

VIREMENT



POLICY, PROCESSES & PROCEDURES

RECOMMENDED

THAT the **Virement Policy** and the contents thereof be tabled at the Mayoral Committee for recommendation for approval by Council.

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Reviewed By

_____ **Date:** _____

Supported By

INTERNAL AUDITOR

_____ **Date:** _____

Signature

ACTING CHIEF FINANCIAL OFFICER

_____ **Date:** _____

ACTING MUNICIPAL MANAGER

**Adopted by the
Mayoral Committee**

_____ **Date:** _____

CHAIRPERSON

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1. Policy

1.1 Overview

Sedibeng District Municipality has developed its virement policy to incorporate all departments at which municipality business is conducted. This in recognising its need for good governance and flexible decision making even in the most pressurised and demanding environment.

The virement policy is a transparent and codified internal control system aimed at promoting its core District Objectives to ensure that the limited resources at the disposal of Sedibeng District Municipality will be focussed towards serving the various stakeholders in the pursuit of their interactions with Sedibeng District Municipality both efficiently and adjacent to approved budgets and broader financial policies of Sedibeng District Municipality, whilst minimising the temptation of misuse of municipality funds.

"Virement" is defined in this context as the legitimate re-application of approved funds from a cost centre line item to another cost centre during a single budgetary term. It seeks to introduce a transparent and flexible means for accommodating the dynamic environment within which the public sector operates for payables.

The policy is applicable to all Sedibeng District Municipality staff that is entrusted with the daily execution of municipal business. It seeks to institute the necessary control measures to facilitate the daily activity of the municipality by providing:

- i. A guideline for all officials and councillors alike;
- ii. An internal dynamic document detailing the processes required for the efficient discharge of expenditure necessary to satisfy creditors;
- iii. A mechanism to balance underutilisation of budgeted funds on one side with excess demand on the other side at cost centres.

1.2 Purpose

The Virement policy introduces the necessary control mechanisms to strengthen the delegation of authorities from the Chief Financial Officer (CFO), as per section 81 (1) (d) of the **MFMA**, which expressly makes reference to the need to inform management and senior officials of their powers and duties – this expressly with regards to allocated budgets, and their need to plan and conduct the operations they are charged with in accordance with approved annual performance plans.

1.3 Objective

The policy seeks to introduce a tool or mechanism aimed at defining the discretionary scope within the public finance arena by:

- i. Infusing business processes into internal control which complies with all legislation and statutory requirements;
- ii. Safeguarding against rash and irresponsible expenditure employment and radical fund shifts;
- iii. Equipping senior management and senior officials with a means to execute their daily management of annual performance plans in a dynamic environment;
- iv. Strengthen the financial and budgetary policies by adherence to the delegations of authorities system;
- v. Driving a culture of accountability over Sedibeng District Municipality by skilling staff and councillors alike.
- vi. Completeness of recording of receipts and payments, relative to the activity undertaken;
- vii. Ensure that staff should be appropriately trained and be aware of relevant policies and procedures.
- viii. Communicate to all staff that any monetary loss as a result of non-compliance with this policy is deemed to be gross negligence and could be cause for disciplinary action.

This policy shall be read in the context of the provisions of the following acts, regulations and administrative guidelines;

- MFMA Circulars
- Municipal Finance Management Act (MFMA) Act No. 56 of 2003
- Municipal Budget and Reporting Regulations, Government Gazette no. 32141 dated 17 April 2009
- Municipal Regulations on Standard Chart of Accounts

1.4 Business Process Framework

1.4.1 Legislative Framework

The *Municipal Finance Management Act (MFMA) (No. 56 of 2003)*, the *King IV Code on Corporate Governance in South Africa (2016)*, and *Municipal Budget and Reporting Regulations (MBRR)* and other applicable legislation informs and seeks to regulate virement activity and prescribe the process for reporting thereof in terms of the Code of conduct for Councillors and Municipal Staff members to approve such occurrences.

1.4.2 Accounting Framework

The accounting responsibility lies with the Chief Financial Officer (CFO), or delegated official, who has to ensure that reasonable controls exist to support the implementation of policies. In delegating this function to subordinates, it does not alleviate the responsibility of the Chief Financial Officer. The HOD has to ensure all policies and procedures are communicated to and implemented by the responsible individual(s).

