

MSUKALIGWA LOCAL MUNICIPALITY



VIREMENT POLICY

PREAMBLE

WHEREAS the Municipal Finance Management Act (MFMA) aims to enable managers to manage, but to make them more accountable by introducing regular and consistent reporting requirements. The challenge facing all the role-players is to improve the efficiency and effectiveness of the municipality through the best use of management information.

WHEREAS this policy assists management in complying with the MFMA and ensures that financial information is correctly recorded in the financial system.

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1. DEFINITIONS Act

“ - means the Municipal Finance Management Act (MFMA), 2003 (Act No. 56 of 2003)

Accounting Officer (MFMA)

“- (a) in relation to a municipality, means the municipal official referred to in section 60; or...”

Approved Budget (MFMA)

“ - means an annual budget -

- (a) approved by a municipal council; or
- (b) approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28;”

Chief Financial Officer

“means the officer of the Msukaligwa Local Municipality designated by the Municipal manager to be administratively in charge of the budgetary and treasury functions.”

Financial year/Budget year

The 12 month period between 1 July and 30 June.

MSCOA

“means municipal standard chart of accounts which is a business reform which requires multi-dimensional budgeting and recording of transactions across seven segments which are

- (i) **Project** (linking operational and capital expenditure to a project)
- (ii) **Function** (linking operational and capital expenditure to a specific mandate)
- (iii) **Item** (linking operational and capital expenditure to the type and nature of expenditure incurred)
- (iv) **Fund** (linking operational and capital expenditure to the source of funding used to incur the expenditure)
- (v) **Region** (linking operational and capital expenditure to the geographical region impacted by the expenditure)
- (vi) **Costing** (linking operational and capital expenditure for setting of municipal tariffs)

(vii) **Municipal Standard Classification** (linking operational and capital expenditure to an organization unit or division)

Vote (MFMA)

(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 which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.”

In the case of the Msukaligwa Local municipality the definition of Vote is defined in terms of National Treasury GFS functions.

GFS – Government Finance Statistics.

In order to facilitate comparisons, GFS functions provide a reasonably high level grouping of related service delivery activities for Local Government.

Refer definitions as prescribed by National Treasury in terms of MFMA Circular no. 12 – Definition of a “vote” in MFMA.

Operating Cost Centres is defined as the various expenditure departments that the Msukaligwa Local municipality has been distributed into and against which expenditure is allocated in the financial system.

Line item is defined as various items which reflect the budget/costs of the municipality in terms of its activities

Virement

The process of transferring an approved budgetary provision from one operating cost centre to another within a vote during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the approved budget.

Overspending (MFMA)

“(a) in relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

(b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

(c) in relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section;”

Unauthorised expenditure (MFMA)

“in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA”

Any other word or expression to which a meaning has been assigned in the Municipal Finance Management Act, Act No 56 of 2003, and the Local Government Municipal Systems Act, Act No. 32 of 2000, unless inconsistent with the context shall, wherever such word or expression appears in the policy, bear the same meaning as that assigned to it in the said legislation.

2. LEGISLATIVE FRAMEWORK

2.1 Section 81(1)(d) of the Act states inter alia that “The chief financial officer of a municipality -... must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79;”

2.2 Section 78(1)(b) of the Act states inter alia that “Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure - ... (b) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;”

2.3 National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009. These regulations set out the manner in which Municipalities are required to report their annual, monthly, mid-year and adjustments Budgets.

The objectives of the budget formats reforms in terms of these regulations are:

- To ensure that the municipal budget and financial reporting formats support the other financial management reforms introduced by the Act;
- To formalise the norms and standards governing municipal budget and financial reporting formats, so as to improve the credibility, sustainability, transparency, accuracy and reliability of budgets and in-year reports of municipalities.
- To improve Council's ability to deliver basic services to all by addressing issues of financial sustainability;
- To facilitate informed policy choices by Council and medium term planning of service delivery by aligning targets to achieve backlog elimination.

2.4 MFMA Circular No 51 (Dms 633560) issued on 19 February 2010 states that each municipality must put in place a Council approved Virement Policy, which should provide clear guidance to managers of when they may shift funds between items, projects, programmes and votes.

2.5 Municipal SCOA Circular No.8 issued on the 24th of April 2020 by National Treasury also provide guidance on how municipalities should apply virements within the Municipal Standard Chart Of Accounts (mSCOA) and to align virements policies accordingly.

3. OBJECTIVES OF THIS POLICY

3.1. 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.

3.2 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 Municipality's virement policy and its underlying administrative process within the system of delegations is one of these controls.

