

MODULE 5

REPORTING ON LOCAL GOVERNMENT

2026

MUNICIPAL ELECTIONS

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This module is part of a comprehensive set of online election resources which will be updated from time to time in the run-up to the 2026 elections. For further information on the 2026 elections, please visit <https://elections.sanef.org.za>

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MODULE 5 | REPORTING ON LOCAL GOVERNMENT

Overview of this module

- Understanding the role of local government, and in particular the workings of municipal finance.
- The legal and regulatory framework for municipal government in South Africa, and how it fits into democracy and developmental goals.
- The funding and division of revenue for municipalities.
- The current state of municipal finances in South Africa.
- Advice for journalists reporting on municipal finances.

1. What is the role of local government?

Local government is a key part of South Africa's three-tier democratic system – national, provincial, and local – as established by the Constitution. At the local government level, South Africa is divided into 257 municipalities — comprising 8 metropolitan municipalities, 205 local municipalities, and 44 district municipalities. Each municipality is responsible for delivering essential daily services to its residents, such as water, sanitation, refuse removal, roads, and parks.

The general structure of municipal government is as follows:¹

- A council (effectively a localised equivalent of South Africa's Parliament), made up of councillors who are elected every five years. The council adopts policies, makes by-laws, and provides financial and budgetary oversight.
- A mayor, elected by the council to oversee the running of the municipality, and to develop policies and proposals for council's approval.
- A speaker, who chairs the council (except in a few very small municipalities).
- A mayoral or executive committee (effectively a localised equivalent of the President's cabinet), appointed by the mayor (or in some instances, by the council) to assist the mayor in carrying out their responsibilities.
- The Municipal Manager is a civil servant who is responsible for the day-to-day administration of the municipality.

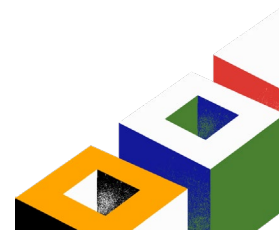
The defining laws shaping local government are:

- The Municipal Structures Act (1998),² which outlines the *architecture* of local government, such as how municipalities and councils are constituted, and how office-bearers are elected;
- The Municipal Systems Act (2000),³ which details *the inner workings* of municipalities, such as how decisions are made, how service delivery is carried out, and the mechanisms for public participation;
- The Municipal Finance Management Act (2003) (the MFMA), which regulates how municipalities should budget, spend, and account for their finances.

¹ See Civics Academy 'What is Local Government' (undated). (Accessible [here](#)), and Cooperative Governance and Traditional Affairs 'Understanding Local Government' (undated) cogta.gov.za. (Accessible [here](#)).

² Local Government: Municipal Structures Act 117 of 1998. (Accessible [here](#))

³ Local Government: Municipal Systems Act 32 of 2000. (Accessible [here](#))



Chapter 7 of the Constitution envisages local government as being developmental in nature, and tasked with providing services and social and economic development to their communities, in a democratic and accountable fashion. To enable this developmental purpose and roll back underinvestment in infrastructure in townships and rural areas designated as black areas under apartheid and 'bantustans' or so-called 'homelands', the constitutional framework demands that an "equitable share" of all government revenue be set aside for provinces and local government, particularly to subsidise basic services. Municipalities can also cross-subsidise between high and low-income consumers of services. The Municipal Systems Act of 2000 stresses in its preamble that the Constitution demands local government not just provide services to all citizens but "be fundamentally developmental in orientation".⁴

The role of municipal finances

Around the world, there have been some common trends in municipal finance in recent years, including:⁵

- Fiscal decentralisation, the transfer of financial responsibility from central governments to local governments, particularly to deliver core services.
- Growing emphasis on land and property taxation.
- Increasing prevalence of public-private partnerships.
- Increased demands for accountability and transparency at the local level.
- Greater pressure for better municipal financial management.

According to dominant economic theory, the primary role of municipal governments is to provide services to residents in a particular geographic area. Local governments do not, for example, substantially take on stabilisation policy or income redistribution because they do not have access to monetary tools, and because capital and labour flow freely across sub-national borders, which would significantly complicate such efforts. In line with the "subsidiarity principle," many economists argue that the efficient provision of services is best ensured when decision-making is carried out by the level of government that is closest to the individual citizen.⁶

This provides a strong justification for the trend of fiscal decentralisation mentioned above, and is also relevant in the South African context where many core services have been devolved to municipal governments. Understanding municipal finance is therefore crucial to evaluating the performance of government, interrogating service delivery, and uncovering corruption or misappropriation.

2. Legal framework for municipal finance

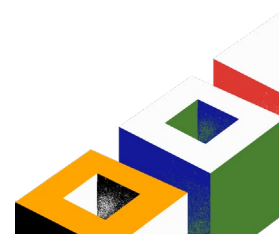
Much effort has gone into reforming and putting in place governance structures since 1996, and several pieces of legislation have been enacted specifically affecting local government finance.

The **Municipal Finance Management Act** (the MFMA) is the primary law regulating how local governments manage their finances. The purpose of the MFMA is to secure the sound and sustainable management of the financial affairs of municipalities and related entities, and to establish treasury norms and standards for the local sphere for government. Importantly, the

⁴ RSA, 'Municipal Systems Act,' 21776 § (2000).

⁵ UN Habitat, 'Guide to Municipal Finance,' (2009) p 14-16. (Accessible [here](#)).

⁶ Ibid, p 17.



MFMA aims to foster transparency by mandating budget and reporting requirements. The MFMA also aims to modernise budget, accounting and financial management processes to enable municipalities to deliver services to communities in the best possible way, and to clarify and separate the roles and responsibilities of the council, mayor and officials in the interest of good governance.⁷

The five principles of the MFMA are:

- Promoting sound financial governance by clarifying roles;
- Adopting a more strategic approach to budgeting and financial management;
- Promoting cooperative government;
- Modernising of financial management; and
- Promoting sustainability.

The MFMA principles sought to achieve a number of reforms as part of South Africa's democratic dispensation, including:

- To establish a new budget process which is linked to the Integrated Development Plans (IDPs), five-year strategic plans to service delivery and development plans of the municipality;
- To create new accounting standards and establish audit committees and other internal controls;
- To improve procurement and supply chain management, and provide for performance measurement and staff competency levels;
- To create new mechanisms to resolve financial problems and misconduct.

The **Municipal Systems Act** provides a framework for planning, performance management systems, effective use of resources, and organisational change. Notably, it establishes a system for municipalities to report on their performance, and a mechanism for residents to compare the performance of their municipality against others. It also regulates public-private partnerships. The Act requires municipalities to prepare and formally adopt IDPs in close consultation with communities and other stakeholders.⁸

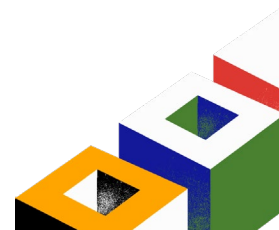
The Municipal Systems Act also makes strong provisions for public consultation:

- Section 5 of the Municipal Systems Act gives local communities the right to contribute to the decision-making process of the municipality.
- Section 16 requires municipalities to encourage and create the conditions for community participation, and to establish the appropriate mechanisms, processes and procedures to enable local communities to participate in the affairs of the municipality
- Section 20 of the Municipal Systems Act provides for the admission of the public and the media to meetings of a municipal council, which may not bar members of the public or the media except in specific circumstances.

