



KWAZULU-NATAL PROVINCE

TREASURY
REPUBLIC OF SOUTH AFRICA

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**TO: MUNICIPAL MANAGERS
CHIEF FINANCIAL OFFICERS
KWAZULU-NATAL MUNICIPALITIES WITH UNFUNDED 2025/26 APPROVED BUDGETS**

PROVINCIAL TREASURY CIRCULAR PT/MF 04 OF 2025/26

GUIDANCE FOR MUNICIPALITIES WITH UNFUNDED 2025/26 APPROVED BUDGETS, INCLUDING THE REQUIREMENT FOR AN AMENDED BUDGET FUNDING PLAN TO REFLECT A FUNDED BUDGET BY THE 2027/28 BUDGET YEAR AND MONTHLY PROGRESS REPORTING REQUIREMENTS

The objectives of this circular are to:

- To provide guidance to the municipalities whose 2025/26 Approved Budgets were assessed as **unfunded** by Provincial Treasury on the process to be followed to address the unfunded budget position through the correction/amendment of their Budget funding plans;
- Remind **all** municipalities with approved Budget funding plans of their obligation to submit a monthly progress report on the implementation of the Budget funding plan to Council, the National and Provincial Treasuries;
- Recirculate the standard Budget funding plan monthly progress report template as well as the submission guidelines thereof to the municipalities with unfunded 2025/26 Approved Budgets; and
- Remind municipalities with unfunded 2025/26 Approved Budgets of the Provincial Treasury's Quarterly progress reporting requirements regarding the Action plans to remedy the non-compliance with Section 18 of the MFMA.

Background

Section 18 of the Municipal Finance Management Act, Act 56 of 2003 (MFMA) states that *an Annual Budget may only be funded from realistically anticipated revenue to be collected, cash backed accumulated funds from previous years' surpluses not committed for other purposes and borrowed funds, but only for the Capital budget.*

MFMA Circular No. 89 and subsequent MFMA Municipal Budget Circulars required municipalities with unfunded budgets to develop credible Budget funding plans which show how and by when the Medium-Term Revenue and Expenditure Framework (MTREF) budgets of the municipalities would be funded if funded budgets were not achievable in one financial year. Furthermore, MFMA Circular No. 122 required municipalities to table these plans together with their Annual Budgets for approval by Council



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where applicable. MFMA Circular No. 126 reiterates that municipalities must adopt a credible funding plan in cases where Annual Budget is unfunded.

As per MFMA Budget Circular No. 129, National Treasury has observed over the years that municipalities with Unfunded budgets have adopted Budget funding plans for compliance purposes only and have made little to no progress in turning around their funding position. To this effect, **National Treasury stated in MFMA Circular No. 129 that municipalities will only be allowed to turn around from an unfunded budget position to a funded position within three financial years, of which in each year there should be measurable progress in terms of the improvement in the collection rate and cost containment initiatives.** Furthermore, National Treasury stated that the municipalities which fail to show visible progress each year will not be allowed to table an unfunded budget. On a monthly basis, these municipalities will be required to submit progress reports to the National Treasury GoMuni Portal which must be closely monitored by the respective Provincial Treasuries.

According to the outcome of Provincial Treasury's assessment of the 2025/26 Approved Budgets, five (5) municipalities have approved unfunded Annual Budgets for the 2025/26 financial year as reflected in Table 1. In compliance with MFMA Circulars No. 89 and subsequent MFMA Municipal Budget Circulars, all five (5) municipalities prepared Budget funding plans that were approved by their respective municipal Councils indicating how and by when the MTREF budgets of the municipalities will be funded. However, upon assessment of the Budget funding plans by Provincial Treasury, it was concerning to note that all five (5) approved Budget funding plans were assessed as not credible. This includes municipalities' with Budget funding plans that reflected a funded budget beyond the 2027/28 budget year. Accordingly, all five (5) municipalities must revise, update and re-table their Budget funding plans for their respective Councils approval.

