

OVERBERG DISTRICT MUNICIPALITY

VIREMENT POLICY

Reviewed: May 2020



Council Resolution No:

Date: 25 May 2020

Municipal Manager:

Executive Mayor

Reference No: 6/1/1/B

.

Municipal Code No: P-V-01.5 (Policy now aligned to mSCOA requirements)

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1. BACKGROUND

- 1.1 Virement is 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 transfer.
- 1.2 A virement represents a flexible mechanism to effect budgetary amendments
- 1.3 Changing circumstances and priorities during a financial period may give rise to a need to virement (transfer) funds within or between approved Votes, as defined in the Municipal Finance Management Act 56 of 2003 (MFMA). The treatment of such instances may, however, be dependent on whether an adjustments budget is required or not.

2. PURPOSE

- 2.1 The purpose of this policy is to provide a guideline for management in their day- to day management of their budgets.

3. DEFINITIONS

Concept, term, abbreviation	Description
MFMA	Municipal Finance Management Act, 56 of 2003
Virement	The process of transferring funds from one-line item of a budget to another.
Vote	As contained in Section 1 of the MFMA: "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 "

4. LEGISLATIVE CONTEXT

The Overberg District Municipality is committed to adhering to and applying the prescribed legislative environment as it applies to virements, with specific reference to:

- 4.1 The Constitution of the Republic of South Africa, Act 108 of 1996 as amended
- 4.2 The Municipal Finance Management Act, 56 of 2003 (MFMA)
- 4.3 Treasury regulations issued in terms of the MFMA

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 although the MFMA is not specific with regards to virements, municipalities are guided in related MFMA circulars No 12, 51, 88 and 94 and mSCOA Circular No 8 – Guidances on virement policies for Municipalities that was issued by National Treasury on 24 April 2020

5. VIREMENT IN A mSCOA ENVIRONMENT

(Extract from MFMA Circular No 94 dated 8 March 2019)

The MFMA and the Municipal Budget and Reporting Regulations, 2009, allow for the shifting of funds between items, projects, programmes and votes in the budget in line with a Council approved virement policy. MFMA Circulars No. 12, 51 and 88 provide the principles municipalities must consider when doing a virement. With the promulgation of the mSCOA Regulation in 2014, municipalities should have aligned their virement policies to mSCOA. mSCOA provides a uniform and standardised financial transaction classification framework for municipalities and their entities to transact in and record its transactions using seven (7) segments. Six of these mSCOA segments are compulsory

(Extract from mSCOA Circular No 8 dated 24 April 2020)

When a municipality review its virement policy, it must consider the implications of possible mSCOA segment changes taking place because of the virement (the moving of budgetary allocations within a function or its sub-functions). If virement result in a mSCOA segment change, by adding a new project, changing the region or funding source, it is not allowed. Such a shifting of budgetary allocations may only be done through an adjustments budget and not through the application of a virement.

6. VIREMENT PRINCIPLES

The following virement principles will apply:

- 6.1 In order for the Accounting Officer to authorise the transfer of funds from one cost item or capital project to another cost item or capital project within or across a vote (directorate); a saving has to be identified within the monetary limitations and within a similar funding segment of the approved cost item or capital project allocations on the respective budgets (operational and capital)
- 6.2 Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in this Policy are to be considered for budgetary adoption via an adjustments budget (Section 28 of the Act);
- 6.3 In terms of Section 17 of the Act a municipality's budget is divided into an operational and capital budget and consequently no virements are permitted between the operational and capital budgets. Operational funds to the Capital Budget may be done, but only via an Adjustments budget;

- 6.4 Virements between votes (departments) will 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);
- 6.5 As the Roads function are the responsibility of Province and the municipality are fully funded by Province will virements be allowed as per needs from Province. Therefor will no restrictions apply on virements within the roads department;
- 6.6 Virements should not be permitted in relation to the revenue side of the budget;
- 6.7 Virement for increased personnel expenditure, that is not on the salary budget compiled according to the approved organigram, should not be permitted, except where:
- 6.7.1 Temporary/contracted staff paid under mSCOA item segment - *Expenditure: Contracted Services - Outsourced Services - Personnel and Labour* status has changed to permanent staff and where the budget allocation savings are from Contracting services within the same function in terms of a Council delegated authority;
- 6.7.2 Certain allowances are increase from funds shifted to personnel expenditure i.e.: essential users added to the scheme during the year which were paid ad-hoc transport claims from travel and subsistence and the subsequent savings on the operational item be used to supplement the respective salary budget items;
- 6.8 Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted;
- 6.9 Virement should only be allowed within a function and its sub functions, except for;

6.9.1 A Project extending over/ incorporating more than one mSCOA function or sub function, then savings in the budgetary allocation in a function or sub-function may be applied across the functions and/ or sub-functions directly linked to the same Project and Funding Source;

6.9.2 Where the Finance and Administrative function or sub function is directly linked to another Function or sub function, then savings in the linked function/ sub-function may be applied in the Finance and Administrative function or vice versa². Therefore virement between Rates Services and Trading Services and across Trading Service are not allowed;

7. OPERATING BUDGET VIREMENTS

7.1 Sound motivations should be provided for all virements, as provided for on the pro forma virements documentation attached as Annexure A to this Policy

Virements to and from the following categories of expenditure are not allowed:

- (a) Bulk purchases
- (b) Debt Impairment
- (c) Depreciation
- (d) interest charges
- (e) VAT
- (f) Grants to individuals
- (g) Revenue foregone

7.2 Virements to and from various categories of funding sources are not allowed.

7.3 Transfers between items not stipulated in 7.1 are permitted within the same vote.

7.4 Virements are subject to the approval of the relevant senior manager and Chief Financial officer.

8. CAPITAL BUDGET VIREMENTS

- 8.1 No "new" capital projects onto the capital budget will be permitted except for where it is necessary to accelerate capital projects spending of capital projects already approved by Council in the IDP and capital budget of the indicative years and if the funding source is the same (see 7.2 and 7.3);
- 8.2 Virements to and from the various categories of funding sources are not allowed and can only be done by means of an Adjustment Budget;
- 8.3 Funding from a capital project will only be permitted once that project is finalised but only by means of an Adjustment Budget if the funding is source is not the same;
- 8.4 Virements are subject to the approval of the relevant senior manager and Chief Financial officer.