The **Municipal Structures Act** provides for ward committees and their responsibilities. Ward committees are a mechanism for citizens to get involved in how their communities are governed,

⁷ National Treasury, 'MFMA,' n.d., <http://mfma.treasury.gov.za/Pages/Default.aspx>.

⁸ Municipalities.co.za, 'The Local Government Handbook South Africa 2026,' 20-21. (Accessible [here](#)).



by providing a vital link between ward councillors, the community, and the municipality. They also play an important role in fostering relations between ward councillors and other stakeholders such as traditional councils and community development workers. The terms of ward committees are aligned to those of municipal councils.⁹

The **Municipal Property Rates Act** regulates the power of a municipality to impose property taxes, provides for valuation methods on properties, and for the system of exemptions, rebates and reductions.

The **Intergovernmental Relations Framework Act (IFRA)**, which aims to give effect to the constitutional principles of cooperative government, prescribes the process for determining the equitable sharing and allocation of revenue raised nationally. Sections 9 and 10(4) of the IFRA set out the consultation process to be followed, including considering recommendations made regarding the equitable division of nationally raised revenue. Part I provides for the establishment and functions of a budget council and Part 2 provides for the establishment and functions of a local government budget forum. Part 3 gives effect to section 214(1) of the Constitution. This relates to revenue sharing among the spheres of government and to the Division of Revenue Bill which the Minister of Finance must introduce in Parliament every year.

The **Division of Revenue Act (DORA)** aims to give effect to section 214(1) of the Constitution, which says that every year a Division of Revenue Act must determine the equitable division of nationally raised revenue between national government, the nine provinces and 257 municipalities. This budget process takes into account the powers and functions given to each sphere of government.

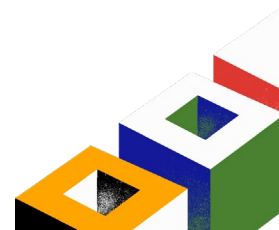
Finally, various institutions play an important role in supporting local government and facilitating relationships between various levels of government. These include:

- **The Department of Cooperative Governance and Traditional Affairs (COGTA)**, whose mission is to support municipalities to uphold good governance, financial management, and service delivery.¹⁰
- **National Treasury**, which is empowered by the Constitution to determine the financial management framework of all organs of state, including municipalities.¹¹ In terms of the MFMA, National Treasury may take appropriate steps, including the stopping of funds, if a municipality commits a serious or persistent material breach of applicable legislation and regulations. Provincial treasuries, on the other hand, are responsible for monitoring compliance with the MFMA and assisting municipalities with preparing their budgets, among other things. National Treasury is the repository of a host of information about municipal finance, including guidance about sound management and up-to-date financial information. The Budget Review also contains essential information about the finances of local government.
- **The Auditor-General (AG)**, which is established by Chapter 9 of the Constitution to strengthen the country's democracy by enabling oversight, accountability and governance in the public sector through auditing. In terms of the Constitution, the AG must audit and

⁹ Cooperative Governance and Traditional Affairs, 'Municipal Ward Committees: What You Need to Know,' (20 March 2020). (Accessible [here](#)).

¹⁰ Ministry of Cooperative Governance and Traditional Affairs, 'About Cooperative Governance and Traditional Affairs,' (Accessible [here](#)).

¹¹ Sections 215 and 216 and other provisions of Chapter 13 of the Constitution.



report on the accounts, financial statements and financial management of all organs of state, including municipalities as well.¹² It issues audit reports on municipalities every year as well aggregated reports on the outcome of its audits of municipalities.

- **The South African Local Government Association (SALGA)**, which is a listed public entity established in terms of Section 21 of the Companies Act 61 of 1973. SALGA serves to represent local government on intergovernmental forums, such as the Budget Forum and the National Council of Provinces (NCOP). SALGA is funded through various channels, including a national government grant, membership fees from provincial and local government associations, and donations from the community.¹³

INTEGRATED DEVELOPMENT PLANNING (IDPs)

Source: The Local Government Handbook South Africa 2026. (Accessible [here](#)).

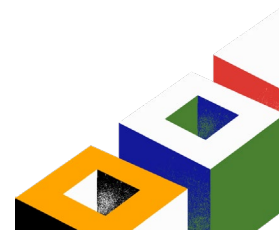
IDPs are important components of municipal accountability and transparency. They also provide opportunities for residents and affected stakeholders to input into local governance and understand how to participate in local decisions that affect them.

According to section 26 of the Municipal Systems Act, IDPs must include the following:

- The municipal council's vision for the long-term development of the municipality.
- An assessment of the existing level of development in the municipality and an identification of communities that do not have access to basic municipal services.
- The council's development priorities and objectives, including its local economic development aims and its internal transformation needs.
- The council's development strategies, which must be aligned with any national or provincial sectoral plans and planning requirements.
- A spatial development framework.
- The council's operational strategies.
- Applicable disaster management plans.
- A financial plan and budget projection for the next three years.
- Key performance indicators and performance targets.

¹² Constitution of the Republic of South Africa (1996).

¹³ Municipalities.co.za, 'The Local Government Handbook South Africa 2026,' 24. (Accessible [here](#)).



OVERSIGHT PROCESSES

| Tool/Mechanism | Timeframe |
|---|-----------------------------|
| IDP | 5-year plan |
| Budget | 3-year plan |
| Service Delivery and Budget Implementation Plan (SDBIP) | Annual plan |
| Implementation Monitoring | In-year reporting |
| Accountability Reporting | Annual Financial Statements |
| Annual Report | Annually |

3. Municipal revenue

Municipalities are responsible for delivering basic services such as water, electricity, sanitation and solid waste removal, and for the provision of public road networks, and some public transport services.¹⁴ They also manage some planning and regulatory systems related to land use, infrastructure roll-out, and economic activity. Other services they are responsible for include firefighting, parks and recreational areas and libraries, and other facilities.

This means that, while all municipalities enjoy the freedom to set their own budgets, according to their own communities' priorities, in reality most municipal treasuries face similar demands, for public facilities like sports centres and housing, but also for *infrastructure* such as roads, pipes for running water and sewerage, distribution stations for electricity supply, and trucks and dumps for refuse removal. Another new infrastructure demand for many municipalities is for internet connectivity. Municipalities must also make provision for free basic services for indigent residents, and must pay the wholesalers of services (for instance, to Eskom for electricity), to pass on to the residents — to which municipalities add their own mark-up to raise revenue.

This means the municipality must raise revenue to supply these services, pay its workers and managers, and shoulder other responsibilities. Municipalities get their revenue from three main sources:

- Allocations from the national budget, including its 'equitable share' of national revenue, and various grants and subsidies;
- Service charges levied on residents for the provision of municipal services;
- Property rates and other local taxes.

