

DRAFT ANNUAL BUDGET

DRAFT VIREMENT POLICY

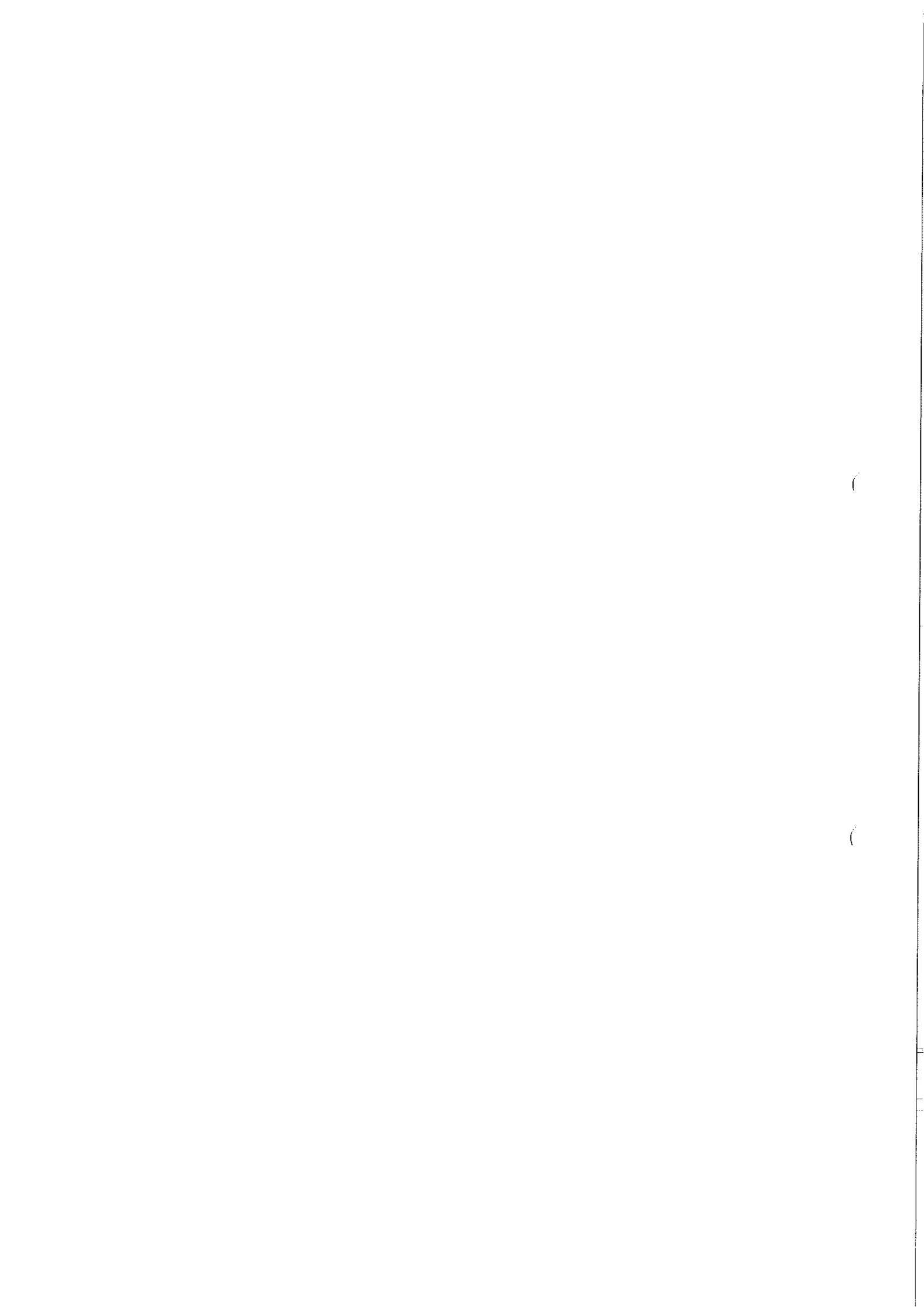




APPROVED BY: COUNCIL

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**SECTION A:                  DEFINITIONS**