1.5 Recommendations

- i. This policy, processes and procedures document be recognised as providing the framework of operation and internal control mechanisms for all staff members of the municipality;
- ii. This policy document is adopted by the Executive Management and the broader Council of Sedibeng District Municipality as the framework for Virement.

2. Processes

2.1 Rationale

Currently, there are seven (07) Clusters or Votes within Sedibeng District Municipality and in the pursuit of its core function of service delivery, payment for goods and services are a necessary consequence. Sedibeng District Municipality thus has to regulate and reconcile payments relative to annual budgets raised. In so doing it also has to recognise the dynamic environment within which it operates and the need to perform at best by introducing a means of empowering duly mandated officials with discretionary abilities within the confines of their operational activities.

2.2 General Definitions and Guidelines

2.2.1 Definitions

We define, the following for general usage in this policy document:

Chief Financial Officer (CFO)

“A person designated as per s80(2)(a) of the MFMA”;

Approved Budget as per MFMA

“An annual budget either approved by the municipal council or the provincial or national executive post an intervention in terms of section 139 of the Constitution.”

Cost Centre –

“The defined business unit to which expenditure is attached based on an annual performance plan and managed by a delegated official;”

Cost Element

“Makes reference to the line items of expenditure undertaken in the normal pursuit of municipal business and can be deconstructed into:

- a. **Primary cost elements** which refer line items of expenditure generated through interaction with external stakeholders;
- b. **Secondary cost elements** which refer to line items of expenditure raised through internal activity or re-evaluation of annual performance.”

Financial Year

“A 12 month period between 1 July and 30 June.”

Vote as per MFMA

“Makes provision for the segmentation of the approved budget in a single financial year into the appropriation of money into different functional business units of the municipality, and clearly defines the total allocated spend for such functional business unit.”

Virement

“Would thus refer to the mechanism of shifting an approved budget line item (cost element) or capital project at a designated vote (cost centre) during a financial year as necessitated by the dynamic environment within which the cost centre operates.”

Expenditure as per **MFMA** section 15

“May only be incurred by an approved budget and to the extent of the approved vote within the approved budget.”

Unauthorised Expenditure as per **MFMA Circulars 58 and 70**

“Refers to expenditure undertaken contrary to section 15 expenses defined above, and includes:

- a. Overspending on the entire approved municipal budget;
- b. Overspending on a particular vote;
- c. Raising expenditure at a vote which is contrary to the functional area of that particular vote;
- d. Diverting money appropriated for a specific purpose other than for what it has been allocated for in the annual budget or to satisfy the conditions of such initial allocations;
- e. Providing a Grant which does not comply with the definition of Grants in the **MFMA.**”

Overspending as per **MFMA**

“Makes reference to:

- a. In the case of the municipality, exceeding the total amount appropriated for the annual budget in any given financial year through operational or capital expenditure;
- b. In the case of a vote, expenditure exceeding the amount appropriated for that particular vote in any one given financial year;
- c. Section 26 also makes reference to expenditure exceeding allowable and mandated limits.”

2.2.2 Guidelines

Consequently it is incumbent that:

- i. The business unit / vote suggesting the virement should immediately approach the Chief Financial Officer (CFO) detailing the transaction and the cost implications of such transaction both should it be undertaken as well as not undertaken – such request should

be in a prescribed format on a standardised template and addressed to the CFO for the action of the Director: Financial Management & Budgets;

- ii. The business unit / vote needs to confirm to the CFO that such anticipated expenditure does not fall within the prescripts of section 72(2) of the MFMA and chapter 5 of the Budget and Reporting Regulations which prohibits certain transactions being undertaken by the Executive Mayor;
- iii. The CFO will consider whether raising such cost can be contained by apportioning it via a virement process – which would allow for the shifting of funds within the relevant business unit vote budget;
- iv. The CFO should then confirm such prescript.

3. Procedures

3.1 Framework for Reporting

The Reporting framework rests upon the need to realign a budgetary vote by shifting a cost element at a vote to another cost element during a financial year.