9. LIMITATIONS ON AMOUNT OF VIREMENT

9.1 Notwithstanding the provisions as stated above:

9.1.1 The total amount transferred from and to line items within a particular vote in any financial year may not exceed 15% of the amount allocated to that vote; and

9.1.2 The total amount transferred from and to line items in the entire budget in any financial year may not exceed 15% of the total operating budget for that year.

- 9.2 A transfer which exceeds, or which would result in the exceeding of, any of the limits referred to in 9.1 above may, however, be performed only if Council, by resolution, approves thereof.

10. PROCESS AND ACCOUNTABILITY

10.1 Accountability, to ensure that virement application forms are completed in accordance with Council's Virement Policy manifests with the senior manager of a department;

10.2 The relevant senior manager will ensure that the virement application form is duly completed, the virement duly motivated and signed by the senior manager. Supporting documentation, proving savings on a cost item/s: must accompany the application form that needs to be handed over to the financial services department;

10.3 The Financial Services will verify the virement application form and the Chief Financial Officer will authorise the virement application should it comply with the Virement Policy of Council. If not, the virement application form will be returned to the relevant senior manager;

10.4 After receiving the final approval from the Chief Financial Officer the Financial Services department may process the virement;

10.5 Completed virement documentation is to be kept by the Financial Services Department for audited purposes;

10.6 All approved virements processed on the financial system, will be captured in the virement register and submitted to the Finance Portfolio committee for information;

10.7 If an adjustment budget is submitted, then all virements approved and processed to date, must be included in such Adjustment Budget to be approved by Council.

11. FLOW DIAGRAM IN APPLYING A VIREMENT

It must be taken into consideration what the implications are when a segment changes take place as a result of moving budgetary allocations within a function or sub-functions.

Changes to a segment may require the change via an adjustment budget and therefore the change will not be permissible through the application of a Virement.

Attach per annexure is flow diagram in the form of a decision tree that need to be followed to establish whether a virement can be done or not.

12. TYPES OF ADJUSTMENT BUDGET

Council must condone the shifting of budgetary allocations (virement) in the annual Adjustments Budget

The table below provides guidance on the types of adjustments budgets that may be approved in terms of the Municipal Budget and Reporting Regulations (MBRR), 2009. As per the diagrams above the first option is to do a virement if there is a need to move budgeted amounts. The diagrams provide a guideline to follow per segment if the movement in budgeted amount is not allowable via a virement but instead the Municipality is required to produce an adjustments budget that must be tabled and approved at a Council meeting.

Types of adjustments budget	Timeframes	Sections of MFMA and MBRR
Downwards adjustment due to under-collection of revenue	Any time	S. 28(2)(a)
Main adjustments budget	Once a year – between tabling of the mid-year assessment and 28 February	S. 28(2)(b, d & f) Reg. 23(1&2)
Additional funds from national / provincial government	60 days after the approval of the relevant national / provincial adjustments budget	S.28(2)(b) Reg. 23(3)
Unforeseen and unavoidable expenditure	Within 60 days of expenditure being incurred	S. 28(2)l, 29(3) & 32 Reg. 23(4), 71 & 72
Roll-over of municipal funds	Before 25 August	S. 28 l , Reg. 23(5)
Authorisation of unauthorized expenditure	In main adjustments budget After the tabling of the annual report for that year (7 months after the financial year end)	S. 28(g), 32, 127(2) Reg. 23(6)

13. REVIEW

This policy will be reviewed at least annually and updated if needed.

14. EFFECTIVE DATE

This policy shall come into effect on 1 July 2020.

15. Annexure A – Virement application form

16. Annexure B – Flow diagram Decision Tree

OVERBERG DISTRICT MUNICIPALITY
REQUEST FOR TRANSFER OF FUNDS WITHIN BUDGET

I hereby request that the amount of R _____

Be transferred from:

Cost Code	Ukey	Item	Fund

Amount available before transfer: R

Amount available after transfer: R

To:

Cost Code	Ukey	Item	Fund

Motivation for above mentioned request is as follows:

Requested by Head of Department:

Signature: _____

Name: _____

Date: _____

Authorised by Senior Manager:

Signature: _____

Name: _____

Date: _____

Recommend by Head: Financial Service to CFO:

Signature: _____

Name: _____

Date: _____

Approved by Chief Financial Officer:

Signature: _____

Name: _____

Date: _____

Annexure B – Flow Diagram Decision Tree

See MFMA Circular No 8 dated 24 April 2020 attached from page 4 to page 8

4. Project segment guidance
5. Function segment guidance
6. Funding segment guidance
7. Regional Segment guidance
8. Costing Segment guidance
9. Item Segment: Expenditure guidance
10. Item segment: Revenue guidance