



# VIREMENT POLICY



**INDEX**

1. Purpose
  2. Background
  3. Legislation requirements
  4. Transfer in Capital Budget
  5. Delegation and conditions on Transfers
    - 5.1. Operating Budget.....
    - 5.2. Capital Budget.....
    - 5.3. General conditions of transfers
  6. Process of Transfers
  7. General.....
-

## **1. PURPOSE**

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

## **2. BACKGROUND**

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. 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. TRANSFERS IN CAPITAL BUDGETS**

A Capital Budget is approved per line items or per project. This in effect means that Council does not allow any discretion to an official other than delivering on the decision. Any saving or shortfall must be reported to council for them to decide on the future utilization of the savings as well as to seek additional funds for the execution of a project in the case of a shortfall in the budgeted amount to complete the project.

#### **5. DELEGATION AND CONDITIONS ON TRANSFERS**

##### **5.1 OPERATING BUDGET**

###### **Transfers between Votes**

A “Vote” in terms of National Treasury guidelines is determined as one of the main segments into which a budget of a municipality is divided for the appropriation of funds for different departments or functional areas. This specifies the total amount that is appropriate for the purpose of the department or functional area. Council therefore decides on the total amount that is allocated to that specific function and classifies it as a vote.

Virements between votes are permitted where the proposed shifts in funding facilitate sound risk and financial management and the shifting of funds between votes are delegated to the Municipal Manager, Chief Financial Officer and Manager: Budget and Support Services.

###### **Transfers within Votes**

Transfer between line item budgets within a specific “vote” is delegated to the Municipal Manager, Chief Financial Officer and Manager: Budget and Support Services through a procedure that must be informed by the Chief Financial Officer.

##### **5.2 CAPITAL BUDGET**

###### **Transfer from Capital to Operating Budget**

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

### **Transfer from Operating to Capital Budget**

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

### **5.3 GENERAL CONDITIONS OF TRANSFERS**

- (a) Virements from/towards personnel expenditure are not permitted. Transfers within personnel expenditure are allowed.
- (b) Virements to or from the following items are not permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT
- (c) The transfer of funds within the category “General Expenses” and “Maintenance” of the budgeted line item amount are delegated to the Municipal Manager, Chief Financial Officer and Manager: Budget and Support Services. Funds can only be transferred between departments but only from the category “General Expenses” to “General Expenses” and “Maintenance” to “Maintenance”.
- (d) The transfer of funds between votes which are limited to a maximum of 5% of a vote.
- (e) Virements are not permitted in relation to the revenue side of the budget.
- (f) Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework are not be permitted.
- (g) Virements are allowed until December of a year where-after virements will only be allowed in exceptional cases.

### **6. PROCESS OF TRANSFERS**

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 Manager: Budget and Support Services for his consideration/approval.

### **7. GENERAL**

The purpose of this delegation is to improve the pace at which service delivery is done and to make functionaries more accountable for their actions.