APPENDIX 37

STELLENBOSCH MUNICIPALITY

MFMA CIRCULAR NO.132

MUNICIPAL BUDGET CIRCULAR FOR THE 2026/2027 MTREF

NATIONAL TREASURY

MFMA Circular No. 132

Municipal Finance Management Act No. 56 of 2003

Municipal Budget Circular for the 2026/27 MTREF

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Introduction:

This budget circular provides guidance to municipalities on the compilation of the 2026/27 Medium Term Revenue and Expenditure Framework (MTREF). It is linked to the Municipal Budget and Reporting Regulations (MBRR) and the Municipal Standard Chart of Accounts (*m*SCOA) and aims to support municipalities' budget preparation processes to ensure minimum requirements are met.

Among the objectives of this budget circular is to demonstrate how municipalities should undertake annual budget preparation in accordance with the budget and financial management reform agenda by focusing on key "game changers". These game-changers include ensuring that municipal budgets are funded, revenue management is optimised, assets are managed efficiently, supply chain management processes are adhered to, *m*SCOA is implemented correctly and that audit findings are addressed. Municipalities are reminded to refer to the annual budget circulars of the previous years for guidance in areas of the budget preparation that are not covered in this circular.

1. The South African economy and inflation targets:

South Africa's economy is expected to grow by 1.2 per cent in 2025/26, down from the 1.4 per cent estimated in the 2025/26 budget. Real GDP growth is forecast to strengthen, averaging 1.8 per cent over the medium-term, supported by a revival in investment as new infrastructure allocations take effect and reform implementation builds.

The following macro-economic forecasts must be considered when preparing the 2026/27 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2023 – 2029

Fiscal year	2022/23 Actual	2023/24 Actual	2024/25 Actual	2025/26 Estimate	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
CPI Inflation	6.9%	5.9%	4.4.%	3.3%	3.7%	3.3%	3.2%

Source: National Treasury Budget Review 2025.

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

Headline inflation declined to 4.4 per cent in the fourth quarter of 2024/25, resulting in average inflation of 4.4 per cent for the year. Consumer inflation is projected to average 3.3 per cent in 2025/26 and 3.7 per cent in 2026/27. In the short term, reducing the inflation target to 3 per cent will result in more cuts in interest rates than would be the case under a 4.5 per cent target. Over time, a lower target will decrease inflation and inflation expectations, creating the space for permanently lower interest rates, which will support household spending and investment – boosting economic growth and job creation.

The lower inflation will support higher levels of real economic growth. South Africa's inflation target will be more in line with its trading partners and peer economies, making the economy more competitive. Household spending and private investment will rise due to higher real disposable income and lower borrowing costs.

2. Key focus areas for the 2026/27 budget process:

2.1 Local government allocations

Over the 2026 Medium-Term Expenditure Framework (MTEF), the government proposes an allocation of 9.7 per cent to local government. Local government funding is projected to increase from R192.9 billion in 2026/27 to R204.9 billion in 2028/29. In 2026/27, this increase comprises R110.6 billion for the local government equitable share, R17.6 billion from the general fuel levy sharing with metropolitan municipalities, and R64.6 billion for both direct and indirect conditional grants. The increased allocations to local government reflect the government's commitment to social protection as a cornerstone of its fiscal strategy, ensuring ongoing support for indigent populations and the expansion of critical infrastructure through conditional grants. These figures represent the preliminary fiscal framework outlined in the 2025 Medium Term Budget Policy Statement; final details will be provided in the 2026 Budget Review.

Notable changes to the conditional grants system

The government has finalised its review of the conditional grant system and developed a range of reforms based on the results. These are reforms aimed at rationalising conditional grants and enhancing their effectiveness, and some have already been implemented in 2025/26 already. Reforms over the 2026 MTREF will include:

- **Electricity** – The merging of the Integrated National Electrification Programme grant and the Energy Efficiency Demand Side Management grant focuses on energy efficiency and renewable energy programmes that can lead to more sustainable energy provision and enable the achievement of long-term goals;
- **Water and sanitation** – The Water Services Infrastructure Grant, Regional Bulk Infrastructure Grant and Municipal Infrastructure Grant will be reviewed to address overlaps in water services provision;
- **Transport** – The Public Transport Network Grant will be phased out over the MTEF, and new arrangements will be explored for integrated public transport and improvements to higher-density housing to maximise benefits;
- **National Treasury grants** – The Infrastructure Skills Development Grant and Neighbourhood Development Partnership Grant will be discontinued and will be replaced with better-designed instruments that will simplify oversight, reduce administrative burden, and channel more resources to actual delivery;
- **Metro Trading Services** – An amount of R19.3 billion over the MTEF for infrastructure associated with municipal trading services will be shifted from the *Urban Settlements Development Grant* to the performance-based *Urban Development Financing Grant*; and
- **Municipal Infrastructure Grant** – there will be the introduction of a performance-based split delivery model (direct and indirect). An indirect delivery model will only be used to rebuild (not replace) municipal capacity. The role of MISA and DBSA in the indirect delivery models will be elevated, coupled with time-bound capability plans aimed at restoring direct funding.

We kindly advise municipalities to utilise the indicative numbers that were presented in the 2025 Division of Revenue Act when developing their 2026/27 MTREF calculations. It is also crucial to make considerations to the proposed amendments to baselines that were presented in the 2025 MTBPS, as they may have an impact. We recommend this be prioritised in all budgetary planning for the upcoming fiscal year. In terms of the outer year allocations (2028/29 financial year), it is proposed that municipalities conservatively limit funding allocations to the indicative numbers as presented in the 2025 Division of Revenue Act for 2026/27. The Division of Revenue Bill, 2025, which includes the annexures outlining allocations to each municipality is available at:
https://www.treasury.gov.za/documents/National%20Budget/2025May/

The Integrated National Electrification Programme and the Energy Efficiency and Demand Side Management grant will be merged in the 2026 Budget to streamline electrification funding, while the Public Transport Network Grant will be discontinued due to its failure to meet intended

objectives. The phased changes arise from the review of local government conditional grants to address infrastructure delivery inefficiencies.

Division Of Revenue Amendment Bill, 2025 (DoRAB)

Changes to local government allocations –

Additional funding to the Municipal Disaster Recovery Grant*:* An additional R496 million is allocated to the Municipal Disaster Recovery Grant to support the reconstruction and rehabilitation of municipal infrastructure that was damaged by the floods and storm surges that struck the Eastern Cape between March and June 2025.

Additional funding to the Urban Development Financing Grant: An additional R2.1 billion is provided to the Urban Development Financing Grant to strengthen the metro trading services component. This allocation had already been provisionally set aside on a provisional basis when the main budget was presented in May 2025.

Roll over of funds in the Public Transport Network Grant: An amount of R303 million is rolled over in the Public Transport Network Grant to enable the eThekwini Metropolitan Municipality to proceed with essential work needed to operationalise Corridor 3 of its Integrated Public Transport Network operational.

Reprioritisation from the Urban Settlements Development Grant (USDG) – R5.7 billion, R6.4 billion and R7.2 billion are shifted in the respective years of the 2026 MTEF period from the Urban Settlements Development Grant to the Metro Trading Services component of the Urban Development Financing Grant to strengthen core utility functions.

Rescheduling of BFI funding in the Regional Bulk Infrastructure Grant (RBIG) – Over the medium term, an additional R2.1 billion is allocated to the Regional Bulk Infrastructure Grant to finance the Polokwane wastewater treatment works project through the Budget Facility for Infrastructure.

Reforms in the Municipal Infrastructure Grant (MIG) – Government is reforming MIG to control underspending, misuse of funds and capacity constraints. Municipalities with proven capacity will retain direct transfers, while those with ongoing capacity or governance failures will shift to indirect transfers through entities such as the Municipal Infrastructure Support Agency (MISA) and the Development Bank of Southern Africa (DBSA), supported by time-bound capability plans to restore direct access. This approach accelerates service delivery while strengthening long-term municipal capability.

Changes to conditional grant frameworks and allocations –

The framework of the MDRG – Recovery will be amended to ring-fence the additional funds for the reconstruction and rehabilitation of municipal infrastructure damaged by the disasters that occurred in the Eastern Cape between March and June 2025.

The framework of the *Urban Development Financing Grant* – is amended to reflect the revised 2025/26 baseline following the additional R2.1 billion for metro trading services.

Details per municipality of the changes to allocations for the municipal disaster recovery grant, urban development financing grant, and the public transport network grant that have been described in Part 2 of the explanatory memorandum to the Division of Revenue Amendment Bill will be gazetted.

All amended frameworks will be gazetted in terms of section 15(2) of the 2025 DoRA, after consulting Parliament.

2.2 Reporting requirements for Disaster Allocations, Metro Trading Services Programme (MTSP) – Rollover and the stopping and re-allocation guidelines

Reporting requirements for Disaster Allocations

The Division of Revenue Act, 2025 (Act No. 2 of 2025) (DoRA) provides for the unallocated funds to local government through the Municipal Disaster Response Grant schedule 7B (MDRG 7B) and the Municipal Recovery Grant schedule 5B (MDRG 5B). The main purpose of the MDRG 7B is to provide for the immediate release of funds for disaster response if an occurrence cannot be adequately addressed in line with section 2(1)(b) of the Disaster Management Act, 2002 (Act No. 57 of 2002) while the MDRG 5B main goal is to rehabilitate and reconstruct municipal infrastructure damaged by a disaster.

These allocations remain unallocated until a declaration of a disaster by the Minister of Cooperative Governance and Traditional Affairs (CoGTA) in terms of Section 23(1)(b) of the Disaster Management Act, 2002 (Act No. 57 of 2002).

Section 25 of the 2025 DoRA provides that:

(3) (a) The transferring officer may, with the approval of the National Treasury, make one or more transfers of a Schedule 7 allocation to a province or municipality for a classified disaster, within 100 days after the date of the classification of the disaster.
(c) The National Treasury must, within 21 days after the end of the 100-day period envisaged in paragraph (a), by notice in the Gazette, publish all transfers of a Schedule 7 allocation made for a classified disaster.
(f) The funds approved in terms of paragraph (a) must be included in municipal adjustments budgets.

Any additional disaster funding that may be approved by the National Treasury also through section 19 (6) of the DoRA which states that "On a joint request by the transferring officer and the National Disaster Management Centre (NDMC), the National Treasury may approve that a conditional allocation in Schedule 4, 5 or 6, or a portion thereof, be reallocated to pay for the alleviation of the impact of a classified disaster or the reconstruction or rehabilitation of infrastructure damage caused by a classified disaster. Before the National Treasury approves a reallocation, the receiving officer of the conditional allocation in Schedule 4 or 5 or the transferring officer of a Schedule 6 allocation must confirm that the affected funds are not committed in terms of any statutory or contractual obligation". These funds will then form part of the total disaster allocation for that financial year.