3.2 It is the responsibility of each Head of Department to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted and to ensure that funds are utilised effectively and efficiently.

3.3 This policy aims to provide guidelines to management in the use of virement as a mechanism in their day-to-day management of their budgets. In addition it specifically aims to empower Head of Departments with an efficient financial – and

budgetary system to ensure optimum service delivery within the current legislative framework of the Act and the municipality's system of delegations.

4. APPLICATION OF THE POLICY

4.1 This policy applies only to moving of budgetary allocation within a function or its sub-functions. If virement result in a mSCOA segment change, by adding a new project, changing a region, or funding source, it is not allowed

4.2 Section 28(2) (d) read together with section 69 of the MFMA provides that "*An adjustments budget...may authorise the utilisation of projected savings in one vote towards spending in another vote.*" Transfers between votes may therefore be authorised only by the Council of the Municipality.

4.3 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."

4.4 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 the Council through an adjustment budget.

5. BUDGET REGULATIONS

The Act regulates as follows regarding the incurring of expenditure against budgetary provisions.

5.1 Section 15 of the Act – Appropriation of funds for expenditure

"A municipality may, except where otherwise provided in this Act, incur expenditure only -

(a) in terms of an approved budget; and

- (b) within the limits of the amounts appropriated for the different votes in an approved budget.”

5.2 Section 28 of the Act – Municipal Adjustments Budget

“A municipality may, revise an approved annual budget through an adjustments budget.

5.3 Unauthorised Expenditure

As defined and includes -

- (a) overspending of the total amount appropriated in the municipality's approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for a specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act;”

- 5.4 Section 71 (1)(g)(iii) states inter alia *“(1) The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:...(g) when necessary, an explanation of- ... (iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget....”*

- 5.5 Section 72 (3)(a) states inter alia *“The accounting officer of a municipality must assess the performance during the first half of the financial year, taking into account:-...(3)(a) make recommendations as to whether an adjustments*

budget is necessary and (b) recommend revised projections for revenue and expenditure

...”

5.6 MFMA Circular No 51 guides Municipalities on what principles should be incorporated into the municipal virement policies: Therefore, virement should only

be allowed within a mSCOA function and its sub functions¹, except for the following cases:

5.6.1 A Project extending over/ incorporating more than one mSCOA function or sub function, then savings in the budgetary allocation in a function or sub-function may be applied across the functions and/ or sub-functions directly linked to the same Project and Funding Source;

5.6.2 Where the Finance and Administrative function or sub function is directly linked to another Function or sub function, then savings in the linked function/ sub-function may be applied in the Finance and Administrative function or vice versa².

Therefore virement between Rates Services and Trading Services and across Trading Service are not allowed;

5.6.3 Virements should not be permitted in relation to the revenue side of the budget;

5.6.4 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);

5.6.5 Virements from the capital budget to the operating budget should not be permitted;

5.6.6 Virements towards personnel expenditure should not be permitted; except where:

- temporary/ contracted (budget for as contracted services in terms to the mSCOA Classification) staff status has changed to permanent staff; or
- the budget savings resulted from Outsourced Services within the same function in terms of a Council delegated authority).

5.6.7 Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;

5.6.8 Virements should not result in adding 'new' projects to the Capital Budget;

- 5.6.9 Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and
- 5.6.10 There should be prudent limits on the amount of funds that may be moved between a function and its sub-functions. In terms of national best practise, a maximum percentage or monetary value of the budget of a Function/ programme/ project may be re-allocated/ shifted through virement (e.g. not more than 5 per cent of the budget may be moved to or from a function, programme, project, etc.). The policy must also indicate how the virements process is to be managed within the municipality so as to enable the tracking and reporting of funding shifts.

6. VIREMENT PROCESS

- 6.1 Virement decisions should start with the project segment, if a virement needs to be done for a project, the municipality should consider whether it is a new or existing capital, operational or default project and based on the type of project, a virement is allowed or whether and adjustments budget is required
- 6.2 changes in the function segment determines whether to follow virement principles or to do adjustment budget
- 6.3 Changes in the funding segment also has an impact whether to do adjustment budget or to follow virement principles
- 6.4 If there are changes to the regional segment in the application of a virement, then a virement may not be done but an adjustments budget is required, because Council allocates the project and funding to a specific region. A virement may be done if it will not result in changes to the regional segment
- 6.5 Changes to the costing segment should not affect the application of a virement.
- 6.6 If changes in expenditure are incurred in the capital or operational budget, the virement decision should start with the project segment. If a virement is allowed, it will be subject to the application of the virement principles.

An example of a change taking place in the capital budget is when the nature of the project may change from “outsourced” to an “own account” project which will result in a different selection of accounts from expense accounts within the item classification for Construction Work-in-progress.

An example of a change taking place in the operational budget is when a District Municipality builds administrative building to be transferred to a local municipality (accounted for by the District Municipality as an operational project) which would

have been constructed as an “own account construction” changing to an outsourced development. The impact is on the nature of expenditure, i.e. increase in contracted services.

- 6.7 If changes in revenue type change either in the Capital or Operational Budget. First start with the Project and apply the change to all the segments and should the Virement be allowed refer to The Virement Principals before applying the Virement.

Previously, revenue stood on its own in the budget. Now revenue is linked to the item and project. So, if the project segment is funded from a specific revenue source and there is a saving (item expenditure) within the function, then the saving (budget) may only be applied to another project within the same function or sub-function only if the revenue source is the same and if it is transferred to the same project in another function. Importantly, the revenue source should be the same which restricts the use of the revenue sources.

- 6.8 The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within a vote during a financial year.

- 6.9 In order for a “vote” to transfer funds from one cost centre to another cost centre, a saving has to be identified within the monetary limitations of the approved “giving” cost centre or capital project allocations on the respective budgets.

- 6.10 Sufficient, (non-committed) budgetary provision should be available within the “giving” vote’s cost centre concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost centre or capital project the budget provision will be transferred to and provide a clear motivation for the transfer.

- 6.11 Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget as set out in terms of Act Section 28 and the Municipal Budget and Reporting Regulations.

6.12 In terms of Section 17 of the Act a municipality's budget is divided into an operating and capital budget and consequently no Virements are permitted between Operating and Capital Budgets.

6.13 Virements are not permissible across, or between, votes unless adopted via an Adjustment budgets as set out in terms of Act Section 28 and the Municipal Budget and Reporting Regulations.

6.14 Virements across votes will only be allowed at year-end at the discretion of the Chief Financial Officer in order to ensure accurate reporting in financial statements. These virements will be submitted to Council for approval.

6.15 Virements are not allowed to utilise special purpose budgetary allocations, adopted by Council as such and to which specific Council recommendations apply (e.g. budget strategy for growth in repairs and maintenance provisions) and which result from specific resolutions adopted when adopting the budget, as virement sources.

6.16 Sound motivations should be provided for all virements.

6.17 Specific virement limitations:

6.17.1 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.

6.17.2 No virements are permitted to and from Grants and Subsidies Paid, except if supported by Council decision for such transfer and as per the approved Grants-in-Aid Policy.

6.17.3 Virements towards personnel expenditure including Councillors remuneration is not be permitted unless adopted via an Adjustment Budget.

6.17.4 No virements are permitted to and from the following expenditure items:

- Bulk Purchases
- Debt Impairment
- Interest Charges and Depreciation
- Employee Related costs
- Indigent Relief and Revenue Forgone

- Insurance
- Departmental Charges

6.17.5 No virements are permitted to the following expenditure item:

- Entertainment

6.18. No virements will be approved on any Revenue element. Revenue provisions' amendments are to be adopted via an adjustments budget.

6.19 As Council approves a detailed Capital Budget by individual project no virement are permitted between capital projects unless Council approval is obtained.

6.20 No virements of which the affect will be to add "new" projects onto the Capital Budget, will be allowed unless Council approval is obtained.

6.21 Virements may not cause an increase to individual projects' total project cost unless Council approval is obtained.

6.22 Virements must be between projects of similar funding sources.

6.23 Implementation of the project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the project).

6.24 Motivations for virements should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

6.25 Any capital budget amendments as approved by Council to be incorporated adjustments budget as set out in terms of Act Section 28 and the Municipal Budget and Reporting Regulations.

7. ACCOUNTABILITY

1. Approval of virement lies with the Chief Financial Officer or such other senior delegated officials in Financial Services Department.

7.2 Virements approved and processed will be reported for information to Council on a quarterly basis.

8. COMPLIANCE AND ENFORCEMENT

- a) Violation of or non-compliance with this policy will give a just cause of disciplinary steps to be taken.
- b) It will be the responsibility of the Municipal Manager to enforce compliance with this policy.

9. EFFECTIVE DATE

The policy shall come to effect on the 1st of July 2025 after it has been approved by Council

10. POLICY ADOPTION

This policy has been considered and approved by the COUNCIL OF MSUKALIGWA LOCAL MUNICIPALITY as follows:

Effective date	01 July 2026
Council resolutions no	LM 1084/05/2026
Municipal Manager	