BACKGROUND

Section 214(1) of the Constitution requires that the nationally raised revenue be divided equitably between national government, the nine provinces and 257 municipalities. This is outlined in the annual Division of Revenue Act. The division of revenue takes into account the powers and functions assigned to each sphere; fosters transparency, predictability and stability; and is at the heart of constitutional cooperative governance.

The principles underpinning the equitable sharing and allocation of nationally raised revenue are prescribed in the Intergovernmental Fiscal Relations Act (1997). Sections 9 and 10(4) of the act set out the consultation process to be followed with the Financial and Fiscal Commission (FFC), including considering recommendations made regarding the division of revenue.

This explanatory memorandum to the 2025 Division of Revenue Bill fulfils the requirement set out in section 10(5) of the Intergovernmental Fiscal Relations Act that the bill be accompanied by an explanatory memorandum detailing how the bill takes account of each of the matters listed in section 214(a) to (j) of the Constitution; government's response to the FFC's recommendations submitted to the minister in terms of section 9 of the act or as a result of consultations with the FFC; and any assumptions and formulas used in arriving at the respective shares. Moreover, this memorandum complements the discussion on the division of revenue in Chapter 6 of the *Budget Review*. It has six sections:

- Part 1 lists the factors that inform the division of resources between national, provincial and local government.
- Part 2 describes the 2025 division of revenue.
- Part 3 sets out how the FFC's recommendations on the 2025 division of revenue have been taken into account.
- Part 4 explains the formula and criteria for dividing the provincial equitable share and conditional grants among provinces.
- Part 5 sets out the formula and criteria for dividing the local government equitable share and conditional grants among municipalities.
- Part 6 summarises issues that will form part of subsequent reviews of provincial and local government fiscal frameworks.

The Division of Revenue Bill and its underlying allocations are the result of extensive consultations between national, provincial and local government. The Budget Council deliberated on the matters discussed in this memorandum at several meetings during the year. The approach to local government allocations was discussed with organised local government at technical meetings with the South African Local Government Association (SALGA) and the Department of Cooperative Governance, culminating in meetings of the Budget Forum (made up of the Budget Council, SALGA and the Minister of Cooperative Governance and Traditional Affairs). The division of revenue, along with the government priorities that underpin it, was agreed for the next three years at a Cabinet meeting on 5 February 2025.

PART 1: CONSTITUTIONAL CONSIDERATIONS

Section 214 of the Constitution requires that the annual Division of Revenue Act be enacted after 10 key principles outlined in sub-sections 2(a) to (j) are considered. The 10 constitutional principles considered in the 2025 division of revenue are briefly noted below.

National interest and the division of resources

The National Development Plan sets out the national interest by outlining a long-term vision for the country through which South Africa can advance inclusive economic transformation. To achieve this vision, South Africa needs to use the division of resources in a manner that draws on the energies of its people; builds and grows an inclusive economy; builds capabilities; enhances the capacity of the state; and promotes leadership and partnerships throughout society. The 2024–2029 Medium Term Development Plan outlines the plan and a results framework for implementing South Africa’s national development priorities for the seventh administration of the government of national unity.

In the 2024 *Medium Term Budget Policy Statement* (MTBPS), the Minister of Finance outlined how the resources available to government over the 2025 medium-term expenditure framework (MTEF) period would be allocated to help address government’s areas of immediate focus. These focus areas are as follows:

- Achieving fiscal sustainability by stabilising debt.
- Promoting economic growth and maintaining higher levels of investment by directing a growing share of public spending towards capital projects.
- Supporting and protecting critical social services in the context of constrained budget resources.
- Focusing on the growth in the public-service wage bill.

These focus areas have informed the division of resources between the three spheres of government over the 2025 MTEF period. Chapter 4 of the 2024 MTBPS and chapters 5 and 6 of the 2025 *Budget Review* discuss how funds have been allocated across the three spheres of government based on these focus areas. The framework for each conditional grant also notes how the grant is linked to government’s 14 priority outcomes.

Provision for debt costs

The resources shared between national, provincial and local government include proceeds from national government borrowing used to fund public spending. Gross loan debt will stabilise at 76.2 per cent of GDP in 2025/26. To protect and maintain the country’s integrity and credit reputation, it is important that national government provide for the resulting debt costs. Chapter 7 of the 2025 *Budget Review* provides a more detailed discussion.

National government's needs and interests

The Constitution assigns exclusive and concurrent powers and functions to each sphere of government. National and provincial government have concurrent responsibility for a range of functions, such as school education, health services, social welfare services, housing and agriculture. For these functions, national government is mainly responsible for providing leadership, formulating policy (including setting norms and standards) and providing oversight and monitoring, while provincial government is mainly responsible for implementation in line with the nationally determined framework.

National government is exclusively responsible for functions that serve the national interest and are best centralised, including national defence, the criminal justice system (safety and security, courts), higher education and administrative functions (home affairs, collection of national taxes). Provincial and local government receive equitable shares and conditional grants to enable them to provide basic services and perform their functions. Functions may shift between spheres of government in line with legislative prescripts to better meet the country's needs, which is then reflected in the division of revenue. Changes continue to be made to various national transfers to provincial and local government to improve their efficiency, effectiveness and alignment with national strategic objectives.

Provincial and local government basic services

Provinces and municipalities are responsible for providing education, health, social development, housing, roads, electricity and water, and municipal infrastructure services. They have the autonomy to allocate resources to meet basic needs and respond to provincial and local priorities while giving effect to national objectives. The division of revenue provides equitable shares to provinces and local government to enable them to meet their basic service obligations. In addition, conditional grants are provided to enable them to improve and expand the provision of services.

Over the 2025 MTEF period, R2.95 trillion or 49.8 per cent of non-interest spending is allocated to provinces and local government. Of this, R2.4 trillion or 41.9 per cent is allocated to provinces, while R552.7 billion or 9.7 per cent is allocated to local government. This is to continue funding local and provincial government priorities over the medium term, which include health, education and municipal basic services, and funding the rising costs of these services as a result of population growth and higher bulk electricity and water costs.

Fiscal capacity and efficiency

Fiscal capacity refers to the revenue-raising power of each sphere of government. High-level Income and Expenditure Survey data was released on 28 January 2025. The detailed data – still outstanding – did not inform the 2025 budget allocations. Looking ahead, this data will play a crucial role in shaping the 2026 budget allocations, presenting an opportunity to refine the funding system to better reflect the fiscal capacity of each province and municipality. This is especially important, as fiscal capacity may have shifted significantly since the 2011 Census update.

Of all three spheres of government, national government has the highest revenue-raising capacity. The revenue generated is shared with other spheres to support various services and initiatives. National government has large spending responsibilities and therefore typically receives the largest share of nationally raised revenue after accounting for the contingency reserve and debt-servicing costs. Provinces, meanwhile, have limited revenue-raising capacity but significant spending responsibilities, so they receive the second-largest share of nationally raised revenue.

Municipalities, on the other hand, can raise revenue through property rates, user charges and fees. This revenue covers basic services such as sanitation, waste management, electricity and water. The costs of these services are typically recovered through tariffs. Therefore, municipalities finance most of their expenditure through these revenue sources.

However, the ability of individual municipalities to raise revenue varies greatly. Rural municipalities, for example, typically raise much less revenue than large urban and metropolitan municipalities. The design of the local government fiscal framework acknowledges this reality and acknowledges that many rural municipalities will depend on transfers for most of their funding. These transfers are made through the local government equitable share formula, which considers the fiscal capacity of each recipient municipality.

To improve the efficiency of funding distribution, mechanisms for allocating funds to provinces and municipalities are regularly reviewed. Conditional grant allocations to provincial and local government are informed by the recipient's efficacy and efficiency in using previous allocations. With the recent census data, it will be possible to further improve the allocation of funding to ensure that it reaches those with the greatest need.

Developmental needs

Developmental needs are accounted for at two levels. First, in determining the division of revenue, which mostly grows the provincial and local government shares of nationally raised revenue faster than inflation, and second, in the formulas used to divide national transfers among municipalities and provinces. Developmental needs are built into the equitable share formulas for provincial and local government and included in specific conditional grants, such as the *municipal infrastructure grant*, which allocates funds according to the number of households without access to basic services in a municipality. Various infrastructure grants and the capital budgets of provinces and municipalities aim to boost economic and social development.

Economic disparities

The equitable share and infrastructure grant formulas redistribute funds towards poorer provinces and municipalities (parts 4 and 5 of this annexure provide statistics illustrating this). Through the division of revenue, government continues to invest in economic infrastructure (such as roads), allocating R243 billion over the 2025 MTEF period, and social infrastructure (such as schools, hospitals and clinics), allocating R81 billion over the 2025 MTEF period. This is to stimulate economic development, create jobs and address economic and social disparities.

Obligations in terms of national legislation

The Constitution gives provincial governments and municipalities the power to determine priorities and allocate budgets. National government is responsible for developing policy, fulfilling national mandates, setting national norms and standards for provincial and municipal functions, and monitoring the implementation of concurrent functions.

The 2025 MTEF, through the division of revenue, continues to fund the delivery of provincial, municipal and concurrent functions through a combination of conditional and unconditional grants.

Predictability and stability

Provincial and local government equitable share allocations are based on estimates of nationally raised revenue. If this revenue falls short of estimates within a given year, the equitable shares of provinces and local government will not be reduced. Allocations are assured (voted, legislated and guaranteed) for the first year and are transferred according to a payment schedule. To contribute to longer-term predictability and stability, estimates for a further two years are published with the annual proposal for appropriations. Adjusted estimates as a result of changes to data underpinning the equitable share formulas and revisions to the formulas themselves are phased in to ensure minimal disruption.

Flexibility in responding to emergencies

Government has a contingency reserve for unforeseen and unavoidable events. In addition, two conditional grants for disasters and housing emergencies (*provincial disaster response grant* and *municipal disaster response grant*) allow government to allocate and transfer funds to affected provinces and municipalities in the immediate aftermath of a disaster. Over the 2025 MTEF period, R1.7 billion is allocated to these grants. Furthermore, various pieces of legislation, such as sections 16 and 25 of the Public Finance Management Act (1999), provide for the allocation of funds (including adjustment allocations) to deal with emergency, unforeseeable and unavoidable situations. Section 29 of the Municipal Finance Management Act (2003) allows a municipal mayor to authorise unforeseeable and unavoidable expenditure in an emergency.

PART 2: THE 2025 DIVISION OF REVENUE

The 2025 fiscal strategy will prioritise fiscal sustainability by pursuing a debt-stabilising primary balance in 2025/26. Government's strategy continues to strike a balance between reducing risks to the fiscal framework and supporting economic growth and social programmes. The strategy will prioritise (as contained in Chapter 3 of the 2025 *Budget Review*):

- Achieving a debt-stabilising main budget primary surplus in 2025/26 and maintaining sufficiently large primary surpluses over the remainder of the decade.
- Implementing the 2025 public-service wage agreement in a sustainable way that mitigates its impacts on the core fiscal metrics.

- Growing payments for capital assets at a consolidated level faster than inflation. Capital payments are the fastest-growing spending item.
- Shifting the borrowing strategy to prioritising capital payments, while ensuring that current revenue exceeds current spending.

The most important public spending programmes that help poor South Africans, contribute to growth and create jobs have been protected from major reductions. The 2025 division of revenue reprioritises existing funds to ensure these objectives are met.

