



VIREMENT POLICY



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1. PURPOSE

The aim is to give heads of departments greater flexibility in managing their budget. This policy aims to provide guidance to senior management in the use of virements as a mechanism in the day-to-day management of their budget.

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. BACKGROUND

A virement represents a flexible mechanism to affect budgetary amendments within a financial year, and represents a mechanism to align and take corrective (financial/budgetary) action within a Vote or Directorate during a financial year.

To transfer funds from one operating or capital project to another operating or capital project within a vote, a saving has to be identified within the monetary limitations of the approved vote allocations on the respective budgets.

Any budgetary amendments of which the net impact will result in exceeding the approved annual budget allocation for a vote and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget (per MFMA Section 28).

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 virements to the Municipal Manager and senior officials.

3. LEGISLATION REQUIREMENTS

In terms of the Constitution the approval of a budget is the responsibility of the Council. This does not mean the approval of every line item but is rather aimed at the approval of the budget as a financial and service delivery document. The process and other requirements are controlled by the Municipal Finance Management Act, Act 56 of 2003(MFMA) and related circulars and guideline that are prescribed by National Treasury.

Unlike the Public Finance Management Act, Act 1 of 1999 (PFMA) and Treasury Regulation on PFMA, the Municipal Finance Management Act, Act 56 of 2003 is not specific with regards to virements.

4. VIREMENT REQUIREMENTS AND LIMITATIONS

- 4.1 In terms of Section 17 of the MFMA a municipality's budget is divided into an operating and capital budget and consequently no virements are permitted between Operating and Capital Budgets.
- 4.2 No funds may be viremented between Votes (Directorates).
- 4.3 No virements may be made where it would result in unauthorized expenditure (Section 32 of MFMA).
- 4.4. Virements may not be made between Expenditure and Revenue.
- 4.5 Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 of MFMA)
- 4.6 No virements are permitted in the first three months or final month of the financial year without an express recommendation by the specific Director and the approval of the Chief Financial Officer or his/her delegate.

5. OPERATING BUDGET VIREMENTS

5.1 Employee related Cost and Remuneration of Councillors

- Virements are allowed within Employee related Cost.
- Virements are allowed within Remuneration of Councillors.
- Virements to and from Employee Related Cost and Remuneration of Councillors are not permitted to inter alia avoid creating recurring expenses not planned for.

5.2 Specific operating expenditure items

- Virements to and from the following items are not allowed: Bulk purchases; Bad debts written off, Interest, Dividends and Rent on Land; Depreciation and Amortisation; Transfer and Subsidies; Gains and Losses; Default Expenditure; Inventory related to Water and Other non-cash items as determined by the Chief Financial Officer.
- Virements will only be allowed **within the same source of funding in the funding segment.** (MFMA Circular 89 page 5 par 2.2)
- Virements from Operating Maintenance projects to either typical workstream projects or municipal running cost projects are not permitted.

- Virements to Operational Maintenance Projects are however permitted.
- Virements to Typical workstream projects from Municipal Running Cost projects are permitted.
- Virements between Typical workstream projects are permitted.
- Due to the mSCOA implementation and possible challenges with classification and interpretation of certain classifications of expenses, virements to amend budgets to be more in line with mSCOA classification will be permitted, subject that any virements must be within a Directorate and comply with requirements as stated above.
- Virements to transfer funds out of the security services expenditure account(s) are not permitted (funds can only be moved into the security services account)

6. CAPITAL BUDGET VIREMENTS

6.1 Virements from Capital to Operating Budget

No virements from capital to operating budget will be permitted as these projects have been included in the capital budget through an extensive public participation process.

6.2 Virements from Operating to Capital Budget

No virements from operating to capital budget will be permitted as these budgets may only be amended by Council.

6.3 Virements within Capital Budget

No virements permitted between capital projects.
Virements within the directorates are allowed ensuring the Funding guid is the same.

7. VIREMENT PROCESS

Requests for transfers, as motivated, will be done by the relevant Manager and Director on a prescribed form and provided to the Chief Financial Officer or his/her delegated official
(Budget office) for Review and thereafter the Chief Financial Officers approval.