



**NKETOANA LOCAL MUNICIPALITY**

**VIREMENT POLICY**

<b><u>Policy:</u> VIREMENT POLICY</b>	<b>Effective Date:</b>
<b>Approved:</b>	<b>Review Date:31 March 2020</b>

Notwithstanding the review date herein, this policy shall remain effective until such time approved otherwise by Council and may be reviewed on an earlier date if necessary.

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## 1. DEFINITIONS

**"accounting officer"**- means the Municipal Manager, a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;

**"capital budget"** means a financial plan catering for large and long-term sums for investment in property, plant and machinery, over a period greater than the period considered under an operating budget.

**"chief financial officer"** means a person designated in terms of section 80(2) (a) of the MFMA;

**"delegation"**, in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;

**"executive mayor"** means the councilor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act;

**"municipality"**-

- (a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- (b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

**"official"**, means-

- (a) an employee of a municipality or municipal entity;
- (b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

**"operating budget"** An operating budget is the annual budget of an activity stated in terms of Budget Classification Code, functional/sub-functional categories and cost accounts. It contains estimates of the total value of resources required for the performance of the operations in terms of revenue and expenditure including reimbursable work or services for others;

**"virement"** means transfer of funds between functions / segments/ votes/ sub-votes

**"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. INTRODUCTION**

The Council approves a medium term expenditure framework budget (3-year budget) before the start of the financial year. The approved budget is an estimation of the activities within a specific financial period. The budget consists of an operating and a capital budget based on the strategic objectives of the Municipality.

In practice, as the year progresses, circumstances may change resulting in certain estimates being under-budgeted and others over-budgeted.

It is not practical to refer any such deviations to Council and it is therefore common practice to delegate certain authority for transfers to the Municipal Manager and Senior officials.

### **3. LEGISLATIVE FRAMEWORK**

Paragraph 4.6 of Circular 51 of the MFMA states that 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 as to when they may shift funds between items, projects, programmes and votes.

### **4. PURPOSE**

The purpose of this policy is to afford guidelines on the transferring of budgeted funds in order to make the management of budgets flexible.

### **5. OPERATING BUDGET**

#### **5.1. Transfers between votes**

- a) The proposed shifts in funding should facilitate sound risk and financial management.
- b) Virements between votes must be approved by the Municipal Manager.

#### **5.2. Transfers within votes**

- a) Virements within votes are permitted and must be approved by the Chief Financial Officer.
- b) The proposed shifts in funding should facilitate sound risk and financial management.

## 6. CAPITAL BUDGET

### 6.1 Transfers from Capital Budget to Operating Budget

- (a) Transfers from capital budgets to operating budgets are not permitted.

### 6.2 Transfers from Operating Budget to Capital Budget

- (a) Transfers from operating to capital budget votes must be approved by the Municipal Manager

### 6.3 Transfers within the Capital Budget

- (a) Transfers within the capital budget (per line item/ project) can only be approved by the Municipal Manager, after recommendation by the Chief Financial Officer.

## 7. GENERAL CONDITIONS OF BUDGET TRANSFERS

- (a) Virements are not permitted in relation to the revenue side of the budget.
- (b) Virements from personnel expenditure to other expenditure types can only be requested by the Chief Financial Officer and approved by the Municipal Manager
- (c) Virements to or from the following items are not be permitted:
  - ❖ debt impairment;
  - ❖ depreciation,
  - ❖ revenue foregone,
  - ❖ VAT;
  - ❖ workshop charges;
  - ❖ support service charges; and
  - ❖ vehicle costs

- (d) Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework are not permitted; and
- (e) Transfers towards repairs and maintenance are allowed, but not from repairs and maintenance to another expenditure category.
- (f) The transfers of funds to and from votes/ sub votes are limited to 20% of the vote.

## **8. PROCESS OF TRANSFERS**

- (a) The virements shall be requested and recommended by the Manager and Director responsible.
- (b) The requested virements shall be approved by the Chief Financial Officer/ Municipal Manager.

## **9. REPORTING**

Funds as transferred in terms of the prescripts of this policy will be reported on a quarterly basis by the Chief Financial Officer to the Municipal Manager and the Executive Mayor.