

INGQUZA HILL LOCAL MUNICIPALITY



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VIREMENT POLICY

2026/27

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REVIEW HISTORY

| LAST REVIEW DATE | SUMMARY OF CHANGES |
|------------------|---|
| May 31, 2025 | <ul style="list-style-type: none">• No amendments |
| June 30, 2025 | <ul style="list-style-type: none">• No amendments |
| May f31, 2026 | <ul style="list-style-type: none">• No amendments |

1. INTRODUCTION

The compilation of a virement policy is based on the guidelines issued in Budget Circular No 51 published by National Treasury. The MFMA and the Municipal Budget and Reporting Regulations seek to move municipalities away from the traditional approach of appropriating/approving budgets by line item. The aim is to give the heads of municipal departments and programmes greater flexibility in managing their budgets. To further facilitate this, each municipality must put in place a council approved virements policy, which should provide clear guidance to managers of when they may shift funds between items, projects, programmes and votes.

Webster's New Millennium™ Dictionary of English defines “Virement” as “a regulated transfer or re-allocation of money from one account to another, especially public funds.”

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 to virement (transfer) 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.

2. PURPOSE

2.1 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 process within the system of delegations is one of these controls.

2.2 Section 81(1)(d) of the MFMA 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;...”

- 2.3** It is the responsibility of each Executive Director of each Directorate 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 utilized effectively and efficiently.
- 2.4** Section 78(1)(b) of the MFMA 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 utilized effectively, efficiently, economically and transparently;...”
- 2.5** This policy aims to provide guidelines to senior management in the use of virements as a mechanism in their day-to-day management of their budgets.
- 2.6** 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 City’s system of delegations.

3. DEFINITIONS

3.1 Accounting Officer (MFMA)

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

3.2 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;”

3.3 Chief Financial Officer (MFMA)

“a person designated in terms of section 80(2)(a)”

mSCOA is a new reform introduced by National Treasury (municipal standard chart of accounts) whose aim is to have uniform classification of accounts for all municipalities in South Africa so as to be able to compare any information they would like to compare. In mSCOA all items have 7 segments which are the following.

1. Function – Against which function/sub-function should the transaction be recorded?
2. Item – What is being bought or money received for?
3. Fund – Against which source of funding should the transaction be allocated?
4. Project – To which project does the expenditure contribute?
5. Costing –Should the cost be reallocated to functions rendering services
6. Region – In which region does the service get delivered?
7. Municipal Standard Classification- To which cost centre does the transaction get allocated?

3.4.1 mSCOA Project

Capital projects refer to expenditure of a "long term nature" and capitalised to the Property, Plant and Equipment group of accounts in the financial statements. Projects are therefore created along this definition of capital and the detail included under the labels for either infrastructure or non-infrastructure projects.

Operational projects refer to current and short term projects for which the cost is immediately recognised as an expense and funded from the municipality's operational budget.

3.5 mSCOA Function (vote as per MFMA)

- a) Function is the standardized vote structure referred to in Section 1 of the Municipal Finance Management Act;
- b) Function is 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;
- c) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.” and

d) The Ingquza Hill Municipality (IHLM) definition of Vote is set at department level.

3.6 mSCOA Funding Source

Funding sources available to the municipalities to invest in municipal activities.

3.7 Municipal Classification

The Municipal Classification is the 7th unregulated SCOA segment and is informed by the organizational structure of a municipality.

3.8 Regional Segment

The purpose of the regional segment is to assign municipal expenditure at the discretion of the municipality to the lowest relevant geographical region to identify the communities that benefit from spending. This implies that expenditure must be recorded so that the final impact of such spending can be measured by region in order to get a regional view of the economic impact of government spending.

Financial year

The 12 month period between 1 July and 30 June.

3.9 Virement

The process of transferring an approved budgetary provision from one operating cost element or capital project to another within a function during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the previous budget adoption or as a result of changes to mSCOA or mSCOA implementation.

4 MFMA REGULATION ON BUDGET VERSUS EXPENDITURE

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

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 functions in an approved budget.”

