MALUTI-A-PHOFUNG LOCAL MUNICIPALITY
Final Virement Policy
2023/2024

Issued in terms of Section 17(3)(e) and 24(1)(v) of the MFMA No. 56 of 2003.

Adopted by Council on the:23 June 2023

The policy will take effect from 01 July 2023

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1. DEFINITIONS

"Accounting Officer (MFMA)" means the Municipal Manager of the Municipality.

"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 (MFMA)" is a municipal official designated by the Accounting Officer of the Municipality

"Cost Centre" is a cost collector which represents a logical point at which cost (expenditure) is collected and managed by a responsible cost centre owner.

"Virement" means the process of transferring an approved budgetary provision from one operating cost element or capital project 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 previous budget adoption.

"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

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

"Appropriation" - money set aside by council for a specific purpose.

"Head of Department (Executive Director (MFMA))" - Section 56 of the Municipal Systems Act states inter alia that: "Appointment of managers directly accountable to municipal managers - (a) a municipal council, after consultation with the municipal manager, appoints a manager directly accountable to the municipal manager…"

"Financial Year" means a year starting on 1 July and ending on 30 June of the following year.

"Transfer" - shifting of allocated funds from one department, line-item or both to the other.

"**Line Item"** is an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditure.

"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;"

"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) of the MFMA for implementing the Municipality's delivery of municipal services and its annual budget.

"mSCOA" Municipal Standard Charts of Accounts

mSCOA segments

- **a) Item segment** – nature of the transaction to be recorded either being an asset, liability, net asset gain or loss, revenue or expenditure (indicates what is being bought or money received for).
- **b) Funding segment** - What source of funding will be used for the transaction and from which source is the revenue received.
- **c) Function segment**- is the location within the SCOA for creating the "vote" structure standardised for all municipalities. It indicates what function is being performed.
- **d) Regional segment**- geographical location for capital investment or the appropriate service delivery area for operational expenditure
- **e) Project segment** distinguishes projects according to the nature of the expense whether it is capital or an operational expense.
- **f) Costing segment-** provides for the classification of indirect (secondary) costs that do not directly attribute to the output and are sometimes referred to as activity based recoveries, for example labour, vehicle, plant and equipment, internal service charges (internal billings), and departmental charges for example office rental, audit fees and procurement
- **g) Municipal Standard Classification Segment** - this segment contains the "votes" set-up by the municipality based on the organisational structure in place for the municipality.

2. INTRODUCTION

A virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year.

Changing circumstances and priorities during a financial period may give rise to a need for virement (transfer) of funds within or between approved 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 Adjustments Budget is required or not.

With the introduction of the MSCOA, the virement principles are still applicable and relevant as per MFMA Circular No. 12, 51 and 88. The only difference is that a transaction in *m*SCOA relates to six regulated segments, therefore all segments must be considered when making a virement. Therefore, with the implementation of *m*SCOA, virements can only take place within a function or sub-function and the same source of funding (MFMA Circular 89).

3. BACKGROUND AND PURPOSE

Each year, the Municipality produces an annual budget which must be approved by the Council. In practice, as the year progresses, circumstances may change so that certain estimates are under-budgeted and others over-budgeted due to unforeseen expenditure (for example, due to the occurrence of disasters or savings). As a result, it becomes necessary to transfer funds between votes and line items. It is not practical to refer all transfers between line items within a specific vote to the Council, and as the **Local Government: Municipal Finance Management Act ("MFMA")** is largely silent as to such transfers, it is necessary to establish a policy which governs the administrative transfer between line items.

The purpose of this policy is therefore to provide a framework whereby transfers between line items within functions of the operating budget may be performed with the approval of certain officials.

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. MFMA REGULATIONS ON BUDGET VERSUS EXPENDITURE

a. The MFMA regulates the following regarding the incurring of expenditure against budgetary provisions:-

4.1.1 Section 15 – 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."

4.1.2 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. POLICY OPTIONS IDENTIFICATION, ANALYSIS AND ASSESSMENT

This policy applies only to transfers between line items within functions of the Municipality's operating budget. Section 28(2) (d) 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.

