



# Managing Budgetary Virements

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# TECHNICAL NOTES AND MANUALS

## Managing Budgetary Virements

**This Technical Note and Manual (TNM)<sup>1</sup> addresses the following main issues:**

- What are virements?
- What is the purpose of virements?
- Why are virement rules important?
- What general considerations should guide the design of virement rules?
- What country-specific factors should inform the virement regime?
- What limits or restrictions should be placed on virements?
- How should virements be authorized and reported?

### I. What are Virements?

Virements are movements of budgetary resources between line ministries, programs, policy areas, expenditure categories or line items. Virements (a) take place after the budget has been authorized by the legislature, (b) do not affect the total level of budgeted expenditure, (c) should not fundamentally alter the composition of expenditure appropriated by the legislature, and (d) are carried out under the executive authority of the government and do not require legislative authorization.

Virements need to be distinguished from in-year *reallocations* of budgetary appropriations that fundamentally alter the allocation of expenditure appropriated by the legislature and therefore require its approval through a supplementary budget.<sup>2</sup> Virements also need to be distinguished from *reprioritization* of expenditure between budgets, which happens as part of the formulation of the next year's budget and can fundamentally alter the allocation of expenditure from one year to the next.

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<sup>1</sup> This note has benefited from review and valuable comments by R. Allen, M. Cangiano, B. Chevauchez, M. Fouad, R. Hughes, Y. Hurcan, C. Iles, T. Irwin, C. Karamaga, G. Ljungman, M. Pessoa, J. Seiwald, and B. Taiclet of the Fiscal Affairs Department.

<sup>2</sup> The term "virements" is used throughout the paper. Other possible terms are "transfers" or "reallocations," but given that these terms can have other meanings, this note uses the term "virements."

## **II. What is the Purpose of Virements?**

Virements are among a number of tools to deal with the uncertainties that arise during the course of budget execution and result in the need to vary the allocation of government expenditure.<sup>3</sup>

Budgeting is inherently uncertain, and therefore there is often a need to make adjustments to the appropriations, as approved by the legislature, during its implementation. The adjustments may be warranted by: (i) changing priorities or demands on the government services; (ii) expenditure required in response to unforeseen events; (iii) the need to reward managers for achieving savings in their budgets; or (iv) inaccurate assumptions underlying the original budget estimates. Virements provide limited standing authority to the executive to make adjustments to the budget to respond to these uncertainties.

## **III. Why are Virement Rules Important?**

It is not uncommon for governments to introduce changes to the appropriations approved by the legislature – both in terms of the overall level of expenditure and its composition. Such changes, if carried out transparently and within accepted limits, can reinforce budget discipline and expenditure efficiency. However, large, unregulated changes to approved budgets can lead to loss of budget credibility and can undermine the budget's relevance as a government's principal policy and financial planning instrument.

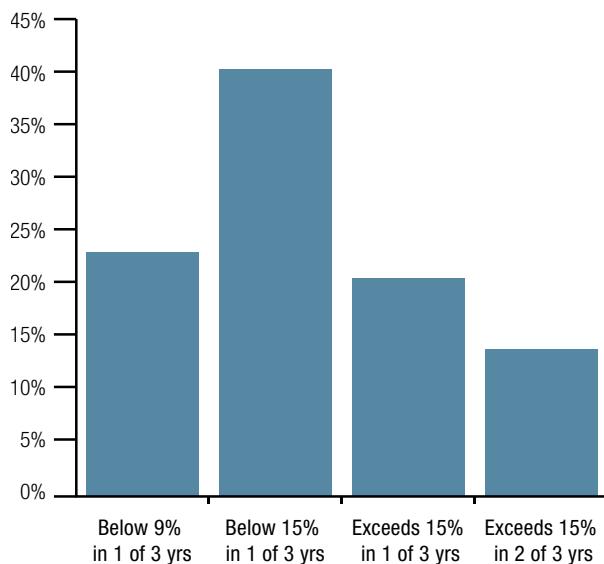
Unfortunately, extensive, frequent and opaque in-year changes to the level and composition of the approved budget continue to be the norm in many countries. A review of publicly available Public Expenditure and Financial Accountability (PEFA) assessments of 87 mostly emerging market and developing countries shows that:

- In 65 countries (75 percent of the total surveyed), aggregate actual expenditure deviated from the original budget by more than 10 percent in at least two out of the three years covered by the assessments (Figure 1A).
- In 68 countries (78 percent of the total surveyed), variance in composition of expenditure outturn between budget and outturn was in excess of 10 percent in at least two out of the three years of assessment (Figure 1B).
- In 42 countries (49 percent of total surveyed), significant in-year adjustments were a frequent occurrence (more than twice a year) (Figure 1C).
- In only 18 countries (21 percent of the total surveyed) were in-year budget adjustments conducted in a rigorous and transparent manner (Figure 1D).

