



**KANNALAND**  
MUNISIPALITEIT | MUNICIPALITY

## **VIREMENT POLICY**

### **2022 / 2023**



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## 1. OBJECTIVE

- 1.1 The objective of this policy is to set out the assumptions and methodology for virements as prescribed by Budget Regulation 8, mSCOA regulations, MFMA Circular 51 and 89 - 93.

## 2. DEFINITIONS

- 2.1 **"Accounting Officer"** means the person appointed by the Municipal Council as the Accounting Officer for the municipality in terms of section 82 of the Local Government Municipal Structures Act, 1998 (Act No. 117 of 1998) and includes any person to whom the Accounting Officer has delegated a power, function or duty in respect of such a delegated power, function or duty.
- 2.2 **"Budget Steering Committee"** means the committee that is established in terms of Budget and reporting regulation 4(1) to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the MFMA.
- 2.3 **"Capital"** where used alone shall mean the same as asset, for example capital expenditure shall refer to expenses incurred to create an asset or assets.
- 2.4 **"Capital Project"** means capital project as per mSCOA project segment.
- 2.5 **"Capital Project section 19 of the MFMA and MBRR 13 (2)(c)"** means a capital project with the total costs of R 50 million and above. The cost should include all capital costs until the project is operational.
- 2.6 **"Chief Financial Officer"** shall mean the head of the Financial Services Department as contemplated in sec 80 of the MFMA.
- 2.7 **"Council"** shall mean the Council of the municipality, any committee or person to which or to whom an instruction has been given or any power has been delegated or sub-delegated in terms of, or as contemplated in, section 59 of the Local Government: Municipal Systems Act, 2000 or a service provider in respect of any power, function or duty of the Council.
- 2.8 **"Councillor"** shall mean a member of the municipal Council of Kannaland Municipality.

- 2.9      **“CRR”** shall mean Capital Replacement Reserve.
- 2.10     **“Expenditure by type”** shall mean the following main expenditure classifications level 2 as per mSCOA chart version 6.2.
- 2.11     **“Financial Year”** shall mean the period from 1 July until 30 June of the next year.
- 2.12     **“mSCOA”** refers to the Municipal Standard Chart of Accounts.
- 2.13     **“Municipal Running Cost”** in terms of mSCOA refer to any other expenditure not relating to a specific project for example general expenses relating to the daily running and operation of the municipality.
- 2.14     **“Official”** shall mean all persons in the full-time employment of Kannaland Municipality.
- 2.15     **“Operational”** shall mean revenue or expenditure included in or to be incurred on the operating budget.
- 2.16     **“Operational” projects** in terms of mSCOA refer to current and short-term projects for which the cost is immediately recognised as an expense and funded from the municipalities' operational budget.
- 2.17     **“Project”** shall mean an individual capital project but exclude a small capital item not exceeding the amount of R250 000.
- 2.18     **“SDBIPS”** means Service delivery and budget implementation plans.
- 2.19     **“String”** shall mean the total string including all 7 segments.
- 2.20     **“Typical work streams”** Projects in terms of mSCOA refer to projects are created under this group for “operational projects” for example agricultural projects, capacity building, training and development, spatial planning, etc. Typically, these “projects” consist of various expense-items contributing to the outcome or objective of an initiative.
- 2.21     **“Virement”** shall mean shifting of funds between a string or project within a Vote. Webster’s New millennium <sup>TM</sup> Dictionary of English defines “Virement” as “a regulated transfer or re-allocation of money from one account holder, especially public funds”.

2.22 **“Vote”** shall mean a directorate and the municipality’s votes will consist of the following votes as at Kannaland votes are set at directorate level:

- (a) Vote – Financial Services
- (b) Vote – Community Services
- (c) Vote – Technical / Infrastructure Services
- (d) Vote – Corporate Services
- (e) Vote – Executive Council

Votes will be identified as in terms of the applicable organisational structure at the time and /or as identified as within the last AFS.

### **3. PURPOSE OF VIREMENTS**

- 3.1 The aim is to give heads of departments and programs greater flexibility in managing their budgets. To facilitate virements, rules will be applied for the shifting of funds between budget strings or projects. This policy aims to provide guidance to senior management in the use of virements as a mechanism in the day-to-day management of their budgets. 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.
- 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. A municipality’s virement policy and its underlying administrative processes within the system of delegations is one of these controls.
- 3.3 A virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year.
- 3.4 Changing circumstances and priorities during a financial year may give rise to a need to virement (transfer) funds within a vote (Directorate).

