

# OVERBERG DISTRICT MUNICIPALITY

## VIREMENT POLICY

Reviewed: February 2019



**Council Resolution No:** .....

**Date:** .....

**Municipal Manager:** .....

**Executive Mayor** .....

**Reference No:** .....

**Municipal Code No:** .....

**TABLE OF CONTENTS**

**PAGE NO**

1. BACKGROUND.....	3
2. PURPOSE .....	3
3. DEFINITIONS .....	3
4. LEGISLATIVE CONTEXT.....	4
5. VIREMENT PRINCIPLES .....	4
6. OPERATING BUDGET VIREMENTS .....	5
7. CAPITAL BUDGET VIREMENTS.....	5
8. LIMITATIONS ON AMOUNT OF VIREMENT .....	5
9. PROCESS AND ACCOUNTABILITY .....	6
10. REVIEW.....	6
11. EFFECTIVE DATE.....	7

## 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: <i>"vote means –</i> <i>(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</i> <i>(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned."</i>

#### **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 related circulars and guideline that are prescribed by National Treasury.

Municipal Finance Management Act, Act 56 of 2003 is not specific with regards to virements.

#### **5. VIREMENT PRINCIPLES**

The following virement principles will apply:

- 5.1 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).
- 5.2 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).
- 5.3 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.
- 5.4 Virements between votes (departments) will be permitted where the proposed

shifts in funding facilitate sound risk and financial management.

- 5.5 As the Roads function are the responsibility of Province and the municipality are fully funded by Province will veriments be allowed as per needs from Province. Therefore will no restrictions apply on virements within the roads department.

## **6. OPERATING BUDGET VIREMENTS**

- 6.1 Sound motivations should be provided for all virements, as provided for on the pro forma virements documentation attached as Annexure A to this Policy. 6.1 Virements to and from the following categories of expenditure are not allowed:
- (a) Employee related cost
  - (b) Remuneration of councillors
  - (c) Provisions (Current and Non-current) and Bad Debts Written Off
  - (d) Depreciation and Amortisation

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

6.3 Transfers between items not stipulated in 6.1 are permitted within the same vote.

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

## **7. CAPITAL BUDGET VIREMENTS**

7.1 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.

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

7.3 Funding from a capital project will only be permitted once that project is finalised.

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

## **8. LIMITATIONS ON AMOUNT OF VIREMENT**

8.1 Notwithstanding the provisions as stated above:

- 8.1.1 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

- 8.1.2 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.
- 8.2 A transfer which exceeds, or which would result in the exceeding of, any of the limits referred to in 8.1 above may, however, be performed only if Council, by resolution, approves thereof.

## **9. PROCESS AND ACCOUNTABILITY**

- 9.1 Accountability, to ensure that virement application forms are completed in accordance with Council's Virement Policy manifests with the senior manager of a department.
- 9.2 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
- 9.3 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.
- 9.4 After receiving the final approval from the Chief Financial Officer the Financial Services department may process the virement.
- 9.5 Completed virement documentation is to be kept by the Financial Services Department for audited purposes.

## **10. REVIEW**

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

## **11. EFFECTIVE DATE**

This policy shall come into effect on 1 July 2019.