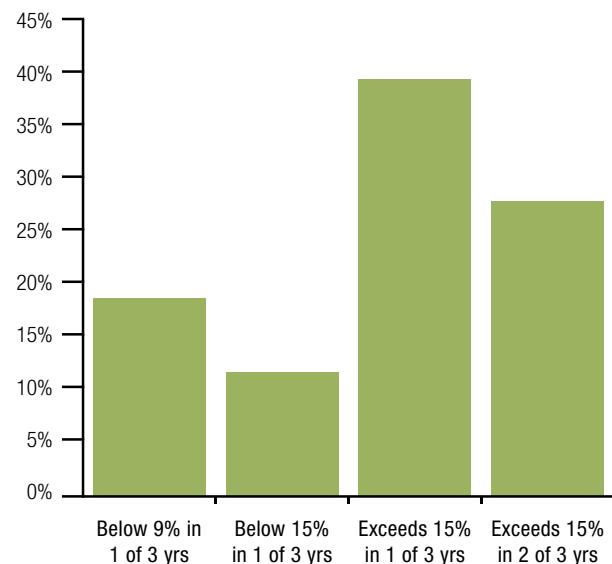
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<sup>3</sup> There are a number of different ways to deal with budget uncertainties. These include, for example, the use of supplementary appropriations, automatic or open-ended appropriations, carryovers, contingency reserves, and more aggregated appropriations. A substantive discussion of these is outside the scope of this TNM. An upcoming FAD TNM discusses in detail the use of budget margins to manage uncertainty.

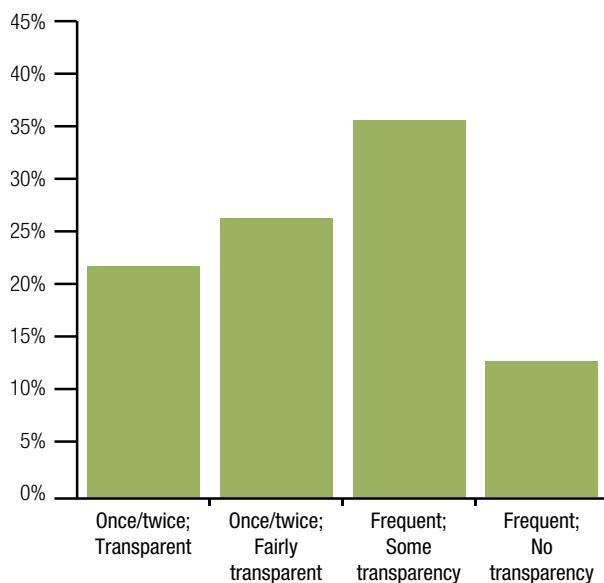
**Figure 1A. Variance between the Original Budget and Expenditure Outturn**



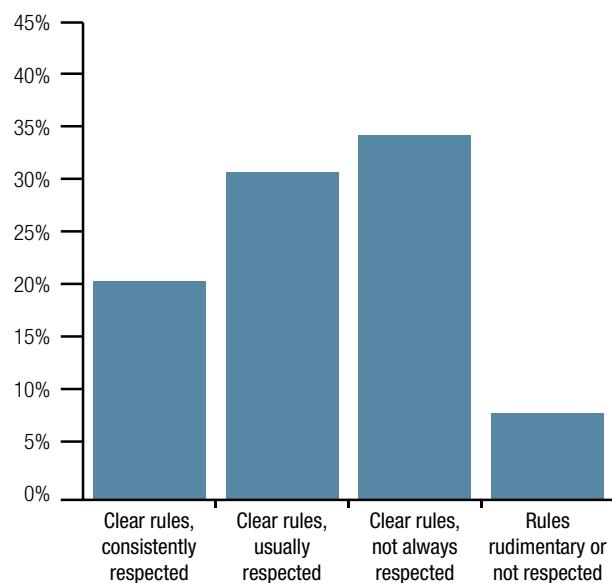
**Figure 1B. Changes in Expenditure Composition**



**Figure 1C. Frequency and Transparency of In-year Adjustments to Budget Allocations**



**Figure 1D. Rules for In-Year Amendments**



Source: PEFA-Database (87 countries). The percentages show the share of countries who received the assessment.

Regimes for managing these virements differ widely across countries (Box 1). While a few countries require all changes to the composition of the budget to be authorized by the legislature, most countries' legislatures give their executives some standing discretion to change the composition of the budget during execution. These virement restrictions can be in the form of strict prohibitions, nominal ceilings, or percentage limits on the amount of budgetary resources the government can move within or between legislative appropriations without recourse to a supplementary budget. The limits to that discretion, the “virement rules,” are typically set out either in the organic budget

law, its supporting regulations, or the standing orders of the legislature itself. There are, however, a significant number of countries, including nearly 75 percent of the countries in the PEFA assessments reviewed, who either do not have clear rules in place for in-year amendments to the budget or have rules that allow extensive administrative flexibility, including expansion of total expenditure.

