CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

ANNEXURE 12

VIREMENT POLICY

May 2020

Making progress possible. Together.

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1. DEFINITIONS AND ABBREVIATIONS

In this Policy, unless the context indicates otherwise –

"Accounting Officer", in relation to a municipality, means the municipal official referred to in section 60. The municipal manager of a municipality is the accounting officer of the municipality for the purpose of this Act.

"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.

"Capital Approval Object" is the level at which a project or programme is approved by Council. Capital Approval Objects are linked to the following:

(a) Major project - A project which consists of multiple coordinated, related, interdependent and controlled components undertaken to achieve an objective conforming to specific requirements.
(b) Programme - Multiple independent projects of a similar nature managed in an overall coordinated approach and approved as part of a programme.
(c) Routine Programme - Routine Programmes (Bulk Votes) are defined as expenditure on routine, repetitive work essential for the expansion of infrastructure which does not exceed 18 months and Plant & Equipment.
(d) Project - A project is undertaken to achieve a specific objective and conforms to specific requirements.

"Chief Financial Officer" or **"CFO"** means a person designated in terms of section 80(2)(a). A chief financial officer is designated by the accounting officer of the municipality

"City of Cape Town" or **"City"** means the City of Cape Town, a municipality established by the City of Cape Town Establishment Notice No 479 of 22 September 2000 issued in terms of the Local Government Municipal Structures Act 1998 or any structure or employee of the City acting in terms of delegated authority.

"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" is the nature of cost e.g. salary, rent and is split into primary- and secondary cost elements. Primary cost elements are expenditure items where costs are mainly generated as a result of transactions with external service providers. Secondary cost elements are utilised to reallocate cost by means of assessments, internal billing or activity based recoveries.

“Expenditure and Revenue Categories” is the prescribed uniform classifications and formats for revenue and expenditure items in compliance with the Municipal Budget and Reporting Regulation, mSCOA Regulations and any relevant MFMA Circular issued by National Treasury.

“MAYCO” means the Mayoral Committee established in terms of Part 1 of Chapter 4 of the Municipal Structures Act which performs the roles and functions of an Executive Committee.

“MCCR” means Municipal Cost Containment Regulations.

“MFMA” means the Municipal Finance Management Act (Act 56 of 2003).

“Senior Managers” means managers directly accountable to the municipal manager as per Section 56 of the Municipal Systems.

“Financial year” is the 12-month period between 1 July and 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; and
(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

A vote in the City of Cape Town is set at directorate level, with the exception of tariff-funded services due to the closed account nature. In votes where there are rates and tariff funded components within a vote, virements are only allowed within the rates and tariff components respectively.

“Virement” is the process of transferring an approved budgetary provision from one operating cost element or capital approval object to another within a vote or tariff service during a municipal financial year.

2. PROBLEM STATEMENT

2.1 Webster's New Millennium™ Dictionary of English defines “Virement” as *“a regulated transfer or re-allocation of money from one account to another,* especially *public funds.”*

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

2.3 Changing circumstances and priorities during a financial year may give rise to the need to virement funds within votes, as defined in the MFMA. The treatment of such instances may, however, be dependent on whether an adjustments budget is required or not.

3. DESIRED OUTCOMES

3.1 The aim of this policy is to give senior managers greater flexibility in managing their budget, in order to ensure that they can effectively and efficiently deliver on the City's strategic objectives.

3.2 The CFO 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.

3.3 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*;"

3.4 It is the responsibility of each senior manager, to plan and conduct assigned operations in a manner that ensures that not more funds are spent than what was budgeted for and to ensure that funds are utilised effectively and efficiently.

3.5 Section 78(1)(b) of the MFMA states, inter alia, "*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…".*

3.6 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 in accordance with the City's objectives and mandate and within the current legislative framework of the MFMA and the City's system of delegations.

4. STRATEGIC FOCUS AREAS

4.1 The City's IDP identifies **five** strategic focus areas which provide a solid foundation for the articulation of service delivery. These are The Opportunity City, The Safe City, The Caring City, The Inclusive City and The Well-Run City. Within the strategic focus areas, the City has further identified linked objectives.

