

MANDENI MUNICIPALITY



VIREMENT POLICY 2026-2027

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1. DEFINITIONS

- 1.1 "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.
- 1.2 "Allocation" means a municipality's share of the local government's equitable share referred to in section 214(1)(a) of the Constitution; an allocation of money to a municipality in terms of section 214(1)(c) of the Constitution; an allocation of money to a municipality in terms of a provincial budget; or any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction.
- 1.3 "Annual Division of Revenue Act" means the Act of Parliament which must be enacted annually in terms of section 214 (1) of the Constitution.
- 1.4 "Approved budget" means an annual budget approved by a municipal council; or 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.
- 1.5 "Basic municipal service" means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment.
- 1.6 "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.
- 1.7 "Budget-related policy" means a policy of a municipality affecting or affected by the annual budget of the municipality, including the tariffs policy which the municipality must adopt in terms of section 74 of the Municipal Systems Act; the rates policy which the municipality must adopt in terms of legislation regulating municipal property rates; or the credit control and debt collection policy which the municipality must adopt in terms of section 96 of the Municipal Systems Act.
- 1.8 "Budget year" means the financial year for which an annual budget is to be approved in terms of section 16(1).
- 1.9 "Capital expenditure" where used alone shall mean the same as asset, for example capital expenditure shall refer to expenses incurred to create an asset or assets in



terms of Generally Recognised Accounting Practice.

- 1.10 "Capital Project" means capital project as defined in terms of the mSCOA project segment.
- 1.11 "Capital budget" means the estimated amount for capital items in a given financial period.
- 1.12 "Capital items" means fixed assets such as Property, Plant and Equipment, the cost of which is normally written off over a number of financial periods.
- 1.13 "Chief Financial Officer" shall mean the head of the Financial Services Department as contemplated in sec 80 of the MFMA.
- 1.14 "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.
- 1.15 "Delegation" in relation to a duty, includes an instruction to perform the duty
- 1.16 "Data string" shall mean the total budget line which includes all seven segments as prescribed in terms the Municipal Regulation on Standard Chart of Accounts.
- 1.17 "Financial year" shall mean the period from 1 July until 30 June of the next year
- 1.18 "Fruitless and wasteful expenditure" means expenditure that was made in vain and would have been avoided had reasonable care been exercised.
- 1.19 "Function" in terms of mSCOA is the municipal function as per Schedule 4B and 5B of the Constitution.
- 1.20 "Funding Segment" refers to the segment that identifies the various sources of funding available to municipalities and municipal entities for financing expenditure relating to the operation of the municipality and provides for both capital and operational spending. The appropriate classification of a transaction in this segment will be determined according to the source of funding against which a payment is allocated and the source of revenue against which income is received
- 1.21 "GRAP" means the Standards on Generally Accepted Accounting Practice, as issued by the Accounting Standards Board

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- 1.22 "Housing Development Fund" means the fund that was established in terms of the Housing Act, 1997 (Act No 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund.
- 1.23 "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 this Act, and which has not been condoned in terms of section 170;
 - (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, 1998 (Act No. 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, and shall
 - (e) excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure"
- 1.24 "Line item" means an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditures.
- 1.25 "MBRR" means the Municipal Budget and Reporting Regulations, as issued by National Treasury.
- 1.26 "MFMA" means the Municipal Financial Management Act, 2003 (Act No 56 of 2003)
- 1.27 "mSCOA" refers to the latest version of the Municipal Standard Chart of Accounts issued in terms of the Municipal Regulation on Standard Chart of Accounts. The version of the chart utilised is version 6.5 effective from 1 July 2021.
- 1.28 "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.
- 1.29 "Municipality" means xxxx Local Municipality



- 1.30 "Municipal entity" has the meaning assigned to it in section 1 of the Municipal Systems Act
- 1.31 "Municipal tax" means property rates or other taxes, levies or duties that a municipality may impose
- 1.32 "Operational" shall mean revenue or expenditure included in or to be incurred on the operating budget.
- 1.33 "Operating budget" means the Municipality's Financial Plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.
- 1.34 "Operational projects" shall mean the same as per the project segment in the mSCOA chart and project summary definition and refer to current and short-term projects for which the cost is immediately recognised as an expense and funded from the municipalities' operational budget.
- 1.35 "Overspending" in relation to the budget of a municipality, means:
- a. 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 in relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section
- 1.36 "Provincial Treasury" means a treasury established in terms of section 17 of the Public Finance Management Act
- 1.37 "Ring fenced" means an exclusive combination of line items grouped for specific purposes.
- 1.38 "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, and which must indicate projections for each month of revenue to be collected, by source; and operational and capital expenditure, by vote; service delivery targets and performance indicators for each quarter; and any other matters that may be prescribed, and includes any revisions of such plan by the mayor in terms of section 54(1)(c).
- 1.39 "Standard chart of accounts" means a multi-dimensional classification framework providing the method and format for recording and classifying financial transaction

information in the general ledger forming part of the books of account containing a standard list of all available accounts.

