

LAINGSBURG MUNICIPALITY



Virement Policy 2023/24

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<https://www.laingsburg.gov.za>

CONTENTS

| | |
|---------------------------------------|----|
| 1. OBJECTIVE..... | 3 |
| 2. DEFINITIONS | 3 |
| 3. PURPOSE OF VIREMENTS..... | 5 |
| 4. GENERAL VIREMENT RULES..... | 5 |
| 5. SPECIFIC VIREMENT LIMITATIONS..... | 7 |
| 6. CAPITAL BUDGET VIREMENTS | 8 |
| 7. PROCESS AND ACCOUNTABILITY | 9 |
| 8. APPROVAL OF VIREMENTS | 9 |
| 9. POLICY REVIEW..... | 10 |

1. OBJECTIVE

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

"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.

"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.

"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.

"Capital Project" means capital project as per mSCOA project segment.

"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.

"Chief Financial Officer" shall mean the head of the Financial Services Department as contemplated in sec 80 of the MFMA.

"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.

"Councillor" shall mean a member of the municipal Council of Laingsburg Municipality.

"CRR" shall mean Capital Replacement Reserve.

"Expenditure by type" shall mean the following main expenditure classifications level 2 as per latest mSCOA chart.

"Financial Year" shall mean the period from 1 July until 30 June of the next year.

“mSCOA” refers to the Municipal Standard Chart of Accounts.

“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.

“Official” shall mean all persons in the full-time employment of Laingsburg Municipality.

“Operational” shall mean revenue or expenditure included in or to be incurred on the operating budget.

“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.

“Project” shall mean an individual capital project but exclude a small capital item not exceeding the amount of R250 000.

“SDBIP’s” means Service delivery and budget implementation plans.

“String” shall mean the total string including all 7 segments.

“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.

“Virement” shall mean shifting of funds between a string or project within a Vote. Webster’s New millennium TM Dictionary of English defines “Virement” as “a regulated transfer or re-allocation of money from one account holder, especially public funds”.

“Vote” means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different directorates of the municipality; and which specifies the total amount that is appropriated for the purposes of the directorate concerned. A “Vote” can be set at directorate level or filtered down to functional level. The definition of “vote” for Laingsburg Municipality is set at the Functional area within the respective department. (A-Schedule – A3) and includes:

Vote 1 - MAYORAL AND COUNCIL

Vote 2 - MUNICIPAL MANAGER

Vote 3 - CORPORATE SERVICES

Vote 4 - BUDGET AND TREASURY

Vote 5 - PLANNING AND DEVELOPMENT

Vote 6 - COMMUNITY AND SOCIAL SERV

Vote 7 - SPORTS AND RECREATION

Vote 8 - HOUSING

Vote 9 - PUBLIC SAFETY

Vote 10 - ROAD TRANSPORT

Vote 11 - WASTE MANAGEMENT

Vote 12 - WASTE WATER MANAGEMENT

Vote 13 - WATER

Vote 14 – ELECTRICITY

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 (Functional level).

4. GENERAL VIREMENT RULES

- 4.1 For a "vote" (Functional) 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 200 000 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 BTO manager and Chief Financial Officer or as per delegation.
- 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 and changing the 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, vary from a 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 / Manager Corporate services and /or Administration 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 CFO 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.


9. POLICY REVIEW

The contents of the policy will be reviewed as and when required but at least on an annual basis.

DOCUMENT CONTROL

Summary: This document describes the principles of the Virement Policy that will be applicable to Laingsburg Municipality, with effect from 01 July 2023.

ANNEXURE A: VIREMENT FORM

| | | | | |
|--|-------------------|---------------|-------------|--------|
|  | ANNEXURE A | | | |
| | | | | |
| VIREMENT COMPLIANCE | | No. | | |
| PROJECT DETAILS | | | | |
| Project nr. | | | | |
| Capital Project details: | | | | |
| Operational Project details: | | | | |
| MUNICIPAL VOTE (DIRECTORATE) DETAILS | | | | |
| | | | | |
| FUNDING SEGMENT DETAILS | | | | |
| | | | | |
| ITEM SEGMENT : EXPENDITURE | | | | |
| Page 1 | | | | |
| 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 CFO: | | | | |
| Savings Confirmed by Budget Office: | | | | |
| Processed by the Budget Office: | | | | |
| Not Approved - Referred to Adjustment Budget | | | | |
| Comments if not Approved: | | | | |