- i. The virement represents a flexible mechanism to affect budgetary amendments within a municipal financial year, and is the major mechanism to align and take corrective (financial / budgetary) action within a Directorate (Vote) during a financial year;
- ii. 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 on the respective budgets. Sufficient, (non-committed) budgetary provision should be available within the “giving” vote’s cost element or capital project concerned to give effect to the budgetary transfer (virement). In addition, 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 for the transfer;
- iii. The Directorate (Vote) within which the virement is to be raised is responsible for generating the initial report detailing such occurrence. The virement report must be undersigned by the HOD/ Director immediately responsible for that specific function and approved by the relevant Executive Director responsible for that Vote, and in accordance with the system of delegations thresholds. All virements should be approved in line with the Council’s System of delegations.

The report must be in the prescribed format (template appended as Appendix A) which is obtainable from the Budget Office;

- iv. The Director: Financial Management & Budgets is to scrutinise such report and advise as to the financial implications (where necessary) thereto for submission to the CFO prior to processing the virement request. 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 (per MFMA Section 28);
- v. Virements resulting in adjustments to the approved SDBIP by the user Directorate 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). **No virement may be performed outside of the MFMA MSCOA Regulations which will constitute a budget adjustment and will require compliance with the prescriptions of MFMA 28 & 29, as well as the MBRR;**
- vi. 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 Council. This refers to expenditures such as entering into multi-year lease or rental agreements for the leasing of vehicles, photo copiers or fax machines, etc;
- vii. No virement may be made to cover/ allow for unauthorised, irregular or fruitless and wasteful expenditure (MFMA Section 32);
- viii. No virements are permitted within the first three months or the final month of the financial year without the review and recommendation of the CFO and approval from Accounting Officer;
- ix. The virement that relates to an unfunded vacant position is subject to the approval of the Municipal Manager. The budget for such position may only be transferred from Employee related costs;
- x. Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets (MFMA Section 30);
- xi. 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 other than through an Adjustments Budget;

- xii. Virements are not permissible across, or between, votes without approval of both vote's Executive Directors and the recommendation of the CFO. All virements of funds between votes (Clusters) must be finally approved by the Municipal Manager prior to processing and reported to the Executive Mayor on a monthly basis.
- xiii. The CFO needs to advise the Municipal Manager who has to forward the Budget department prepared submission to the Executive Mayor;
- xiv. The Executive Mayor after careful perusal will prepare the necessary recommendation or disclaimer for submission to General council;
- xv. The General Council will consider such mayoral submission for either final approval or recommendation for further action.

3.2 Framework for Accounting

The framework for accounting is intertwined with the reporting aspect and provides for a seamless procedural experience:

- i. The vote raising the initiation report is to detail the proposed saving the virement will attain should a transfer of budgeted funds be instituted whether it be of a capital or operating nature;
- ii. The vote also has to confirm that there is sufficient surplus in either the vote's cost element or project to be able to accommodate the virement.
- iii. The recipient of the virement also needs to indicate the receiving capital project or cost element, and motivate such virement;
- iv. Upon receipt of the necessary approval from the General Council, the necessary system adjustments need to be made for accounting purposes immediately;
- v. The transaction thereafter needs to be completed so as to minimise any unnecessary risks associated with not meeting the commitment;
- vi. An adjustment budget would then be submitted at the next General Council Meeting, mindful of the Virement.

3.3 Authorisation

MFMA Section 28 states that any budget amendments which lead to a change in terms of total approved amount to allocations or any amendments not covered by this virement policy need to be included in an adjustment budget for adoption by the municipal council.

MFMA 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:

... (ii) 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....”

3.4 Constraints

- i. Section 17 of the **MFMA** holds that a municipality's budget needs to be split into an Operating budget and a Capital budget – this precludes virement's between the two;
- ii. Virements are also not possible between votes;
- iii. Section 28 of the **MFMA** also prohibits virements between trading and tariff borne functions unless these are formally constituted via an adjustment budget.
- iv. No virement is permissible from the following general expenditure categories unless the amendments are within the cost element:
 - v. Bulk Purchases
 - vi. Bad Debts
 - vii. Interest Charges and depreciation
 - viii. Indigent Relief
 - ix. Appropriation Accounts
- x. No virement is permissible on revenue elements - all revenue changes are to be recorded via an adjustment budget.
- xi. Virements may not increase the total approved budget of a cost element.
- xii. Virements are not permissible for Support Service Charges
- xiii. Virements are not permissible for Insurance premiums or Capital charges.
- xiv. Virements cannot “give birth” to new capital projects.
- xv. Virements cannot increase the individual capital projects overall project cost.
- xvi. The capital project relinquishing the funds for the recipient capital project may not in any way be hindered from completion by such action.

