



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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LOCAL GOVERNMENT REVENUE AND EXPENDITURE: THIRD QUARTER LOCAL GOVERNMENT SECTION 71 REPORT FOR THE PERIOD 1 JULY 2025 – 31 MARCH 2026

National Treasury has published a report on local government revenue and expenditure for the third quarter of the 2025/26 financial year. This report covers the performance against the adjusted budgets of local government for the third quarter of the municipal financial year ending on 31 March 2026 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 third 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 adjusted the total revenue budgets for 2025/26 upwards from R706.6 billion in the original budget to R717.2 billion adjusted budget. Total billed revenue by 31 March 2026 was R521 billion representing 72.6 per cent performance against the adjusted budget.
2. Total operating expenditure was R419.9 billion in the third quarter compared to the adjusted budget of R630.4 billion, representing 66.6 per cent performance.
3. Total capital expenditure was R41 billion against the adjusted budget of R83.9 billion representing 49 per cent performance. The target for capital expenditure on 31 March 2026 was R59.2 billion, resulting in an underperformance of R18.2 billion (30.7 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



MEDIA STATEMENT

reported negative capital expenditure. The expenditure reported by metros is understated because of non-reporting by Nelson Mandela Bay.

4. The salaries and wages (including remuneration of councillors) adjusted budget for the 2025/26 financial year is R172.2 billion and the expenditure for the third quarter was R120.4 billion representing 69.9 per cent performance. The budget for salaries and wages constitutes 27.3 per cent of the total adjusted operating expenditure budget of R630.4 billion.
5. There are 48 municipalities that reported negative cash balances for the third 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 61.9 per cent by the third quarter of the 2025/26 financial year, the actual collection against billed revenue was 63.3 per cent.
6. Municipalities' financial sustainability depends on their ability to collect outstanding debt from consumers. Aggregate municipal consumer debts were R484 billion (compared to R416.1 billion reported in the third quarter of 2024/25) as at 31 March 2026. A total of R6.9 billion (1.4 per cent) was written off as bad debt.
7. Households have the highest outstanding debt at R339 billion representing 70 per cent of total outstanding debt of R484 billion. Commercial (businesses) institutions owe municipalities R105.3 billion (21.7 per cent) and organs of state R28.5 billion (5.9 per cent).
8. The outstanding debt for a period over 90 days is R424.7 billion representing 87.7 per cent of total outstanding debt of R484 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 R148 billion (R131.8 billion reported in the third quarter of the 2024/25 financial year) was owed by municipalities as at 31 March 2026. Most of the creditors are outstanding for over 90 days at R120.6 billion (81.5 per cent).
11. The major creditors are for bulk electricity at R79.4 billion (53.6 per cent), trade creditors at R30.4 billion (20.5 per cent) and bulk water at R26.4 billion (17.9 per cent). Bulk electricity decreased by R8.5 billion (10.9 per cent) while trade creditors decreased by R5.2 billion (14.5 per cent) compared to the second quarter of the 2025/26 financial year.



MEDIA STATEMENT

12. At a provincial level, municipalities in the Free State have the highest outstanding creditors greater than 90 days at R41.7 billion, followed by Mpumalanga at R21.3 billion and Gauteng at R21.2 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.

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

13. The 2025/26 third 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 the detailed performance feedback letters by the National Treasury, there has been a gradual improvement in the quality, completeness and credibility of information submitted by metropolitan municipalities. Some metros have responded positively to the feedback by improving the reporting and addressing data gaps. However, other metros continue to experience persistent challenges relating to incomplete reporting, inconsistent data quality and system challenges. The purpose of this reporting continues to improve transparency and accountability and establish a more standardised approach to measuring municipal service delivery performance and operational efficiency.

Conditional Grants

14. During the 2025/26 financial year, an adjusted amount of R171.7 billion was allocated through the Division of Revenue Act, as amended (Act No. 12 of 2025) (DoRAA) in transfers to local government. The adjusted allocation includes unconditional transfers in the form of the Equitable Share and related general fuel levy (R106.1 billion), direct conditional grants allocated for capacity grants (R1.8 billion), direct conditional grants for infrastructure projects (R44.4 billion, and the Urban Settlements Development Grant (USDG) of R9.2 billion) and indirect conditional grants (R7.2 billion).
15. As at 31 March 2026, municipalities were allocated R46.2 billion for direct conditional grants, of which R43.3 billion has been transferred. This amount excludes the Equitable Share allocation, Urban Settlements Development Grant (USDG) as a supplementary capital allocation to metropolitan municipalities) as well as indirect grants. National Transferring Officers (NTOs) reported spending of R27.4 billion, or 59.2 per cent, while municipalities reported spending of R24.1 billion or 52.2 per cent, of the total allocation. In comparison, during the same period in the previous financial year, NTOs reported 55.9 per cent against the total adjusted allocation for direct conditional grants.
16. There are several factors that are attributed to the overall underspending of the conditional grants by municipalities during the 2025/26 financial year. Some of these factors include late submissions of



MEDIA STATEMENT

business and implementation plans which hindered timely implementation, while persistent Supply Chain Management (SCM) challenges disrupted procurement processes. These issues not only affected grant performance in the third quarter but also led to reduced allocations for some municipalities during the adjustment budget process.

17. The 2025/26 third quarter infrastructure grant performance reflects continued spending pressures across municipalities, with notable variances between expenditure reported by NTOs and expenditure reported directly by municipalities to the National Treasury. The total adjusted infrastructure grant allocation available for the year amounted to approximately R44.4 billion. By the end of the third quarter, NTOs reported cumulative expenditure of approximately R26.3 billion, representing 59.3 per cent of the total available allocation. In comparison, municipalities reported cumulative expenditure of approximately R23 billion, translating to 51.8 per cent of the available allocation. This indicates an overall reporting variance of approximately R3.3 billion between the two reporting streams.
18. 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. An additional R496 million and R955 million was allocated to the Municipal Disaster Recovery Grant (MDRG 5B) to support the reconstruction and rehabilitation of municipal infrastructure damaged by the floods and storm surges that affected the Eastern Cape, KwaZulu-Natal, Limpopo, Mpumalanga and North West provinces between March and June 2025.
19. The overall performance of Capacity grants as at the end of the third quarter of the 2025/26 financial year reflects moderate progress in spending performance when compared to the previous financial year. In aggregate, NTOs reported year-to-date expenditure of R1 billion, representing 58.5 per cent of the total allocation, while municipalities reported a slightly higher expenditure of R1.1 billion or 62.4 per cent of the total allocation. The municipal reporting therefore exceeded the expenditure reported by NTOs by approximately R68.4 million, indicating continued discrepancies between the two reporting sources. Compared to the third quarter performance of 49.4 per cent recorded in the previous financial year, performance improved significantly during 2025/26, reflecting stronger implementation and expenditure progress across most capacity grants.
20. 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.



MEDIA STATEMENT

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 adjusted 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 May 2026. Any queries on the figures in these 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 third quarter publication covers 257 municipalities on financial information and conditional grant information.

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MEDIA STATEMENT

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 March 2026;
 - 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 – 615 reported by 247 municipalities;
 - m. Listing of investment instruments – 2 715 reported by 239 municipalities; and
 - n. Monthly repairs and maintenance expenditure – 257 municipalities.
- Service delivery information (non-financial performance) for all municipalities:
 - a. 3rd 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.



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MEDIA STATEMENT

- **Non-Compliance:**
 - 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.