LEKWA-TEEMANE LOCAL MUNICIPALITY

VIREMENT POLICY

APPROVED:30 May 2025

EFFECTIVE DATE : 01 July 2025

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1. DEFINITIONS AND ABBREVIATIONS

In this Policy, unless the context indicates otherwise –

"Accounting Officer", in relation to a municipality, means the municipal official referred to in section 60 of the Local Government: Municipal Finance Management Act 56 of 2003. The municipal manager of a municipality is the accounting officer of the municipality for the purpose of this policy.

"Activity", means internal services/products provided by a directorate/department to other directorates/departments within the organization.

"Activity types", means master data codes used to identify the type of activity (service/product) that will be performed internally.

"Approved budget" 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.

"Capital Approval Object" is the level at which a project or programme is approved by Council. Capital Approval Objects are linked to the following:

(a) Major project - A project which consists of multiple coordinated, related, interdependent and controlled components undertaken to achieve an objective conforming to specific requirements.

(b) Programme - Multiple independent projects of a similar nature managed in an overall coordinated approach and approved as part of a programme.

(c) Routine Programme –

   i. Routines programmes should not include individual items exceeding R10m except where it is a capital purchase and the unit price can exceed R10m.
   ii. Items must be the same set of Asset Classes.
   iii. Items that are similar in nature and are repeated routinely.

iv. Items that will not be implemented over more than 12 months.

(d) Project - A project is undertaken to achieve a specific objective and conforms to specific requirements.

“Chief Financial Officer” or **“CFO”** means a person designated in terms of section 80(2)(a) of the Local Government: Municipal Finance Management Act 56 of 2003. A chief financial officer is 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.

“Cost element” is the nature of cost e.g. salary, rent and is split into primary- and secondary cost elements. Primary cost elements are expenditure items where costs are mainly generated as a result of transactions with external service providers. Secondary cost elements are utilised to reallocate cost by means of assessments, internal billing or activity based recoveries.

“Cost object” is the object on which budget is provided or assigned to e.g. WBS element (capital/operating) and cost element/centre (operating).

“Expenditure and Revenue Categories” is the prescribed uniform classifications and formats for revenue and expenditure items in compliance with the Municipal Budget and Reporting Regulations, mSCOA Regulations and any relevant MFMA Circular issued by National Treasury.

“Financial year” is the 12-month period between 1 July and 30 June.

“MCCR” means Municipal Cost Containment Regulations, 2019.

“MFMA” means the Local Goveernment: Municipal Finance Management Act 56 of 2003.

“Senior Managers” means managers directly accountable to the municipal manager as per Section 56 of the Local Government: Municipal Systems Act 32 of 2000.

“Senior Provider” refers to the cost centre that provides an internal service.

“Senior Requestor” refers to the cost center that receive an internal service (internal customer).

“Vote”

(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.

A vote in the Lekwa Teemane Local Municipality is set at directorate level, with the exception of tariff- funded services due to the closed account nature. In votes where there are rates and tariff funded components within a vote, virements are only allowed within the rates and tariff components respectively.

“Virement” is the process of transferring an approved budgetary provision from one operating cost element or capital approval object to another within a vote or tariff service during a municipal financial year.

2. PROBLEM STATEMENT

2.1. 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.”*

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

2.3. Changing circumstances and priorities during a financial year may give rise to the need to virement funds within votes, as defined in the MFMA. The treatment of such instances may, however, be dependent on whether an adjustments budget is required or not

3. INTRODUCTION

3.1. Each year, the Municipality produces an annual budget which must be approved by 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.

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

4. DESIRED OUTCOMES

4.1.1. The aim of this policy is to give senior managers greater flexibility in managing their budget, in order to ensure that they can effectively and efficiently deliver on the municipality's strategic objectives.

4.1.2. The municipal manager 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.

4.1.3. 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*".

4.1.4. It is the responsibility of each senior manager to plan and conduct assigned operations in a manner that ensures that not more funds are spent than what was budgeted for and to ensure that funds are utilised effectively and efficiently.

4.1.5. 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 utilised effectively, efficiently, economically and transparently…".*

4.1.6. 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. In addition, it specifically aims to empower senior managers with an efficient financial and budgetary system to ensure optimum service delivery in accordance with the municipality's objectives and mandate and within the current legislative framework of the MFMA and the City's system of delegations.

