



“An improved quality
of life for all residents”

VIREMENT POLICY

Virement Policy

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1. DEFINITIONS

"Accounting Officer" means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act; and also refers to the municipal manager of a municipality in terms of section 60 of the MFMA;

"Approved budget," means an annual budget

- (a) approved by a municipal council in terms of section 24 of the MFMA, or
- (b) includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

"Budget-related Policy" means a policy of the municipality affecting or affected by the annual budget of the municipality, including:

- (a) the tariffs policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
- (b) the rates policy which the municipality must adopt in terms of section 3 of the municipal property rates Act;
- (c) the credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;
- (d) the cash management and investment policy which the municipality must adopt in terms of section 13(2) of the Act;
- (e) a borrowing policy which must comply with Chapter 6 of the Act;
- (f) a funding and reserves policy;
- (g) a policy related to the long-term financial plan;
- (h) the supply chain management policy which the municipality is required to adopt in terms of section 111 of the Act;
- (i) any policies dealing with the management and disposal of assets;
- (j) any policies dealing with infrastructure investment and capital projects, including –
 - (i) the policy governing the planning and approval of capital projects; and
 - (ii) the policy on developer contributions for property developments;
- (k) the indigents policy of the municipality;
- (l) any policies related to the provision of free basic services;
- (m) any policies related to budget implementation and monitoring including –
 - (i) a policy dealing with the shifting of funds within votes;

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- (ii) a policy dealing with unforeseen and unavoidable expenditure; and
- (iii) policies dealing with management and oversight;
- (n) any policies related to the managing electricity and water including –
 - (i) a policy related to the management of losses; and
 - (ii) a policy to promote conservation and efficiency;
- (o) any policies related to personnel including policies on overtime, vacancies and temporary staff;
- (p) any policies dealing with municipal entities, including –
 - (i) the service delivery agreement; and
 - (ii) the dividend preference of the municipality; and
- (q) any other budget-related or financial management policies of the municipality.

"Budget transfer" means the transfer of an approved budget allocation from one operating or capital line item to another line item within a vote, with the approval of the relevant senior manager;

"Budget Year" means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA;

"Capital Budget" means the approved budget for capital items in a given fiscal period. Capital items are assets with a life expectancy of more than one financial year such as property, plant and equipment. The cost of which is normally written off over a number of fiscal periods;

"Chief Financial Officer" means a person designated in terms of section 80(2) (a) of the MFMA;

"Council" means the municipal council of this municipality referred to in section 18 of the Municipal Structures Act;

"Current year" means the financial year, which has already commenced, but not yet ended;

"Financial year" means a twelve months period commencing on 1st July and ending on 30th June each year;

"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" The Town's financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues, used to finance them;

"Ring Fenced" means an exclusive combination of line items grouped for specific purposes for instance salaries and wages. Annexure "B" provides a current item structure within ring fenced groups;

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“Segments” the structures which should be used in setting up a municipality budget. These comprise of, but not limited to –

- (a) **Project Segment:** The Project Segment allows operational and capital projects to be budgeted for by linking the IDP to the budget, providing in-time management information on project performance and spending against budget, and reporting on project funding. All activities of the municipality would therefore need to be aligned to “Projects” including institutional costs associated with the functioning of the municipality such as administrative and staff; this enables planning and budgeting at a project level;
- (b) **Function Segment:** The Function Segment is the location within the SCOA for creating the “vote” structure standardised for all municipalities;
- (c) **Municipal Standard Classifications:** This segment contains the “votes” set-up by the municipality based on the organisational structure in place for the municipality. The “vote” structure needs to be aligned to the municipality’s organisational structure

“Service delivery and budget implementation plan” means a detailed plan approved by the executive mayor of the municipality, in terms of section 53(l) (c) (ii) of the MFMA, for implementing the municipality’s delivery of municipal services and which indicate –

- (d) projections for each month of:
 - (i) revenue to be collected, by source; and
 - (ii) operational and capital expenditure, by vote;
- (e) service delivery targets and performance indicators for each quarter; and
- (f) any other matters that may be prescribed, and includes any revisions of such plan by the executive mayor in terms of section 54(l) (c) of the MFMA;

