



## **Guidance on Virement Policies for Municipalities**

This circular provides guidance on how municipalities should apply virements within the Municipal Standard Chart of Accounts (*mSCOA*) and align their virement policies accordingly. It must be noted that the circular does not replace any previous guidance that has been issued by the National Treasury on municipal virements.

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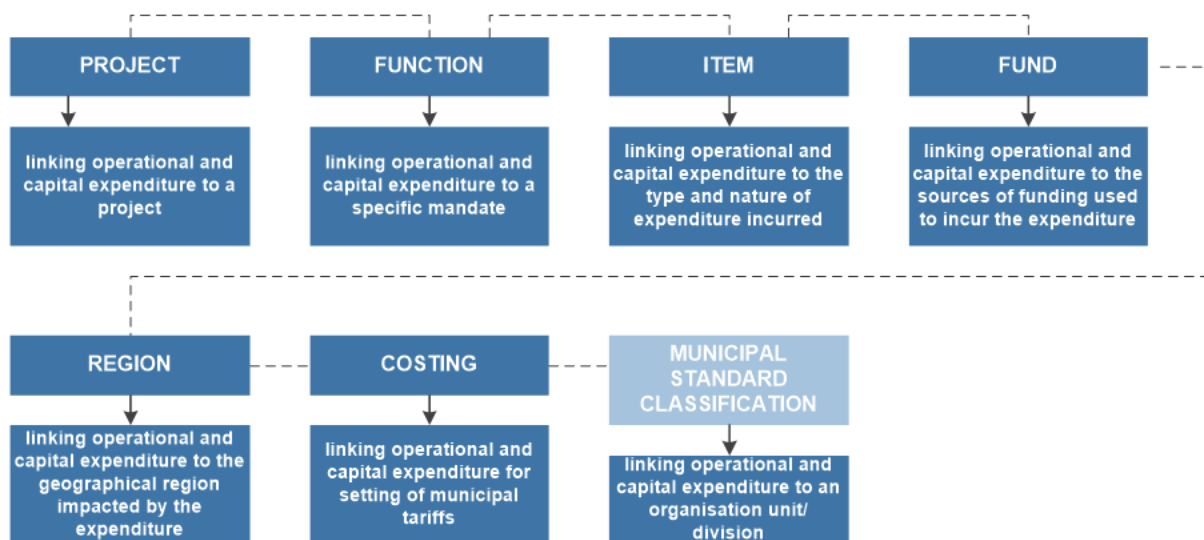
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## 1. Introduction

The *m*SCOA Regulations that was promulgated on 22 April 2014 prescribed not only a standardised financial classification for municipalities but also introduced a new era in planning, budgeting, transacting and reporting for Local Government. *m*SCOA is not limited to the recording of transactions in the financial system, but also impacts on the application of basic processes and procedures for the daily operation of a municipality and municipal policies in respect of financial management.

## 2. Guidance on Municipal Virement Policies in a *m*SCOA environment

*m*SCOA is a business reform and requires multi-dimensional budgeting and recording of transactions across the following seven segments:



When a municipality review its virement policy, it must consider the implications of possible *m*SCOA segment changes taking place because of the virement (the moving of budgetary allocations within a function or its sub-functions). If virement result in a *m*SCOA segment change, by adding a new project, changing the region or 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.

### 3. 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 *m*SCOA environment when doing a virement. Therefore, virement should only be allowed within a *m*SCOA function and its sub functions<sup>1</sup>, except for the following cases:

- A Project extending over/ incorporating more than one *m*SCOA 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*<sup>2</sup>. 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 *m*SCOA 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).*

<sup>1</sup> The Municipal Regulations on a Standard Chart of Accounts, 2014 and *m*SCOA chart (annually published) sets-out functions and sub-functions. *m*SCOA derives its functions/ sub-functions from and enforces the Constitution, IMF, GFS classification, and Municipal Structures Act, 1998.

<sup>2</sup> 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.

