Steve Tshwete
Local Municipality

PO Box 14 | Middelburg | 1050
Cnr Walter Sisulu Str & Wanderers Ave
Middelburg | Mpumalanga
T: +27 (0)13 249 7000 | F: +27 (0)13 243 2550
council@stlm.gov.za

BUDGET VIREMENTS POLICY

AMENDED

1 JULY 2020

MP313

www.stevetshwetelm.gov.za

CONTENTS

1. Definitions

2. Purpose

3. Objective

4. Virement clarifications

5. Virement restrictions

6. Virement procedures

7. Review

8. Short title

1. DEFINITIONS

"*accounting officer"* means a person appointment in terms of section 82(I)(a) or (b) of the Municipal Structures Act.

"*act*" means the Municipal Finance Management Act, Act 56 of 2003.

"*approved budget*" means an annual budget:

(a) approved by a municipal council; or
(b) includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA.

"budget and reporting regulations" means the budget and reporting regulations as approved in Government Gazette No. 32141.

"*budget transfer*" means transfer of funding within a function/vote.

"*budget year*" means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA.

"*chief financial officer*" means a person designated in terms of section 80(2)(a) of the MFMA.

"current year" means the financial year, which has already commenced, but not yet ended.

"delegation" in relation to a duty, includes an instruction or request to perform or to assist in performing the duty.

"*directors*" means all directors who are responsible for managing the respective votes or any other senior official designated by the accounting officer.

"*executive director*" means a person appointed directly accountable to the Municipal Manager in terms of section 56 of the Local Government : Municipal Systems Act, Act 32 of 2000.

"financial statements" means statements consisting of at least:

(a) an accounting policy;
(b) a statement of financial position;
(c) a statement of financial performance;
(d) a cash-flow statement;
(e) any other statements that may be prescribed; and
(f) any notes to these statements.

“financial year” means a twelve (12) months period commencing on 1 July and ending on 30 June each year.

“fruitless and wasteful expenditure” means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

“IDP” means the integrated development plan as approved by council.

“*irregular expenditure*” means:

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA Act, and which has not been condoned in terms of section 170 of the MFMA;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, Act 20 of 1998; or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "*unauthorized expenditure*".

“mSCOA” means a multi-dimensional classification framework providing the method and format for recording and classifying financial transaction in formation in the general ledger forming part of the books of accounting containing a standard list of available accounts.

“*municipal council*” or “c*ouncil*” means the council of the municipality referred to in section 18 of the Municipal Structures Act.

“*Municipal Structures Act*” means the Local Government: Municipal Structures Act, Act 17 of 1998 and its subsequent promulgated amendments.

“*Municipal Systems Act*” means the Local Government : Municipal Systems Act, Act 32 of 2000 and its subsequent promulgated amendments.
“*National Treasury*” means the National Treasury established by section 5 of the Public Finance Management Act.

"*official*" means:

(a) an employee of a municipality or municipal entity;

(b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or

(c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee.

"*overspending*":

(a) 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 vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

(c) in relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section.

"*tabled budget*" means an annual budget tabled at least ninety (90) days before the start of the budget year in terms of sections 16(2) and 17(3) of the act in the prescribed format and content with supporting documentation as per the municipal budget and reporting regulation, section 15.

"*unauthorized expenditure*" means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes:

(a) overspending of the total amount appropriated in the municipality's approved budget;

"*virement*" means transfer of funds between functions/votes.

"vote" means:

(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.

2. PURPOSE

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.

3. OBJECTIVE

Virement is the process of transferring funds from one segment to another with the approval of the relevant director and chief financial officer

4. VIREMENT CLARIFICATIONS

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

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

(i) Budget virements and deliverables shall be recommended by the directors (HoD's) and be approved per Council delegations framework subject to the following:

(a) Any budgetary amendment which the net impact will be a change to the total approved annual budget allocation are to be considered for budgetary adoption via an adjustment budget (section 28 of the Act).

(b) If virement result in a mSCOA segment change, by adding a new project, changing the region or funding source, it is not allowed.