### **4. GENERAL VIREMENT RULES**

- 4.1 For a “vote” (Directorate) to transfer from one string, operating project or capital project to another string, operating or capital project, a saving has to be identified within the

monetary limitations of the approved “giving” string, operating project or capital project on the respective budgets.

- 4.2 Sufficient, (non-committed) budgetary provision should be available within the “giving” string, operating project or capital project concerned to give effect to the budgetary transfer (virement).
- 4.3 All 7 segments must be addressed if funds are to be transferred from one cost element, string, operating or capital project to another. 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 (per MFMA section 28).
- 4.4 In terms of section 17 of the MFMA a municipality’s budget is divided into an operating and capital budget and consequently no virements are permitted between Operating and Capital budget.
- 4.5 Virements are not permitted across or between votes.
- 4.6 Virements per project above R 250 000 must be signed by the portfolio councillor or Mayor prior to final approval by the CFO and Accounting Officer.
- 4.7 Virements with respect to the operating budget are permitted.
- 4.8 Virements from Operating maintenance projects either to typical work stream projects or municipal running cost are not permitted.
- 4.9 Virements to Operating maintenance projects are however permitted.
- 4.10 Virements to Typical work stream projects from municipal running cost are permitted.
- 4.11 Virements between Typical work stream projects are permitted.
- 4.12 Virements will only be allowed within and the same source of funding in the funding segment. (MFMA circular 89-page 5 par. 2.2).
- 4.13 Sound motivations should be provided for all virements, as provided for on pro forma virement documentation. (Appendix A)

- 4.14 Due to the mSCOA classification challenges, any virements within a vote to amend the budget to more accurately match the mSCOA classification framework is permitted. These virements may be authorised by the Senior Manager: Budget and Treasury Office and Chief Financial Officer.
- 4.15 When a saving is identified, the applying director must in writing demonstrate through calculations and projections that there is in fact a saving for the full financial year.
- 4.16 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.

## **5. SPECIFIC VIREMENT LIMITATIONS**

- 5.1 A virement may not create a new policy, significantly vary current policy, or alter the approved outcome / outputs as approved in the IDP for current or subsequent years (section 19 and 21 MFMA).
- 5.2 Virements resulting in adjustments to SDBIP need to be submitted to the Accounting Officer after an adjustments budget, with altered outputs and measurements for approval (MFMA Circular 13-page 3 paragraph 3).
- 5.3 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 Mayor. This refers to expenditure such as entering into agreements into lease or rental such as vehicles, photo copier's or fax machines or any computer equipment not initially budgeted for.
- 5.4 No virement may be made where it would result in unauthorised expenditure. (Section 32 MFMA)
- 5.5 No virements are permitted to and from grants and subsidies paid, except if approved by the Chief Financial Officer and Municipal Manager.
- 5.6 Virements may not be made in respect of ring-fenced allocations.
- 5.7 Virements are allowed between employee related costs only if these virements are within employee related costs.

- 5.8 A virement may not add permanent staff to the staff establishment.
- 5.9 Virements to employee related expenditure category are not permitted without the approval of the Mayor, Accounting Officer and CFO. If the virement impacts on the staff establishment, the Director: Corporate and Public Safety Services should be notified so that it can be amended.
- 5.10 A salary virement will only be allowed if another funded position/s has been made vacant with at least the same monetary value.
- 5.11 No virements from Remuneration of Councillors are allowed.
- 5.12 Entertainment and catering budgets may not be increased through virements without approval of the CFO and Accounting Officer.
- 5.13 Virements will not be allowed from the repairs and maintenance projects to decrease repairs and maintenance.
- 5.14 No virement may be made to increase any vehicle (transport related) related budget to increase the number of vehicles budgeted for from a non-vehicle (transport) related budgeted project for purchasing of a vehicle without the approval of council, except in the case of insurance claims, or where a vehicle is co-funded from grant funding.
- 5.15 Office furniture and office equipment, machinery & equipment related budgets may not be increased through a virement without the approval of the council, except for insurance claims.
- 5.16 No virement is allowed to utilise the following as sources resulting in a cash outflow.
- a) Bulk Purchases;
  - b) Departmental charges;
  - c) Internal billing.
- 5.17 Attached Appendix B (mSCOA Circular 8) will provide further guidance as to the treatment of Virements in a mSCOA environment. No virements that are in contradiction with the contents of the circular will be allowed.