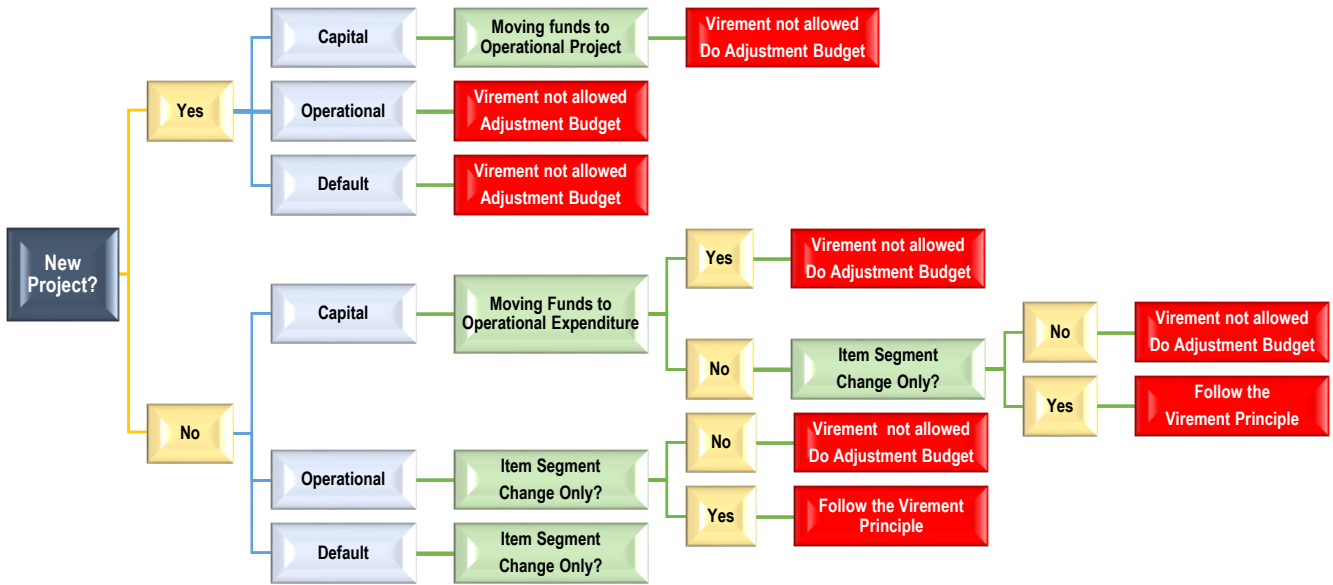
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- Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;
  - Virements should not result in adding 'new' projects 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.

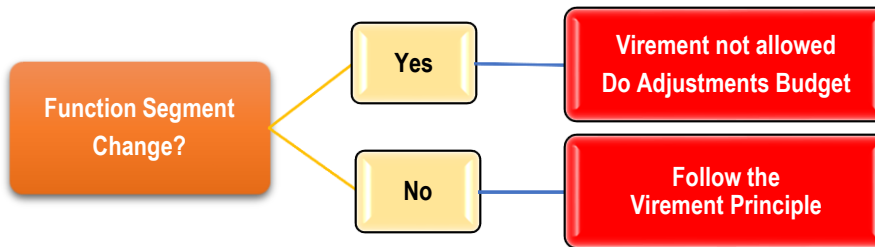
#### **4. Project segment guidance**

The flow chart diagrams below incorporate the virement principles explained above and provide guidance on how a virement should be applied in the *mSCOA* environment. Virement decisions should start with the project segment. As illustrated below, if a virement needs to be done for a project, the municipality should consider whether it is a new or existing capital, operational or default project and based on the type of project, the diagram below will provide guidance on whether a virement is allowed or whether and adjustments budget is required.



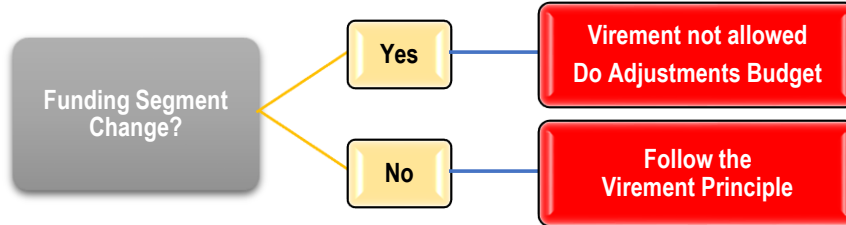
**5. Function segment guidance**

The next segment that should be considered in terms of the impact of the virement process is the function segment. In terms of the flow diagram below, if there is no change to the function segment, a virement may be done subject to the virement principles above.



