

6

2024 BUDGET REVIEW

DIVISION OF REVENUE AND SPENDING BY PROVINCES AND MUNICIPALITIES



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- The 2024 Budget reverses a substantial portion of the spending reductions initially proposed at the time of the 2023 *Medium Term Budget Policy Statement* (MTBPS).
- Over the medium-term expenditure framework (MTEF) period, after providing for debt-service costs, the contingency reserve and provisional allocations, 48 per cent of nationally raised funds are allocated to national government, 42.2 per cent to provincial government and 9.8 per cent to local government.
- Provinces will be able to fund the wages of teachers, nurses, doctors and other critical skills that are essential for service delivery. Nevertheless, fiscal consolidation remains in place, affecting mainly conditional grants and transfers to local government.
- Government is prioritising infrastructure development through a combination of reforms and incentivising the pledging of conditional grants.

OVERVIEW

National government transfers more than half of nationally raised revenues to the nine provinces and 257 municipalities, empowering them to fulfil their mandated functions and serve their communities. Provinces oversee essential services, such as basic education, healthcare, roads, human settlements, social development and agriculture. Meanwhile, municipal services include water, sanitation, electricity reticulation, roads and community services. Additional government revenues and a marginal decline in debt-service costs allow the 2024 Budget to reverse some of the reductions that were introduced in the 2023 MTBPS. Nevertheless, as fiscal consolidation measures remain, provinces and municipalities will continue to experience smaller conditional grant transfers.



Transfers to both provinces and municipalities will differ somewhat from the 2023 Budget, due to a combination of these consolidation measures and the impact of the 2023 public-service wage agreement. While equitable share transfers to provinces are higher compared to the previous budget, conditional grants funds remain limited. Transfers to municipalities are also reduced. Provinces and municipalities need to prioritise their resources to ensure critical services are not negatively affected. Through strategic planning, structural reforms and robust financial management, they can continue to deliver the necessary services to their communities.

DIVISION OF REVENUE

For the 2024 MTEF period, provinces and municipalities are allocated R2.8 trillion or 51.1 per cent of total non-interest spending. Of this amount, R2.3 trillion goes to provinces, while local governments receive R531.7 billion. Funds are allocated to provinces and municipalities in the form of equitable shares and conditional grants. Equitable shares are distributed through a formula that factors in demographic and developmental considerations. Conditional grants are intended to achieve specific objectives, and they are made available to provinces and municipalities upon meeting specific criteria and fulfilling conditions relating to their use.



CHAPTER 6
DIVISION OF REVENUE AND SPENDING BY
PROVINCES AND MUNICIPALITIES

Provinces and municipalities face significant spending and revenue pressures from the rising costs of basic and social services, as well as declining economic growth and high borrowing costs. Table 6.1 sets out the division of revenue over the MTEF period. In this period, after providing for debt-service costs, the contingency reserve and provisional allocations, 48 per cent of nationally raised funds are allocated to national government, 42.2 per cent to provincial government and 9.8 per cent to local government.

Table 6.1 Division of nationally raised revenue

R billion	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Average annual MTEF growth
	Outcome			Revised estimate	Medium-term estimates			
Division of available funds								
National departments	790.5	822.8	855.9	823.9	848.5	853.7	890.5	2.6%
<i>of which:</i>								
<i>Indirect transfers to provinces</i>	3.0	3.8	3.5	4.0	3.8	4.2	4.2	1.5%
<i>Indirect transfers to local government</i>	4.1	5.7	7.0	8.3	7.1	7.5	8.0	-1.1%
Provinces	628.8	660.8	694.1	706.4	729.5	760.9	790.8	3.8%
Equitable share	520.7	544.8	570.9	585.1	600.5	627.4	655.7	3.9%
Conditional grants	108.1	116.0	123.3	121.3	129.0	133.4	135.1	3.7%
Local government	137.1	135.6	150.7	157.8	170.3	177.7	183.8	5.2%
Equitable share	83.1	76.2	83.9	92.7	101.2	106.1	110.7	6.1%
Conditional grants	40.0	44.8	51.4	49.7	53.0	54.7	55.5	3.8%
General fuel levy sharing with metros	14.0	14.6	15.3	15.4	16.1	16.8	17.6	4.5%
Provisional allocation not assigned to votes ¹	–	–	–	–	0.6	41.1	53.5	
Non-interest allocations	1 556.4	1 619.2	1 700.7	1 688.1	1 748.8	1 833.3	1 918.5	4.4%
<i>Percentage increase</i>	4.7%	4.0%	5.0%	-0.7%	3.6%	4.8%	4.6%	
Debt-service costs	232.6	268.1	308.5	356.1	382.2	414.7	440.2	7.3%
Contingency reserve	–	–	–	–	5.0	7.6	14.5	
Main budget	1 789.0	1 887.3	2 009.2	2 044.2	2 136.0	2 255.6	2 373.2	5.1%
<i>Percentage increase</i>	5.8%	5.5%	6.5%	1.7%	4.5%	5.6%	5.2%	
<i>Percentage shares</i>								
<i>National</i>	50.8%	50.8%	50.3%	48.8%	48.5%	47.6%	47.7%	
<i>Provinces</i>	40.4%	40.8%	40.8%	41.8%	41.7%	42.5%	42.4%	
<i>Local government</i>	8.8%	8.4%	8.9%	9.3%	9.7%	9.9%	9.9%	

