



VIREMENT POLICY

REVIEWED: 30.05.2022

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1. BACKGROUND

- 1.1 Virement is the process of transferring funds from one-line item of a budget to another. The term is derived from a French word meaning a commercial transfer.
- 1.2 A virement represents a flexible mechanism to effect budgetary amendments
- 1.3 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 dependent on whether an adjustments budget is required or not.

2. PURPOSE

- 2.1 The purpose of this policy is to provide a guideline for management in their day- to day management of their budgets.

3. DEFINITIONS

Concept, term, abbreviation	Description
MFMA	Municipal Finance Management Act, 56 of 2003
Virement	The process of transferring funds from one-line item of a budget to another.
Vote	As contained in Section 1 of the MFMA: "vote means — (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 "

4. LEGISLATIVE CONTEXT

The Overberg District Municipality is committed to adhering to and applying the prescribed legislative environment as it applies to virements, with specific reference to:

- 4.1 The Constitution of the Republic of South Africa, Act 108 of 1996 as amended
- 4.2 The Municipal Finance Management Act, 56 of 2003 (MFMA)
- 4.3 Treasury regulations issued in terms of the MFMA

In terms of the Constitution the approval of a budget is the responsibility of the Council. This does not mean the approval of every line item but is rather aimed at the approval of the budget as a financial and service delivery document. The process and other requirements are controlled by the Municipal Finance Management Act, Act 56 of 2003 (MFMA) and although the MFMA is not specific with regards to virements, municipalities are guided in related MFMA circulars No 12, 51, 88 and 94 and Municipal SCOA Circular No. 8 dated 24 April 2020 guidance on virement policies to municipalities issued by National Treasury

5. VIREMENT IN A mSCOA ENVIRONMENT

(Extract from MFMA Circular No 94 dated 8 March 2019)

The MFMA and the Municipal Budget and Reporting Regulations, 2009, allow for the shifting of funds between items, projects, programmes and votes in the budget in line with a Council approved virement policy. MFMA Circulars No. 12, 51 and 88 provide the principles municipalities must consider when doing a virement. With the promulgation of the mSCOA Regulation in 2014, municipalities should have aligned their virement policies to mSCOA. mSCOA provides a uniform and standardised financial transaction classification framework for municipalities and their entities to transact in and record its transactions using seven (7) segments. Six of these mSCOA segments are compulsory

6. VIREMENT PRINCIPLES

The following virement principles will apply:

- 6.1 In order for the Chief Financial Officer to authorise the transfer of funds from one cost item or capital project to another cost item or capital project within or across a vote (directorate); a saving has to be identified within the monetary limitations and within a similar funding segment of the approved cost item or capital project allocations on the respective budgets (operational and capital)
- 6.2 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 adjustments budget (Section 28 of the Act);
- 6.3 In terms of Section 17 of the Act a municipality's budget is divided into an operational and capital budget and consequently no virements are permitted between the operational and capital budgets;
- 6.4 Virements between votes (departments) will be permitted where the proposed shifts in funding facilitate sound risk and financial management;
- 6.5 As the Roads function are the responsibility of Province and the municipality are fully funded by Province will virements be allowed as per needs from Province. Therefor will no restrictions apply on virements within the roads department;
- 6.6 Virements should not be permitted in relation to the revenue side of the budget;
- 6.7 Virement for increased personnel expenditure, that is not on the salary budget compiled according to the approved organigram, should not be permitted, with the exception of:
 - 6.7.1 Where temporary staff paid under mSCOA item segment - *Expenditure: Contracted Services - Outsourced Services - Personnel and Labour* status has changed to permanent staff and where the budget allocation savings are from

Contracting services within the same function in terms of a Council delegated authority;

- 6.7.2 Where certain allowances are increase from funds shifted to personnel expenditure i.e.: essential users added to the scheme during the year which were paid ad-hoc transport claims from travel and subsistence and the subsequent savings on the operational item be used to supplement the respective salary budget items;
- 6.8 Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted;
- 6.9 Virement should only be allowed within a function and its sub functions, except for;
 - 6.9.1 where a Project extends over more than one function or sub function, savings in the budgetary allocations in a function of sub function may be applied across functions or sub-functions, but only for the purposes of the directly linked Project.
 - 6.9.2 Where the Finance and Administrative function or sub function is directly linked to another Function or sub function.