Upon approval by the National Treasury either through section 25(3)(a) or section 19(6), municipalities are then required to follow all reporting prescripts in terms of DoRA. Therefore, in terms of the duties of receiving officer in respect of schedule 5 or 7 allocations, section 12 requires municipalities to report expenditure and transfers received monthly, not later than 10 working days after the end of each month. Furthermore, a municipality must submit a quarterly non-financial performance report within 30 days after the end of each quarter. Lastly, municipalities must evaluate the financial and non-financial performance of the municipality, in respect of programmes partially or fully funded by a schedule 5 allocation and submit such evaluation to the transferring officer and the relevant provincial treasury within two months after the end of the 2025/26 financial year applicable to a municipality.

In addition to the reporting requirements outlined in section 12 of DoRA, municipalities must also adhere to the reporting guidelines specified in the disaster management frameworks. They are required to implement all approved projects and ensure that allocated funds are used for their intended purposes. Municipalities should submit disaster assessment reports and funding requests, signed by the Accounting Officer to the Provincial Disaster Management Centre (PDMC) within fourteen (14) days of the disaster classification. Additionally, municipalities must provide a performance report, including supporting evidence (such as payment certificates, photographs, and invoices) demonstrating the progress of project implementation, to the PDMC within 30 days after the end of the quarter in which the funds were utilized.

Rollover of the Urban Development Financing Grant: Metro Trading Service Component

Rollover requests for the incentive grant and Metro Trading Services component will follow the standard conditional grant guidelines. However, cities are required to submit applications by 31 July 2026 rather than the usual 31 August deadline. Metros are additionally required to provide their bank balances / statements as at June 2026 to demonstrate that unspent funds are cash-backed (also see the additional in-year reporting requirements in paragraph 5.12 below). Further details on the criteria and guidelines will be provided in the March 2026 MFMA Circular.

2.3 Metro Trading Services Reform Incentive

Metro Trading Services Reform: Implications for the 2025/26 Adjustments Budget and 2026/27 Budget Preparation

The Metro Trading Services Reform (MTSR) is transitioning from early implementation in 2025/26 into its first full operational year in 2026/27. The reform introduces a performance-based financing incentive through the **Metro Trading Services component of the Urban Development Financing Grant (UDFG-MTS)**, designed to improve accountability, financial management, and operational performance in water and sanitation, electricity and energy, and solid waste management.

Metro trading services are participating in the reform in two cohorts, according to year of entry into the reform:

- **Cohort 1, entering the reform in 2025/26, includes:**
  - Water and Sanitation: Buffalo City, City of Cape Town, City of Johannesburg, City of Tshwane, eThekwini and Mangaung
  - Electricity and Energy: Buffalo City, City of Cape Town, City of Ekurhuleni, City of Johannesburg, City of Tshwane and eThekwini
- **Cohort 2, entering the reform in 2026/27, includes:**
  - Solid Waste Management: all metros
  - Water and Sanitation: Ekurhuleni and Nelson Mandela Bay
  - Electricity and Energy: Mangaung and Nelson Mandela Bay

This section outlines the implications for the **2025/26 adjustments budget** and **2026/27 MTREF budget** and highlights key requirements for metros.

Implications for the 2025/26 Adjustments Budget (Cohort 1 metros)

For Cohort 1, 2025/26 is Year 1 of the MTSR, with an in-year allocation, based on independent verification of metro compliance with reform entry requirements, to participating Water and Sanitation and Electricity and Energy trading services following the national adjustments budget in November 2025.

Key requirements for Cohort 1 metro 2025/26 adjustments budget are:

- **Provision for the UDFG-MTS allocation:** Cohort 1 metros must include the in-year UDFG-MTS allocation in their 2025/26 adjustments budget, following its approval in the 2025 National Adjusted budget/DORA amendment bill. This is the performance reward for submission and Council approval of A3-PIAP v1 and the making of the Minimum Commitments;
- **Ring-fencing and alignment with PIAP activities:** Adjusted budgets must ensure incentive funds are used for MTSP-related operational and capital reforms only. Budget shifts may be required to align spending with PIAP implementation, especially early reform activity packages and organisational readiness measures; and
- **Updating A3-PIAP-linked spending profiles:** A3-PIAP v1 (approved June 2025) contains indicative spending plans. These must now be reflected in adjustments budgets, with corresponding procurement plan adjustments where necessary. It is expected that these funds in the adjustments budget reflect reform start-up and priority spending, such as those associated with the Minimum Commitments, identified through financial modelling and in updated trading service business and investment plans. As Year 1 has a typical reporting schedule, metros must ensure internal systems are aligned to enable two quarterly spending reports and one annual performance report.

Preparing the 2026/27 Budget (Cohort 1 and Cohort 2)

For Cohort 1 metro trading services, 2026/27 is the first implementation year, to achieve performance targets set in the A3-PIAP v2 (to be Council-approved by June 2026). That performance can only be verified during 2027/28. During 2026/27, Cohort 1 performance will be verified only on maintening of the Minimum Commitments.

Budget preparation must include:

- **Funding full A3-PIAP implementation:** Operational and capital budgets must support Year 2 reform milestones, aligned with financial models and updated business and investment plans, including strengthening core management capacity, reducing technical and commercial losses, improving revenue performance, and undertaking priority network upgrades in support of the relevant A3 PIAP indicators;
- **Integrating expected incentive revenue**: Budgets must incorporate the **verified Year 1 incentive allocation for 2026/27**, reflected under the UDFG-MTS component and aligned with relevant *m*SCOA posting level accounts; and
- **Ensuring alignment between the A3-PIAP v2 and MTREF:** A3-PIAP v2 is the binding multi-year plan for performance measurement and should drive reprioritisation within the 2026/27 MTREF. Final sectoral allocation decisions (within the permissible Water and Sanitation, Electricity and Energy and Solid Waste Management ranges) must be reflected in the tables and adopted budgets; and

Cohort 2 metros entering the programme in 2026/27 must finalise and obtain Council approval of A3-PIAP v1 by June 2026 and budget for preparatory reform activities, including any diagnostic assessments, organisational restructuring, and development of business and investment plans.

Independent Verification: role and process

The Independent Verification Agent (IVA) verifies metro performance to inform a performance score. This score is used by the grant manager to determine each trading service's share of the incentive allocation. The IVA verifies **metro performance against the Minimum Commitments** (made, achieved and maintained) and **annual performance** against scalable performance indicators.

Metros must upload all performance claims and evidence to the National Treasury's MTSR online portal (in development and scheduled for rollout in early 2026). Metros must also prepare

internal data, reporting and governance arrangements to use this portal from the first 2026 submission cycle onward.

The IVA timeline relevant to 2026/27 budgeting is as follows:

- 15 August 2026: first performance evidence uploads for 2025/26;
- 30 September 2026: final evidence uploads for 2025/26;
- 31 October 2026: IVA submits verification outcomes to NT grant manager;
- November 2026: National Steering Committee confirms results; and
- February 2027: incentive allocations communicated via Budget Allocation Letters from NT grant manager.

Streamlined and Integrated Reporting Requirements

While the MTSR includes its **own quarterly and annual reporting requirements, which are** necessary for performance verification and incentive administration, the reform has been explicitly designed to **leverage existing metro reporting systems** to avoid duplication or unnecessary administrative burden.

The MTSR therefore aligns with and draws upon: ***m*SCOA implementation**; **Section 71 monthly and quarterly reporting; MFMA Circular No. 88; and conditional grant reporting.** MTSR seeks to **minimise additional reporting** and strengthen existing systems rather than create parallel processes.

Reference to Existing Guidance

This Circular should be read together with**: MTSR Guidance Notes 1–5, MTSR Guidance, Note 4 Addendum Indicator Definition Addendum, MTSR Sector Resource Documents (W&S, E&E, SWM), the forthcoming MTSP Programme Operations Manual (POM), 2025, UDFG Framework and any further technical guidance.**

2.3 Criteria for the release of the Equitable Share

The criteria for the release of the equitable as covered in MFMA Circular No. 122 remain relevant and are still applicable to the release of equitable share instalments in the 2026/27 financial year.

Failure to comply with the criteria will result in the National Treasury invoking section 38 of the MFMA which empowers National Treasury to withhold a municipality's equitable share if the municipality commits a serious or persistent breach of the measures established in terms of Section 216(2) of the Constitution which includes reporting obligations set out in the MFMA and National Treasury requests for information in terms of Section 74 of the MFMA.

The following criteria will be applied in relation to addressing **UIFWe** and the implementation of consequence management as required in terms of Chapter 15 of the MFMA, read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings:

- The municipality's UIFWe balance (audited) as at 30 June 2025 has not decreased by 75 per cent in the unaudited 2025/2026 AFS as submitted to the AGSA;
- The municipality did not have a disciplinary board in place as at 30 June 2026; and/or
- Notwithstanding the municipality having a DC Board in place, not all UIFWe matters have been referred to the DC Board during the 2024/2025 financial period and/or
- Municipalities have not instituted disciplinary measures stemming from UIFWe incurred up to 30 June 2025 in the 2025/26 financial year.

The National Treasury will start using the prevention of UIFWe as required in terms of sections 62 and 78 as a criteria from the 2026/27 financial year. It is therefore crucial for municipalities

to start implementing measures to curb the incurrence of UIFWe as required in terms of sections 62 and 78 of the MFMA.

In addition, those municipalities currently under mandatory intervention in terms of Section 139(5) of the Constitution and who fail to comply with submitting monthly progress reports on the implementation of the financial recovery plan in terms of Section 146(1)(c) of the MFMA, will also be eligible to have their equitable share allocations withheld with effect from the 2026/27 financial year.

The Joint Circular issued by the Ministers of CoGTA and Finance on 8 September 2025 with regard to Free Basic Services will also be considered as a criteria going forward.

2.4 Stopping and re-allocation guidelines

Following the 2025/26 mid-year expenditure reports (second quarter) in terms of section 10 of the 2025 DoRA and section 72 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), National Treasury intends to invoke section 18 of DoRA which provides that the National Treasury may in its discretion or on request of a transferring officer or a receiving officer stop the transfer of a schedule 4B or 5B allocation, or a portion thereof to a municipality if the National Treasury anticipates that a municipality shall substantially underspend on the allocation, or any programme, partially or fully funded by the allocation, in the 2025/26 financial year. Further, in terms of section 18(2) of DoRA, a request by a transferring officer or a receiving officer to stop the transfer of a schedule 4B or 5B allocation, or a portion thereof must be submitted to the National Treasury by **31 January 2026.**

As part of the annual process for the stopping of the grants that underperform, National Treasury will engage with transferring officers to identify municipalities that are at risk of underspending based on their in-year performance using both the performance reports submitted by transferring officers and the verified *m*SCOA data strings. While the process remains standardised across departments, a differential approach may be applied where justified. This recognises that certain grants may face distinct performance dynamics. However, this process will not compromise overall consistency, fiscal prudence or accountability.