Excluding debt-service costs and the contingency reserve, allocated expenditure shared across government amounts to R1.86 trillion in 2025/26, R1.89 trillion in 2026/27 and R1.97 trillion in 2027/28. The division of these funds between the three spheres takes into account government's spending priorities, each sphere's revenue-raising capacity and responsibilities, and input from various intergovernmental forums and the FFC. The provincial and local equitable share formulas are designed to ensure fair, stable and predictable revenue shares, and to address economic and fiscal disparities.

Increase in non-interest spending

Over the next few years, government plans to increase its consolidated government spending from R2.59 trillion in 2025/26 to R2.83 trillion in 2027/28. The bulk of this spending will go towards supporting the social wage, which is a crucial aspect of government's commitment to social welfare. Despite the increase in spending, the consolidated budget deficit is expected to decline from 4.6 per cent of GDP in 2025/26 to 3.5 per cent of GDP in 2027/28.

Several provincial and local government infrastructure grants that are likely to go unspent based on historical spending trends are being reprioritised to other priorities. Parts 4 and 5 of this annexure set out in more detail how the changes to the baseline affect provincial and local government transfers.

The fiscal framework

Table W1.1 presents the medium-term macroeconomic forecasts for the 2025 Budget. It sets out the growth assumptions and fiscal policy targets on which the fiscal framework is based.

Table W1.1 Medium-term macroeconomic assumptions

	2024/25		2025/26		2026/27		2027/28
R billion/percentage of GDP	2024 Budget	2025 Budget	2024 Budget	2025 Budget	2024 Budget	2025 Budget	2025 Budget
Gross domestic product	7 452.2	7 478.8	7 913.8	7 999.4	8 422.3	8 512.6	9 068.7
Real GDP growth	*1.4%*	*1.1%*	*1.7%*	*1.8%*	*1.8%*	*1.8%*	*1.9%*
GDP inflation	*4.2%*	*4.3%*	*4.5%*	*5.0%*	*4.5%*	*4.5%*	*4.6%*
National budget framework							
Revenue	**1 815.0**	**1 797.6**	**1 947.4**	**1 970.5**	**2 086.0**	**2 118.4**	**2 246.6**
Percentage of GDP	*24.4%*	*24.0%*	*24.6%*	*24.6%*	*24.8%*	*24.9%*	*24.8%*
Expenditure	**2 136.0**	**2 150.3**	**2 255.6**	**2 324.4**	**2 373.2**	**2 431.5**	**2 543.0**
Percentage of GDP	*28.7%*	*28.8%*	*28.5%*	*29.1%*	*28.2%*	*28.6%*	*28.0%*
Main budget balance[1]	**-320.9**	**-352.7**	**-308.2**	**-353.9**	**-287.2**	**-313.0**	**-296.4**
Percentage of GDP	*-4.3%*	*-4.7%*	*-3.9%*	*-4.4%*	*-3.4%*	*-3.7%*	*-3.3%*

1. A positive number reflects a surplus and a negative number a deficit
Source: National Treasury

Table W1.2 sets out the division of revenue for the 2025 MTEF period after accounting for new policy priorities.

Table W1.2 Division of nationally raised revenue

R million	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Outcome			Revised estimate	Medium-term estimates		
Division of available funds							
National departments	**822 785**	**855 868**	**826 901**	**862 335**	**912 813**	**910 228**	**943 903**
of which:							
Indirect transfers to provinces	*3 757*	*3 536*	*4 099*	*3 877*	*4 909*	*3 024*	*2 624*
Indirect transfers to local government	*5 702*	*7 182*	*8 174*	*7 127*	*7 863*	*7 866*	*8 222*
Provinces	**660 799**	**694 131**	**706 258**	**730 658**	**767 791**	**798 427**	**833 804**
Equitable share	544 835	570 868	585 086	600 476	633 166	660 569	690 243
Conditional grants	115 964	123 263	121 172	130 182	134 625	137 858	143 561
Local government	**135 625**	**150 699**	**157 650**	**167 734**	**176 825**	**185 112**	**190 804**
Equitable share	76 169	83 938	92 262	99 478	106 087	110 661	115 666
Conditional grants	44 839	51 426	49 955	52 129	53 889	56 830	56 720
General fuel levy sharing with metros	14 617	15 335	15 433	16 127	16 849	17 621	18 418
Provisional allocations not appropriated[1]	–	–	–	–	37 056	83 011	84 749
Non-interest allocations	**1 619 208**	**1 700 698**	**1 690 809**	**1 760 727**	**1 894 485**	**1 976 778**	**2 053 260**
Percentage increase	*4.0%*	*5.0%*	*-0.6%*	*4.1%*	*7.6%*	*4.3%*	*3.9%*
Debt-service costs	268 072	308 459	356 110	389 561	424 869	449 185	478 611
Contingency reserve	–	–	–	–	5 000	5 500	11 127
Main budget expenditure	**1 887 280**	**2 009 157**	**2 046 919**	**2 150 287**	**2 324 354**	**2 431 464**	**2 542 997**
Percentage increase	*5.5%*	*6.5%*	*1.9%*	*5.0%*	*8.1%*	*4.6%*	*4.6%*
Percentage shares							
National departments	*50.8%*	*50.3%*	*48.9%*	*49.0%*	*49.1%*	*48.1%*	*48.0%*
Provinces	*40.8%*	*40.8%*	*41.8%*	*41.5%*	*41.3%*	*42.2%*	*42.4%*
Local government	*8.4%*	*8.9%*	*9.3%*	*9.5%*	*9.5%*	*9.8%*	*9.7%*

1. Includes amounts for Budget Facility for Infrastructure projects and other provisional allocations
Source: National Treasury

Table W1.3 shows how changes to the baseline are spread across government. The new focus areas are accommodated by small increases in non-interest spending.

Table W1.3 Changes over baseline

R million	2025/26	2026/27
National departments	59 103	19 777
Provinces	6 939	7 624
Local government	-831	1 337
Allocated expenditure	**65 210**	**28 738**

Source: National Treasury

Table W1.4 sets out schedule 1 of the Division of Revenue Bill, which reflects the legal division of revenue between national, provincial and local government. In this division, the national share includes all conditional grants to provinces and local government in line with section 214(1) of the Constitution, and the allocations for each sphere reflect equitable shares only.

Table W1.4 Schedule 1 of the Division of Revenue Bill

R million	2025/26 Allocation	2026/27 Forward estimates	2027/28
National[1]	1 585 101	1 660 234	1 737 088
Provincial	633 166	660 569	690 243
Local	106 087	110 661	115 666
Total	**2 324 354**	**2 431 464**	**2 542 997**

1. National share includes conditional grants to provinces and local government, general fuel levy sharing with metropolitan municipalities, debt-service costs, the contingency reserve and provisional allocations
Source: National Treasury

The 2025 *Budget Review* sets out in detail how constitutional considerations and government's priorities are taken into account in the division of revenue. It describes economic and fiscal policy considerations, revenue issues, debt and financing considerations, and expenditure plans. Chapter 6 focuses on provincial and local government financing.

PART 3: RESPONSE TO THE FFC'S RECOMMENDATIONS

Section 9 of the Intergovernmental Fiscal Relations Act requires the FFC to make recommendations regarding:

- "An equitable division of revenue raised nationally, among the national, provincial and local spheres of government;
- the determination of each province's equitable share in the provincial share of that revenue; and
- any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations should be made."

The act requires that the FFC table these recommendations at least 10 months before the start of each financial year. The FFC tabled its *Submission for the Division of Revenue 2025/26* to Parliament in 2024. This year's theme is "public-sector productivity and economic growth". The 2025/26 recommendations cover the following areas: international best practices to enhance public-sector performance, rail transport, smallholder farmers, judicial reforms, healthcare delivery and local governance.

Section 214 of the Constitution requires that the FFC's recommendations be considered before tabling the division of revenue. Section 10 of the Intergovernmental Fiscal Relations Act requires that the Minister of Finance table a Division of Revenue Bill with the annual budget in the National Assembly. The Bill must be accompanied by an explanatory memorandum setting out how government has taken into account the FFC's recommendations when determining the division of revenue. This part of the explanatory memorandum complies with this requirement.

The FFC's recommendations can be divided into three categories:

- Recommendations that apply directly to the division of revenue
- Recommendations that indirectly apply to issues related to the division of revenue

- Recommendations that do not relate to the division of revenue.

Government's responses to the first and second categories are provided below. Recommendations that do not relate to the division of revenue are normally referred to the officials to whom they were addressed, who are requested to respond directly to the FFC. All the FFC recommendations can be accessed at www.ffc.co.za.

RECOMMENDATIONS THAT APPLY DIRECTLY AND INDIRECTLY TO THE DIVISION OF REVENUE

Chapter 1: Improving public-sector performance: An international perspective

The FFC recommends the following: "The international experience shows that government investment in infrastructure is essential for economic growth and productivity. Therefore, the Commission recommends that National Treasury, through the division of revenue, in collaboration with the Department of Trade, Industry and Competition, the Department of Public Enterprises, and the Department of Public Works and Infrastructure, devise and consolidate the various grants and earmarked allocations into an infrastructure incentive grant for economic infrastructure development and public-private partnerships (PPPs)."

Government response

South Africa already has a wide range of incentives within the grant system to support infrastructure development, particularly for the poor. Government's role in infrastructure investment is primarily to address market failures and ensure equitable access, which is why the grant system is skewed towards infrastructure that benefits the poor. For economic infrastructure, cost recovery mechanisms such as tariffs are designed to play a significant role, with government investment aimed at crowding in private-sector participation through public-private partnerships and other mechanisms.

A comprehensive review of all conditional grants was concluded in 2024. It explored options for reforming the grant system to improve efficiency and effectiveness, including consolidating grants. The review did not recommend establishing an infrastructure incentive grant as proposed by the FFC. Instead, the focus remains on optimising the existing grant system to balance the needs of the poor with the imperative to attract private-sector investment in economic infrastructure.

Chapter 3: A review of the support provided to smallholder farmers in South Africa and opportunities for improving performance

The FFC recommends the following: "The Department of Agriculture, Land Reform and Rural Development should consider consolidating the three agriculture conditional grants (the Comprehensive Agricultural Support Programme, Ilima Letsema and the Land Care Grant), along with other existing pools of funding geared at assisting smallholder farmers, to ensure that the assistance provided can contribute to the long-term sustainability of smallholder farmers."

Government response

The conditional grants review proposes merging the *comprehensive agricultural support programme grant* and the *Ilima/Letsema projects grant* to address the administrative burdens and overlaps identified between the two grants, while the *land care programme grant: poverty relief and infrastructure development* will remain a standalone grant for the foreseeable future. The merger is intended to streamline administrative processes, reducing the workload on provincial departments, eliminate duplication of efforts in supporting smallholder and subsistence farmers, and provide a more cohesive and comprehensive support system for beneficiaries. The National Treasury, in collaboration with the Department of Agriculture, will work on the redesign process to ensure the merger is seamless. Moreover, the widespread acknowledgement by stakeholders that the *land care programme grant: poverty relief and infrastructure development* is underfunded highlights the need to retain it as a standalone grant. The programme plays a critical role in addressing the degradation of natural agricultural resources by promoting sustainable practices that ensure food security and support a productive agricultural sector. Its targeted interventions directly benefit farming communities and are essential for the long-term sustainability of agricultural resources.

The FFC recommends the following: "As a means of strengthening food security and facilitating transformation in the agricultural sector, public food procurement from smallholder farmers should be actively supported. Consideration should be given to establishing a conditional grant to enable provincial departments of Agriculture to assist smallholder farmers, at least initially, with costs associated with supply integration."