### **Box 1. Virement Regimes in OECD Countries**

Countries employ a variety of virement practices. For example, among Organization for Economic Cooperation and Development (OECD) countries (see Appendix I for more details):

- Virements are completely banned in Finland and Sweden; all changes to the budget require parliamentary approval, which is obtained through supplementary appropriations.
- Virements are typically not allowed between ministries, but are sometimes permitted in the case of inter-ministerial appropriations (e.g., inter-ministerial missions in France).
- Virements between programs are typically allowed but with restrictions (e.g., in Slovenia line ministries have the power to move funds between programs within their purview subject to a limit of 10 percent of the original allocation, with the condition that the virement does not affect salary provisions); a few countries (e.g., Austria, Australia), however, allow unrestricted virements between programs.
- Virements between certain economic categories are often restricted (e.g., in France virements into wages are not allowed; in the United Kingdom virements are not allowed between current and capital expenditure).
- Virements can be controlled through specifying ceilings in percentage or absolute terms; some countries (Switzerland) use a combination of the two; a few countries (Canada, Ireland) do not limit size of virements but may have rules regarding the information provided to legislature in case a certain threshold is exceeded (Mexico).<sup>4</sup>
- The decision on virements can be made by:
  - Cabinet (e.g., France, New Zealand).
  - Ministry of Finance (e.g., Austria for virements between programs within budget chapters, Australia for virements over AUD 5 million, United Kingdom for virements from program to administration subheads).
  - Line ministries (e.g., Austria for virements between subprograms, Australia for virements under AUD 5 million, and the United Kingdom for virements between program subheads/sections).
  - Budget holders or public administration (e.g., Germany, Turkey).

<sup>4</sup> In Mexico, virements resulting in adjustments in excess of 5 percent of the original budget of an entity are reported to the Congress. The Committee on Budget and Public Accounts of the House of Representatives may issue opinion on such adjustments.

## **IV. What Considerations should Guide the Design of Virement Rules?**

There is no well-defined set of “best practice” in designing virement rules. Each country needs to have practices that best meet its level of budget flexibility and accountability needs given its legal-cultural environment and the state of development of its public financial management (PFM). The design of rules should be country- and time-specific and consider the overall budget management and control requirements of the country. It should aim to promote efficiency in expenditure management without diluting accountability.

That said, a few considerations should guide the design of transparent and efficient virement rules. The manner in which virements are carried out is an important part of the integrity, credibility, and transparency of a country’s PFM system. In designing virement rules, governments need to take into account the following considerations:

- **Flexibility:** Virements bring flexibility in budget management and enable budget managers to cater to new or increased funding pressures that arise during the budget year.
- **Accountability:** Flexibility in budget management must be balanced with accountability and conformity with the government’s legislative mandate. Extensive changes to approved appropriations affect the budget’s credibility, undermine budget managers’ accountability to parliament, and reduce the predictability of government expenditure for the ultimate beneficiaries.
- **Budget credibility:** Virement powers should not be used as a substitute for the preparation of taught and realistic initial budgets. Repeated recourse to uncontrolled and excessive virements can, over the longer term, limit a government’s ability to strategically allocate its resources and undermine incentives for budget-holders to produce credible budgets.
- **Transparency:** Changes to the appropriations authorized by parliament should be disclosed to the legislature in a timely and comprehensible manner. If such virements are frequent and extensive, the executive should regularly summarize the net impact of all virements on the overall budget allocations rather than presenting individual changes in a piecemeal manner.
- **Administrative costs:** The transaction costs of seeking legislative approval for all budgetary changes can be quite high. The process can be time consuming and may not be justifiable if the amounts involved are relatively insignificant. This argues for not setting the threshold limits on the executive power for virements too low.

## V. What Country-Specific Factors should Inform the Virement Regime?

In addition to the general considerations discussed in the previous section, four specific characteristics of a country's public financial management (PFM) system need to be taken into account in the design of a system of virement rules:

- **Structure and specificity of budgetary appropriations:** Countries with fewer, more aggregated appropriations have, in principle, less need to transfer funds between appropriations as the government already has flexibility built into the budget structure. Countries with very detailed, line-item budgets are more likely to need extensive virements and virement rules.
- **Stage of development of the budgetary system:** A sophisticated budgetary costing process and a robust budget execution system should reduce the need for virements by accurately estimating the cost of government activities in the coming year and making available the necessary provisions in the budget.
- **Relationship between the legislature and the executive:** The allocation of fiscal responsibility between parliament and government also influences to what extent powers are delegated to the executive to make in-year budgetary adjustments or retained by the legislature as the source of expenditure authority.
- **Relationship between the ministry of finance and line ministries:** Countries with a tradition of centralized management of budget execution will tend to retain virement authority within the ministry of finance while those with a tradition of more decentralized financial management responsibilities will tend to devolve some virement powers to line ministries.

These considerations are discussed in more detail in the remainder of this section.

### A. Structure and Specificity of Budget Appropriations

One of the basic issues that affects the design of virement rules relates to the structure of the budget—more specifically, the level of aggregation at which appropriations are voted on by the legislature and the budget is controlled by the executive. The budget structure reflects the prevailing control system for management of public resources in a country.

In countries where budgets are classified and approved based on a smaller number of more aggregated program-based appropriations, the need for virements between appropriations is much reduced. Such countries can have limited, or no, virement authority with the executive (see Appendix I).

Countries using transaction-oriented, input-based expenditure controls tend to have elaborate budget structures with numerous budget lines. The need for virements is likely to be higher if each of the thousands of detailed economic categories or line-items constitutes a legal appropriation. In such cases, budget execution would be severely impeded if the legislature or minister of finance had to be involved in each reallocation decision. Such appropriation structures are, therefore, generally accompanied with greater delegation of authority to reallocate funds. These countries require elaborate virement rules to satisfy the need for control and accountability.