This policy shall not apply to transfers between or from capital projects or items and no such transfers may be performed under this policy. 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 adjustments budget.

The total amount transferred from and to line items within a particular cost centre in any financial year may not exceed 10% of the total operating budget allocated to that cost centre.

The total amount transferred from and to cost centres within a function or sub-function in any financial year may not exceed 10% of the total operating budget allocated to that function or sub-function.

6. FINANCIAL RESPONSIBILITY

a. Strict budgetary control must be maintained throughout the financial year in order that potential overspends and / or income under-recovery within individual vote departments is identified at the earliest possible opportunity. (Section100 of MFMA)

b. 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) of MFMA)

c. 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. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA section 78 and 102 stated as follows:

"78. Senior Manager and other officials of the Municipality.-

(1) 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 -

(a) that the system of financial management and internal control established for the municipality is carried out diligently;

(b) that the financial and other recourses of the municipality are utilized effectively, efficiently, economically and transparently;

(c) that any unauthorized, irregular of fruitless and wasteful expenditure and any other losses are prevented;

(d) that all revenue due to the municipality is collected;

(e) that the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary;

(f) that all information required by the accounting officer for compliance with the provisions of this Act is timeously submitted to the accounting officer; and

(g) that the provisions of this Act, to the extent applicable to that senior manager or official, including any delegations in terms of section 79, are complied with.

102. Irregular or fruitless and wasteful expenditure.-

(1) On discovery of any irregular expenditure or any fruitless and wasteful expenditure, the board of directors of a municipal entity must promptly report, in writing, to the mayor and municipal manager of the entity's parent municipality and the Auditor-General -

(a) particulars of the expenditure; and
(b) any steps that have been taken-
- i. *to recover the expenditure; and*
- ii. *to prevent a recurrence of the expenditure*."

7. VIREMENT PRINCIPLES

a) 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.

b) No funds can be transferred between votes and can only be done through an adjustment budget.

c) Virements for operating budget may not exceed a maximum of R 1 million per case. Anything above that amount must be referred to the Accounting Officer for approval under his/her limitation of R 2 million per case.

d) Virements for capital budget may not exceed R1.5 million per case Anything above that amount must be referred to the Accounting Officer for approval under his/her limitation of R 3 million. Anything above that amount R 3 million must be referred to Council for approval.

e) 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 of MFMA)

f) Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustment budget to the Council with altered outputs and measurements for approval. (MFMA Circular 13 page 3 paragraph 3)

g) 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 lease or rental agreements e.g. vehicles, photo copiers or fax machines.

h) No Virement may be made where it would result in over expenditure. (Section 32 of MFMA – unauthorized, irregular or fruitless and wasteful expenditure.)

i) No Virement shall add to the establishment of the Municipality without the approval of the Municipal Manager.

j) If the Virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.

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

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

m) Virements of conditional grant funds, which fall outside what is specified in the relevant conditional grant framework, are not permissible.

n) Virements should not result in adding new projects to the capital budget.

o) Virements on the capital budget must remain within:

- the same main function; and
- the same funding source

p) Virements on capital projects are only allowed if sufficient proof can be provided that a saving realized on the completion of the project, from which funds are to be moved.

q) No virements are permitted in the **first three months** after the annual or the adjustment budget is approved, or the **final month** of the financial.

r) No Virement proposal shall affect amounts to be paid to another Department without the agreement of the Manager of the Department, as recorded on the signed Virement form. (Section 30 of MFMA).

s) 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.

t) Virements may not be made between Expenditure and Income, and may not increase the total approved budget

u) Virements may not be done on Entertainment allowance and Traveling & Subsistence votes unless the approval has been granted by the Accounting officer in writing.

v) 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.