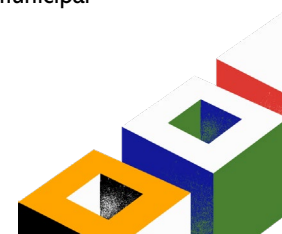
National allocations

Local government receives transfers in the form of the equitable share of national revenue and through conditional grants, via the annual Division of Revenue Bill which is tabled each year with the national budget.¹⁵ **The equitable share** for each municipality is determined through a formula based on demographic and developmental factors (such as the size of its low-income population, the cost of basic services and how much of its own revenue it can raise),¹⁶ with input from the Financial and Fiscal Commission and in consultation with municipalities. **Conditional grants** are designed to meet specific objectives, and are (as the name suggests) *conditional* on

¹⁴ *Ibid.*

¹⁵ Section 227 of the Constitution.

¹⁶ Ajam 'How adequate is the Local Government Equitable Share grant in the face of escalating costs of municipal service delivery?' Local Government Bulletin Volume 16, Issue 4, October 2021 (2021). (Accessible [here](#).)



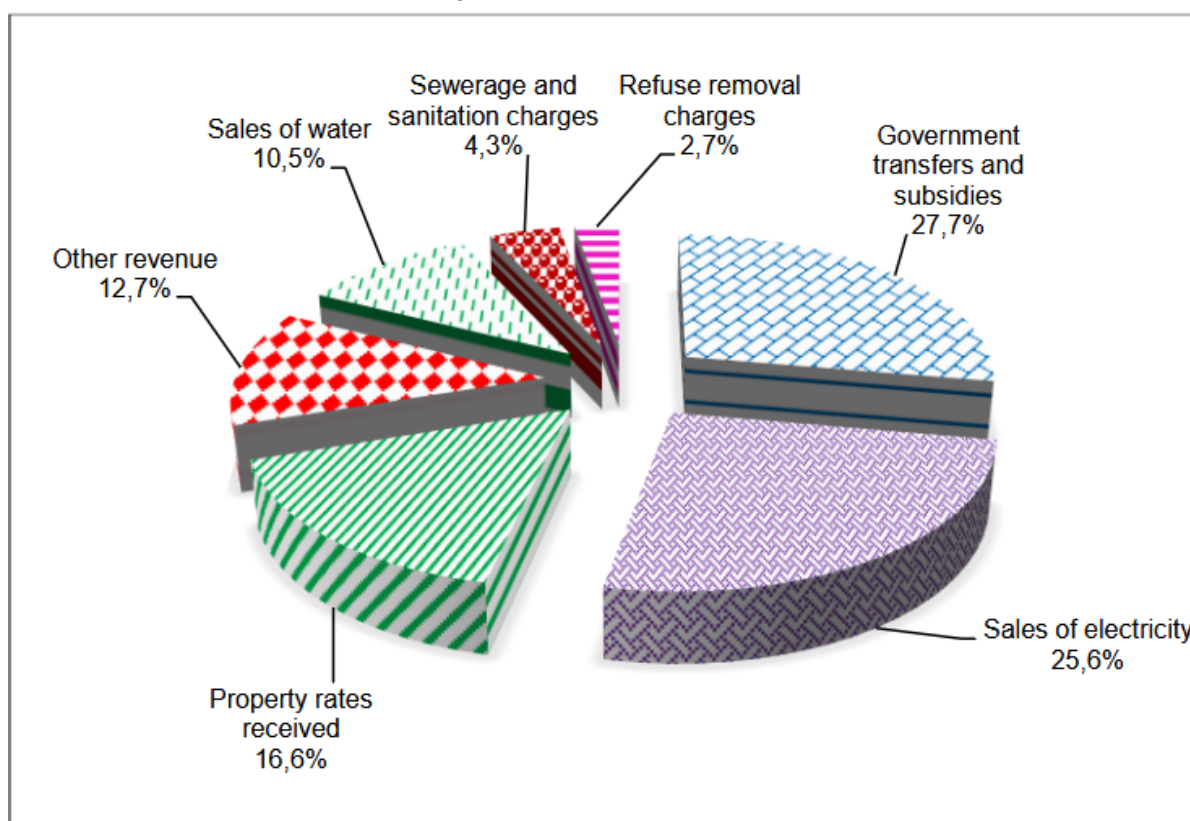
municipalities meeting certain objectives,¹⁷ and on an accepted business plan for the grant's use.¹⁸ In the 2026/2027 financial year, transfers to municipalities were projected to account for roughly 9,5% or R182.3 billion of nationally raised revenue.¹⁹

Conditional grants

There are generally four types of conditional grants that municipalities receive:

1. General grants to supplement numerous programmes partially funded by municipalities;
2. Grants that fund certain responsibilities and programmes implemented by municipalities;
3. Grants that provide in-kind allocations through which a national department implements projects in municipalities; and
4. Grants that allocate and transfer funds to help a municipality deal with a disaster or housing emergency.²⁰

Municipal revenue sources in 2023



Source: StatsSA, 'Financial Census of Municipalities 2023' (June 2024), (Accessible [here](#).)

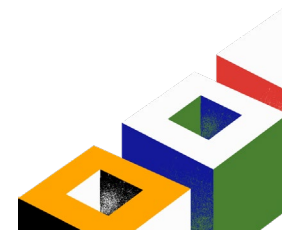
Municipalities can be allowed to roll over grant amounts that are not spent in a municipal year if the unspent allocations are committed to identifiable projects. Otherwise, conditional grants not spent at the end of the municipal financial year must go back to the National Revenue Fund.

¹⁷ Municipalities.co.za, 'The Local Government Handbook South Africa 2026,' 24. (Accessible [here](#).)

¹⁸ Jooste and Tshangana, 'Engaging with Government Budgets - An Activist's Guide to South African Government Budgets at Local, Provincial and National Level,' Centre on Budget and Policy Priorities, (2012) at p 8. (Accessible [here](#).)

¹⁹ National Treasury 'Budget Review 2026' (25 February 2026). (Accessible [here](#).)

²⁰ South African Cities Network, 'State of City Finances 2020,' (2020). (Accessible [here](#).)



However, as South Africa's revenue pressures mount, Treasury has become increasingly strict with municipalities facing governance challenges: in late 2025, it suspended payments to 75 municipalities unless they could address various concerns about their financial management.²¹ In its 2026 Budget Review, Treasury noted that:

The 2026 Budget also signals a fundamental shift in the effort to fix local government. For over a decade, intergovernmental flows have masked financial weaknesses in subnational government. With 63% of municipalities in financial distress in 2023/24, and provinces struggling to balance compensation costs and service delivery, this approach has reached its limit. ... [G]overnment is now moving from oversight to active structural intervention.²²

In 2024/25, National Treasury reported that municipalities had spent only 66% of the R42-billion allocated to them in direct conditional grants,²³ finding an emerging pattern of under-performance in municipalities that suggested significant issues in municipalities' planning and financial management. Underspensing of grant money, or spending money on what was not allocated for, is an indicator of poor financial management and should be investigated as a possible story.²⁴

Rates, service charges and local taxes

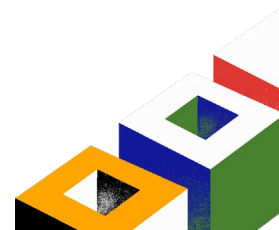
Local governments also raise their own revenue through property rates, user charges for municipal services rendered, and other local taxes. However, the share that municipalities can raise in their own revenue is much lower in rural and poorer areas where municipalities have much lower tax bases. As a result, rural and poorer municipalities receive a higher per-capita share of transfers.

