

Virement Policy



**O.R. TAMBO
DISTRICT MUNICIPALITY**

VIREMENT POLICY

**O.R. TAMBO DISTRICT MUNICIPALITY
APPROVED**

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1. PREAMBLE/INTRODUCTION

Policy gives guidance on the shifting of the budget within and between the votes.

2. ACRONYMS AND ABBREVIATIONS

CFO – Chief Financial Officer

IDP – Integrated Development Plan

MFMA– Local Government: Municipal Finance Management Act No. 56 of 2003

SDBIP - Service delivery and budget implementation plan

AO - Accounting Officer (Municipal Manager)

HOD - Head of Department

MAYCO - Mayoral Committee

MSCOA – Municipal Standard Chart of Accounts

3. DEFINITION OF TERMS

“Accounting officer” Refers to the municipal manager of the municipality
in terms of section 60 of the MFMA

“Approved budget” means an annual budget and adjusted approved and adopted
by the 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 delegated by accounting officer in terms of
MFMA
section 80 (2)(a) to perform budgeting, accounting, analysis, financial reporting,
cash management,

debt management, supply chain management, review and other duties as as delegated in terms of section 79 of MFMA

“Capital Budget” means an estimate/projections for the financial year of items of property plant and equipment such as infrastructure, buildings, plant, office equipment and fittings the cost of which is normally written off over a number of financial periods

“Council” means the council of a municipality referred to in section 18 of the Municipal Structures Act.

“Financial year” means a 12-month period from 01 July ending on 30 June of any given year

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

“Operating Budget” means an estimate/projection for the financial year of revenue and expenditure for the fulfillment of operations during the financial year.

“Ring Fenced” an exclusive combination of line items grouped for specific purposes

“Service delivery and budget implementation plan” means a detailed plan approved by the mayor 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/capital line item to another, with the approval of the Municipal Manager/Chief Financial Officer.

“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.

4. LEGAL/STATUTORY FRAMEWORK

1. The Constitution of the Republic of South Africa, Act no 108 of 1996 as amended;
2. Local Government: Municipal Systems Act (MSA), Act no 32 of 2000 as amended;
3. Local Government: Municipal Finance Management Act (MFMA), Act no 56 of 2003;
4. Municipal Budget Reporting Regulations
5. MFMA Circular 89

5. PURPOSE AND OBJECTIVES OF THE POLICY

1. To allow some flexibility in the management of the municipal budget in effecting budgetary amendments within a municipal financial year.
2. To enable management to act on occasions such as disasters, unforeseen/unavoidable expenditure as they arise to accelerate service delivery in a financially responsible manner.
3. This policy aims to provide guidelines to senior management in the use of virements as a mechanism in their operational management of their budgets.

6. SCOPE/APPLICATION OF THE POLICY

6.1 GUIDING PRINCIPLES

- I. Strict budgetary control must be maintained throughout the financial year in order to detect as early as possible any overspending or under collections for the early remedial action.
- II. The Accounting Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control in terms of s27 (4) MFMA. A municipality's virement policy and its underlying administrative process within the system of delegations is one of these controls.
- III. The CFO is in charge of Budget and Treasury Office in term of section 81 of MFMA
- IV. Each HOD is responsible for proper execution of the SDBIP cashflow projections on the spending of their budgeted line items so as to avoid cashflow shortfalls and overspending. In addition, the HODs have a responsibility to identify and report any irregular, fruitless and wasteful expenditure in terms of MFMA s78 and s102.

7. LINKS TO OTHER POLICIES

- The policy will link with
 - Budget Policy
 - Adjustment Budget Policy
 - Expenditure Management Policy
 - Supply Chain Management Policy

8. WHO USES THE POLICY

- Councillors;
- Management and Staff;
- Communities;

9. WHO SHOULD BE CONSULTED UPFRONT IN RESPECT OF POLICY CHANGES

- Council as a policy formulator;
- Staff as implementers of the policy;
- Communities if the policy directly affects them; or
- Any relevant stakeholders;

10. IMPLICATIONS OF THE POLICY

- Intended consequences;
- Unintended consequences;

11. WHO DRIVES THE POLICY

- Municipal Manager to drive the policy with delegation to CFO
- Executive Mayor to monitor the implementation of the policy
- Budget and Treasury Office to drive the policy

12. POLICY PROVISIONS/STATEMENTS

12.1 Restrictions

12.1.1. When an HOD submit a request for a virement, he/she must ensure that it enhances the target set per the SDBIP and that target meant to funded the line item is not affected at all. Furthermore, there must not be any deviation from the approved SDBIP cash-flow. A portfolio of evidence for the aforesaid condition must be accompanied the request for virement.

