



treasury

Department of
Treasury
FREE STATE PROVINCE

**STATUS OF MUNICIPAL FINANCES
SECOND QUARTER
1 OCTOBER 2025 – 31 DECEMBER 2025**

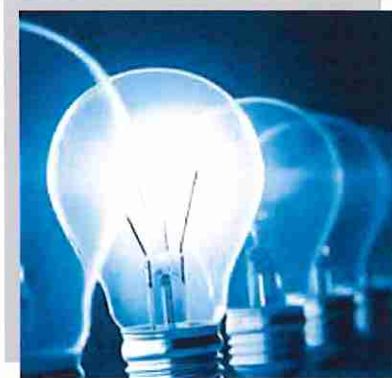
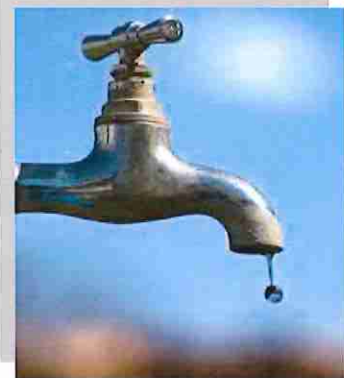


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1. EXECUTIVE SUMMARY

This report reflects municipal revenue and expenditure performance for the 2nd quarter of the 2025/26 financial year for Free State municipalities. This analysis is based on the 2025/26 adopted budgets of municipalities.

The report was compiled using data from the Municipal Standard Chart of Accounts (*mSCOA*) data strings. The *mSCOA* Regulations, promulgated on 22 April 2014, establish a uniform framework for recording and classifying municipal budget and financial information at a transaction level. Compliance with these Regulations became mandatory for all municipalities and municipal entities on 1 July 2017. In terms of the Regulations, municipalities are required to upload their budget and financial data in a prescribed data-string format to the Local Government Portal across the six regulated *mSCOA* segments.

Additionally, this report forms part of the In-Year Management, Monitoring and Reporting System (IYM) for Local Government, which supports provincial and national oversight and assists in identifying challenges in the implementation of municipal budgets and conditional grants.

The credibility of the information contained in the *mSCOA* data strings remains a concern, although notable improvements have been observed as the reforms mature. The primary data challenges include:

- **Incorrect application of *mSCOA* and municipal accounting practices** across many municipalities.
- **Failure to budget, transact, and report directly from core financial systems.** Instead, many municipalities prepare budgets and reports in Excel and subsequently import them into the system. This manual manipulation bypasses system controls, increasing the risk of unauthorised, irregular, fruitless and wasteful (UIFW) expenditure, as well as fraud and corruption.
- **Budgets and financial systems are not consistently locked at month-end,** undermining prudent financial management. While the Local Government Portal automatically locks 10 days after each month-end and does not accept late submissions, many municipalities do not lock their internal systems accordingly.
- **Incomplete, inconsistent, or erroneous monthly data-string submissions,** with some municipalities failing to correct identified errors.

The reporting facilitates transparency, better in-year management as well as the oversight of budgets. This makes these reports management tools and early warning mechanisms for councils, provincial legislatures and officials to monitor and improve municipal performance.

Improving the credibility of the data strings remains a key priority for both national and provincial treasuries, which continue to provide technical support to all municipalities.

2. KEY OBSERVATIONS IN THE REPORT

The report is discussed under the following headings:

Operational Revenue and Expenditure

- 2.1 Municipalities in the Free State Province have spent an amount of R15.955 billion or 52.1 per cent of the allocated expenditure budget of R30.579 billion as at 31 December 2025 (unaudited). In respect of revenue, the total generated revenue (billed) amounts to R14.728 billion or 48.1 per cent against the allocated budget of R30.631 billion. R7.944 billion (54.5 per cent) is generated from exchange revenue (i.e. service charges, interest, rental of facilities, etc.); whilst 45.5 per cent (R6.709 billion) was generated from non-exchange revenue (i.e., property taxes, fines and transfers & subsidies). *The revenue generated refers to the **ability** of the municipality to raise (generate) revenue and does not take the actual collection into consideration.*
- 2.2 The bulk of the total operating expenditure (25 per cent) is from Employee Related Costs, followed by Electricity Bulk Purchases (21 per cent) and Irrecoverable debt written off (19 per cent). It should be noted that irrecoverable debt written off, exceeds the budget with R2.7 billion, mainly due to overspending reported by Mangaung (R2.911 billion), Dihlabeng (R117.4 million), Nketoana (R18.6 million) and Setsoto (R17.6 million).
- 2.3 Municipalities budgeted for employee related cost expenditure (including salaries and wages & council remuneration) at R8.610 billion, which constitutes 28 per cent of their total operational expenditure budget of R30.579 billion. As at 31 December 2025 spending on employee related cost and council remuneration amounted to R4.094 billion or 26 per cent against the budget for employee related cost and council remuneration of R8.610 billion.
- 2.4 58 Per cent (R2.294 billion) of the total employee related cost expenditure relates to *basic salaries and wages*, whilst *pension contributions* contributed 10 percent (R398.6 million) to the total expenditure. *Overtime* contributed 8 per cent (R306.1 million) to the total expenditure, whilst expenditure on *acting and post related allowances* contributed R71.4 million (2%) to the total expenditure. It is concerning that budget allocation on overtime and acting allowances were increased during the financial year.
- 2.5 When billed revenue is measured against the allocated budgets, the performance of two services, namely, energy sources and water management recorded deficits, whilst waste water- and waste management recorded operating surpluses:
- Billed energy sources revenue totaled R4.057 billion against expenditure of R4.417 billion (**deficit of R360.7 million**);
 - Billed water revenue totaled R2.710 billion against expenditure of R4.004 billion (**deficit of R1.295 billion**);
 - Billed waste water management revenue totaled R1.274 billion against expenditure of R1.085 billion (surplus of R189.5 million); and
 - Billed waste management revenue totaled R911.8 million against expenditure R794.3 million (surplus of R117.5 million).

The operating deficits is an indication that the tariffs might not be cost reflective, and it impacts negatively on the financial sustainability of municipality. High distribution losses also contribute to the operating deficits reported on the trading services. *Importantly the surpluses / deficits do not take the actual collection rate into account.*

Capital Expenditure

- 2.6 The capital expenditure for the second quarter in the 2025/26 financial year is understated due to a negative R1.6 billion error made by Masilonyana municipality. This error affected the 2nd quarter capital expenditure reported in the Free State Province. This matter was brought to the attention of the municipality to implement measures to improve the credibility of the data submitted. However, if the municipalities information is excluded, the capital expenditure amounted to R1.080 billion or 32 per cent against the budget.
- 2.7 Municipalities have challenges in the implementation of the capital projects which impacts negatively on the spending of conditional grants. These challenges, amongst others:
- Late appointment of contractors due to delays in the procurement processes.
 - The technical ability of municipalities to manage grants is not sufficient (e.g municipal staff appointed are not engineers with the technical skills to manage the implementation of a project).
 - The financial sustainability of municipalities in the FS Province is regressing and therefore projects to be funded with own funding do not realize.
 - Conditional Grants are not ring-fenced.
 - Conditional Grants are spend on operational expenditure for example payment of salaries, SARS, Eskom, etc.

Municipal Debtors

- 2.8 As at 31 December 2025 the aggregate municipal consumer debts amounted to R44.088 billion (*compared to R42.258 billion reported in the first quarter*). Organs of state accounts for 10.4 per cent or R4.568 billion (*R4.107 billion reported in the first quarter*) of the total outstanding debtors. The largest component of the outstanding debt relates to Households at 74.7 per cent or R32.949 billion (*R31.517 billion first quarter*).
- 2.9 It needs to be acknowledged that the total outstanding debt amount of R44.088 billion is not realistically collectable, as these amounts are inclusive of debt older than 90 days (historic debt that has accumulated over an extended period), interest on arrears and other recoveries. R40.342 billion (91.5 per cent) of the total debt is outstanding for a period over 90 days.
- 2.10 If consumer's debts are limited to below 90 days, then the actual realistically collectable amount is estimated at R3.746 billion. This should however not be interpreted that by implication it is suggested that the balance must be written off by municipalities. Relevant debt write-off policies must be followed, and all efforts taken to ensure debt is not collectable, before it can be written off.