Stopping criteria

National Treasury will within 14 days from receiving the recommendations from the transferring officers issue letters to municipalities with the intention to stop the allocations based on recommendations from transferring officers and/or at the National Treasury's own discretion/assessment. Municipalities are requested to submit representations to National Treasury, providing motivation for the following:

- Expenditure reported as at 31 December 2025 (40 per cent for allocations under R100 million and 45 percent for allocations over R100 million);
- Progress report against approved projects (provide list/names of approved projects);
- Representation on the cash coverage for grants transferred (ring fencing) (Liquidity ratio);
- Representation on the initial cash flow projections against actual performance;
- Progress report on any approved rollover for 2025/26 financial year;
- Commitment that the allocated funds are committed and that they will be fully spent by the end of the financial year, 30 June 2026, i.e., commitment that the municipality will not request rollovers against the funds proposed to be stopped;
- Representation on all projects awarded after the second quarter of the municipal financial year as at 31 December 2025;

- Representation on any commitments made against Supply Chain Management Regulation 32 projects in terms of the Supply Chain Management policy and chapter 11 of the MFMA and progress made against these projects;
- Declaration by the municipality on the amount that should be stopped by National Treasury where the municipality anticipates that it will not fully utilise grant funds before 30 June 2026;
- All reporting must be accurate and aligned to *m*SCOA system; and
- An acceleration plan against the 2025/26 approved implementation plan.

The National Treasury will then give notice in the Gazette of the stopping of an allocation or a portion thereof in terms of section 18 (5), and include in the notice, the effective date and reason for the stopping.

Reallocations:

According to section 19 of DoRA, when a schedule 4B or 5B allocation, or a portion thereof, is stopped in terms of section 18, the National Treasury may, after consultation with the transferring officer and the relevant provincial treasury, determine the portion of the allocation to be reallocated, as the same type of allocation as it was allocated originally, to one or more provinces or municipalities, on condition that the allocation must be spent by the end of the 2025/26 financial year.

Once stopping of funds has been confirmed through consultation, National Treasury reassesses the performance and reallocates funds to municipalities that demonstrate capacity to absorb additional allocations. Reallocation follows a structured sequence guided by the points mentioned below to preserve the benefit of funds within the original location. Funds are allocated:

- First within the same district;
- Then within the same province; and
- Only then nationally, in cases where no suitable recipient exists within the province.

Municipalities become eligible for additional funding if they have spent at least 70 per cent or more of their original allocation, have credible and shovel-ready projects, demonstrate strong compliance with MFMA and DoRA reporting requirements and maintain realistic cash-flow projections. Historical performance including their ability to manage additional allocations in previous years is also considered.

Where applicable, Water Services Authorities may be prioritised for water and sanitation projects due to service delivery imperatives, while non-WSA municipalities may receive priority for well-prepared and impactful roads projects.

3. 2026 Local Government Elections and the budget process

3.1 Transitional processes – development and adoption of IDPs during the 2026 election year

The 2025/26 municipal financial year represents the last year of the current municipal councils' electoral term. The the next municipal election to usher in new councils is expected to take place between November 2026 and January 2027 in terms of section 24(2) of the Municipal Structures Act, 2000 (Act No. 32 of 2000) (MSA).

It is acknowledged that the period within which the coming election's date is expected takes place after the start of a new financial year. This scenario poses a latent challenge in so far as adherence to legislated timeframes regarding the adoption of the 5-year Integrated Development Plan (IDP) and the subsequent implementation.

Given the fact that the IDP and budget would need to be reviewed and adopted by 30 June 2026, the current council has an obligation to ensure that these stipulations are complied with. In this regard, the current council is expected to continue reviewing the IDP and ensuring that it is adopted within the legislated timeframe.

Section 25 (3) of the MSA does allow the municipal council to adopt the IDP of the preceding council. However, should the incoming council be unhappy with the priorities set by the current council, in this case, municipal councils are advised to consider the existing adopted IDP and resolve to initiate or not to initiate an amendment procedure as guided by the MSA and the Municipal Performance and Planning Regulations (2001).

The Department of Cooperative Governance (DCoG), through the Chief Directorate: Development Planning, is rolling out the revised IDP guidelines to municipalities. These guidelines are aimed amongst others, at guiding municipalities regarding the adoption of IDPs during an election year.

3.2 Hand-over reports for the newly elected councils

Each municipal manager, working together with the CFO and senior managers, is encouraged to prepare a hand-over report that can be tabled at the first meeting of the newly elected council. The purpose of this hand-over report is to provide the new councils with important orientation information regarding the municipality, the state of its finances, service delivery and capital programme, as well as key issues that need to be addressed.

It is proposed that the hand-over report should include:

- An overview of the demographic and socio-economic characteristics of the municipality;
- An overview of the organisational structure of the municipality, with the names and numbers of senior managers;
- An overview of key municipal policies that councillors need to be aware of, and where they can obtain the full text of such policies;
- An overview of issues that still need to be addressed in relation to the municipality's turnaround strategy (where applicable);
- An overview of the municipality's financial health, with specific reference to:
    - Its cash and investments, and its funding of commitments (Table A8);
    - Cash coverage of normal operations (see Supporting Table SA10);
    - Creditors outstanding for more than 30 days and the reasons for delayed settlement;
    - Current revenue collection levels and debtors outstanding for more than 30 days; and
    - The extent of existing loans and associated finance and redemption payments.
- The municipality's 2024/25 audit outcome and its strategy to address audit issues;
- An overview of the provision of basic services, including plans to address backlogs;
- An overview of the state of the municipality's assets, with particular reference to the asset management plan, and repairs and maintenance requirements;
- A list of the main infrastructure projects planned for the 2026/27 budget and MTREF;
- A list of key processes requiring council input over the next six months, e.g. revision of the IDP, approval of specific policies etc. and
- Any other information deemed to be important to the transitioning process.

In addition to the hand-over report, each new councillor should be given the municipalities' revised IDP, the adopted 2026/27 MTREF budget, the mid-year budget and performance

assessment report for 2026/27, the latest monthly financial statement, and the annual report for 2024/25.

Municipal managers should submit their municipality's hand-over report to the relevant provincial department responsible for local government, to the Department of Co-operative Governance (DCoG) and National and Provincial Treasuries.

4. Revenue Management

4.1 Prioritise funding the Electricity Revenue Protection Programme

Past years' increasing electricity tariffs continue to strain consumers' ability to afford this service. Municipalities (with the electricity function) as a result, at higher risk of non-technical losses, particularly related to theft and illegal by-passing. Many municipalities do not have dedicated Revenue Protection staff in place or have reduced their operational funding for Revenue Protection culminating in reduced collections and a related strain on cash flow and the ability to pay creditors. Municipalities are advised to prioritise the following Revenue Protection measures in 2026/27 and future MTREFs if not already implemented:

- A dedicated Revenue Protection Unit for Electricity, Water, Wastewater and Refuse services administered by the senior manager responsible for the municipal Electricity Infrastructure Directorate, taking into consideration the recommendations and standards set out in NRS055 (Code of Practice for Revenue Protection);
- Allocating adequate funds in the budget to fund the municipality's Electricity, Water, Wastewater and Refuse services and the Revenue Protection Unit's operational needs;
- In allocating funding, the business threat of increasing non-technical losses to the municipality's particular specifics must be considered to achieve a balance, while ensuring the Revenue Protection staff organogram and operational program is adequately funded and able to fulfil its role;
- The municipality to demonstrate in its MTREF submission (narrative and *m*SCOA data strings) that a percentage of the revenue from the Energy, Water, Wastewater and Refuse function is ring-fenced to fund the municipal Revenue Protection Programme operational need(s) towards developing the program to fruition; and
- The municipality must implement the Municipal Systems Act principle of consolidated billing and strengthen the revenue policies to use electricity and water (in Eskom supply areas or where the municipality does not have the electricity function) to collect on the consolidated municipal bill. The policies should explicitly provide for credit control in this manner.

4.2 Revenue Management Assessment Tool

Every municipality, in anticipation of the annual budget process and its review of critical revenue management related policies, should assess and review its revenue management value chain to identify any gaps, duplications, and / or inefficiencies, aligning with the approved organogram and related delegations. Refer to MFMA Budget Circular No. 126 (Annexure B: Submission checklist: Revenue Management Documents), MFMA Budget Circular No. 128 (Item 7.3 contained in Annexure A) and MFMA Budget Circular No.130 (Item 3.2 contained in Annexure A). The municipality is required to annually submit its assessment or review thereof to the National Treasury in the format of the Municipal Revenue Management Assessment Tool – to be uploaded to the National Treasury GoMuni upload portal annually as part of the Revenue Management Documents that are required.

The Revenue Assessment Tool was developed through the collaboration of the National Treasury, the Department of Cooperative Governance (DCoG) and the South African Local Government Association (SALGA) to integrate and align our support in this area, prevent duplicated efforts and facilitate stronger and systemic change across municipalities through the Single Integrated Revenue Management Framework (SIRMF).

The SIRMF is a national framework for revenue management that guides and outlines the intervention and leadership role both municipalities and oversight bodies should play in addressing challenges relating to the revenue management value chain and ultimately financial sustainability. The SIRMF emphasises the significant role of National and Provincial Government in supporting municipalities in the process of revenue management improvement and how the relevant departments will coordinate their support and their monitoring and evaluation role(s).

The SIRMF aligns with the existing statutory framework and emphasises compliance. The related tasks and responsibilities set out in the SIRMF provides guidance on how municipalities can enhance revenue management as a key approach to increasing the municipality's viability and sustainability. Completing the Municipal Revenue Assessment Tool can assist the municipal council, senior management team and oversight bodies to assess, understand, and improve critical revenue management practices of the municipality.

The tool provides an indication of gaps, flaws, duplications, inefficiencies, and risks in the existing revenue value chain that could compromise or affect whether the revenue component of the budget sufficiently caters for long-term planning and is credible and funded. It further provides a comprehensive overview of current revenue management processes by identifying strengths, weaknesses, and areas that need improvement. The tool focuses on eighteen (18) critical areas within the revenue management value chain and helps pinpoint specific areas to optimise revenue collection processes ultimately.

All municipalities had to complete the tool during the 2025/26 MTREF and are required, as part of the upcoming 2026/27 MTREF preparation process to thoroughly review the revenue value chain and affect changes to the tool reflective of such review as may be needed. As part of the review, the municipality must record clear progress and corrective actions undertaken in relation to each focus area identified during the municipality's 2025/26 compilation of the tool. It is noted that municipalities with revenue collection rates below 85 per cent (per the 2024/25 annual financial statements (AFS) and all municipalities participating in both the Municipal (Eskom) and or Water Debt Relief programs must annually undertake the full exercise (not only a review) until they achieve an average annual collection of 95 per cent as outlined in MFMA Circular No. 71.

