

MOHOKARE LOCAL MUNICIPALITY



VIREMENT POLICY

GOVERNS SHIFTING OF FUNDS

VIREMENT POLICY

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1 DEFINITIONS

In this policy unless the context indicates otherwise, the following definitions are applied-

Accounting Officer - The municipal manager of a municipality within the meaning of section 82 of the Municipal Structures Act, no 117 of 1998.

Delegation - In relation to a duty includes an instruction or request to perform or to assist in performing a duty.

CFO – The head of the budget and Treasury office designated in terms of section 80 (2) of the MFMA.

MFMA – Municipal Finance Management Act no 56 of 2003.

HOD Head of Department – An official reporting directly to the accounting officer.

Manager – An official reporting directly to the HOD.

Virement – Main Votes -Transfer of funds from one department to another

Transfers - Transfer of budget within a department (between cost centers) or within a cost center - from one line item to another.

Cost center – A budget for a specific area of responsibility.

Department/Vote – One of the main segment into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality;

That specifies the total amount that is appropriated for the purpose of the department or functional area concerned; and

Is managed by a Head of Department.

The Municipality's Departments and the cost centers are as follows:

Council & Executive

- Mayor and Council
- Municipal Manager
- IDP
- LED

Finance

- Chief Financial Officer
- Finance
- Property Finance
- Information Technology

Corporate Services

- Human Resource
- Other Administration
- Manager Corporate services

Community services

- Solid Waste
- Community Halls
- Cemeteries
- Other Community services
- Traffic
- Pounds
- Parks
- Sport ground
- Housing
- Council Properties
- Camps

Technical Services

Sanitation
Roads & Streets
Water
Electricity
Manager Technical Services

2. OBJECTIVES

- (a) Give heads of departments, HOD's and managers' greater flexibility in managing their appropriations / budgets.
- (b) Provides guidance to managers on how and when they may shift funds between items, projects, programs within their areas of responsibilities.
- (c) Comply with the Municipal Finance Management Act and the Municipal Budget and Reporting Regulations to implement an approved virement policy.
- (d) Optimizes the use of resources by ensuring adequate funding is available to defray expenditure that is incurred in a particular department, cost center or functional area by offsetting or transferring savings in another department, cost center and/or functional area.
- (e) Allow limited flexibility in the use of budgeted funds 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. LEGISLATIVE REQUIREMENTS

Chapter 4 of the Municipal Finance Management Act, No. 56 of 2003, states that the approval of the budget/appropriation is the responsibility of the council. This does not mean the approval of every line item but rather the approval of the budget which will give effect to the planned strategic priorities of the municipality (IDP, SDBIP).

The process, format and other compliance requirements are regulated by the Municipal Finance Management Act no. 56 of 2003, the Municipal Budget and Reporting Regulations no.32141 and in National Treasury circular 51 as guide.

4.6 Virement policies of municipalities

The MFMA and the Municipal Budget and Reporting Regulations seek to move municipalities away from the traditional approach of appropriating/approving budgets by line item. The aim is to give the heads of municipal departments and programmes greater flexibility in managing their budgets. To further facilitate this, each municipality must put in place a council approved virements policy, which should provide clear guidance to managers of when they may shift funds between items, projects, programmes and votes.

The following principles must be incorporated into municipal virements policies:

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; and*
8. *There should be prudent limits on the amount of funds that may be moved to and from votes and sub-votes (e.g. not more than 5 per cent of the budget may be moved to or from a vote, programme, project etc.).*

The policy must also indicate how the virements process is to be managed within the municipality so as to enable the tracking and reporting of funding shifts.

4. DELEGATIONS ON VIREMENTS ON – CAPITAL BUDGET

A Capital budget is approved per line items or per project. This in effect means that council does not allow any discretion to an official other than delivering on the decision taken. Any savings or shortfall must be reported to council for it to decide on the future utilization of the savings as well as to seek additional funds for the execution of a project in the case of a shortfall in the budgeted amount to complete the project.

Shifting of funds in the capital budget must be authorized by the Accounting Officer in consultation with the Chief Financial Officer and relevant HOD and subsequently approved by Council.

5. DELEGATION ON VIREMENTS – OPERATIONAL BUDGET

“The object of virement is to enable the municipality to authorise the utilisation of projected savings in one vote towards the spending under another vote;”

5.1 Virement between departments

A “vote” in terms of the Municipal Finance Management Act no 56 of 2003 is defined as one of the main segments into which a budget of a municipality is divided for the appropriation of funds for different departments or functional areas of the municipality. This specifies the total amount that is appropriated for the purposes of the department.

Council therefore decides on the total amount that is allocated to that specific department and classifies it as a vote, because council approves the “vote” only.

The shifting of funds between the departments is the function of the Accounting Officer.

