



VIREMENTS POLICY 2018



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Adopted:

1. DEFINITIONS

1. **“Accounting Officer”** The municipal manager that is appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;
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 section 80(2) (a) of the MFMA.
5. **“Capital Budget”** This a financial plan catering for large and long-term sums for investment in property, plant and machinery, over a period greater than the period considered under an operating budget.
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”** an appropriation that is itemised on a separate line in a budget adopted with the idea of greater control over expenditures.
9. **“Operating Budget”** The Municipality’s annual financial plan of an activity stated in terms of Budget Classification Code, functional/sub-functional categories and cost accounts. It contains estimates of the total value of resources required for the performance of the operations in terms of revenue and expenditure including reimbursable work or services for others.
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) for implementing the municipality’s delivery of municipal services and its annual budget.
12. **“Virements”** is the process of transferring funds between functions/ segments/ votes/ sub-votes.
13. **“executive mayor”** means the councilor elected as the executive mayor of the municipality in terms of section 55 of the Municipality Structures Act.
14. **“Delegation”** in relation to a duty, includes an instruction or request to perform or to assist in performing the duty.

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- 15. “Official”,** means-
- (a) An employee of a municipality or municipal entity;
 - (b) A person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
 - (c) A person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;
- 16. “Project segment”** means a collection of tasks usually of a multi-disciplinary nature to achieve a certain goal. It may consist of only a single provider, or to numerous service providers together constituting a project, such as separate contracts with an electrician, a plumber and a builder contracted to carry out a maintenance project related to a school. And it can either be operational or capital in nature.
- 17. “Function segment”** means the location within the SCOA for creating the “vote” structure standardized for all municipalities.

“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.

2. Abbreviations

1. **C.F.O.** – 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
5. **CM** – Council Minute/s

3. INTRODUCTION

The budget consists of an operating and a capital budget based on the strategic objectives of the Municipality. Therefore, the council approves the medium term expenditure framework budget (3-year

Adopted:

budget) before start of the financial year. The approved budget is an estimation of the activities within a specific financial period.

4. OBJECTIVE

The purpose of this policy is to afford guidelines on the transferring of budgeted funds in order to make the management to budget flexible.

5. LEGISLATIVE FRAMEWORK

Paragraph 4.6 of Circular 51 of the MFMA states that the MFMA and the Municipal budget and Reporting Regulations seek to move municipalities away from the traditional approach of appropriating/ approving budgets by line item. The aim is to give the heads of municipal departments and programmes greater flexibility in managing their budgets. To further facilitate this, each municipality must put in place a council approved virements policy, which should provide clear guidance to managers as to when they may shift funds between items, projects, programmes and votes.

6. MAINTANANCE OF THE POLICY

6.1 Given the change in regulations (mSCOA alignment), control and operational environment of the municipality, this policy will be reviewed regularly.

6.2 And for any other quires and clarifications with regard to this policy, you can address them to the CFO.

7. OPERATING BUDGET

7.1. Transfers between projects

- a) The proposed shifts in funding should facilitate sound risk and financial management.
- b) Virements between projects must be recommended by all directors affected, and approved by the municipal manager.

7.2. Transfers within functions

Virements within functions are permitted and must be approved by the Chief Financial Officer.
The proposed shifts in funding should facilitate sound risk and financial management.

7.3. Transfers on non-cash items

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

7.3.1 Depreciation

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7.3.2 Debt impairment

7.3.3 Inter departmental charges

7.4. Transfers on cash items

Virement cannot be permitted on the following cash items:

7.4.1 Personnel expenditure

7.4.2 Bulk purchases

7.4.3 Interest charges

7.4.4 Revenue forgone

7.4.5 Insurance

7.4.6 VAT

7.4.7 Special Operational projects

8. CAPITAL BUDGET

8.1 Transfers from Capital Budget to Operating Budget

a) Transfers from capital budgets to operating budget are not permitted.

8.2 Transfers from Operating Budget to Capital Budget

a) Transfers from operating to capital budget projects must be approved by the municipal manager.

8.3 Transfers within the Capital Budget

a) Transfers within the capital budget (per line item/ project) can only be approved by the Municipal Manager, after recommendation by the Chief Financial Officer.