The National Treasury recently strengthened Functional Area nine (9) – Finance Department Functions of the tool to enable municipalities to capture comments under this functional area. With effect from December 2025, any municipality compiling and or reviewing its revenue value chain as required in terms of this circular must use the **updated Municipal Revenue Assessment Tool included as Annexure A to this Circular**. The entire tool must be uploaded together with all the required worksheets included.

4.3 Cost Reflective Tariff Tool

As part of the budget process, the municipality must annually undertake an assessment to determine if the intended and implemented tariffs are cost reflective, whether all critical cost components were considered in the tariff calculation(s), whether the Local Government Equitable Share component relating to basic services were allocated to the actual service(s) and to demonstrate that the Revenue Component of the budget is credible and funded; etc. To facilitate this exercise, the municipality must complete and submit this calculation(s) and or tariff assessment in the format of the National Treasury Tariff Tool as part of its tabled, adopted and adjusted MTREF submissions to the National Treasury GoMuni portal (refer MFMA Budget

Circular No. 129. The Cost Reflective Tariff Tool outcomes must also be reported to and approved by Council as part of the respective tabled and adopted MTREF submissions.

If the Tariff Tool indicates significant tariff shortfalls, any major tariff increases should be phased in over two to three years and can be approved for the outer years (2027/28,2028/29 and 2029/30). Thus, the indicative tariffs should be phased in over a period of three years.

The National Treasury Tariff Tool was updated to provide alternative methods of wastewater tariff modelling and to allow municipalities to allocate the municipality-specific percentage of indirect cost allocated across the different services. The municipality must ensure that the percentage allocated to indirect costs used in the Tariff Tool compilation perfectly aligns with the municipality's Budget- and Tariff-related Policies submitted as part of the tabled, adopted, and adjusted MTREF submissions. With effect 2025/26 (Quarter 3), metropolitan- and secondary cities are also required to complete and upload the Cost Reflective Tariff Tool in the National Treasury Tariff Tool format to the GoMuni portal as part of the tabled, adopted, and adjusted MTREF submissions.

Should the municipality through the completion of the Tariff Tool identify major flaws and or gaps in any tariff, the National Treasury recommend it is prudent for the municipality to undertake a full Cost of Supply study (COS) for that service since tariff gaps may be indicative of an unfunded revenue component of the municipality's MTREF. With effect from 2025/26 (Quarter 3), all municipalities must use the **updated National Treasury Tariff Tool included as Annexure B to this Circular. A Tariff Tool procedural manual is also included in Annexure B to this Circular** to assist municipalities in undertaking the Tariff Tool exercise.

4.4 Electricity Tariffs

Cost of Supply Study (COS) and NERSA D-forms for electricity tariff applications

The submission of tariff applications is an obligation enshrined in the Electricity Regulation Act, 2006 ('ERA') (as amended), read with the MFMA and incorporated in the licence conditions of licensees (also municipalities). Municipalities are therefore reminded that all municipal tariff applications for the 2026/27 financial year must be accompanied by the required Cost of Supply (COS) studies and **submitted to NERSA before the outer deadline of 12 December 2025**. Failure to comply with these requirements will result in the municipality being prohibited from making any adjustment to the electricity tariffs for the 2026/27 financial year. NERSA already confirmed to municipalities that only complete municipal applications received before 12 December 2025 will be processed and approved for implementation with effect from 01 July 2026.

Failure to apply to NERSA for approval of tariffs is a breach of the licence conditions and a violation of the provisions of the ERA. Section 15 of the ERA prevents any licensee from charging a tariff that is not approved by the Regulator. Licensed distributors should note that their current tariffs will expire on 30 June 2026 and that there will be no automatic extension, as the tariffs are approved annually.

To facilitate timely submissions to NERSA and the opportunity to supplement where NERSA identify any gaps in municipal submissions, the National Treasury urges municipalities to annually before 31 October submit to NERSA and subsequently upload to the GoMuni Portal, the municipality's:

- Latest **updated and or reviewed COS** (approved by Council) supporting its Electricity tariffs application for the MTREF to NERSA and parallel upload such to the GoMuni Revenue Portal. The COS must be uploaded to the GoMuni Revenue Portal in PDF format (the content must be in the NERSA content format), and include a file heading of: **"Demarcation Code_Municipality Name_Cost of Supply Study (period)"**;

- **NERSA D-forms** submitted to NERSA, supporting its Electricity tariffs application for the 2026/27 MTREF to the GoMuni Revenue Portal in the Excel format required by NERSA, and include a file heading of: "**Demarcation Code_Municipality Name_NERSA D-form (period)"**; and
- **NERSA's letter approving the municipality's energy tariffs** for the MTREF annually with the tabled and adopted MTREFs. The municipality must upload the letter with the correct saving convention: **"Demarcation Code_Municipality Name_NERSA tariff approval (period)"**.

4.5 Municipal Valuation Roll Reconciliation Tool

Reference is made to MFMA Circulars No. 93 (paragraph 3), No.98 (paragraph 4.1), No. 123 (paragraph 5.1), No. 126, (paragraph 3.1), and No. 130 (paragraph 3.5). To ensure the municipality's rates base is complete, aligns with the Municipal Property Rates Act (MPRA) section 23-Part A: Register of the latest consolidated general valuation roll (GVR), and the MPRA categories. With effect 2025/26 (Quarter 3), the municipality needs to monthly undertake the reconciliation in the format of the **updated National Treasury Municipal Valuation Roll Reconciliation Tool included in Annexure C to this Circular**. Municipalities will note that although, the tool interface remained the same, changes were made to some formula calculations to simplify the municipal experience of the tool.

The municipality must submit the completed tool together with the related documentation to the National Treasury GoMuni portal as follows:	**Timeframe**
1. The municipality's list of Property Rates tariffs approved by council for the financial year reported on, together with the Council resolution that approved such.	Annually, with the tabled and adopted MTREF's
2. The municipality's time schedule for implementing its new general valuation roll (GVR) (aligned to the MPRA).	Annually
3. The Municipal Property Rates Act (MPRA) (section 23): Part A Register of the latest consolidated general valuation roll (GVR). ***Note –** The municipality to submit an updated Part A GVR to the GoMuni portal every time that it undertakes a supplementary GVR.*	Annually or every time that a supplementary GVR is undertaken
4. Municipality Valuation Roll Reconciliation – undertake monthly but only required to submit quarterly. The monthly reconciliation should be maintained and made available on request to the Treasuries and or the Department of Cooperative Governance (DCoG).	Quarterly and only upon request of NT / relevant PT / CoGTA monthly
5. Property Rates Transaction List (for the 3rd month of every quarter) – in excel format.	Only upon request of NT / relevant PT

To assist municipalities in complying with these requirements, the National Treasury will provide follow-up training.

4.6 Prohibition on vending system(s) / third party vending solutions without consulting the National Treasury

Municipalities are cautioned on the iterations on private service offerings of vending system(s) / solution(s) offered to municipalities. These include service provider(s) funding metering solutions for municipalities, parallel to a pre-paid solution (requiring a vending platform) – these service providers then collect on behalf of the municipality in exchange for a fee. However, in several cases, the service provider does not remit to the municipality what is collected and /or claims a fee that is out of proportion to what is reasonable. This is worsened by many municipalities not undertaking weekly /monthly reconciliation of what they provide / sell (also via prepaid) vs. the revenue they receive from the service provider(s).

The MFMA, read together with the recently assented Public Procurement Act, provides a clear framework for procurement in local government. The MFMA regulatory framework, in terms of section 116, read with MFMA Circular No. 62, furthermore, provides clear guidance on how amendments to contracts should be undertaken. In our view, any offerings beyond the initial scope of the contract should not be considered a contract amendment but rather a material change or extension of scope, warranting a whole new separate procurement process.

The National Treasury therefore confirms that with immediate effect, no municipality may enter into or extend any related vending system(s) / solution(s) without the views of the provincial and National Treasury. Should any municipal official and / or political office bearer fail to honour this prohibition, she / he could render themselves personally liable for any related financial loss over and above potential criminal liability for financial misconduct.

Any municipality procuring must first request the National Treasury and relevant provincial treasury for written input. The municipality should send any request for the written input of the National Treasury together with the proposed contract for such a service offering to: both RevenueManagement@treasury.gov.za and RT29.LGBA@treasury.gov.za and Wayne.McComans@treasury.gov.za for the attention of Mr. Sadesh Ramjathan, Director: Local Government Budget Analysis: Revenue Section, and Mr. Wayne McComans, Chief Director: MFMA Implementation and parallel to the relevant Provincial Treasury.

Municipalities are advised that the Office of the Chief Procurement Officer (OCPO) will soon initiate a tender process for a transversal contract establishing a panel of vending service providers. In the interim, until the panel is awarded and operational, municipalities must obtain prior written approval from National Treasury before procuring any new vending service providers. Permission to proceed with any such vending contract will only be authorized with the express written permission of National Treasury. Once the panel is awarded and operational, municipalities must procure vending services from the approved vendors. Should a municipality elect not to utilise the transversal contract, a comprehensive motivation, including full reasons, must be submitted to National Treasury for consideration.

4.6A Smart Meter end-to-end solutions

“Smart Meters” means meters that are components of an integrated end-to-end solution procured under the National Treasury’s transversal contract **RT29-2024**, or any future transversal contract replacing RT29-2024. This solution includes smart meter hardware, installation, the central platform, systems integration, training and skills transfer, support, and ongoing monitoring.

Municipalities are reminded that a smart meter is not just the physical device and are cautioned against only procuring the meter hardware. The latter is insufficient and will not deliver the intended benefits of smart metering. The full value is realised only when the meter is connected to a functioning platform, integrated with the billing system, supported by trained staff, and monitored continuously. Buying only the device is similar to purchasing a cell phone without a SIM card and network service: the handset exists, but the core functionality is unavailable. The same principle applies to smart metering.

The integrated solution under RT29-2024 is designed to support key municipal priorities:

- Improved service delivery through accurate, timely consumption data, fewer billing disputes, and quicker identification of faults and tampering;
- Financial sustainability through better revenue collection, reduced technical and non-technical losses, and more reliable cash flow; and
- Transparency and accountability through auditable metering data, consistent reporting, and better information for council, management, and oversight bodies.

An end-to-end solution ensures seamless data transfer from the meter to the back-office systems, enabling automated billing, exception reporting, and management dashboards. It also embeds structured training, and skills transfer so that municipal officials can operate and manage the system, rather than relying indefinitely on service providers. Support and monitoring components are essential to keep the system stable, secure and functional over time.

Municipalities are cautioned against partial procurement, such as buying only the meter hardware or bypassing the transversal contract for individual components. This often results in:

- Incomplete or manual integration with billing and finance systems;
- Limited or no training and skills transfer to municipal staff;
- Weak monitoring and reporting, undermining loss-reduction and revenue-enhancement efforts; and
- Poor value for money, project failures and potential audit concerns.