5. <u>POLICY OPTIONS IDENTIFICATION, ANALYSIS AND ASSESSMENT</u>

5.1. This policy applies only to transfers between line items within votes of the Municipality's budget.

5.2. 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.

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

5.4. 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

6. GENERAL VIREMENTS OPERATIONS

6.1. Budget virements are to provide flexibility in managing budgets to act on unforeseeable expenditure, savings and prevent unauthorized expenditures to allow shifting of funds between budgetary items, projects, programmes and votes.

6.2. Virement is the process of transferring funds from one-line item number to another with the approval of the relevant director and chief financial officer.

6.3. It is the responsibility of each manager to plan and conduct assigned operations as not to expend more funds than budgeted.

6.4. Proposed virements must at all times facilitate sound risk and financial management.

7. ROLE PLAYERS

7.1. Directorates and departments:

7.1.1. Responsible to initiate and submit completed virement to the Budget and Financial Reporting Unit with required approval in terms of the Council System of Delegations.

7.1.2. Remain accountable for the delivery of project/programme benefits through their respective SDBIPS.

7.1.3. To process virements for the approval by Chief Financial Officer and the Municipal Manager (in that order), within the upper limit of virements for the operational votes of executive directors/directors and authorised cost centre managers within a single vote.

7.1.4. To process virements for the approval by Chief Financial Officer and the Municipal Manager (in that order), within the upper limit of virements within capital votes of executive directors/directors.

7.1.5. Budget manager(s) to verify financial correctness and ensure that motivations are sound.

7.1.6. Budget manager(s) to ensure that all the relevant supporting documentation is attached to all virements prior to proposing virements to the Chief Financial Officer and the Municipal Manager.

8. VIREMENT RESTRICTIONS

8.1. Budget virements and deliverables shall be recommended by directors in accordance with authority and limits set in the delegations of authority.

8.2. Virement of funds between votes (directorate) will not be allowed without approval in an adjustment budget.

8.3. Virements within the same vote may be done administratively for a prescribed limit but may not alter the approved outcomes, outputs as approved in the IDP and budget.

8.4. Virements between operating and capital budgets are not permissible.

8.5. No virement may be affected in the current year which will increase the approved budget in future financial years without the prior approval of the municipal manager (this refers to expenditure such as lease or rental agreements).

8.6. No virement may be made where it would result in unauthorized expenditure.

8.7. No virement shall add to the staff establishment of the municipality without the approval of the municipal manager.

8.8. Virements must originate from savings.

8.9. A report must be submitted to council for noting when government grant projects are amended.

9. OPERATING BUDGET

9.1. No budget virements shall be made to increase or decrease salary vote.

9.2. No virements will be allowed for

9.2.1. Debt impairment;

9.2.2. Interest charges;

9.2.3. Depreciation;

9.2.4. Revenue foregone;

9.2.5. Insurance;

9.2.6. VAT;

9.2.7. Internal charges;

9.2.8. Free basic services;

9.2.9. Revenue items; and/or

9.2.10. Conditions grants which fall outside the approved framework plan.

9.3. Virements may not influence the net surplus/deficit of a vote.

9.4. Virements between income and expenditure votes are not permissible.

10. CAPITAL BUDGET

10.1. Virements in capital budget allocations are only permitted within the same capital programmes and vote.

10.2. Virements in capital budget are not permitted across funding sources and must have comparable asset classifications.

10.3. Virements may not result in adding new projects to the capital budget.

10.4. Virements may be used to correct capital allocations within asset classifications.

10.5. Virements may not increase the total approved budget.

10.6. Capital virements may not be rolled over to subsequent financial years, or create expectations on following budgets.

10.7. Virements may be used to change deliverables/outcomes of a project/programme subject to the approval of the executive director or municipal manager and/or council as per the delegation framework.

10.8. Virements do not give expenditure authority and all expenditure must still be subject to the procurement / supply chain management policy of the council.

11. VIRMENT PROCEDURES

11.1. All virement and deliverables proposals must be completed on the appropriate documentation and forwarded to the budget office for checking and verification.

11.2. All virements and deliverables must be approved by the relevant vote director and/or executive director and/or municipal manager as per the delegation framework.

11.3. All virement SDBIP information must be submitted with the proposed virement.

11.4. Virements and or deliverables in respect of ward specific projects must be approved by the chief financial officer, municipal manager or council as delegated.

11.5. All virement and deliverables documentation must be in order and approved before any expenditure may be committed or incurred.

