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Enquiries: Communications Unit • Email: media@treasury.gov.za • Tel: (012) 315 5046 • 40 Church Square, PRETORIA, 0002 • www.treasury.gov.za

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LOCAL GOVERNMENT REVENUE AND EXPENDITURE: FIRST QUARTER LOCAL GOVERNMENT SECTION 71 REPORT FOR THE PERIOD 1 JULY 2025 – 30 SEPTEMBER 2025

National Treasury has published a report on local government revenue and expenditure for the first quarter of the 2025/26 financial year. This report covers the performance against the adopted budgets of local government for the first quarter of the municipal financial year ending on 30 September 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 first 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 R183.9 billion by 30 September 2025 representing 26 per cent performance. Municipalities spent R146.1 billion at the end of the first quarter of the 2025/26 financial year compared to the adopted budget of R698.1 billion, representing 20.9 per cent performance. This consists of operating and capital expenditure.

2. Total operating expenditure was R140.5 billion in the first quarter compared to adopted budget of R619.2 billion, representing 22.7 per cent performance.

3. Total capital expenditure was R5.5 billion against the budget of R78.8 billion representing 7 per cent performance. The observation over the previous years is that performance against the capital budget

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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.

4. Salaries and wages (including remuneration of councillors) budget for the 2025/26 financial year is R172.8 billion and the expenditure for the first quarter was R38.4 billion representing 22.2 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 47 municipalities that reported negative cash balances for the first 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 75.5 per cent, the actual collection against billed revenue was only 68 per cent for the first quarter of the 2025/26 financial year.

6. Municipalities' financial sustainability depends on their ability to collect outstanding debt from consumers. Aggregate municipal consumer debts were R448.1 billion (compared to R386.5 billion reported in the first quarter of 2024/25) as at 30 September 2025. A total of R4.6 billion (1 per cent) was written off as bad debt.

7. Households have the highest outstanding debt at R319.5 billion representing 71.3 per cent of total outstanding debt of R448.1 billion. Commercial (businesses) institutions owe municipalities R84.9 billion (18.9 per cent) and organs of state R34.1 billion (7.6 per cent).

8. The outstanding debt for a period over 90 days is R382 billion representing 85.3 per cent of total outstanding debt of R448.1 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 R158.4 billion (R126.8 billion reported in the first quarter of the 2024/25 financial year) was owed by municipalities as at 30 September 2025. Most of the creditors are outstanding for over 90 days at R128.2 billion (80.9 per cent).

11. The major creditors are for bulk electricity at R85 billion (53.7 per cent), trade creditors at R37.6 billion (23.7 per cent) and bulk water at R26.1 billion (16.5 per cent). The amount owed for bulk electricity increased by R18.5 billion (27.9 per cent) compared to the first quarter of the 2024/25 financial year.

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12. At a provincial level, municipalities in the Free State have the highest outstanding creditors greater than 90 days at R38.3 billion, followed by Mpumalanga at R29.4 billion and Gauteng at R26.9 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 first 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 co-ordinated 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 adjusted budget) in direct transfers to local government for the 2025/26 financial year. Over the medium term, direct transfers to local government accounts for 95.7 per cent representing a 4.1 per cent increase from 2024/25 of the national government's non-interest expenditure. This allocation of R176.8 billion includes unconditional transfers in the form of the Equitable Share and related (R106.1 billion), direct conditional grants allocated for capacity building grants (R1.7 billion), direct conditional grants for infrastructure projects (R52.2 billion, including of the Urban Settlements Development Grant (USDG) of R9.2 billion) and indirect conditional grants R7.9 billion, a slight increase from the R7.1 billion allocated in 2024/25 adjusted budget).

15. As at 30 September 2025, of the R44.4 billion (excluding USDG) allocated to municipalities in direct conditional grants for 2025/26 financial year, R16.8 billion or 37.8 per cent was transferred to municipalities. National government departments reported expenditure of R7.9 billion, representing 17.9 per cent expenditure of the R44.4 billion allocated to municipalities (47.1 per cent of the transferred amount). However, municipalities reported expenditure of only 13.3 per cent, which

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remains significantly low, though it reflects a notable improvement from the 7.9 per cent reported during the same period in 2024/25.

16. 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 first quarter against the transferred funds.

17. To assist municipalities with infrastructure development, in 2025/26 DoRA allocates R186 billion over the 2025 MTEF period in infrastructure conditional grants. For the 2025/26 financial year, R42.7 billion is made available for infrastructure Grants. R15.9 billion or 37.2 per cent in infrastructure grants had been transferred to municipalities, and R7.7 billion or 18 per was spent (35.6 per cent against the transferred amount).

18. The national government has allocated R5.4 billion over the MTEF period to the capacity building grants and other current transfers to local government. For 2025/26, R1.7 billion (R2 billion previous year) has been allocated 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. Other current transfers include the Expanded Public Works Programme (EPWP) integrated grant for municipalities, which promotes increased labour intensity, and the Municipal Disaster Response Grant (MDRG) which assists municipalities in alleviating the impact of disasters.

19. Similar to other grants, the capacity building conditional grants have not performed as well as expected, except for the Financial Management Grant (FMG), Infrastructure Skills Development Grant (ISDG) and the EPWP grant, where transferring officers at the end of the first quarter reported expenditure of 18.4 per cent, 19.4 per cent and 20.4 per cent of the allocations, respectively. The MDRG – Response and the Energy Efficiency Demand Side Management (EEDSM) grant were the least performing capacity grants with expenditure at 1.9 per cent and 0 per cent of their allocations, respectively.

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.

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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 31 October 2025. 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 first 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 30 September 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. 1st 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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- 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.