2.11 Twelve municipalities recorded debt exceeding one billion rand and makes up 90.9 per cent of the total debt, the five municipalities with the highest outstanding debtors are:

Mangaung	-	R10.752 billion
Matjhabeng	-	R 9.510 billion
Metsimaholo	-	R 4.191 billion
Maluti a Phofung	-	R 3.158 billion
Masilonyana	-	R 2.055 billion

2.12 The average year to date collection rate reported by municipalities for the province is a mere **55 per cent**, which is significantly below the norm of **95 per cent**. However, the actual average collection rate in the province might be lower due to incorrect reporting by municipalities.

2.13 Low collection rates can be attributed to the following factors:

- Credit control and debt collection policies not implemented;
- Increase in rates and tariffs year-on-year is not affordable;
- Illegal connections and tampering of water and electricity meters; and
- Non billing and system challenges.

Municipal Creditors

2.14 Municipalities owed their creditors R42.129 billion as at 31 December 2025 (*R40.803 billion reported at the end of September 2025*), the majority of which relates to bulk services debt (R38.149 billion). Free State Municipalities are experiencing cash flow challenges and therefore the payment plans with Eskom and Water Boards are not adhered to.

2.15 It is also concerning that Accounting Officers often default on the payment of PAYE and pension / retirement contributions. This leads to litigation against the municipalities.

2.16 The year-on-year increase in outstanding creditors is an indication that municipalities are experiencing liquidity and cash flow challenges which is a direct result of their inability to collect revenue on services rendered.

The province's liquidity position appears concerning, with total debtors amounting to R44.088 billion, while creditors equate to R42.129 billion. The liquidity ratio is impacted, which may result in municipalities' not meeting its short-term obligations.

Conditional Grants

2.17 In terms of the Division of Revenue Amendment Act an allocated total of R2.275 billion was allocated to the Free State municipalities in terms of direct transfers (infrastructure, capacity and other grants).

2.18 The total conditional grant expenditure as at 31 December 2025, reported by Municipalities amounts to R806.7 million or 29.1 per cent against the allocated budget.

Capacity Building and Other Conditional Grants Expenditure as at 31 December 2025

- 2.19 The highest performing conditional grant under this category is the Local Government Financial Management Grant at R18.3 million (31.6 per cent against allocation) followed by Expanded Public Works Programme grant at R10.9 million (33.5 per cent against the allocation).

Infrastructure Conditional Grants Expenditure as at 31 December 2025

- 2.20 Direct conditional grants allocated for Infrastructure amounts to R2.112 billion in the 2025/26 financial year. This amount excludes the indirect or in-kind allocations to transferring officers executing specific projects on behalf of municipalities in the municipal area.
- 2.21 From the R2.112 billion allocated, a total of R541.3 million or 25.6 per cent was reported spent by the municipalities.

3. MUNICIPALITIES MEETING CRITERIA FOR DETERMINING SERIOUS FINANCIAL PROBLEMS IN TERMS OF SECTION 138 & 140 OF THE MFMA

- 3.1 In terms of section 138 of the MFMA, the following factors may indicate a serious financial problem:

- The municipality has failed to make payments as and when due;
- The municipality has defaulted on financial obligations for financial reasons;
- The actual current expenditure of the municipality has exceeded the sum of its actual current revenue plus available surpluses for at least two consecutive financial years (cash flow position);
- The municipality had an operating deficit in excess of five per cent of revenue in the most recent financial year for which financial information is available;
- The municipality is more than 60 days late in submitting its annual financial statements to the Auditor-General in accordance with section 126;
- The Auditor-General has withheld an opinion or issued a disclaimer due to inadequacies in the financial statements or records of the municipality, or has issued an opinion which identifies a serious financial problem in the municipality;
- Any of the above conditions exists in a municipal entity under the municipality's sole control; and
- Any other material condition exists which indicates that the municipality, or a municipal entity under the municipality's sole control, is likely to be unable for financial reasons to meet its obligations.