3.5 Virement Applications

Virements need to be captured and motivated on uniform documentation for scrutiny and cannot arise from special purpose budget allocations designated for a specific function as adopted from a specific municipal council resolution.

3.5.1 Operating Budget

- i. No virement can arise between primary and secondary cost elements;
- ii. No virement are permissible between Grants and Subsidies paid unless if specifically resolved by the municipal council and in accordance with the applicable policy;
- iii. Virements are permissible, subject to Executive sign off, between salaries, wages and allowances cost elements;
- iv. Virements are allowable within the category – remuneration of councillors, but not from this category or to this category;

3.5.1.1 Primary Cost Elements

- i. Virements are allowable within the cost elements which constitute general expenditure and the cost element repairs and maintenance;
- ii. Virements are allowed within the following cost categories but not as sources of virements:
- iii. Training
- iv. Bargaining Council provisions and skills development levies
- v. Pensioner and continued membership
- vi. Insurance
- vii. Repairs and Maintenance
- viii. Virements are not permissible from the following cost elements:
- ix. Capital Expenditure
- x. Scrapping of assets / Stock
- xi. VAT
- xii. Insurance Fund
- xiii. Primary virements are to be processed via internal orders;
- xiv. Virements are permissible to and from contracted services;

3.5.1.2 Secondary Cost Elements

- i. Virements are permissible within the same cost elements provided there is agreement between the recipient of the virement and the provider;
- ii. Internal utilities and Bulk internal utilities virements are permissible provided that simultaneous amendments are recorded;
- iii. Virements are permitted within the same cost element for the following:
- iv. Activity Based Recoveries
- v. Internal Utilities
- vi. Bulk Internal Utilities

3.5.1.3 Projects

- i. All conditions applicable to operating budgets apply.
- ii. Virements can only occur between existing municipal council approved projects within the same business unit.
- iii. The virement needs to be motivated by the project manager and official responsible for the finance of the project and record the proposed saving on the one side and the need for additional revenue on the other side.

3.5.2 Capital Budget

- i. The motivation must clearly state the intended saving on the one side as opposed to the need for additional capital on the other side;
- ii. The virement request needs to be endorsed and motivated by both the “giver” and recipient;
- iii. Virements can only be adopted for projects included in the annual or adjustment budgets;
- iv. Virements must be from projects of the same funding source;
- v. Virements are permissible only within the same cost elements of different projects;
- vi. Approval needs to be obtained from the Executive directly charged with the project;
- vii. For projects virements can only occur between existing municipal council approved projects within the same business unit, and motivated by the project manager and official responsible for the finance of the project and record the proposed saving on the one side and the need for additional revenue on the other side.

4. Municipal Standard Chart of Accounts

4.1 Principles when doing a virement

The principles that must be incorporated in this virement policy as per MFMA Circular No 12, 51 and 88 is still applicable in the mSCOA environment when doing a virement. Therefore, virement should only be allowed within a mSCOA function and its sub functions¹, except for the following cases:

- A Project extending over/ incorporating more than one mSCOA function or sub function, then savings in the budgetary allocation in a function or sub-function may be applied across the functions and/ or sub-functions directly linked to the same Project and Funding Source;
- Where the Finance and Administrative function or sub function is directly linked to another Function or sub function, then savings in the linked function/ sub-function may be applied in the Finance and Administrative function or *vice versa*². Therefore virement between Rates Services and Trading Services and across Trading Service are not allowed;
- Virements should not be permitted in relation to the revenue side of the budget;
- Virements between functions should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);
- Virements from the capital budget to the operating budget should not be permitted, Operational funds to the Capital Budget may be done, but only via an Adjustments budget;
- Virements towards personnel expenditure should not be permitted, *except where:*
 - *temporary/ contracted (budget for as contracted services in terms to the mSCOA Classification) staff status has changed to permanent staff; or*
 - *the budget savings resulted from Outsourced Services within the same function in terms of a Council delegated authority).*