Virement” means the process of transferring an approved budget allocation from one vote to another, with the approval of the Municipal Manager. To enable senior managers to amend budgets in the light of experience or to reflect anticipated changes;

“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. Annexure “A” provides the current Vote structure as well as the assigned senior manager;

“Vote holder” means the senior manager to which the vote is assigned;

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2. ABBREVIATIONS

CFO – Chief Financial Officer

IDP – Integrated Development Plan

MFMA – Municipal Finance Management Act, Act No. 56 of 2003

SDBIP - Service delivery and budget implementation plan

mSCOA - Municipal Standard Chart of Accounts

GFS - Government Financial Statistics

HOD – Head of Department

3. OBJECTIVE AND PURPOSE

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.

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4. 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)

5. 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 Head of a Department (HOD) 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.

6. VIREMENT RESTRICTIONS

- 6.1. *No funds may be viremented between municipal standard classification / main votes without prior Council approval through an approved adjustment budget.*
- 6.2. *No virement may take place between votes without consent of both vote holders and the approval of the Municipal Manager.*
- 6.3. *Virements may not exceed a maximum annual limit of 5 % per vote from which the virement originates.*
- 6.4. *A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years.*
- 6.5. *No virement may commit the Municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year.*
- 6.6. *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)*
- 6.7. *An approved virement does not give expenditure authority and all expenditure resulting from approved virements are still subject to the supply chain management policy of Council as periodically reviewed.*

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- 6.8. *No virement may be made where it would result in unauthorised, irregular or fruitless and wasteful expenditure. (Section 32 MFMA)*
- 6.9. *No virement shall add to the staff establishment of the Municipality without the approval of the Municipal Manager.*
- 6.10. *If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.*
- 6.11. *Virements may not be made in respect of ring-fenced allocations.*
- 6.12. *Budget allocations may not be transferred from support service (interdepartmental) costs, Capital financing, Depreciation, Contributions, Grant Expenditure and Income Foregone.*
- 6.13. *Budget allocations may only be transferred from Salaries if approved by the CFO.*
- 6.14. *Virements within the capital budget allocations are only permitted within specified action plans and not across funding sources and must in addition have comparable asset lifespan classifications.*
- 6.15. *No virements are permitted in the first three months of the final month of the financial year without the express agreement of the CFO.*
- 6.16. *No virement proposal shall affect amounts to be paid to another Department without the agreement of the Director of that Department as recorded on the signed virement form. (Section 15 MFMA)*
- 6.17. *Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 MFMA)*
- 6.18. *Virements may not be made between Expenditure and Income*
- 6.19. *No virement are allowed in terms of income line items.*
- 6.20. *No virement are allowed from capital budget to the operating budget.*
- 6.21. *Virements of conditional grant funds to a purpose outside than specified in the relevant conditional grant framework are not permitted.*
- 6.22. *No virement are allowed from repairs and maintenance to another expenditure line item.*
- 6.23. *Virements must not result in new projects on the capital budget.*
- 6.24. *Virements must be effected across all the segments of mSCOA as per the approved virement form.*

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7. VIREMENT PROCEDURES

- 7.1. *All virement/transfer requests must be completed on the appropriate documentation (see Annexure A) and forwarded to the relevant Finance official responsible to process the virement/transfer.*
- 7.2. *All virements must be signed by the initiator, both the vote holders (middle and top managers), the Chief Financial Officer and Municipal Manager.*
- 7.3. *All budget transfers must be signed by the initiator, the vote holder, the Manager Budget and compliance and the official responsible to process the transfer.*
- 7.4. *Budget transfers in excess of R 50,000 require the approval of the Chief Financial Officer.*
- 7.5. *All documentation must be compiled and approved in line with the delegations as per section 79 of the MFMA before any expenditure can be committed or incurred.*
- 7.6. *The Municipal Manager will report to the Mayor on a quarterly basis on those virements that have taken place during that quarter*
- 7.7. *A virement form (see Annexure A) must be completed for all Budget Transfers.*

8. 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 dilatations and Financial Regulations of the Municipality.

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

