



MANTSOPA LOCAL MUNICIPALITY

TITLE OF POLICY	VIREMENT POLICY
DEPARTMENT	FINANCE
CUSTODIAN	CHIEF FINANCIAL OFFICER
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1. Preamble

Cognisance taken of the need that may arise to transfer within approved votes due to the change in circumstances and priorities.

2. Definitions

"Approved budget," means an annual budget

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

"Budget transfer" means transfer of funding within a vote subject to limitations.

"Capital budget" means 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.

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

"Delegation", in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;

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

"Municipal council" or "council" means the council of a municipality referred to in section 18 of the Municipal Structures Act;

"Municipality"-

- a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- b) When referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

"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;

"Operating budget" An operating budget is the annual budget 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;

"Overspending"-

- a) means causing the operational or capital expenditure incurred by the municipality During a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;
- b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or
- c) in relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

"Virement" refer to the definition of budget transfer

"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
- b) municipality; and
- c) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

3. 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 of when they may shift funds between items, projects, programmes and votes.”

Paragraph 2.2 of circular 89 of the MFMA states that:

The transaction in mSCOA relates to seven regulated segments, therefore all segments must be considered when making a virement. Virement can only take place within a function or sub-function and the same source of funding. The creation of new projects or savings across functions can only take place through an adjustment budget.

4. Objective of Policy

This policy shall give effect to the requirements and stipulations of the Municipal Finance Management Act and Municipal Budget and Reporting Framework in terms of the Approved budget. The policy sets out the virement principles and processes which Mantsopa Local Municipality will follow during a financial year.

These virements will represent a flexible mechanism to effect budgetary amendments within a municipal financial year. The policy shall apply to all staff and councillors of the Mantsopa Local Municipality that are involved in budget implementation.

5. Virement Clarification

Virement is the process of transferring budgeted funds from one line item number to another, with the recommendation of the relevant Director to the CFO or delegated finance official, to enable the Budget Office to effect the adjustments.

6. Virement Procedure

- a) All virement proposals must be completed on the appropriate documentation and forwarded to the relevant Finance Officer for checking and implementation. (See Annexure 1)
- b) All virements must be signed and supported by the relevant Director of the directorate within which the vote is allocated. (Section 79 MFMA)
- c) Projected cash flows in the SDBIP should be adjusted in line with the virement.
- d) Relevant corroborating documentation must be attached on the virement form to support the transfer.
- e) All documentation must be in order and approved before any expenditure can be committed and incurred.
- f) All virement must be motivated and need to be approved by the head of department in consultation with the CFO for amounts below R200 000 and amounts greater than R200 0000 will be approved by the Municipal Manager.
- g) No virements after the closing of orders as stipulated in the financial protocol and/or formally communicated in line with the financial year-end preparation will be considered unless in an absolute emergency that could reasonably not have been foreseen.

7. Virement Restrictions

- a) Virement are not permitted in relation to the revenue side of the budget.
- b) No virements of funds across votes (directorates) will be accommodated during the year; unless within the adjustments budget.

c) Virements from the capital budget to the operating budget are not permitted. Operational funds to the capital budget may be done, but only via an adjustment budget.

d) Virements will not result in adding 'new' projects to the Capital Budget.

e) Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework will not be permitted.

f) The budget savings from the following line items (necessary adjustments) may only be considered and transferred by the CFO:

(i) Salaries and allowances

(ii) Depreciation

(iii) Finance Charges (Interest on Loan)

(iv) Appropriations

(v) Contributions to Funds

(vi) Administration Cost

(vii) Municipal Services Consumption (Water, Electricity, Refuse and Sewerage)

(viii) Internal charges

(ix) Bulk Purchases (Water and Electricity)

(x) Agency Fees

(xi) Grants and subsidies paid

g) An approved virement does not give expenditure authority outside of what is allowed by Council's Supply Chain Management Policy.

h) Virements towards personnel expenditure is not 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.

i) Not more than 5% of the budget may be moved to or from a function, programme, project, etc.

8. General Principle

Virements will only be approved if they facilitate and promote sound risk and financial management.

9. Accountability

a) Accountability to ensure that the virementation application forms are completed in accordance with Council's virement policy and are not in conflict with the directorate's strategic objectives manifests with the head of the relevant directorate.

10. Annexures

Annexure 1: Virement Form (Capital and Operating)

11. POLICY ADMINISTRATION

This Policy shall be reviewed annually to reflect the current stance on Budget Management, In order to comply with any changes that might have happen whenever there are changes adopted by National or Provincial Treasury or whatever relevant stakeholder in order to comply, furthermore, changes may be made by Council itself if it deems it necessary to do so.

The amendments will be sent to the Accounting Officer and Council for approval.