CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

VIREMENT POLICY

DIRECTORATE: FINANCE

DEPARTMENT: BUDGETS

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Document Information and Revision Log

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Approval of Policy

Please note that the implementation of the policy contained in this document is subject to approval and signing off by all relevant Heads and/or Committees, including but not limited to:

- Executive Director : Finance
- Portfolio Committee : Financial Services
- MAYCO
- Council

1 DEFINITIONS AND ABBREVIATIONS

Abbreviations

MFMA: Municipal Finance Management Act (Act 56 of 2003)

CFO: Chief Financial Officer

Definitions

A*ccounting Officer (MFMA)*

"- (a) 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.

A*pproved Budget (MFMA)*

" - 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;"

C*hief Financial Officer (MFMA)*

"a person designated in terms of section 80(2)(a)". A chief financial officer is designated by the accounting officer of the municipality

C*ost Centre*

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.

C*ost element*

Cost elements distinguish between 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.

Senior Manager~~s~~

Section 56 of the Systems Act states *inter alia* “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

The 12 month period between 1 July and 30 June.

Vote (MFMA)

“(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.”

In the case of the City of Cape Town the definition of Vote is set at directorate level, with the exception of tariff-funded services as a result of their closed account nature Cape Town Electricity, Water & Sanitation, Solid Waste Management.

Virement

The process of transferring an approved budgetary provision from one operating cost element or capital project 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 a need to virement (transfer) funds within Votes, as defined in the Municipal Finance Management Act 56 of 2003 (MFMA). The treatment of such instances may, however, be dependent on whether an adjustments budget is required or not.

3 DESIRED OUTCOMES

The aim of this policy is to give senior managers of directorates, greater flexibility in managing their budget.

3.1 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. A municipality's virement policy and its underlying administrative process within the system of delegations is one of these controls.

3.2 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;…"

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

3.4 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;…"

3.5 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 City's system of delegations.

4 STRATEGIC INTENT

The strategic focus areas of the City are enshrined in the City's Integrated Development Plan (IDP) known as the five pillars, namely, the opportunity city, the well-run city, the safe city, the caring city and the inclusive city.

This policy supports the following strategic focus areas.

Opportunity City
Objective 1.2: Provide and maintain economic and social infrastructure to ensure infrastructure-led growth and development.

Well-run City
Objective 5.3: Ensure financial prudence, with clean audits by the Auditor-General.

The underlying tenets of the well-run city are the principles of openness and due process. A well-run city is the guarantor of all other government programmes. Citizens need to know that their government works for them, is accountable to them and answers to them at all times. Governments manage public resources and programmes, as such, they must be constantly scrutinised in public to ensure responsible management

5 ROLE PLAYERS AND STAKEHOLDERS

5.1 Directorates and departments

- Responsible to prepare the virement application form
- Must obtain required signatures in terms of Systems of delegations
- Line finance manager must verify financial correctness
- Responsible to submit completed forms to budget department for approval and processing

5.2

5.2 Executive Mayor

To determine from time to time 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 from time to time.

5.3 Mayoral Committee Member for Finance

To authorise the transfer of operational and capital expenditure (within a single budget vore) for amounts over R2 million but not exceeding R5 million [delegation 5(4)]

5.4 Mayoral Committee Members

The relevant Mayco member where applicable will support and recommend the application for the virement of funds in terms of Council's System of delegations

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5.5 Budget department

- Responsible to check and verify financial correctness and submit virement application to director budgets for approval
- Director budgets will approve virement application in terms of system of delegations
- The relevant section within the budget department will be responsible for the processing of the virement application after approval by the director budgets

6 REGULATORY CONTEXT

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

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."

Unauthorised 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;"

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;"

Section 71(1)(g)(iii) states *inter alia "(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 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.

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 Trading 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 project to another cost element or capital project, a saving has to be identified within the monetary limitations of the approved "giving" cost element or capital project allocations

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

7.7 A proposed budgetary amendment of 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).

8 OPERATING BUDGET VIREMENTS

8.1 Budgetary allocations, adopted by council for special purposes to which specific council recommendations apply (e.g. Mayor's special projects, EPWP allocation) and which result from specific resolutions adopted are not allowed to be used as a source of virements.

8.2 Sound motivations should be provided for all virements, as provided for on the virement application form.

8.3 **Specific virement limitations**:

8.3.1 Employee related costs

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

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

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

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

8.3.2 Remuneration of Councillors

(a) Virements within this expenditure classification are allowed.

(b) No virements to and from items within this expenditure classification are allowed.

8.3.3 Contracted Services and Operational costs

(a) Virements within or across these expenditure classifications are allowed.