1. **“Accounting officer”** The municipal manager of a municipality is the accounting officer of the municipality in terms of section 60 of the MFMA.
2. **“Approved budget”** means an annual budget approved by a municipal Council.
3. **“Budget-related policy”** means a policy of a municipality affecting or affected by the annual budget of the municipality.
4. **“Chief Financial Officer”** means a person designated in terms of the MFMA who performs such budgeting, and other duties as may in terms of section 79 of the MFMA be delegated by the accounting officer to the chief financial officer.
5. **“Capital Budget”** This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.
6. **“Council”** means the council of a municipality referred to in section 18 of the municipal Structures Act.
7. **“Financial year”** means a 12-month year ending on 30 June.
8. **“Line Item”** means an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditure.
9. **“Operating Budget”** The Town’s financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues, used to finance them.
10. **“Ring Fenced”** an exclusive combination of line items grouped for specific purposes for instance salaries and wages.
11. **“Service Delivery and Budget Implementation Plan”** means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (c) (ii) of the MFMA for implementing the municipality’s delivery of municipal services and its annual budget.
12. **“Virement”** is the process of transferring an approved budget allocation from one operating line item or capital project to another, with the approval of the relevant Manager. To enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.
13. **“Vote”** means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality; and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

**SECTION B: ABBREVIATIONS**

1. **CFO** – Chief Financial Officer
2. **IDP** – Integrated Development Plan
3. **MFMA** – Municipal Finance Management Act No. 56 of 2003
4. **SDBIP** - Service Delivery and Budget Implementation Plan

**SECTION C: OBJECTIVE**

To allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.

**SECTION D: VIREMENT CLARIFICATION**

Virement is the process of transferring *budgeted* funds from one line item number to another, with the approval of the relevant Manager and CFO, to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes. (Section 28 (2) (c) MFMA)

**SECTION E: FINANCIAL RESPONSIBILITIES**

Strict budgetary control must be maintained throughout the financial year to ensure that potential overspends and / or income under-recovery within individual vote departments are identified at the earliest possible opportunity. (Section 100 MFMA)

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. The budget virement process is one of these controls. (Section 27(4) MFMA)

It is the responsibility of each manager or head of a department or activity to which funds are allotted, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA sections 78 and 102.

**SECTION F: VIREMENT RESTRICTIONS**

- a) No funds may be viremented between departmental main segments / votes without prior Council approval.
- b) Virements may not exceed a maximum of R700, 000 per vote per financial year as periodically reviewed by Council.

- c) A virement may not create new policy, significantly vary from current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years. (section 19 and 21 MFMA)
- d) Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustments budget to the Council with altered outputs and measurements for approval. (MFMA Circular 13, page 3, paragraph 3)
- e) No virement may commit the Municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of the Mayoral Committee. This refers to expenditures such as entering into agreements into lease or rental agreements such as vehicles, photo copiers or fax machines.
- f) No virement may be made where it would result in over expenditure. (Section 32 MFMA)
- g) No virement shall add to the staff establishment of the Municipality without the approval of the Municipal Manager.
- h) If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.
- i) Virements may not be made in respect of ring-fenced allocations.
- j) Budget allocations may not be transferred from support service (interdepartmental) costs, Capital financing, Depreciation, Contributions, Grant Expenditure and Income Foregone.
- k) Budget allocations may only be transferred from Salaries if approved by the CFO.
- l) Virements 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.
- m) No virements are permitted in the first three months or the final month of the financial year without the express agreement of the CFO.
- n) 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 MFMA)

- o) Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 MFMA)
- p) An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the procurement/supply chain management policy of Council as periodically reviewed.
- q) Virements may not be made between Expenditure and Income.

#### **SECTION G: VIREMENT PROCEDURE**

- a) All virement proposals must be completed on the appropriate documentation (See Annexure A) and forwarded to the relevant Finance Officer for checking and implementation.
- b) All virements must be signed by the Head of Department within which the vote is allocated. (Section 79 MFMA)
- c) A virement form (See Annexure A) must be completed for all Budget Transfers.
- d) Virements in excess of R 50,000 with a maximum of R 700,000 need approval of the Chief Financial Officer. (Section 79 MFMA)
- e) Virement proposals must include changes to the SDBIP.
- f) All documentation must be in order and approved before any expenditure can be committed or incurred. (Section 79 MFMA)
- g) The Municipal Manager will report to the Mayor on a quarterly basis on those virements that have taken place during that quarter.

#### **SECTION H: SUPPLEMENTARY**

This policy replaces any other policies or Council resolutions as far as they may refer to virements as defined in this policy.

Once agreed, the virement policy should form part of the Municipal Manager's formal delegations and Financial Regulations of the Municipality.

Transfers or adjustments falling outside the ambit of this policy must be submitted to the budget adjustment process in terms of section 69 of the MFMA.



**Sources**

Municipal Finance Management Act No. 56 Of 2003  
MFMA Circular No.13 - Service Delivery and Budget Implementation Plan  
Mark Pearson National Treasury Advisor  
Airedale Primary Care Trust Budget Virement Policy: 2004-5 UK  
George Mason  
Virement Policy – Knysna Municipality

**BITOU MUNICIPALITY**

**VIREMENT APPLICATION: OPERATING / CAPITAL BUDGET**

This form must be:

- 1. Completed in duplicate
- 2. Signed by both Vote Custodians
- 3. Signed by the Head of Department
- 4. Approved by the Chief Financial Officer (only applications >R50,000)

**NOTE:**

- 1. The maximum virement is R200,000.
- 2. The votes involved must be within the same Service and transfers to/from operating to capital are not allowed.
- 3. No virements are allowed in the first three months and the last month of the financial year.

**TRANSFER REQUIRED: R..... BUDGET YEAR: 20..... / 20.....**

	<b>FROM</b>	<b>TO</b>
<b>DEPARTMENT</b>		
<b>SECTION</b>		
<b>VOTE DESCRIPTION</b>		
<b>VOTE NUMBER</b>		
<b>ORIGINAL/REVISED BUDGET PROVISION</b>		
<b>COMMITTED TO DATE (Excluding transfers)</b>		
<b>VOTE CUSTODIAN</b>		

**MOTIVATION:**

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**SDBIP CHANGES:**

**Key Performance Indicator:**

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Cost to Budget: R .....

Target Date: .....

**Quarterly Targets:**

- Quarter 1: ..... (Indicate change from approved SDBIP)
- Quarter 2: ..... (Indicate change from approved SDBIP)
- Quarter 3: ..... (Indicate change from approved SDBIP)
- Quarter 4: ..... (Indicate change from approved SDBIP)

**Monitoring Mechanisms:**

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\_\_\_\_\_  
VOTE CUSTODIAN (FROM)

Date: .....

\_\_\_\_\_  
VOTE CUSTODIAN (TO)

Date: .....

\_\_\_\_\_  
HEAD OF DEPARTMENT

Date: .....

**FOR FINANCE DEPARTMENT USE**

Checked by: ..... Date: ..... Manager: B & T

Approved by: ..... Date: ..... CFO (for all virements between R50, 000 and R700, 000)

Budget adjustment processed by: ..... Date: .....

Authorised by: ..... Date: ..... Municipal Manager  
(only when applicable in terms of Virement Policy)

ITEM C/2/ /03/13

Mayoral Committee for recommendation to Council

**REVIEW OF BUDGET-RELATED POLICIES 2014/2015: AMENDMENT OF  
THE BITOU MUNICIPALITY SUPPLY CHAIN MANAGEMENT POLICY**

**Department:** Finance **Demarcation:** All Wards

**File Ref:** 8/2/16

**Attachment:** 1. Draft Amended Supply Chain Management Policy

**Report from:** Chief Financial Officer

**Date:** 23 May 2014

**Purpose of the report**

- 1.1. The Municipality has a Supply Chain Management (SCM) Policy in terms of Regulation 2 of the Municipal Supply Chain Management Regulations issued by the National Treasury. In terms of Section 3(1)(a) of the SCM Policy, the Accounting Officer must, at least annually review the implementation of the Policy and when considered necessary submit proposals for the amendment of the Policy to Council.
- 1.2. The SCM Policy has been reviewed and amended on 31 March 2014 and subsequently additional amendments are submitted to Council for consideration and approval.

**Relevant Legislation**

Local Government: Municipal Finance Management Act 2003, (Act 56 of 2003)  
Local Government: Municipal Finance Management Act 2003, (Act 56 of 2003):  
Municipal Supply Chain Management Regulations  
Bitou Municipality Supply Chain Management Policy

**Background**

1. The Municipality has a Supply Chain Management (SCM) Policy in terms of Regulation 2 of the Municipal Supply Chain Management Regulations issued by the National Treasury. Council approved a Supply Chain Management Policy at

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its meeting held on 14 December 2005 and reviewed it in 2007, 2010, 2013 and 2014, with the last review approved on 31 March 2014, implemented with effect from 1 April 2014.

2. In terms of Section 3(1)(a) of the SCM Policy, the Accounting Officer must annually review the SCM Policy and when considered necessary submit proposals for the amendment of the Policy to Council.
3. The following Sections in the SCM Policy are relevant:
  - 3.1. **Section 1: Definitions**  
Include the definition of:

"irregular expenditure"	For the purpose of this Policy means expenditure incurred by the municipality in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality, and which is not been condoned in terms of the Policy
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The MFMA defines "Irregular Expenditure" in Section 1 of the MFMA. The definition is brought into the SCM Policy in order to allow council to consider delegating the condonation of expenditure which is not in accordance with the requirements of the SCM Policy, to the Accounting Officer, before such expenditure is incurred. Also refer to the amendment of Section 36(1)(c).

- 3.2. **Section 23: Procedure for handling, opening and recording of bids**  
Include a new Section 24(3):

(4) Bid documents must be made available on Council's Website for free as far as possible.
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Section 23(3) of the SCM Policy requires that a non-refundable fee must be charged for the provision of bid documents. In order to improve access to tender documents and promote small business, tender documents are to be made available for free on Council's Website.

- 3.3. **Section 36: Deviation from, and ratification of minor breaches of, procurement processes**  
Include a new Section 36 (1)(c)

(c) may condone any irregular expenditure incurred in contravention of, or that is not in accordance with a requirement of this Policy, provided that such condonation and the reasons therefore shall be reported to Council at the next ensuing meeting.
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The MFMA defines "Irregular Expenditure" in Section 1 of the MFMA. This amendment is proposed to Council in order to consider delegating the authority

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to condone expenditure which is not in accordance with the requirements of the SCM Policy, to the Accounting Officer, before such expenditure is incurred. Also refer to the amendment of Section 36(1)(c).

The reason for the inclusion of this section is to correct treatment of transactions where Council has been committed to a financial transaction before following a procurement process. These transactions have been treated as deviations in terms of Section 26(1)(a) of the Policy. However Section 36(1)(a) only apply to transactions which are still to be authorised and for which no commitments have been made.

Transactions committed for without following the correct procurement process must be considered as Irregular Expenditure once the expenditure has been incurred. Furthermore currently the only way of correcting the non-compliance is to submit a report to Council in order to condone the transaction prior to expenditure being incurred, which might lead to delays in service delivery and payment.

It is therefore proposed that the authority to condone transactions not in accordance with the requirements of the SCM Policy is delegated to Municipal Manager.

### 3.4. Section 52: Contract Management

Include Section 52 (7) & (8)

(7) Contracts will be managed in terms of the requirements of Section 116 of the Act and Council's Contract Management Policy.

(8) Contracts may be amended in terms of Section 116 (3) of the Act. Amendments to contracts which is not in excess of 15% for goods and services, or 20% for construction related goods, services and or infrastructure projects, may be considered in terms of the delegated authority.

The MFMA stipulates the requirements for contracts in Section 116. The SCM Policy now refers to these requirements and also to a Contracts Management Policy which are still to be developed.

Contracts may also be varied, extended, expanded or amended in terms of Section 116(3) of the MFMA through a public participation process. This functionality is now also proposed for inclusion in the SCM Policy with the limitation of 15% or 20 % as stipulated by the National Treasury Circular 62, which allows amendments without following the public participation process, within the delegations of the Municipal Manager, as per the SCM Policy.

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### 4. Financial Implications

No financial implications are anticipated, except for efficiency gains not quantifiable.

### RECOMMENDATION

That Council considers the revised and amended Supply Chain Management Policy and approves the implementation from 01 July 2014.

Comments: Head Corporate Services

Comments: Head Community Services

Comments: Head Municipal Services & Infrastructure Development

Comments: Strategic Services

Recommended by the Municipal Manager

That Council considers the revised and amended Supply Chain Management Policy and approves the implementation from 01 July 2014.