11.6. All virements and deliverables must be approved by the chief financial officer before capturing the transfers.

12. **mSCOA virements**

12.1. In the first year of the mSCOA implementation, virements will be allowed to correct cost allocations over the seven (7) segments with no limitation on the amount subject to:

12.1.1. The function may not be changed.

12.1.2. The original budget segment allocation from which the virerment is made may not be exceeded.

12.2. The virement must be with the same funding segment.

12.3. For capital the segment virement must remain within the same project segment.

13. **UNFORESEEN & UNAVOIDABLE EXPENDITURE**

13.1. In the case of an emergency or any other exceptional circumstances, virements shall be submitted by the accounting officer to the 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:

13.1.1. result in significant financial loss for the municipality;

13.1.2. cause a disruption, a suspension or a serious threat to the continuation of a basic municipal service;

13.1.3. lead to loss of life or serious injury or significant change to property; or

13.1.4. obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

13.2. The 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.

14. AUTHORISATION OF VIREMENTS

14.1. A transfer of funds from one-line item to another under this policy may, subject to the provisions of this policy, be authorised as follows:

14.1.1. Approval for transfers must be made by the Director of the concerned Department.

14.1.2. The Budget Office shall prescribe a form on which all proposals for transfers of funds under this policy shall be made, which form shall include, but not be limited to, provisions for the following:

14.1.2.1. The name of the department concerned;

14.1.2.2. Descriptions of the line items from and to which the transfer is to be made;

14.1.2.3. The amount of the proposed transfer;

14.1.2.4. The justification or motivation for the transfer;

14.2. Each proposal for a transfer shall be submitted by the Manager concerned to the Budget Office and if:

14.2.1. The amount of the transfer does not exceed the amount referred to in paragraph 6 and the transfer is not between cost centres, the Budget Manager shall:

14.2.1.1. note the proposal, or

14.2.1.2. refer the proposal to the Chief Financial Officer for recommendation

14.2.1.3. The Accounting Officer will then approve or reject the Virement.

14.3. Upon a proposal for transfer being approved, such transfer shall be implemented subject to compliance with the Policies of the Municipality.

15. LIMITATIONS ON AMOUNT OF VIREMENT

15.1. Notwithstanding the provisions of section 3:

15.1.1. The total amount transferred from and to line items within a particular vote in any financial year may not exceed 20% of the amount allocated to that vote;

15.1.2. The total amount transferred from and to line items in the entire budget in any financial year may not exceed 20 % of the total operating budget for that year;

15.2. A transfer which exceeds, or which would result in the exceeding of, any of the limits referred to above may, however, be performed if the Council, by resolution approves thereof.

16. VIREMENT PERMITTED ONLY IF SAVINGS ARE PROJECTED

16.1. A transfer of funds from one- l i n e item to another may take place only if savings within the first-mentioned line item are projected, and such transfer may, subject in any event to the provisions of this policy, not exceed the amount of such projected savings

17. FURTHER RESTRICTIONS ON VIREMENT

17.1. A transfer of funds between line items shall not be permitted under this policy if the effect thereof would be to:

17.1.1. Contravene any policy of the Municipality; or

17.1.2. Alter the approved outcomes or outputs of an Integrated Development Plan; or

17.1.3. Result in any adjustment to the Service Delivery and Budget Implementation Plan.

17.2. If any line item has been specifically ring-fenced, no transfer of funds may be made under this policy to or from such line item.

17.3. Transfers of funds may not be made under this policy between or from capital items or projects.

17.4. To the extent that it is practical to do so, transfers within the first three months and the last month of the financial year should be avoided.

17.5. By definition, transfers may not be made under this policy from a line item administered by one department to a line item administered by another.

17.6. In accordance with Section 30 of the MFMA, no transfer of funds may be made from a line item of a budget for a particular year to a line item of a budget for a subsequent year.

17.7. The transfer of funds in any year in accordance with this policy shall not give rise to any expectations of a similar transfer occurring in a subsequent year.

17.8. The approval of any transfer shall not per se constitute authorization for expenditure, and all expenditure resulting from approved transfers must, be carried out in accordance with the Municipality's Supply Chain Management Policy.

18. **SPECIFIC OPERATING BUDGET VIREMENTS**

18.1. Budgetary allocations, adopted by Council for special purposes to which specific Council recommendations apply and which result from specific resolutions adopted, are not allowed to be used as a source of virementation subject to the approval by Chief Financial Officer for specifically that purpose. Sound motivations should be provided for all virements.

