MEDIA STATEMENT

FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

FOR IMMEDIATE RELEASE

Financial and Fiscal Commission responds to the stopping of funds to identified Municipalities by National Treasury

Cape Town, 10 July 2026

The Financial and Fiscal Commission notes with interest the decision by National Treasury to what they term " *temporarily withholding the July 2026 equitable share transfers to selected municipalities to instill fiscal discipline and ensure that public money is properly managed; that Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIFWE) is addressed; and that municipal officials and office-bearers are held accountable where required by law"*. The decision, they say, is taken in terms of section 216(2) of the Constitution, read with section 38 of the Local Government: Municipal Finance Management Act 56 of 2003 (MFMA).

The Commission further notes the unilateral stopping of legally due payments to identified municipalities through a narrow reading of statutory circumstances, without, it appears, considering the spirit of the law and in particular section 214 of the Constitution, 1996.

The Local Government equitable share is the cornerstone of South Africa's intergovernmental fiscal relations system. As a constitutionally provided unconditional allocation, it enables municipalities to provide basic services and fulfil their developmental responsibilities, particularly where local revenue-raising capacity is constrained. For many rural and fiscally distressed municipalities, the equitable share constitutes a significant proportion of operating revenue and is indispensable to maintaining essential municipal functions and service delivery. This falls squarely within section 214 of the Constitution of the Republic of South Africa, 1996. The Commission, as a constitutional institution emphasises that whilst there must be safeguards regarding the allocations, it is essential for this to be balanced against the constitutional functions of municipalities.

The Division of Revenue, including its terms and conditions, is set by Parliament through a consultative process. The Constitution, in section 214(2), requires that the Financial and Fiscal Commission, the provinces and organised local government be consulted before the Division of Revenue Act is enacted. National Treasury, as the implementing arm, is bound to give effect to that framework as enacted. It cannot, at the implementation stage, unilaterally introduce new conditions or otherwise deviate from the parameters Parliament set. Where the executive attaches fresh conditions to allocations already appropriated, it acts beyond its mandate, and the process becomes constitutionally vulnerable. Any change to that framework must be made through the same consultative process that created it, not imposed administratively. The lawful route to interrupt the equitable share is a stopping in terms of section 216(2), read with sections 38 and 39 of the MFMA, with the parliamentary safeguards that attach to it.

A differentiated approach to oversight and support

The Commission recognises that both the Auditor-General and National Treasury have spoken out of concerns regarding ineffective financial controls and recurring weaknesses in identified Municipalities. The Commission is of the view that this must be balanced against the service delivery that is owed to the citizens of South Africa.

Consistent with its previous Recommendations, the Commission reiterates that Parliament including the Minister of Finance should adopt a differentiated approach to fiscal oversight and support, recognising the significant diversity in municipalities' institutional capacity, revenue potential and socio-economic circumstances. Uniform enforcement measures may have disproportionate consequences for municipalities with structurally weak own-revenue bases and high dependence on intergovernmental transfers.

The Commission cautions that enforcement measures or creating new conditions to create leverage, addresses symptoms rather than underlying structural drivers of municipal fiscal distress. South Africa's local government fiscal framework rests on revenue assumptions that no longer hold for many municipalities, and is characterised by structural vertical imbalance, unfunded and underfunded mandates and an eroding municipal revenue base.

Enforcement that is not accompanied by structural reform risks returning the same municipalities to distress in successive financial years.

The Commission cautions and alerts relevant stakeholders that the administration of public funds must be transparent and balanced effectively. There should be no perception of overreaching or coercive action, particularly where Parliament has already appropriated the allocations with clear directions on how they are to be spent.

The stopping of the allocation has serious budget pressures for citizens within the affected municipalities: infrastructure, electricity, water and sanitation and community services. The action must be a lawful condition on funding in terms of the Constitution, rather than an unlawful refusal to monitor funds already appropriated. **The Commission calls upon Parliament to consider National Treasury's decision expeditiously.**

The Commission questions whether an Executive Authority can use unrelated force as a coercive tool to force compliance of legislation that appears not to be aligned to the spirit and intention of the Constitution.

The Commission is firm that National Treasury's decision does not end with the announcement of a "withholding". Where the equitable share is stopped in terms of section 216(2) of the Constitution, read with sections 38 and 39 of the MFMA, section 39 places a binding obligation on Parliament to subject that decision to scrutiny, and these safeguards apply irrespective of whether the measure is described as a "withholding" or a "stopping".

THE COMMISSION'S CALL TO PARLIAMENT — SECTION 39, WITHIN 30 DAYS

The Commission calls on Parliament to:

- initiate the section 39 process without delay and complete its consideration of National Treasury's decision within the 30 days required, through a process substantially the same as that established under section 75 of the Constitution and the Joint Rules of Parliament;
- require, in terms of section 39(3)(a), a report from the Auditor-General on the affected municipalities before it approves or renews the decision;
- ensure, in terms of section 39(3)(b), that every affected municipality is given a genuine opportunity to answer the allegations against it and to state its case before the relevant committee before any allocation is approved to remain stopped; and
- satisfy itself that the stopping does not exceed the limits set by law and is not extended beyond what the Constitution permits.

A decision of this magnitude, affecting 69 municipalities and billions of rands in constitutionally guaranteed allocations to communities that depend on them for water, electricity, sanitation and basic services, cannot be allowed to take effect by executive action alone. Parliament's oversight under section 39 is the constitutional safeguard that stands between lawful, corrective enforcement and unchecked executive overreach, and it **must be exercised now, within the 30 days the law allows.**

As an independent constitutional institution, the Financial and Fiscal Commission remains committed to supporting its stakeholders through independent, evidence-based research, analysis and Recommendations. The Commission continues to promote the constitutional principles governing the equitable division of nationally raised revenue, accountable public financial management and cooperative intergovernmental fiscal relations.

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About the Financial and Fiscal Commission (FFC):

The FFC is an independent juristic entity subject only to the Constitution, Financial and Fiscal Commission Act, 1997 (Act No 99 of 1997) and relevant legislative prescripts. The Commission is an independent constitutional institution and makes recommendations to Parliament, provincial legislatures, organised local government and other organs of State on the equitable division of revenue among the three spheres of government and on any other financial and fiscal matters in terms of the Constitution of the Republic of South Africa and as provided for in national legislation.

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