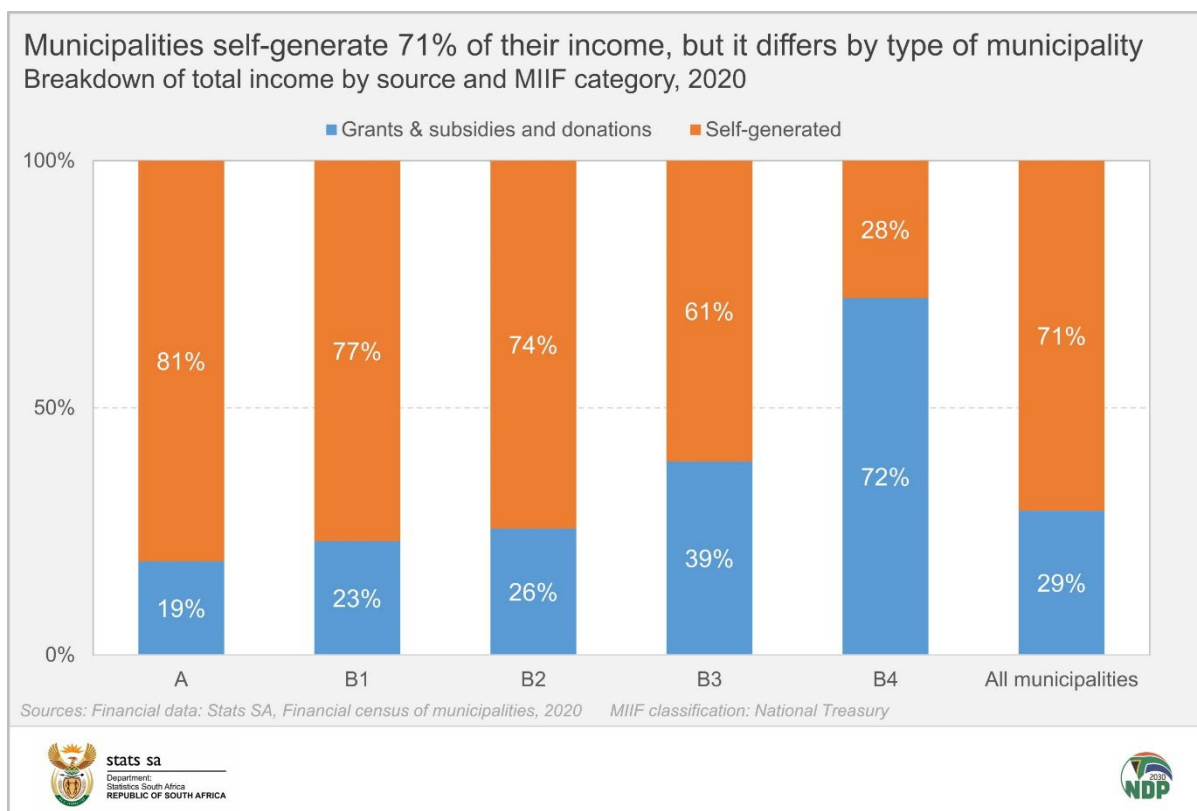
²¹ City Press 'Constitutional crackdown: Treasury cuts funding to 75 failing municipalities' (28 December 2025). (Accessible [here](#).)

²² National Treasury 'Budget Review 2026' (25 February 2026) at 59. (Accessible [here](#).)

²³ National Treasury 'Media Statement: National Treasury on Fourth quarter local government Section 71 report for the period 1 July 2024 – 30 June 2025' (26 September 2025). (Accessible [here](#).)

²⁴ Rumney, 2021.





Source: StatsSA, 'Municipal dependence on national government financing' (29 July 2021). (Accessible [here](#)).²⁵

As the Auditor General has noted, municipalities face a growing challenge with revenue collection – both because ratepayers are increasingly more likely to default on payments, and also because municipalities face ongoing weaknesses in their ability to collect on their debts. For example, in 2023, Tshwane and Buffalo City had written down 72% and 65% of debt respectively as not fully recoverable.²⁶

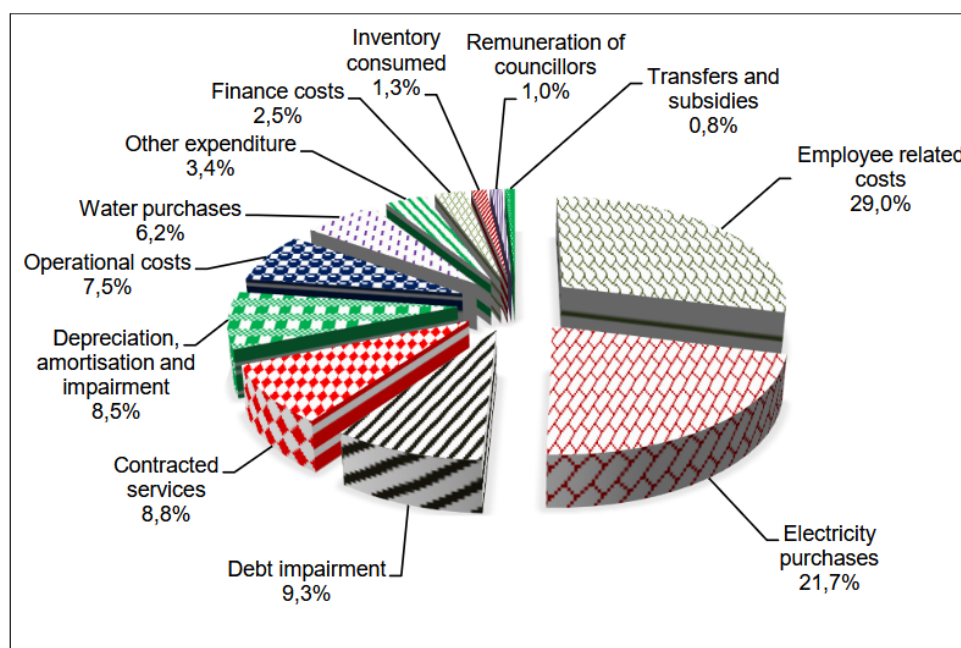
Cities have to raise revenue, through national government transfers and rates and taxes, in order to cover operating expenditure incurred by their constitutional responsibility to provide services to households and businesses within their boundaries. According to section 15 of the MFMA, municipalities may only spend in terms of an approved budget, as spending outside the budget constitutes unauthorised expenditure.

4. Municipal expenditure

While the fiscal environment for municipalities continues to shrink, as detailed above, operating expenditure for most if not all municipalities is projected to increase. As an estimate of major costs, the following chart shows the breakdown of municipal spending in 2023:

²⁵ The types of municipalities represented in this chart are: (A) metropolitan municipalities; (B1) secondary cities; (B2) municipalities with a large town as its core; (B3) municipalities with small towns; (B4) predominantly rural municipalities.