18.2. Specific virement limitations:

18.2.1. Employee related costs.

18.2.2. Virements are allowed between cost elements within this expenditure category.

18.2.3. Virements to/from this expenditure category are subject to the approval of the Chief Financial Offer.

18.3. Virements are not allowed on the following cost elements but budgetary alignments within the same cost elements are allowed:

18.3.1. Unemployment Insurance Fund, Group life, Leave Pay, Long service awards.

18.4. Remuneration of Councillors

18.4.1. Virements within this expenditure category are allowed.

18.5. Virements are allowed within expenditure items below and cannot be used as source of funding:

18.5.1. Training related expenditure;

18.5.2. Bargaining Council levy;

18.5.3. Skills development levy;

18.5.4. Insurance related provisions;

18.5.5. Contributions to Pensioners (Ex Gratia);

18.5.6. Provision for post-retirement medical aid Continued Members.

18.6. Virements are not allowed on the following elements:

18.6.1. Capital Expenditure-relate, VAT, Transfers to and from Insurance Fund, Transfers to and from Housing Fund;

18.6.2. Depreciation & Asset impairment, Debt Impairment;

18.6.3. Scrapping of Assets/Stock and Loss on Sale of Assets;

18.6.4. Bulk Purchases Electricity;

18.6.5. Water Inventory;

18.6.6. Finance Charges;

18.6.7. Indigent Relief;

18.6.8. Income Forgone; or

18.6.9. Appropriation Accounts.

18.7. Specific limitations applicable to repairs and maintenance provisions:

18.7.1. Virements are allowed within repairs and maintenance provisions.

18.7.2. Virements to increase repairs and maintenance provisions are allowed from cost elements within and across Contracted Services, Other expenditure and Inventory consumed.

18.8. Transfers and Grants (Grants and Sponsorships paid)

18.8.1. Virements to and from Grants in Aid is subject to the support of the relevant projects by the Grants in Aid Committee, supported and recommended by EXCO and approved by Council.

18.8.2. Virements on Grants/Sponsorships are permitted only if supported by

Exco and approved by Council or the relevant delegated authority.

18.8.3. Virements to Sponsorships – Events are permitted subject to the total amount being limited to the recommended amount per event as supported and recommended by the relevant delegated authority and approved by council.

18.9. Virements from Sponsorships – Events are permitted where:

18.9.1. Events are cancelled or scaled down;

18.9.2. Savings on approved events are realised or;

18.9.3. For the reallocation of budgetary provision related to direct event expenditure and internal service charges; and

18.9.4. Supported and recommended by the relevant delegated authority.

18.10. Virements to/from Relief and Charitable contributions (section 12 of the MFMA) are permitted only if approved by Council resolution or the relevant delegated authority.

18.11. Revenue

18.11.1. No virements allowed on Revenue elements from own revenue sources (internal revenue sources).

18.11.2. Amendment to revenue provisions must be adopted via an adjustments budget.

18.11.3. Virements on revenue elements funded from external grants are allowed, within the same funding source and Vote, subject to the conditions of the grant.

18.12. Secondary Operating Cost Elements

18.12.1. No virements are permitted between Primary- and Secondary cost elements.

18.12.2. Virements are allowed within the same secondary cost elements and same activity types. The service requestor and service provider must both endorse such virements.

18.12.3. Virements on Internal Utilities and Bulk Internal Utilities are permissible, on condition that both revenue and expenditure element are amended simultaneously and the period budgets are in alignment.

18.12.4. Virements are only permitted within the same cost element in the following categories, provided that total approved budget on the cost element is not increased:

18.12.4.1. Activity Based Recoveries

18.12.4.2. Internal Utilities

18.12.4.3. Bulk Internal Utilities

18.13. Ward Allocations Projects

18.13.1. The following conditions should be met when virementing between ward allocation projects:

18.13.1.1. Only virements between existing projects approved by Council, within the same Sub-council and within the same directorate will be permitted.

19. **IMPLEMENTING STRATEGY**

19.1. The Municipal Manager shall submit a report on all transfers made under this

Policy to the Mayor every quarter (September; December; March; June).

19.2. The Municipal Manager shall be responsible for the implementation and administration of this Policy.

19.3. This policy will be effective on the date of adoption by Council

20. POLICY EVALUATION AND REVIEW

The Municipality would evaluate and review the policy on annual basis and make changes if it is necessary.