



**NKOMAZI LOCAL MUNICIPALITY
MP324**

DRAFT VIREMENT POLICY

VISION

A leading Local Municipality that empowers its communities through excellent service delivery

MISSION

To enhance the quality of life of all people in the Nkomazi Local Municipality through a sustainable developmental system of Local Government and rendering of efficient, effective and affordable services.

MUNICIPALITY'S CORE VALUES

The Nkomazi Local Municipality subscribes to the following core values:

- Accountability;
- Good Governance;
- Transparency;
- Integrity; and
- Responsiveness

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1. DEFINITIONS

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

- a) Accounting Officer- the municipal manager of a municipality within the meaning of section 82 of the Municipal Structures Act, no 117 of 1998
- b) Delegation- in relation to a duty includes an instruction or request to perform or to assist in performing a duty.
- c) CFO – the Chief Financial Officer, appointed and designed to be administratively in charge of the budget and Treasury office in terms of Section 80 and 81 of the MFMA.
- d) MFMA – Municipal Finance Management Act no 56 of 2003.
- e) Director – a manager appointed in terms of Section 56 of the Municipal Systems Act and accountable direct to the Municipal Manager.
- f) Manager – an official accountable direct to the director or appointed as such in terms of the staff establishment.
- g) Virement – transfer of funds from one vote to another in accordance with this policy.
 - (i) Shifting of Funds – transfer of funds within a vote and between sub-votes or cost centres or from one line item to another.
- h) Sub - vote – A budget for a specific area of responsibility or a cost centre for a senior manager as set out within the detailed budget of the municipality.
- i) Vote –
 - (ii) 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; and
 - (iii) That specifies the total amount that is appropriated for the purpose of the department or functional area concerned.

2. Introduction

~~Virement is the process of transferring funds from one line item of budget to another. The term is derived from a French word meaning a commercial transfer.~~0

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 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.

3. Purpose

The purpose of this Policy is therefore to provide a framework to give the Heads of Departments greater flexibility in managing their budgets whereby certain transfers between line items within votes and between votes may be performed with the approval of certain delegated officials.

4. Application of Policy

4.1 This policy, with certain limitations, applies to both transfers within Votes and between votes of the Municipality’s budget.

4.2 Section 28(2) (d) of the MFMA provides that “An adjustments budget...may authorise the utilization of projected savings in one vote towards spending in another vote.” However, 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)

~~4.3 For ease of reference, the definition of “vote” as contained in Section 1 of the MFMA is set out hereunder:–j~~

~~“Vote” means –~~

- ~~• 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 o~~
- ~~• Which specifies the total amount that is appropriated for the purposes of the department or functional area concernedo~~

~~4.4 This policy shall not apply to transfers between or from capital projects or items and no such transfers may be performed under this policy.!~~

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

4.6 Virements towards personnel expenditure should not be permitted.

4.7 Virements to or from the following items should not be permitted:

- Bulk purchases
- Debt impairment
- Interest charge
- Depreciation
- Grants to individuals
- Revenue foregone
- Insurance
- VAT

4.8 Virements should not result in adding new projects to the Capital Budget

4.9 Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted.

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 authorized as follows:

4.1 If the amount does not exceed R100 000, the transfer may be authorised by the chief financial officer of the Municipality or the Municipal manager of the Municipality after consultation with the chief financial officer.

4.2 If the amount exceeds R100 000 but does not exceed R200 000, the transfer may be authorized by the municipal manager after consultation with the Chief Financial Officer.

4.3 If the amount exceeds R200 000 but does not exceed R500 000, the transfer may be authorized by the Mayor of the Municipality on the recommendation of the Municipal Manager.

4.4 Notwithstanding the provision of 4.1, a transfer of funds between cost of functional centres within a particular vote may not be authorised by the Chief Financial Officer but may only be authorised by; The Municipality Manager, if the amount does not exceed the amount of R200 000, The Mayor, if the cost exceeds the amount of R200 000 but does not exceed R500 000.

