

# MOPANI DISTRICT MUNICIPALITY



## REVIEWED VIREMENT POLICY

## 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.
- 1.3 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. A municipality’s virement policy and its underlying administrative process within the system of delegations is one of these controls.
- 1.4 Section 81(1)(d) of the MFMA states inter alia that “The chief financial officer of a municipality-...must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79;...”
- 1.5 It is the responsibility of each Director of each Directorate to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted and to ensure that funds are utilised effectively and efficiently.
- 1.6 Section 78(1)(b) of the MFMA states inter alia that “Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure-...(b) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;...”
- 1.7 This policy aims to provide guidelines to senior management in the use of virements as a mechanism in their day-to-day management of their budgets.
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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.

## **2. Definitions**

### **2.1. Virement**

“means 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.

### **2.2. 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.”*

### **2.3. Accounting Officer (MFMA)**

“- (a) in relation to a municipality, means the municipal official referred to in section 60; or...”

### **2.4. 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;”

### **2.5. Chief Financial Officer (MFMA)**

“a person designated in terms of section 80(2)(a)”

### **2.6. Cost Centre**

2.7. 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.

2.8. Cost element

2.8.1. Cost elements distinguish between primary and secondary cost elements. Primary cost elements are expenditure items mainly generated outside the organisation. Secondary cost elements are utilised to reallocate cost by means of assessments, internal billing or activity based recoveries.

2.9. Director

2.9.1. Section 56 of the 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..."

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2.10. Financial year

2.10.1. The 12 month period between 1 July and 30 June.

2.11. Vote (MFMA)

2.11.1. “(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

2.12. which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.”

2.11.2. In the case of the Municipality of Mopani the definition of Vote is set at directorate level, with the exception being tariff-funded services as a result of their closed account nature e.g. Electricity, Water and Solid Waste.

### 3. Policy options identification, analysis and assessment

3.1 This policy applies only to transfers between line items within votes of the Municipality’s operating 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. 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:

- 4.1. If the amount exceeds R 10,000.00 but does not exceed R 200,000.00, the transfer may be authorised by the Chief Financial Officer;
- 4.2. If the amount exceeds R 200,000.00 but does not exceed R 600,000.00, the transfer may be authorised by the Municipal Manager of the Municipality on the recommendation of the Chief Financial Officer.
- 4.3. Notwithstanding the provisions above, a transfer of funds between cost centres within a particular vote may not be authorised by the Chief Financial Officer but may only be authorised by **Municipal Manager**.

#### **5. Limitations on amount of Virement**

- 5.1 **Notwithstanding the provisions of section 3, the limitations were guided by National Treasury circular number 51.**
- 5.2 A transfer which exceeds, or which would result in the exceeding of, any of the limits referred to in 4.1 above may, however, be performed if the Council, by resolution approves thereof.

#### **6. 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.

## 7. Further Restrictions on Virement

- 7.1 A transfer of funds between line items shall not be permitted under this policy if the effect thereof would be to:
- 7.1.1 contravene any policy of the Municipality; or
  - 7.1.2 alter the approved outcomes or outputs of an Integrated Development Plan; or
  - 7.1.3 result in any adjustment to the Service Delivery and Budget Implementation Plan.
- 7.2 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.
- 7.3 **Transfers of funds may not be made under this policy between or from capital items or projects .**
- 7.4 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.
- 7.5 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.
- 7.6 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.
- 7.7 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.
- 7.8 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.
- 7.9 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)*
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**

- 8.1 Approval for transfers must be made by the Director of the concerned department.
- 8.2 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:
  - 8.2.1 the name of the department concerned;
  - 8.2.2 descriptions of the line items from and to which the transfer is to be made;
  - 8.2.3 the amount of the proposed transfer;
  - 8.2.4 the cause of the saving in the line item from which the transfer is to be made;
  - 8.2.5 the justification or motivation for the transfer;
  - 8.2.6 a description of any consequences that such transfer may have for the Integrated Development Plan or the Service Delivery and Budget Implementation Plan.



- 8.3 Each proposal for a transfer shall be submitted by the Director concerned to the Budget Office and if :
- 8.3.1 the amount of the transfer does not exceed the amount referred to in **paragraph 3.1 and 3.2**, and the transfer is not between cost centres, the Specialist Budget or Manager : Budget & Treasury shall:
    - 7.3.1.1 approve the proposal, or
    - 7.3.1.2 reject the proposal; or
    - 7.3.1.3 refer the proposal to the Chief Financial Officer for approval, recommendation or rejection;
  - 8.3.2 the amount of the transfer does not exceed the amount referred to in **paragraph 3.3** but the transfer is between cost centres, or if it falls within the range of amounts referred to in **paragraph 3.4**, the Chief Financial Officer shall refer the proposal to the Municipal Manager who, after consultation with the Chief Financial Officer, shall approve or reject the proposal;
- 8.4 Upon a proposal for transfer being approved, such transfer shall be implemented subject to compliance with the Municipality's Supply Chain Management Policy.

## **9. Implementing Strategy**

The Municipal Manager shall submit a report on all transfers made under this Policy to the Executive 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 an annual basis and make changes if it is necessary.