Government response

Government emphasises that introducing new conditional grants is often not the optimal solution. The conditional grants review process has highlighted challenges such as the administrative costs associated with compliance and the risk of duplication, as seen with the *Ilima/Letsema projects grant* and the *comprehensive agricultural support grant*. These issues underscore the need to streamline existing grants rather than create additional ones.

The *comprehensive agricultural support grant* provides for effective and coordinated agricultural support through collaborations with industry transformation initiatives, while also promoting and facilitating agricultural development by targeting beneficiaries of land reform and other black producers who have acquired land through private means and are engaged in value-adding domestic enterprises. The redesign process of this grant will also explore how best to strengthen this support to farmers as a means of strengthening food security.

Chapter 5: Measuring efficiency in the provision of healthcare

The FFC recommends the following: "The Commission reiterates its recommendation made in 2015 that National Treasury and line departments should consider indirect conditional grants as a measure of last resort while continuing to build capacity in other lower spheres of government if the belief is that provinces and municipalities lack capacity."

Government response

Government acknowledges the FFC's recommendation and agrees that indirect conditional grants should be used as a measure of last resort. However, recent experiences have shown that national departments often favour indirect grants, not as a last resort, but as a default approach, even when evidence suggests that this does not always lead to improved service delivery. In many cases, national departments also struggle to spend these funds effectively, making it difficult to justify hasty interventions through indirect grants. This highlights the need for a more measured and strategic approach that prioritises building capacity in provinces and municipalities to ensure sustainable service delivery. Government also recognises the legal and policy gaps surrounding the use of indirect grants, including the lack of clarity on when they can be implemented and for how long. These issues have been a key focus of the review of conditional grants. As a short-term measure, the National Treasury is developing a policy on indirect grants to address these challenges and provide clearer guidance. This policy will aim to ensure that indirect grants are used appropriately and only in circumstances where they are truly necessary, while continuing efforts to strengthen capacity in lower spheres of government.

The FFC recommends the following: "National Treasury should review the funding of the National Health Insurance and ensure that all funding allocated under the National Health Insurance Programme is for activities and infrastructure directly related to the programme."

Government response

The National Treasury and the Department of Health will collaborate to ensure that reforms to health grants are carefully aligned with the objectives of national health insurance (NHI), while safeguarding the delivery of health services. The determination of roles and responsibilities between national and provincial health functions, as well as the funding structure, will be prioritised before any reforms are implemented.

This approach will ensure that the implementation of the NHI is constitutionally sound, is effectively coordinated across all spheres of government and supports the progressive realisation of universal health coverage.

PART 4: PROVINCIAL ALLOCATIONS

Provincial government receives two forms of allocations from nationally raised revenue: the equitable share and conditional grants. Sections 214 and 227 of the Constitution require that an equitable share of nationally raised revenue be allocated to provincial government to provide basic services and perform its allocated functions. The equitable share is an unconditional transfer to provinces and constitutes their main source of revenue. Due to their limited revenue-raising abilities, provinces receive 41.9 per cent of nationally raised revenue over the medium term. In addition, they receive conditional grants to help them fulfil their mandates. Transfers to provinces account for over 96 per cent of provincial revenue.

This section outlines national transfers to provinces for the 2025 MTEF period announced in the 2024 MTBPS and changes to the conditional grants that were effected after it was tabled. Having taken the revisions to the provincial fiscal framework into account, national transfers to provinces increase from R730.7 billion in 2024/25 to R767.8 billion in 2025/26. Over the MTEF period, provincial transfers will grow at an average annual rate of 4.5 per cent to R833.8 billion in 2027/28. Table W1.5 sets out the transfers to provinces for 2025/26. A total of R633.2 billion is allocated to the provincial equitable share and R134.6 billion to conditional grants, which includes an unallocated amount of R151 million for the *provincial disaster response grant*.

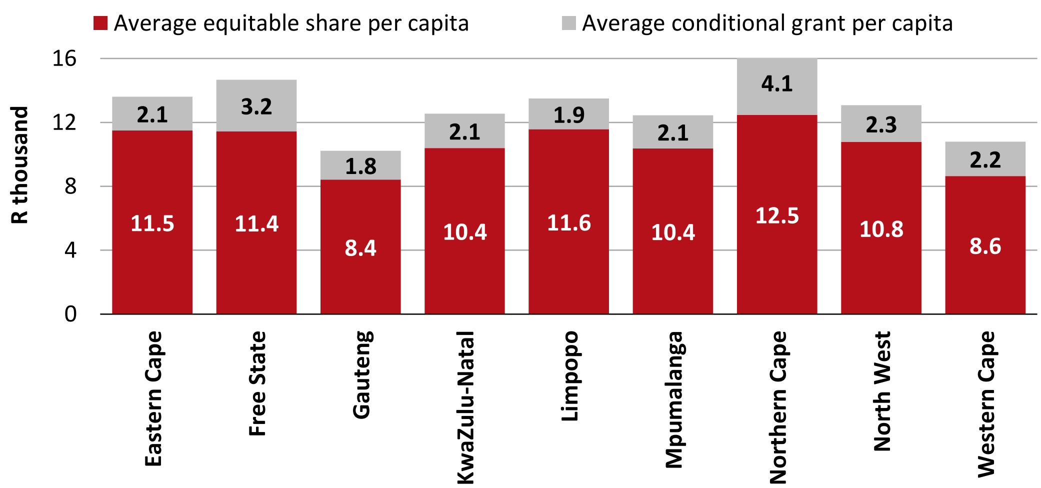
Table W1.5 Total transfers to provinces, 2025/26

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	82 452	15 236	97 689
Free State	34 836	9 801	44 637
Gauteng	133 979	28 920	162 899
KwaZulu-Natal	128 095	26 366	154 461
Limpopo	74 064	12 300	86 364
Mpumalanga	52 487	10 450	62 937
Northern Cape	17 111	5 573	22 684
North West	44 765	9 560	54 325
Western Cape	65 376	16 268	81 644
Unallocated		151	151
Total	**633 166**	**134 625**	**767 791**

Source: National Treasury

The provincial fiscal framework takes account of the different pressures facing each province and allocates larger per capita allocations to poorer provinces and provinces with smaller populations.

Figure W1.1 Per capita allocations to provinces, 2025/26



Source: National Treasury

Changes to provincial allocations

For the 2025 MTEF period, changes to provincial allocations include the reprioritisation of funds from conditional grants to national government and additional allocations to the provincial equitable share and conditional grants. Table W1.6 provides a summary of the changes to the provincial fiscal framework.

An amount of R15.3 billion has been added to the provincial allocations to support provinces with the implementation of the costs associated with the 2025 public-service wage agreement. Of this amount, R14.5 billion is added to the provincial equitable share, with each province's allocation determined through the equitable share formula. The remaining R861 million is added to several conditional grants that fund compensation of employees. Funds have also been added to the provincial allocations as part of the presidential employment initiative. In 2025/26, R1.2 billion will be added to the provincial equitable share to fund the teacher assistants programme that was introduced in 2020.

Additions to the provincial allocations have also been made through the Budget Facility for Infrastructure. In the 2024/25 adjustments budget, the *education infrastructure grant* was allocated funding for the Western Cape Rapid Schools Build Programme under the Budget Facility for Infrastructure. This programme will continue to be funded in the 2025 MTEF period, with R1 billion allocated in 2025/26 and R1.3 billion in 2026/27. An amount of R1.1 billion has been provisionally allocated in 2025/26 and 2026/27 to the *national health insurance indirect grant: health facility revitalisation component* for the Siloam District Hospital. The project is approved for funding subject to the Limpopo Provincial Health Department fulfilling some requirements.

Similarly, R2.3 billion has been provisionally allocated to fund health technology for the Tygerberg Hospital in the *health facility revitalisation grant*. The funding is over a four-year period starting in 2027/28 with an allocation of R295 million. The project is contingent on the finalisation of a public-private partnership agreement and the submission of the final list of health technology costs.

Other changes to provincial allocations include reprioritisation of funds from and within conditional grants: R199 million is reprioritised from the *comprehensive agricultural support programme grant* to national government over the 2025 MTEF period. This funding will be used to augment funding for the blended finance scheme administered by the Department of Agriculture. Within the same conditional grant, R300 million is made available from the infrastructure portion of the grant to fund extension officers in the extension recovery planning services portion of the grant.

Over the 2025 MTEF period, R6 million in 2025/26, R7 million in 2026/27 and R8 million in 2027/28 are reprioritised from the Department of Health to the *national health insurance indirect grant: health systems component* for the central chronic medicines dispensing and distribution programme. This funding will be used to support the gradual transition of Centres for Disease Control and Prevention donor-funded posts into the department.

Over the MTEF period, R94 million is reprioritised from the *provincial roads maintenance grant* to the S'hamba Sonke Programme within the Department of Transport. The funds will be used to augment the existing funds allocated towards providing technical support services for the monitoring of road maintenance projects implemented by provinces.

Several changes will also be made to the provincial conditional grants based on the recommendations of the review of the conditional grant system. These will be implemented in a phased manner, with the first set of recommendations introduced in the 2025 MTEF in the agriculture, education, public works and infrastructure, and sport, arts and culture sectors.

Table W1.6 Revisions to direct and indirect transfers to provincial government

R million	2025/26	2026/27	2027/28	MTEF total revision
Technical adjustments	–	–	–	–
Direct transfers	–	–	–	–
Expanded public works programme integrated grant for provinces	310	324	338	972
Social sector expanded public works programme incentive grant for provinces	-310	-324	-338	-972
Additions to baseline	**6 820**	**7 991**	**7 545**	**22 356**
Direct transfers	**5 851**	**7 724**	**7 537**	**21 112**
Provincial equitable share	4 534	4 864	5 094	14 492
Conditional grants	1 317	2 860	2 443	6 620
Comprehensive agricultural support programme grant	2	3	3	8
Ilima/Letsema projects grant	0	0	0	0
Land care	0	0	0	0
Early childhood development grant	0	100	110	211
Education infrastructure grant	1 052	2 475	1 739	5 266
HIV and AIDS (life skills education) grant	1	1	1	3
Maths, science and technology grant	0	0	0	0
Learners with profound intellectual disabilities	2	2	2	6
National School Nutrition Programme	4	5	5	14
District health programmes grant	111	119	125	355
Health facility revitalisation grant	3	3	298	305
National tertiary services grant	76	81	85	242
Human resources and training grant	52	56	59	167
National health insurance grant	4	5	5	14
Mass participation and sport development grant	1	1	1	3
Human settlements development grant	1	1	1	3
Informal settlements upgrading	0	0	0	1
Expanded public works programme integrated grant for provinces	2	2	2	6
Community library services grant	6	6	6	18
Indirect transfers	**969**	**267**	**9**	**1 244**
School infrastructure backlogs grant	104	–	–	104
National health insurance indirect grant	865	267	9	1 140
Reductions to baselines	**-253**	**-1 520**	**-2 044**	**-3 817**
Direct transfers	**-103**	**-100**	**-90**	**-293**
Conditional grants	**-103**	**-100**	**-90**	**-293**
Comprehensive agricultural support	-72	-69	-58	-199
Provincial roads maintenance grant	-31	-31	-31	-94
Indirect transfers	**-150**	**-1 420**	**-1 955**	**-3 525**
School infrastructure backlogs grant	-150	-1 420	-1 955	-3 525
Total change to provincial government allocations				
Change to direct transfers	5 749	7 624	7 447	20 820
Change to indirect transfers	819	-1 153	-1 946	1 244
Net change to provincial government allocations	**6 567**	**6 471**	**5 501**	**18 539**

Source: National Treasury

After accounting for these changes, the provincial equitable share grows at an average annual rate of 4.8 per cent over the MTEF period, while direct conditional grant allocations grow at an average annual rate of 3.3 per cent.