## **B. Stage of Development of the Budgetary System**

The need for virements also depends on the degree of sophistication in budget planning and precision in budget control. Budget preparation is an exercise in estimation. A stable economic and political environment, availability of sufficient and timely information (both at the ministry of finance and the line-ministry level), and the institutional capacity for revenue and expenditure forecasting can improve the accuracy of budget estimates and reduce the need for virements because of inaccurate forecasting of expenditure requirements. Virements are also less likely to be required where expenditure controls are firmly enforced and budgets are executed as planned and intended. Countries with reliable budget planning and execution systems should aim to restrict virements. Virements, however, should not be seen as a means of compensating for poor budget planning or weak expenditure control. The prevalence of virements can be symptomatic of weaknesses elsewhere in the system that should be identified and addressed.<sup>5</sup>

## **C. Relationship Between the Legislature and the Executive**

Another factor influencing virement policies is the nature of the relationship between the legislature and the executive in a country. The role of parliament in a budget system can be defined by a written constitution (Germany, USA), organic or quasi-constitutional legislation (Austria, France, Italy), or in primary legislation (Australia, New Zealand, Sweden, United Kingdom). There are considerable differences in the degree of legislative control over the allocation of public resources. Generally, the greater the budgetary authority and discretion given to the legislature, the lesser is the executive power to transfer funds through virement. In extreme cases, such as Finland and Sweden, any changes to the budget may have to be authorized by the legislature through a supplementary budget. In most cases (Australia, France, Korea, New Zealand, United Kingdom) the executive is allowed discretion to reallocate approved budgets within limits imposed by legislature.

## **D. Relationship Between the Ministry of Finance and Line Ministries**

The extent of concentration of virement authority with central agencies (typically ministries of finance) depends on the prevailing expenditure control framework. Generally, the more centralized the expenditure control system, the more centralized the authority to approve virements. More delegated systems of expenditure control, based on a combination of managerial discretion and accountability for budgetary performance, tend to devolve more virement authority to the budget entities. However, even in more decentralized systems of expenditure controls, some virement controls deemed critical to macroeconomic management (such as virements between current and capital expenditure) are retained by the ministries of finance (see Section VII for more details).

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<sup>5</sup> In some countries, the legal framework allows line ministries to exceed their approved budget. While this may be far from ideal from overall fiscal discipline and budget efficiency points of view, there is less need for virements in this case.

## **VI. What Limits or Restrictions should Be Placed on Virements?**

Depending on the appropriation structure, quality of budget management, and level of budgetary discretion delegated from the legislature to the executive and from the ministry of finance to line ministries, virements can be allowed between ministries, programs, economic categories, or line items. This section describes virement rules in place in different countries and highlights certain common features and good practices.

### **A. Virements Between Ministries or Major Policy Areas**

Virements between ministries (e.g., Ministry of Education to Ministry of Transport) or policy areas (e.g., education to transport), are typically prohibited or severely restricted. As ministries or policy areas are usually the highest level of budgetary appropriation, such reallocations would fundamentally alter the composition of the budget approved by the legislature and risk undermining ministerial accountability for the management of resources and the achievement of the government's policy objectives. Virements should facilitate budget execution and help governments achieve the policy objectives that the budget is expected to serve, rather than change the policy objectives themselves.

## Box 2. Virements in France

In France, appropriations are approved by 34 missions which generally coincide with ministerial boundaries. Missions are broken down into 132 programs and five main economic classes: personnel, operations, debt interest, transfers, and investment.

VIREMENT RULES IN FRANCE							
Function	Administrative		Program	Economic			
			(Policy)	Current			Capital
				Wages	Goods & Services	Grants & Transfers	
Sector	Ministry	Core Agency	Program %	→	↔	↔	↔
	Ministry	Core Agency	Program				
	Sector	Ministry	Program				

Virements are permitted across ministries as long as the provisions are applied for the same purpose for which they were originally approved. Within a ministry, virements between programs are subject to a limit of 2 percent of the original allocation under the source program. Within a program, managers have complete freedom to move funds between subprograms and economic categories (except personnel expenditure), including between current and capital. Virements from personnel expenditure to other economic categories are permitted but not vice versa. Provisions for personnel expenditure under one program can, however, be applied for personnel expenditure in another program subject to the overall limit of 2 percent.

Source: France Constitutional Bylaw No. 2001-692 (2001) on Budget Acts (1).

## B. Virements Between Programs

Where budgets are appropriated at the program level (e.g., higher education), limited virements of resources between programs within a ministry or policy area could be allowed. Often such virements are allowed with restrictions on their size and the nature of activity. The flexibility is generally higher for virements between subprograms (e.g., vocational colleges) within a program. For example, in France virements are allowed up to a limit of 2 percent of the approved budget for a program, with some restrictions on virements between economic categories (Box 2).

New Zealand follows an output-based budget structure and allows virements between outputs within a program-based vote, subject to a limit of 5 percent of the original appropriation (Box 3).