## 6. CAPITAL BUDGET VIREMENTS

- 6.1 Only virements which relate to funded projects approved as part of the annual or adjustments budgets will be permitted within a (Vote).
- 6.2 No virements of which the effect will be to add “**new**” **projects** as defined in this policy to the Capital budget, will be permitted as it requires public participation. Such virements must be approved by council, but only within a Vote. The creation of new projects or savings across functions can only take place through an adjustments budget.
- 6.3 In compliance with section 19 of the MFMA and MBRR 13, no capital project exceeding R 50 million may be included in the budget through a virement. A report must be submitted to council where the total cost of the project is provided. Such report must include the total project cost covering all financial years until the project is operational, and the future operational cost and revenue on the project, including municipal tax and tariff implications. The section 19 form prescribed by the Budget Office must be completed and signed by the Director.
- 6.4 Virements must be between projects of similar funding sources (e.g. CRR to CRR).
- 6.5 Implementation of the project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the project).
- 6.6 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.

## 7. PROCESS AND ACCOUNTABILITY

- 7.1 Accountability to ensure that virement application forms are completed in accordance with council's virement policy and are not in conflict with the directorate's strategic objectives manifests with the head of the relevant directorate.
- 7.2 All virements must be approved by the cost centre manager and vote holder (Director).
- 7.3 Completed virement documentation is to be processed by the Budget Office after approval.
- 7.4 Proper records of all virements must be kept for future reference and audit purposes.

- 7.5 No virement may be captured by any official without the prescribed documents and duly authorisation.
- 7.6 An approved budget expenditure or approval of a virement do not constitute approved expenditure.
- 7.7 The relevant official incurring (approving the expenditure) is responsible to ensure that the expenditure approved is compliant with all relevant legislation, regulations, policies; and that the allocation is 100% correct to ensure that no fruitless and wasteful, irregular, or unauthorized expenditure is incurred.

## 8. APPROVAL OF VIREMENTS

- 8.1 In respect of all virements the virement form prescribed by the directorate finance must be completed, fully motivated and authorised. All virements **below and up to a value of R 100 000** per budget string (7 segments) in respect of operating budget and in respect of capital budget must be approved by the relevant Director and finally approved by the Manager: Budget & Treasury Office before it can be captured by the Budget Office.
- 8.2 All virements **above R 100 000** per virement per budget string (7 segments) in respect of the operating budget and capital budget must be approved by the relevant Director, the Chief Financial Officer or his delegated official and finally approved by the Accounting Officer, before it can be captured by the Budget Office.

## DOCUMENT CONTROL

Summary: This document describes the Virement Policy that will be applicable to Kannaland Municipality, with effect from 01 July 2022.

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Municipal Manager

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Mayor

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## ANNEXURE 1 - Virement Compliance Form

### ANNEXURE A



**KANNALAND**  
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#### VIREMENT COMPLIANCE

No.

#### PROJECT DETAILS

Project nr.

Capital Project details:

Operational Project details:

#### MUNICIPAL VOTE (DIRECTORATE) DETAILS

#### FUNDING SEGMENT DETAILS

#### ITEM SEGMENT : EXPENDITURE

#### ITEM SEGMENT : REVENUE

#### TRANSFER OF SAVINGS IDENTIFIED

Decrease		Increase		
mSCOA Vote Nr	Description	mSCOA Vote Nr	Description	Amount

Motivation:

It is hereby certified that the transfer of funds adhere to the Council approved Budget Policy

	Name:	Signature:	Date:
Requested By:			
Approved by Director:			
Savings Confirmed by Budget Office:			
Processed by Accountant Budget Office:			
Not Approved - Referred to Adjustment Budget			
Comments if not Approved:			

## APPENDIX B – mSCOA Circular 8



**NATIONAL TREASURY**

**Municipal SCOA Circular No. 8**

**Municipal Finance Management Act No. 56 of 2003**

### Guidance on Virement Policies for Municipalities

This circular provides guidance on how municipalities should apply virements within the Municipal Standard Chart of Accounts (*mSCOA*) and align their virement policies accordingly. It must be noted that the circular does not replace any previous guidance that has been issued by the National Treasury on municipal virements.