- 1.40 "Typical Workstream 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.
- 1.41 "Unfunded / underfunded mandate" is defined as "when the municipality perform the functions of other spheres of government and bear significant cost out of their own revenue sources". These unfunded / underfunded mandates pose an institutional and financial risk to the municipality as substantial amounts of municipal own funding is being allocated to non-core functions at the expense of basic service delivery which is the core mandate of the municipality.
- 1.42 "Unauthorised expenditure" means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes overspending of the total amount appropriated in the municipality's approved budget; overspending of the total amount appropriated for a vote in the approved budget; expenditure from a vote unrelated to the department or functional area covered by the vote; expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose; spending of an allocation referred to the above of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or a grant by the municipality otherwise than in accordance with this Act.
- 1.43 "Virement" shall mean shifting of funds between line items within a Vote; means the process of transferring an approved budget allocation from one operating line item or capital project or another, with the approval of the relevant Manager to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.
- 1.44 "Vote" shall mean a directorate within the organisational structure of the municipality. In accordance with MFMA Circular No. 78, Unauthorised, Irregular and Fruitless and Wasteful Expenditure, "Votes are informed by Table A3 (Budgeted Financial Performance: revenues and expenditure by municipal vote)". The organisational structure of a municipality is reported under A3 of the Budget and Reporting Schedules, which is approved by Council. The organisational structure is maintained using the Municipal Standard Classification segment, which therefore represents the vote.

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2. LEGISLATIVE FRAMEWORKS AND REGULATIONS

2.1 The legislative frameworks and regulations considered in determining the virements policy are:

- a) Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
- b) Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009
- c) Municipal Finance Management Act: Municipal Regulations on Standard Chart of Accounts, Regulation 10178, published under Government Gazette 37577, 22 April 2014
- d) Municipal Finance Management Act: Circular No. 51: Municipal Budget Circular for the 2010/11 MTREF, 19 February 2010
- e) Municipal Finance Management Act: Circular 89: Municipal Budget Circular for the 2018/19 MTREF, 18 December 2017
- f) Municipal Finance Management Act: Circular 68: Unauthorised, Irregular, Fruitless and Wasteful Expenditure, Updated in March 2019

3. LEGISLATIVE OBLIGATIONS FOR THE POLICY

3.1 In accordance with MFMA Circular No. 51, all Municipal Councils must consider and approve a virements policy that provides clear guidance to Managers within the municipality regarding the manner in which shifting of funds between items, projects, programmes and votes may occur.

This is further reiterated in MFMA Circular 89, which indicates that the impact of mSCOA on the virement policy must be considered in accordance with MFMA Circular No. 51 and the principles must be incorporated into municipal virement policies.

It also emphasised that the policy must indicate how the virement process must be managed within the municipality to enable the tracking and reporting of funding shifts.

4. PURPOSE AND OBJECTIVES OF THE POLICY

4.1 The objective of the Virements Policy is to set out:

- i. Provide guidance to managers/directors for each business unit/section in the manner in which shifting of funds between items, projects, programmes within their areas of responsibilities may occur.
- ii. Comply with the Municipal Finance Management Act, the Municipal Budget and Reporting Regulations and Municipal Standard Chart of Accounts



Regulation to implement a council approved virement policy, taking into account the requirements of these Acts and Regulations.

- iii. Enhance the effective use of resources during the financial year by ensuring adequate funding is available to finance expenditure that is incurred in a particular department, sub-department and functional area by offsetting or transferring savings in another department, sub-department and functional area.
- iv. Allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen/unavoidable expenditure as they arise to accelerate service delivery in a financially responsible manner.

5. VIREMENTS PERMISSIBLE

5.1 The following virements are permissible for municipalities:

- i. Virements between votes where the proposed shifts in funding facilitate sound risk and financial management; and
- ii. Virements may be approved to a maximum of 5% of a vote for operational expenditure from one vote to another;
- iii. Virements may be approved to a maximum of 8% of a vote for capital expenditure from one vote to another;
- iv. Virements with a vote may be approved not exceeding a maximum of 5% of a vote for operational expenditure from one item to another within a vote.
- v. Virements with a vote may be approved no exceeding a maximum of 8% a vote for capital expenditure from one item to another within a vote.
- vi. Restricted virements in accordance with section 6 of the policy shall not be approved by the municipality.

6. VIREMENT PRINCIPLES

6.1 In accordance with the mSCOA Regulations, municipalities are required to budget and transact in terms of a data string that consists of seven segments.



These segments include Project, Function, Item, Fund, Region, Costing and Municipal Standard Classification.

6.2 When considering a virement for approval, the municipality shall consider all seven segments to ensure that the Virement Policy is being adhered to all times.