### Box 3. Virements in New Zealand

In New Zealand, appropriations are grouped into 10 sectors (each representing a major government function) and within a sector by Votes (generally corresponding to a ministry or main organizational unit). Within a Vote, appropriations are organized by seven appropriation classes: (i) output expenses – expenses to be incurred in providing goods and services to external entities; (ii) benefits and other transfer payments; (iii) debt servicing; (iv) other expenses (typically subsidies); (v) capital expenditure; (vi) expenses and capital expenditure of an intelligence and security department; and (vii) multi-category appropriations (a combination of appropriation classes contributing to a single overarching purpose).

VIREMENT RULES IN NEW ZEALAND										
Function	Administrative	Appropriation Type (Policy)	Economic				Capital			
			Current			Wages	Goods & Services	Other	Grants & Transfers	
Sector	Ministry	Core	Output	↔	↔	X	X			
		Agency	%							
	X		Output	X						
	Ministry	Core	Output							
		Agency	Other appropriation types							

Virements across Votes are prohibited. Within a Vote, virements are allowed only within the appropriation class “output expenses” – from one output to another up to a limit of 5 percent of the original allocation under the “receiving” output. Within an output there is no restriction on virement between economic categories (bearing in mind that transfer and capital are separate appropriations). The total amount appropriated for all output expenses in that Vote cannot be altered. Virements are not allowed within other appropriation types or between appropriation types. Therefore, virements between expenses (current), capital, grants, subsidies, and other transfer payments are prohibited.

Source: New Zealand Public Finance Act, 1989 (amended 2004, 2013).

### C. Virements Between Economic Categories of Expenditure

Virement rules can be more permissive regarding transfers between major economic categories, such as wages, goods and services, transfers, interest, and capital expenditure. Nonetheless, even advanced countries with program or output-based appropriations continue to impose some restrictions on the virement of resources between economic categories within programs to safeguard the government’s overall fiscal, economic, or expenditure policy objectives. For example, in Germany virements between personnel, non-personnel administrative, and capital expenditure are limited to 20 percent of the original provision.

Virements from capital to recurrent expenditure are often prohibited or strictly limited. This was the case in the United Kingdom during the period for which fiscal policy was guided by the “golden rule,” which permitted borrowing only to fund capital expenditure. If ministries had discretion to move resources from capital to current expenditure, this would risk an ex post breach of the golden rule as borrowing would then exceed outturn for capital expenditure (Box 4).

#### **Box 4. Virements Rules in the United Kingdom**

The United Kingdom’s budgetary system groups departmental expenditures into two broad types: (i) departmental expenditure limits (DEL)—expenditure that is generally within a department’s control and can be managed with fixed multi-year limits; and (ii) annually managed expenditure (AME)—expenditure other than DEL that is less predictable and controllable. Both DEL and AME are split by resource (current) and capital according to the economic nature of the expenditure. DEL is broken down into program expenditure (provision of frontline public services) and administrative expenditure (expenditure on policy staff and overheads). Program expenditure is further broken down into individual programs (known as Requests for Resources or RfRs).

VIREMENT RULES IN THE UK								
Function	Administrative		Program (Policy)	Economic				Capital
				Current				
				Wages	Goods & Services	Grants & Transfers	Other	
Sector	Ministry	Core	Programme	↔	↔	↔	→	
		Agency	Programme					
X	Ministry	Core	Programme					
X		Agency	Programme					
Sector								

Departments are permitted to vire (i) from DEL to AME but not the other way; (ii) from resource (current) to capital but not the other way; (iii) from administration to program but not the other way; (iv) from Voted to non-Voted (automatic) appropriations, but not the other way.

Moreover, virements can only cover activities clearly authorized in the budget (in the form of an RfR) and cannot be undertaken where: (i) the amount involved is significant in relation to the budget as a whole; (ii) the spending supported by the virement might be viewed by Parliament as either novel or contentious; (iii) it would imply significant liabilities for further spending in future years; (iv) the provision is from a ring-fenced item or Departmental Unallocated Provision (a departmental reserve); or (v) the virement would lead to an additional cash requirement.

Source: HM Treasury, “Supply Estimates: A Guidance Manual,” July 2011.

Within recurrent expenditure, virement into items that have the potential to increase future outgoings are often prohibited or limited. In particular, virements are typically not allowed into:

- Wages—particularly virements that will increase the workforce and entail ongoing future costs—are often restricted or prohibited. In some countries (France, Greece), salary provisions are regulated by parliamentary authority and cannot be increased. Some other countries (India) place administrative restrictions on virements between salary and non-salary provisions, although salary provisions are not subject to specific parliamentary approval.
- New leases, rental, and contractual agreements that create a liability in future years.
- New programs, projects, or activities that were not authorized by parliament in the original budget.

Virements are typically also prohibited from items that are statutory obligations or non-discretionary. These include:

- Social security benefits and other entitlement to households.
- Grants or transfers to local governments.
- Interest payments on government debt.