4.2 This policy supports the following strategic focus area and objective:

4.2.1 The Well Run City - Objective 5.1: Operational sustainability

4.2.2 This objective is about delivering services and creating value for customers in an operationally sustainable manner based on evidenced led decision making so that the City can remain financially stable and resilient to shocks in a changing environment.

5. ROLE PLAYERS AND STAKEHOLDERS

5.1 Directorates and departments

- Responsible to initiate and submit completed virement to the Budgets department with required approval in terms of the City's System of Delegation.
- Responsible to notify the Budgets department of completed application for verification, approval and processing.
- To process virements for the approval by Director: Budgets, within the upper limit of virements for the operational votes of executive directors/directors and authorized cost centre managers within a single vote.
- To process virements for the approval by Director: Budgets, within the upper limit of virements within capital votes of executive directors/directors.
- Line finance manager to verify financial correctness and check that motivations are sound.

5.2 Director: Budgets

- To approve all virements in terms of the System of Delegation.
- To approve virements in categories where limitations are set to ensure responsiveness to operational requirements.

5.3 Executive Mayor in terms of System of Delegation

- To determine the maximum amount that the City Manager may authorise in respect of the transfer of operational and capital expenditure (within a single budget vote).
- To authorise the transfer of operational and capital expenditure (within a single budget vote) over and above the maximum amount determined above.

5.4 Budgets department

- Responsible to check and verify financial correctness and submit virement application to the Director: Budgets for approval.
- The relevant section within the budget department will be responsible for the processing of the virement application after approval in terms of the City's System of Delegation.

6. REGULATORY CONTEXT

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

6.1.1. 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."

6.1.2. Unauthorised Expenditure (as per the MFMA's 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;"

6.1.3. Overspending (as per the MFMA's 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

6.1.4. Section 71(1)(g)(iii)

"(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. GUIDING PRINCIPLES

7.1 The virement process represents the major mechanism to align and take corrective (financial/budgetary) action within a directorate (vote) during a financial year.

7.2 In terms of Section 17.2 of the MFMA, a municipality's budget is divided into an operating- and capital budget and consequently no virements are permitted between the operating- and capital budget.

7.3 Virements across directorates (votes) are not permissible and will only be effected via an adjustment budget.

7.4 Virements between Tariff- and Rate-funded functions are not allowed as Rates and Tariff-funded services are balanced separately and transfers across these services will result in an unbalanced budget between Rate- and Tariff-funded services. Such transfers can only be adopted via an adjustment budget (per MFMA Section 28).

7.5 In order for a directorate (vote) to transfer funds from one cost element or capital approval object to another cost element or capital approval object, an underspent has to be identified within the monetary limitations of the approved "giving" cost element or capital approval object allocations.

7.6 Sufficient, (non-committed) budgetary provision should be available within the "giving" vote's cost element or capital approval object concerned to give effect to the budgetary transfer (virement). The transferring function must clearly indicate to which cost element or capital approval object the budget provision will be transferred to and provide a clear motivation why an underspent exists on the sending element or capital approval object and the reason for the additional requirement on the receiving element or project.

7.7 A proposed budgetary amendment, which will result in a change to the approved total budget quantum or any other budgetary amendments not covered in this policy, must be considered for adoption via an adjustments budget (per MFMA Section 28).

7.8 Virements will only be approved if receiver projects are implementation and tender ready i.e. the tender should be valid and active.

7.9 The MCCR must be considered when proposing a virement.

8. OPERATING BUDGET VIREMENTS

8.1 Budgetary allocations, adopted by Council for special purposes to which specific Council recommendations apply and which result from specific resolutions adopted, are not allowed to be used as a source of virementation subject to approval by Director: Budgets. Sound motivations should be provided for all virements.

8.2 Specific virement limitations

8.2.1 Employee related costs

(a) Virements are allowed between cost elements within this expenditure category.

(b) Virements to/from this expenditure category are subject to the approval of the Director: Budgets.