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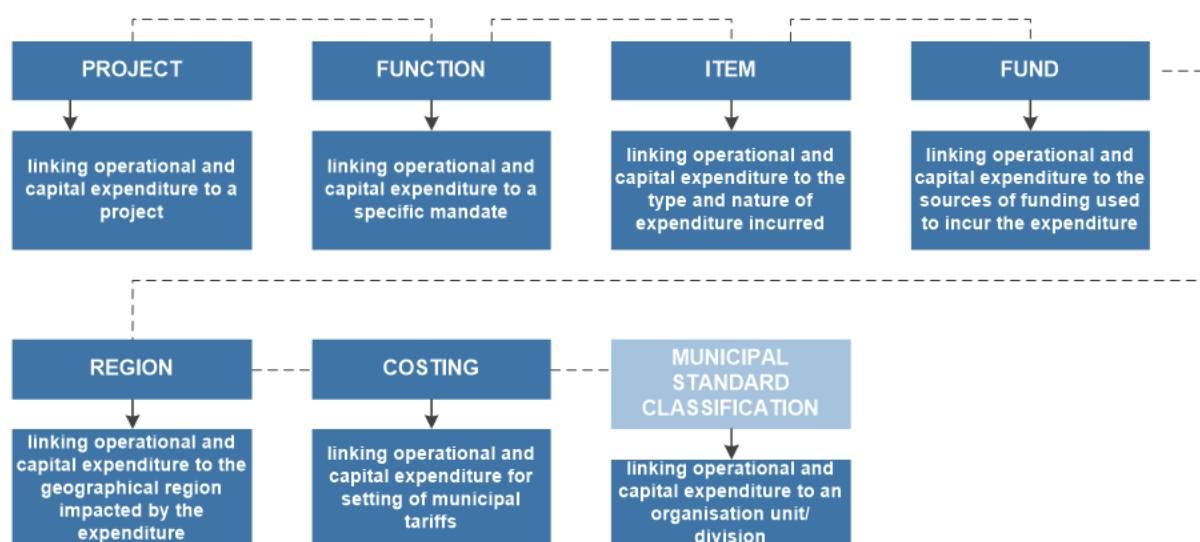
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## 1. Introduction

The *m*SCOA Regulations that was promulgated on 22 April 2014 prescribed not only a standardised financial classification for municipalities but also introduced a new era in planning, budgeting, transacting and reporting for Local Government. *m*SCOA is not limited to the recording of transactions in the financial system, but also impacts on the application of basic processes and procedures for the daily operation of a municipality and municipal policies in respect of financial management.

## 2. Guidance on Municipal Virement Policies in a *m*SCOA environment

*m*SCOA is a business reform and requires multi-dimensional budgeting and recording of transactions across the following seven segments:



When a municipality review its virement policy, it must consider the implications of possible *m*SCOA segment changes taking place because of the virement (the moving of budgetary allocations within a function or its sub-functions). If virement result in a *m*SCOA 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.

### 3. Principles when doing a virement

The principles that must be incorporated in municipal virement policies per MFMA Circular No 12, 51 and 88 is still applicable in the *mSCOA* environment when doing a virement. Therefore, virement should only be allowed within a *mSCOA* function and its sub functions<sup>1</sup>, except for the following cases:

- 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;
- 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 versa*<sup>2</sup>. Therefore virement between Rates Services and Trading Services and across Trading Service are not allowed;
- Virements should not be permitted in relation to the revenue side of the budget;
- 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);
- 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;
- 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).*

<sup>1</sup> The Municipal Regulations on a Standard Chart of Accounts, 2014 and *mSCOA* chart (annually published) sets-out functions and sub-functions. *mSCOA* derives its functions/ sub-functions from and enforces the Constitution, IMF, GFS classification, and Municipal Structures Act, 1998.

<sup>2</sup> This exception would only be relevant when the municipality has a decentralised organisational structure, for example finance and administration is a sub- function within "water "with other sub functions then virement may be applied between any of the sub-functions within the function.

- 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;
- Virements should not result in adding 'new' projects to the Capital Budget;
- Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and
- 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.