Municipalities are encouraged to use plain language when communicating smart metering projects internally and with council. Avoid unnecessary technical jargon and frame the discussion around strategic objectives: better service delivery, stronger revenue, and improved governance. It is useful to briefly explain to council as part of any decision-making process related to smart metering:

- why the full integrated solution is required;
- reference the terms and safeguards built into RT29-2024 or its successor;
- the components of the smart metering solution (meter, communication, platform, integration, training, support, monitoring); and
- The risks of procuring only one component versus an end-to-end system; etc.

It will assist non-technical stakeholders to better understand and assess the difference between a “device-only” purchase vs a true smart metering solution towards facilitating that any smart metering procurement is well planned, budgeted and implemented as a complete, integrated solution envisaged in RT29-2024.

4.6B Large Power Users (LPU) – Advanced Metering Infrastructure (AMI)

Advanced Metering Infrastructure (AMI) for Large Power Users (LPUs) is not a technical luxury. It is a core financial control that helps municipalities stabilise cash flow, protect the bulk supply (i.e. Eskom) account, and reduce audit findings related to billing and losses. The National Treasury urges municipalities to treat AMI as essential revenue infrastructure and to plan, fund and implement for such accordingly.

Municipalities manage a large number of meters and should invest in bulk intake points to reconcile the volume of electricity consumed. If the LPU (Three Phase Direct Connect and

Three Phase CT/VT Connect) are not measured accurately, the municipality will under-bill, lose revenue, and struggle to reconcile its bulk electricity (i.e. Eskom) account. AMI directly addresses this risk.

Three Phase Direct Connect Smart Electricity Meter and Three Phase CT/VT Connect Smart Electricity Meter requires Cellular Communication & Platform access – these smart meters require 2-way communication to transmit data from the meters to the Head-End System or Dashboards and vice versa.

A current transformer (CT) is a devise that acts as a step-down transformer to be connected to metering devices. It is used with AMI to measure the large current for meters/ relays etc. LPU customers normally have potential transformers (PT's) also known as a Voltage Transformers (VT) as part of the customer metering By capturing the full load of these customers, smart LPU meters close gaps where older or incorrect metering leads to under-registration and hidden revenue leakage. Three-phase meters are critical for industrial and commercial users with complex load profiles. They support correct billing for businesses, reduce disputes and manual corrections, and improve predictability of revenue from this important customer group.

Check meters at bulk intake points provide an independent reading against which bulk supply invoices can and should be reconciled. This strengthens the municipality's position when validating bulk charges, detecting errors quickly and supporting credible disputes where required. Zonal meters divide the distribution network into manageable areas and make it possible to identify where technical and non-technical losses are concentrated, instead of relying on system-wide estimates. Statistical meters provide the data needed for demand forecasting, tariff design, and investment planning, including time-of-use and other advanced tariff structures.

In combination, CT/VT direct connect meters, three-phase meters, check meters, zonal meters and statistical meters give municipalities the ability to eliminate billing anomalies, reduce losses and strengthen cash flow. For example, correcting even a modest under-billing of five per cent on the top twenty LPUs can generate additional annual revenue sufficient to cover a substantial portion of the capital or lease cost of the metering programme.

Over the 2026 MTREF and beyond, municipalities are expected to identify all LPUs, bulk intake points and key zones that must be brought onto AMI, and to prioritise funding for this rollout ahead of non-essential projects. AMI commitments should be clearly reflected in the capital budget, the revenue-enhancement or loss-reduction strategy, and in the assumptions used for medium-term revenue projections. AMI data must also be used to refine tariff models, update loss-reduction targets, and support the monthly MFMA Section 71 in-year monitoring and reporting.

National Treasury and sector stakeholders will increasingly rely on AMI-derived information to assess revenue performance, system losses and the risk of non-payment of bulk supply. Municipalities are therefore encouraged to plan and fund AMI as a central part of their financial recovery and sustainability agenda, rather than as a stand-alone ICT or technical project.

4.6C Request for Meter Statistical Information in terms of MFMA Section 74

The National Treasury, in terms of MFMA section 74 requests municipalities to provide certain minimum statistical meter information and in the format of the "**Meter Statistical information – Water and Electricity" workbook included as Annexure D to this Circular**. The template workbook is designed to help municipalities move from high-level smart metering decisions to concrete MTREF's, credible schedules, and monthly reporting. It brings together municipal details, meter requirements, trading services information, and budget information in one place so that electricity and water smart metering can be planned, costed, and monitored in a

consistent way. Municipalities are expected to complete and submit this template bi-annually (before the 10th working day of January and July) as part of the relevant MFMA Section 71 and or 72 statement(s). The submissions should cover meter data and key trading service information for the preceding six-month period.

The Municipal Meter Requirements:

- The electricity sheet of the template workbook that needs to be completed, gathers detailed information on existing and planned electricity meters. It records, by ward or area, the number of smart, conventional and prepaid meters, unmetered points, and new meter requirements. This part of the workbook establishes the baseline and the size of the gap that the smart metering project must address. It allows municipalities to see clearly where the largest shortfalls and opportunities are within their electricity network; and
- The water sheet of the template workbook performs the same function for water services. It records ward-level water meter data, including existing meters, unmetered connections and new meter requirements. Together, the electricity and water requirements sheets define the total scope of metering work that must be funded and implemented, rather than relying on rough estimates.

4.6D Smart Metering Financing Solutions

Municipalities are cautioned against concluding agreements with service providers that are offering smart meter solutions at unreasonable costs. The National Treasury LGBA Chief Directorate, in collaboration with the Office of the Chief Procurement Officer (OCPO) are developing alternative funding solutions that will be more affordable, equitable, fair, and transparent, while also protecting municipalities and their revenue sources. Official notification regarding these solutions will be communicated in due course. Municipalities are advised to wait for this official communication before finalising any smart meter-related agreements, or alternatively to formally request the National Treasury's input on such solutions before proceeding. Requests can be directed to RevenueManagement@treasury.gov.za for the attention of Mr Sadesh Ramjathan.

4.6E Transversal Contract for the procurement of Smart Metering end-to-end solutions

Municipalities must note and consider the guidance and contact information to participate in the transversal contract RT29-2024. It contains compulsory documentation and a step-by-step participation guideline which can be accessed on the National Treasury website at http://www.treasury.gov.za/divisions/ocpo/ostb/contracts/default.aspx under RT29-2024. Municipalities must familiarise themselves with the RT29-2024 pricing schedule and related documentation published on the National Treasury before submitting their participation application.

Applications to participate will be assessed against the municipal MTREF and cash flow, with affordability and sustainability evaluated by the relevant Local Government Budget Analysis (LGBA) directorate, in consultation with the National Treasury Revenue Management directorate towards facilitating that smart metering procurement and implementation is planned, budgeted, and implemented as an integrated solution.

4.7 Training Tools of the National Treasury

Revenue Management Assessment Tool

Municipalities must submit the Revenue Management Assessment Tool annually, as set out above. Training was already undertaken across all provinces, and the National Treasury will facilitate follow-up training during 2026/27, upon request, only for municipalities, provincial treasuries, and technical advisors deployed to municipalities and provincial treasuries.

Municipalities and provincial treasuries can request training through the relevant Provincial Treasury, which is responsible for coordinating training requests. It is noted that any National Treasury-deployed technical advisor may directly request training from the National Treasury as may be required. Requests for training and any related queries must be directed to RevenueManagement@treasury.gov.za and Sadesh.ramjathan@treasury.gov.za for the attention of Mr Sadesh Ramjathan.

Tariff Tool

All municipalities, including metropolitan and secondary cities, must undertake a tariff assessment in the format of the updated National Treasury Tariff Tool, as explained above. The National Treasury will facilitate training during January to March 2026, and thereafter, upon request only, to municipalities, provincial treasuries, and technical advisors deployed to municipalities and provincial treasuries. Training must be scheduled for a **full day,** and would be more relevant towards municipal processes if scheduled:

- Before and/ or during the **Adjustments Budget preparation** (for re-allocations);
- Before and/ or during the **Tabled Budget process** (to evaluate tariff changes); or
- Before the **final MTREF submission** to Council for approval.

Municipalities and provincial treasuries can request training via the relevant Provincial Treasury. Any National Treasury deployed technical advisor may directly request training as may be required. Requests for training and any related queries must be directed to RevenueManagement@treasury.gov.za and Sadesh.ramjathan@treasury.gov.za for the attention of Mr. Sadesh Ramjathan.

Municipal Valuation Roll Reconciliation Tool

The National Treasury confirms the guidance already provided in MFMA Circulars No. 130 and above to the effect that ALL municipalities must reconcile valuation rolls monthly and submit them quarterly to the National Treasury, together with the related documentation set out above. The latest format of the tool must be used as set-out above.

The National Treasury will facilitate follow-up training during January to March 2026, and thereafter, upon request, only to municipalities, provincial treasuries, and technical advisors deployed to municipalities and provincial treasuries on the Municipal Valuation Roll Reconciliation Tool. Training must be scheduled for at least **two full days** and can be facilitated at any time since municipalities perform this task monthly. Municipalities and provincial treasuries can request training via the relevant Provincial Treasury. Any National Treasury deployed technical advisor may directly request training as may be required. Requests for training and any related queries must be directed to RevenueManagement@treasury.gov.za and Sadesh.ramjathan@treasury.gov.za for the attention of Mr Sadesh Ramjathan.

4.8 GoMuni Portal – Revenue Management Document Uploads required

All municipalities are required to upload, annually, to the GoMuni Upload Portal, the Revenue Management-related documents included in Annexure E to this Circular, in the specified format and within the timeframes indicated. It is noted that **items 10 and 17** in **Annexure E** are only relevant to Water Debt Relief participants, and items **13, 15 and 16** to Municipal (Eskom) Debt Relief participants. In relation to items **10, 13, 15, 16, and 17, all other municipalities must submit a zero (empty) form to prevent these items from** reflecting as outstanding.

4.9 Monitoring – Water Debt Relief

As outlined in paragraph 5.2 of the Water Debt Relief Guideline of the Department of Water and Sanitation (DWS), the DWS in collaboration with the relevant Water Trading Entity (WTE) and or Water Board (WB) and or Water User Association (WUA), National Treasury, and Provincial Treasury, will closely monitor the municipality's compliance with the conditions of its water debt relief approval.

The relevant National Treasury (non-delegated municipalities)) or provincial treasury (delegated municipalities)[1] monthly to assess the municipality's compliance with the conditions and issue **the compliance certificate in the format of Annexure F attached to this Budget Circular** to the DWS, and relevant WTE/WB/WUA via: munic.incentive@dws.gov.za and to the municipality in one email no later than 20 working days after month-end. It is the responsibility of the DWS to ensure that the certificate, together with any DWS input as may be relevant reaches the relevant WTE/WB/WUA within one (1) working day of the Treasuries submission.

