

NKANDLA MUNICIPALITY



VIREMENT POLICY

2019/2020

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Approved

BUDGET VIREMENT POLICY

1. PURPOSE

The purpose of this policy is to provide a guideline for management in their day today management of their budgets, and to allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.

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. The municipality also has a policy that guides the budget preparation process.

4. BUDGET VIREMENT

4.1. Virement Clarification

Virement is the process of transferring budgeted funds from one line item number to another, with the approval of the relevant Executive Director, Head of Department, Section Manager and CFO, to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes. (Section 28 (2) (c) MFMA).

4.2. Financial Responsibilities

Strict budgetary control must be maintained throughout the financial year in order that potential overspending and / or income under recovery within individual vote departments are identified at the earliest opportunity. (Section 100 MFMA). The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control.

The Budget Virement Policy is one of those controls. (Section 27(4) MFMA It is the responsibility of each Director of head of department of activity to which funds are allotted, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, they have the responsibility to identify and report and irregular or fruitless and wasteful expenditure in terms of the MFMA section 78 and 102

4.3. Virement Procedure

- a) All virement proposals must be completed on the appropriate documentation and forwarded to the relevant Finance Officer for checking and implementation.
- b) All virements must be signed by the Director of the department within which the vote is allocated. (Section 79 MFMA)
- c) All virements should be approved in line with Council's System of Delegation.
- d) Projected cash flows in the SDBIP should be adjusted in line with the virement.
- e) All documentation must be in order and approved before any expenditure can be committed or incurred.(Section 79 MFMA)
- f) All virements of funds between votes must be approved by the Executive Mayoral Committee and reported to the Municipal Council on a monthly basis.

4.4. Virement Restrictions

- a) No funds can be transferred between the different types of budget (E.g. virement can only be made from basic capital to basic capital and operating to operating)
- b) No virement may be made where it would result in over expenditure of a line item. (Section 32 MFMA)
- c) No virement shall create new capital projects without the approval of the Municipal Council.
- d) If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.
- e) Budget from the following line items may only be transferred by Budget & Treasury office:
 - (i) Depreciation
 - (ii) Capital Cost (Interest and Redemption)
 - (iii) Bank Charges
 - (iv) Audit Fees
 - (v) Grants and Subsidies Paid
 - (vi) Debt Impairment
 - (vii) Bad Debts
 - (viii) Appropriations
 - (ix) Insurance Excess and Premiums

- (x) Contributions to Funds
- (xi) Bulk Purchases (Electricity)

- f) An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subjected to the procurement supply chain management policy of Council as periodically reviewed.
- k) Not more than 5% of the budget may be moved to or from a function, programme or project.
- l) Virements may not be made between Expenditure and Income.

4.5. VIREMENTS

4.5.1. Capital Budget Virement

- a) Transfers to capital items can only be possible if the transfer from is a capital item as well.
- b) Transfers will only be possible if the capital project is an approved project in the capital budget.
- c) It should also be noted that only the CFO can approve transfers of items between two different funding sources (eg. Transfer between “Own funds” and “Ad-hoc” is not possible)

4.5.2. Operating Budget Virement

- a) Transfers to operating items can only be possible if the items you transfer from are an operating item as well.
- b) The line items listed in paragraph 4.5 (e) of this policy may only be transferred by Financial Services department.

5. 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 for his consideration/approval.

6. REPORTING ON TRANSFERS

Funds as shifted in terms of this policy will be reported on a monthly basis by the relevant Manager/Director as part of the Service Delivery and Budget Implementation Plan (SDBIP) to the Municipal Manager and Council.