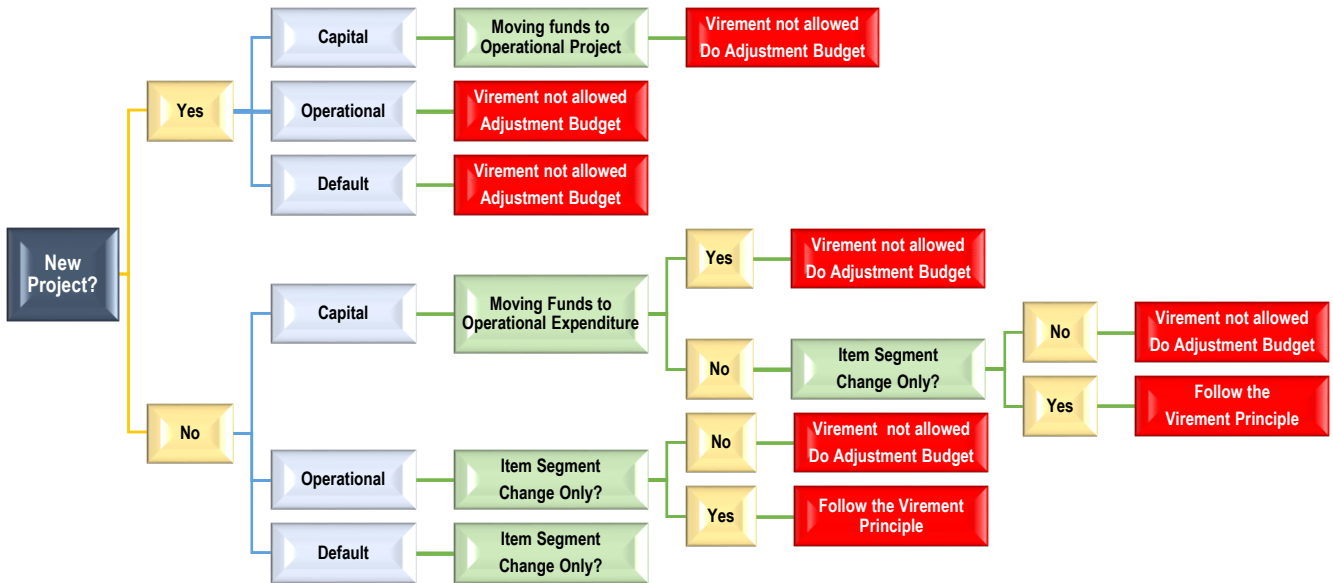
Council's approved virement policy must have a clear structure that:

- Clarifies definitions;
- Identifies the specific senior management posts to whom virement delegated powers are granted; and
- Specifies the principles and the maintenance (aligning with *mSCOA*) for the keeping of records of any budgetary movements.

#### **4. Project segment guidance**

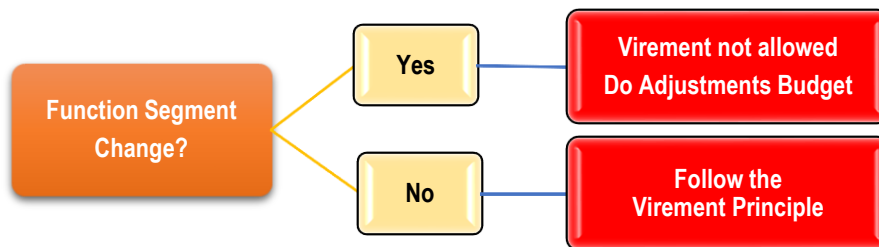
The flow chart diagrams below incorporate the virement principles explained above and provide guidance on how a virement should be applied in the *mSCOA* environment. Virement decisions should start with the project segment. As illustrated below, if a virement needs to be done for a project, the municipality 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.





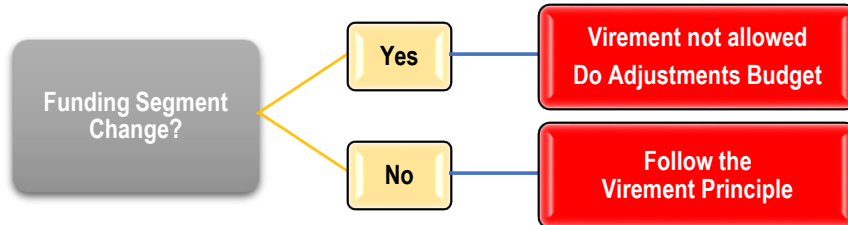
## 5. Function segment guidance

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.



