

DR. PIXLEY KA ISAKA SEME LOCAL MUNICIPALITY



BUDGET VIREMENT POLICY

2025-2026

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1. Definitions

“Accounting officer” The municipal manager of a municipality is the accounting officer of the municipality in terms of section 60 of the MFMA

“Approved budget” means an annual budget approved by a municipal council.

“Budget-related policy” means a policy of a municipality affecting or affected by the annual budget of the municipality as defined in the Budget Policy of the Council

“Chief financial officer” means a person designated in terms of the MFMA who performs such budgeting, and other duties as may in terms of section 79 of the MFMA be delegated by the accounting officer to the chief financial officer.

“Capital Budget” This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods

“Council” means the council of a municipality referred to in section 18 of the Municipal Structures Act.

“Financial year” means a 12-month year starting 1 July and ending on 30 June.

“Line Item” an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditures.

“Operating Budget” The Town's financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.

“Ring Fenced” an exclusive combination of line items grouped for specific purposes for instance salaries and wages.

“Service delivery and budget implementation plan” means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (c) (ii) for implementing the municipality's delivery of municipal services and its annual budget.

“Virement” is the process of transferring an approved budget allocation from one vote to another, with the approval of the Municipal Manager. To enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.

“Vote” means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality; and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

“Budget transfer” means the transfer of an approved budget allocation from one operating or capital line item to another within a vote, with the approval of the relevant senior manager.

2. Abbreviations

- 2.1. **CFO** – Chief Financial Officer
- 2.2. **IDP** – Integrated Development Plan
- 2.3. **MFMA** – Municipal Finance Management Act No. 56 of 2003
- 2.4. **SDBIP** -Service delivery and budget implementation plan
- 2.5. **CM** – Council Minute/s

3. Objective

To allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.

4. Financial Responsibilities

- 4.1 Strict budgetary control must be maintained throughout the financial year in order that potential overspends and / or income under-recovery within individual vote departments is identified at the earliest possible opportunity. (Section 100 MFMA)
- 4.2 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. The budget virement process is one of these controls. (Section 27(4) MFMA)
- 4.3 It is the responsibility of each manager or head of a department or activity to which funds are allotted, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA sections 78 and 102.

5. Virement Restrictions

- 5.1 No funds may be shifted between votes without consent of both the vote holder and the chief financial officer who must approve the virement of funds.
- 5.2 Virements may not exceed a maximum annual limit of 5 % per vote from which the virement originates.
- 5.3 A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years.
- 5.4 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 Mayoral Committee.

- 5.5 No funds may be transferred between line items without approval of the vote holder authorization, in other words the senior Manager's approval.
- 5.6 Budget may not be transferred from Support service (interdepartmental) costs, Capital financing, Depreciation, Contributions, Grant Expenditure, Insurance and Income Foregone.
- 5.7 Budget may only be transferred from or to Salaries or employee related costs if approved by the CFO.
- 5.8 Transfers / Virements in capital budget allocations are only permitted within specified action plans and not across funding sources and must in addition have comparable asset lifespan classifications.
- 5.9 No virements are permitted in the first three months or the final month of the financial year without the express agreement of the CFO.
- 5.10 An approved virement/transfer does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the supply chain management policy of Council as periodically reviewed.
- 5.11 Virements/transfers may not be made between Expenditure and Income.
- 5.12 No virements/transfers are allowed in terms of income line items.
- 5.13 No virement/transfers are allowed from capital budget to the operating budget
- 5.14 Virements/transfers should not result in new projects on the capital budget
- 5.15 Virements/transfers of conditional grant funds to a purpose outside than specified in the relevant conditional grant framework are not permitted.
- 5.16 Virements / Transfers to Travelling and Accommodation and Entertainment line items are only permitted with the approval of the CFO.

6. Virement Procedure

- 6.1 All virements/transfer proposals must be completed on the appropriate documentation and forwarded to the relevant Finance Officer for checking and implementation.
- 6.2 All virements must be signed by the Initiator, Vote Holder, Chief Financial Officer and the official responsible for budgets.
- 6.3 All transfers must be signed by the Initiator, Vote holder, the official responsible to process the proposals and a Line Manager within Finance.
- 6.4 The prescribed form must be completed for all Budget Transfers and virements.
- 6.5 Virements/transfers between R0 and R30,000 require the approval of the Manager Budget and Treasury and that Virements / Transfers from R30 001 upwards require the approval of the Chief Financial Officer in consultation with the Municipal Manager.

- 6.6 All documentation must be in order and approved before any expenditure can be committed or incurred. (Section 79 MFMA)
- 6.7 The Municipal Manager will report to the Executive Mayor on a quarterly basis on those virements that have taken place during that quarter.

7. 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:

- 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 versa². 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).
 - 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.

7.1 Project segment guidance

Virement decisions should start with the project segment. The municipality should consider whether it is a new or existing capital, operational or default project and based on the type of project,

7.2 Function segment guidance

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

7.3 Funding segment guidance

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

7.4 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.

7.5 Costing Segment guidance

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

7.6 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.

7.7 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.

7.8 Types of Adjustments Budget

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.

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), 29(3) & 32 Reg. 23(4), 71 & 72
Roll-over of municipal funds	Before 25 August	S. 28 1, 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)

8. Approval of policy and date of effect

The Budget Virement Policy of Dr Pixley Ka Isaka Seme Local Municipality shall come into effect on 1 July 2025.

**M A NGCOBO
MUNICIPAL MANAGER**

DATE