### Box 5. Virements in South Africa

In South Africa, appropriations are approved by ministry or agency (called Votes) which are broken down into programs, subprograms, and six broad economic categories: employee compensation, goods and services, other current payments, transfers and subsidies, capital assets, and financial assets. Virements are permitted within a Vote from one program to another, subject to a limit of 8 percent of the original allocation under the “giving” program.

VIREMENT RULES IN SOUTH AFRICA								
Function	Administrative		(Policy)	Economic				Capital
				Current				
				Wages	Goods & Services	Grants & Transfers	Other	
Sector	Ministry	Core	Programme %	↔	→	←	→	
		Agency	Programme					
X								
X	Ministry	Core	Programme					
		Agency	Programme					

Virements to increase provisions for employee compensation, transfers, and subsidies require prior Treasury approval. Virements are prohibited: (i) across Votes; (ii) from an item earmarked in the budget as appropriated for a stated purpose; (iii) from amounts appropriated for transfer to institutions; and (iv) from capital to current expenditure. Except for these restrictions, virements within a program—between subprograms and across economic categories—are unrestricted.

Source: Public Finance Management Act No. 1 of 1999; Treasury Regulations.

### D. Virements Between Line Items

Virements between individual line items within economic categories are typically allowed in most budgeting systems, with some exceptions. Mauritius, for example, restricts virements from maintenance to other items to ensure ministries and agencies keep their physical assets in good working order. Governments grappling with the problem of payment arrears may need to protect provisions for items that frequently generate arrears, such as utility bills.<sup>6</sup> Similarly, governments may also restrict virements into certain line items that are considered vulnerable to abuse by government officials. India, for example, limits virements into travel expenses. However, such restrictions should be context specific and reviewed periodically for their relevance.

<sup>6</sup> See FAD TNM on arrears management for a more elaborate discussion on this topic.

## **E. Other Restrictions on Virements**

Ring-fenced or special allocations may also be protected from alteration. For example, the United Kingdom has some ring-fenced priority programs within ministerial budgets (such as expenditure on science or overseas aid) which cannot be altered without Treasury approval. Similarly, Mauritius restricts virements from special funds set up under the Finance and Audit Act. In South Africa, virements from amounts earmarked in the budget for specified purposes (e.g., recapitalization of a financial institution, information systems modernization, upgrading of physical infrastructure in an organization) are prohibited. Some countries (India) protect provisions for transfer payments to sub-national governments from virement while others (South Africa) allow virements from amounts appropriated for transfer payments to specific institutions to other institutions provided the funds are applied to the same purpose. Countries receiving donor funding for earmarked activities often protect these provisions from virements.

In many Commonwealth countries virements are permitted for augmenting resources only for an approved activity, not for undertaking a new activity (Bangladesh, India, Guyana, Jamaica, United Kingdom). Virements are also typically prohibited from or to budget provisions that are automatic or “standing” appropriations (also referred to as “direct charges on the Consolidated Fund” in Commonwealth systems). These include debt service, subscriptions to regional or international organizations, and the budgets of constitutional entities such as the supreme court and the legislature itself.

## **F. Virements and Budgetary Reserves**

Some countries also use virement rules as a means of accessing and reporting on the use of their contingency reserves. In these cases, the transfer of funds from the centrally managed contingency reserve to the ministry or agency responsible for responding to the contingency constitutes a virement and is reported as such to the legislature. Use of virements for this purpose brings transparency to the process and ensures full accountability for the use of the funds. By contrast, direct expenditure from the reserves can be opaque and detrimental to establishing accountability for their ultimate use.

# **VII. How should Virements be Authorized and Reported?**

In addition to specifying the types of transfers permitted, virement rules also need to specify the procedure for authorizing and disclosing those movements. In particular those procedures should specify:

- When virements can be undertaken.
- Who has the authority to propose and approve virements.
- How virements should be recorded and reported to the legislature.

## **A. Timing of Virements**

Controlling the timing of virements can be a useful way of ensuring that virements do not undermine incentives for good budget management. To encourage budget-holders to put forth credible budget proposals, some countries prohibit virements in the first few months of the financial year, or require the finance ministry's approval for such virements even if they fall within the delegated powers of line ministries. Similarly, to ensure spending agencies have time to use the additional funds in a planned manner, a cut-off date for effecting virements are sometimes set one month or one quarter before the end of the financial year. Stricter controls, or not allowing virements, during the last month of the financial year discourages use of virements as a means of "soaking up" excess appropriations before they lapse at the end of the financial year.

## **B. The Authority to Effect Virements**

A virement policy should clearly specify who is authorized to propose and approve a virement. For example, virements can be authorized by the cabinet (New Zealand, France, United Kingdom), finance ministry (Australia for larger amounts, Korea), or the line ministries themselves (Australia for smaller amounts, Austria, Turkey). A key consideration is the extent of devolution of the authority to carry out virements. A complete centralization of virement powers at finance ministries may be inefficient and undesirable. The need for smooth budget execution demands greater devolution of powers to line ministries and the executing agencies, with some control remaining with the finance ministry to ensure appropriate use of that authority.