(c) Virements are not allowed on the following cost elements but budgetary alignments within the same cost elements are allowed:

(i) Unemployment Insurance Fund, Group life, Leave Pay, Long service awards.

8.2.2 Remuneration of Councillors
- (a) Virements within this expenditure category are allowed.
- (b) No virements to/from items within this expenditure category are allowed.

8.2.3 Contracted Services, Operational Expenditure and Other Materials
- (a) Virements within/across these expenditure categories are allowed.
- (b) Virements are allowed within expenditure items below and cannot be used as source of funding:
  - (i) Training related expenditure;
  - (ii) Bargaining Council levy;
  - (iii) Skills development levy;
  - (iv) Insurance related provisions;
  - (v) Contributions to Pensioners (Ex Gratia);
  - (vi) Provision for post-retirement medical aid; and
  - (vii) Continued Members.
- (c) Virements are not allowed on the following elements:
  - (i) CIDS/MIDS, Capital Expenditure-relate, VAT, Transfers to and from Insurance Fund, Transfers to and from Housing Fund;
  - (ii) Depreciation & Asset impairment, Debt Impairment;
  - (iii) Scrapping of Assets/Stock and Loss on Sale of Assets;
  - (iv) Bulk Purchases;
  - (v) Finance Charges;
  - (vi) Indigent Relief;
  - (vii) Income Forgone; or
  - (viii) Appropriation Accounts.
- (d) Specific limitations applicable to repairs and maintenance provisions
  - (i) Repairs and maintenance provisions may not be used as a source for virements.
  - (ii) Virements to increase repairs and maintenance provisions are allowed from cost elements within and across Contracted Services, Operational Expenditure and Other Materials.

8.2.4 Transfers and Grants (Grants and Sponsorships paid)
- (a) No virements are permitted to and from Grants-In-Aid (GL 457100) except if supported by the Grants-In–Aid Committee, supported by Mayco and approved by Council.
- (b) Virements on Grants/Sponsorships (GL 457200) are permitted only if supported by Mayco and approved by Council or the relevant delegated authority.
- (c) Virements to Sponsorships – Events (GL 457300) are permitted as long as the total allocation is not exceeded as supported and recommended by the relevant delegated authority.)

(d) Virements from Sponsorships – Events (GL 457300) are permitted where:
   (i) Events are cancelled or scaled down;
   (ii) Savings on approved events are realised or;
   (iii) For the reallocation of budgetary provision related to direct event expenditure and internal service charges; and
   (iv) supported and recommended by the relevant delegated authority

(e) Virements to/from Relief and Charitable contributions 457400 (Sec12 of MFMA) are permitted only if recommended and approved by Council resolution or the relevant delegated authority.

8.3 Revenue

8.3.1 No virements allowed on Revenue elements from own revenue sources (internal revenue sources).

8.3.2 Amendment to revenue provisions, must be adopted via an adjustments budget.

8.3.3 Virements on revenue elements funded from external grants are allowed, within the same funding source and Vote, subject to the conditions of the grant.

8.4 Secondary Operating Cost Elements

8.4.1 No virements are permitted between Primary- and Secondary cost elements.

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

8.4.3 Virements on Internal Utilities and Bulk Internal Utilities are permissible, on condition that both revenue and expenditure element are amended simultaneously and the period budgets are in sink.

8.4.4 Virements are only permitted within the same cost element in the following categories, provided that total approved budget on the cost element is not increased:
   (a) Activity Based Recoveries
   (b) Internal Utilities
   (c) Bulk Internal Utilities

8.4.5 Virements are not permissible on Support Service Charges elements.

8.4.6 No virements permitted on departmental insurance premiums, COID or Internal Capital Charges.

8.5 Ward Allocations Projects

8.5.1 All conditions under section 8 above should be met, as well as the following when virementing between ward allocation projects:
   (a) Only virements between existing projects approved by Council, within the same Sub-council and within the same directorate will be permitted.
   (b) Virements will only be considered if supported by the relevant Sub-council (Sub-council resolution), project managers and directorate/department finance managers.

