



**HARRY GWALA DEVELOPMENT AGENCY (PTY) LTD**  
**[REG. No: 2011/001221/07]**

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**POLICY: VIREMENT**

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<b>Administrative Responsibility:</b>	Chief Executive Officer
<b>Implementing Department / Departmental Unit</b>	Budget and Treasury Office

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## VIREMENT POLICY

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### POLICY DOCUMENT CONTROL

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Version	Author	Date	Revised Date
V1	CFO	-	13 February 2024

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## **PREAMBLE**

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.

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

Changing circumstances and priorities during a financial period may give rise to a need to virement (transfer) funds within or between approved Votes, as defined in the Municipal Finance Management Act 56 of 2003 (MFMA). The treatment of such instances may, however, be dependant on whether an adjustment budget is required or not.

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 municipal Entity's virement policy and its underlying administrative process within the system of delegations is one of these controls.

Section 81(1) of the MFMA states inter alia that "The Chief Financial Officer of a municipal Entity 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 of the act.

It is the responsibility of every Head of Department 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 utilised effectively and efficiently.

Section 78(1) (b) of the MFMA states inter alia that "Each senior manager of a municipal entity and each official of a municipal entity exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the financial and other resources of the municipal entity are utilised effectively, efficiently, economically and transparently".

This policy aims to provide guidelines to senior management in the use of virement 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 Harry Gwala Development Agency system of delegation.

## **1 INTERPRETATION OF THE POLICY**

Except to the extent to which the context may otherwise require, this Policy shall be construed in accordance with the following provisions of this sub-paragraph:

1.1 Words importing the singular also include the plural, and *vice versa*, where the context requires.

1.2 The following words shall have the meanings hereby assigned to them –

**“ACCOUNTING OFFICER”** (MFMA) -(a) in relation to a municipal entity means the municipal entity official referred to in section 60.

**“APPROVED 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 adjustment budget in terms of section 28;”

**“CEO”** shall mean the Chief Executive Officer of the Harry Gwala Development Agency (Pty) Ltd

**“CHIEF FINANCIAL OFFICER”** (MFMA) – a person designated in terms of section 80(2)(a)

**“COMPANIES ACT”** shall mean the Companies Act, 2008 (Act No 71 of 2008), as amended from time to time.

**“COUNCIL”** refers to the Municipal Council of the Harry Gwala District Municipality, as defined in Section 157 (1) of the Constitution of the Republic of South Africa, Act 108 of 1996, as amended from time to time.

**“FINANCIAL YEAR”** – “the 12 months period 1 July and 30 June.

**“HGDA”** means the Harry Gwala Development Agency (Pty) Ltd, a company duly incorporated in terms of the laws of the Republic of South Africa with registration number: 2011/001221/07, in which the Harry Gwala District Municipality, as Parent Municipality, holds a sole interest.

**“HGDM”** means the Harry Gwala District Municipality, a Category C Municipality established in terms of Section 155(1)(c) of the Constitution of the Republic of South Africa, 1996 and in terms of Section 12(1) of the Municipal Structures Act, 32 of 2000 (as amended) and its successors in title. Includes duly authorised officials of the Municipality who have been delegated any powers, functions and duties necessary to give effect to this Policy and decide upon and administer the matters referred to herein.

**“MEETING”** shall mean any meeting of the board or any board sub-committees (portfolio committee) as well as any other General meeting meeting of the entity including meetings of Council, irrespective of the duration of such meeting.

**“MFMA”** shall mean the Municipal Finance Management Act 56 of 2003, as may be amended from time to time.

**“MSA”** shall mean the Municipal Systems Act 32 of 2000, as amended from time to time.

**“NON-EXECUTIVE DIRECTOR”** shall mean a non-executive director of the Agency appointed in terms of section 93E of the Municipal Systems Act, 32 of 2000.

**“SHAREHOLDER”** shall mean the Harry Gwala District Municipality.

**“VIREMENT”** - The process of transferring an approved budgetary provision from one operating line item within a vote during a municipal financial year and which results in changed circumstances from that which prevailed at the time of the budget adoption.