²⁶ Auditor-General of South Africa 'Consolidated General Report on Local Government Audit Outcomes 2023-24' (August 2025) at 105. (Accessible [here](#).)



Source: StatsSA, 'Financial Census of Municipalities 2023' (June 2024), (Accessible [here](#).)

Employee costs are a big-ticket item for municipalities, constituting roughly 25-40% of municipalities' expenditure. While municipalities have some control over these costs, salary increases for local government employees are determined by the South African Local Government Bargaining Council (SALGBC), and in the early 2020s the South African Cities Network raised concerns that recent negotiated salary increases had consistently been above inflation, making wages a major cost driver for metros.²⁷

The price of electricity is another key pressure point for municipal finances. Municipalities are the biggest single customer for Eskom's electricity. They make a portion of their money from the difference between the costs of buying electricity from Eskom and the price charged to consumers. As Eskom secured sizeable increases to the price of electricity, municipalities had to increase their spending for bulk purchases of electricity -- but as of 2022 many cities had seen a decline in revenue from electricity.²⁸ This is likely due to a combination of households trying to reduce usage to save costs, improvements to energy efficiency, illegal connections, and transitions to solar energy

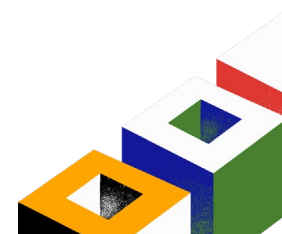
Whatever the reason, falling electricity demand means that electricity prices have to rise to garner the same income or the money has to be made elsewhere. SACN notes that the rapid increase in the wholesale cost of electricity and water, the bulk tariffs, is "squeezing out the surpluses that cities have historically used to cross-subsidise other services ..."²⁹ It adds that cities, in particular, use electricity sales to cross-subsidise low-income residents.³⁰ Some municipalities have introduced fixed charges for supplying electricity, which amounts to a regressive tax.

²⁷ South African Cities Network, 'State of City Finances 2022' (2022) at 32. (Accessible [here](#)).

²⁸ South African Cities Network, 'State of City Finances 2022' (2022) at 68. (Accessible [here](#)).

²⁹ SACN, 'The People's Guide to the State of City Finances 2018' (2018) at p 4. (Accessible [here](#)).

³⁰ SACN, 14.



OPENING UP MUNICIPAL FINANCES

A range of tools exists to help monitor municipalities' performance on finance and service delivery.

- **MunicipalMoney.gov.za**: This National Treasury dashboard, created with the civic tech organisation OpenUp, offers a searchable and interactive map of South Africa's municipalities with detailed finance and audit data for each of them.
- **Local Government Handbook 2026**: This resource provides a table of municipal audit outcomes from across the country.
- **SANEF Elections Dashboard**: As part of its elections programme, SANEF has collaborated with OpenUp, to create a data dashboard in each election cycle which provides municipal data on service delivery, demographic and economic datasets, municipal finance data as well as previous election results.

Services for indigent households

Municipalities provide a free basic service to indigent households, meaning a free (or partially subsidised) minimum amount of electricity, water and sanitation to households who could not otherwise afford it. Households qualify as indigent according to a means test.

Municipalities have discretion to decide to how much to subsidise indigent households, which could be up to 100%, and the level of household income to qualify as indigent varies across municipalities.

- According to the Free Basic Services (FBS) policy adopted by National Government in 2001, indigent households should receive 6kl of free water a month and 50kWh of free electricity a month. The allocations for sanitation and refuse removal vary across municipalities.³¹
- In 2017 most municipalities (147 out of 257) classified an indigent household as a family earning a combined income of less than R3 200 per month. Eleven municipalities (nine local municipalities and two district municipalities) adopted a lower income poverty threshold of R1 600 per household per month.³²

In the most recent available census, municipalities had identified 2,7 million households who qualified for some kind of free basic service, or about 16% of the total number of households receiving municipal services.³³ The number of households getting free basic services has declined over time – in 2018, the figure was 3,6 million households³⁴ – which is ascribed in part to municipalities becoming more selective about which households qualify.³⁵ In a concerning

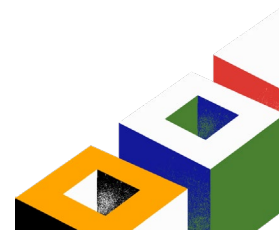
³¹ Government Technical Advisory Centre, 'Funding free basic services through the local government equitable share' (2024). (Accessible [here](#).)

³² StatsSA, 'Four Facts about Indigent Households | Statistics South Africa', (2018). (Accessible [here](#)). and COGTA 'How Do I Access Free Basic Municipal Services?', (2021). (Accessible [here](#)).

³³ StatsSA, 'Non-Financial Census of Municipalities, 2023' (2025). (Accessible [here](#)).

³⁴ StatsSA, 'Non-Financial Census of Municipalities, 2018 Media Release' (2019). (Accessible [here](#)).

³⁵ StatsSA, 'Alleviating poverty: The provision of free basic services' (2025). (Accessible [here](#).)



development, it has been reported that cities are increasingly diverting some of the equitable share to expenditures other than free basic services due to financial pressures.³⁶ Other municipalities, such as Msunduzi Municipality, have reportedly been losing out on their equitable share grants due to their inability to register indigents.³⁷

5. The current state of municipal finances

As the previous sections have illustrated (not to mention countless headlines from local and community news organisations) many municipalities are struggling to manage their finances effectively, and misappropriation at local government level is pervasive.

As National Treasury reported in the 2026 Budget Review, nearly two-thirds of municipalities (62%) are in financial distress.³⁸ This is both part of an extended trend (as early as 2014, CoGTA implemented the 'Back to Basics' to address weaknesses in local government, finding that a third of municipalities were in a state of dysfunction³⁹), and also a reflection of unexpected shocks such as the impact of the COVID-19 pandemic, which saw municipalities facing higher expenses and reduced revenues.⁴⁰

As of October 2024, at least 41 municipalities had been put under financial administration⁴¹ -- meaning that provincial or national government had intervened to address systemic governance failures, often by taking over some part of the municipality's finances or other operations.

How municipalities get put under administration

- Section 139 of the Constitution provides for the provincial executive to intervene when a municipality is in financial crisis or faces persistent service delivery failings.
- With various safeguards and procedures to prevent against unwarranted interventions, the powers granted to the province in such cases includes imposing a recovery plan, and dissolving the council if needed.
- If the provincial government fails to intervene in a sustained municipal crisis, the national government may intervene instead.

In some sense, municipalities resemble businesses: the municipal annual report resembles that of a company with an income statement, balance sheet and cashflow statement, and can be analysed in the same way to get key signs of the municipality's health.

³⁶ Dlodla, 'Covid-19 takes its toll on SA's largest municipalities', IOL, (2021). (Accessible [here](#)).

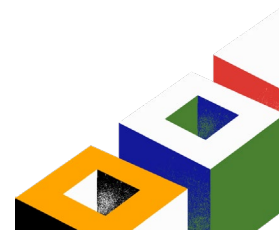
³⁷ Sinkins, 'Msunduzi Municipality to try again to register indigent residents', (2021). (Accessible [here](#)).