The relevant WTE/WB/WUA Is to consider any inputs as part of its own assessment and monthly report on any participating municipality's compliance via email to: munic.incentive@dws.gov.za and RevenueManagement@treasury.gov.za and to the municipality, including issuing a non-compliance letter at its sole discretion as may be relevant.

The National Treasury issued guidance to all Municipal (Eskom) and Water Debt Relief participants, guiding on the reporting required as part of the monthly MFMA section 71 statement. Municipalities must closely adhere to this guidance and the relevant Treasury assessments as part of the monthly compliance certification of any debt relief participant.

Municipalities must upload their Water Debt Relief application, together with the DWS approval letter, as a single PDF to the GoMuni Revenue Upload Portal.

4.10 Delivery Agency Agreement(s) (DAA) with Eskom

Municipalities intending to enter into Delivery Agency Agreement(s) with Eskom should take note of the following with immediate effect.

Step 1: ***The Municipal Systems Act (MSA) section 78 process is a requirement before the DAA can be concluded***. The National Treasury and the Department of Cooperative Governance (DCoG) legal services jointly confirm that the process in section 78 of the MSA must be followed before a municipality may enter into any DAA that proposes that Eskom take over the electricity function from and/or operate the service on behalf of the municipality. Section 78(1) of the MSA provides the process to be undertaken when deciding on a mechanism to provide a municipal service in the municipality or a part of the municipality, or to review any existing mechanism, and would need to be applied first.

The municipality may, before it decides on an appropriate mechanism, explore the possibility of providing the service through an external mechanism under MSA section 76(b). Once a municipality has decided to utilise an external mechanism, such as entering into an agreement with an organ of state to provide the service, it may do so, considering section 110(2)(b) of the MFMA in order to contract directly with an organ of state, in this case, Eskom.

The MSA section 78 criteria and process must be complied with regardless of whether the electricity license will remain that of the municipality in terms of the proposed DAA.

The MSA does not prescribe any period or deadlines within which this process must be concluded, and the municipality, planning diligently, may comply with this process within the shortest possible period without jeopardising or delegitimising it. DCoG and SALGA confirmed that they can assist municipalities with the MSA section 78 process and should partner to

[1] Refer MFMA Circular Number 20 (Delegations).

provide support in this regard. Concluding a DAA with Eskom without following the MSA section 78 required process will be illegal, and all expenditure incurred in terms of such a DAA will be irregular under the MFMA.

Step 2*: A standardised DAA.* The National Treasury, DCoG, and the Department of Electricity and Energy (DEE), working with Eskom and SALGA, are to agree on standardised terms and conditions for DAAs. It is important that municipalities maintain the standardised terms in the agreement and not deviate from them. Additional terms may be included based on municipal-specific circumstances. It will be necessary for the municipality to obtain comments from its respective provincial treasury and provincial CoGTAs before signing the DAA.

Step 3: *Municipalities participating in Municipal (Eskom) Debt Relief* must, in parallel to the MSA Section 78(3) process, inform and obtain the inputs of the Treasuries and DCoG, demonstrating that the proposed DAA will facilitate the municipality's compliance with the debt relief conditions set out in the National Treasury's 2023 approval letter.

The municipality should send any request (refer step 2 and or 3 above) for the written input of the National Treasury together with the feasibility study (MSA Section 78(3)(c)) and the proposed DAA (any additions and or deviations must clearly be highlighted in the request) to: both RevenueManagement@treasury.gov.za and Wayne.McComans@treasury.gov.za for the attention of Mr. Sadesh Ramjathan, Director: Local Government Budget Analysis: Revenue Section, and Mr. Wayne McComans, Chief Director: MFMA Implementation and parallel to the relevant Provincial Treasury and DCoG.

Step 4: *Submission of the DAA*. All municipalities signing a DAA with Eskom must submit the signed DAA together with the municipal council resolution approving such to the National Treasury to: RevenueManagement@treasury.gov.za for the attention of Mr. Sadesh Ramjathan, Director: Local Government Budget Analysis: Revenue Section and parallel to the relevant Provincial Treasury and CoGTAs.

5. Budget and other management issues:

5.1 National Treasury Guideline on Budgeting for a Funded Budget

National Treasury is concerned by the many unfunded budgets adopted by municipalities. Municipal funding plans are not realistic or credible and there is insufficient effort to achieve financial turnaround and to progress from an unfunded budget to one that is funded. Municipalities are reminded to consult the National Treasury Guideline on budgeting for a funded budget issued during the 2018/19 MTREF to assist municipalities in preparing a funded MTREF budget and or use the guideline to develop credible funding plans. **For ease of reference the 2018/19 Guideline is included as Annexure G to this Circular.**

5.2 Employee related Costs

The salary and wage collective agreement was signed by the parties of the South African Local Government Bargaining Council (SALGBC) on Friday, 6 September 2024. It is a five-year agreement effective from July 1, 2024, to June 30, 2029.

In respect of the 2026/27 financial year, all employees covered by this agreement shall receive, with effect from 1 July 2026, a salary increase linked to the Consumer Price Index (CPI) plus 0.75 per cent.

Municipalities should reflect these negotiated salary increases in the budget submissions.

5.3 Remuneration of Councilors

Municipalities are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. It is anticipated that this salary determination will also consider the fiscal constraints. Municipalities should also consider guidance provided above on salary increases for municipal officials during this process. Any overpayment to councilors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of section 167 of the MFMA and must be recovered from the councilor(s) concerned.

5.4 Using section 67 transfers to pay for councillor funeral costs

In terms of MFMA Circular 131 – Funds Transferred by Municipalities to Organisations and Bodies Outside the Government, section 67 of the MFMA provides a mechanism for municipalities to make transfers to organisations or bodies outside of government.

National Treasury is aware that municipalities are erroneously applying the provisions of section 67 of the MFMA to pay for deceased councillors' funeral costs. This practice is not permissible and constitutes non-compliance to Section 67 of the MFMA; and such transfer of funds is deemed irregular expenditure. This practice must immediately be stopped.

Any council policy which makes provision for the use of section 67 of the MFMA to make payment for councillor funeral costs must be rescinded with immediate effect.

Municipalities must comply with section 167(1)(a) of the MFMA which provides that a municipality may remunerate its political office-bearers and members of its political structures, but only within the framework of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998), setting the upper limits of the salaries, allowances and benefits for those political office-bearers and members.

5.5 Review of human resource policies, benefits not provided for in collective agreements

Municipalities face rising financial pressure from providing in-service and post-employment benefits that are not covered by any South African Local Government Bargaining Council (SALGBC) collective agreement or supported by a long-term affordability assessment. These benefits create long-term liabilities and spending that are not aligned with the MFMA while municipalities overreach by setting unaffordable tariffs to accommodate such expenses in the budget. To support financial sustainability, municipalities must review all benefits provided to current and former employees to identify benefits that fall outside SALGBC agreements and identify any practices or policies that create irregular, unnecessary, or unaffordable expenditure.

Examples of benefits not provided for in SALGBC agreements include annual leave encashment during service (not linked to termination of services) and post-employment medical aid contributions. These benefits strain operating budgets and expose municipalities to irregular, unauthorised, fruitless, and wasteful expenditure. They cost millions each year and, in the case of post-employment medical aid, create liabilities that run into billions for municipalities. When post-employment medical aid contribution is paid for former employees, the municipality receives no value in return.

For the 2026/27 budget, municipalities must accordingly identify all benefits paid to current or former employees that are not within the SALGBC agreements, or a valid council policy supported by a long-term affordability and compliance assessment. Where such benefits exist, for example, annual leave encashment during service, municipalities must consult with labour

unions and discontinue the expenditure. Another option is that municipalities may consider a phased approach to discontinue the expenditure over two or three years, subject to affordability.

In the case of post-employment medical aid benefits, these must not be granted to employees appointed from a future date, for example, from 1 July 2026. Where a municipality provides the benefit without a policy, it must adopt a policy that reflects existing practice while excluding future employees from receiving the benefit and setting upper limits on the municipality's contributions. The policy and council decision must specify the effective date of exclusion for future employees. Benefits such as post-employment medical aid should not be extended to senior managers or councillors covered by the annual upper-limits gazette notices.

Accounting officers must ensure that human resource policies, payroll practices, and benefit structures comply with the law, and that any unauthorised or unaffordable benefits are stopped in accordance with the correct procedure. All municipalities must, accordingly, as part of their annual review of their 2026/27 budget-related policies, review all human resource benefit policies to identify benefits the municipality should discontinue with effect from 1 July 2026, on affordability grounds. Accounting officers remain responsible for preventing irregular, fruitless, and wasteful expenditure, and the contemplated policy reviews must be conducted by municipal staff, not consultants.

5.6 Submission of payroll information on Central Supplier Database

In recent years, more municipalities and municipal entities are incurring irregular expenditure due to awards made to persons in the service of the state, including municipal officials and councillors.

On 01 September 2015, the National Treasury launched the Central Supplier Database (CSD), which became fully effective for municipalities and municipal entities from 1 July 2016. The CSD provides a myriad of services, including the verification of state employees. Whilst information for National and provincial officials is available, municipalities and municipal entities are not consistent in submitting information to the CSD.

This lack of information has resulted in municipalities and municipal entities inadvertently making awards to persons in the service of the state, including awards made to their own officials and councillors. As such, municipalities and municipal entities are urged to submit all the relevant information to CSD.

This will enable all municipalities and municipal entities to be able to verify information and avoid possible non-compliance findings timeously.

5.7 Unauthorised, irregular, fruitless and wasteful expenditure reduction and implementation of consequence management

As previously explained in MFMA Circular no. 129, municipalities are continuing to incur unauthorised, irregular, fruitless and wasteful expenditure (UIFWE) year-on-year. Whilst more municipalities are establishing disciplinary boards, such boards are not investigating matters as required, or where such investigations are undertaken, municipal councils are not implementing the disciplinary boards' recommendations.

Municipalities are required to submit an action plan which must address the period from 02 January 2025 to 31 August 2026. The action plan should include monthly calendar actions that will allow for the monitoring of the action plan implementation.

The action plan should include the following information:

- plan to process the UIFWE balances up to 30 June 2025 by 31 August 2025, and how future UIFWE will be prevented with specific UIFWE prevention controls;

- the key process changes (including administrative processes) the municipality will implement to ensure that the UIFWE balances are processed to adhere to the August 2025 deadline; and
- the process to be followed to establish and appoint members of the disciplinary board and address the backlog of financial misconduct referrals to the disciplinary board. This should include processes and procedures for the referral of matters to the disciplinary board.

This action plan must be uploaded to the *Muni eMonitor* as part of the evidence for UIFWE reporting.

5.8 Fruitless and Wasteful External Legal and Consultant Costs

National Treasury has observed that municipalities (including municipal entities) incur legal and consulting fees on matters that could have been avoided had officials followed proper procedures, or had officials or councillors not been negligent or acted deliberately, thereby causing legal disputes. These costs place pressure on operating budgets and provide no value to the municipality. Legal or consultant fees arising from non-compliance, negligence, inaction, deliberate conduct, flawed processes, or attempts to justify irregular decisions constitute fruitless and wasteful expenditure under the MFMA.

