DITSOBOTLA LOCAL MUNICIPALITY

****

**VIREMENT POLICY**

**2023/2024**

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**Consider adding Background & Purpose**

Consideration to be made to outline the background and purpose of the Virement Policy, and include the following:

1. Virement is the process of transferring approved funds from one line item of the budget to another, essentially a means of utilising funds set aside for one purpose within a budget for expenditure of a different purpose.
2. Virement is to be used to encourage a flexible approach to utilising allocated funds, which enables managers to take advantage of opportunities that arise within the current financial year and give managers the motivation to reduce costs, control budgets and provide an efficient and effective service.
3. Each year, the Municipality creates an annual budget which must be approved by Council. It is intended that the budget will be set for the duration of the financial year. However, circumstances and priorities may change resulting in over-budgeted and under-budgeted expenditure which will require movement between line items.

**1. DEFINITION OF KEY TERMS**

**“Accounting officer’’** - The municipal manager of a municipality is the accounting officer of the municipality in terms of section 60 of the MFMA

**‘‘Approved budget’’**- means an annual budget approved by a municipal council.

**“Budget-related policy**’-means a policy of a municipality affecting or affected by the annual budget of the municipality

**‘‘Chief financial officer’’**- means a person designated in terms of the MFMA who performs such budgeting, and other duties in terms of section 79 of the MFMA as delegated by the Accounting Officer.

**“Capital Budget”**- This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods

**‘‘Council’’** means the council of a municipality referred to in section 18 of the Municipal Structures Act.

**“Financial year”**- means a 12-month year ending on 30 June.

**“Line Item”** - an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditures

**“Operating Budget”** - the Municipality’s financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.

**“Ring Fenced”** - an exclusive combination of line items grouped for specific purposes for instance salaries and wages.

**‘‘Service delivery and budget implementation plan’’**- means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (c) (ii) for implementing the municipality’s delivery of municipal services and its annual budget.

**“Virement”** - is the process of transferring an approved budget allocation from one operating line item or capital project to another, with the approval of the relevant Manager. To enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.

**‘‘Vote’’**- means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different Directorates or GFS classifications of the municipality; and which specifies the total amount that is appropriated for the purposes of the Directorates or GFS classifications concerned.

**2. ABBREVIATIONS**

**“CFO”**- Chief Financial Officer

**“GFS”** -Government Financial Statistics

**“IDP”**- Integrated Development Plan

 **“MFMA”**- Municipal Finance Management Act No. 56 of 2003

**“SDBIP”**- Service delivery and budget implementation plan

**“mSCOA" –** Municipal Standard Classification of Accounts

**3. OBJECTIVE**

To allow limited flexibility in the use of budgeted funds enabling 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.

**4. VIREMENT CLARIFICATION**

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

**5. FINANCIAL RESPONSIBILITIES**

-Strict budgetary control must be maintained throughout the financial year in order to ensure that potential overspends and / or income under-recovery within individual votes are identified at the earliest possible opportunity. (Chapter 4 of the 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 process is one of these controls. (Section 27(4) MFMA).

-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 for. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA sections 78 and 32.

**6. VIREMENT RESTRICTIONS**

(a) No virements may be allowed between votes (Directorates) without approval in the adjustment budgets.

(b) Virements may not exceed a maximum of 10% of the total approved operating budget per Directorate.

(c) A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years.

(d) Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustments budget to the Council with altered outputs and measurements for approval.

(e) No virement may commit the Municipality to increase recurrent expenditure, which commits the Council’s resources in the following financial year, without the prior approval of the Mayoral Committee. This refers to expenditures such as entering into agreements into lease or rental agreements such as vehicles, photo copier’s or fax machines

(f) No virement may be made where it would result in unauthorised expenditure.

(g) No virement shall add to the staff establishment of the Municipality without the approval of Municipal Manager.

(h) Budget may only be transferred from Salaries if approved by the Municipal Manager and the Chief Financial Officer.

(i) If the virement relates to an increase in the work force establishment, then the Council’s existing recruitment policies and procedures will apply.

(j) Virements may not be made in respect of ring-fenced allocations.

(k) Budget may not be transferred from Support service (interdepartmental) costs, Capital financing, Depreciation, Contributions, Grant Expenditure and Income Foregone.

(l) Virements in capital budget allocations are only permitted within specified action plans and not across funding sources and must in addition have comparable asset lifespan classifications.

(m) No virements are permitted in the first three months or the final month of the financial year without the express approval of the CFO.

(n) Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 MFMA)

(o) An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the procurement/supply chain management policy of Council as periodically reviewed.

(p) Virements may not be made between Expenditure and Income.

(q) Virements may not be made between capital and operational budgets.

**7. VIREMENT PROCEDURE**

(a) All virement proposals must be completed on the appropriate documentation and forwarded to the Budget Office for checking and implementation.

(b) All virements must be approved by the Vote holder and/or relevant Manager in the case of a departmental budget transfer, and also by the relevant Director in the case of a transfer within a Directorate relating to the operational budget.

(c) Capital Budget Virement within a GFS Classification must be approved by the relevant manager and Director, the Municipal Manager and Director: Finance

(d) A virement form must be completed for all Budget Transfers.

(e) Must include changes to the SDBIP if applicable.

(f) All documentation must be in order and approved before any expenditure can be committed or incurred.

(g) The Municipal Manager must report to the Mayor on a quarterly basis all the Virement incurred.

Consider including a Section for Application of policy and impact of mSCOA

To include the following:

1. This policy applies to transfers between line items within functions/subfunctions. Virements can only take place within a function or within/between sub-functions and the same source of funding.
2. Section 28(2) of the MFMA provides that an adjustments budget may authorise the utilisation of projected savings in one vote/function towards the spending in another vote/function. MFMA Circular 89 provides that the creation of new projects or savings across functions can only take place through an adjustments budget
3. ” Vote/” Function” means –
	1. 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
	2. which specifies the total amount is appropriated for the purposes of the department or functional areas concerned
4. With the implementation of MSCOA, virements will also be permitted within a project between each of the segments’, provided funds are moved across the same segment type e.g., from an item segment to another item segment within the project, or from one region segment to another region segment within the project etc.
5. Virements between MSCOA Projects will be permitted provided it complies with all other provisions of this policy. Virements from the repairs and maintenance project in the project segment will not be permitted.

Virements to correct MSCOA classifications or to further split budgets for MSCOA purposes will be permitted through-out the financial year for all MSCOA segments. These virements must be prepared by the Budget Office and approved by the Chief Financial Officer (CFO). These virements must also be distinguished as an “MSCOA Correction” on the virement form

Consideration to include the Virement form that shall be applicable for the 2023/24 financial year, and perhaps an explanation of how the departments should complete accordingly.

**SIGNATURE**

This document represents the Ditsobotla Policy for the Local Municipality of Ditsobotla and is signed by the Municipal Manager in accordance with a decision of the Municipality.

NAME: ……………………………………. DATE: ……………………..

SIGNATURE: ……………………………………..