7. OPERATING BUDGET VIREMENTS

- 7.1 Sound motivations should be provided for all virements, as provided for on the pro forma virements documentation attached as Annexure A to this Policy

Virements to and from the following categories of expenditure are not allowed:

- (a) Employee related cost
- (b) Remuneration of councillors
- (c) Provisions (Current and Non-current) and Bad Debts Written Off
- (d) Depreciation and Amortisation
- (e) Insurance
- (f) VAT

- 7.2 Virements to and from various categories of funding sources are not allowed.
- 7.3 Transfers between items not stipulated in 6.1 are permitted within the same vote.
- 7.4 Virements are subject to the approval of the relevant senior manager and Chief Financial officer.

8. CAPITAL BUDGET VIREMENTS

- 8.1 No "new" capital projects onto the capital budget will be permitted except for where it is necessary to accelerate capital projects spending of capital projects already approved by Council in the IDP and capital budget of the indicative years;
- 8.2 Virements to and from the various categories of funding sources are not allowed;
- 8.3 Funding from a capital project will only be permitted once that project is finalised;
- 8.4 Virements are subject to the approval of the relevant senior manager and Chief Financial Officer.

9. LIMITATIONS ON AMOUNT OF VIREMENT

9.1 Notwithstanding the provisions as stated above:

9.1.1 The total amount transferred from and to line items within a particular vote in any financial year may not exceed 15% of the amount allocated to that vote; and

9.1.2 The total amount transferred from and to line items in the entire budget in any financial year may not exceed 15% of the total operating budget for that year.

- 9.2 A transfer which exceeds, or which would result in the exceeding of, any of the limits referred to in 8.1 above may, however, be performed only if Council, by resolution, approves thereof.

10. PROCESS AND ACCOUNTABILITY

- 10.1 Accountability, to ensure that virement application forms are completed in accordance with Council's Virement Policy manifests with the senior manager of a department;
- 10.2 The relevant senior manager will ensure that the virement application form is duly completed, the virement duly motivated and signed by the senior manager. Supporting documentation, proving savings on a cost item/s: must accompany the application form that needs to be handed over to the financial services department;
- 10.3 The Financial Services will verify the virement application form and the Chief Financial Officer will authorise the virement application should it comply with the Virement Policy of Council. If not, the virement application form will be returned to the relevant senior manager;
- 10.4 After receiving the final approval from the Chief Financial Officer the Financial Services department may process the virement;
- 10.5 Completed virement documentation is to be kept by the Financial Services Department for audited purposes;
- 10.6 All approved virements processed on the financial system, will be captured in the virement register and submitted to the Finance Portfolio committee for information;
- 10.7 If an adjustment budget is submitted, then all virements approved and processed to date, must be included in such Adjustment Budget to be approved by Council.

11. FLOW DIAGRAM IN APPLYING A VIREMENT

It must be taken into consideration what the implications are when segment changes take place as a result of moving budgetary allocations within a function or sub-functions.

Changes to a segment may require the change via an adjustment budget and therefore the change will not be permissible through the application of a Virement.

Attach per annexure is flow diagram in the form of a decision tree that need to be followed to establish whether a virement can be done or not.

12. REVIEW

This policy will be reviewed at least annually and updated if needed.

13. EFFECTIVE DATE

This policy shall come into effect on 1 July 2022.

