

VIREMENT POLICY



THABA CHWEU LOCAL MUNICIPALITY

(*Virement*: derived from the *French* term meaning – commerce transfer, an authorized transfer of funds from one use to another

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1. Definitions

- **“Accounting Officer”** The municipal manager 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”** 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”** This 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”** an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditure [**See annexure “B” for current item structure**]
- **“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”** An exclusive combination of line items grouped for specific purposes for instance salaries and wages.
- **“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.
- **“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. To enable budget 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 appropriating for the purposes of the department or functional area concerned. [**See annexure “A” for current Vote structure**]

2. Abbreviations

- **CFO** – Chief Financial Officer
- **IDP** – Integrated Development Plan
- **MFMA** – Municipal Finance Management Act No. 56 of 2003
- **SDBIP** – Service Delivery and Budget Implementation Plan

3. Objective

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.

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) of the MFMA)

5. Financial Responsibility

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

It is the responsibility of each manager or Head of 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 section 78 and 102.

6. Virement Restrictions

- a. No funds can be transferred between votes (GFS Classifications) and can only be done through an adjustment budget.

- b. Virements may not exceed a maximum of R 200,000 per case. Anything above that amount must be referred to the Accounting Officer for approval under his/her limitation of R 500,000 per case. Anything above R 500,000 must be referred to Council for approval.
- c. 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 MFMA)
- d. Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustment budget to the Council with altered outputs and measurements for approval. (MFMA Circular 13 page 3 paragraph 3)
- e. 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 e.g. vehicles, photo copiers or fax machines.
- f. No Virement may be made where it would result in over expenditure. (Section 32 of MFMA)
- g. No Virement shall add to the establishment of the Municipality without the approval of the Municipal Manager.
- h. If the Virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.
- i. Virements may not be made in respect of ring-fenced allocations.
- j. Budget may not be transferred from Support service (interdepartmental) costs, Capital financing, Depreciation, Contributions, Grant Expenditure and Income Foregone.
- k. Budget may only be transferred from Salaries if approved by the CFO.
- l. Virements in 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.

- m. No virements are permitted in the **first three months** or the **final month** of the financial.
- n. No Virement proposal shall affect amounts to be paid to another Department without the agreement of the Manager of the Department, as recorded on the signed Virement form. (Section 30 of MFMA).
- o. 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.
- p. Virements may not be made between Expenditure and Income.
- q. Virements may not be done on Entertainment allowance and Traveling & Subsistence votes unless the approval has been granted by the Accounting officer in writing.

7. Virement Procedure

- a. All virement proposals must be completed on the appropriate documentation and forwarded to the Budget office for checking and implementation.
- b. All virements must be signed by the Vote holder (per department) and the Manager within which the vote is allocated. (Section 79 of MFMA)
- c. A virement form must be completed for all Budget Transfers.
- d. Virements in excess of R 50,000 with a maximum as determined under section 6 b. requires the approval of the Chief Financial Officer. (Section 79 of MFMA)
- e. Must include changes to the SDBIP
- f. All documentation must be in order and approved before any expenditure can be committed or incurred. (Section 79 of MFMA)
- g. The Municipal Manager will report to the Mayor on a quarterly basis on those virements that have taken place during that quarter.

8. Supplementary

This policy replaces any other policies or Council resolutions as far as they may refer to virements (transfer of funds) as defined in this policy.

Once approved, the virement policy should form part of the Municipal Manager's formal delegations and Financial Regulations of the Municipality.

Transfers or adjustments falling outside the ambit of this policy must be submitted to the budget adjustment process in terms of Section 19 of the MFMA.