9. CAPITAL BUDGET VIREMENTS

9.1 Only virements which relate to capital approval objects, approved as part of annual (current financial year) or adjustments budgets, will be permitted.

9.2 No virements of which the affect will be to add 'new' capital approval objects onto the capital budget, will be allowed, with the exception of those associated with insurance claim settlements.

9.3 Should the total project cost (TPC) of an individual project be increased by a virement, the amended TPC must be included in the next available adjustments budget opportunity or draft budget process, unless section 9.4 applies.

9.4 No virement will be allowed on an individual or major project where the total project cost (TPC) is increased and the project will be completed in the current financial year, unless the amended TPC can be approved in a subsequent adjustment budget. If no further adjustments budget process is available, this amendment may be done via a report to Council.

9.5 Virements must be between capital approval objects of same funding sources.

9.6 Implementation of the capital project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the capital project).

9.7 Motivations for virements should clearly state why funds are available on the sending approval object and the reason why the additional funds are required on the receiving approval object. The sender motivation should clearly state how the project will be implemented or completed when any delays or issues are resolved. The receiver motivation should also clearly state the acquisition method (tender or RFQ), as well as the tender number in question.

9.8 Secondary Capital Cost Elements

(a) Virements are permissible only within the same cost elements of different projects. The service requestor and service provider must endorse such virements.

(b) Proposed secondary capital expenditure virements must be approved by the Director: Budgets. No virement will be approved which negatively impacts on secondary cost plans i.e. no virement will be approved from a sender WBS element where the remaining overall budgetary provision on the sender WBS element is insufficient to cover the approved secondary cost plan.

9.9 Ward Allocations Projects

9.9.1 Only virements between existing projects approved by Council, within the same Sub-council, and within the same directorate will be permitted.

9.9.2 Virements will only be considered if supported by the relevant Sub-council (Sub-council resolution), project managers and directorate/department finance managers of the projects involved.

9.9.3 Motivations for virements should clearly state why funds are available on the sending approval object and the reason why the additional funds are required on the receiving approval object.

10. PROCESS AND ACCOUNTABILITY

10.1 Accountability to ensure that virement application are completed in accordance with Council's virement policy, system of delegations and are not in conflict with the directorate's strategic objectives and rests with the head of the relevant directorate.

10.2 Duly completed virement applications are to be effected by the Budgets department.

10.3 Virements approved and processed will be reported for information to Mayco on a quarterly basis/as part of an adjustments budget. The quarterly report will include a separate annexure, which will highlight virements approved as per section 5.2 of this policy.

10.4 All change requests for transfer within programmes will be reported to subcouncils on a monthly basis as part of the Progressive Capital Expenditure Report (PCER).

11. MUNICIPAL COST CONTAINMENT REGULATION (MCCR)

11.1 Section 62(1)(a) and 95(a) of the MFMA stipulates that the accounting officer of a municipality or municipal entity is responsible for managing the financial administration of a municipality and must for this purpose take all reasonable steps by implementing cost containment measures to ensure that the resources of the municipality are used effectively, efficiently and economically.

11.2 Municipalities and municipal entities are required to utilise existing reporting requirements, to report internally and externally on cost saving measures. This include reporting such savings in the Annual Report.

11.3 Cost containment measures will be applicable on various items as indicated in the MCCR.

11.3.1 Virements on Consultants are subject to the executive director/City Manager/delegated authority's support.

11.3.2 Virements to top-up the expenditure items listed below will be reviewed and motivations duly scrutinised.

(i) Travel and subsistence;
(ii) Air Travel;
(iii) Vehicle Hire;
(iv) Domestic Accommodation;
(v) Sponsorships, events and catering;
(vi) Communication; and
(vii) Conferences, meetings and study tours.

12. EVALUATION AND REVIEW

12.1 This policy will come into effect once it has been approved at Council.

12.2 In terms of section 17(1) (e) of the MFMA this policy must be reviewed on an annual basis and the reviewed policy must be tabled at Council for approval as part of the budget process.

12.3 The effectiveness of this policy in achieving the prescribed outcomes as well as any changes in legislation must be taken into account for future amendments to this policy.