³⁸ National Treasury 'Budget Review 2026' (25 February 2026) at 59. (Accessible [here](#).)

³⁹ Ministry of Cooperative Governance and Traditional Affairs, 'Back to Basics' (2014). (Accessible [here](#)).

⁴⁰ South African Cities Network, 'State of City Finances 2022,' (2022) at 10-11. (Accessible [here](#)).

⁴¹ Business Tech 'The worst run municipalities in South Africa' (10 October 2024). (Accessible [here](#)).



In this respect, recent shifts in the operating surplus and deficits of South Africa's major cities are an indication of the impact of the pandemic and other governance and budgetary challenges on the health of our biggest municipalities:⁴²

TABLE 19 Operating surpluses or deficits as a percentage of revenue (2016/17–2020/21)

| | AUDIT OUTCOMES (R-MILLION) | | | | | AVERAGE RATE OF GROWTH |
|------------|----------------------------|---------|---------|---------|---------|------------------------|
| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2016/17–2020/21 |
| JHB | 1,373 | 2,614 | 6,883 | 3,633 | 2,517 | 16.4% |
| CPT | 5,153 | 5,568 | 6,430 | 4,353 | 1,909 | -22.0% |
| ETH | 2,194 | 2,109 | 2,149 | 427 | 817 | -21.9% |
| EKU | 1,180 | 1,766 | -791 | -254 | 349 | -26.3% |
| TSH | 2,429 | 2,438 | 2,791 | -4,279 | -1,035 | – |
| NMB | 1,064 | 2,304 | 1,189 | 980 | 558 | -14.9% |
| BCM | 359 | 203 | 470 | -204 | 715 | 18.8% |
| MAN | 1,142 | 13 | -275 | 221 | 7 | -71.9% |
| MSU | -19 | -589 | 14 | 188 | -218 | – |
| All cities | 14,874 | 16,428 | 18,860 | 5,063 | 5,619 | -21.6% |

Note: Where cities generated a deficit in 2021, the growth rate cannot be calculated and is left blank.

Source: National Treasury Local Government Database. Calculations by authors.

Between 2015/16 and 2018/19, the operating surpluses of nine of South Africa's major cities grew by an average of 4.2%, a positive sign overall.⁴³ However, all of them a sharp decline in operating surpluses in 2019/2020 and 2020/2021, and while most of them managed to raise more money than they spent in those years, the average rate of growth dropped to -21.6%.

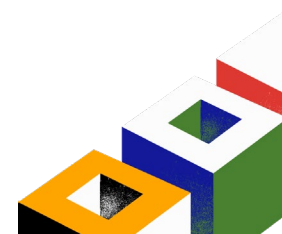
Because of the limited resources available, municipalities have eagerly sought out innovative methods of finance, especially for infrastructure projects.⁴⁴ An example is municipal pooled financing, a method wherein municipalities cooperate to jointly borrow money, and public-private partnerships.⁴⁵

⁴² An operating surplus means the municipality's revenue in a given year was more than its expenses; an operating deficit means the municipality's expenses were greater than its revenue.

⁴³ *Ibid.*

⁴⁴ SALGA, 'Municipal Innovative Infrastructure Financing Unlocking Infrastructure Financing to Accelerate Service Delivery Conference 2018' (2018). (Accessible [here](#)).

⁴⁵ SALGA, 'Municipal Pooled Financing Mechanisms in South Africa' (2017). (Accessible [here](#)).



PUBLIC-PRIVATE PARTNERSHIPS (PPPs)

As government infrastructure budgets have come under increased pressure in recent years, PPPs have been viewed as an effective way to deliver much-needed infrastructure. The National Treasury clarifies the difference between a PPP and traditional government infrastructure projects:⁴⁶

- A PPP is a contract between the state and a private party, where the private party performs a function that is usually provided by the public sector.
- The public sector pays the private party for a full set of services, including new infrastructure, maintenance and facilities management, through monthly or annual payments.
- Whereas in a traditional government project, the public sector pays for the capital and operating costs, and carries the risks of cost overruns and late delivery, in a PPP much of the project risk (technical, financial and operational) falls to the private party.

In 2019, 2% of the total public-sector infrastructure budget was estimated to go toward PPP projects.⁴⁷ A prominent example of a PPP in South Africa is the Gautrain Rapid Rail Link project.

All these factors point to a growing need for critical reporting – in the run-up to the 2026 local government elections, and beyond – to improve scrutiny and inform public debate on how the third layer of government in South Africa is financed. This speaks to the essential role to be played by journalists in reporting on municipal finance as a vital element of decentralised democracy enabling citizens to make political decisions.

6. Reporting on municipal finances

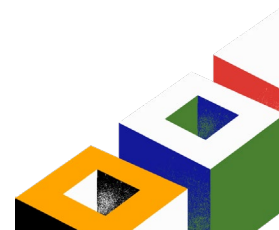
As with any level of government, budgets give journalists a way to find compelling and important stories which can inform the public about how local government works, and where it is falling short. However, municipal budgets have not come under the same scrutiny as national budgets.

Reporting on government budgets requires understanding that they have two key features: (i) targeted amounts for raising revenue, and (ii) the sources of that revenue and details of what the money will be spent on.

The budget is divided into an operational and a capital budget. Operational expenses refer to spending on items consumed during the year, such as staff costs and bulk supplies of water and electricity for sale to residents. Operational revenue refers to, among other things, property rates, transfers from government, the surplus or profit of sales of water, electricity and refuse, and sanitation services to residents.

⁴⁶ National Treasury, 'Public-private Partnerships' (2019) at 151. (Accessible [here](#)).

⁴⁷ *Ibid.*



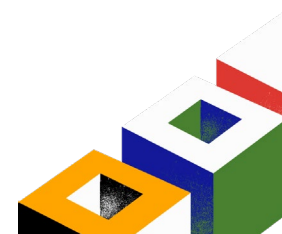
The municipal budget should be the expression of the will of the residents, and these residents should be able to check whether the municipality is budgeting for what they want and hold their councillors accountable if not. On the other hand, the budget process set out by Treasury is multi-year, complex and tied to a pre-determined planning and consultation process around the Integrated Development Plan (IDP).

The minutiae of the process is tedious and unlikely to yield front-page news, but crucial for journalists to keep track of. Certain parts of the budgeting process (such as consultation meetings with residents) can be more helpful to journalists, for example in hearing what citizens want and whether they are being heard.