9. 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 C.F.O, to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes. (Section 28(2) (c) MFMA)

10. FINANCIAL RESPONSIBILITIES

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

Adopted:

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 virements process is one of these controls. (Section 27(4) MFMA)

It is the responsibility of each Manager 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.

11. GENERAL CONDITIONS OF BUDGET TRANSFERS

Virements of line items within functions can be approved as follows:

- Section managers can make a requirement of a Virement to line items within a function under their responsibilities to a maximum of R 10,000 to the CFO.
- Virements are not permitted in relation to the revenue side of the budget.
- Virements from personnel expenditure to other expenditure types can only be requested by the Chief Financial Officer and approved by the Municipal Manager.
- The Chief Financial Officer approves of a Virements of line items within a vote/department on all amounts to a maximum of 5% of the budget line item.
- 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. (Section 19 and 21 of the MFMA)
- Virements resulting in adjustments of the approved SDBIP need to be submitted with the Adjustment Budget to Council with altered outputs and measurements for approval. (MFMA Circular 13 page 3 paragraph 3)
- 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 Executive Committee. This refers to expenditures such as entering into agreements into lease or rental agreements such as vehicles, photo copiers or fax machines.
- No virement may be made where it would result in over expenditure. (Section 32 of the MFMA)
- No virement shall add to the establishment of the Municipality without the approval of the Municipal Manager.
- No virement shall be made to increase the work force establishment.
- Virement may not be made in respect of ring-fenced allocations.
- Budget may not be transferred from Interdepartmental transfers, Depreciation, Capital Financing, Bulk Purchases, Grant Expenditure and Income Foregone.
- Virements towards personnel expenditure are not permitted.

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- 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.
- No virements are permitted in the **1st three months or the final 2 months** of the financial year without the express agreement of the CFO.
- No virements proposal shall affect amounts to be paid to another department without the agreement of the Manager of that department, as recorded on the signed virements form. (Section 15 of the MFMA)
- Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 of the MFMA)
- 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.
- Virements may not be made between Income & Expenditure.
- Virements may not be made between the Operating Budget & the Capital Budget.

12. PROCESS OF TRANSFERS

- (a) The virements shall be requested and recommended by the Manager and Director responsible.
- (b) The requested virements shall be approved by the Chief Financial Officer/ Municipal Manager.

13. REPORTING

Funds as transferred in terms of the prescripts of this policy will be reported on a quarterly basis by the Chief Financial Officer to the Municipal Manager and Executive Mayor. The Municipal Manager will report on a quarterly basis on those virements that have taken place during that quarter.

Function Directorate Classification	Function Classification	Department	Responsible for Function
Executive & Council	Executive & Council	Municipal Manager	Municipal Manager
		Mayor & Council	Municipal Manager
Budget & Treasury	Budget & Treasury	Finance	Chief Financial Officer
administration	Corporate Services	Administration	Director Corporate Services

Adopted:

Function Directorate Classification	Function Classification	Department	Responsible for Function
		Human Resources	Director Corporate Services/Manager Human Resources
		IT	Director Corporate Services
		Fleet	Director corporate services/Manager Fleet
Community & Public Safety	Community & Public Safety	Community Administration	Director Community Services
		Libraries	Director Community Services/Manager Social Services
		Museum	Director Community Services/Manager Social Services
		Community Halls & Facilities	Director Community Services/Manager Social Services
		Public Safety	Director Community Services/Manager Public Safety
		Cemeteries	Director Community Services/Manager Environmental Services
		Waste Management	Director Community Services/ Manager Environmental Services
		Vehicle Licensing & Testing	Director Corporate Services/Manager Public Safety
Planning and Development	Planning and Development	Town Planning	Director Technical Services/Manager Planning
		Housing	Director Community services
Technical Services	Technical Services	Energy	Director Technical Services/Manager Energy
		Roads & Storm water	Director Technical Services/Manager Roads & Storm water
		Project Management	Director Technical Services/Project Manager
		Water	Director Technical Services/Manager: Water
		Waste Water Management	Director Technical Services & Manager: Water

Adopted:

Function Directorate Classification	Function Classification	Department	Responsible for Function
Other	Other	Tourism	Manager in the Office of the MM

POLICY PROCEDURE

This policy has been considered and approved by the **COUNCIL OF ABAQULUSI LOCAL MUNICIPALITY** as follows:

Resolution No:.....

Approval Date:

Adopted: