

FRANCES BAARD DISTRICT MUNICIPALITY

Virement Policy



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VIREMENT POLICY

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1. Definitions

“Accounting officer” The municipal manager of the municipality is the accounting officer of the municipality in terms of section 60 of the MFMA and within the meaning of section 82 of the Municipal Structures Act, no 117 of 1998.

“Approved budget (MFMA)” refers to the 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 adjustment budget in terms of section 28.

“Chief financial officer” refers to a municipal official designated in terms of the MFMA who is the head of the budget and Treasury office, designated in terms of section 80 (2) of the MFMA and 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.

“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 period 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 [See annexure “D” for current item structure]

“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 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.

“Senior Manager” – An official reporting directly to the Municipal Manager.

“Department /Vote” – (i) One of the main segment 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 (ii) That specifies the total amount that is appropriated for the purpose of the department or functional area concerned.

“Overspending” – (a) In relation to the budget of a municipality, means causing 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 that vote to exceed the amount appropriated to that vote; or (c) in relation expenditure under section 26, means causing the expenditure under the section to exceed the limits allowed in subsection (5) of that section.

“Cost Center” – refers to a cost collector which represents a logical point at which cost (expenditure) is collected and managed by a responsible cost center owner.

“Cost Element” – distinguishes between primary and secondary cost elements.

- a) Primary cost elements are expenditure items mainly generated outside the organisation; and
- b) Secondary cost elements are utilised to reallocate cost by means of assessments, internal billing or activity based recoveries.

“Unauthorised Expenditure (MFMA)” – refers to in a relation to a Municipality, means any expenditure incurred by a Municipality otherwise than in accordance with section 15 or 11(3), 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 of money appropriated for a specific purpose, otherwise than for that specific purpose;
- d) 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; and
- e) A grant by the municipality otherwise than in accordance with this Act;”

“mSCOA” – The Municipal Standard Chart of Accounts (mSCOA) standardises the municipal chart across all municipalities and entities in the country using a multidimensional chart of standardised segments as prescribed by the National Treasury.

2. INTRODUCTION

- a) A virement presents a flexible mechanism to effect budgetary amendments within a municipal financial year;
- b) Changing circumstances and priorities during a financial period may give rise to a need for virement (transfer) of funds within or between votes, as defined in the Municipal Finance Management Act 56 of 2003 (MFMA). The treatment of such instances may, however, be dependent on whether an adjustment budget is required or not; and
- c) The MFMA and the Municipal Budget and Reporting Regulations, 2009 seek to move municipalities away from the traditional approach of appropriating/approving budgets by line. The aim is to give the accounting officer and senior management programmes greater flexibility in managing their budgets. In furtherance of this objective, the municipality puts this policy, to provide clear guidance to managers on when they may shift funds between items, projects, programmes and votes.

3. PURPOSE

- a) This policy aims to provide guidelines to senior management in the use of the virements as a mechanism in the day-to-day management of their budgets. This policy also allows flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure and/not limited to savings, etc. as they arise to accelerate service delivery in a financially responsible manner; and
- b) In addition, it specifically aims to empower senior managers with an efficient financial and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the municipality's system of delegations.

4. CAPITAL VIREMENT BUDGET

- a) Only virements which relate to projects approved as part of Annual or Adjustment budgets will be permitted;
- b) No virements, of which the effect will be to add new projects onto the capital budget, will be allowed. This needs to be effected through an adjustment budget;
- c) virements may not cause an increase to the individual projects' total cost;
- d) 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;
- e) Implementation of the project may not be prejudiced due to the virement of funds (i.e. must not hinder completion of the project);
- f) Motivations for virements should clearly state the reason for the saving within the given project, as well as the reason for additional amount required; and
- g) On secondary capital cost elements:
 - i. Virements are permissible only within the same cost elements the same main vote;
 - ii. The same programme name; and
 - iii. The same funding source. (The service requestor and service provider must endorse such virements/ and or the proposed secondary capital expenditure virements may be approved by the Accounting Officer.

5. OPERATING BUDGET VIREMENT

The following are specific virement limitation:

- a) No virements are permitted between primary and secondary cost elements;
- b) No virements allowed between salaries, wages and allowances expenditure items and remuneration of councillors without the prior consideration and approval of the chief financial officer on the financial implication. Except where:
 - i. temporary/ contracted (budget for as contracted services in terms to the mSCOA Classification) staff status has changed to permanent staff; or
 - ii. the budget savings resulted from Outsourced Services within the same function in terms of a Council delegated authority).
- c) No virements are allowed between operational cost and contracted services (repairs and maintenance);
- d) The following cost elements categories are not to be used as sources of virements, but virements are allowed within each category, which are in the same function and funding:
 - i. Training related expenditure;
 - ii. Bargaining Council provisions and skills development levies;
 - iii. Pensioner and Continued members; and
 - iv. Contracted Services (repairs and maintenance).
- e) Other contracted services, except repairs and maintenance, and collection cost;
- f) No virements will be permitted to or for the following expenditure items, unless with the adjustment budget:
 - i. Bulk purchases;
 - ii. Debt impairment;
 - iii. Interest charges;
 - iv. Depreciation;
 - v. Revenue forgone;
 - vi. Grants to individuals;
 - vii. Insurance related provisions;
 - viii. Vat;
 - ix. Repairs and maintenance; and

- x. Conditional grant funds for any purpose not related to the conditions of the specific grant.
- g) Secondary operating cost elements;
- h) Virements are allowed with the same cost elements; the service requestor and service provider must both endorse such virements;
- i) Virements are only permitted within the same cost element in the following categories:
 - i. Activity based recoveries; and
 - ii. Internal utilities.
- j) Virements may not increase the total approved budget or that cost element; and
- k) Virements are also not permissible in relation to support service charges.

6. VIREMENT REQUIREMENTS AND RESTRICTONS

- a) The virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year, and is the major mechanism to align and take corrective financial or budgetary action within a function and sub-function during a financial year;
- b) In order for a vote to transfer funds from one cost element or capital project to another cost element or capital project, a saving has to be identified within the monetary limitations for the approved budget giving the cost element or capital project allocations on the respective budgets;
- c) Sufficient, non-committed budgetary provision should be available within the given vote's cost element or capital project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost element or capital project the budget provision will be transferred to, and provide a clear motivation for the transfer;
- d) 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 through an adjustment budget as per section 28 of the MFMA;

- e) Virements between operating and capital budgets is not permitted, other than through an adjustment budget;
- f) Budget transfers within the same function or sub-function shall be recommended by the head of department (HODs) and the Chief Financial Officer (CFO), and/or the Accounting Officer, only if it is from the same source of funding;
- g) No budget transfers or virement shall be made to or from salaries;
- h) The budget for personnel expenditure may not be increased without prior approval of the Accounting Officer;
- i) Savings on allocations earmarked for specific identified projects as per the approved SDBIP, may not be used for the purposed except with the approval of Council;
- j) Senior managers may utilize a saving in the amount appropriated under a main expenditure category (operational cost, contracted service, inventory, interest charged, depreciation, grants, insurance and VAT) within a function which is under their control towards the defrayment of excess expenditure under another main expenditure category within the same vote, with the approval of the Chief Financial Office/or Accounting Officer;
- k) Savings in an amount appropriated for capital expenditure may not be used to defray operational expenditure;
- l) Virements between votes must be included and approved by Council in the adjustment budget;
- m) Virements between rates services and trading services and across trading services are not allowed, due to the differing impacts on respective tariff or rates borne services' budgets, unless adopted through an adjustment budget (MFMA section 28);
- n) Virements between functions is permitted if the proposed shift in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes) and such virements may not exceed a maximum of 10% of the total approved operating expenditure budget of the department;
- o) A virement may not create a new policy, or significantly vary from the current policy, or alter the approved outcomes/outputs as approved in the IDP for the current or subsequent years;

- p) Virements resulting in adjustments to the approved SDBIP by the user department may need to be submitted with an adjustment budget to Council with altered outputs and measurements for approval;
- q) No virement may commit the district municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of Council. This refers to expenditures such as entering into multi-year lease or rental agreements for the leasing of vehicles, photo copiers or fax machines;
- r) If virement result in a mSCOA segment change, by adding a new project, changing the region or funding source, it is not allowed. Such a shifting of budgetary allocations may only be done through an adjustments budget and not through the application of a virement;
- s) 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;
- t) No virement may be made to cover or allow for unauthorised, irregular or fruitless and wasteful expenditures;
- u) No virements are permitted within the first three months or the final month of the financial year without the approval of the Accounting Officer;
- v) Virement amounts may not be rolled over to subsequent years, or create expectations on the following budgets;
- w) All virements should be approved in line with the Council's system of delegations; and
- x) All virements of funds between votes must be approved by the Accounting Office and reported to the Executive Mayor on a monthly basis.

7. PROCESS AND ACCOUNTABILITY

- a) Accountability to ensure that virement application forms are completed in accordance with the municipality's virement policy and are not in conflict with the department's strategic objectives rests with the senior manager of a relevant department;
- b) Completed and approved virement documentation is to be effected by the Finance Department; and
- c) Virements approved and processed will be reported by the Accounting Officer to the Executive Mayor on a monthly basis.

8. IMPLEMENTATION OF THE POLICY

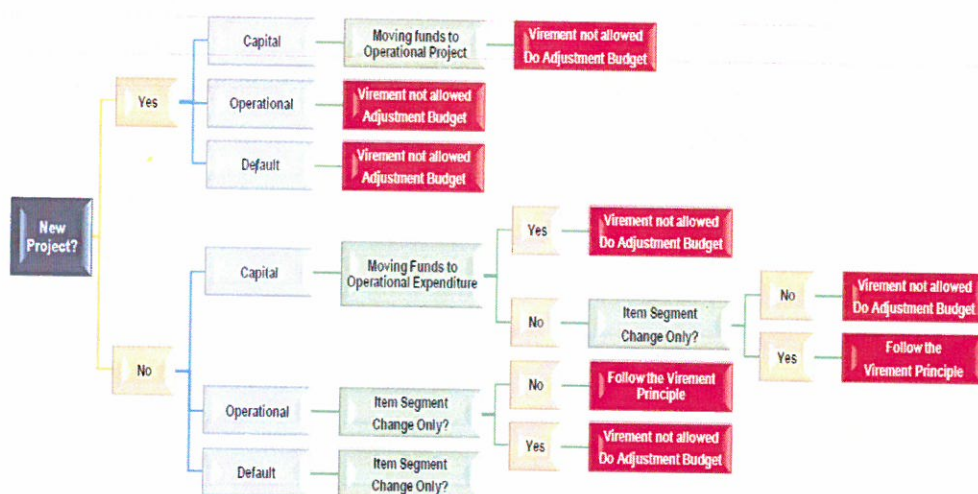
This policy will be implemented upon approval of the amendments by Council.

ANNEXURE 1

This annexure will give the process of the virement as per mSCOA and is as follows:

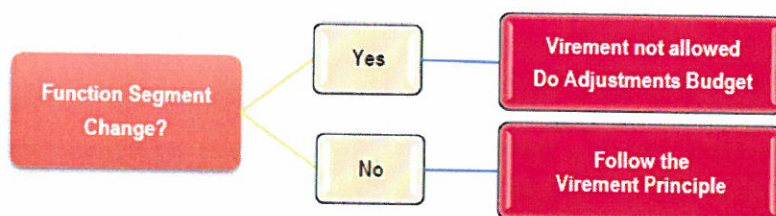
Project segment guidance

The flow chart diagrams below incorporate the virement principles explained above and provide guidance on how a virement should be applied in the *mSCOA* environment. Virement decisions should start with the project segment. As illustrated below, 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, the diagram below will provide guidance on whether a virement is allowed or whether and adjustments budget is required.



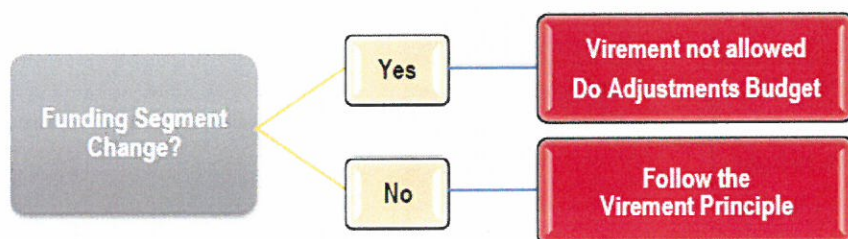
Function segment guidance

The next segment that should be considered in terms of the impact of the virement process is the function segment. In terms of the flow diagram below, if there is no change to the function segment, a virement may be done subject to the virement principles above.



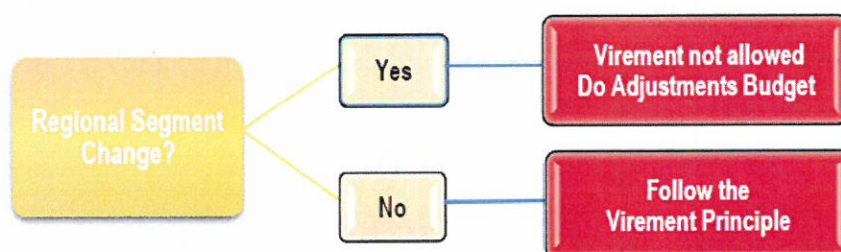
Funding segment guidance

If there is no change to the funding segment, a virement may be done subject to the virement principles above.



Regional Segment guidance

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 subject to the application of the virement principles below.



Costing Segment guidance

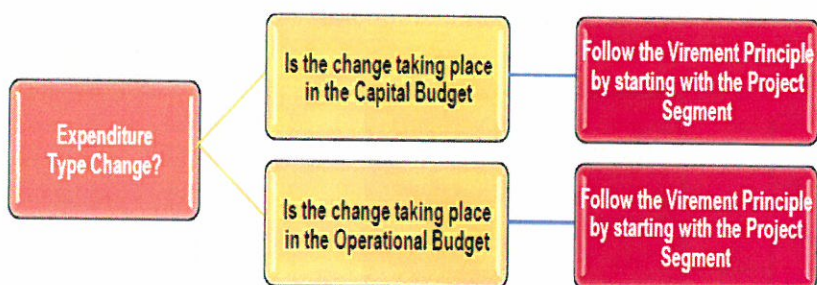
Changes to the costing segment should not affect the application of a virement.

Item Segment: Expenditure guidance

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 above.

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

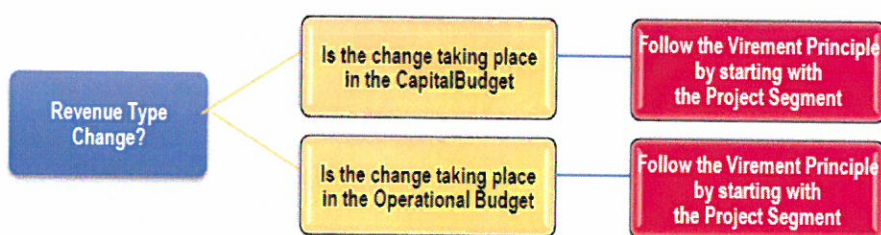
selection of accounts from expense accounts within the item classification for Construction Work-in-progress.



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.

Item segment: Revenue guidance

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.