12.1.2. No virement may be processed unless approved by the AO/CFO

12.1.3. Virements may not exceed a maximum of 5% of the total approved operating or capital budget as the case may be within a vote and between votes

12.1.4. Virement may not upon approval and processing, significantly alter the approved outputs / outcomes as approved in the IDP for the current and subsequent years.

12.1.5. The CFO should maintain a register of all virements and monthly should be made available to the AO and Executive Mayor.

12.1.6 No virement is permitted to and from the items below:

- ❖ Depreciation
- ❖ Personnel
- ❖ Debt Impairment
- ❖ Interest Charges
- ❖ Contributions
- ❖ Provision for leave/bonuses
- ❖ Or any other non-cash item
- ❖ Conditional Grants (except where specified in conditional grant framework)
- ❖ Revenue

12.1.7 No virements are permitted in the first quarter of the financial year and the last month of the financial year without a detailed explanation and the expressed agreement of the AO/CFO

12.1.8. No virement is permitted during the preparation of the adjustment budget.

12.1.9. No virement is permitted after the approval of the adjustment budget unless it is proven that the expenditure is unforeseen and unavoidable.

12.1.10. Virement between departments is not permitted as mSCOA requires that virements can only take place within a function or sub-function and the same source of funding.

12.1.11. No Virements is permitted from repairs and maintenance project in the project segment.

12.1.12. No virement is permitted on personnel budget

12.1.13. 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.

12.1.14. Virement amounts may not be rolled over to subsequent years, or create expectations

on following budgets. (Section 30 MFMA)

12.1.15. All expenditure resulting from approved virements must still be subject to the procurement/supply

chain management policy of Council as periodically reviewed.

12.1.16. Virements may be approved in following order

- ❖ Up to R2 million, CFO to approve
- ❖ Above R2 million to R5million, AO to approve
- ❖ Above R5 million to R7 million, the Executive Mayor to approve

12.1.17. 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)

12.1.18. Virements from the capital budget to the operating budget should not be permitted

8. VIREMENT PROCEDURES

8.1 Requests for the virements should be signed by the relevant HOD and forwarded to the office of CFO for approval (for virements above R2 million and those approved by AO, to be forwarded to the office of the AO for approval then returned to the office of the CFO)

8.2 The request should include

- ❖ Name and vote number of line item from which the funds would be taken
- ❖ Name and vote number of the line item which the funds will be transferred to.
- ❖ The following MSCOA Segments
 - Funding
 - Project
 - Costing
 - Function
 - Item
 - Regional
- ❖ Amount to be transferred.

- ❖ Signature of the HOD authorizing the virement
 - ❖ Any explanations as reflected in 8.3 and 8.7 below
 - ❖ Signature of official in budget office confirming the availability of funds
- 8.3 Upon receipt of the virement request, the AO/CFO to consider whether to approve or not approve the virement, placing specific emphasis on the virement restrictions listed in 7 above.
- 8.4 For approved virement requests, CFO to instruct the Budget office to process the virement (for those virements which are approved by the AO, these must upon approval by AO, returned to the office of the CFO for only the CFO is to instruct the budget office to process the virement)
- 8.5 Budget office to receive and process in the accounting system approved virements as per the instruction of the CFO.
- 8.6 Budget office to safely keep the approved virement request after processing.
- 8.7 For virements that were not approved by AO/CFO, office of the AO/CFO to return the requests to the relevant HOD with reasons for non-approval.

9. INTERPRETATION OF THIS POLICY

Municipal Manager has the authority to interpret the policy

10. PERMANENT/TEMPORARY WAIVER OR SUSPENSION

- Council has the authority to waiver the policy
- Process of waiver is as follows:
 - Municipal Manager to prepare the waiver
 - Executive Mayor to table to council
 - Council to approve the waiver

11. POLICY APPROVAL

- Following will be consulted before the adoption of the policy
 - Councillors;
 - Management and staff;
 - Community

- Council to adopt the policy

12. COMPLIANCE, IMPLEMENTATION AND ENFORCEMENT

- Policy to be communicated through website, printed, radio and social media, public participation
- Municipal Manager to sign after its adoption;
- Policy to be reviewed annually
- Executive Mayor to monitor the implementation of the policy
- Violation of the Policy shall constitute an offence and may lead to disciplinary action;

13. AUTHENTICATION

- DATE OF ADOPTION;
- COUNCIL RESOLUTION NUMBER;