- 3.2 In addition to the above section 140 of the MFMA indicates factors which may indicate that a municipality is in serious material breach of its obligations to meet its financial commitments, including the municipality has failed to make any other payment as and when due, which individually or in the aggregate is more than the amount as may be prescribed or, if not is prescribed, more than two per cent of the municipality's budgeted operating expenditure.

- 3.3 The table below indicate the criteria identified per municipality which may indicate financial distress. (Table 12: Municipalities meeting criteria for determining serious financial problems in terms of section 138 & 140 of the MFMA provide more detail).
- 3.4 20 Municipalities in the FS have three or more triggers (criteria), indicating these municipalities are in distress and need urgent intervention to improve the financial position and sustainability going forward.

Municipalities	Nr of Triggers identified	S138 Triggers	S140 Triggers (Creditors >2% of Opex Budget)	S140 Triggers - Severe (Creditors >40% of Opex Budget)	State of LG Finance & Fin Management Report 2023 (Financial Distress)
Mangaung	3	✓	✓		✓
Letsemeng	3	✓	✓	✓	
Kopanong	3	✓	✓		✓
Mohokare	4	✓	✓	✓	✓
Xhariep	3	✓	✓		✓
Masilonyana	4	✓	✓	✓	✓
Tokologo	4	✓	✓	✓	✓
Tswelopele	4	✓	✓	✓	✓
Matjhabeng	4	✓	✓	✓	✓
Nala	4	✓	✓	✓	✓
Lejweleputswa	0				
Setsoto	1		✓		
Dihlabeng	4	✓	✓	✓	✓
Nketoana	4	✓	✓	✓	✓
Maluti-a-Phofung	4	✓	✓	✓	✓
Phumelela	4	✓	✓	✓	✓
Mantsopa	4	✓	✓	✓	✓
Thabo Mofutsanyana	3	✓	✓		✓
Moqhaka	4	✓	✓	✓	✓
Ngwathe	4	✓	✓	✓	✓
Metsimaholo	3	✓	✓		✓
Mafube	4	✓	✓	✓	✓
Fezile Dabi	1	✓			

Notes:
S138 Triggers = Failure to make payments as & when due (s138(a)) (90 days > R1m) / Operating Deficit > 5% of total direct revenue (s138(d)) / Negative or Outstanding Audit Opinions
S140 Triggers = Eskom / Water Boards or Total Creditors >2% of Opex Budget
S140 Triggers (Severe) = Eskom / Water Boards or Total Creditors >40% of Opex Budget

4. LIST OF SUMMARY TABLES ATTACHED

The following summary tables are attached to this report:

- 1. Consolidated statement of financial performance
- 2. Consolidated statement of financial position
- 3. Operating revenue & expenditure per function – Energy Sources
- 4. Operating revenue & expenditure per function – Water Management
- 5. Operating revenue & expenditure per function – Waste Water Management
- 6. Operating revenue & expenditure per function – Waste Management
- 7. Aggregated municipal debtors age analysis
- 8. Aggregated municipal debtors age analysis – per municipality
- 9. Aggregated municipal creditors age analysis
- 10. Aggregated municipal creditors age analysis – per municipality
- 11. Conditional grants
- 12. Municipalities meeting criteria for determining serious financial problems in terms of section 138 & 140 of the MFMA

5. RECOMMENDATIONS

It is recommended that the MEC for Finance, Tourism and Economic Development table this report in the FS Legislature as required by Section 71(7) of the MFMA, 2003 within 45 days after the end of each quarter. This report must also be served at the Provincial Public Accounts Committee (PROPAC) to enable municipalities to account for management of public finances that impact on sustaining basic service delivery.

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Date: 16/02/2026