The provincial equitable share

The equitable share is the main source of revenue through which provinces are able to meet their expenditure responsibilities. To ensure that allocations are fair, the equitable share is allocated through a formula using objective data to reflect the demand for services across all nine provinces. For each year of the 2025 MTEF period, the following amounts are allocated to the provincial equitable share: R633.2 billion in 2025/26, R660.6 billion in 2026/27 and R690.2 billion in 2027/28.

The equitable share formula

The equitable share formula consists of six components that account for the relative demand of services and take into consideration changing demographics in each of the provinces. The structure of the two largest components, education and health, is based on the demand and the need for education and health services. The other four components enable provinces to perform their other functions, taking into consideration the population size of each province, the proportion of poor residents in each province, the level of economic activity and the costs associated with running a provincial administration.

The review of the formula is ongoing. Changes are made to the components of the formula as the review progresses. For the 2025 MTEF, no structural changes will be made to the components of the provincial equitable share formula.

Data availability

In the 2024 MTEF, the provincial equitable share formula continued to use the 2022 mid-year population estimates instead of the 2022 Census to inform the population figures in the formula. This was because at the time of determining the formula, most of the 2022 Census data needed to make the annual technical updates to the formula had not yet been made available. Although this 2022 Census data is now available, Statistics South Africa has released more recent population estimates through the 2024 mid-year population estimates. One of the principles underpinning the provincial equitable share formula requires the use of the latest official data. The 2024 mid-year population estimates supersede the 2022 Census data and are therefore more suited to make updates to the 2025 provincial equitable share formula.

Similarly, the economic activity component of the provincial equitable share formula for both the 2023 and 2024 MTEF periods was not updated with the most recent regional GDP figures. This was due to the pending review of the methodology used to determine the regional GDP figures. Statistics South Africa has concluded its review of the regional GDP methodology, so for the first time since 2019, the economic activity component will be updated with the most recent data.

The rest of the formula has been updated with preliminary 2024 data published by the Department of Basic Education on school enrolment from the Learner Unit Record Information Tracking System (LURITS) database. Data from the health sector for 2022/23 and 2023/24 and the 2022 General Household Survey for medical aid coverage is also used to update the formula.

Except for the poverty component, all the components of the provincial equitable share formula have been updated with new data sets. At the time of determining the provincial equitable share formula, the income and expenditure data required to make the annual technical updates to the poverty component was not yet available.

Summary of the formula's structure

The formula's six components, shown in Table W1.7, capture the relative demand for services across provinces and take into account specific provincial circumstances. The components are neither indicative budgets nor guidelines as to how much should be spent on functions. Rather, the education and health components are weighted broadly in line with historical expenditure patterns to indicate relative need. Provincial executive councils determine the departmental allocations for each function, taking into account the priorities that underpin the division of revenue.

For the 2025 Budget, the formula components are set out as follows:

- An *education component* (48 per cent), based on the size of the school-age population (ages five to 17) and the number of learners (Grades R to 12) enrolled in public ordinary schools.
- A *health component* (27 per cent), based on each province's risk profile and health system caseload.
- A *basic component* (16 per cent), derived from each province's share of the national population.
- An *institutional component* (5 per cent), divided equally between the provinces.
- A *poverty component* (3 per cent), based on income data. This component reinforces the redistributive bias of the formula.
- An *economic activity component* (1 per cent), based on regional gross domestic product (GDP-R, measured by Statistics South Africa).

Table W1.7 Distributing the equitable shares by province, 2025 MTEF

	Education	Health	Basic share	Poverty	Economic activity	Institu-tional	Weighted average
Eastern Cape	13.1%	13.9%	11.4%	14.8%	7.7%	11.1%	12.9%
Free State	5.1%	5.5%	4.8%	5.0%	4.9%	11.1%	5.5%
Gauteng	20.5%	20.7%	25.3%	18.3%	33.2%	11.1%	20.9%
KwaZulu-Natal	21.4%	21.0%	19.5%	22.2%	16.2%	11.1%	20.4%
Limpopo	12.7%	11.4%	10.2%	13.5%	7.6%	11.1%	11.8%
Mpumalanga	8.4%	8.0%	8.0%	9.5%	7.8%	11.1%	8.4%
Northern Cape	2.3%	2.3%	2.2%	2.2%	2.3%	11.1%	2.7%
North West	6.6%	6.8%	6.6%	7.9%	6.4%	11.1%	6.9%
Western Cape	9.9%	10.5%	12.0%	6.6%	14.0%	11.1%	10.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: National Treasury

Education component (48 per cent)

The education component has two sub-components, accounting for school-age population (five to 17 years) and enrolment data. Each element is assigned a weight of 50 per cent.

The school-age population data is updated using the 2024 mid-year population estimates data obtained from Statistics South Africa. The enrolment data is obtained from the Department of Basic Education's LURITS system, with the most recent data collected in 2024. These sub-components are used to calculate a weighted share for the education component for each of the provinces. Table W1.8 shows the combined effect of updating the education component with new enrolment and age cohort data on the education component shares.

Table W1.8 Impact of changes in school enrolment on the education component share

Thousand	Age 5-17	School enrolment		Changes in enrolment data	Weighted average		Difference in weighted average
		2023	2024		2024 MTEF	2025 MTEF	
Eastern Cape	1 919	1 804	1 790	-14	13.2%	13.1%	-0.07%
Free State	731	721	716	-5	5.2%	5.1%	-0.05%
Gauteng	3 150	2 618	2 660	42	20.7%	20.5%	-0.22%
KwaZulu-Natal	3 154	2 872	2 889	17	21.2%	21.4%	0.19%
Limpopo	1 776	1 798	1 818	20	12.5%	12.7%	0.20%
Mpumalanga	1 200	1 149	1 160	11	8.2%	8.4%	0.13%
Northern Cape	333	306	309	3	2.2%	2.3%	0.02%
North West	979	879	882	3	6.8%	6.6%	-0.22%
Western Cape	1 512	1 267	1 278	11	9.8%	9.9%	0.02%
Total	**14 752**	**13 414**	**13 501**	**87**	**100.0%**	**100.0%**	**–**

Source: National Treasury

Health component (27 per cent)

The health component uses a risk-adjusted capitation index and output data from public hospitals to estimate each province's share of the health component. These methods work together to balance needs (risk-adjusted capitation) and demands (output component).

The health component is presented in three parts below. Table W1.9 shows the shares of the risk-adjusted component, which accounts for 75 per cent of the health component.

Table W1.9 Risk-adjusted sub-component shares

Thousand	Mid-year population estimates 2024	Insured population 2025	Risk-adjusted index	Weighted population	Risk-adjusted shares 2024 MTEF	Risk-adjusted shares 2025 MTEF	Change
Eastern Cape	7 176	9.8%	119.7%	7 750	13.8%	14.3%	0.5%
Free State	3 044	13.3%	110.3%	2 909	5.4%	5.4%	-0.0%
Gauteng	15 932	22.4%	87.6%	10 837	20.6%	20.0%	-0.7%
KwaZulu-Natal	12 313	10.4%	101.9%	11 238	20.3%	20.7%	0.4%
Limpopo	6 403	9.5%	111.1%	6 438	11.8%	11.9%	0.1%
Mpumalanga	5 058	10.4%	103.2%	4 674	8.6%	8.6%	0.1%
Northern Cape	1 373	15.3%	113.5%	1 319	2.4%	2.4%	-0.0%
North West	4 155	13.5%	108.9%	3 915	7.7%	7.2%	-0.5%
Western Cape	7 563	25.7%	91.7%	5 152	9.4%	9.5%	0.1%
Total	**63 016**			**54 231**	**100.0%**	**100.0%**	**0.0%**

Source: National Treasury

The risk-adjusted sub-component estimates a weighted population in each province using the risk-adjusted index. The percentage of the population with medical insurance, based on the 2022 General Household Survey, is deducted from the 2024 mid-year population estimates to estimate the uninsured population per province. The risk-adjusted index, which is an index of each province's health risk profile, is applied to the uninsured population to estimate the weighted population. Each province's share of this weighted population is used to estimate their share of the risk-adjusted sub-component. The last column in Table W1.9 shows the change in this sub-component between 2023 and 2024.

Table W1.10 Output sub-component shares

Thousand	Primary healthcare visits				Hospital workload patient-day equivalents			
	2022/23	2023/24	Average	Share	2022/23	2023/24	Average	Share
Eastern Cape	14 118	13 943	14 030	13.3%	3 696	3 872	3 784	12.4%
Free State	5 059	5 207	5 133	4.9%	2 012	1 881	1 946	6.4%
Gauteng	19 725	19 293	19 509	18.5%	7 283	7 265	7 274	23.8%
KwaZulu-Natal	24 714	24 041	24 377	23.1%	6 388	6 695	6 542	21.4%
Limpopo	13 047	12 463	12 755	12.1%	2 809	2 864	2 836	9.3%
Mpumalanga	8 134	8 167	8 150	7.7%	1 790	1 804	1 797	5.9%
Northern Cape	2 538	2 683	2 610	2.5%	572	614	593	1.9%
North West	7 004	7 118	7 061	6.7%	1 629	1 598	1 614	5.3%
Western Cape	12 064	11 859	11 961	11.3%	4 235	4 216	4 225	13.8%
Total	**106 401**	**104 773**	**105 587**	**100.0%**	**30 414**	**30 809**	**30 612**	**100.0%**

Source: National Treasury

The output sub-component (shown in Table W1.10) uses patient load data from the District Health Information Services. The average number of visits to primary healthcare clinics in 2022/23 and 2023/24 is calculated to estimate each province's share of this part of the output component, which makes up 5 per cent of the health component. For hospitals, each province's share of the total patient-day equivalents at public hospitals in 2022/23 and 2023/24 is used to estimate their share of this part of the output sub-component, which makes up 20 per cent of the health component. In total, the output component is 25 per cent of the health component.

Table W1.11 presents the health component in three parts, with the risk-adjusted component, which accounts for 75 per cent of the health component, and the output component, which accounts for 25 per cent of the health component.

Table W1.11 Health component weighted shares

	Risk-adjusted	Primary healthcare	Hospital component	Weighted shares		
Weight	**75.0%**	**5.0%**	**20.0%**	**2024 MTEF**	**2025 MTEF**	**Change**
Eastern Cape	14.3%	13.3%	12.4%	13.6%	13.9%	0.3%
Free State	5.4%	4.9%	6.4%	5.6%	5.5%	-0.0%
Gauteng	20.0%	18.5%	23.8%	21.1%	20.7%	-0.4%
KwaZulu-Natal	20.7%	23.1%	21.4%	20.6%	21.0%	0.4%
Limpopo	11.9%	12.1%	9.3%	11.3%	11.4%	0.1%
Mpumalanga	8.6%	7.7%	5.9%	8.0%	8.0%	0.1%
Northern Cape	2.4%	2.5%	1.9%	2.3%	2.3%	0.0%
North West	7.2%	6.7%	5.3%	7.2%	6.8%	-0.4%
Western Cape	9.5%	11.3%	13.8%	10.4%	10.5%	0.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**0.0%**

Source: National Treasury

Basic component (16 per cent)

The basic component is derived from each province's share of the national population. This component constitutes 16 per cent of the total equitable share. For the 2025 MTEF, population data is drawn from the 2024 mid-year population estimates produced by Statistics South Africa. Table W1.12 shows how population changes have affected the basic component's revised weighted shares.

Table W1.12 Impact of the changes in population on the basic component shares

	Mid-year population estimates		Population change	% population change	Basic component shares		
Thousand	**2023**	**2024**			**2024 MTEF**	**2025 MTEF**	**Change**
Eastern Cape	6 677	7 176	500	7%	11.0%	11.4%	0%
Free State	2 922	3 044	122	4%	4.8%	4.8%	0%
Gauteng	16 099	15 932	-167	-1%	26.6%	25.3%	-1%
KwaZulu-Natal	11 538	12 313	774	7%	19.0%	19.5%	1%
Limpopo	5 941	6 403	461	8%	9.8%	10.2%	0%
Mpumalanga	4 720	5 058	337	7%	7.8%	8.0%	0%
Northern Cape	1 309	1 373	64	5%	2.2%	2.2%	0%
North West	4 187	4 155	-32	-1%	6.9%	6.6%	-0%
Western Cape	7 212	7 563	350	5%	11.9%	12.0%	0%
Total	**60 605**	**63 016**	**2 411**	**0.0%**	**100.0%**	**100.0%**	**–**

Source: National Treasury

Institutional component (5 per cent)

The institutional component recognises that some costs associated with running a provincial government and providing services are not directly related to the size of a province's population or factors included in other components. It is therefore distributed equally between provinces, with each province receiving 11.1 per cent. This component benefits provinces with smaller populations, especially the Northern Cape, the Free State and the North West, because the allocation per person for these provinces is much higher in this component.

Poverty component (3 per cent)

The poverty component introduces a redistributive element to the formula and is assigned a weight of 3 per cent. For this component, the poor population is defined as people who fall into the lowest 40 per cent of household incomes in the 2010/11 Income and Expenditure Survey. The estimated size of the poor population in each province is calculated by multiplying the proportion of people in that province who fall into the poorest 40 per cent of South African households by the province's population figure from the 2024 mid-year population estimates. Table W1.13 shows the proportion of the poor in each province from the Income and Expenditure Survey, the 2024 mid-year population estimates and the weighted share of the poverty component per province.

Table W1.13 Comparison of current and new poverty component weighted shares

		2024 MTEF			2025 MTEF			
Thousand	Income and Expendi-ture Survey 2011/12	Mid-year population estimates 2023	Poor popula-tion	Weighted shares	Mid-year population estimates 2024	Poor popula-tion	Weighted shares	Difference in weighted shares
Eastern Cape	52.0%	6 677	3 474	14.4%	7 176	3 734	14.8%	0.4%
Free State	41.4%	2 922	1 209	5.0%	3 044	1 260	5.0%	-0.0%
Gauteng	28.9%	16 099	4 648	19.3%	15 932	4 599	18.3%	-1.0%
KwaZulu-Natal	45.3%	11 538	5 228	21.7%	12 313	5 579	22.2%	0.4%
Limpopo	52.9%	5 941	3 141	13.1%	6 403	3 384	13.5%	0.4%
Mpumalanga	47.3%	4 720	2 231	9.3%	5 058	2 390	9.5%	0.2%
Northern Cape	40.8%	1 309	534	2.2%	1 373	560	2.2%	0.0%
North West	47.9%	4 187	2 005	8.3%	4 155	1 990	7.9%	-0.4%
Western Cape	21.9%	7 212	1 577	6.6%	7 563	1 653	6.6%	0.0%
Total		**60 605**	**24 046**	**100.0%**	**63 016**	**25 150**	**100.0%**	**–**

Source: National Treasury

Economic activity component (1 per cent)

The economic activity component is a proxy for provincial tax capacity and expenditure assignments. Given that these assignments are a relatively small proportion of provincial budgets, the component is assigned a weight of 1 per cent. The economic activity component of the provincial equitable share formula for the 2023 and 2024 MTEF periods was not updated with the latest regional GDP figures due to Statistics South Africa's ongoing review of its calculation methodology. The regional GDP figures using the new methodology were published in September 2024. The 2025 MTEF provincial equitable share formula has been updated with this data. Table W1.14 shows the weighted shares of the economic activity component.

Table W1.14 Current and new economic activity component weighted shares

	2024 MTEF		2025 MTEF		Difference in weighted shares
	GDP-R, 2019 (R million)	Weighted shares	GDP-R, 2023 (R million)[1]	Weighted shares	
Eastern Cape	387 332	7.6%	537 352	7.7%	0.0%
Free State	252 763	5.0%	342 064	4.9%	-0.1%
Gauteng	1 750 062	34.5%	2 329 820	33.2%	-1.3%
KwaZulu-Natal	806 843	15.9%	1 137 671	16.2%	0.3%
Limpopo	374 064	7.4%	535 582	7.6%	0.3%
Mpumalanga	381 915	7.5%	549 466	7.8%	0.3%
Northern Cape	103 349	2.0%	158 236	2.3%	0.2%
North West	329 363	6.5%	449 149	6.4%	-0.1%
Western Cape	691 934	13.6%	984 653	14.0%	0.4%
Total	**5 077 625**	**100.0%**	**7 023 994**	**100.0%**	**0.0%**

1. The latest available data on GDP-R is the 2019 series
Source: National Treasury

Full impact of data updates on the provincial equitable share

Table W1.15 shows the full impact of the data updates on the provincial equitable share per province after the six updated components have been added together. It compares the target shares for the 2024 and 2025 MTEF periods. The size of each province's share reflects the relative demand for provincial public services in that province. The changes in shares from 2024 to 2025 respond to changes in that demand. The details of how the data updates affect each component of the formula are described in detail in the sub-sections above.

Table W1.15 Full impact of data updates on the equitable share

	2024 MTEF weighted average	2025 MTEF weighted average	Difference
Eastern Cape	13.0%	13.0%	0.0%
Free State	5.5%	5.5%	-0.0%
Gauteng	21.3%	21.2%	-0.2%
KwaZulu-Natal	20.2%	20.2%	0.1%
Limpopo	11.6%	11.7%	0.1%
Mpumalanga	8.2%	8.3%	0.0%
Northern Cape	2.7%	2.7%	0.0%
North West	7.1%	7.1%	-0.1%
Western Cape	10.3%	10.3%	-0.0%
Total	**100.0%**	**100.0%**	**0.0%**

Source: National Treasury

Phasing in the formula

The annual updates to the official data used to calculate the provincial equitable share formula result in changes to each province's share of the available funds. These changes reflect the changing balance of service delivery demands among the provinces, and the annual data updates are vital to ensuring that allocations can respond to these changes. However, provinces need stable and predictable revenue streams to allow for sound planning. As such, the new shares calculated using the most recent data are phased in over the three-year MTEF period.

The equitable share formula data is updated every year, and a new target share for each province is calculated. The phase-in mechanism provides a smooth path to achieving the new weighted shares by the third year of the MTEF period. It takes the difference between the target weighted share for each province at the end of the MTEF period and the indicative allocation for 2025/26 published in the 2024 MTEF and closes the gap between these shares by a third in each year of the 2025 MTEF period. As a result, one third of the impact of the data updates is implemented in 2025/26 and two thirds in the indicative allocations for 2026/27. The updates are thus fully implemented in the indicative allocations for 2027/28.

Allocations calculated outside the equitable share formula

In addition to allocations made through the formula, the provincial equitable share includes allocations that have been determined using other methodologies. These allocations are typically introduced when a new function or additional funding is transferred to provinces. National government indicates separately how much funding has been allocated to each province for this specific purpose. Funds are also added through this approach when a priority has been identified through the national budget process and provincial government performs the function or when a conditional grant is absorbed into the equitable share.

In 2025/26, R1.2 billion has been allocated to the provincial equitable share to support the continuation of the teacher assistants programme. Originally introduced in 2020 as part of the presidential employment initiative, this programme provided funding to provinces up until 2023/24. Through this funding, over 20 000 schools will benefit, resulting in the creation of 46 274 short-term jobs.

Table W1.16 provides a summary of the allocations made outside the provincial equitable share that carry through from previous financial years and a short description of how these amounts are allocated among provinces.

Table W1.16 Allocations outside provincial equitable share formula

R thousand	2024/25 Adjusted budget	2025/26 Medium-term estimates	2026/27	2027/28	Allocation criteria
Food relief shift	81 300	84 942	88 754	92 739	Allocated equally among the provinces
Social worker employment grant shift	273 433	285 683	298 502	311 907	Allocated in terms of what provinces would have received had the grant continued
Substance abuse treatment grant shift	95 096	99 356	103 814	108 476	Allocated in terms of what provinces would have received had the grant continued
Municipal intervention	106 228	110 987	115 967	121 175	Allocated equally among the provinces
HIV prevention programmes	124 370	129 941	135 772	141 869	Allocated based on the non-profit organisations located in the 27 priority districts
Social worker additional support shift	159 390	166 530	174 003	181 817	Allocated according to areas of high prevalence of gender-based violence, substance abuse and issues affecting children
Sanitary Dignity Programme	246 093	257 118	268 655	280 719	Allocated proportionately based on the number of girl learners per province in quintiles 1 to 3 schools
Infrastructure delivery improvement programme shift	51 401	53 703	56 113	58 633	Allocated equally among the provinces
Education sector presidential employment initiative	–	1 190 000	–	–	Allocations are based on each provincial education department's projected capacity to employ assistants in schools in line with the objectives of the initiative
BFI: Coega	632 000	848 000	307 000	115 000	Allocated only to Eastern Cape
Total	**1 769 310**	**3 226 261**	**1 548 580**	**1 412 335**	

Source: National Treasury

Final provincial equitable share allocations

The final equitable share allocations per province for the 2025 MTEF period are detailed in Table W1.17. These allocations include the full impact of the data updates, phased in over three years, and the allocations that are made separately from the formula.

Table W1.17 Provincial equitable share

R million	2025/26	2026/27	2027/28
Eastern Cape	82 452	85 665	89 502
Free State	34 836	36 305	37 876
Gauteng	133 979	138 934	144 161
KwaZulu-Natal	128 095	134 320	141 007
Limpopo	74 064	77 792	81 807
Mpumalanga	52 487	55 084	57 872
Northern Cape	17 111	17 924	18 793
North West	44 765	46 200	47 719
Western Cape	65 376	68 344	71 507
Total	**633 166**	**660 569**	**690 243**

Source: National Treasury

Conditional grants to provinces

There are four types of provincial conditional grants:

- Schedule 4, part A grants supplement various programmes partly funded by provinces.
- Schedule 5, part A grants fund specific responsibilities and programmes implemented by provinces.
- Schedule 6, part A grants provide in-kind allocations through which a national department implements projects in provinces.
- Schedule 7, part A grants provide for the swift allocation and transfer of funds to a province to help it deal with a disaster.

Changes to conditional grants

The overall growth in direct conditional transfers to provinces averages 3.3 per cent over the medium term. Direct conditional grant baselines total R134.6 billion in 2025/26, R137.9 billion in 2026/27 and R143.6 billion in 2027/28. Indirect conditional grants amount to R4.9 billion, R3 billion and R2.6 billion respectively for each year of the same period.

Table W1.18 provides a summary of conditional grants by sector for the 2025 MTEF period. More detailed information, including the framework and allocation criteria for each grant, is provided in the 2025 Division of Revenue Bill. The frameworks provide the conditions for each grant, the outputs expected, the allocation criteria used for dividing each grant between provinces and a summary of the grants' audited outcomes for 2023/24.

Table W1.18 Conditional grants to provinces

R million	2024/25 Revised estimate	2025/26	2026/27	2027/28	MTEF total
Agriculture	**2 580**	**2 457**	**2 516**	**2 642**	**7 615**
Comprehensive agricultural support programme	2 041	1 685	1 709	1 799	5 193
Ilima/Letsema projects	448	677	708	740	2 126
Land care programme: poverty relief and infrastructure development	90	94	99	103	296
Basic Education	**26 362**	**28 564**	**30 834**	**31 387**	**90 785**
Early childhood development	1 589	1 947	2 136	2 238	6 320
Education infrastructure	14 002	15 285	16 847	16 762	48 894
HIV and AIDS (life skills education)	250	262	274	286	821
Learners with profound intellectual disabilities	279	293	306	320	920
Maths, science and technology	444	459	480	502	1 441
National school nutrition programme	9 798	10 319	10 791	11 279	32 389
Cooperative Governance	**149**	**151**	**158**	**165**	**475**
Provincial disaster response	149	151	158	165	475
Health	**56 358**	**57 696**	**60 351**	**63 376**	**181 423**
District health programme grant	27 963	28 339	29 643	30 983	88 965
Health facility revitalisation	7 158	7 246	7 578	8 215	23 039
Human resources and training grant	5 517	5 650	5 911	6 179	17 740
National health insurance grant	456	467	476	497	1 440
National tertiary services	15 264	15 995	16 744	17 501	50 239
Human Settlements	**16 906**	**16 920**	**15 263**	**15 953**	**48 136**
Human settlements development	13 655	14 150	14 333	14 981	43 464
Informal settlements upgrading partnership	3 251	2 770	930	972	4 672
Public Works and Infrastructure	**617**	**627**	**656**	**686**	**1 969**
Social sector expanded public works programme incentive grant for provinces	306	–	–	–	–
Expanded public works programme integrated grant for provinces	312	627	656	686	1 969
Sport, Arts and Culture	**2 230**	**2 276**	**2 381**	**2 488**	**7 145**
Community library services	1 612	1 649	1 725	1 803	5 176
Mass participation and sport development	618	627	656	686	1 969
Transport	**24 979**	**25 933**	**25 700**	**26 863**	**78 496**
Provincial roads maintenance	17 243	17 851	17 247	18 029	53 128
Public transport operations	7 735	8 082	8 452	8 834	25 369
Total direct conditional allocations	**130 182**	**134 625**	**137 858**	**143 561**	**416 044**
Indirect transfers	**3 877**	**4 909**	**3 024**	**2 624**	**10 557**
Basic Education	**1 677**	**1 627**	**450**	**–**	**2 077**
School infrastructure backlogs	1 677	1 627	450	–	2 077
Health	**2 200**	**3 283**	**2 574**	**2 624**	**8 480**
National health insurance indirect	2 200	3 283	2 574	2 624	8 480

Source: National Treasury

Agriculture grants

The *comprehensive agricultural support programme grant* aims to support newly established and emerging farmers, particularly subsistence, smallholder and previously disadvantaged farmers. The grant funds a range of projects, including providing training, developing agri-processing infrastructure and directly supporting targeted farmers. The grant has been allocated R5.2 billion over the medium term.

Following the conditional grants review process, the *comprehensive agricultural support programme grant* and the *Ilima/Letsema projects grant* will be merged effective from the 2026 MTEF period. The merger will streamline administrative processes, reduce the workload on provincial departments, eliminate duplication of efforts in supporting smallholder and subsistence farmers, and provide a more cohesive and comprehensive support system for beneficiaries. The National Treasury, in collaboration with the Department of Agriculture, will work on the redesign process throughout 2025/26. The conditional grant framework of the *Ilima/Letsema projects grant* has been amended to signal the pending merger to provinces.

The *Ilima/Letsema projects grant* aims to boost food production by helping previously disadvantaged farming communities. The grant has been allocated R2.1 billion over the medium term.

The *land care programme grant: poverty relief and infrastructure development* aims to improve productivity and the sustainable use of natural resources. Provinces are also encouraged to use this grant to create jobs through the Expanded Public Works Programme. The grant has been allocated R296 million over the medium term.

Basic education grants

The *early childhood development grant* supports government's prioritisation of early childhood development, as envisioned in the National Development Plan. The grant aims to improve poor children's access to early childhood programmes and ensure that early childhood development centres have adequate infrastructure. A portion of the funds allocated for the maintenance component of the grant is unallocated for 2026/27 and 2027/28, as this will be informed by the outcomes of the infrastructure assessments that will be conducted in each province. The grant has been allocated R6.3 billion over the medium term.

The *education infrastructure grant* provides supplementary funding for ongoing infrastructure programmes in provinces. This includes maintaining existing infrastructure and building new infrastructure to ensure school buildings meet the required norms and standards. Provincial education departments go through a two-year planning process to be eligible to receive incentive allocations for infrastructure projects. The grant has been allocated R48.9 billion over the medium term. This allocation includes the funding that will be shifted from the *school infrastructure backlogs grant* from 2026/27.

To receive the 2025/26 incentive, the departments had to meet certain prerequisites in 2023/24 and have their infrastructure plans approved in 2024/25. The national Department of Basic Education and the National Treasury assessed the provinces' infrastructure plans. The national departments, provincial treasuries and provincial departments of basic education undertook a moderation process to agree on the final scores. Provinces needed a minimum score of 60 per cent to qualify for the incentive. Table W1.19 shows the final score and incentive allocation for each province.

In the 2024/25 adjustments budget, the grant was allocated funding for the Western Cape Rapid Schools Build Programme through the Budget Facility for Infrastructure. This project will continue to be funded over the 2025 MTEF period, with R1 billion allocated in 2025/26 and R1.3 billion in 2026/27.

Table W1.19 Education infrastructure grant allocations

R thousand	Planning assessment results from 2024	2025/26		Final allocation for 2025/26
		Basic component	Incentive component	
Eastern Cape	78%	1 833 572	93 064	1 926 636
Free State	78%	957 435	93 064	1 050 499
Gauteng	75%	2 274 936	93 064	2 368 000
KwaZulu-Natal	84%	2 396 532	93 064	2 489 596
Limpopo	77%	1 474 135	93 064	1 567 199
Mpumalanga	75%	1 273 650	93 064	1 366 714
Northern Cape	81%	653 926	93 064	746 990
North West	80%	1 266 219	93 064	1 359 283
Western Cape	88%	2 317 235	93 064	2 410 299
Total		**14 447 640**	**837 580**	**15 285 220**

Source: National Treasury

The national Department of Basic Education uses the indirect *school infrastructure backlogs grant* to replace unsafe and inappropriate school structures and to provide water, sanitation services and electricity on behalf of provinces.

Over the 2025 MTEF period, the *education infrastructure grant* (EIG) and the *school infrastructure backlogs grant* (SIBG) will be merged, as recommended by the conditional grants review process. Merging the two grants does not mean the objectives of the SIBG will no longer be considered. It is intended to improve the coordination of infrastructure delivery plans and programmes to ensure alignment in all the infrastructure projects. The Department of Basic Education will provide a comprehensive list of all ongoing and completed projects under the SIBG (including their current status, budget allocations and timelines) to help identify which projects can be seamlessly transitioned into the EIG.

The SIBG will be phased out incrementally over the MTEF period according to the following process:

- In 2025/26, the entire SIBG allocation is retained in the SIBG for the department to finish and close out the remaining accelerated school infrastructure delivery initiatives and sanitation appropriate for education projects, to cover the 2024/25 accruals and to complete the omitted scope projects.
- In 2026/27, a portion of the grant allocation will be retained in the SIBG to finalise the closeout of the projects, while the remaining allocations for capital payments are shifted to the EIG from 2026/27 onwards.
- The full allocation for compensation of employees in the SIBG will be shifted to the national department’s compensation of employees from 2026/27 onwards to strengthen the department’s oversight and monitoring capacity.

The remaining goods and services portion of the SIBG allocation will be shifted as follows:

- R46 million and R51.6 million is shifted to the department’s goods and services to be earmarked allocations in 2026/27 and 2027/28 respectively to strengthen the department’s infrastructure oversight and monitoring capacity.

- R40 million and R44 million is shifted to the department's goods and services to be earmarked allocations in 2026/27 and 2027/28 respectively for mother tongue-based bilingual education and early grade reading.
- R100 million and R110 million is shifted to the infrastructure portion of the *early childhood development grant* in 2026/27 and 2027/28 respectively.

The *national school nutrition programme grant* aims to improve the nutrition of poor school children, enhance their capacity to learn and increase their attendance at school. The programme provides a free daily meal to learners in the poorest schools (quintiles 1 to 3). Over the medium term, R32.4 billion has been allocated to the grant.

The *maths, science and technology grant* provides information and communications technology, workshop equipment and machinery to schools, which should lead to better outcomes in maths and science in the long term. Over the medium term, R1.4 billion has been allocated to the grant.

The *HIV and AIDS (life skills education) grant* provides for life skills training, and sexuality and HIV/AIDS education in primary and secondary schools. The programme is fully integrated into the school system, with learner and teacher support materials provided for Grades 1 to 9. Over the 2025 MTEF period, R821 million has been allocated to the grant.

The *learners with profound intellectual disabilities grant* aims to expand access to quality publicly funded education for such learners by recruiting outreach teams. A total of R920 million has been allocated to the grant over the medium term.

Cooperative governance grant

The *provincial disaster response grant* is administered by the National Disaster Management Centre in the Department of Cooperative Governance. It is unallocated at the start of the financial year. The grant allows the National Disaster Management Centre to immediately release funds (in-year) after a disaster is classified, without the need for the transfers to be gazetted first. To ensure that sufficient funds are available in the event of a disaster, section 20 of the 2025 Division of Revenue Bill allows for funds allocated to the *municipal disaster response grant* to be transferred to provinces if funds in the *provincial disaster response grant* have already been exhausted, and vice versa. The bill also allows for more than one transfer to be made to areas affected by disasters, so that an initial payment for emergency aid can be made before a full assessment of damages and costs has been completed. Over the medium term, R475 million has been allocated to this grant.

Health grants

The *district health programmes grant* consists of two main components: a comprehensive HIV/AIDS component and a district health component. The grant supports HIV/AIDS prevention programmes and specific interventions, including voluntary counselling and testing, prevention of mother-to-child transmission, post-exposure prophylaxis, antiretroviral therapy and home-based care. A total of R89 billion has been allocated to this grant over the medium term.

The *national tertiary services grant* provides strategic funding to enable provinces to plan, modernise and transform tertiary hospital service delivery in line with national policy objectives. The grant operates in 35 tertiary hospitals across the nine provinces and continues to fund medical specialists, equipment and advanced medical investigation and treatment according to approved service specifications. Patient referral pathways often cross provincial borders and, as a result, many patients receive care in neighbouring provinces if the required services are unavailable in their home province. The grant has been allocated R16 billion in 2025/26, R16.7 billion in 2026/27 and R17.5 billion in 2027/28.

A similar approach to allocating developmental funds is taken in the training component of the *human resources and training grant.* Further details on the amounts ring-fenced are discussed under this grant. The urban areas of Gauteng and the Western Cape continue to receive the largest share of the grant because they provide the largest proportion of high-level, sophisticated services.

The *health facility revitalisation grant* funds the construction and maintenance of health infrastructure, including large projects to modernise hospital infrastructure and equipment, general maintenance and infrastructure projects at smaller hospitals, and the refurbishment and upgrading of nursing colleges and schools. In 2027/28, R295 million has been approved through the Budget Facility for Infrastructure for the Tygerberg Hospital Redevelopment Public-Private Partnership (PPP). The funding is contingent on the finalisation of the PPP agreement and the submission of the final list of health technology costs. The grant has been allocated R7.2 billion in 2025/26, R7.6 billion in 2026/27 and R8.2 billion in 2027/28.

Like the *education infrastructure grant*, a two-year planning process is required for provinces to access this grant's incentive component. The national Department of Health and the National Treasury assessed the provinces' infrastructure plans. This was followed by a moderation process involving the national departments, provincial treasuries and provincial departments of health to agree on the final scores. Provinces needed a minimum score of 60 per cent to qualify for the incentive. Funds for the incentive component in the outer years are shown as unallocated. Table W1.20 sets out the final score and the incentive allocation per province.

Table W1.20 Health facility revitalisation grant allocations

R thousand	Planning assessment results from 2024	2025/26		Final allocation for 2025/26
		Basic component	Incentive component	
Eastern Cape	83%	699 733	76 220	775 953
Free State	73%	599 815	–	599 815
Gauteng	80%	1 069 355	76 220	1 145 575
KwaZulu-Natal	95%	1 441 700	76 220	1 517 920
Limpopo	79%	546 122	76 220	622 342
Mpumalanga	87%	397 902	76 220	474 122
Northern Cape	78%	451 709	76 220	527 929
North West	80%	611 385	76 220	687 605
Western Cape	89%	818 225	76 220	894 445
Total		**6 635 945**	**609 760**	**7 245 705**

Source: National Treasury

The *human resources and training grant* has two components. The training component funds the training of health sciences professionals, including specialists, registrars and their supervisors. The statutory human resources component funds internship and community service posts, as well as some posts previously funded from the equitable share. Additional funds have been allocated for the developmental portion of the grant. These funds have been allocated to the Eastern Cape, Limpopo, Mpumalanga, the Northern Cape and the North West. A total of R17.7 billion has been allocated to the grant over the medium term.

The *national health insurance grant* continues to fund the contracting of health professionals in the former national health insurance pilot sites. The conditional grant allows provinces to pay contractors directly. In addition, the grant funds the provision of mental health services. Over the medium term, the grant is allocated R1.4 billion.

The *national health insurance indirect grant* continues to fund all preparatory work for universal health coverage, as announced in 2017/18. The grant has been allocated R3.3 billion in 2025/26, R2.6 billion in 2026/27 and R2.6 billion in 2027/28. Through the Budget Facility for Infrastructure, R858 million in 2025/26 and R259 million in 2026/27 has been approved for the Siloam District Hospital in Limpopo. The funding is subject to the finalisation of a socioeconomic analysis, a clear demand analysis and the funding structure of the project.

Human settlements grants

The *human settlements development grant* addresses housing inadequacies and promotes sustainable human settlements. The Department of Human Settlements and the National Treasury will review the allocation methodology in 2025/26 to improve the grant's effectiveness.

This grant is allocated using a formula with three components:

- The first component shares 70 per cent of the total allocation between provinces in proportion to their portion of the total number of households living in inadequate housing. Data from the 2011 Census is used for the number of households in each province living in informal settlements, shacks in backyards and traditional dwellings. Given that not all traditional dwellings are inadequate, information from the 2010 General Household Survey on the proportion of traditional dwellings with damaged roofs and walls per province is used to adjust these totals so that only dwellings providing inadequate shelter are counted in the formula.
- The second component determines 20 per cent of the total allocation based on the share of poor households in each province. The number of households with an income of less than R1 500 per month is used to determine 80 per cent of the component and the share of households with an income of between R1 500 and R3 500 per month is used to determine the remaining 20 per cent. Data used in this component comes from the 2011 Census.
- The third component, which determines 10 per cent of the total allocation, is shared in proportion to the number of people in each province, as measured in the 2011 Census.

Table W1.21 shows how the *human settlements development grant* formula calculates the shares for each province and the metropolitan municipalities within the provinces. Section 12(6) of the Division of Revenue Bill requires provinces to gazette how much they will spend within each accredited municipality (including the amounts transferred to that municipality and the amounts spent by the province in that municipal area). Funds for mining towns and disaster recovery are allocated separately from the formula.

The reliance on outdated data from the 2011 Census and 2010 General Household Survey is a notable limitation. More recent data is needed to ensure allocations reflect current realities. The planned review of the allocation methodology for the 2026 MTEF provides an opportunity to incorporate updated data sources, especially the 2024 Income and Expenditure Data survey.

Table W1.21 Human settlements development grant formula calculation

Components Description	Housing needs component Weighted share of inadequate housing	Poverty component Share of poverty	Population component Share of population	Grant formula shares Weighted share of grant formula
Component weight				
Eastern Cape	**10.1%**	**13.9%**	**12.7%**	**11.1%**
Nelson Mandela Bay	1.6%	2.1%	2.2%	1.8%
Buffalo City	2.2%	1.6%	1.5%	2.0%
Other Eastern Cape municipalities	6.3%	10.2%	9.0%	7.3%
Free State	**5.9%**	**6.1%**	**5.3%**	**5.9%**
Mangaung	1.4%	1.5%	1.4%	1.5%
Other Free State municipalities	4.4%	4.6%	3.9%	4.4%
Gauteng	**30.9%**	**22.5%**	**23.7%**	**28.5%**
Ekurhuleni	9.1%	6.2%	6.1%	8.2%
City of Johannesburg	10.5%	8.0%	8.6%	9.8%
City of Tshwane	6.8%	4.8%	5.6%	6.3%
Other Gauteng municipalities	4.5%	3.5%	3.4%	4.2%
KwaZulu-Natal	**18.0%**	**19.0%**	**19.8%**	**18.4%**
eThekwini	7.0%	6.2%	6.6%	6.8%
Other KwaZulu-Natal municipalities	11.0%	12.8%	13.2%	11.6%
Limpopo	**4.4%**	**12.0%**	**10.4%**	**6.5%**
Mpumalanga	**6.2%**	**7.9%**	**7.8%**	**6.7%**
Northern Cape	**1.9%**	**2.0%**	**2.2%**	**2.0%**
North West	**10.0%**	**7.8%**	**6.8%**	**9.2%**
Western Cape	**12.7%**	**8.7%**	**11.2%**	**11.8%**
City of Cape Town	9.3%	5.5%	7.2%	8.3%
Other Western Cape municipalities	3.4%	3.2%	4.0%	3.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: 2011 Census and General Household Survey

Funds are ring-fenced within the *human settlements development grant* in 2025/26 to upgrade human settlements in mining towns in four provinces. These allocations respond to areas with significant informal settlement challenges, with a high proportion of economic activity based on the natural resources sector. Over the medium term, R43.5 billion has been allocated to this grant.

The *informal settlements upgrading partnership grant* intensifies efforts to upgrade informal settlements in partnership with communities. The grant is dedicated to increasing investment in upgrading existing informal settlements, which includes identifying informal settlements for upgrades, providing households with tenure and providing municipal engineering services. The grant has been allocated R2.8 billion in 2025/26, R930 million in 2026/27 and R972 million in 2027/28.

Public works and infrastructure grants

The *expanded public works programme (EPWP) integrated grant for provinces* incentivises provincial departments to use labour-intensive methods in infrastructure, environmental and other projects. Grant allocations are determined upfront based on the performance of provincial departments in meeting job targets in the preceding financial year. The *social sector EPWP incentive grant for provinces* rewards provinces for creating jobs in the preceding financial year in the areas of home-based care, early childhood development, adult literacy and numeracy, community safety and security, and sports programmes. The grant's allocation model incentivises provincial departments to participate in the EPWP and measures the performance of each province relative to its peers, providing additional incentives to those that perform well.

The National Treasury, in collaboration with the Presidency, is reviewing all public employment programmes. This review aims to explore the synergies between the public employment programmes and the EPWP programmes and ensure alignment between the programmes. From 2025/26, the *EPWP integrated grant for provinces* and the *social sector EPWP incentive grant for provinces* will be merged into one grant, the *EPWP integrated grant for provinces*. The merged allocations of the two grants amount to R2 billion over the medium term.

Sport, arts and culture grants

The *community library services grant*, administered by the Department of Sport, Arts and Culture, aims to help South Africans access information to improve their socioeconomic situation. The grant is allocated to the relevant provincial department and administered by that department or through a service-level agreement with municipalities. In collaboration with provincial departments of basic education, the grant also funds libraries that serve both schools and the general public. Funds from this grant may be used to enable the shift of the libraries function between provinces and municipalities. A total amount of R5.2 billion has been allocated over the medium term.

The conditional grants review process also recommended incorporating the *community library services grant* into the provincial equitable share. Work on this integration is already under way in some of the provinces.

The incorporation of the grant into the provincial equitable share will be undertaken in a phased approach. The following process will be followed:

- The cost of employees component will be the first to be moved, at the end of 2025/26, while the capital component remains in the grant. Further engagements will take place over the course of 2025/26 to determine when the grant should be fully incorporated into the provincial equitable share.

- The building of new libraries while the incorporation is under way will be limited, with funding instead being redirected to library upgrades and maintenance. This approach will ensure that no new projects are affected, a formal handover of the infrastructure to provinces is undertaken and provinces are equally equipped to start implementing new projects.

The *mass participation and sport development grant* aims to increase and sustain mass participation in sport and recreational activities in the provinces, with greater emphasis on provincial and district academies. The grant has been allocated R627 million in 2025/26, R656 million in 2026/27 and R686 million in 2027/28.

Transport grants

The *public transport operations grant* subsidises commuter bus services. It helps ensure that provinces meet their contractual obligations and provide services. Most of the contracts subsidised through this grant continue to operate on long-standing routes that link dormitory towns and suburbs established under apartheid to places of work. The grant allows provinces to renegotiate contracts and routes, and/or to assign the function and funding to municipalities. This provides an opportunity for routes to be restructured in line with new settlement patterns and to promote more integrated urban development patterns in future. A total of R25.4 billion has been allocated to the grant over the 2025 MTEF period.

The *provincial roads maintenance grant* is a supplementary grant that supports the cost of maintaining provincial roads. Provinces are expected to fund the construction of new roads from their own budgets and supplement the cost of maintaining and upgrading existing roads. Grant allocations are determined using a formula based on provincial road networks, road traffic and weather conditions. These factors reflect the varying costs of maintaining road networks in each province. The grant requires provinces to follow best practices for planning and to use and regularly update road asset management systems. A total of R53.1 billion has been allocated over the medium term.

The incentive portion of the grant is allocated based on performance indicators relating to traffic loads, safety engineering and visual condition indicators. Over the 2025 MTEF period, R94 million will be reprioritised from the *provincial roads maintenance grant*.

PART 5: LOCAL GOVERNMENT FISCAL FRAMEWORK AND ALLOCATIONS

Funds raised by national government are transferred to municipalities through conditional grants and unconditional transfers. National transfers to municipalities are published to enable them to plan fully for their 2025/26 budgets and to promote better accountability and transparency by ensuring that all national allocations are included in municipal budgets.