5. Limitations on amount of Virement

5.1 Notwithstanding the provisions of section 4:

- The total amount transferred from and to line items within a particular vote in any financial year may not exceed 10% of the amount allocated to that vote
- The total amount transferred from and to line items in the entire budget in any financial year may not exceed 10% of the total operating budget for that year.
- The amount of any transfer of funds between line items may not exceed the sum of R 500 000

5.2A transfer which exceeds, or which would result in exceeding of, any of the limits referred to in 5.1 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 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:

- Contravene any policy of the Municipality; or
- Alter the approved outcomes or outputs of an Integrated Development Plan; or
- Result in any adjustment to the Service Delivery and Budget Implementation Plan

7.2 No transfer of funds shall be permitted if same were to result in any change to the staff establishment of the Municipality, except if the Municipal Manager approves of such change.

7.3 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.

7.4 Transfer of funds may not be made under this policy between or from capital items or projects.

7.5 To the extent that it is practical to do so, transfers within the first six months and the last month of the financial year must not be permitted. Unless the Executive Mayor approves it.

7.6 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.

- 7.7 In accordance with section 30 of the MFMA with no transfer of funds may be made from a line item of a budget but a particular year to a line item of a budget for a subsequent year.
- 7.8 The transfer of funds in any year in accordance with this policy shall or give rise to any expectations of a similar transfer occurring in a subsequent year.
- 7.9 No transfer of funds shall be made if such transfer would constitute a transgression or contravention of any statute, regulation or other law, any policy, directive or guideline binding upon the Municipality, or the avoidance by the Municipality of any obligation imposed upon it by contract or any other cause.
- 7.10 The approval of any transfer shall not per the constitute expenditure authority, and all expenditure resulting from approved transfers must, to the extent that same is applicable, be carried out in accordance with the Municipality's Supply Chain Management Policy.
- 7.11 No virement may be made to cover or to allow for unauthorised, irregular or fruitless and wasteful expenditure (MFMA Section 32).
- 7.12 No virement may commit the Municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of the Council.

mSCOA virements

In the first year of the mSCOA implementation, virements will be allowed to correct cost allocations over the seven (7) segments with no limitation on the amount subject to:

- The function may not be changed.
- The original budget segment allocation from which the virement is made may not be exceeded.
- The segment virement must remain within the same expenditure category:
 - (i) bad debts written off;
 - (ii) bulk purchases;
 - (iii) contracted services;
 - (iv) depreciation and amortization;
 - (v) employee-related cost;
 - (vi) interest dividers and rent on land;
 - (vii) remuneration of councillors;
 - (viii) operating leases;
 - (ix) operational cost; and
 - (x) transfer and subsidies
- The virement must be with the same funding segment.
- For capital the segment virement must remain within the same project segment.

8. Procedure for Virement

8.1 Proposals for transfers may be made by the Head of Department concerned

8.2 The Municipal Manager shall prescribe a form on which all proposals for transfers of funds under this policy shall be made, such form shall include, but not limited to, provisions for the following:

- The name of the department concerned;
- Descriptions of the line items from and to which the transfer is to be made;
- The amount of the proposed transfer;
- The cause of the saving in the line item from which the transfer is to be made;
- The justification for the transfer;
- 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 Head of Department concerned to the Chief Financial Officer. If the transfer is not between cost or functional centres, the Chief Financial Officer shall:

- Approve the proposal, or
- Reject the proposal;
- Refer the proposal to the Municipal Manager for approval or rejection;
- The amount of the transfer does not exceed the amount referred to in section 4.1 but the transfer is between cost or functional centres, or if it falls within the range of amounts referred to in section 4.2, 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;
- The amount of the transfer falls within the range of the amounts referred to in section 4.3, the Chief Financial Officer shall refer the matter to the Municipal Manager who in turn shall refer the matter to the Mayor, together with his recommendations, and the Mayor shall either 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. Reporting

The Municipal Manager shall submit a report on all transfers made under this Policy to the Mayor every quarter.

10. Implementation and review

- 10.1 The Municipal Manager shall be responsible for the implementation and administration of this Policy.
- 10.2 This Policy, once adopted by Council, shall come into effect on **01 July 2017**
- 10.3 In terms of section 17(1)(e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process and accommodation allowances paid.