1. Includes amounts for Budget Facility for Infrastructure projects and other provisional allocations

Source: National Treasury

The *Explanatory Memorandum to the Division of Revenue* sets out the provincial and municipal allocations, details the equitable share formula and explains how the division takes into account the recommendations of the Financial and Fiscal Commission. The memorandum is available as Annexure W1 of the *Budget Review* on the National Treasury website.

PROVINCIAL REVENUE AND SPENDING

Provinces have very limited legal authority to tax or levy fees. They expect to collect R79.7 billion in own revenue over the MTEF period, mainly from motor vehicle licence fees. These own revenues make up just 3.4 per cent of their total resources, with the rest transferred through the equitable share and conditional grants.



Provinces are responsible for providing social services according to nationally determined norms and standards, including public basic education for 13.4 million learners and healthcare for 51.9 million South Africans who do not have private medical insurance. In 2022/23, transfers through the division of revenue accounted for approximately 97 per cent of provincial revenue. Direct national transfers to provinces are projected to increase from R706.4 billion in 2023/24 to R729.5 billion in 2024/25 and grow at an average rate of 3.8 per cent annually to reach R790.8 billion in 2026/27. The transfers include R600.5 billion for the provincial equitable share and R129 billion for conditional grants.

Table 6.2 Provincial equitable share

R million	2023/24	2024/25	2025/26	2026/27	Average annual MTEF growth
	Estimate	Medium-term estimates			
Eastern Cape	75 605	78 093	81 550	84 495	3.8%
Free State	32 429	33 091	34 582	36 188	3.7%
Gauteng	124 465	127 992	133 771	139 994	4.0%
KwaZulu-Natal	119 722	121 145	126 360	131 972	3.3%
Limpopo	67 359	69 625	72 925	76 482	4.3%
Mpumalanga	48 051	49 499	51 739	54 150	4.1%
Northern Cape	15 573	16 143	16 905	17 727	4.4%
North West	41 289	42 816	44 882	47 109	4.5%
Western Cape	60 593	62 071	64 728	67 588	3.7%
Total	585 086	600 476	627 442	655 704	3.9%

Source: National Treasury

Review on the education component of the provincial equitable share

The provincial equitable share is the primary revenue source for provinces, made up of six key components: education, health, basic, institutional, poverty and economic activity. It is updated annually to ensure that funding is allocated fairly to each province, reflecting demographic changes and the demand for services based on need.

A review of the education component is under way, led by a task team made up of representatives from the National Treasury and provincial treasuries. Sector departments, Statistics South Africa and the Financial and Fiscal Commission are consulted on various aspects of the review. The Technical Committee on Finance oversees the task team's work and proposed modifications to the formula must be approved by the Budget Council. The technical work is complete and consultations on the proposed changes are in progress. The review sought to address the funding needs of different types of schools and learners, collaborating with the Department of Basic Education to develop options. From 2024/25, the updated enrolment subcomponent will be implemented within the education component.

