



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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MEDIA STATEMENT

LOCAL GOVERNMENT REVENUE AND EXPENDITURE: SECOND QUARTER LOCAL GOVERNMENT SECTION 71 REPORT FOR THE PERIOD 1 JULY 2025 – 31 DECEMBER 2025

National Treasury has published a report on local government revenue and expenditure for the second quarter of the 2025/26 financial year. This report covers the performance against the adopted budgets of local government for the second quarter of the municipal financial year ending on 31 December 2025 and includes spending against conditional grant allocations for the same period. In addition, this publication includes the non-financial performance of MFMA Circular No. 88 Metro Indicators for the second quarter of the 2025/26 financial year.

The Section 71 report promotes transparency in reporting, enhances in-year management and the oversight of the financial performance of municipalities against their adopted budgets. This report, therefore, functions as a management tool that serves as an early warning mechanism for municipal councils, provincial legislatures, and municipal management, allowing for effective monitoring and timely improvement of municipal performance. Improving the credibility of the data strings is a priority for national and provincial treasuries and the submitted data strings are analysed monthly, and errors are communicated to municipalities for correction.

KEY TRENDS:

Aggregate trends

1. In aggregate, municipalities budgeted for total revenue of R706.6 billion for 2025/26 and realised R360.7 billion by 31 December 2025 representing 51 per cent performance. Municipalities spent R312 billion at the end of the second quarter compared to the adopted budget of R698.1 billion, representing 44.7 per cent performance. This consists of operating and capital expenditure.
2. Total operating expenditure was R283.9 billion in the second quarter compared to the adopted budget of R619.2 billion, representing 45.8 per cent performance.
3. Total capital expenditure was R28.1 billion against the adopted budget of R78.9 billion representing 35.6 per cent performance. The target for capital expenditure on 31 December 2025 was R36.3 billion, resulting in an underperformance of R8.2 billion (22.5 per cent). The observation over the previous years is that performance against the capital budget starts at a slow rate and spikes in the fourth quarter of the financial year. However, incorrect reporting also distorts the performance where some municipalities reported negative capital expenditure.



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4. The salaries and wages (including remuneration of councillors) budget for the 2025/26 financial year is R172.8 billion and the expenditure for the second quarter was R80.2 billion representing 46.4 per cent performance. The budget for salaries and wages constitutes 27.9 per cent of the total adopted operating expenditure budget of R619.2 billion.
5. There are 50 municipalities that reported negative cash balances for the second quarter of the 2025/26 financial year. Analysis of the collection rates indicates that while municipalities have on average budgeted for a collection rate of 78.6 per cent by the second quarter of the 2025/26 financial year, the actual collection against billed revenue was only 69 per cent.
6. Municipalities' financial sustainability depends on their ability to collect outstanding debt from consumers. Aggregate municipal consumer debts were R467.2 billion (compared to R405.1 billion reported in the second quarter of 2024/25) as at 31 December 2025. A total of R5.4 billion (1.1 per cent) was written off as bad debt.
7. Households have the highest outstanding debt at R335.3 billion representing 71.8 per cent of total outstanding debt of R467.2 billion. Commercial (businesses) institutions owe municipalities R94.7 billion (20.3 per cent) and organs of state R27.6 billion (5.9 per cent).
8. The outstanding debt for a period over 90 days is R406.8 billion representing 87.1 per cent of total outstanding debt of R467.2 billion. Municipalities must rigorously implement credit control and debt collection policies to collect outstanding debt regardless of the period for which it has been outstanding.
9. There is a relationship between municipalities' ability to collect outstanding debtors and payment of creditors. If municipalities take long to collect debtors, it impacts on their cash flow and consequently delayed payments to creditors (suppliers).
10. The creditors' age analysis shows that R160.8 billion (R127.9 billion reported in the second quarter of the 2024/25 financial year) was owed by municipalities as at 31 December 2025. Most of the creditors are outstanding for over 90 days at R135.9 billion (84.5 per cent).
11. The major creditors are for bulk electricity at R87.9 billion (54.7 per cent), trade creditors at R35.5 billion (22.1 per cent) and bulk water at R27.3 billion (17 per cent). The amount owed for bulk electricity increased by R19.2 billion (28 per cent) compared to the second quarter of the 2024/25 financial year.
12. At a provincial level, municipalities in the Free State have the highest outstanding creditors greater than 90 days at R39.9 billion, followed by Mpumalanga at R31.8 billion and Gauteng at R27 billion. The year-on-year increase in outstanding creditors could be an indication that municipalities are experiencing liquidity and cash challenges and consequently not settling their outstanding debt within the stipulated 30 days.