Legal costs linked to labour matters where procedures were not followed by the municipality, or for justified reasons, or to council matters involving unlawful meetings or invalid decisions, are avoidable and must be treated as wasted legal costs. Municipalities must also not incur legal costs to defend officials or councillors where there is clear negligence, misconduct, or deliberate misrepresentation of facts, including cases where material facts are withheld or altered, resulting in legal and consultant costs. Appointing lawyers or consultants to create a predetermined outcome, rationalise irregular conduct, or shield individuals from consequences exposes the municipality to irregular, fruitless and wasteful expenditure. Municipalities are reminded to exercise caution and prudence regarding such matters.

This section does not prevent a municipality from defending or instituting legal proceedings arising from a genuine and bona fide legal dispute. It also does not prevent a municipality from bringing self-review proceedings to set aside its own irregular or unlawful decisions.

5.9 Fruitless and Wasteful Expenditure Audit Finding Disputes

A recent concern noticed is the use of external consultants or lawyers to oppose Auditor-General South Africa (AGSA) audit findings, or to prepare opinions (including legal opinions) aimed at disputing audit findings that the municipality cannot justify in law or that do not align with the facts, or where material facts are distorted or have not been provided to the AGSA. Municipalities and municipal entities are forewarned not to use external lawyers and consultants to respond to or dispute AGSA audit findings but instead follow AGSA's dispute resolution procedures to address audit disputes. Municipal officials are also specifically warned not to provide misleading or incomplete information to the AGSA to obtain a specific outcome, as these actions or inactions will qualify as both financial misconduct under sections 171 (municipalities) and 172 (municipal entities) of the MFMA and as a financial offence in terms of section 173 of the MFMA.

5.10 Request for information regarding procurement spend, employee related data and audit management reports

The National Treasury aims to strengthen public trust and foster public accountability in the procurement systems of government. This initiative will be achieved by, amongst others, making the procurement systems more transparent through the publication of procurement information of institutions. An Instruction on Procurement Information Transparency has been issued by the National Treasury for the publication of the dashboard and requesting procurement information from procurement systems of all departments, public entities, and

constitutional institutions. The published information will include, but is not limited to, supplier and ownership details, the nature, value, quantity of procurement transactions, and payments made to suppliers.

One of the key principles underpinning the MFMA read with the Municipal Supply Chain Management Regulations is that of transparency. Therefore, a letter, signed by the Director General of the National Treasury in terms of section 74 of the MFMA, will be written to municipalities wherein similar information as referred to in the preceding paragraph is requested. The information requested is inclusive of personnel data within municipalities. The employee information requested should be available on the HR sub-systems of all municipalities. Municipalities should liaise with their respective system vendors to extract this information in the required template format directly from their relevant sub-systems.

5.11 Additional in-year reporting requirements

Reference is made to MFMA Circular No. 67 point 5.5. Municipalities must provide additional information and supporting documentation to the National Treasury as part of the submission of the Section 71 input forms. This information will assist in improving the quality of the quarterly published local government performance information. Additional information and supporting documentation include:

- An extract of the trial balances from the general ledger;
- Copies of the actual monthly bank statements (reflecting the opening and closing bank balances) for the primary bank account;
- Bank reconciliation for the reporting period in the primary bank account; and
- Copies of the quarterly tabled section 71 documents in the prescribed Schedule C format including the applicable council resolution.

6 Municipal Standard Chart of Accounts (*m*SCOA):

6.1 Release of Version 7.1 of the Chart

Version 7.1 of the *m*SCOA chart is released with this circular and must be used to compile the 2026/27 MTREF. The linkages to chart version 7.1 can be downloaded from the Local Government Database and Reporting System (LGDRS) on the following link under the *m*SCOA/ List *m*SCOA WIP account linkages menu option:

https://lg.treasury.gov.za/ibi_apps/signin

The reports on the Local Government Database and Reporting System (LGDRS) are populated from financial and non-financial data strings. Municipalities must therefore use the linkages on GoMuni referred to above and not the formulas in the regulated Municipal Budget and Reporting Regulation (MBRR) Schedules when generating their data strings.

The MBRR Schedules (A to F) and non-financial data string (A1S) will be aligned to chart version 7.1. A protected version of these Schedules for version 7.1 of the A1S will be available by 31 January 2026 on the MFMA Webpage and the LGDRS under GoPublic / Explore mSCOA on the links below:

http://mfma.treasury.gov.za/RegulationsandGazettes/Municipal%20Budget%20and%20Reporting%20Regulations/Pages/default.aspx

https://lg.treasury.gov.za/ibi_apps/portal/Explore_mSCOA

Municipalities must verify that the A1S data string does not contain spaces and special characters prior to submission to the GoMuni Upload portal, as this will result in the data not pulling through on table A10 of the A1 system generated schedule.

To ensure that all integrated municipal system solutions have incorporated the required changes for *m*SCOA chart version 7.1, several municipalities across all systems will be required to submit test data to the LGDRS in January and February 2026. Communication in this regard will follow in January 2026.

For the National Treasury to consider a new chart change in version 7.2 of the chart, the issue must be logged with all relevant details and supporting documents on the *m*SCOA Frequently Asked Question (FAQ) portal by 31 August 2026. The *m*SCOA FAQ portal can be accessed by all registered GoMuni users on the following link:
https://lg.treasury.gov.za/ibi_apps/signin

Importantly, when an FAQ is logged, it is considered by the FAQ committee after it has been investigated. If the FAQ members do not find grounds for a chart change, the FAQ will be closed with an explanation. If there is merit for a chart change in the next version of the chart, the matter is referred to the *m*SCOA Technical and Steering Committees for recommendation and approval. This process concludes annually by the end of October. The FAQ process will therefore not provide quick responses to queries.

If a query pertains to GoMuni related issues (such as the **A**, **B** and **C** Schedules) and not a chart change, then an email with all relevant detail, supporting documents and screenshots must be sent to lgdataqueries@treaury.gov.za.

6.2 Important changes in *m*SCOA chart version 7.1

Capitalisation of conversion costs to water inventory

MFMA Budget Circular No 129 dated 6 December 2024 detailed the requirements for the accounting treatment of water inventory costs in terms of Generally Recognised Accounting Practises (GRAP) 1.104, 12 (paragraphs 19 to 28) and 17.22. *m*SCOA chart version 7.1 addresses the capitalisation of conversion cost from the nature of the expense to Water Inventory as required in terms of these GRAP standards.

In addition, the Accounting Standards Board (ASB) FAQ 3.3 guides the measurement of Water Inventory as follows:

- *Entities need to develop their own accounting policies to measure water using the principles in GRAP 12.*
- *After the entity demonstrates that it can recognise the water, it is initially measured as follows:*
  - *Costs incurred to bring the inventory to its current location and condition including related infrastructure costs. Some examples include costs of extraction and depreciation; plus*
  - *Costs of conversion.*

As per the guidance provided in the GRAP standards and ASB, the capitalisation of conversion costs should align with the principle applied to Employee Related Costs (Cost Capitalisation to PPE). Toward this end, the following credit accounts have been included in version 7.1 of the *m*SCOA chart:

Account	Change in chart version 7.1

1	Basic Salary - Capitalisation of Costs to Property, Plant and Equipment (PPE), Water Inventory	• Credit account adjusted • Updated the description and definition to include Water Inventory for all posting levels
2	Capitalisation of Electricity Costs	Credit account added
3	Contracted Services (Maintenance)	Credit accounts added for: • Capitalisation of Maintenance of Building and Facilities • Capitalisation of Maintenance of Equipment • Capitalisation of Maintenance of Unspecified Assets
4	Capitalisation of Depreciation of Water Treatment Works	Credit accounts added
5	Operational Costs	Credit accounts added for: • Capitalisation of Courier and Delivery Services Costs • Capitalisation of Vehicle Tracking Costs • Capitalisation of Wet Fuel Costs • Capitalisation of Licences Costs

The chart was also updated to allow for the accumulation of the following additions to water inventory: system input volume:

- Water Treatment Works: Acquisitions;
- Bulk Purchases: Acquisitions; and
- Natural Resources: Acquisitions.

Alignment of cash flow linkages

In terms of GRAP 2, cash flows should be classified in accordance with the nature of the activity to which they relate (operating, investing or financing) which requires that:

- The item for *Interest, Insurance Refund and Retentions* must be accounted for both operating and investing activities based on the nature of the transactions; and
- The *Interest on Short-Term investment* (greater than 90 days) and *Long-Term Investments* must be populated within investing activities. Short-Term Investments is disclosed on the Statement of Financial Performance.

To give effect to this GRAP standard, a new operational funding source, Insurance Refunds, has been created under the Investing Activities of MBRR tables A7 and SA30. Therefore, with effect from version 7.1 of the *m*SCOA chart:

- The VAT Receipts will be populated using the Bank Deposits (IA001001 – "DEPOSITS") and VAT Receipt funding source. The VAT Control account receipts will not be used for this purpose;
- Construction Contract Revenue will no longer form part of Sales of Goods and Rendering of Services. A new funding source was created to separately populate Construction Contract Revenue as part of Other Revenue on the MBRR supporting table SA30; and

- Development Charges will no longer form part of Operational Revenue. A new funding source was created to separately populate Development Charges as part of Other Revenue on MBRR supporting table SA30.

The structure of the MBRR table A7 and its related cash flow linkages has also been aligned with the *m*SCOA chart version 7.1. The updated linkages to the MBRR supporting table SA30 are attached as **Annexure H**: Cash Flow Linkages.

Intercompany Transfers

In terms of the MFMA, municipalities with entities must submit budgets, in-year Section 71 reports, annual financial statements and annual reports for the parent municipality, as well as consolidated documents for both the parent and its entity. Furthermore, in accordance with GRAP 35 paragraph 39, a controlling entity shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

The consolidation procedures prescribed in GRAP 35 paragraph 41(a) and (c) state that consolidated financial statements combine like items of assets, liabilities, net assets, revenue, expenses, and cash flows of the controlling entity with those of its controlled entities. Consolidated financial statements should eliminate in full intra-economic entity assets, liabilities, net assets, revenue, expenses, and cash flows relating to transactions between entities of the economic entity (surpluses or deficits resulting from intra-economic entity transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). Intra-economic entity losses may indicate an impairment that requires recognition in the consolidated financial statements.

