. In case of urgency or emergency where no budgetary provision exists, the Mayor in consultation with the Municipal Manager and Chief Financial Officer may take appropriate action to utilize reserves and report to the next full Council meeting

## **9. EFFECTIVE DATE OF THE AMENDMENTS TO THE FINANCIAL REGULATIONS**

These amendments take effect from the date of Council Resolution approving.