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Non-financial information in terms of the MFMA Circular No. 88

13. The 2025/26 second quarter Section 71 publication incorporates financial and non-financial performance indicators drawn from the MFMA Circular No. 88 reporting received from metropolitan municipalities, covering 112 indicators. Following successive rounds of feedback to municipalities, the performance information reported by metropolitan municipalities is increasingly complete and reliable, even while some data quality issues continue to be followed up with municipalities. This performance data from metropolitan municipalities aims to improve transparency, accountability and support value-for-money assessments by institutionalising a standardised, rationalised and coordinated set of performance measures of municipal service delivery and operational effectiveness. These indicators have been consulted and agreed in discussions with national sector departments and municipal administrators responsible for service delivery implementation.

Conditional Grants

14. The Division of Revenue Act (DoRA) allocated a total amount of R176.8 billion (R169.8 billion in 2024/25) in direct transfers to local government for the 2025/26 financial year. Over the medium term, direct transfers to local government account for 9.7 per cent of national government's non-interest expenditure, and account for 9.8 per cent when indirect transfers are added. This allocation of R176.8 billion includes unconditional transfers in the form of the Equitable Share and related (R106 billion), direct conditional grants allocated for capacity grants (R1.7 billion from R2 billion in 2022/23), direct conditional grants for infrastructure projects (R52.1 billion, including the Urban Settlements Development Grant (USDG) of R9.2 billion), the Urban Development Financing Grant (UDFG) (R1 billion) and indirect conditional grants (R7.8 billion – a slight increase from the R6.9 billion allocated in 2024/25).
15. As at 31 December 2025, R30.4 billion or 68.4 per cent of the R44.4 billion (excluding USDG) allocated to municipalities in direct conditional grants for 2025/26 was transferred to municipalities. National government departments reported expenditure of R19.7 billion representing 44.2 per cent expenditure of the R44.4 billion allocated to municipalities (64.6 per cent of the transferred amount of R30.4 billion). However, the reported expenditure by municipalities is relatively low at 39.1 per cent of the allocation. The low expenditure levels reported by municipalities indicate that some of the cash flow projections submitted to the National Treasury to inform transfers were overly unrealistic, and that several municipalities were not adequately prepared to implement the planned 2025/26 projects. Contributing factors include Supply Chain Management (SCM) inefficiencies and capacity constraints, which have hindered timely implementation of projects by municipalities. This is confirmed by the slow spending performance by municipalities during the second quarter against the transferred funds.



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16. To assist municipalities with infrastructure development and rollout of basic services, in 2025/26 DoRA allocates R52.1 billion in infrastructure conditional grants R55 billion (2026/27) and R54.8 billion (R2027/28) is allocated in the two outer years of the 2025/26 MTEF. As at the end of the second quarter, R28.9 billion or 67.9 per cent in infrastructure grants had been transferred to municipalities, and R19 billion or 44.5 per cent was spent by municipalities against an allocation of R42.7 billion (excluding the Urban Settlements Development Grant (USDG) and Urban Development Financing Grant (UDFG) which are supplementary grants and reported as part of the overall capital budget).
17. In 2025/26, R1.8 billion is allocated to municipalities in the form of capacity building and other grants. These grants are intended to assist municipalities in the development of their management, planning, technical, budgeting, and financial management capacity over a continuous basis. These grants include the Municipal Disaster Response Grant (MDRG) which assists municipalities in alleviating the impact of a disaster in the Eastern Cape, KwaZulu-Natal, Limpopo, and North West provinces where R199.2 million was allocated and transferred to affected municipalities to alleviate the impact of the disaster. In all four provinces the floods resulted in damages to property, infrastructure like roads and stormwater, water, sanitation, electricity, community infrastructure, and other municipal infrastructure, as well as loss of lives.
18. The capacity building conditional grants have not performed as well as expected, except for the Expanded Public Works Programme (EPWP) grant, where municipalities spent 46.5 per cent of the allocation as at the end of the second quarter. The Infrastructure Skills Development Grant and the Financial Management Grant (FMG) managed to spend 40.5 per cent and 39.4 per cent of their R172.8 million and R585.9 million allocations, respectively.
19. A summary of key aggregated information is included in the tables in **Annexure A**.