14. Annexure A – Virement application form

15. Annexure B – Flow diagram Decision Tree

**OVERBERG DISTRICT MUNICIPALITY
REQUEST FOR TRANSFER OF FUNDS WITHIN BUDGET**

I hereby request that the amount of R _____

Be transferred from:

Cost Code	Ukey	Item	Fund

Amount available before transfer: R

Amount available after transfer: R

To:

Cost Code	Ukey	Item	Fund

Motivation for above mentioned request is as follows:

Requested by Head of Department:

Signature: _____

Name: _____

Date: _____

Authorised by Senior Manager:

Signature: _____

Name: _____

Date: _____

Recommend by Head: Financial Service to CFO:

Signature: _____

Name: _____

Date: _____

Approved by Chief Financial Officer:

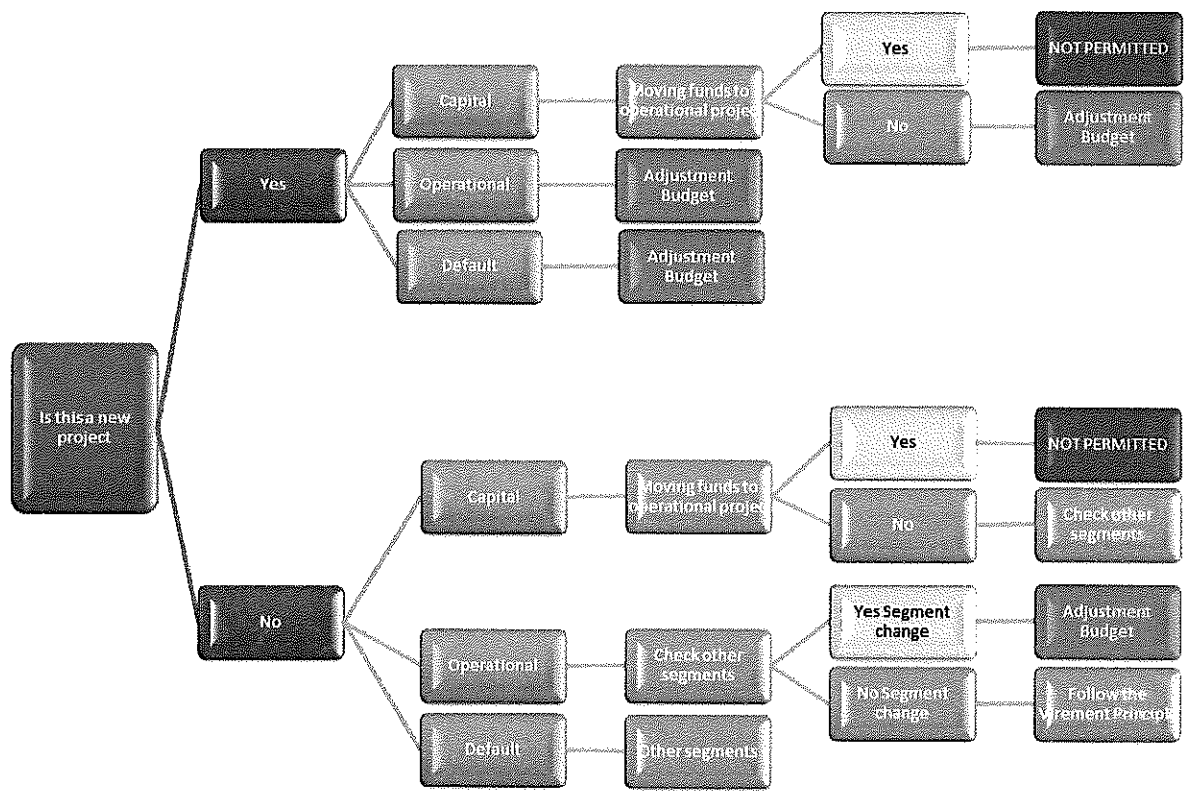
Signature: _____

Name: _____

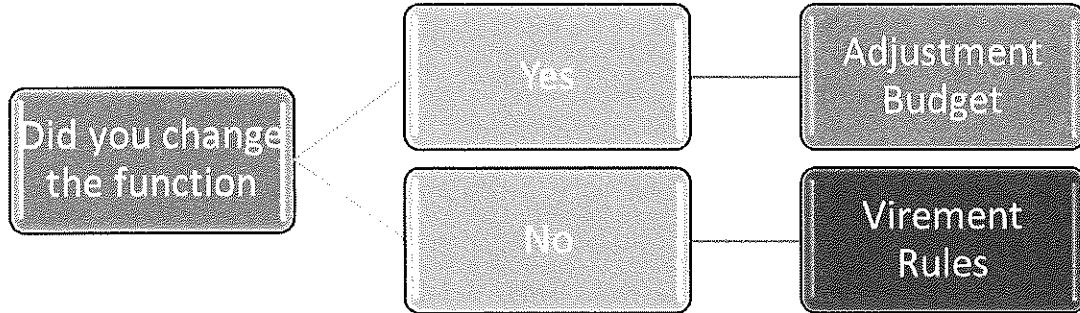
Date: _____

Annexure B – Flow Diagram Decision Tree

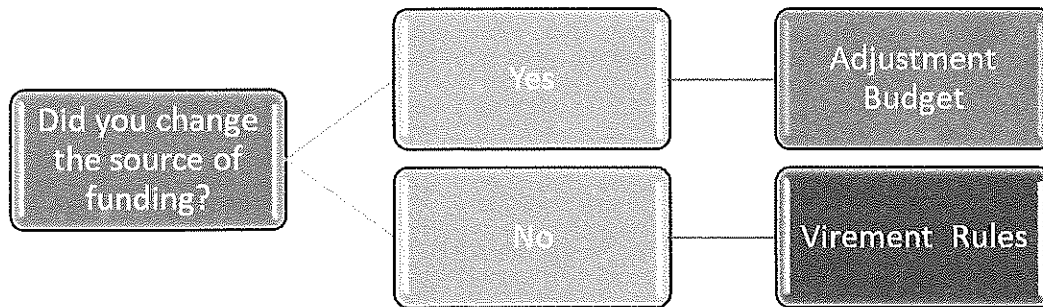
Changes to project segment



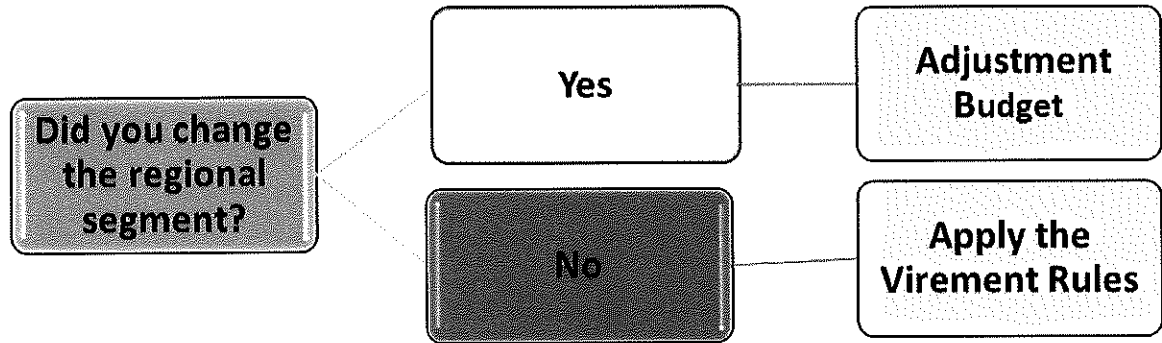
Changes to function segment



