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MEDIA STATEMENT

NATIONAL TREASURY TO IMPLEMENT MEASURES TO ENSURE PROPER MANAGEMENT OF PUBLIC MONEY BY MUNICIPALITIES

National Treasury is in the process of temporarily withholding the July 2026 equitable share transfers to selected municipalities to instill fiscal discipline and ensure that public money is properly managed; that Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIFWE) is addressed; and that municipal officials and office-bearers are held accountable where required by law. The decision follows persistent and serious non-compliance with the Municipal Finance Management Act (MFMA) and its supporting regulations, despite support provided by the National Treasury through guidance, engagement, and formal or informal communication.

The selected municipalities are: **Eastern Cape** - Buffalo City, Nelson Mandela Bay, Makana, Sundays River Valley, Inxuba Yethemba, Port St Johns; **Free State** - Mangaung, Letsemeng, Kopanong, Mohokare, Xhariep District Municipality, Masilonyana, Tokologo, Matjhabeng, Nala, Dihlabeng, Nketoana, Maluti-a-Phofung, Phumelela, Mantsopa, Ngwathe, Mafube; **Gauteng** - City of Johannesburg, Emfuleni, Lesedi, Sedibeng District Municipality, Merafong City, Rand West City; **KwaZulu-Natal** - iMpendle, uMzinyathi District Municipality, Newcastle, eMadlangeni, Amajuba District Municipality, AbaQulusi, uMkhanyakude District Municipality; **Limpopo** - Mopani District Municipality, Musina, Thabazimbi, Modimolle-Mookgopong, Fetakgomo Tubatse; **Mpumalanga** - Victor Khanye, Emakhazeni, Nkomazi; **Northern Cape** - Kamiesberg, Khâi-Ma, Ubuntu, Umsobomvu, Emthanjeni, Renosterberg, Thembelihle, Siyathemba, !Kai !Garib, Magareng, Phokwane; **North West** - Madibeng, Kgetlengrivier, Tswaing, Mafikeng, Ditsobotla, Ngaka Modiri Molema District Municipality, Naledi, Mamusa, Dr Ruth Segomotsi, Mompoti District Municipality, City of Matlosana, Maquassi Hills, JB Marks; **Western Cape** - Theewaterskloof, Laingsburg, and Beaufort West.

The municipalities have been given sufficient notice in writing and urged to take measures to change their financial management positions ahead of the withholding of funds. They were also given a platform to send, in writing, reasons why their funds should not be withheld.

The temporary withholding of funds is taken in terms of section 216(2) of the Constitution, read with section 38 of the Local Government: Municipal Finance Management Act 56 of 2003 (MFMA). It is important to note that this is a corrective rather than punitive measure. Because the withholding of the

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funds will be for a short-term period, the National Treasury does not foresee any impact on service delivery.

Prior to the withholding of funds, National Treasury has provided support to municipalities through the issuance of MFMA Circulars which guide municipalities on what they must do to ensure compliance with specific provisions of the MFMA and its regulations; through one-on-one municipal engagements; and various training interventions either directly with the municipalities or through national or provincially facilitated forums.

Despite these support interventions, many municipalities are still failing to comply with the provisions of the MFMA and its supporting regulations insofar as they relate to adopting funded budgets, addressing UIFWE and ensuring that statutory commitments are met when due.

Non-compliance with the legislation is not only a dereliction of fiduciary duties by the political and administrative leadership of municipalities, but it is also threatening the financial sustainability of bulk suppliers (water boards and Eskom). In addition, failure to pay third parties negatively impacts on the ability of statutory bodies to continue operating optimally. The statutory bodies referred to are the Auditor-General of South Africa (AGSA), the South African Revenue Services (SARS), and the Financial Sector Conduct Authority (FSCA).

Consistently incurring UIFWE is also indicative of weak governance within municipalities and instances where it is accompanied by financial losses, negatively impact service delivery. In addition, non-payment of service providers results in fruitless and wasteful expenditure due to interest and penalties charged and service delivery disruptions.

Some of the affected municipalities have failed to process UIFWE as required by section 32 of the MFMA. Section 32 of the MFMA provides that a municipal council must recover UIFWE from the persons liable therefore unless, after investigation by a council committee, the expenditure is certified as being irrecoverable and written off. The council committee referred to in section 32 is the Municipal Public Accounts Committee (MPAC).

Some of the municipalities have failed to properly deal with UIFWE as the MFMA requires municipalities to investigate such expenditure, determine accountability, recover losses where appropriate and take corrective action. National Treasury has found that many municipalities have not processed UIFWE cases through their MPACs which are responsible for overseeing accountability in some municipalities. This means MPACs are not functioning effectively.

In addition, some of the affected municipalities have also failed to show that consequence management is being implemented, including on a timely basis. This includes referrals to disciplinary boards, investigations, disciplinary actions, recovery steps, and criminal referrals where required. These duties arise under Chapter 15 of the MFMA, read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014.

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The latest Auditor-General of South Africa's 2024/25 Consolidated general report on Local Government Audit Outcomes largely corroborates the findings published by the National Treasury in the 2024/25 MFMA Compliance Report about persistent weaknesses in municipal financial management such as that:

- Since 2021-22, municipalities have incurred a total of R24.12 billion in fruitless and wasteful expenditure;
- Since 2021-22, municipalities and their municipal entities have incurred irregular expenditure of R145.21 billion; R40.14 billion was incurred in 2024-25 alone;
- Since 2021-22, municipalities have disclosed a total of R118.13 billion in unauthorised expenditure, R63.43 billion (54 per cent) of which was on non-cash budget items;
- Budget credibility continued to deteriorate. In 2024-25, 116 municipalities (45 per cent) adopted unfunded budgets – up from 113 (44 per cent) in the previous year's adjusted budget;
- By the 2024-25 year-end, municipalities owed interest of R3.40 billion to Eskom and R1.21 billion to water boards; and
- Late payments also extended to payments of contributions and third-party deductions. A total of 48 municipalities (20 per cent) had third-party deductions that were overdue for more than one month.

This further demonstrates persistent failure to comply with the legal framework, including the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

Transfers will resume once the affected municipalities meet the required conditions and submit proper proof of the conditions being met. Refer to attached Annexure A for the conditions that municipalities must meet to enable the release of the transfers. National Treasury will keep working with municipalities, provincial treasuries, and cooperative governance structures to strengthen sound financial management.

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