



NEWCASTLE MUNICIPALITY

VIREMENT POLICY

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1. **Definitions**

1. **“Accounting Officer”** The municipal manager of a municipality is the accounting officer of the municipality in terms of section 60 of the MFMA.
2. **“Approved budget”** means an annual budget approved by a municipal council.
3. **“Budget-related policy”** means a policy of a municipality affecting or affected by the annual budget of the municipality
4. **“Chief Financial Officer”** means a person designated in terms of the MFMA who performs such budgeting, and other duties as may in terms of section 79 of the MFMA be delegated by the accounting officer to the Chief Financial Officer.
5. **“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.
6. **“Council”** means the council of a municipality referred to in section 18 of the Municipal Structures Act.
7. **“Financial year”** means a 12-month year ending on 30 June.
8. **“Line Item”** an appropriation that is itemised on a separate line in a budget adopted with the idea of greater control over expenditures.
9. **“Operating Budget”** The Municipality’s financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.
10. **“Ring Fenced”** an exclusive combination of line items grouped for specific purposes for instance salaries and wages.
11. **“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.
12. **“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 Strategic Executive Director. To enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.
13. **“Vote”** means one of the small segments into which a budget of a municipality is divided for the appropriation of funds for the different items of revenue and expenditure for all departments in the municipality.

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2. Abbreviations

1. **C.F.O.** – Chief Financial Officer
2. **IDP** – Integrated Development Plan
3. **MFMA** – Municipal Finance Management Act No. 56 of 2003
4. **SDBIP** – Service Delivery and Budget Implementation Plan
5. **CM** – Council Minute/s

3. Objective

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.

4. Virement Clarification

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Virement is the process of transferring budgeted funds from one line item number to another, with the approval of the relevant Manager and C.F.O., 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 that potential overspends and / or income under-recovery within individual vote departments are identified at the earliest possible opportunity. (Section 54 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 Strategic Executive Director 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 any irregular or fruitless and wasteful expenditure in terms of the MFMA sections 78.

6. Virement Restrictions

- a) No funds may be transferred between departments without the approval of both heads of departments and the Chief Financial Officer.
- b) Virements may not exceed a maximum of 0.1% of the total approved operating expenditure budget.
- 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. (section 19 and 21 MFMA)
- 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. (MFMA Circular 13 page 3 paragraph 3)
- 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 Executive Committee.
 - (i) 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 over expenditure. (section 32 MFMA)
- g) If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.

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- h) Virements may not be made in respect of ring-fenced allocations.
- i) Only under exceptional circumstances may budgets may be transferred from *Salaries* and that will have to be approved by the Executive Committee.
- j) 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.
- k) Virements are not permitted in the first three months the financial year. Only under exceptional circumstances may the C.F.O. approve such virements.
- l) No virement proposal shall effect amounts to be paid to another Department without the agreement of the Strategic Executive Director of that Department, as recorded on the signed virement form. (Section 15 MFMA)
- m) Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 MFMA)
- n) Virements may not be made between Expenditure and Income.

7. Virement Procedure

- a) All virement proposals must be completed on the appropriate documentation and forwarded to the Chief Financial Officer for checking and implementation.
- b) All virements must be signed by the Strategic Executive Director under whom the vote is allocated.
- c) A virement form must be completed for all Budget Transfers.
- d) Budget transfers, to and from a particular vote per year, in excess of R100 000.00 with a maximum as determined under section 6b requires the approval of the Executive Committee. Such a virements must be accompanied by a full report detailing the compelling reasons that lead to it.
- e) Must include changes to the SDBIP.
- f) All documentation must be in order and approved before any expenditure can be committed or incurred. (Section 79 MFMA)
- g) The Municipal Manager must report to the Mayor on a quarterly basis on those virements that have taken place during that quarter.

Annexure "A"

Vote Classification

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Vote Directorate Classification	GFS Classification	Department	Vote Holder
Municipal Manager	Executive & Council	02 : Municipal Manager	Municipal Manager
Budget & Treasury	Finance & Admin	03 : Finance	Chief Financial Officer
Municipal Manager	Executive & Council	04 : Operations	Chief of Operations
Corporate Services	Finance & Admin	05 : Human Resources	SED: Corporate Services
	Finance & Admin	06 : Property Services	SED: Corporate Services
Planning & Economic Development	Planning & Development	07 : Planning & Development	SED: Planning & Development
Community Services	Community & Social Services	08 : Clinics	SED: Community Services
	Community & Social Services	10 : Libraries	SED: Community Services
	Community & Social Services	11 : Museum	SED: Community Services
	Community & Social Services	12 : Community Halls	SED: Community Services
	Community & Social Services	13 : Cemetary	SED: Technical Services
	Planning & Development	15 : Housing	SED: Community Services
	Public Safety	16 : Traffic Police	SED: Community Services
	Public Safety	17 : Disaster Management	SED: Community Services
Technical Services	Sports & Recreation	18 : Sports & Recreation	SED: Technical Services
	Waste Management	20 : Public Conviences	SED: Corporate Services
	Road Transport	21 : Stormwater	SED: Technical Services
	Road Transport	22 : Roads	SED: Technical Services

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	Waste Management	23 : Landfill Site	SED: Technical Services
	Waste Management	24 : Refuse Removal	SED: Technical Services
	Waste Management	25 : Street Cleaning	SED: Technical Services
	Electricity	27 : Electricity	SED: Technical Services
	Finance & Admin	28 : Municipal Offices	SED: Technical Services
	Finance & Admin	29 : Technical Services	SED: Technical Services
	Finance & Admin	34 : Other Admin	SED: Technical Services
Planning & Economic Development	Economic Development & Growth	31 : Tourism	SED: Planning and Economic Development
Community Services	Community & Social Services	32 : Community Services	SED: Community Services
Internal Audit	Executive & Council	33 : Internal Audit	Manager: Internal Audit
Planning & Economic Development	Planning & Economic Development	34 : LED & Growth	SED: Planning & Economic Development