The municipal budget and IDP process⁴⁸

| Step | Process | Date |
|----------------|--|---|
| 1 Planning | Schedule key dates, establish consultation forums, review previous processes, and table the proposed schedule in the municipal council. A simplified version of the schedule should also be made public. | The mayor must table the budget process plan for council to adopt by 31 August, 10 months before the next budget year begins. |
| 2 Strategising | Review IDP, set service delivery targets and objectives for next 3 years, consult on tariffs, review indigent policy, credit control, and free basic services. Consider local, provincial and national issues, the previous year's performance, and current economic and demographic trends. | Ideally should occur from August to November |
| 3 Preparing | Prepare budget, revenue and expenditure projections; draft budget policies; consult and consider local, provincial and national priorities. January and February should be used for preliminary consultation and discussion on the budget. | Early December |
| 4 Tabling | Table budget, IDP, and budget-related policies before council; consult and consider formal local, provincial and national inputs or responses. | The mayor must table the budget before council by 31 March. |
| 5 Consulting | The municipal manager must now make the budget documentation public, and submit it to National Treasury and the relevant provincial treasury, and any other government departments where necessary. The local community must be invited to submit representations in response to the budget. | April and May should be used to cater for public and government comment, and to do any necessary revisions. |
| 6 Revision | After considering all comments and submissions, revisions must be made and amendments tabled for the council's consideration. | This step must be completed by 31 May so that the council can start considering it. |
| 7 Approving | Council approves budget and budget-related policies, and any changes to the IDP. The approved annual budget must also | The Budget must be approved by 30 June, before the start of the budget year on 1 July. |

⁴⁸ National Treasury, 'A Guide to Municipal Finance Management for Councillors' (2006). (Accessible [here](#)).



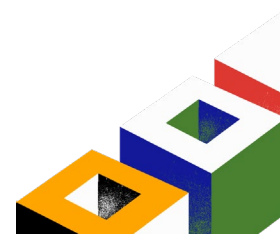
| | | |
|--------------|---|--|
| | <p>be submitted to the National Treasury and Provincial Treasury immediately.</p> <p>If the budget is not approved, it must be reported to the MEC for Local Government and appropriate provincial intervention must be recommended by the Mayor.</p> | |
| 8 Finalising | <p>Within 14 days after approval of the budget, the draft SDBIP must be submitted. The SDBIP must then be approved within 28 days after budget approval, and published with budget and annual performance agreements and indicators.</p> <p>Throughout the year, there is an ongoing monitoring role played by the mayor and the council and adjustments may be considered by the council if necessary.</p> | <p>Quarterly reports are submitted to the municipal council on implementation of the budget within 30 days after the end of a quarter.</p> <p>The annual report is tabled in the municipal council within 7 months.</p> <p>The mid-year performance assessment is submitted by 31 January.</p> |

To interrogate local government budgets, journalists should seek to find out what is important and interesting to as wide a range of people as possible. In what can be dense and complex material, a journalist’s role is to understand the issue and explain it to the audience in a simple yet compelling manner. As with all technical and possibly complex knowledge areas, it is helpful to enlist the aid of experts in interpreting figures and surfacing questions for the municipal management to answer.

Budget and reporting process



It has been suggested that one way of looking at a budget is to check to what extent it is aligned with the priorities of the Integrated Development Plan. However, IDP priorities are abstract and South African citizens are rightfully plan-weary. IDPs do not attract much attention, as a Google search will quickly illustrate. Moreover, in practice citizens tend to be interested in issues such as the rates and taxes they pay and the level of service they are receiving.



FINDING THE STORY IN MUNICIPAL BUDGETS

Some aspects to keep in mind when conducting budget analysis:

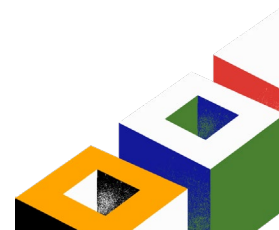
- **History and context are important.** What are the most important spending priorities for citizens? Does the budget plan to increase spending on those priorities? If so, by how much? If not, why? Where will the money for increased spending come from? For instance, if councillors have identified having a reliable water supply as an important demand from the citizens, how will the municipality deal with this?
- **Look for inconsistencies** between the narrative of the budget document and the figures and within the figures themselves. If the municipality has identified replacement of old and leaking water pipes as the way to fix recurring water losses, money must be earmarked for this replacement. How it will be funded, by the municipality's own revenue or a grant from government?
- **The figures are not the story.** The effect of the figures on the lives and livelihoods of people is. For instance, how will an increase in property rates affect businesses and residents? Is the increase in line with, or below inflation? What is the effect of above-inflation increases of the wage bill on the municipality's need to raise revenue from residents?
- **"Names make news."**⁴⁹ This can be extended to those who head municipalities. Hence, the salaries of the municipal executives and councillors, and the increases of those salaries, are of public interest. In some municipalities, the City Manager may have earned up to R3,9 million a year in 2019.⁵⁰ That may sound like a lot but is modest for what is effectively the CEO position of a large business with a turnover of billions of Rands.
- While the municipality's annual report and annual financial statements are backward looking, the **annual budget is forward-looking**. This means municipal authorities need to explain their assumptions about expected income and spending.

There are various reports that are submitted which provide a detailed insight into the state of municipal finance, including:

- Monthly (MFMA Section 71) budget statements;
- Mayoral quarterly (MFMA Section 52(d)) reports;
- Mid-year (MFMA Section 72) performance assessments and other ad-hoc financial and non-financial reporting; and

⁴⁹ Winkler and Sondag, 'The Bloomberg Way: A Guide for Reporters and Editors', [13th edition] (Hoboken, New Jersey: John Wiley & Sons, Inc, 2014), 2.

⁵⁰ Sidimba, 'Municipal managers to earn more than Ramaphosa', IOL (2018). (Accessible [here](#)).



- Municipalities are required to submit an annual report for each financial year. This includes its annual performance report, audited annual financial statements and a discussion of results. The municipal council must then produce a responsibility report on the annual report.

7. The audit function

The Auditor-General's reports contain a wealth of information for journalists to probe. Year after year the Auditor-General has weighed the municipalities and found their governance and accountability wanting. Crudely, the purpose of an audit is to examine financial statements to be able to express an opinion about their "fairness or compliance with an identified financial reporting framework and any applicable statutory requirements".⁵¹ The AG's audits go further than this, assessing "the stewardship of public funds, implementation of government policies and compliance with key legislation."⁵² The Public Audit Act prescribes the scope of the annual audit of each entity, including giving the usual auditor assurance that the financial statements are free from misstatements but also reporting on the quality of the information in the annual performance report and "material non-compliance with key legislation". The AG also identifies the key internal control failings that need to be fixed to achieve a clean audit.⁵³

One common misunderstanding is that it is the AG's job to detect incidences of corruption. An auditor does not do the work of a detective or investigative journalist. Importantly, the AG does not set out to detect fraud – though fraud may be detected in the course of the audit. Similarly, they do not evaluate service delivery, only that the annual performance report is "useful and reliable".⁵⁴

However, in 2018 the Public Audit Act was amended to expand the Auditor-General's powers to include the following:



Source: Auditor-General, 'Introducing the concept of material irregularities', accessible [here](#).

External audit

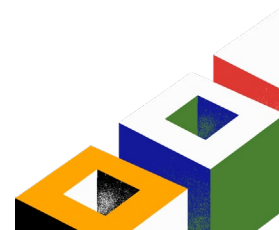
An external audit must assure management about the accuracy of financial information reported in the financial statements. The most important requirements for effective external auditors are

⁵¹ RSA, "Auditing Profession Act No. 26 of 2005 Amended, by the Auditing Profession Amendment Act, No. 2 of 2015" (Republic of South Africa, January 12, 2006).