6.3 Virements shall only be considered for approval, in accordance with the following:

- i. Virements shall not be permitted in relation to the Item: Revenue accounts of the budget
- ii. Virements shall not be permitted between the capital budget and the operating budget
- iii. Virements shall not be permitted to increase Item: Employee Related Costs to any other Item: Expenditure classification
- iv. Virements shall not be permitted to increase Item: Remuneration of Councillors to any other Item: Expenditure classification
- v. Virements shall not be permitted to increase or decrease the following items and/or projects:
 - a. Expenditure: Bulk Purchases
 - b. Gains and Losses: Impairment Loss
 - c. Gains and Losses: Reversal of Impairment Loss
 - d. Expenditure: Interest, Dividend, Rent on Land: Interest Paid
 - e. Expenditure: Depreciation and Amortisation
 - f. Expenditure: Transfers and Subsidies: Capital: Allocations in kind: Households
 - g. Expenditure: Transfers and Subsidies: Capital: Monetary allocations: Households
 - h. Expenditure: Transfers and Subsidies: Operational: Allocations in kind: Households
 - i. Expenditure: Transfers and Subsidies: Operational: Monetary allocations: Households
 - j. Project: Operational: Typical Workstreams: Cost of Free Basic Services
 - k. Project: Operational: Typical Workstreams: Revenue Cost of Free Basic Services
 - l. Project: Operational: Typical Workstreams: Property rates rebates
 - m. Expenditure: Operational costs: Insurance Underwriting
 - n. Assets: Current Assets: VAT Receivable
 - o. Liabilities: Current Liabilities: VAT Control (Payable)
 - p. Liabilities: VAT Credit: Output Accrual
 - q. Liabilities: Output VAT

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r. Liabilities: Provision for Doubtful Debt Impairment

- vi. Virements shall not be permitted where this would result in creation of 'new' capital and/or operational projects to the Capital or Operational Budget, that had not been originally budgeted for in the Original Budget approved by Council.
- vii. Virements shall not be permitted for items with the funding source being Fund: Operational: Transfers and Subsidies and/or Fund: Capital: Transfers and Subsidies, where this may result in items being funded for purposes that are not in accordance with the conditions in the relevant conditional grant framework
- viii. Virements shall not be permitted that will result in a decrease Project: Operational: Maintenance.
- ix. Virements shall not be permitted within a vote or a sub-vote where the items do not contain the same funding source description.
- x. Virements shall not be permitted within a function or sub-function where items do not contain the same source of funding.
- xi. Virements shall not be permitted where this would result in a vote or item incurring over-expenditure. This includes committed expenditure and takes into account issued orders and awards made to suppliers.
- xii. Virements between votes may be permitted where the proposed reallocation would result in refinement and correction to item segments to enable improved financial management reporting and monitoring, subject to the virement adhering to the provisions indicated above.

7. THE VIREMENT PROCESS

- 7.1 Virement requests shall be completed on the Virement Transfer Form of the municipality by the requesting Department and forwarded to the Budget and Reporting Office for consideration.
- 7.2 The Chief Financial Officer shall approve virement requests in accordance with this policy requirements to a maximum rand value of Rxxx
- 7.3 The Municipal Manager shall approve shall approve virement requests in accordance with this policy requirements to a maximum rand value of Rxxx



- 7.4 Virements in excess of R xxx shall be tabled at the EXCO/Portfolio/Council for approval.
- 7.5 Funds to be transferred to or from a main vote and project shall be limited to the delegation of powers and all approval procedures must be followed.
- 7.6 Capital Budget Virements within a GFS Classification (Functions) must be approved by the relevant Director, the Municipal Manager and Chief Financial Officer

8. FINANCIAL RESPONSIBILITY

- 8.1 Strict budgetary control must be maintained throughout the financial year so that potential overspends and /or income under- recovery, within individual vote Business Units, are identified at the earliest possible opportunity, in accordance with Section 69 and 100 of the MFMA.
- 8.2 The Accounting 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 therefore a control measure to ensure effective financial management in accordance with Section 21 (1)(a) and 27(4) of the MFMA.
- 8.3 It is the responsibility of the Directors Managers of each Business Unit, to which funds are allotted, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, the responsibility to identify and report any unauthorised, irregular or fruitless and wasteful expenditure incurred remains with the respective officials in accordance with Section 78 and 102 of the MFMA.

9. REPORTING

- 9.1 All virements shall be included and reported in the Section 71 reports to Council on a monthly basis.
- 9.2 The quarterly reports, as approved by the Accounting Officer, shall be provided to the Mayor that includes the virements that have taken place during that quarter, for tabling at Portfolio and Council meetings.
- 9.3 All virements approved in the first 6 months of the financial year shall be considered in tabling the mid-year performance assessment and adjustment budget to Council.

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10. POLICY REVIEW

10.1 This policy shall be reviewed annually to ensure that it complies with changes in applicable legislation and regulation.

10.2 The Council may from time to time amend this Virement Policy on recommendations by the Municipal Manager and introduce any measure(s) to ensure efficient, economic and effective management of Council resources.

11. POLICY ADOPTION

11.1 This policy has been considered and approved by the COUNCIL OF MANDENI LOCAL MUNICIPALITY as follows:

PREPARED BY: N.Z GUZANA

DATE OF ADOPTION BY COUNCIL: 28 MAY 2026

COUNCIL RESOLUTION NO: C121


MUNICIPAL MANAGER
SG KHUZWAYO

15/06/2026
DATE:

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