Table 1: Municipalities with unfunded 2025/26 Approved Budgets

No.	Name of municipality	Approved Budget Funding Position	Budget Funding Plan approved by Council and submitted to PT	PT Assessment of Credibility of Budget Funding Plan
1	Mpofana	Unfunded	Yes	Not Credible
2	uThukela DM	Unfunded	Yes	Not Credible
3	eNdumeni	Unfunded	Yes	Not Credible
4	eMadlangeni	Unfunded	Yes	Not Credible
5	Ulundi	Unfunded	Yes	Not Credible
Total non-compliant municipalities		5	5	5

Source: KZN Provincial Treasury

Compliance with Section 18 of the MFMA is listed as one of the key criteria that municipalities have to meet for the release of the Equitable share instalments for the 2025/26 financial year as per MFMA Circular No. 122 and subsequent MFMA Municipal Budget Circulars. As per MFMA Circular No. 126, municipalities with unfunded 2025/26 Approved Budgets and Budget funding plans that lack credibility are required to correct their Budget funding plans and ensure that they are credible. The credible Budget funding plans must be immediately adopted by the respective municipal Councils and the changes to the budget must be affected in the main 2025/26 Adjustments Budget. The Budget funding plans **must** show progressive improvement in the funding of the budget.

Withholding of Equitable share is in line with Section 216(2) of the Constitution of South Africa that requires National Treasury to enforce compliance with the measures established to ensure both transparency and expenditure control in each sphere of government and National Treasury may stop the transfer of funds to an organ of state if that organ of state commits a serious or persistent material breach of those measures.



Discussion

Budget Funding Plans

Provincial Treasury previously issued Circular PT/MF 04 of 2024/25 on 12 September 2024 to provide guidance to municipalities on the development of Budget funding plans. This Circular required all municipalities with approved Budget funding plans to submit monthly progress reports on the implementation of the plan to Provincial Treasury in order Provincial Treasury to assess the progress thereon and advise municipalities accordingly.

A National Treasury Framework (Framework) to assist in developing an effective funding plan/strategy for municipalities to improve their unfunded budget positions was also shared with municipalities. The Framework stipulated that the Budget funding plans must:

- Clearly indicate how the municipality would move from an unfunded position to a funded position including the timeframes; and
- Include specific targets and milestones to be monitored monthly by relevant oversight structures within the municipality as well as the relevant Provincial Treasury and the National Treasury.

The Framework did not prescribe the structure for the contents of a Budget funding plan and as a result, the contents of the Budget funding plans are unique to each municipality. Notwithstanding this, the Framework recommended that the contents for all Budget funding plans must be structured in accordance with the five pillars which are used for the preparation of the Financial recovery plans for municipalities under intervention in terms of Section 139(5) of the Constitution of South Africa. In particular, the Budget funding plan must correspond to the rescue phase of the new approach to Municipal Financial Recovery Service (MFRS). The Financial recovery plans are largely prepared for municipalities under financial distress, and it is for this purpose that the pillars of the framework of the Budget funding plans must be aligned to the indicators in the financial recovery plans. The Framework required that the contents of the Budget funding plans should therefore be structured in accordance with the following pillars:

- Positive cash flows with a focus on revenue from trading services;
- Implementation of cost containment measures and a reduction of expenditure;
- Realistic debtors' collection rates with incremental improvements year on year;
- Creditors payment rates that ensure that all fixed obligations, including obligations for bulk purchases, are met; and
- Ring fencing of conditional grants and ensuring that conditional grant funding is cash backed.

When correcting their Budget funding plans, municipalities must consider the following aspects within the above mentioned five pillars:

- The inclusion of high-level governance and service delivery indicators focused on visible wins;
- The inclusion of appropriate strategic financial indicators;
- Focus on improving the budgeted cash position and short term liquidity;
- Measurable performance indicators;
- Realistic anticipated revenue. The collection rate must be prudent considering current economic trends;
- Reduction of the Operating expenditure budget (Table A4) in line with the realistic anticipated receipts related to the Operating revenue budget;



- A gradual improvement of Operating surpluses that will be used for the repayment of arrear obligations;
- Adjustment of internal contributions to the capital programme in line with affordability or removal of internal contributions to the capital programme from the budget if necessary;
- A cash flow which presents a positive Cash and cash equivalents at year-end balance on Table A7 for the current year – including fixed cost obligations (Bulk suppliers – current account / Eskom and Water board payment plans); and
- The unaudited 2024/25 Annual Financial Statements (AFS) figures must be used as the baseline for the plans to be tabled and approved by Council.