4.1 Unauthorised Expenditure (MFMA Definition)

“in 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 function in the approved budget;
- (c) expenditure from a function unrelated to the department or functional area;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that 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;”

4.1.1 Overspending (MFMA Definition)

- 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 function, means causing expenditure under the function to exceed the amount appropriated for that function; 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;”

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 VIREMENT REQUIREMENTS

- (a) The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within a Directorate during a financial year.
- (b) Virement within the mSCOA Function is permitted as the total amount appropriated for the purpose of the functional area and will not increase or reduce the budget. Virement from one mSCOA Function to any other mSCOA Function is not permitted in terms of the National Treasury Circular 89;
- (c) Virement is only permitted for transfer within the same Funding Source. Any virements to or from a different Funding Source should be done through adjustment budget;
- (d) Virement to or from the Municipal Classification segment
In order for a function (department) to transfer funds from one cost center to another cost center, a saving has to be identified within the monetary limitations of the approved “giving” cost center allocations on the respective budgets;
- (e) Virement to or from mSCOA Regional segment is permitted on condition that it does not hinder service delivery with regards to the delivery of ward priorities as approved in the adopted or adjustment budget;
- (f) Sufficient, (non-committed) budgetary provision should be available within the “giving” vote or project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost center or capital project the budget provision will be transferred to and provide a clear motivation for the transfer; 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).

(g) 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 Budgets.

Circular 51 issued by National Treasury gives the following guiding principles which are incorporated into the virements policy:

- Virements should not be permitted in relation to the revenue side of the budget;
- 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);
- Virements from the capital budget to the operating budget should not be permitted;
- Virements towards personnel expenditure should not be permitted;
- 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 to and from votes and sub-votes (e.g. not more than 10 per cent of the budget may be moved to or from a vote, programme, project etc. unless the Municipal Manager authorizes or approves the written request to deviate from the 10 per cent).**
- Virements are not permissible across, or between functions.
- Virements between Trading- and Rate-funded functions are not allowed, due to the differing impacts on respective tariff- or Rates-borne services' budgets, unless adopted via adjustment budgets (per MFMA Section 28).

6 OPERATING BUDGET VIREMENTS

Virements are not allowed to utilise special purpose budgetary allocations, adopted by Council as such and to which specific Council recommendations apply and which result from specific resolutions adopted when adopting the budget, as virement sources.

- a) Sound motivations should be provided for all virements, as provided for on the virement documentation. Motivations for virements between projects should clearly state the reason for the saving within the “giving” project, as well as the reason for the additional amount required;
- b) Virements related to changes in mSCOA or mSCOA implementation are permitted.
- c) Virements occurred as a result of changes to mSCOA or mSCOA implementation are permitted
- d) No virements are allowed from any repairs and maintenance projects to any other expenditure projects
- e) Virements may only be done within items which are funded by the same funding source.

Revenue items:

- a) Except for Operating and Capital Transfers and Subsidies revenue items, no virements will be approved on any Revenue elements. Revenue provisions’ amendments are to be adopted via an adjustments budget; and
- b) Virement of the income budget between the various tools of trade are allowed, as long as the income category is not increased/decreased. (Motivation – though the total per category is not changing, it might be necessary to adjust the income budgets between the various income line items).

Virements on various mSCOA item expenditure are discussed below:

Employee related costs:

- a) Virements are allowed between line items of - and only if these virements are within this item expenditure;
- b) Virements are allowed between the various cost centers due to the change of the organizational structure of Council. (motivation – staff move in a department to other divisions); and

c) Virements are allowed in cases where a general provision was made for certain type of salary expenses (i.e. general provision made for temporary appointments for staff on maternity leave of long extensive sickness, allocation of pooled funds for new positions, etc.).

Remuneration of Councilors

- a) Virements within this category are allowed; and
- b) No virements to and from this category are allowed.

Transfers and Subsidies - Operational

No virements are permitted to and from Transfers and Subsidies - Operational, except if supported by a Council decision for such transfer.

Any other expenditure items (general expenditure)

Virements to and from General Expenditure are allowed

The following categories are not to be used as sources of virements, but virements are allowed within each line item:

- a) Training related expenditure;
- b) Bargaining Council provisions and skills development levies;
- c) Insurance related provisions;
- d) Pensioner and Continued Members; and
- e) All vehicle operating budget line items.

No virements are allowed to and from the following items or provisions:

- a) Capital Expenditure-related elements;
- b) Scrapping of Assets / Stock;
- c) VAT; and
- d) Insurance Fund.

Contracted Services

Virements to and from these items are allowed.