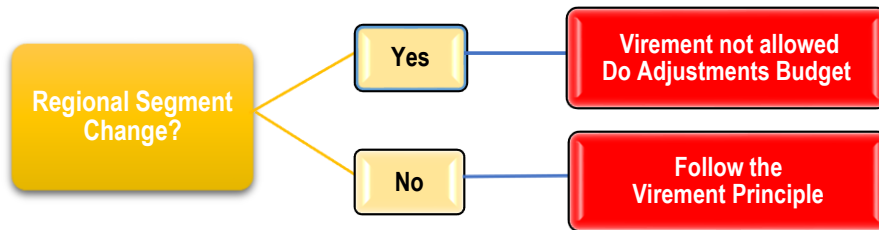
**6. Funding segment guidance**

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



**7. 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.



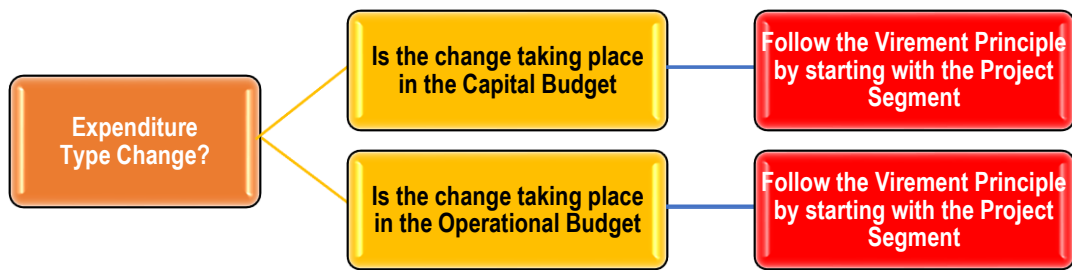
**8. Costing Segment guidance**

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

**9. 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.

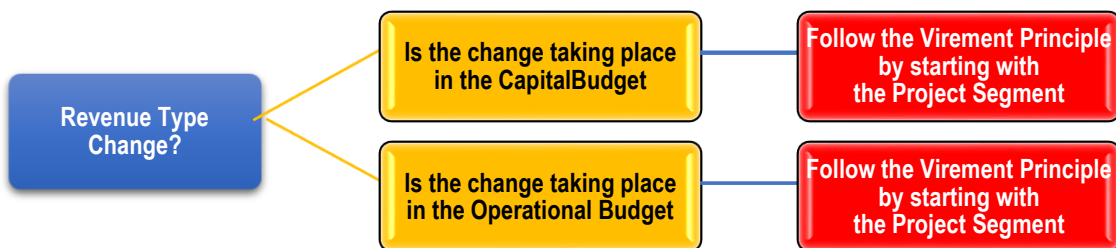
An example of a change taking place in the capital budget is when the nature of the project may change from “outsourced” to an “own account” project which will result in a different selection of accounts from expense accounts within the item classification for Construction Work-in-progress.



An example of a change taking place in the operational budget is when a District Municipality builds administrative building to be transferred to a local municipality (accounted for by the District Municipality as an operational project) which would have been constructed as an “own account construction” changing to an outsourced development. The impact is on the nature of expenditure, i.e. increase in contracted services.

**10. 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.



Previously, revenue stood on its own in the budget. Now revenue is linked to the item and project. So, if the project segment is funded from a specific revenue source and there is a

saving (item expenditure) within the function, then the saving (budget) may only be applied to another project within the same function or sub-function only if the revenue source is the same and if it is transferred to the same project in another function. Importantly, the revenue source should be the same which restricts the use of the revenue sources.

**11. Types of Adjustments Budget**

Importantly, 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. As per the diagrams above the first option is to do a virement if there is a need to move budgeted amounts. The diagrams provide a guideline to follow per segment if the movement in budgeted amount is not allowable via a virement but instead the Municipality is required to produce an adjustments budget that must be tabled and approved at a Council meeting.

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



Municipalities 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.

## 12. Effective date

This mSCOA Circular is effective from the 1<sup>st</sup> of July 2020.

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