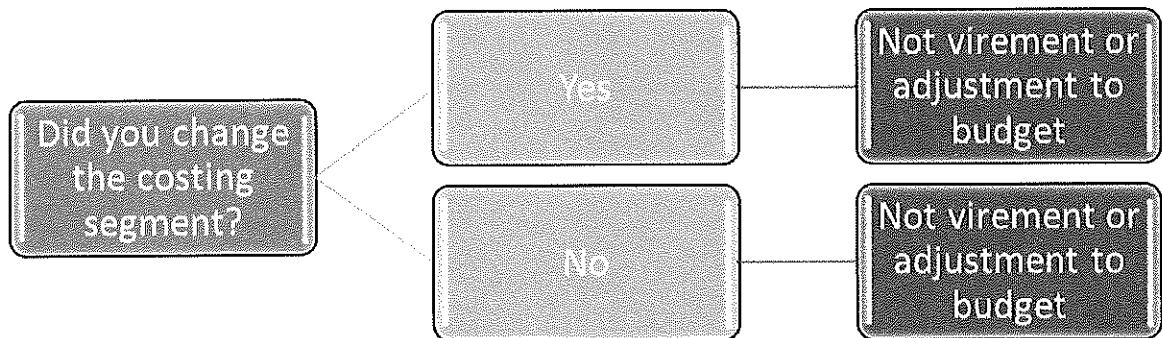
Changes to funding segment



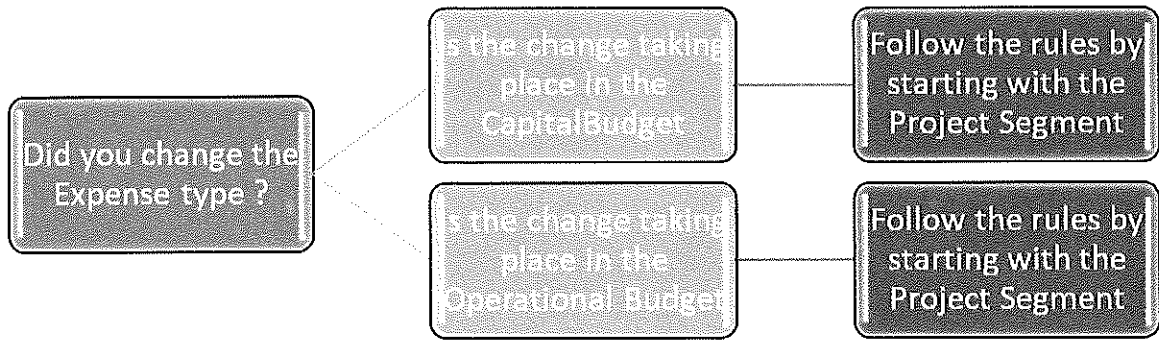
Changes to regional segment



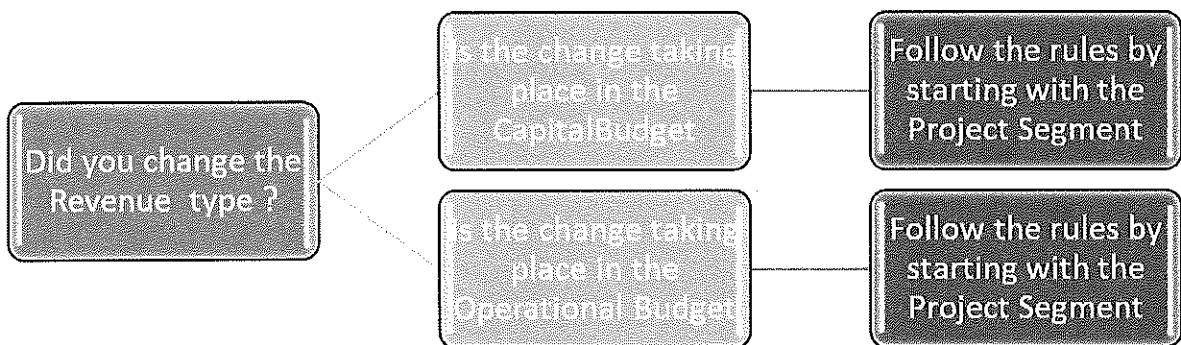
Changes to costing segment



Changes to the item segment: Expenditure



Changes to the item segment: Revenue





EXTRACT FROM THE COUNCIL MINUTES HELD ON 30 MAY 2022

Item A63. 30.05.2022

MTREF BUDGET: 2022-2023 TO 2024/2025 OPERATING AND CAPITAL BUDGET, IDP AND POLICY DOCUMENTS (Ref.-.6/1/1/3)

N Kruger : Chief Financial Officer

(Ref.:6/1/1/B & 6/1/1/1)

PURPOSE

The purpose of the report is to submit the budget for 2022/2023 MTREF to Council for consideration of approval.

BACKGROUND

In terms of section 16 of the Local Government: Municipal Financial Management Act, 2003 (Act 56 of 2003) Council must approve an annual budget before the start of the financial year.

LEGAL FRAMEWORK

The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) stipulates as follows:

Municipal budgets

16. (1) The Council of a municipality must for each year approve an annual budget for the municipality before the start of the financial year.
(2) In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

Contents of annual budgets and supporting documentation

17. (1) An annual budget of a municipality must be a schedule in the prescribed format—
- (a) setting out realistically anticipated revenue for the budget year from each revenue source;
 - (b) appropriating expenditure for the budget year under the different votes of the municipality;
 - (c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
 - (d) setting out—
 - (i) estimated revenue and expenditure by vote for the current year; and (ii) actual revenue and expenditure by vote for the financial year preceding the current year; and
 - (e) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.
- (2) An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.
(3) When an annual budget is tabled in terms of section 16(2), it must be accompanied by the following documents:

- (a) Draft resolutions—

- (i) approving the budget of the municipality;
- (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and
- (iii) approving any other matter that may be prescribed;

(b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;

(c) a projection of cash flow for the budget year by revenue source, broken down per month;

(d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;

(e) any proposed amendments to the budget-related policies of the municipality;

(f) particulars of the municipality's investments;

(g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;

(h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;

(i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;

(j) particulars of any proposed allocations or grants by the municipality to— (i) other municipalities;

- (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;

- (iii) any other organs of state; (iv) any organisations or bodies referred to in section 67(1);

(k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of—

- (i) each political office-bearer of the municipality;

- (ii) councillors of the municipality; and

- (iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;

(l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of— (i) each member of the entity's board of directors; and

- (ii) the chief executive officer and each senior manager of the entity; and (m) any other supporting documentation as may be prescribed.

22. Publication of annual budgets —

(1) Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must—

(a) in accordance with Chapter 4 of the Municipal Systems Act—

- (i) make public the annual budget and the documents referred to in section 17(3); and

- (ii) invite the local community to submit representations in connection with the budget; and

(b) submit the annual budget—

- (i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and

(ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

23. Consultations on tabled budgets —

- (1) When the annual budget has been tabled, the municipal council must consider any views of—
 - (a) the local community; and
 - (b) the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- (2) After considering all budget submissions, the council must give the mayor an opportunity—
 - (a) to the submissions; and
 - (b) if necessary, respond to revise the budget and table amendments for consideration by the council.
- (3) The National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guidelines on the formation of a committee of the council to consider the budget and to hold public hearings.
- (4) No guidelines issued in terms of subsection (3) are binding on a municipal council unless adopted by the council.

COMMENTS

The draft 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) report inclusive of the budget schedules, which have been compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), have been distributed after tabling it in the Council meeting of 28 March 2022, while a notice has been placed in the local newspapers to invite the public/community to submit comments on the draft/taled budget.