To support the implementation of the process outlined in GRAP 35 paragraph 41(c), *m*SCOA chart version 7.1 has been revised to enable the proper recording and reporting of all intercompany and parent–subsidiary transactions. These revisions introduce new and updated items relating to assets, liabilities, net assets, and expenses, which may be found on the *m*SCOA chart version 7.1 and represented as follows:

- Assets: Non-current Assets: Intercompany/Parent-subsidiary Transactions;
- Assets: Current Assets: Intercompany/Parent-subsidiary Transactions;
- Liabilities: Non-current Liabilities: Intercompany/Parent-subsidiary Transactions and Net Assets: Intercompany/Parent-subsidiary Transactions; and
- Expenditure: Intercompany/Parent-subsidiary Transactions.

The intercompany items available on the chart makes provision for the elimination of transactions between the entity and the parent and should be considered where possible during the preparation of your respective budget to ensure budgeted financial information between municipalities and their entities is accurately reflected and remains consistent across all reporting levels.

In terms of MBRR No. 39, the annual budget and supporting documentation of a municipal entity must be in the format specified in Schedule D and include all the required tables, charts and explanatory information considering any guidelines issued by the Minister in terms of section 168(1)(a) of the MFMA. Municipalities with entities must submit the necessary documents to the GoMuni Upload portal in accordance with the prescribed Regulations.

6.3 Improving *m*SCOA implementation

***m*SCOA e-Road Map**

Municipalities are required to develop and implement a *m*SCOA road map to address gaps in the implementation of the *m*SCOA Regulations and the minimum business processes and system specifications articulated in MFMA Circular No 80 and its Annexure B.

The *m*SCOA road map has been incorporated as a module into the web-based Financial Management Capability Maturity Model (FMCMM). From the 2026/27 MTREF, all municipalities will be required to prepare their *m*SCOA road maps on the FMCMM web-based platform. The web-based *m*SCOA Road Map assesses compliance with regards to *m*SCOA implementation for the following focus area:

- System landscape, i.e. the ICT architecture that enables compliance with the *m*SCOA requirements articulated in MFMA Circular No 80 and its Annexure B;
- Governance and institutional arrangements to drive compliance with the *m*SCOA requirements articulated in MFMA Circular No 80 and its Annexure B;
- The functionality of the integrated system solution, as per the requirements articulated in MFMA Circular No 80 and its Annexure B; and
- Proficiency of municipal officials in utilising the integrated financial system solution.

Gaps in implementation will require the development of an action plan in the FMCMM web-based platform. Progress on the implementation of the *m*SCOA road map will be monitored via the FMCMM platform by National and Provincial Treasuries. From the 2026/27 financial year, this will form the basis for decisions on the withholding of the equitable share pertaining to *m*SCOA non-compliance, as well as the *m*SCOA compliance certificate to be issued by the National Treasury in respect of the Metro Trading Services reform.

Regulation of the minimum business process and system specifications for *m*SCOA

The National Treasury will conclude the consultation and preparatory work to regulate the minimum business process and system requirements for *m*SCOA in 2026/27. Once promulgated, the regulations will be applicable to municipalities and their entities.

Municipalities are encouraged to start preparing for these regulations by addressing gaps in the current *m*SCOA implementation and resolving them prior to the promulgation of the regulations on the minimum business process and system requirements for *m*SCOA.

All consultation documents that were presented at the Integrated Consultative Forums (ICF) can be located on the MFMA Webpage under *m*SCOA – Municipal Standard Chart of Accounts/ Regulations on Minimum Business Processes and Technical Specifications for *m*SCOA/ Working Groups on the following link:

https://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/mSCOA%20Minimum%20Requirements/Forms/AllItems.aspx

The draft documents are also available on the *m*SCOA one drive for comments and inputs on the following link and provide sufficient guidance to municipalities and system vendors to prepare for the new regulations prior to promulgation:

E1_Draft Regulations - Consultation - Shared

All comments and submissions are requested **by 31 January 2026** and must be submitted to mscoa@treasury.gov.za to allow for consolidation and inclusion in the final regulations.

6.4 Improving *m*SCOA data string credibility

Introducing a 3rd validation rule

Currently, the LGDRS implements automated stage 1 and 2 validations to ensure that credible data strings are submitted to the GoMuni Upload portal. The stage 1 validations verifies that the file structure is correct, while the stage 2 validation verifies that the *m*SCOA chart has been used correctly across 18 validation areas. Details on the stage 2 LGDRS validations are attached as **Annexure I**.

A third stage automated validation will be introduced from the 2026/27 MTREF to validate the credibility of *m*SCOA data strings. Details in this regard will be communicated when available.

7 The Municipal Budget and Reporting Regulations:

7.1 Assistance with the compilation of budgets

If municipalities require advice with the compilation of their respective budgets, specifically the budget documents or Schedule A, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury officials:

Province	Responsible NT officials	Tel. No.	Email
Eastern Cape Buffalo City	Matjatji Mashoeshoe Pitso Zwane Mandla Gilimani	012-315 5553/ 0609242914 012-315 5171 012-315 5807/0661198036	Matjatji.Mashoeshoe@treasury.gov.za Pitso.Zwane@Treasury.gov.za Mandla.Gilimani@treasury.gov.za
Free State	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za
Gauteng City of Tshwane and City of Johannesburg City of Ekurhuleni	Matjatji Mashoeshoe Pitso Zwane Willem Voigt Makgabo Mabotja Khanyisile Khosa Kgomotso Baloyi Lunathi Dumani	012-315 5553 012-315 7538 012-315 5830 012-315 5156 012-315 5866/082 887 2968	Matjatji.Mashoeshoe@treasury.gov.za Pitso.Zwane@Treasury.gov.za WillemCordes.Voigt@treasury.gov.za Makgabo.Mabotja@treasury.gov.za khanyisile.khoza@treasury.gov.za Kgomotso.Baloyi@treasury.gov.za Lunathi.dumani@treasury.gov.za
KwaZulu-Natal eThekwini uMhlathuze	Kgomotso Baloyi Lunathi Dumani Kevin Bell Sifiso Mabaso Matjatji Mashoeshoe Pitso Zwane	012-315 5866 012-315 5725 012-315 5952/060 923 7343 012-315 5553/060 326 6885 012 315 7538	Kgomotso.Baloyi@treasury.gov.za Lunathi.dumani@treasury.gov.za Kevin.Bell@treasury.gov.za Sifiso.mabaso@treasury.gov.za Matjatji.Mashoeshoe@treasury.gov.za Pitso.Zwane@Treasury.gov.za
Limpopo	Sifiso Mabaso Jabulile Ngwenya	012-315 5952/060 923 7343	Sifiso.Mabaso@treasury.gov.za Jabulile.ngwenya@treasury.gov.za
Mpumalanga	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Northern Cape	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
North West Mafikeng	Willem Voigt Makgabo Mabotja Khanyisile Khosa Cethekile Moshane	012-315 5830 012-315 5156 012-315 5079	WillemCordes.Voigt@treasury.gov.za Makgabo.Mabotja@treasury.gov.za khanyisile.khoza@treasury.gov.za Cethekile.moshane@treasury.gov.za
Western Cape Cape Town George	Willem Voigt Khanyisile Khoza Kgomotso Baloyi Sifiso Mabaso	012-315 5830 012-315 5385 012-315 5866/082 887 2968 012-315 5952/ 060 923 7343	WillemCordes.Voigt@treasury.gov.za khanyisile.khoza@treasury.gov.za Kgomotso.Baloyi@treasury.gov.za Sifiso.Mabaso@treasury.gov.za

Technical issues on GoMuni Website	Data management		lgdataqueries@treasury.gov.za
Local government Conditional Grants			Sello.mashaba@treasury.gov.za Pretty.mavhungu@treasury.gov.za Marvin.ngobeni@treasury.gov.za Akanyang.modise@treasury.gov.za Sandra.admams@treasury.gov.za
Municipal (Eskom) and or Water Debt Relief and Smart Metering	LGBA: Revenue Section (Sadesh Ramjathan)		revenuemanagement@treasury.gov.za

8 Submitting budget documentation and A schedules for the 2026/27 MTREF

8.1 Submissions to the National Treasury

Municipalities are reminded to submit documents and queries to the correct portals/ mailboxes. These portals/ mailboxes are:

- https://lg.treasury.gov.za/ibi_apps/welcome (GoMuni Upload Portal) – All documents required in terms of legislation by approved registered users, including: *m*SCOA Data Strings; Budget-related, in-year and year-end documents and schedules (A, B and C); Revenue and MFRS Documents (as per MFMA Circular No. 126) procurement spent reports, etc.;
- lgdataqueries@treasury.gov.za – Database related and submission queries;
- lgdocuments@treasury.gov.za – Only Provincial Treasuries may send contact details to lgdocuments@treasury.gov.za; and
- *m*SCOA Regulations@treasury.gov.za – all inputs and comments relating to the intended mSCOA Regulations on the minimum business processes and system specifications; and
- Rolloverapplication@treasury.gov.za – all rollover applications and queries related to the conditional grants.

Any document/ queries that are submitted to the incorrect portal/ mailbox will not be processed and the submission status report will continue to reflect the documents as outstanding.

8.2 Time frames for submission

The LGDRS will be locked at 00:00 on the 10th working day of every month for the submission of data strings due, as required in terms of section 71 of the MFMA. Closed periods will not be opened to correct errors or to accommodate non-submission of data strings, regardless of whether a Schedule G application was done or not.

Municipalities must therefore verify the credibility and accuracy of the information in their financial system prior to closing the month on the ERP system and submitting the *m*SCOA data strings to the LGDRS.

The GoMuni Upload portal can be accessed by registered users on the following link:

https://lg.treasury.gov.za/ibi_apps/signin

Since the 2020/21 MTREF, municipalities are no longer required to submit hard copies of all required documents, including budget-related documents, Annual Financial Statements, and Annual Reports, to the National Treasury via post or courier services. PDF versions of documents must be submitted to the GoMuni Upload portal.

8.3 Updating of contact details on GoMuni

Municipalities are reminded that it is their responsibility to ensure the minimum, that is, to update their contact details monthly on the LGDRS as and when changes occur. Often emails containing important information and deadlines are returned ("undeliverable") and do not reach the intended LGDRS users because of outdated contact information. Updates to contact details made by municipal officials on the LGDRS are validated and approved for upload by the Contacts Administrators who were nominated by the Municipal Manager for this purpose within each municipality.

Registered LGDRS users can download the contact details for their municipality on the LGDRS by logging-in to GoMuni on the following link and then accessing the report under Database/Contacts/Reporting/Contact information:

https://lg.treasury.gov.za/ibi_apps/signin

The names of the respective Contact Administrators for each municipality are indicated in the contact information list on the LGDRS.

8.4 Training on GoMuni and *m*SCOA

The National Treasury training schedule and registration links for 2026 to assist municipalities, national and provincial government departments and other stakeholders that require new or refresher training on how to draw reports on the LGDRS and technical support on *m*SCOA, is available on the GoMuni/ Go Training portal on the following link:

https://lg.treasury.gov.za/ibi_apps/portal/GoMuni_Navigation

Contact

national treasury
Department:
National Treasury
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05 December 2025