**“VOTE”** (MFMA):

- (a) one of the main segments into which a budget of a municipal entity is divided for the appropriation of money for the different departments or functional areas of the municipal entity; and
- (b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned

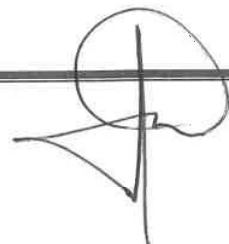
## **2 MFMA REGULATION ON BUDGET VERSUS EXPENDITURE**

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

- 2.1 Section 15 – Appropriation of funds for expenditure “A municipal entity may, except where otherwise provided in this Act, incur expenditure only in terms of the approved budget and within the limits of the of the amounts appropriated for the different votes in an approved budget
- 2.2 Section 28(2) (d) read together with section 69 of the MFMA provides that “An adjustments budget...may authorise the utilisation of projected savings in one vote towards spending in another vote.” Transfers between votes may therefore be authorised only by the board of the Municipal entity.

## **3 VIREMENT REQUIREMENTS**

- 3.1 The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within a department during a financial year.
- 3.2 In order for a “vote” (department) to transfer funds from one line (cost element) item to another, a saving has to be identified within the monetary limitations of the approved “giving” line item budget allocation on the respective budgets.
- 3.3 In terms of Section 17 of the MFMA a municipal entity’s budget is divided into an operating and capital budget and consequently no virements are permitted between Operating and Capital Budget.
- 3.4 Virements are not permissible across, or between votes.
- 3.5 Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustment budget (per MFMA Section 28)
- 3.6 Sufficient, (non-committed) budgetary provision should be available within the “giving” votes line item to give effect to the budgetary transfer (virement). In addition the transferring function must clearly indicate to which line item the budget provision will be transferred to and provide a clear motivation for the transfer.



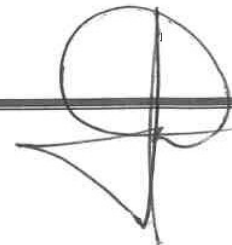
#### **4 AUTHORISATION OF VIREMENTS**

A transfer of funds from one item to another under this policy may, subject to the provisions of this policy, be authorised as follows:

- 4.1 If the amount does not exceed R200 000.00, the transfer shall be authorised by the Chief Financial Officer of the Municipal Entity or the Chief Executive Officer of the Municipal Entity after consultation with the Chief Financial Officer.
- 4.2 If the amount exceeds R200 000.00 but does not exceed R 300 000.00, the transfer shall be authorised by the Chief Executive Officer after consultation with the Chief Financial Officer.
- 4.3 If the amount exceeds R300 000.00, the transfer shall be authorised by the Board, on the recommendation of the Chief Executive Officer
- 4.4 Notwithstanding the provisions of 4.1, a transfer of funds between cost or functional centres within a particular vote may not be authorised by the Chief Financial Officer but shall only be authorised by:
  - the Chief Executive Officer if the amount does not exceed the amount of R300 000.00.
  - the Board if the amount exceeds the amount of R300 000.00.

#### **5 PROCEDURE FOR VIREMENT**

- 5.1 Proposals for transfers may be made by the Head of Department concerned.
- 5.2 The Accounting Officer shall prescribe a form on which all proposals for transfers of funds under this policy shall be made, which form shall include, but not be limited to, provisions for the following:
  - 5.2.1 the name of the department concerned;
  - 5.2.2 descriptions of the line items from and to which the transfer is to be made;
  - 5.2.3 the amount of the proposed transfer;
  - 5.2.4 the cause of the saving in the line item from which the transfer is to be made;
  - 5.2.5 the justification for the transfer;
  - 5.2.6 a description of any consequences that such transfer may have for the Integrated Development Plan or the Service Delivery and Budget Implementation Plan.
- 5.3 Each proposal for a transfer shall be submitted by the Head of Department concerned to the Chief Financial Officer and if:
  - 5.3.1 the amount of the transfer does not exceed the amount referred to in section 4.1 and the transfer is not between cost or functional centres, The Chief Financial Officer shall:





- 5.3.2 Approve the proposal, or
- 5.3.3 Reject the proposal; or
- 5.3.4 Refer the proposal to the Chief Executive Officer for approval or rejection
- 5.3.5 The amount of the transfer does not exceed the amount referred to in section 4.1, but the transfer is between cost or functional centers, or if it falls within the range of amounts referred to in section 4.2, the Chief Financial Officer shall refer the proposal to the Chief Executive Officer who, after consultation with the Chief Financial Officer, shall approve or reject the proposal.
- 5.3.6 The amount of the transfer falls within the range of the amounts referred to in section 4.3, the Chief Financial Officer shall refer the matter to the Chief Executive Officer who in turn shall refer the matter to the Board, together with his recommendations, and the Board shall either approve or reject the transfer.
- 5.4 All virement proposals must be completed on the appropriate documentation and forwarded to the relevant Finance Department official for checking and implementation.
- 5.5 All virement must be signed by the vote-holder (per Department) and the Manager within which the vote is allocated. (Section 79 of the MFMA refers).
- 5.6 A virement form must be completed for all Budget Transfers.
- 5.7 All documentation must be in order and approved before any expenditure can be committed or incurred. (Section 79 of the MFMA refers).
- 5.8 The Chief Executive Officer will report to the Board on a quarterly basis on those virements that have taken place during that quarter.
- 5.9 Upon a proposal for transfer being approved, such transfer shall be implemented subject to compliance with the Municipal entity's Supply Chain Management Policy.
- 5.10 Any virement exceeding the threshold should not be permitted unless otherwise accompanied by a motivation specifying reasons other than poor planning or any disastrous event which could have been avoided, such virement must be approved by the accounting officer even if it below threshold as depicted by the policy.

## 6 VIREMENT RESTRICTIONS

- 6.1 No funds may be moved between Departments. Total virement per vote per annum may not exceed a maximum of 25% of the vote from which virement is requested.
- 6.2 A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the budget for the current or subsequent years. (Section 19 and 21 of the MFMA refers).
- 6.3 No virement may commit the Municipal Entity to increase recurrent expenditure, which commits the board's resources in the following financial year, without the prior approval of board. This refers to expenditures such as entering into lease or rental agreements such as vehicles, photo copiers or fax machines.
- 6.4 No virement may be made where it would result in over-expenditure from the transferred vote. (Section 32 of the MFMA refers).
- 6.5 Virement may not be made in respect of ring- fenced allocations.
- 6.6 Budget may not be transferred from Departmental Charges, Charge out allocations or Grant expenditure and Income votes. This will be done via a Section 28 Adjusting Budget Process.
- 6.7 Budget may only be transferred from Salaries if approved by the Chief Financial Officer, and this can only be done to votes within the employee related costs section.
- 6.8 Virement in Capital Budget allocations are only permitted within specified action plans and not across funding sources and must in addition have comparable asset lifespan classifications. Virements should not result in adding "NEW" projects to the Capital Budget.
- 6.9 Virement from the Capital Budget to the Operating Budget and vice versa, is not permissible.
- 6.10 No virement proposal shall affect amounts to be paid to another Department without the agreement of the Manager of that Department, as recorded on the signed virement form. (Section 15 of the MFMA refers).
- 6.11 Virements amounts may not be rolled over to subsequent years or create expectations on following budgets. (Section 30 of the MFMA refers).
- 6.12 An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the supply chain management policy of Council as periodically reviewed.
- 6.13 Virements may not be made between Expenditure and Income.

## 7 REPORTING

The Chief Executive Officer shall submit a report on all transfers made under this Policy to the Board.

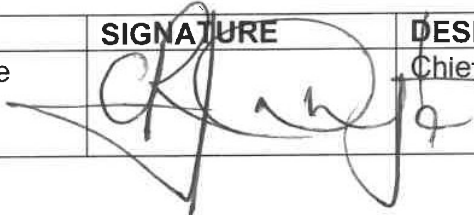
## 8 GENERAL

- 8.1 The Chief Executive Officer shall be responsible for the implementation and administration of this Policy.
- 8.2 Accountability to ensure that the 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.

## 9 COMMENCEMENT

This policy will commence on 1 July 2024, and must be reviewed annually together with the budget related policies.

### APPROVED BY:

NAME	SIGNATURE	DESIGNATION	DATE
MS ACR Whyte		Chief Executive Officer	25 April 2024