⁵² *Ibid.*

⁵³ AGSA, 'Audit Process | AGSA,'. (Accessible [here](#)).

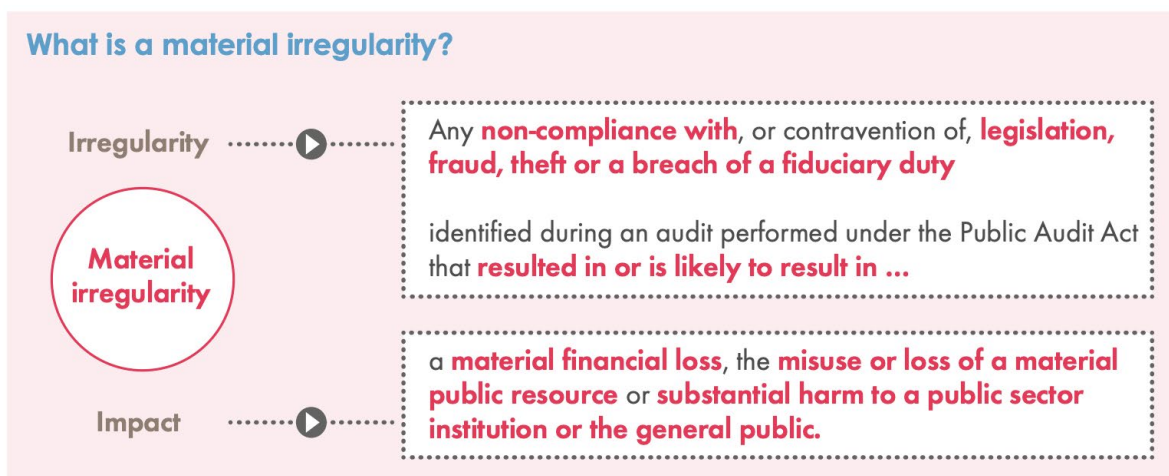
⁵⁴ *Ibid.*



independence and authority. In general, their authority is reinforced by the power they are given to access all information they want and to determine the nature of audit they want to perform (e.g., financial, compliance or value for money audits). The AG acts as the external auditor for all state organs in South Africa.

The AG issues five main types of audit opinion:

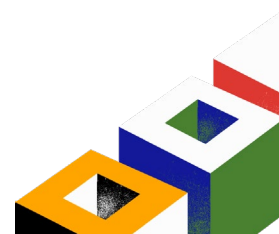
1. A clean audit outcome: a financially unqualified audit opinion with no findings on reporting on targets or non-compliance with legal requirements.
2. A financially unqualified audit opinion: the financial statements contain no material misstatements, but the AG has made findings on either reporting on targets or non-compliance with legislation, or both.
3. A qualified audit opinion: the AG finds that the financial statements contain material misstatements of specific amounts, or they have insufficient evidence to decide that specific amounts are not materially misstated.
4. An adverse audit opinion: the financial statements contain significant and numerous material misstatements.
5. A disclaimer of audit opinion: the municipality provided documentation with insufficient information on which to base an audit opinion.



Source: Auditor-General, 'MFMA Report 2018/19', accessible [here](#).

Lastly, it is important for journalists to understand the difference between irregular, unauthorised and fruitless and wasteful expenditure.

- **Fruitless and wasteful expenditure** is spending done in vain and which could have been avoided. This can be as simple as needlessly incurring interest because of not paying suppliers on time.
- **Unauthorised expenditure** is spending not budgeted for, including overspending of budgets.



- **Irregular expenditure** is spending which does not comply with laws on municipal finances and procurement. Irregular spending can be, but is not necessarily, fraud.

A municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for the spending. Unauthorised expenditure can be authorised in an adjustment budget or written off after investigation shows it to be irrecoverable.

Municipal councillors must ensure that audit reports, supplied by the municipal audit committee is comprehensively studied and the proposals implemented. The municipal council can then be assured that the municipality is ready for the external auditing process. Take care that the municipality has appropriate performance management systems, processes and frameworks in place and adhered to. Also monitor the development and implementation of mechanisms, systems and processes for auditing the results of performance measurements as part of the administrations internal auditing processes (MFMA Regulation 14(1)(a)). With performance audits, the municipal council must play an enhanced role as a policy-maker and as an oversight body of the municipality.

Internal audit

The MFMA requires each municipality and municipal entity to have an *internal audit unit*. This must be established as an independent section within the municipal council that takes direction from and provides support to the audit committee and municipal manager/accounting officer. It is generally established with the appointment of professional internal audit staff as employees of municipal council, although small and medium-sized municipal councils may choose to share the function with the district and other municipalities.

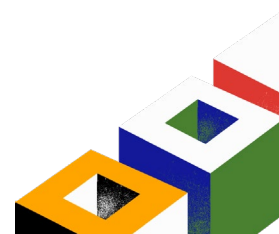
The head of the internal audit function is accountable functionally to the audit committee and administratively to the municipal manager and should report regularly on the following:

- An assessment of the adequacy and effectiveness of internal control processes and risk management;
- Significant issues relating to such controls, including potential improvements to established structures;
- The status of the annual audit plan in relation to its milestones.

Internal audit, through its powers to assess internal control systems, needs to do a thorough job that will complement what external auditors do. That is, external auditors must feel confident to rely on the work done by internal auditors in doing an internal audit and in expressing an opinion on the financial statements and performance of the municipality. For this to happen. The staff of an internal audit unit must be competent and must have done relevant and quality work.

An audit committee is an independent advisory body formed in terms of Section 166 (1) and (2) of MFMA, to advise the municipal council, political office bearers, the accounting officer and the municipal management (or the board of directors, the accounting officer and the management of the municipal entity).

The audit committee reviews and analyses reports received from the municipality's internal audit unit. It is also required to audit the performance measurements of the municipality on a continuous basis and submit quarterly reports on their audits to the municipal manager and the



performance audit committee. The audit or performance audit committee must also report their findings at least twice a year to the municipal council.

Finally, the **Municipal Public Accounts Committee (MPAC)** performs an oversight function on behalf of the municipal council. Its role is to assist the municipal council to hold the executive and municipal entities to account, and to ensure the efficient and effective use of municipal resources. By so doing, MPAC helps to increase the municipal council and public awareness of the financial and performance issues of the municipality and its entities. MPAC reports directly to the municipal council through the Speaker of the municipality and interfaces with the other committees of the municipal council through the Speaker, where relevant.

8. Suggested resources

- South African Cities Network, 'State of City Finances 2022,' (2022). (Accessible [here](#)).
- Municipalities.co.za, 'The Local Government Handbook South Africa 2026,'. (Accessible [here](#)).
- UN Habitat, 'Guide to Municipal Finance,' (2009). (Accessible [here](#)).
- South African Cities Network, 'State of Cities Report 2021,' (2022). (Accessible [here](#)).
- IEC, 'Municipal elections handbook', (2016). (Accessible [here](#)).
- StatsSA, 'Quarterly financial statistics of municipalities, March 2024' (March 2025). (Accessible [here](#)).
- National Treasury MFMA. (Accessible [here](#)).
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