
**MALUTI-A-PHOFUNG
LOCAL MUNICIPALITY**



**VIREMENT POLICY- FINAL
2016/17**



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1. DEFINITIONS

“Accounting Officer (MFMA)” means the Municipal Manager of the Municipality.

“Approved Budget (MFMA)” means an annual budget-

- (a) approved by a municipal council; or
- (b) approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an Adjustments Budget in terms of section 28.

“Chief Financial Officer (MFMA)” is a municipal official designated by the Accounting Officer of the Municipality

“Cost Centre” is a cost collector which represents a logical point at which cost (expenditure) is collected and managed by a responsible cost centre owner.

“Virement” means the process of transferring an approved budgetary provision from one operating cost element or capital project to another within a vote during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the previous budget adoption.

“Vote (MFMA)”-

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

“Head of Department (Executive Director (MFMA))” - Section 56 of the Municipal Systems Act states inter alia that: “Appointment of managers directly accountable to municipal managers - (a) a municipal council, after consultation with the municipal manager, appoints a manager directly accountable to the municipal manager...”

“Financial Year” means a year starting on 1 July and ending on 30 June of the following year.

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



“Overspending (MFMA)”

(a) in relation to the budget of a Municipality, 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, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section;”

“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) of the MFMA for implementing the Municipality’s delivery of municipal services and its annual budget.



2. INTRODUCTION

A virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year.

Changing circumstances and priorities during a financial period may give rise to a need for virement (transfer) of 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.

3. BACKGROUND AND PURPOSE

Each year, the Municipality produces an annual budget which must be approved by the Council. In practice, as the year progresses, circumstances may change so that certain estimates are under-budgeted and others over-budgeted due to unforeseen expenditure (for example, due to the occurrence of disasters or savings). As a result, it becomes necessary to transfer funds between votes and line items. It is not practical to refer all transfers between line items within a specific vote to the Council, and as the **Local Government: Municipal Finance Management Act (“MFMA”)** is largely silent as to such transfers, it is necessary to establish a policy which governs the administrative transfer between line items.

The purpose of this policy is therefore to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of certain officials.

In addition, it specifically aims to empower senior managers with an efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the Municipality’s system of delegations



4. MFMA REGULATIONS ON BUDGET VERSUS EXPENDITURE

4.1. The MFMA regulates the following regarding the incurring of expenditure against budgetary provisions:-

4.1.1. Section 15 – Appropriation of funds for expenditure:-

“A Municipality may, except where otherwise provided in this Act, incur expenditure only:-

- (a) in terms of an approved budget; and
- (b) within the limits of the amounts appropriated for the different votes in an approved budget.”

4.1.2. Section 71(1)(g)(iii) states inter alia “(1) *The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:...(g) when necessary, an explanation of-...(iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget....*”



5. POLICY OPTIONS IDENTIFICATION, ANALYSIS AND ASSESSMENT

This policy applies only to transfers between line items within votes of the Municipality's operating budget. Section 28(2) (d) of the MFMA provides that "*An adjustments budget - may authorise the utilisation of projected savings in one vote towards spending in another vote.*" Transfers between votes may therefore be authorised only by the Council of the Municipality.

This policy shall not apply to transfers between or from capital projects or items and no such transfers may be performed under this policy. Any deviation from or adjustment to an annual budget or transfer within a budget which is not specifically permitted under this policy or any other policy may not be performed unless approved by the council through an adjustments budget

6. AUTHORISATION OF VIREMENTS

A transfer of funds from one line item to another under this policy may, subject to the provisions of this policy, be authorised as follows:

- a) If the amount does not exceed R 5,000.00, the transfer may be authorised by the Budget Officers after consultation with the Supervisor: Budget
- b) If the amount exceeds R 10,000.00 but does not exceed R 30,000.00, the transfer may be authorised by the Supervisor : Budget after consultation with the Manager : Budget and Revenue;
- c) If the amount exceeds R 30,000.00 but does not exceed R 60,000.00, the transfer may be authorised by the Manager: Budget and Revenue of the Municipality on the recommendation of the Chief financial Officer and above that the Chief Financial Officer may authorise on the Recommendation of the Municipal Manager.



7. RESTRICTIONS ON VIREMENT

- a. A transfer of funds between line items shall not be permitted under this policy if the effect thereof would be to contravene any policy of the Municipality.
- b. No virements are permitted within the first three months or the final month of the financial year without the approval of the CFO
- c. By definition, transfers may not be made under this policy from a line item administered by one department to a line item administered by another. In accordance with Section 30 of the MFMA, no transfer of funds may be made from a line item of a budget for a particular year to a line item of a budget for a subsequent year.
- d. The transfer of funds in any year in accordance with this policy shall not give rise to any expectations of a similar transfer occurring in a subsequent year. The approval of any transfer shall not *per se* constitute authorisation for expenditure, and all expenditure resulting from approved transfers must, be carried out in accordance with the Municipality's Supply Chain Management Policy.
- e. The transfer of funds must in any event not contravene the provisions of paragraph 4.6 of MFMA Circular 51(Municipal Budget Circular for the 2010/2011 MTREF) issued on 19 February 2010, which provides, inter alia, as follows:
 1. *Virements should not be permitted in relation to the revenue side of the budget;*
 2. *Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);*
 3. *Virements from the capital budget to the operating budget should not be permitted;*
 4. *Virements towards personnel expenditure should not be permitted;*
 5. *Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;*
 6. *Virements should not result in adding 'new' projects to the Capital Budget;*
 7. *Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted."*



8. PROCEDURE FOR VIREMENT

The Budget Office shall prescribe a form on which all proposals for transfers of funds under this policy shall be made, which form shall include, but not be limited to, provisions for the following:

- a) the name of the department concerned;
- b) descriptions of the line items from and to which the transfer is to be made;
- c) the amount of the proposed transfer;
- d) the cause of the saving in the line item from which the transfer is to be made;
- e) the justification or motivation for the transfer;

Completed and approved virement documentation is to be effected by the Finance Department.

9. IMPLEMENTATION AND REVIEW OF THIS POLICY

This policy shall be implemented once approved by Council.

In terms of section 17(1)(e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.