(c) Virements between capital projects will be permitted where it is necessary to accelerate capital projects, spending of capital projects already approved by Council in the IDP and capital budget of the indicative MTREF years.

(d) Virements should clearly state the reasons for the need on the budget as well as the savings within the approved budget and/or where it is to accelerate capital projects spending as indicative on the MTREF years.

(ii) Virement between Rates Services and Trading Services and across Trading Services are not allowed.

(iii) Virements between functions is permitted where the proposed shifts facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes)

(iv) Virements within the same vote may be done administratively but may not alter the approved outcomes, outputs as approved in the IDP and budget.

(v) Virements between operating and capital budgets are not permissible.

(vi) Any budgetary amendment of which the net impact will be a change to the total approved budget or any other amendments not covered in this policy can only be considered via an adjustment budget as per section 28 of the MFMA.

(vii) 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).

(viii) No virement may be made where it would result in unauthorized expenditure.

(ix) Virements must originate from savings.

(x) Virements for poor planning is not allowed.

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

(xii) Budget virements recommended by directors will be approved according to the following levels:

Capital expenditure to an amount of R500 000,00 – relevant director.

Capital expenditure between R500 000,00 to R1 000 000,00 – relevant executive director.

Capital expenditure above R1 000 000,00 – municipal manager.

Operating expenditure to a maximum amount of R200 000,00 – relevant director.

Operating expenditure between R200 000,00 to R500 000,00 – executive director.

(xiii) Operating expenditure above *R500 000,00* – Municipal Manager

(xiv) Capital virements are limited to R3 000 000,00 per segment (vote) per annum and operational virements are limited to R500 000,00 per segment (vote) per annum.

5. VIREMENT RESTRICTIONS

5.1 Operating Budget

(a) No virements will be allowed for:

- debt impairment;
- interest charges;
- depreciation;
- revenue foregone;
- provision and contributions;
- insurance;
- VAT;
- internal charges & recoveries;
- free basic services;
- revenue items; and/or
- conditional grants which fall outside the approved framework plan

(b) Virements may not influence the net surplus/deficit of a vote.

(c) Virements between repairs and maintenance and any other item segment are not allowed.

(d) Virements towards and from personnel expenditure is not allowed.

(e) Virements are not allowed within the first four (4) months of the financial year.

5.2 Capital Budget

(a) Virements in capital budget allocations are only permitted within the same capital programmes and vote.

(b) Virements in capital budget are not permitted across funding sources.

(c) Virements may not result in adding new projects to the capital budget.

(d) Virements may be used to correct capital allocations within

asset classifications.

(e) Virements may not increase the total approved budget.

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

(g) 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.

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

5.3 mSCOA virements

(a) mSCOA, virements will be allowed to correct cost allocations over the seven (7) segments with no limitation on the amount subject to:

- The function may not be changed.
- Budget funds may only be shifted within a budget "*vote*" *and* "*segment*".
- The original budget segment allocation may not be exceeded.
- The virement must be with the same funding segment.
- Virements may not lead to the creation of new projects which is not contained in the IDP.
- For capital the segment virement must remain within the same project segment, but may differ over the remaining segments.

6. VIREMENT PROCEDURES

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

(b) 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.

(c) All virement SDBIP information must be submitted with the proposed virement.

(d) Virements and or deliverables in respect of ward specific projects are not allowed and may only be done via a formal adjustment budget.

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

(f) All virements and deliverables must be *finally* approved by the *executive director financial services* before capturing the v*irement*.

(g) Detailed motivations for virements must be clearly stated, the motivation should clearly state the reason for the saving within the "*giving*" segment, as well as the reason for the additional amount required.

(h) Virements to correct SCOA segments is not limited to an amount, but must be approved by the chief financial officer or a delegated senior official.

7. REVIEW

This policy will be reviewed annually to be in line with municipal practices and legislation.

8. SHORT TITLE

This policy shall be called the Budget Virements Policy of the Steve Tshwete Local Municipality.