

LEKWA-TEEMANE LOCAL MUNICIPALITY

“NW396”



VIREMENT POLICY

ADOPTED BY COUNCIL

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1. **Background and Purpose**

- 1.1 Each year, the Municipality produces an annual budget which must be approved by 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.
- 1.2 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.

2. **Definitions**

1. Virement is the process of transferring funds from one line item of a budget to another. The term is derived from a French word meaning a commercial.
2. Vote: For ease of reference, the definition of “vote” as contained in Section 1 of the MFMA is set out hereunder:

“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 municipality; and
 - b) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.”

3. Policy options identification, analysis and assessment

- 3.1 This policy applies only to transfers between line items within votes of the Municipality's budget.
- 3.2 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.
- 3.4 This policy shall not apply to transfers between or from capital projects or items and no such transfers may be performed under this policy.
- 3.5 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

4. GENERAL VIREMENTS OPERATIONS

- ❖ Budget virements are to provide flexibility in managing budgets to act on unforeseeable expenditure, savings and prevent unauthorized expenditures to allow shifting of funds between budgetary items, projects, programmes and votes.
- ❖ Virement is the process of transferring funds from one-line item number to another with the approval of the relevant director and chief financial officer.
- ❖ It is the responsibility of each manager to plan and conduct assigned operations as not to expend more funds than budgeted.
- ❖ Proposed virements must at all times facilitate sound risk and financial management.

4.1 Virement restrictions

(i) Budget virements and deliverables shall be recommended by directors in accordance with authority and limits set in the delegations of authority.

(ii) Virement of funds between votes (directorate) will not be allowed without approval in an adjustment budget.

(iii) Virements within the same vote may be done administratively for a prescribed limit but may not alter the approved outcomes, outputs as approved in the IDP and budget.

(iv) Virements between operating and capital budgets are not permissible.

(v) No virement may be affected in the current year which will increase the approved budget in future financial years without the prior approval of the municipal manager (this refers to expenditure such as lease or rental agreements).

(vi) No virement may be made where it would result in unauthorized expenditure.

(vii) No virement shall add to the staff establishment of the municipality without the approval of the municipal manager.

(viii) Virements must originate from savings.

(ix) A report must be submitted to council for noting when government grant projects are amended.

(j) Operating Budget

- No budget virements shall be made to increase or decrease salary vote.
- No virements will be allowed for:
 - debt impairment;
 - interest charges;

depreciation;

revenue foregone;

provision and contributions; o

insurance;

VAT;

internal charges & recoveries;

free basic services;

revenue items; and/or

conditional grants which fall outside the approved framework plan

- Virements may not influence the net surplus/deficit of a vote.
- Virements between income and expenditure votes are not permissible.

(k) Capital Budget

- Virements in capital budget allocations are only permitted within the same capital programmes and vote.
- Virements in capital budget are not permitted across funding sources and must have comparable asset classifications.
- Virements may not result in adding new projects to the capital budget.
- Virements may be used to correct capital allocations within asset classifications.
- Virements may not increase the total approved budget.
- Capital virements may not be rolled over to subsequent financial years, or create expectations on following budgets.

- Virements may be used to change deliverables/outcomes of a project/programme subject to the approval of the executive director or municipal manager and/or council as per the delegation framework.

(l) Virements do not give expenditure authority and all expenditure must still be subject to the procurement / supply chain management policy of the council.

(m) Virement procedures

- All virement and deliverables proposals must be completed on the appropriate documentation and forwarded to the budget office for checking and verification.
- All virements and deliverables must be approved by the relevant vote director and/or executive director and/or municipal manager as per the delegation framework.
- All virement SDBIP information must be submitted with the proposed virement.
- Virements and or deliverables in respect of ward specific projects must be approved by the chief financial officer, municipal manager or council as delegated.
- All virement and deliverables documentation must be in order and approved before any expenditure may be committed or incurred.
- All virements and deliverables must be approved by the chief financial officer before capturing the transfers.