Monthly Reporting of the Budget funding plans

The national Technical Committee for Finance (TCF) resolved that Councils for municipalities with unfunded budgets must monitor the progress on the implementation of the Approved Budget funding plans monthly to ensure that the objectives of the plan are achieved. Furthermore, the TCF also resolved that the reports on the implementation of the Budget funding plans should be submitted to Provincial Treasury on a monthly basis in addition to the monthly MFMA Section 71 reporting.

This decision was reiterated in National Treasury MFMA Circular No. 122 wherein municipalities with unfunded budgets were required to submit a monthly progress report in accordance with the Framework which is aligned to the rescue phase of the new approach to MFRS to guide municipalities.

All municipalities with unfunded 2025/26 Approved Budgets and adopted Budget funding plans must submit a monthly progress report on the implementation of their Budget funding plans to their Council and to the relevant Provincial Treasury for monitoring. Municipalities are reminded that the monthly progress reports must be uploaded to the National Treasury GoMuni Portal.

Action plans to remedy the non-compliance with Section 18 of the MFMA

As part of the provincial Financial rescue plan, Provincial Treasury developed Action plans to remedy the non-compliance with Section 18 of the MFMA. These Action plans were presented to, and agreed upon with the municipalities during the bilateral engagements held in April and May 2025 to discuss Provincial Treasury's findings from the assessment of the 2025/26 Annual Budgets. The finalised Action plans were subsequently communicated to the municipalities with unfunded 2025/26 Approved Budgets through a Provincial Treasury letter dated 07 July 2025.

The Municipal Managers of the affected municipalities were requested to review and implement the Action plans to address the root causes of their unfunded budgets, with the aim of achieving a turnaround in their funding position.

The municipalities with unfunded 2025/26 Approved Budgets are required to submit Quarterly progress reports on the implementation of these Action plans, duly completed and signed by both the Municipal Manager and the Chief Financial Officer, to Provincial Treasury for review and assessment of progress achieved in each quarter. These Quarterly progress reports must be submitted to Provincial Treasury within 10 working days after the end of each quarter. The first Quarterly progress report (Quarter one report which covers July 2025 to September 2025) must be submitted to Provincial Treasury by no later than 14 October 2025.



Way Forward

The five (5) municipalities with 2025/26 Approved Budget funding plans that lack credibility must:

- Correct and adopt a credible Budget funding plan by **no later than 17 October 2025**;
- Include adjustments to the budget in the main 2025/26 Adjustments Budget in February 2026 to ensure compliance with Section 18 of the MFMA;
- Demonstrate progressive improvements in the budget funding position; and
- Submit copies of Council resolutions to the National and Provincial Treasuries confirming the adoption of the corrected Budget funding plan and Council's commitment to address the unfunded budget position.

The corrected Budget funding plan must be prepared by the Chief Financial Officer (CFO) and approved by the Municipal Manager (MM) before being tabled to Council and submitted to the National and Provincial Treasuries.

The Budget funding plan template requires monthly reporting on the status and percentage completion of each key activity. Reasons for the current status, especially where there may be a lack of progress, as well as comments that enhance the understanding of the reported information should also be included where necessary.

Failure to submit a corrected 2025/26 Budget funding plan approved by Council as well as the monthly progress reports to Council and Provincial Treasury will place the municipalities' Equitable share tranche at risk as credible Budget funding plans and monthly progress reports form part of the criteria for the release of the Equitable share instalments for the 2025/26 financial year by National Treasury as per MFMA Circulars No. 122 and subsequent MFMA Municipal Budget Circulars.

The monthly progress reports must be submitted as follows:

- To the municipal Council and relevant oversight structures for monitoring and accountability; and
- To the Provincial Treasury, accompanied by the relevant Council resolution, no later than five (5) working days after the Council meeting at which the report was tabled.

Additionally, Quarterly progress reports on the implementation of the Action plans must be submitted to Provincial Treasury within 10 working days after the end of each quarter.

Kind regards

Ms. C. Coetzee

Head of Department: KwaZulu-Natal (KZN) Provincial Treasury

CC Mayors

Deputy Mayors

Speakers

Ministerial Representatives

Mr. F. A. Rodgers – KZN MEC for Finance

Mr. J. Hattingh – National Treasury

Mr. W. McComans – National Treasury

Ms. N. Mkhize – KZN (Auditor-General)