CHAPTER 6
DIVISION OF REVENUE AND SPENDING BY
PROVINCES AND MUNICIPALITIES

Table 6.3 Conditional grants to provinces

R million	2023/24	2024/25	2025/26	2026/27	MTEF total
	Revised estimate	Medium-term estimates			
Direct conditional grants					
Comprehensive agricultural support programme	1 502	1 741	1 754	1 774	5 270
Ilima/Letsema projects	585	448	677	708	1 834
Land care programme grant: poverty relief and infrastructure development	79	90	94	99	283
Early childhood development grant	1 184	1 589	1 946	2 035	5 571
Education infrastructure	12 278	13 681	14 234	14 373	42 288
HIV and AIDS (life skills education) grant	214	250	261	273	783
Learners with profound intellectual disabilities grant	260	279	291	304	875
Maths, science and technology grant	383	444	459	480	1 383
National school nutrition programme	9 279	9 798	10 314	10 786	30 899
Provincial disaster response grant	146	149	151	158	459
District health programmes grant	25 866	27 963	28 228	29 523	85 714
Health facility revitalisation	6 680	7 152	7 243	7 575	21 969
Human resources and training grant	5 479	5 517	5 598	5 855	16 970
National health insurance grant	695	456	462	471	1 389
National tertiary services	14 024	15 264	15 919	16 662	47 845
Human settlements development	13 255	13 655	14 149	14 332	42 137
Informal settlements upgrading partnership	3 826	3 251	2 770	930	6 951
Mass participation and sport development grant	561	618	626	655	1 900
Expanded public works programme integrated grant for provinces	404	312	316	330	957
Social sector expanded public works programme incentive grant for provinces	396	306	310	324	939
Community library services	1 503	1 612	1 643	1 719	4 974
Provincial roads maintenance	15 317	16 672	17 883	17 279	51 834
Public transport operations	7 403	7 735	8 082	8 452	24 270
Total direct conditional grants	121 318	128 984	133 411	135 098	397 493
Indirect transfers	3 998	3 841	4 195	4 177	12 213
School infrastructure backlogs	1 899	1 642	1 777	1 870	5 288
National health insurance indirect	2 099	2 200	2 418	2 307	6 924

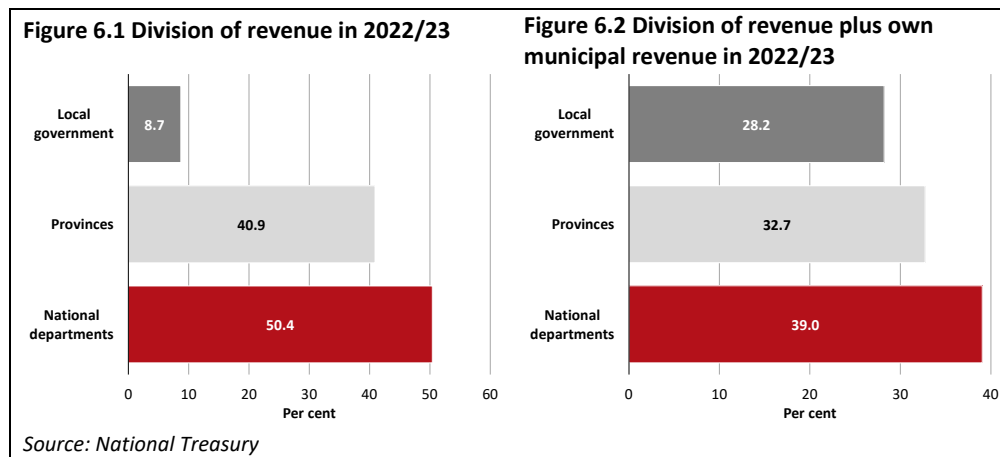
Source: National Treasury

To cover the carry-through cost of implementing the 2023 public-service wage agreement, mainly in the education and health sectors, the 2024 Budget allocates an additional R105.5 billion over the next three years to provinces. The provision of additional funds to cushion these wage bill pressures has released resources for capital investment and goods and services. An amount of R3.9 billion, which was previously added to the provincial equitable share for wage bill costs, is now shifted to conditional grants in the education and health sectors. Moreover, reductions that were previously made to several grants have been reversed. Restoring the baselines of these grants will help maintain important services for the most vulnerable and provide for critical capital investments. Conversely, reductions are made to several other grant baselines due to reprioritisation and spending reductions in the context of fiscal consolidation. Government has taken a balanced approach to these reductions to ensure that the total grant funding envelope remains

stable. As reflected in Table 6.3, total conditional grant funding increases from R125.3 billion in 2023/24 to R139.3 billion in 2026/27.