(n) mSCOA virements

In the first year of the mSCOA implementation, virements will be allowed to correct cost allocations over the seven (7) segments with no limitation on the amount subject to:

- The function may not be changed.
- The original budget segment allocation from which the virement is made may not be exceeded.
- The virement must be with the same funding segment.
- For capital the segment virement must remain within the same project segment.

4. UNFORESEEN & UNAVOIDABLE EXPENDITURE

(a) In the case of an emergency or any other exceptional circumstances, virements shall be submitted by the accounting officer to the Mayor to authorize any possible unforeseeable and unavoidable expenditure for which no provision was made in an approved budget only if the delay that will be caused pending approval of an adjustment budget may:

- result in significant financial loss for the municipality;
- cause a disruption, a suspension or a serious threat to the continuation of a basic municipal service;
- lead to loss of life or serious injury or significant change to property; or
- obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

(b) The Mayor must report on such expenditure to the council at its next meeting and pass an adjustment budget within sixty (60) days after the expenditure was incurred.

5. 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:

- 5.1 Approval for transfers must be made by the Director of the concerned Department.
- 5.2 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:
 - 5.2.1 The name of the department concerned;
 - 5.2.2 Descriptions of the line items from and to which the transfer is to be made;
 - 5.2.3 The amount of the proposed transfer;
 - 5.2.4 The justification or motivation for the transfer;
- 5.3 Each proposal for a transfer shall be submitted by the Manager concerned to the Budget Office and if:
 - 5.3.1 The amount of the transfer does not exceed the amount referred to in paragraph 6 and the transfer is not between cost centres, the Budget Manager shall:
 - 5.3.1.1 note the proposal, or
 - 5.3.1.2 refer the proposal to the Chief Financial Officer for recommendation
 - 5.3.1.3 The Accounting Officer will then approve or reject the Virement.
- 5.4 Upon a proposal for transfer being approved, such transfer shall be implemented subject to compliance with the Policies of the Municipality.

6. Limitations on amount of Virement

a. Notwithstanding the provisions of section 3:

i. The total amount transferred from and to line items within a particular vote in any financial year may not exceed 20% of the amount allocated to that vote;

ii. The total amount transferred from and to line items in the entire budget in any financial year may not exceed 20 % of the total operating budget for that year;

b. A transfer which exceeds, or which would result in the exceeding of, any of the limits referred to above may, however, be performed if the Council, by resolution approves thereof.

7. Virement Permitted only if Savings are projected

A transfer of funds from one-line item to another may take place only if savings within the first-mentioned line item are projected, and such transfer may, subject in any event to the provisions of this policy, not exceed the amount of such projected savings

8. Further 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:
 - i. Contravene any policy of the Municipality; or
 - ii. Alter the approved outcomes or outputs of an Integrated Development Plan; or
 - iii. Result in any adjustment to the Service Delivery and Budget Implementation Plan.
- b. If any line item has been specifically ring-fenced, no transfer of funds may be made under this policy to or from such line item.
- c. Transfers of funds may not be made under this policy between or from capital items or projects.
- d. To the extent that it is practical to do so, transfers within the first three months and the last month of the financial year should be avoided.
- e. 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.
- f. 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.
- g. 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.
- h. The approval of any transfer shall not per se constitute authorization for expenditure, and all expenditure resulting from approved transfers must, be carried out in accordance with the Municipality's Supply Chain Management Policy.
- i. 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

9. Implementing Strategy

The Municipal Manager shall submit a report on all transfers made under this Policy to the Mayor every quarter (September; December; March; June).

The Municipal Manager shall be responsible for the implementation and administration of this Policy.

This policy will be effective on the date of adoption by Council.

10. Policy Evaluation and Review

The Municipality would evaluate and review the policy on annual basis and make changes if it is necessary