The degree of centralized controls usually depends on the level at which resources are being transferred. From this point of view, budgetary allocations can be grouped into four broad categories:

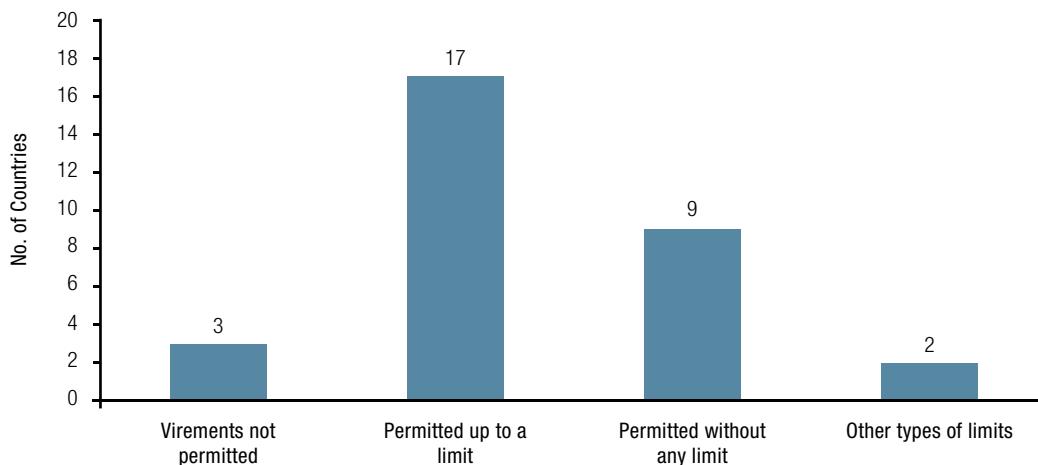
- Line ministries typically have complete authority to transfer funds between line items, with the exception of those that are ring-fenced.
- The concurrence of the finance ministry is usually required for virement of resources between economic categories or programs, with the exception of those where virements are prohibited.
- The approval of the cabinet is often required for virements of resource between ministries or policy areas.
- The approval of parliament is required for any of the above changes that exceed the statutory limits on executive discretion.

In addition to limits on the categories of expenditure that can be transferred, many countries place limits on the total volume of virements that can be made during the year. Of the 31 countries surveyed in a recent Organization for Economic Cooperation and Development (OECD) survey, 9 (29 percent) allow line ministries to reallocate funds within their responsibility without any limitation on the size of such reallocations, another 17 (55 percent) allow reallocation subject to pre-specified thresholds that usually range from 5 percent to 20 percent of the original

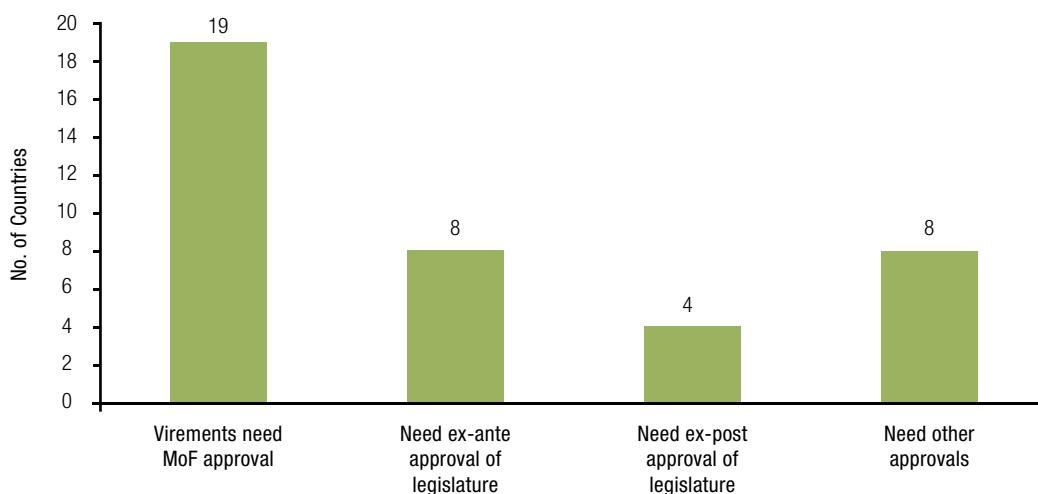
allocation (Figure 6a). Eight countries (26 percent) surveyed require an ex-ante approval by the legislature for any movement of resources between appropriations (Figure 6b).

**Figure 6: Virement Practices in OECD Countries**

(a) Limits on Virements



(b) Kind of Approval Required



Source: OECD 2012.

Countries in the process of moving from centralized, input-based expenditure control to decentralized, outcome-based expenditure management may choose to adopt a risk-based approach to the relaxation of central controls over virements. Under this approach, the devolution of the virement authority to line ministries is conditional upon the quality of financial management as measured by such indicators as adherence to annual budget limits, timeliness of financial reporting, and quality of final accounts. Such approaches have been used successfully in the United Kingdom and more recently in Belgium to incentivize improvements in financial management.

On the other hand, a few countries, such as Kenya (PFM Act of 2012) and Uganda (PFM Act of 2015) have tightened virement and supplementary budget rules and imposed stricter limits on line ministries' power to reallocate funds.