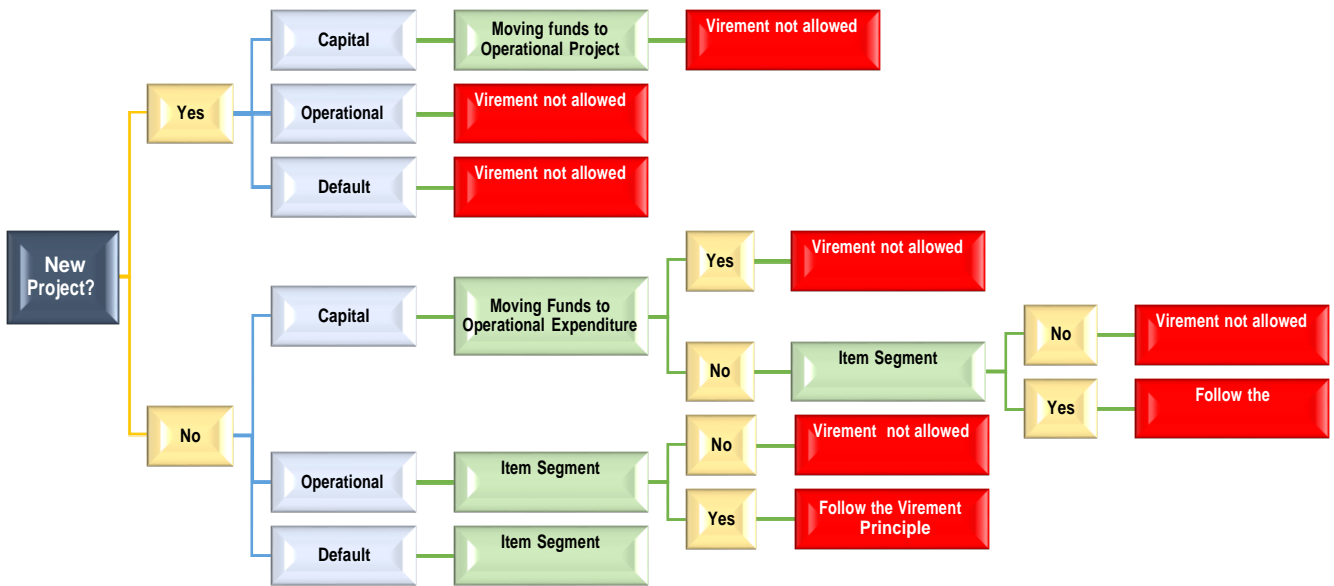
¹ The Municipal Regulations on a Standard Chart of Accounts, 2014 and mSCOA chart (annually published) sets-out functions and sub-functions. mSCOA derives its functions/ sub-functions from and enforces the Constitution, IMF, GFS classification, and Municipal Structures Act, 1998.

2 This exception would only be relevant when the municipality has a decentralised organisational structure, for example finance and administration is a sub- function within “water “with other sub functions then virement may be applied between any of the sub-functions within the function.

- Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;
- Virements should not result in adding 'new' projects to the Capital Budget;
- Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and
- There should be prudent limits on the amount of funds that may be moved between a function and its sub-functions. In terms of national best practise, a maximum percentage or monetary value of the budget of a Function/ programme/ project may be re-allocated/ shifted through virement (e.g. not more than 5 per cent of the budget may be moved to or from a function, programme, project, etc.). The policy must also indicate how the virements process is to be managed within the municipality so as to enable the tracking and reporting of funding shifts.

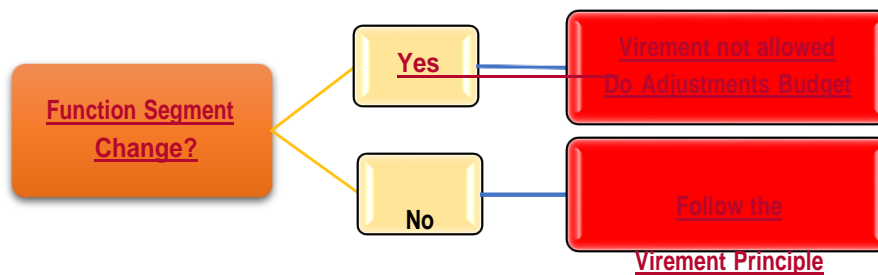
4.2 Project segment guidance

The flow chart diagrams below incorporate the virement principles explained above and provide guidance on how a virement should be applied in the mSCOA environment. Virement decisions should start with the project segment. As illustrated below, if a virement needs to be done for a project, the municipality should consider whether it is a new or existing capital, operational or default project and based on the type of project, the diagram below will provide guidance on whether a virement is allowed or whether and adjustments budget is required.