Input from Provincial Treasury

Provincial Treasury has submitted their 2022 SIME/ LG MTEC Assessment Report on 26 April 2022 and the municipal response was discussed with Provincial Treasury on 6 May 2022. The following aspects were highlighted by the Province Treasury and herewith the issues raised as well as the respective response from ODM Management :

The Municipality's budget reflects funded, but the nett surplus after the application of cash is on a declining trajectory over the MTREF indicating risks to future sustainability

- a) The Municipality tabled an operating surplus budget over the 2022/23 MTREF period which is commendable. As a district municipality, the Municipality has limited revenue sources, but great effort is noted in identifying additional revenue sources. Tariffs are proposed above inflation and may influence the revenue growth assumptions.
- b) The Municipality has over the last two (2) financial years shown great resilience to remain financially stable under exceptionally uncertain economic conditions. The Municipality's continued success depends on its ability to recognise when to adapt and adjust plans during any uncertainty. The Municipality is encouraged to continue with ongoing assessments of assumptions to ensure that revenue, expenditure projections and policy decisions to be accurately informed over the MTREF. It should be noted that based on the prior year audited outcomes, the Municipality has reported a deficit budget in 2018/19 but managed to achieve operating surpluses in 2019/20 and 2020/21 financial years. It has been noted on the Municipality's performance that in the 2021/22 financial year, operational expenditure has increased by two (2) per cent whilst the operating revenue has also increased by six (6) per cent.

- c) It is clear from the budgetary allocation to the strategic objectives that the bulk of the 2022/23 MTREF allocation is focused towards Strategic Goal (1): 'To ensure the well-being of all in the Overberg through the provision of efficient basic services and infrastructure'; this includes an operating budget allocation of R180.9 million (71.2 per cent) and a capital allocation of R7.5 million (73.7 per cent) in 2022/23. It is evident that the Municipality's 2022/23 budget prioritised spending towards delivering on its service delivery mandate.
- d) Annual growth in operating expenditure is below projected inflation in 2023/24 and 2024/25, while capital expenditure declines from a high of R10.2 million 2022/23 over the MTREF, to R3.4 million in 2024/25.
- e) This largest of the allocations, for road transport, will mainly be directed towards refurbishment and rehabilitation as well as upgrades and additions to existing road transport infrastructure, the biggest of these for 2022/23 being for the Hermanus-Gansbaai project (R130.0 million), the reseal of the Stanford-Riviersonderend road (R105.0 million), refurbishment of the Caledon-Sandbaai road (R93.8 million), upgrades and additions to the Draaiberg road and refurbishment of the Barrydale – Ladismith road (R60.0 million).
- f) The District has allocated R20.8 million towards its municipal health function (operating budget) and as well as a capital budget allocation of R40 000 (mostly office equipment) in 2022/23. Districts are mandated to provide municipal health services, which includes the surveillance and prevention of communicable diseases such as the current COVID-19. The allocation for municipal health is part of an investment in future health provision. The importance of strengthening this function and providing it with adequate resources is crucial to attaining and maintaining levels and safety standards with regards to our physical environment. The District has significantly increased its municipal health operating budget allocation in the 2022/23 financial year (21.2 per cent) compared to its 2021/22 allocation.
- g) The District has allocated a total operating budget of R36.0 million to the provision of fire-fighting services for 2022/23. This represents a 7.2 per cent increase from its 2021/22 allocation. A capital budget of R2.6 million is geared primarily towards vehicle replacement (R2.2 million) and vehicle upgrades/refurbishment (R300 000). In total, allocations towards fire-fighting services equates to 14.6 per cent of the overall 2022/23 budget.
- h) For 2022/23, the District has allocated R16.2 million of its operational expenditure budget to 'Sport and Recreation'; the corresponding capital allocation for the year is R1.4 million. If resorts are well managed and maintained, upgraded, and appropriately marketed, it can play a role in promoting domestic and international tourism within the region. The Municipality must consider if the allocation for this function is sufficient given the 1.9 per cent drop in operating expenditure in 2022/23.
- i) Firefighting and health services remain an essential part of the Municipality's service delivery to its community, however huge deficits are incurred in the process of providing these services. The Municipality must identify efficiencies within these functions to minimise the cost and negative financial impact. In this regard, ODM raised the Health Service funding issues at the Cabinet and Municipalities "Meet & Greet Sessions" on 22 April 2022 and ODM was advised to approach Provincial Treasury to make a submission to National Treasury. This was to motivate sufficient funding through an Equitable Share formula review for District Municipalities which would provide a framework for funding of Municipal Health Workers in line with required norms and standards. Currently ODM reflects a deficit of EHP's based on population figures (1 EHP/10 000). An item was placed on the next CFO Forum for 10 June 2022 to discuss this issue with District CFO's.