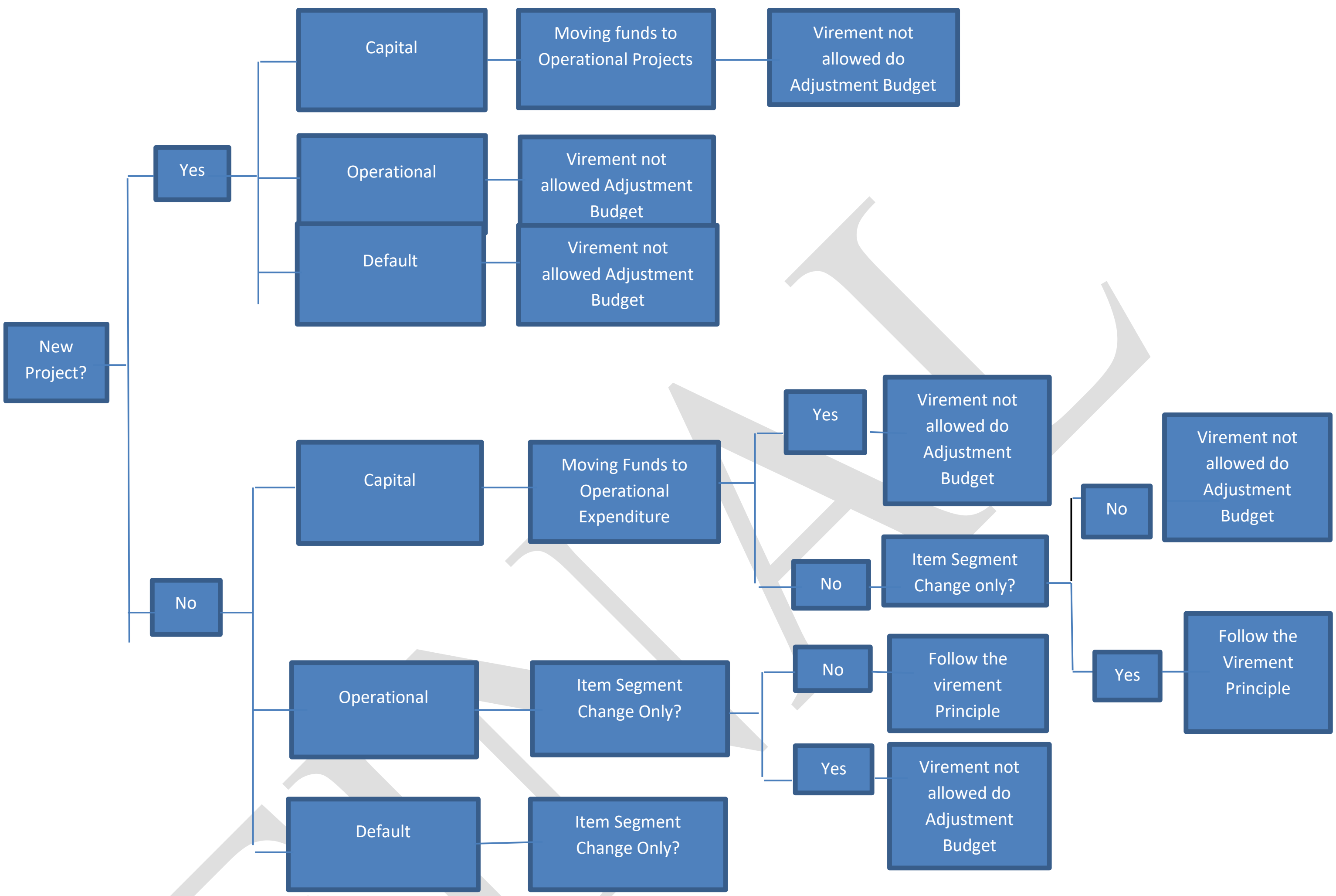
w) Virements should not be permitted in relation to the revenue side of the budget;

x) Virements between functions 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);

y) Virements from the capital budget to the operating budget should not be permitted, Operational funds to the Capital Budget may be done, but only via an Adjustments budget;

z) 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).