5.2 Virement between cost centers within departments

Transfer of funds from one cost center to another cost center within a specific department is delegated to the HOD of the respective department.

5.3 Virement within cost centers.

Transfer of funds within cost-centers is delegated to Managers and must be within the same category of expenditure e.g. (Housing, General expenditure Legal Costs to Housing, general expenditure inventory)

5.6 Virement on non-cash items

Virement cannot be permitted on the following non-cash items:

- 5.6.1 Depreciation
- 5.6.2 Debt impairment
- 5.6.3 Inter departmental charges

5.7 Virement on cash items

Virement cannot be permitted on (from) the following cash items, but can be from and to a similar account i.e. from housing maintenance to traffic maintenance.

- 5.7.1 Personnel expenditure
- 5.7.2 Bulk purchases
- 5.7.3 Interest charges
- 5.7.4 Revenue forgone
- 5.7.5 Insurance
- 5.7.6 VAT
- 5.7.7 Grants to individuals.

6. PRINCIPLES TO BE ADHERED TO IN THE POLICY

- (a) Virement in relation to the revenue side of the budget should not be permitted, except where revenue is in fact received (not accrued) in excess of budgeted amount e.g. traffic fines.
- (b) Virement from the capital budget to the operating budget should not be permitted.
- (c) Virement should not result in adding “new” projects to the capital budget.
- (d) Virement of conditional grant funds for purpose outside of that specified in the relevant conditional grant framework must not be permitted.
- (e) Funds to be transferred to or from voted programs and projects should be limited to the delegation of powers and all approval procedures must be followed.
- (f) The amount of expenditure that the mayor, in consultation with the MM, may authorize in terms of section 29 of the MFMA is limited to R2 million in if the approved total revenue in the current budget is more than R100 million.
- (g) Virement between the departments to be limited to R500 000,00 from any one giving department per financial year.
- (h) Virements between cost centers within a department to be limited to R100 000,00 per annum from any giving cost center.
- (i) Virements within a cost centre to be limited to R50 000,00 from any giving item.
- (j) All virement made during the first half of the budget year including, section 29 and 32 of the MFMA, must form part of the adjustments budget.
- (k) Any virement made after the adjustments budget to be as follows:
 - Additional Revenue: Any additional allocation made by National or provincial government must be approved by council and form part of the Annual Financial statements at the end of the budget year.
 - Any other virements can only be made in respect of savings on the giving vote, and limited a set out in 6 (f) to (i) as set out above.
 - Any virements during the last month in the financial year to be authorized by the Accounting Officer.

7. COMMENCEMENT

This policy takes effect on 1 July 2015.

Annexure A

MOHOKARE MUNICIPALITY

VIREMENT APPLICATION

CAPITAL Budget	OPERATING Budget (please Circle)
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Between Departments	Within Department, Within Cost Centre (Please circle)
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This form must be:

1. Completed in duplicate
2. Signed by both Vote Custodians
3. Signed by the Head of Department
4. Approved by the Chief Financial Officer (only applications >R50,000)

NOTE:

1. The maximum virement is R2 mil (MFMA Sect 29), Between Departments - R500,000, within departments - R100 000, within cost centre, R50 000.
2. Transfers to/from operating to capital are not allowed.
3. Transfers within capital budget to be approved by Council.
4. No virement is allowed in the first three months. Accounting officer to authorize transfers during the last month of the financial year.

TRANSFER REQUIRED R : BUDGET YEAR: 20 /20

	FROM	TO
DEPARTMENT		
COST CENTER		
VOTE DESCRIPTION		
VOTE NUMBER		
ORIGINAL/REVISED BUDGET		
COMMITTED TO DATE (Excluding this transfer)		
VOTE CUSTODIAN		

MOTIVATION:

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SDBIP CHANGES: If Applicable

Key Performance Indicator:

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Revised Budget: R

Target Date:

Quarterly Targets:

- Quarter 1: (Indicate change from approved SDBIP)
- Quarter 2: (Indicate change from approved SDBIP)
- Quarter 3: (Indicate change from approved SDBIP)
- Quarter 4: (Indicate change from approved SDBIP)

Monitoring Mechanisms:

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MANAGER / (CUSTODIAN) (FROM)

Date:/...../20 ...

.....
MANAGER (CUSTODIAN) (TO)

Date:/...../ 20 ...

or

.....
MUNICIPAL MANAGER (Inter Department FROM)

Date:/...../20 ...

.....
HEAD OF DEPARTMENT (TO)

Date:/...../ 20 ...

.....
Chief Financial Officer

Date:/...../20 ...

FOR FINANCE DEPARTMENT USE

Checked by:
Senior Financial Manager

Date: / /20

Virement completed within system
Budget Accountant

Date / /20