

uMFOLOZI LOCAL MUNICIPALITY



DRAFT

VIREMENT POLICY

February 2018

TABLE OF CONTENTS	PAGE
1. PREAMBLE	3
2. DEFINITIONS	4
3. OBJECTIVES	5
4. APPLICATION	5
5. VIREMENT PRINCIPLES	6
6. VIREMENT RESTRICTIONS	6
7. VIREMENT PROCEDURES	7
8. VIREMENT PROCESSES	8

DRAFT

1. PREAMBLE

Virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year. It refers to a regulated transfer or re-allocation of money from one account to another, especially public funds.

Changing circumstances and priorities during a financial period may give rise to the 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.

The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. A municipality's virement policy and its underlying administrative process within the system of delegations is one of these controls.

DRAFT

2. DEFINITIONS

In this Policy, unless the context indicates otherwise, the following definitions are applied:

Accounting officer - The Municipal Manager of a municipality is the accounting officer of the municipality in terms of section 60 of the MFMA.

Approved budget means an annual budget approved by a municipal Council.

Budget-related policy means a policy of a municipality affecting or affected by the annual budget of the municipality.

Chief Financial Officer (CFO) 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.

Capital Budget 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.

Council means the council of a municipality referred to in section 18 of the Municipal Structures Act.

Financial year means a 12-month year ending on 30 June.

Line item means an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditure.

Operating Budget is the municipality's financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.

Ring Fenced - an exclusive combination of line items grouped for specific purposes, for instance, salaries and wages.

Service Delivery and Budget Implementation Plan (SDBIP) 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.

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. It enables budget managers to amend budgets in the light of experience or to reflect anticipated changes.

Vote means one of the main segments into which the 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.

3. OBJECTIVES

The purpose of this Policy is to set the framework within which a virement between different programmes, items and sub-votes of the approved budget of Municipal Council is allowed. However, in practice expenditure is incurred in periods between full Council meetings. Any over expenditure in such periods must be approved by the Municipal Manager, Chief Financial Officer and Mayoral Committee and submitted to the next Council meeting.

The policy framework:

- Gives heads of departments, senior managers and managers greater flexibility in managing their appropriations/budgets.
- Provides guidance to managers on how and when they may shift funds between items, projects, or programmes within their areas of responsibility.
- Complies with the Municipal Finance Management Act and the Municipal Budget and Reporting Regulations to implement a Council-approved virement policy as one of the budget related policies.
- Optimizes the use of resources by ensuring adequate funding is available to defray expenditure that is incurred in a particular department, sub-department and functional area by offsetting or transferring savings in another department, sub-department and functional area.
- Allows limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen/unavoidable expenditure as they arise to accelerate service delivery in a financially responsible manner.

4. APPLICATION

This Policy shall apply to:

- The Mayor.
- The Speaker.
- Executive Committee Members.
- Councillors.
- Municipal Manager.
- Directors.
- Any other official and or representative

specifically authorised to represent the Municipality and on official business of the Municipality.

5. VIREMENT PRINCIPLES

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. The following key principles must be applied during the virement process:

- (a) The virement process represents the major mechanism to align and take corrective (financial/budgetary) action within a Directorate during a financial year.
- (b) In order for a “vote” (Directorate) 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.
- (c) Sufficient (non-committed) budgetary provision should be available within the “giving” vote’s cost element or project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost element or capital project the budget provision will be transferred and provide a clear motivation for the transfer.
- (d) 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).
- (e) 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.
- (f) Virements are not permissible across, or between, votes. Virements between trading- and rate-funded functions are not allowed, due to the differing impacts on respective tariffs- or rates-borne services’ budgets, unless adopted via adjustment budgets (per MFMA section 28).

6. VIREMENT RESTRICTIONS

- 6.1 No funds may be viremented between departmental main segments/votes without prior Council approval.
- 6.2 Virements may not exceed a maximum of **R500 000 per vote per financial year** as periodically reviewed by Council.
- 6.3 A virement may not create new policy, significantly vary from current policy, or alter the approved outcomes/outputs as approved in the Integrated Development Plan (IDP) for the current or subsequent years (sections 19 and 21, MFMA).

- 6.4 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).
- 6.5 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 lease or rental agreements such as vehicles, photo copiers or fax machines.
- 6.6 No virement may be made where it would result in over expenditure (section 32, MFMA).
- 6.7 No virement shall add to the staff establishment of the Municipality without the approval of the Municipal Manager.
- 6.8 If the virement relates to an increase in the work force establishment, the Council's existing recruitment policies and procedures will apply.
- 6.9 Virements may not be made in respect of ring-fenced allocations.
- 6.10 Budget allocations may not be transferred from support service (interdepartmental) costs, Capital Financing, Depreciation, Contributions, Grant Expenditure and Income Foregone.
- 6.11 Budget allocations may only be transferred from Salaries if approved by the CFO.
- 6.12 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.
- 6.13 No virements are permitted in the first three months or the final month of the financial year without the express agreement of the CFO.
- 6.14 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).
- 6.15 Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets (Section 30, MFMA).
- 6.16 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.
- 6.17 Virements may not be made between Expenditure and Income.
- 6.18 All virements made after the adjustments budget e.g. an additional allocation made by national or provincial government must be approved by Council and form part of the Annual Financial Statements at the end of the budget year.

7. VIREMENT PROCEDURE

- 7.1 All virement proposals must be completed on the appropriate documentation (See Annexure A) and forwarded to the relevant Finance Officer for checking and implementation.

- 7.2 All virements must be signed by the Head of Department within which the vote is allocated (Section 79, MFMA).
- 7.3 A virement form must be completed for all Budget Transfers.
- 7.4 Virements in excess of R 50 000 with a maximum of R **500 000** require the approval of the Chief Financial Officer (Section 79, MFMA).
- 7.5 Virement proposals must include changes to the SDBIP.
- 7.6 All documentation must be in order and approved before any expenditure can be committed or incurred (Section 79, MFMA).
- 7.7 The Municipal Manager will report to the Mayor on a quarterly basis on those virements that have been done in regards to the budget.

8. VIREMENT PROCESSES

8.1 Virement between departments/votes

A “vote” in terms of the Municipal Finance Management Act No. 56 of 2003 is defined as one of the main segments into which a budget of a municipality is divided for the appropriation of funds for different departments or functional areas of the municipality. This specifies the total amount that is appropriated for the purposes of the department or functional area. Council therefore decides on the total amount that is allocated to that specific department and classifies it as a vote. Because Council approves the “vote” only, the shifting of funds within the “vote” can be delegated to the Mayor in consultation with the Accounting Officer and the Chief Financial Officer.

8.4 Virement within functional areas

The transfer of funds within a functional area is delegated to managers e.g., the manager’s budget must be within the same category in line items.

8.5 Virement on non-cash items

Virement cannot be permitted on the following non-cash items:

- (a) Depreciation;
- (b) Debt impairment;