8. VIREMENT IN A MSCOA ENVIRONMENT



9. VIREMENT PROCEDURE

a. All virement proposals must be completed on the appropriate documentation and forwarded to the Budget office for verification.
b. All virements must be signed by the vote holder (per function) and the Head of Department within which the vote is allocated. (Section 79 of MFMA)

c. A virement form must be completed for all Budget Transfers.

d. All Virements requires the approval of the Chief Financial Officer and where appropriate Municipal Manager in terms of Item 5b and 5c above. (Section 79 of MFMA)

e. All documentation must be in order and approved before any expenditure can be committed or incurred. (Section 79 of MFMA)

f. The Municipal Manager will report to the Executive Mayor on a quarterly basis on those virements that have taken place during that quarter.

10. UNFORESEEN AND UNAVOIDABLE EXPENDITURE

a. In the case of an emergency or any other exceptional circumstances, virements shall be submitted by the Accounting Officer to the Executive Mayor to authorize any possible unforeseeable and unavoidable expenditure for which no provision was made in an approved budget only if the delay that will be caused pending approval of an adjustment budget may:

- result in significant financial loss for the municipality;
- cause a disruption, a suspension or a serious threat to the continuation of a basic municipal service;
- lead to loss of life or serious injury or significant change to property; or
- obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

b. The Executive Mayor must report on such expenditure to the Council at its next meeting and pass an adjustment budget within sixty (60) days after the expenditure was incurred.

11. SUPPLEMENTARY

This policy replaces any other policies or Council resolutions as far as they may refer to virements (transfer of funds) as defined in this policy. Effective 1 July 2023.

Once approved, the virement policy should form part of the Municipal Manager's formal delegations and Financial Regulations of the Municipality.

Transfers or adjustments falling outside the ambit of this policy must be submitted to the budget adjustment process in terms of Section 19 of the MFMA.

12. REQUEST FOR VIREMENT FORMS

DEPARTMENT………………..FUNCTION: ……………………………DATE: ……………

Description	Vote number	Reduced amount	Additional amount
TOTAL		**R**	**R**
MOTIVATION FOR THE TRANSFER OF FUNDS BETWEEN LINE ITEMS			
REQUESTED BY	**SUB-FUNCTION** *(To which the funds are transferred)*	**SIGNATURE**	**DATE**
NOTED BY	**SUB- FUNCTION** *(From which the funds are transferred)*	**SIGNATURE**	**DATE**

…………………………………………	……………………….	…………………..
RECOMMENDED BY: MANAGER BUDGET	**SIGNATURE**	**DATE**
………………………………………..	………………………..	……………………
APPROVED BY: CFO *(virements less than R1 million)*	**SIGNATURE**	**DATE**

REQUEST FOR VIREMENT

DEPARTMENT……………………………….FUNCTION: …………………….DATE: …………

Description	**Vote number**	**Reduced amount**	**Additional amount**
<u>TOTAL</u>		**<u>R</u>**	**<u>R</u>**
MOTIVATION FOR THE TRANSFER OF FUNDS BETWEEN LINE ITEMS			
REQUESTED BY	**SUB-FUNCTION** *(To which the funds are transferred)*	**SIGNATURE**	**DATE**
NOTED BY	**SUB- FUNCTION** *(From which the funds are transferred)*	**SIGNATURE**	**DATE**

………………………………… ……………………….. …………………..

RECOMMENDED BY: **SIGNATURE** **DATE**

CHIEF FINANCIAL OFFICER

…………………………………. ……………………….. …………………….

APPROVED BY: **SIGNATURE** **DATE**

MUNICIPAL MANAGER

(virements R1million >R2million)