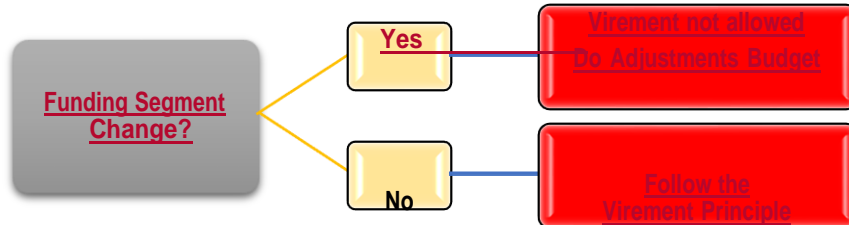
4.3 Function segment guidance

The next segment that should be considered in terms of the impact of the virement process is the function segment. In terms of the flow diagram below, if there is no change to the function segment, a virement may be done subject to the virement principles above.



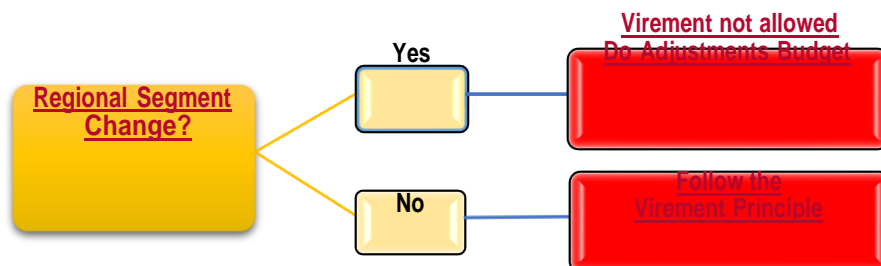
4.4 Funding segment guidance

If there is no change to the funding segment, a virement may be done subject to the virement principles above.



4.5 Regional Segment guidance

If there are changes to the regional segment in the application of a virement, then a virement may not be done but an adjustments budget is required, because Council allocates the project and funding to a **specific region**. A virement may be done if it will not result in changes to the regional segment subject to the application of the virement principles below.



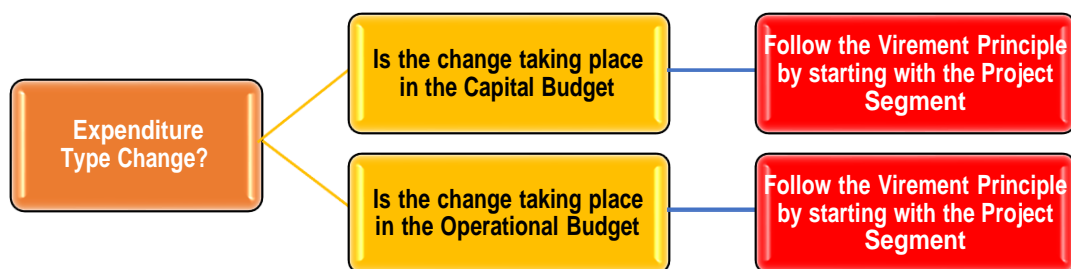
4.6 Costing Segment guidance

Changes to the costing segment should not affect the application of a virement.

4.7 Item Segment: Expenditure guidance

If changes in expenditure are incurred in the capital or operational budget, the virement decision should start with the project segment. If a virement is allowed, it will be subject to the application of the virement principles above.

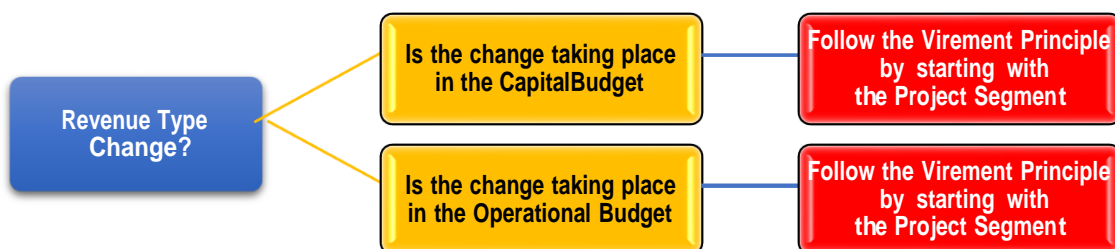
An example of a change taking place in the capital budget is when the nature of the project may change from “outsourced” to an “own account” project which will result in a different selection of accounts from expense accounts within the item classification for Construction Work-in-progress.