Further details on this report can be accessed on the National Treasury's website: www.treasury.gov.za.

NOTE TO EDITORS:

- This information is published in terms of Sections 71 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), and 30(3) of the Division of Revenue Act, 2025 (Act No. 02 of 2025) (DoRA). The budgeted figures shown are based on the 2025/26 adopted budgets approved by municipal councils.
- In terms of the process, Municipal Managers and Chief Financial Officers were required to sign and submit data to the National Treasury by 11 February 2026. Any queries on the figures in these



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statements should be referred to the relevant Municipal Manager or Chief Financial Officer. Queries on conditional grants may be referred to the national department responsible for administering the grant.

- A municipal budget must be funded in terms of Section 18 of the MFMA before a Municipal Council can adopt it for implementation. A funded budget is essentially a budget that is funded by a combination of cash derived either from realistically anticipated revenues to be collected in that year, or from cash backed surpluses of previous years. When preparing their annual budgets, it is common amongst most municipalities to overstate or inflate revenue projections, either to reflect a surplus, or on the surface to show that excess expenditure requirements are adequately covered by revenues to be collected. Therefore, the revenue estimates are seldom underpinned by realistic or realisable revenue assumptions resulting in municipalities not being able to collect this revenue, resulting in difficulties in cash flow. Should such situations arise, municipalities must adjust expenditures downwards to ensure that there is sufficient cash to meet these commitments.
- This second quarter publication covers 257 municipalities on financial information and conditional grant information.

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STRUCTURE OF INFORMATION RELEASED:

Other information released on National Treasury's website (www.treasury.gov.za) as part of this process includes the following:

- Municipal Budget Statements:
 - a. Cash Flow closing balances as at 31 December 2025;
 - b. High-level summary of revenue for 257 municipalities;
 - c. High-level summary of expenditure for 257 municipalities.
- Summary of revenue and expenditure per function (electricity, water, etc):
 - a. High level summary of revenue per function; and
 - b. High level summary of expenditure per function.
- Consolidation of revenue and expenditure numbers for each municipality in one file.
- Detail per province per municipality.
- Summary of Conditional Grant (CG) information for all municipalities and per grant.
- CG – Detail per province per Municipality.
- Summary of Conditional Grant (CG) information per programme.
- Section 71 summary information for the first quarter:
 - a. Summary of total monthly operating expenditure – 257 municipalities;
 - b. Summary of total monthly operating revenue – 257 municipalities;
 - c. Summary of total monthly capital expenditure – 257 municipalities;
 - d. Summary of total monthly capital revenue – 257 municipalities;
 - e. Summary – Metros;
 - f. Conditional Grant summary – Metros;
 - g. Summary – Top 19 municipalities;
 - h. Conditional Grant summary – Top 19 municipalities;
 - i. Summary – Provinces;
 - j. Conditional Grant summary – Provinces;
 - k. Analysis of Sources of Revenue – 257 municipalities;
 - l. Listing of borrowing instruments – 626 reported by 251 municipalities;
 - m. Listing of investment instruments – 2 723 reported by 244 municipalities; and
 - n. Monthly repairs and maintenance expenditure – 257 municipalities.
- Service delivery information (non-financial performance) for all municipalities:
 - a. 2nd Quarter MFMA Circular No. 88 non-financial performance indicators for Metros.
- MFMA Section 138 and 140 triggers for determining serious financial problems and for determining persistent breach of financial commitments.
- Non-Compliance:



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- a. List municipalities not complying with Section 71 of the MFMA.

The Section 71 information reported by municipalities to National Treasury is also published on the National Treasury website in the format of Schedule C, which is the format for monthly and quarterly municipal financial statements as prescribed by the Municipal Budget and Reporting Regulations.