- j) The Municipality is reliant on own funding to contribute to capital budget and must consider the return on investment to ensure ongoing sustainability. The main fiscal challenge facing the Municipality is the limited revenue base and the identification of revenue opportunities within a cost-efficient governance model of service delivery. Balancing affordability and increasing spending demands is key to maintain a healthy funding position with active contributions to the capital replacement reserve fund.
- k) The liquidity ratios of the Municipality indicate that the Municipality can take care of their financial commitments.
- l) (l) The draft budget data strings over the MTREF period indicates that the Municipality is not exposed to a liquidity risk.

FURTHER COMMENTS

No other comments or inputs had been received on the advertised budget and tariffs.

Other necessary amendments based on changed assumptions and additions were made in the 2022/23 budget document, as proposed and tabled to the Budget Steering Committee for consideration on 17 May 2022.

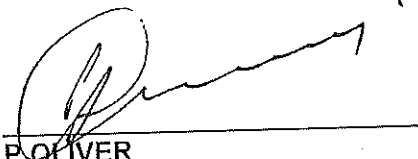
The 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) report, inclusive of the budget schedules, which are compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), will be distributed prior to the Council meeting of 30 May 2022.

RESOLVED : (Proposed by Ald A Franken and seconded by Ald J Nieuwoudt)

- 1) The consolidated budget of **R253 440 054**, consisting of an **Operating budget of R253 345 851** (resulting in a **surplus R 94 203** after tariff increases) and a **Capital budget of R10 273 000** and budgeted cash flows, as set out in the Municipal Budget is adopted and approved by Council and that it constitutes the Budget of the Council for 2022/2023 financial year as well as the medium term (indicative) budgets for the 2023/2024 and 2024/2025 financial years.
- 2) The tariffs as per tariff list be approved. That an application for waiver of tariffs be considered by the Municipal Manager, on written application.
- 3) That all other matters prescribed in sections 17(1) (a-e); 17(2) and 17(3) (a-m) of the Municipal Finance Management Act 56 of 2003, are included in or that accompany the budget document be approved.
- 4) The measurable performance objectives for 2022/2023 for operating revenue by source and by vote is approved.
- 5) That the following budget related policies are approved:
 - i Asset Management Policy (as amended)
 - ii Credit Control and Debt Collection Policy (as amended)
 - iii Cash Management and Investment Policy (as amended)
 - iv Tariff Policy (as amended)
 - v Supply Chain Management Policy (as amended)
 - vi Virement Policy (as amended)
 - vii Borrowing Policy (as amended)
 - viii Funding and Reserves Policy (as amended)

- ix Budget Policy (as amended)
- x Customer Care Policy (as amended)
- xi Demand Management Policy (as amended)
- xii Infrastructure and delivery Management Policy (Repealed)
- xiii Infrastructure investment and Capital projects Policy (as amended)
- xiv Liquidity Policy (as amended)
- xv Long term Financial Planning Policy (as amended)
- xvi Management and Admin of Immovable Assets Policy (as amended)
- xvii Payroll Management and Administration Policy (as amended)
- xviii Preferential Procurement Policy (Repealed)
- xix Cost containment Policy (as amended)
- xx Travelling and Subsistence Policy (as amended)

**CERTIFIED A TRUE EXTRACT FROM THE MINUTES OF THE COUNCIL MEETING HELD
ON 30 MAY 2022.**



**P. OLIVER
MUNICIPAL MANAGER (ACTING)**