An example of a change taking place in the operational budget is when a District Municipality builds administrative building to be transferred to a local municipality (accounted for by the District Municipality as an operational project) which would have been constructed as an “own account construction” changing to an outsourced development. The impact is on the nature of expenditure, i.e. increase in contracted services.

4.8 Item segment: Revenue guidance

If changes in revenue type change either in the Capital or Operational Budget. First start with the Project and apply the change to all the segments and should the Virement be allowed refer to The Virement Principals before applying the Virement.



Previously, revenue stood on its own in the budget. Now revenue is linked to the item and

project. So, if the project segment is funded from a specific revenue source and there is a

saving (item expenditure) within the function, then the saving (budget) may only be applied to another project within the same function or sub-function only if the revenue source is the same and if it is transferred to the same project in another function. Importantly, the revenue source should be the same which restricts the use of the revenue sources

5. Types of Adjustments Budget

Importantly, Council must condone the shifting of budgetary allocations (virement) in the annual Adjustments Budget.

The table below provides guidance on the types of adjustments budgets that may be approved in terms of the Municipal Budget and Reporting Regulations (MBRR), 2009. As per the diagrams above the first option is to do a virement if there is a need to move budgeted amounts. The diagrams provide a guideline to follow per segment if the movement in budgeted amount is not allowable via a virement but instead the Municipality is required to produce an adjustments budget that must be tabled and approved at a Council meeting.

<u>Types of adjustments budget</u>	<u>Timeframes</u>	<u>Sections of MFMA and MBRR</u>
<u>Downwards adjustment due to under-collection of revenue</u>	<u>Any time</u>	<u>S. 28(2)(a)</u>
<u>Main adjustments budget</u>	<u>Once a year – between tabling of the mid-year assessment and 28 February</u>	<u>S. 28(2)(b, d & f) Reg. 23(1&2)</u>
<u>Additional funds from national / provincial government</u>	<u>60 days after the approval of the relevant national / provincial adjustments budget</u>	<u>S.28(2)(b) Reg. 23(3)</u>
<u>Unforeseen and unavoidable expenditure</u>	<u>Within 60 days of expenditure being incurred</u>	<u>S. 28(2)l, 29(3) & 32 Reg. 23(4), 71 & 72</u>
<u>Roll-over of municipal funds</u>	<u>Before 25 August</u>	<u>S. 28 l , Reg. 23(5)</u>
<u>Authorisation of unauthorized expenditure</u>	<u>In main adjustments budget After the tabling of the annual report for that year (7 months after the financial year end)</u>	<u>S. 28(g), 32, 127(2) Reg. 23(6)</u>

6. Unspent funds / roll over of budget

a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, except for external funds relating to capital expenditure.

b) Only unspent grant (if the conditions for such grant funding allows that) or loan funded capital budget may be rolled over to the next budget year.

c) Conditions of the grant fund shall be taken into account in applying for such rollover of funds.

d) Adjustments to the rolled over budget shall be done during the 1st budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year.

e) Application for rollover of funds shall be forwarded to the budget office by the 15th of August each year to be included in Adjustment budget for adoption by Council in February of the current year.

f) Projects funded from the Capital Replacement Reserve can be rolled over to the next budget year only if confirmed by the Budget and Treasury Office.

g) No unspent operating budget shall be rolled over to the next budget year.

3.6 Reconciling and Monitoring

- i. The virement has to be raised in the prescribed format on the uniform stationary;
- ii. The executive responsible for the business unit needs to approve such virement before the initial report is submitted;
- iii. The virement needs to be reported to the General Council within 30 days of being raised;
- iv. An adjustment budget must be submitted at the General Council Meeting within 60 days of the raising of such virement;
- v. Virements approved and processed needs to be reported to the Executive Mayor on a quarterly basis.

3.7 Amendment and Review of the policy

The Virement Policy shall be reviewed at the discretion of the CFO due to changing circumstances as a result of the legislation or otherwise.