MUNICIPAL REVENUE AND SPENDING

In 2022/23, local governments received approximately R150.7 billion from national government, accounting on average for about 24 per cent of total municipal revenue. The balance is made up of own revenue raised by local governments, which have significant revenue-raising powers, including cost recovery on main services and property rates. Figure 6.1 shows the division of revenue between the three spheres of government in line with Table 6.1. Transfers to local governments tend to hover around 10 per cent of total revenue. When own revenue raised by local government is included, however, local government accounts for 28 per cent of the total, as shown in Figure 6.2.



Despite these powers, municipal budgets are under tremendous pressure and spending is often inefficient. For example, municipal councils approved salary and wage increases of 5.4 per cent for 2023/24, which require the diversion of funds from local government policy priorities to pay salaries. These above-inflation increases are hard to justify, especially when productivity has been low.

CHAPTER 6
DIVISION OF REVENUE AND SPENDING BY
PROVINCES AND MUNICIPALITIES

Review of the local government fiscal framework

Government's five-year programme of action to improve local governance, as endorsed by the Budget Forum, includes efforts to improve the funding model for local government. The National Treasury is reviewing a draft report for regulating municipal surcharges on electricity and identifying alternative sources of revenue to replace these. The next step will be consultation with external stakeholders.

The local government equitable share formula is being updated in various ways, including improving its responsiveness to the different functions assigned to district and local municipalities. In addition, the formula will be refined with reforms such as exploring the feasibility of introducing cost differential models, community services components for health services and firefighting functions, objective criteria for benchmarking municipalities in relation to their administrative functions, and infrastructure financing options for small and rural areas. The Department of Cooperative Governance, the National Treasury, the South African Local Government Association, the Financial and Fiscal Commission, and Statistics South Africa are identifying areas for refinement over the 2024 MTEF period.

Table 6.4 Transfers to local government

R million	2023/24	2024/25	2025/26	2026/27	MTEF total
	Adjusted Budget	Medium-term estimates			
Equitable share and related	95 189	101 178	106 087	110 661	317 926
General fuel levy sharing with metros	15 433	16 127	16 849	17 621	50 597
Direct conditional grants	49 997	52 990	54 720	55 493	163 203
Integrated urban development	1 172	1 146	1 202	1 304	3 652
Municipal disaster recovery	1 505	741	709	–	1 450
Municipal disaster response	745	378	395	413	1 187
Municipal infrastructure	16 342	17 054	17 927	19 444	54 425
Energy efficiency and demand-side management	224	236	246	258	740
Integrated national electrification programme	2 032	1 746	1 697	1 655	5 098
Informal settlements upgrading partnership	4 059	4 515	4 717	4 934	14 166
Urban settlements development	7 596	8 705	9 250	9 819	27 774
Infrastructure skills development	151	165	173	181	519
Local government financial management	569	582	590	617	1 789
Neighbourhood development partnership	1 346	1 291	669	700	2 660
Programme and project preparation support	319	386	391	409	1 185
Expanded public works programme integrated	749	560	567	593	1 721
Public transport network	6 194	7 473	8 084	7 619	23 177
Rural roads asset management systems	115	121	126	132	379
Regional bulk infrastructure	3 259	3 852	3 757	3 005	10 615
Water services infrastructure	3 620	4 038	4 219	4 412	12 668
Total direct transfers	160 619	170 294	177 656	183 775	531 725
Indirect transfers	8 297	7 098	7 540	8 034	22 614
Municipal infrastructure	30	58	–	–	58
Municipal systems improvement	147	145	151	158	454
Integrated national electrification programme	3 518	2 196	2 294	2 400	6 890
Smart meters	–	500	650	800	1 950
Neighbourhood development partnership	189	95	99	104	298
Regional bulk infrastructure	3 298	3 058	3 227	3 232	9 516
Water services infrastructure	1 114	1 047	1 119	1 341	3 507

Source: National Treasury

Additions made in the 2024 Budget include R1.4 billion for the municipal disaster recovery grant to fund the repair and reconstruction of municipal infrastructure damaged by the floods that occurred in 2023. Allocations to the neighbourhood development partnership grant are increased by R650 million as part of the Public Employment Programme.

The conditional grant review process has identified various reforms to be considered in the 2025 budget process, with phased implementation. It has also identified challenges within the intergovernmental fiscal system, highlighting action needed at different levels, from grant management to individual grants.

