

PORT ST JOHN'S MUNICIPALITY



PORT ST JOHNS
• MUNICIPALITY •
OUR HERITAGE, OUR PEOPLE

VIREMENT POLICY

DATE OF ADOPTION.....

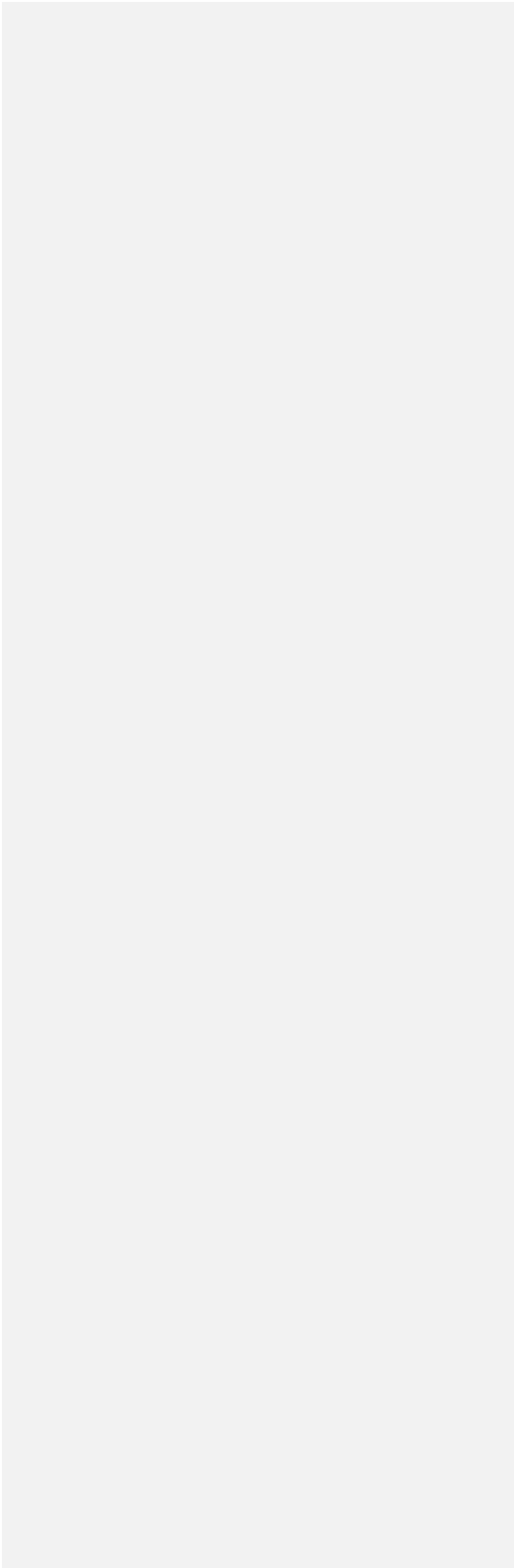


TABLE OF CONTENTS

| | |
|--------------------------------------------------------|----|
| DEFINITION | 3 |
| 1. BACKGROUND | 4 |
| 2. PURPOSE | 4 |
| 3. APPLICATION OF THIS POLICY | 4 |
| 4. AUTHORISATION OF VIREMENTS | 6 |
| 5. LIMITATIONS ON AMOUNT OF VIREMENT | 6 |
| 6. VIREMENT PERMITTED ONLY SAVINGS ARE PROJECTED | 7 |
| 7. FURTHER RESTRICTIONS ON VIREMENT | 7 |
| 8. PROCEDURE FOR A VIREMENT | 9 |
| 9. REPORTING | 10 |
| 10. GENERAL | 11 |

DEFINITION

- (1) “Virement” is the process of transferring funds from one line item of budget to another. It arises from circumstances which materially changed from those that were present at time of the adoption of the previous budget and also which take into account anticipated (projected) changes.

The term is derived from a French word meaning a “commercial transfer”.

2. Vote – For ease of reference, the definition of “vote” as contained in Section 1 of the MFMA is set out hereunder:

‘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.”

Other definitions

| | |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accounting officer | The person appointed as Accounting Officer in terms of s82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and include any person acting in that position or to whom authority was delegated |
| Budget (approved) | The final budget approved by EXCO |
| EXCO | Executive Committee |
| MFMA | Municipal Finance Management Act |
| Municipal financial year | 1 July to 30 June |
| MSCOA | Municipal Standard Chart of Accounts |

1. BACKGROUND

- (1) 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.
- (2) 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.

2. PURPOSE

- (1) The main aim of this Policy is therefore to provide a framework to give the heads of departments greater flexibility, while retaining sound control and accountability, 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.

3. APPLICATION OF THIS POLICY

- (1) This policy, with certain limitations, applies to both transfers within votes and between votes of the municipality’s budget.
- (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, the 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).