(b) The following are not to be used as sources of virements, but virements are allowed within each expenditure classification to align budgetary provisions on cost centres within a vote:

(i) Training related expenditure, Bargaining Council levy, Skills development levy, Insurance related provisions, Contributions to Pensioners (Ex Gratia), Provision for post retirement medical aid, Continued Members

(c) Virements are not allowed on the following elements or provisions:

(i) CIDS/MIDS, Capital Expenditure-related elements , Scrapping of Assets / Stock, VAT, Transfers to and from Insurance fund, Transfers to and from Housing fund, Loss on sale of Assets

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 these expenditure classifications
(iii) Virements on repairs and maintenance provisions can be only processed via internal orders

8.3.4 Transfers and Grants (Grants and Sponsorships paid)

(a) No virements are permitted to and from Grants-In Aid (GL 457100): Grant Policy, except if supported and approved by Grants-In Aid Committee and Council in line with the Grant-In Aid Policy.

(b) Virements on Grants/Sponsorships (GL 457200) are permitted only if recommended and approved by Council (in line with the Grant Policy) or Section 80 Special Events Committee (in line with the Events Policy).

(c) Virements to Sponsorships – Events (GL 457300) are permitted as long as the total allocation as supported and recommended by the Section 80 Special Events Committee (in line with the Events Policy) is not exceeded. Virements from Sponsorships – Events (GL 457300) are permitted where events are cancelled or scaled down, savings on approved events are realised or for the reallocation of budgetary provision related to direct event expenditure and internal service charges as supported and recommended by the Section 80 Special Events Committee.

8.3.5 Virements are not allowed on the following elements:

(i) Bulk purchases, Depreciation & Asset impairment, Debt Impairment, Finance Charges

8.3.6 Virements are not allowed on Indigent Relief, Income Forgone, Appropriation Accounts

8.3.7 Revenue

No virements are allowed on any Revenue element. Amendment to revenue provisions amendments must be adopted via an adjustments budget.

8.3.8 Secondary Operating Cost Elements

(a) No virements are permitted between Primary and Secondary cost elements.

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

(c) Virements on Internal Utilities and Bulk Internal Utilities are permissible, on condition that the respective Internal Utilities Revenue and Bulk Internal Utilities Revenue are amended simultaneously.

(d) Virements are only permitted within the same cost element in the following categories, provided virements may not increase the total approved budget on the cost element:

(i) Activity Based Recoveries

(ii) Internal Utilities

(iii) Bulk Internal Utilities

(e) Virements are not permissible ~~o~~n Support Service Charges elements.

(f) No virements permitted on departmental insurance premiums, COID or Internal Capital Charges,

8.3.9 Ward Allocations Projects

All conditions under "Operating Budget Virements" section above should be met, as well as the following when viramenting between ward allocation projects

(a) Only virements between existing projects approved by Council, within the same Subcouncil, and within the same directorate will be permitted.

(b) Virements will only be considered if supported by the relevant Subcouncil (Subcouncil resolution), project managers and directorate/department finance managers of the projects involved (annexure D).

(c) Motivations for virements between projects should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

9 CAPITAL BUDGET VIREMENTS

9.1 Only virements which relate to projects approved as part of annual or adjustments budgets, will be permitted.

9.2 No virements of which the affect will be to add "new" projects onto the Capital Budget, will be allowed.

9.3 Should a virement cause an increase to an individual project's total project cost the amended total project cost must be included in the next adjustment budget or the following year's adjustment budget.

9.4 No virement will be allowed after the January adjustments budget, on an individual project where the total project cost is increased and the project will be completed in the current financial year.

9.5 Virements must be between projects of similar major funding sources (e.g. EFF ↔ EFF).

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

9.7 Motivations for virements should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

9.8 **Secondary Capital Cost Elements:**

(a) Virements are permissible only within the same cost elements of different projects.

(i) 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 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:**

(a) Only virements between existing projects approved by Council, within the same Subcouncil, and within the same directorate will be permitted.

(b) Virements will only be considered if supported by the relevant Subcouncil (Subcouncil resolution), project managers and directorate/department finance managers of the projects involved (annexure D).

(c) Motivations for virements between projects should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

10 PROCESS AND ACCOUNTABILITY

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

10.2 Completed virement documentation is to be effected by the Budgets department.

10.3 Virements approved and processed will be reported for information to the Executive Mayor on a quarterly basis or as part of an adjustments budget.

11 EVALUATION AND REVIEW

11.1 This policy shall be implemented once approved by Council.

11.2 This policy must be reviewed on an annual basis.

11.3 Changes in and legislation must be taken into account for future amendments to this policy.

11.4 Any amendments must be tabled to Council for approval as part of the budget process

<u>ANNEXURES</u>

Annexure A: Operating Budget Virement Form
Annexure B: Capital Budget Virement Form
Annexure C: Secondary Cost Virement Form
Annexure D: Supporting document to Ward Allocation virement request