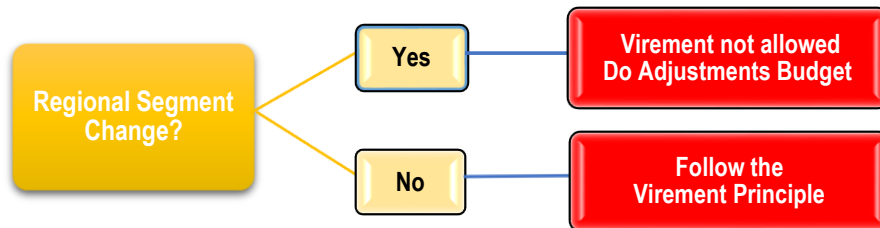
## 6. Funding segment guidance

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



## 7. 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.



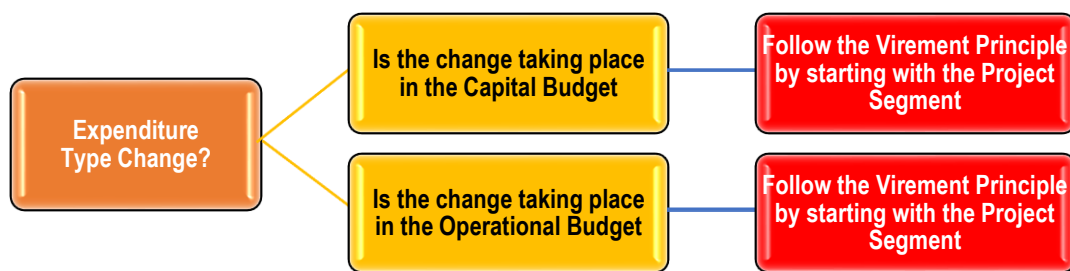
## 8. Costing Segment guidance

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

## 9. 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.

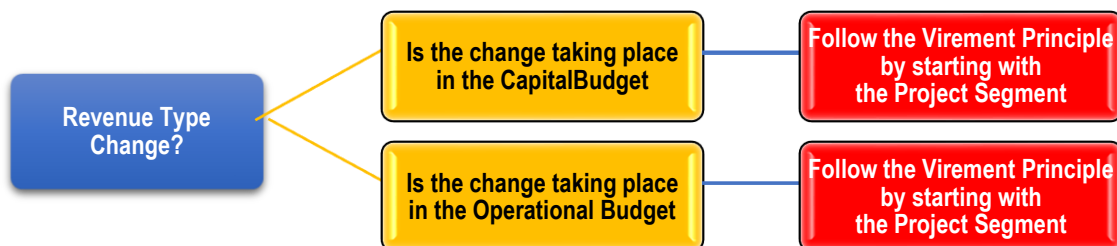
An example of a change taking place in the capital budget is when the nature of the project may change from “outsourced” to an “own account” project which will result in a different selection of accounts from expense accounts within the item classification for Construction Work-in-progress.



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.

## 10. 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.

## 11. Types of Adjustments Budget

Importantly, Council must condone the shifting of budgetary allocations (virement) in the annual Adjustments Budget.

The table below provides guidance on the types of adjustments budgets that may be approved in terms of the Municipal Budget and Reporting Regulations (MBRR), 2009. As per the diagrams above the first option is to do a virement if there is a need to move budgeted amounts. The diagrams provide a guideline to follow per segment if the movement in budgeted amount is not allowable via a virement but instead the Municipality is required to produce an adjustments budget that must be tabled and approved at a Council meeting.

Types of adjustments budget	Timeframes	Sections of MFMA and MBRR
Downwards adjustment due to under-collection of revenue	Any time	S. 28(2)(a)
Main adjustments budget	Once a year – between tabling of the mid-year assessment and 28 February	S. 28(2)(b, d & f) Reg. 23(1&2)
Additional funds from national / provincial government	60 days after the approval of the relevant national / provincial adjustments budget	S.28(2)(b) Reg. 23(3)
Unforeseen and unavoidable expenditure	Within 60 days of expenditure being incurred	S. 28(2)l, 29(3) & 32 Reg. 23(4), 71 & 72
Roll-over of municipal funds	Before 25 August	S. 28 l , Reg. 23(5)
Authorisation of unauthorized expenditure	In main adjustments budget After the tabling of the annual report for that year (7 months after the financial year end)	S. 28(g), 32, 127(2) Reg. 23(6)

Municipalities are encouraged to improve planning during the Integrated Development Process (IDP) and align their business processes to ensure improved accuracy and realistic budgets to reduce reliance on virements and adjustments budgets.

## 12. Effective date

This mSCOA Circular is effective from the 1<sup>st</sup> of July 2020.

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