

VIREMENT POLICY

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| <i>Policy Number</i> | C46/05/2018 |
| Policy Name | VIREMENT POLICY |
| Policy Status | Approved |
| Date of last Approval \ Reviewable | May 2018 |
| Policy review / Development | Policy to be reviewed with the Budget approval process every year |
| Date of next review | With the Budget approval process in April 2020 |
| Purpose | To evaluate any short and long term outstanding debts on a regular basis and further to provide for bad debts where monies are irrecoverable. |
| Aims and objectives | To ensure that expenditure vote are not overspent and that savings and votes may be applied towards other expenditure allocations that require the funding |
| Policy custodian | Chief Financial Officer |
| Related Policies and Legislations | <ul style="list-style-type: none"> • <i>The Constitution of the Republic of South Africa 1996</i> • <i>Municipal Finance Act 2003 (Act. 56 of 2003)</i> • <i>Municipal Investment Regulations GN R308 of 2005</i> • <i>Budget related policy framework</i> |
| Approving authority | Council |
| Applicability | To the Municipal Manager and Chief Financial Officer when administering the budget on a monthly and during and adjustment budget process. |
| Amendments to the Policy | <ul style="list-style-type: none"> • To include the following principals as guided per MFMA circular 8 dated April 2020 <p>The Directors 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</p> <p><u>Principles when doing a virement</u></p> <ul style="list-style-type: none"> • The principles that must be incorporated in municipal virement policies per MFMA Circular No 12, 51 and 88 is still applicable in the <i>mSCOA</i> environment when doing a virement. Therefore, virement should only be allowed within a <i>mSCOA</i> function and |

its sub functions¹, except for the following cases:

- 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.
- 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.
- 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*².
Therefore virement between Rates Services and Trading Services and across Trading Service are not allowed;
- Virements is not permitted in relation to the revenue side of the budget;
- Virements between functions is 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 is not be permitted,

- Virements regarding 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).*
 - Virements to or from the following items will not be permitted:

Bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;
 - Virements will not result in adding 'new' projects to the Capital Budget; This must be done via an adjustment budget
 - Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and
- Project segment**
- The flow chart diagrams in the MFMA circular 8 dated April 2020 to be consider and be incorporate during the determination of the virement principles explained above and provide guidance on how a virement should be apply in the *mScoa* environment.
 - Virement decisions will start with the project segment. If a virement needs to be done for a project, the municipality will consider whether it is a new or existing capital, operational or default project and based on the type of project.
 - The diagram within MFMA circular 8 as mentioned above will provide guidance on whether a virement is allowed or whether and adjustments budget is required.

- **Function segment**

The segment that will be consider in terms of the impact of the virement process is the function segment. If there is no change to the function segment, a virement may be implement subject to the virement principles as a whole.

If the Function change then no virement will be allowed and the matter be referred to the Adjustment budget processes.

- **Funding segment guidance**

If there is no change to the funding segment, a virement will 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.

- **Item segment: Revenue**

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.

Standard operating procedure : Virement

- Council must receive a monthly report and condone the shifting of budgetary allocations (virement) in the annual Adjustments Budget from the 1 July 2020.
- The only official that is allow to approve a virement up to a maximum amount of R 100 000 per request , per the abovem mentioned rules of function and funding, before the submission of a report to the Council for adjustment budget, as contemplated in the MFMA circular 8 dated April 2020 is the Accounting officer of Msukaligwa municipality.
- A maximum of 5% movement of funds per financial year , that does not disagree with the principals of when a virement cannot be done, per the annum of an approved MTREF operational budget for a sub- function in a Directorate can be allow if the Municipal manager agree upon receiving written

motivation.

- The virements process is to be managed within the municipality Budget office, to be completed on a prescribed form, signed by the Director of the function.
- The Budget Manager to will confirm the correct vote and the availability of funds. The CFO will recommend such transfer of funds to the Accounting officer for approval.
- The prescribed virement form will be filed with the proof that virement was complete, so as to enable the tracking and reporting of funding shifts.
- No transfers between other functions than within a Directorate will be allow. Water for example will not pay for electricity or any other function. Council general will not pay for Corporate services etc.
- The principles as set above as per the guidance of the National treasury as per MFMA circular 8 will be implemented
- That a monthly report be submitted to Council reporting on virements with a maximum virement amount of R 100 000, signed by the Municipal manager. That any other amount above the maximum R 100 000 operational or capital spending required ,be approved by Council first before virement or a special adjustment budget can be done on the financial system in a particular financial year
- No virements of capital budget nature whatsoever be approved by any official of the administration and that all such related matters be referred to the Council for approval of an adjustment budget within a specific financial year

Delete and revoke any previous virement policy as a whole and

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| | <p>replace Section OLD 7.10 with the new 7.10 to be in line with MFMA act ,section 28 (Act 56 of 2003) read with MFMA circular 8 dated April 2020 .</p> <p>That virements from capital to operational budget will only be done via the Section 28 Adjustment Budget Process</p> |
| Policy Benchmark and References | <p><i>In Terms of National Treasury Circulars and Guidelines</i></p> <ul style="list-style-type: none"> • <i>Municipal SCOA Circular No. 8 dated 24 April 2020</i> |
| Stakeholders Consulted | Executive Mayor and Council |
| Accountability | <ul style="list-style-type: none"> • The Municipal Manager is accountable for the proper implementation of this policy in terms of the <i>Municipal Finance Act 2003 (Act. 56 of 2003)</i> |

MSUKALIGWA LOCAL MUNICIPALITY



VIREMENT POLICY 1 JULY 2020-30 JUNE 2021

Council Resolution: LM 685(b)/06/2020

- **To include the following principals as guided per MFMA circular 8 dated April 2020**

The Directors 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.

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 functions¹, except for the following cases:
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Project segment

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That virements from capital to operational budget will only be done via the Section 28 Adjustment Budget Process.