INVESTING FOR SERVICE DELIVERY EFFICIENCY AND GROWTH

Driving efficiency gains through infrastructure reform

Government continues to streamline the infrastructure delivery system to improve efficiency and ensure that limited resources are allocated effectively, delivering infrastructure that meets the needs of the people.

Unlocking financing for bulk infrastructure to drive economic growth

The Development Bank of Southern Africa has introduced a new financing instrument called Project Vumela, which blends municipal revenue sources with financing from development finance institutions and commercial finance. It is aimed at raising funds for bulk infrastructure required for services such as water, sanitation, roads and stormwater, electricity and solid waste, without affecting the borrowing capacity of municipalities. Financing will be secured against future revenue, including development charges, municipal grants and a portion of property rates. This initiative complements other actions aimed at increasing investment in infrastructure by leveraging private-sector resources and expertise to support economic growth and improve the quality of life for South Africans.

The quality and reliability of urban utility services, including water, wastewater and electricity, have declined due to neglect and inadequate maintenance. Government allocated R61.7 billion to local government in 2022/23 to address these challenges, but little progress has been made. From 2025/26, a new incentive grant will be available to cities that demonstrate a certain level of transparency, display strong governance and reach key milestones in transforming their water businesses.

The infrastructure delivery management system and the framework for infrastructure delivery and procurement management are the guiding methodologies for infrastructure delivery practitioners. These are being customised for local governments. In addition, the infrastructure reporting model has been expanded to cover all spheres of government. Over time, this will allow infrastructure budgets to be analysed and spending to be reviewed across all spheres. The National Treasury is also providing accredited training based on the infrastructure delivery management system.

Pledging of conditional grants



Grant pledging, which refers to committing all or part of a conditional grant over one or many years towards the repayment of a loan to finance infrastructure, has been used in local government for many years. The National Treasury, alongside provincial treasuries and other stakeholders, has recently extended pledging to provinces. This will help mitigate cuts in provincial allocations. Pledging can only occur for projects that have passed the necessary planning stages and are construction-ready. Strong leadership, planning and coordination are needed to unlock the benefits of pledging. To date, the Northern Cape government has applied to pledge R600 million over three years to build 2 500 housing units through the *human settlements development grant*. This process would usually take three to four years without pledging, but is expected to take one year with pledging. The National Treasury has introduced a practice note to guide provinces on how to pledge their conditional grant allocations to leverage financing for faster infrastructure delivery.

Rationalising public entities for effective use of resources



Over 300 public entities and state-owned companies are in operation. Many face challenges including financial distress, weak boards, duplication of functions and inadequate oversight. National departments and some provinces have initiated efforts to merge, close down or repurpose certain entities. Rationalisation is anticipated to reduce the number of provincial and national entities from 281 to 264. Overall, government's aim is to have a strong and capable state that serves the public's needs and enables transformation, growth and development.

PROGRESS IN ESKOM DEBT RELIEF FOR MUNICIPALITIES

National government has invited municipalities to apply for debt relief for arrears debt to Eskom. In order for the debt to be written off in equal annual tranches over a three-year period, municipalities need to comply with set conditions. These conditions include enforcing strict credit controls, paying their monthly electricity accounts and enhancing revenue collection. By December 2023, 72 applications had been submitted, totalling R56.7 billion or 96.9 per cent of total municipal debt owed to Eskom at end-March 2023. Seventy applications totalling R55.2 billion had been approved as of January 2024.



The 2024 Budget introduces amendments to conditional grant frameworks to improve service delivery and address financial pressures in municipalities. A new conditional grant will be created to fund the rollout of smart prepaid meters, initially in municipalities that have been approved for Eskom debt relief. The National Treasury will distribute this grant. A total of R2 billion has been allocated for the grant, made up of R500 million in 2024/25, R650 million in 2025/26 and R800 million in 2026/27.

CONCLUSION

The 2024 *Budget Review* highlights the vital role provinces and municipalities play in providing social and economic services, as well as the need to balance institutional capacity building with real growth in transfers to address the needs of growing populations. The Budget protects key service delivery and investment capacity by reversing previous reductions to allocations. Key reforms are being undertaken that will assist provinces and municipalities to improve their efficiency and accelerate the delivery of infrastructure.

CHAPTER 6
DIVISION OF REVENUE AND SPENDING BY
PROVINCES AND MUNICIPALITIES

This page was left blank intentionally.