- (3) For ease of reference, the definition of “vote” as contained in Section 1 of the MFMA is set out hereunder:

“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) This Policy shall not apply to transfers between or from capital projects or items and no such transfers may be performed under this policy, unless approved by EXCO.
- (5) Virements from the capital budget to the operating budget should not be permitted.
- (6) Virements towards personnel expenditure should not be permitted.
- (7) Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation; scrapping of assets (including stock/inventory) grants to individuals; revenue foregone; insurance and VAT.
- (8) Virements should not result in adding ‘new’ projects to the capital budget.
- (9) Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted.
- (10) 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 EXCO through an adjustments budget.

Commented [GM1]: This is an unnecessary duplication from definition section page 3. I suggest that this be deleted.

(11) It is the responsibility of each manager or head of a department or activity to which funds are allotted, to plan and conduct assigned operations so as not to expend more funds than budgeted (thus virements should be kept to a minimum).

(12) In addition, each manager or head of a department or activity have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of sections 78 and 102 of the MFMA.

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:

- (1) If the amount does not exceed R400 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.
- (2) If the amount exceeds R400 000, but does not exceed R800 000, the transfer may be authorized by the Municipal Manager after consultation with the Chief Financial Officer.
- (3) If the amount of the transfer exceeds R800 000, the transfer may be authorised by the EXCO on the recommendation of the Municipal Manager of the Municipality.
- (4) For reporting purposes 4.1 to 4.3 must be reported to EXCO on a monthly basis.

Approval must be obtained **prior** to the virement taking place.

5. LIMITATIONS ON AMOUNT OF VIREMENT

- (1) Notwithstanding the provisions of section 4:

- a) The total amount transferred from and to line items within a particular vote in any financial year may not exceed 20% of the amount allocated to that vote
 - b) 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.
- (2) A transfer which exceeds, or which would result in exceeding of, any of the limits referred to in the paragraph 1 above may, however, be performed if the Executive Committee by resolution approves thereof.
- (3) These transfers are also not permitted in line with the mSCOA regulations and framework.

6. VIREMENT PERMITTED ONLY WHEN SAVINGS ARE PROJECTED

- (1) 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

- (1) A transfer of funds between line items shall not be permitted under this policy if the effect thereof would be to:
- a) Contravene any policy of the municipality; or
 - b) Alter the approved outcomes or outputs of an Integrated Development Plan; or
 - c) Result in any adjustment to the Service Delivery and Budget Implementation Plan (SDBIP)

- (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.
- (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. Line items ring-fenced referred to in this Policy means items for which money has specifically been allocated for spending for a specific purpose, such as the conditional grants received for specific purposes.
- (4) Transfer of funds may not be made under this policy between or from capital items or projects.
- (5) To the extent that it is practical to do so, transfers within the first three months and the last month of the financial year should be avoided.
- (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) In accordance with section 30 of the MFMA with no transfer of funds may be made from a line item of a budget of a particular year to a line item of a budget for a subsequent year.
- (8) The transfer of funds in any year in accordance with this Policy shall not give rise to any expectations of a similar transfer occurring in a subsequent year.
- (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 nay other cause.
- (10) The approval of any transfer shall not per se 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.

- (11) Notwithstanding anything in this policy the municipality must ensure it complies with section 100 of the MFMA whereby strict budgetary control must be maintained throughout the municipal financial year to ensure that potential overspends and / or income under-recovery within individual vote departments are identified at the earliest possible opportunity.
- (12) To comply with mSCOA regulations, the transferring of funds may not be made under this policy between or from capital items or projects

8. PROCEDURE FOR A VIREMENT

Proposals for transfers may be made by the head of department concerned.

- (1) The municipal manager shall prescribe a form on which all proposals for transfers of funds under this policy shall be made, which form shall include, but not limited to, provisions for the following:
 - a) The name of the department concerned;
 - b) Descriptions if the line items from and to which the transfer is to be made;
 - c) The amount of the proposed transfer;
 - d) The cause of the saving in the line item from which the transfer is to be made;
 - e) The justification for the transfer;
 - f) A description of any consequences that such transfer may have for the Integrated Development Plan or the Service Delivery and Budget Implementation Plan (SDBIP).

(2) Each proposal for a transfer shall be submitted by the head of department concerned to the chief financial officer and if:

(a) The amount of the transfer does not exceed the amount referred to in section 4.1 and the transfer is not between cost or functional centers, the chief financial officer shall:

- Approve the proposal; or
- Reject the proposal;
- Refer the proposal to the municipal manager for approval or rejection.

g) The amount of the transfer does not exceed the amount referred to in section 4.1 but the transfer is between cost or functional centers, 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.

h) 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 Executive Committee, together with his recommendations, and the Executive Committee shall either approve or reject the proposal.

(3) 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

(1) The municipal manager shall submit a report on all transfers made under this policy to the EXCO every month. Information on virements must also be reported in the adjustments budget, financial statements, annual report, to treasury, etc.

10. GENERAL

- (1) The municipal manager shall be responsible for the implementation and administration of this policy.

- (2) This policy, once adopted by Council, shall come into effect on