Departmental charges and internal cost line items

Provision is made for the charges of some internal costs to various departments including departmental costs of municipal services. Departments are not allowed to use any of these line

items as a source of virement. However, the Chief Financial Officer may effect virements within this category of line items, both in terms of expenditure and income recoveries.

No virements will be permitted to and from the following expenditure categories, unless such amendments are effected within the line item:

- a) Bulk Purchases (unless it directly relates to additional income from sales);
- b) Bad Debts;
- c) Interest Charges and Depreciation;
- d) Indigent Relief and Income Forgone; and
- e) Appropriation Account.

Virements may not increase or decrease the total approved budget

Virements will be approved on condition that the requirements of all mSCOA segments are met.

7. CAPITAL BUDGET VIREMENTS

- a) Only virements which relate to projects approved as part of annual or adjustments budgets, will be permitted.
- b) No virements of which the effect will be to add “new” projects into the Capital Budget, will be allowed.
- c) Virements may not cause an increase to individual projects’ total project cost.
- d) Virements must be between projects of similar funding sources for example if it was funded by property rates it cannot be transferred to equitable share. .
- e) Implementation of the project from which funds are virement may not be prejudiced (i.e. must not hinder completion of the project).
- f) Virements are not allowed if the IDP goal or the SDBIP target is affected. Such cases must be addressed in the Adjustment Budget; and
- g) 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.

Secondary Capital Cost Elements:

- (a) Virements are permissible only within the same cost elements of different projects.

8. PROCESS AND ACCOUNTABILITY

- (a) Accountability to ensure that virement application forms are completed in accordance with Council's Virement Policy and that these are not in conflict with a department's strategic objectives rests with the Head of relevant Department;
- (b) Completed virement documentation is to be effected by the Divisional Head: Budget and Management Accounting after the necessary approvals have been consented to in signature;
- (c) Despite the above conditions the Chief Financial Officer may implement additional conditions for any transfers within the Virement Policy. Such conditions may be addressed before the implementation of the new budget or during the financial year. This would enable the CFO to comply with any national or provincial directives issued during the year;
- (d) mSCOA (Standard Chart of Accounts) Requirements
Any virements between existing line items or from existing line items to new line items as prescribed in the Standard Chart of Accounts be allowed to eventually comply fully with the line items as per the Standard Chart of Accounts.
- (e) Virements approved and processed will be reported for information to the Executive Mayor on a quarterly basis.

9. RESTRICTIONS

- a) No virement may be processed unless approved by the AO/CFO
- b) Virement must not exceed a maximum of 10% of the total approved operating or capital budget as the case may be within a vote and between votes
- c) No virements are permitted in the first quarter of the financial year without a detailed explanation and the expressed agreement of the AO/CFO
- d) No virement is permitted during the preparation of the adjustment budget.
- e) No virement is permitted in the first quarter after the approval of the adjustment budget
- f) No virement is permitted on personnel budget
- g) Virements should not be permitted in relation to the revenue side of the budget

10. VIREMENT PROCEDURES

Requests for the virements should be signed by the relevant HOD and forwarded to the office of CFO for approval (for virements above R1 million and those approved by AO, to be forwarded to the office of the AO for approval then returned to the office of the CFO)

The request should include

- ❖ Segment of line item from which the funds would be taken
- ❖ Segment of the line item which the funds will be transferred to.
- ❖ The following MSCOA Segments
 - Project
 - Item
 - Funding
 - Function
 - Region
- ❖ Amount to be transferred.
- ❖ Signature of the HOD authorizing the virement

Upon receipt of the virement request, the AO/ CFO to consider whether to approve or not approve the virement.

For approved virement requests, CFO to instruct the Budget and Reporting Office to process the virement.

Budget and Reporting Office to receive and process in the accounting system approved virements as per the instruction of the CFO.

Budget and Reporting Office to safely keep the approved virement request after processing.

For virements that were not approved by AO/ CFO, office of the AO/ CFO to return the requests to the relevant HOD with reasons for non-approval

11. EFFECTIVE DATE

This reviewed policy will be effective as from 1 July 2025

12.ADOPTION OF THE POLICY

Policy adopted by Council of Ingquza Hill Local Municipality for implementation.

Approved by Resolution number..... on this day of

HONORABLE SPEAKER

S.B. VATSHA