### **C. Requesting and Recording Virements**

Virements involve transfer of budget savings under one or more items to finance additional expenditures under other item(s). Virement proposals should, therefore, consider not only the justification for additional expenditure in the target appropriation but also the certainty of the available savings in the source appropriation. Proposals should be considered only after establishing that sufficient savings of non-committed expenditure are available to fund the transfer. The proposals should be formulated with clear understanding that the “giving” budget holder(s) will no longer enter into any commitments that would require the funds proposed for reallocation. The reasons for savings as well as the motivation to transfer must be clearly established and documented. Each virement should be issued as a specific order conveying the amounts transferred from and to specific budget items, recorded in the government’s financial management information system, and reported to the legislature on at least a quarterly basis (see Appendix II for a suggestive format). All transactions recording the virement of funds should be auditable; it is a good practice to number virement orders serially so that they are easy to track. If countries require ministries/agencies to prepare detailed cash plans, the effect of virements should be reflected in such cash plans.

## Appendix I: Virement Rules in OECD Countries

COUNTRY	BUDGET STRUCTURE		VIREMENT AUTHORITY		VIREMENT RULES (YES=ALLOWED, NO=NOT ALLOWED)			
	NUMBER OF APPROPRIATIONS	NATURE OF APPROPRIATIONS	VIREMENTS ALLOWED?	WHO APPROVES?	BETWEEN MINISTRIES	BETWEEN PROGRAMS	BETWEEN ECONOMIC CATEGORIES	OTHER RESTRICTIONS
Finland	450	Line item	No	—	—	—	—	—
Sweden	550	Line item	No	—	—	—	—	—
Austria	70	Program	Yes	LM: B/W subprograms MoF: B/W programs or chapters	Yes (rare in practice)	Yes	Yes	—
France	256	Program	Yes	Cabinet	Yes	Within a ministry, up to a limit of 2% of the amount authorized for a program	Virements to wages from other economic category not allowed	—
Australia	217	Program	Yes	LM: Under AU\$ 5m MoF: Over AU\$ 5m	No	No restrictions within departments; not allowed between departments	Yes	—
United Kingdom	400	Ministerial	Yes	MoF	No	Yes	Not allowed from resource to capital; not allowed from entitlement to non-entitlement spending	No virement from administration to program
New Zealand	1,000	Output	Yes	Cabinet (ex-post Parliament)	No	—	Yes	5 percent of the output appropriation within a vote; allowed only between output expenses
Germany	6,600	Line item	Yes	Budget holders	No	—	Yes	20 percent of the budget across selected categories
Turkey	34,500	Line item	Yes	Public Administrations up to 20 percent of a line item; MoF beyond 20 percent	Yes	—	Yes, except that virements not allowed from personnel expenses to other categories	No virements from items that previously received a virement from another item or from contingency reserve

## Appendix II: South Africa- Format for Reporting on Virements<sup>7</sup>

PROGRAMMES					
FROM:			TO:		
Programme by economic classification	Motivation	R thousand	Programme by economic classification	Motivation	R thousand
<b>Programme 1</b>		<b>(12,656)</b>	<b>Programme 1</b>		<b>12,656</b>
Compensation of employees	Non-critical posts at head office were not filled	(12,656)	Goods and services Machinery and equipment	Upgrading of computer equipment Office equipment such as photocopiers	12,545 111
Shifts within the programme as a percentage of the programme budget		0.1%			
<b>Virements to other programmes as a percentage of the programme budget</b>		<b>0%</b>			
<b>Programme 2</b>		<b>(130,000)</b>	<b>Programme 2</b>		<b>20,000</b>
Machinery and equipment	Funds earmarked for the new passport system were reclassified <sup>1</sup>	(130,000)	Goods and services <b>Programme 3</b> Departmental agencies and accounts	Network infrastructure and hardware Government Printing Works for new passport system	20,000 <b>110,000</b> 110,000
Shifts within the programme as a percentage of the programme budget		0.1%			
<b>Virements to other programmes as a percentage of the programme budget</b>		<b>0.6%</b>			
<b>Programme 3</b>		<b>(1,233,430)</b>	<b>Programme 2</b>		<b>1,233,430</b>
Software and other intangible assets	Funds earmarked for HANIS Smart ID Card were reclassified Funds specifically and exclusively earmarked for new passport system were reclassified <sup>2</sup>	(1,213,430) (20,000)	Goods and services	Smart ID card New client contact centre New passport system	1,205,430 8,000 20,000
Shifts within the programme as a percentage of the programme budget		<b>0%</b>			
<b>Virements to other programmes as a percentage of the programme budget<sup>2</sup></b>		<b>8.3%</b>			
<b>Total</b>		<b>(1,376,086)</b>			<b>1,376,086</b>

<sup>1</sup> National Treasury approval has been obtained.

<sup>2</sup> Only the legislature may approve this virement in terms of the Public Finance Management Act, (Act 1 of 1999).

<sup>7</sup> Source: Government of South Africa, 2015, "Technical Guidelines for the Preparation of Adjusted Estimates of National Expenditure."

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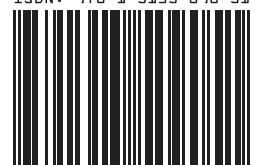
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