This section outlines national transfers to local government for the 2025 MTEF period announced in the 2024 MTBPS and changes to the equitable share and conditional grants that were effected after it was tabled. Having taken the revisions to the local government fiscal framework into account, R552.7 billion will be transferred directly to local government and a further R24 billion has been allocated to indirect grants. Direct transfers to local government over the medium-term account for 9.7 per cent of national government's non-interest expenditure.

Table W1.22 Transfers to local government

R million	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Outcome			Adjusted budget	Medium-term estimates		
Direct transfers	**135 625**	**150 699**	**157 650**	**169 803**	**176 825**	**185 112**	**190 804**
Equitable share and related	**76 169**	**83 938**	**92 262**	**101 178**	**106 087**	**110 661**	**115 666**
Equitable share formula[1]	69 197	76 649	84 694	93 460	98 063	102 295	106 926
RSC levy replacement	5 963	6 249	6 524	6 647	6 909	7 207	7 533
Support for councillor remuneration and ward committees	1 009	1 040	1 044	1 071	1 115	1 160	1 206
General fuel levy sharing with metros	**14 617**	**15 335**	**15 433**	**16 127**	**16 849**	**17 621**	**18 418**
Conditional grants	**44 839**	**51 426**	**49 955**	**52 499**	**53 889**	**56 830**	**56 720**
Infrastructure	42 635	48 992	47 294	50 427	52 164	55 026	54 835
Capacity building and other	2 204	2 434	2 661	2 072	1 725	1 804	1 885
Indirect transfers	**7 638**	**7 182**	**8 209**	**7 127**	**7 863**	**7 866**	**8 222**
Infrastructure	7 592	7 118	8 062	6 954	7 863	7 866	8 222
Capacity building and other	46	64	147	173	–	–	–
Total	**143 262**	**157 880**	**165 859**	**176 930**	**184 688**	**192 978**	**199 026**

1. Outcome figures for the equitable share reflect amounts transferred after funds have been withheld to offset underspending by municipalities on conditional grants. Rollover funds are reflected in the year in which they were transferred

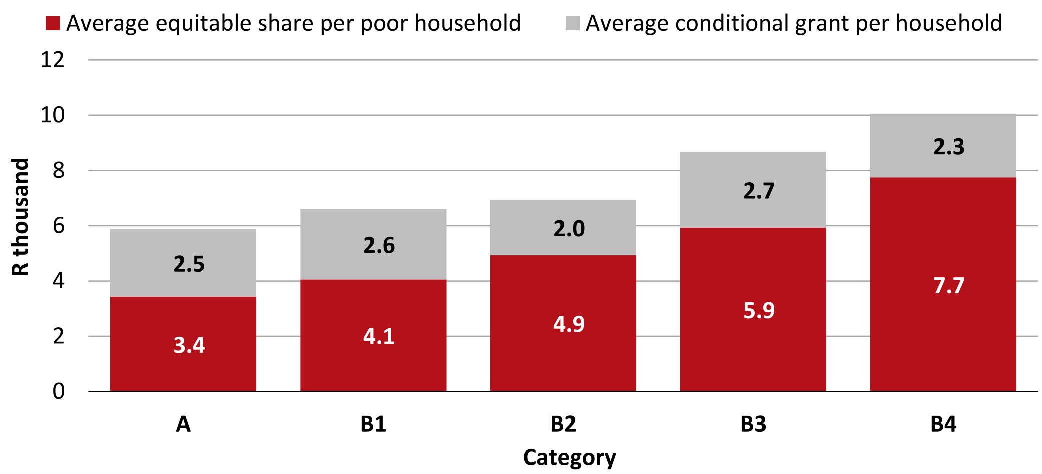
Source: National Treasury

The local government fiscal framework is designed to respond to the constitutional assignment of powers and functions to municipalities, encompassing all resources available to meet their expenditure responsibilities. National transfers form a relatively small portion of this framework, with municipalities primarily relying on their own substantial revenue-raising powers. However, this varies significantly, with poor rural municipalities depending heavily on transfers, while urban municipalities generate most of their own revenue. Consequently, transfers per household to rural municipalities are more than double those to metropolitan municipalities.

However, the dynamics are rapidly shifting. Developments in the energy sector are placing increasing pressure on electricity sales as a key revenue source, even for larger municipalities. This has led to a growing reliance on the fiscus, forcing metros to compete with rural municipalities for limited national revenues. Compounding this are inefficiencies in revenue collection, the affordability of services and rising expenditures, all of which have placed the local government fiscal framework under intense pressure.

As municipalities face these mounting challenges, the framework must adapt to ensure financial sustainability and equitable service delivery across diverse contexts. The evolving energy landscape, coupled with structural inefficiencies, underscores the need for reforms to strengthen the resilience and effectiveness of local government financing.

Figure W1.2 Per household allocations to municipalities, 2025/26*



**Reflects funds allocated through the Division of Revenue Bill. Allocations to district municipalities are re-assigned to local municipalities where possible*
Source: National Treasury

Changes to local government allocations

Several changes to local government allocations proposed in the 2024 MTBPS have been endorsed. Key adjustments include the reprioritisation of R408 million in 2025/26 from the *public transport network grant* to the Taxi Relief Fund to extend the programme, and the reprioritisation of R40 million over the 2025 MTEF period from the *integrated national electrification (Eskom) grant* to complete the National Electrification Master Plan.

Since the tabling of the 2024 MTBPS, several other changes have been proposed. These include:

- Shifting R245 million over the MTEF period from the *municipal infrastructure grant* to the *integrated urban development grant*. This follows Alfred Duma Local Municipality qualifying to participate in the *integrated urban development grant*.
- Shifting R494 million in 2025/26 from the direct component of the *municipal infrastructure grant* to the indirect component to address wastewater infrastructure issues in 21 municipalities.
- Introducing a new *urban development financing grant*. The baseline of this grant is funded from the metro component of the *neighbourhood development partnership grant* (R924 million over the MTEF period) and 80 per cent of the *programme and project preparation support grant* (R981 million over the MTEF period).
- An additional R450 million in 2025/26, from the Public Employment Programme, to the *urban development financing grant* to fund the extension of city-led employment programmes.
- Additional funding from the Budget Facility for Infrastructure that will flow through the *urban development financing grant* as follows:

- City of Johannesburg: R578 million in 2026/27 and R533 million in 2027/28 for a wastewater project.
- eThekwini Metropolitan Municipality: R56 million in 2025/26, R109 million in 2026/27 and R101 million in 2027/28 for a project to address non-revenue water.

• Merging the non-metro component of the *neighbourhood development partnership grant* and the remaining 20 per cent of the *programme and project preparation support grant* into a single grant, with a baseline of R1.4 billion over the MTEF period.

• A reduction of R435 million in 2025/26 and increases of R425 million in 2026/27 and R660 million in 2027/28 to the *public transport network grant* to align with the revised implementation plan and cash flow projections for the City of Cape Town's MyCiTi programme, funded from the Budget Facility for Infrastructure.

• An additional R225 million in 2026/27 to the *regional bulk infrastructure grant* allocation for Drakenstein Local Municipality. This adjustment, carried through from the 2024 Division of Revenue Amendment Act, aligns with the municipality's revised implementation plan and cash flow projections.

• Discontinuing the *municipal systems improvement grant*. Its baseline will be redirected to the Department of Cooperative Governance and earmarked for national government to support municipalities.

The changes to each local government allocation are summarised in Table W1.23.

Table W1.23 Revisions to direct and indirect transfers to local government

R million	2025/26	2026/27	2027/28	2025 MTEF total revisions
Technical adjustments	**-435**	**425**	**660**	**650**
Direct transfers	**-929**	**425**	**660**	**156**
Conditional grants	**-929**	**425**	**660**	**156**
Integrated urban development	76	83	86	245
Municipal infrastructure	-570	-83	-86	-739
Neighbourhood development partnership	-127	-270	-282	-679
Urban development financing	518	678	709	1 905
Public transport network	-435	425	660	650
Programme and project preparation support	-391	-409	-427	-1 227
Indirect transfers	**494**	**–**	**–**	**494**
Municipal infrastructure	494	–	–	494
Additions	**506**	**912**	**634**	**2 052**
Direct transfers	**506**	**912**	**634**	**2 052**
Conditional grants	**506**	**912**	**634**	**2 052**
Urban development financing	506	687	634	1 827
Regional bulk infrastructure	–	225	–	225
Reductions to baselines	**-579**	**-168**	**-175**	**-923**
Direct transfers	**-408**	**–**	**–**	**-408**
Conditional grants	**-408**	**–**	**–**	**-408**
Public transport network	-408	–	–	-408
Indirect transfers	**-171**	**-168**	**-175**	**-515**
Integrated national electrification programme	-20	-10	-10	-40
Municipal systems improvement	-151	-158	-165	-475
Total change to local government allocations				
Change to direct transfers	-831	1 337	1 294	1 800
Change to indirect transfers	323	-168	-175	-21
Net change to local government allocations	**-508**	**1 169**	**1 119**	**1 779**

Source: National Treasury

Having taken these revisions into account, local government allocations increase by R1.8 billion over the 2025 MTEF period. Direct allocations to municipalities over the next three years grow at an average annual rate of 4 per cent. Indirect allocations grow at an average annual rate of 4.9 per cent.

The local government equitable share

In terms of section 227 of the Constitution, local government is entitled to an equitable share of nationally raised revenue to enable it to provide basic services and perform its allocated functions. The local government equitable share is an unconditional transfer that supplements the revenue that municipalities can raise themselves (including revenue raised through property rates and service charges). The equitable share provides funding for municipalities to deliver free basic services to poor households and subsidises the cost of administration and other core services for those municipalities with the least potential to cover these costs from their own revenues.

Over the 2025 MTEF period, the local government equitable share, including the Regional Service Council/Joint Service Board (RSC/JSB) levies replacement grant and the special support for councillor remuneration and ward committees grant, amounts to R332.4 billion (R106.1 billion in 2025/26, R110.7 billion in 2026/27 and R115.7 billion in 2027/28).

Formula for allocating the local government equitable share

The portion of national revenue allocated to local government through the equitable share is determined in the national budget process and endorsed by Cabinet (the vertical division). Local government's equitable share is divided among the country's 257 municipalities, using a formula to ensure objectivity (the horizontal division). The principles and objectives of the formula are set out in detail in the Explanatory Memorandum to the 2013 Division of Revenue.

Structure of the local government equitable share formula

The formula uses demographic and other data to determine each municipality's portion of the local government equitable share. It has three parts, made up of five components:

- The first part of the formula consists of the *basic services component*, which provides for the cost of free basic services for poor households.
- The second part enables municipalities with limited resources to afford basic administrative and governance capacity and perform core municipal functions. It does this through three components:
  - The *institutional component* provides a subsidy for basic municipal administrative costs.
  - The *community services component* provides funds for other core municipal services not included under basic services.
  - The *revenue adjustment factor* ensures that funds from this part of the formula are only provided to municipalities with limited potential to raise their own revenue. Municipalities that are least able to fund these costs from their own revenues should receive the most funding.
- The third part of the formula provides predictability and stability through the *correction and stabilisation factor*, which ensures that all of the formula's guarantees can be met.

Each of these components is described in detail in the sub-sections that follow.

Structure of the local government equitable share formula

$$LGES = BS + (I + CS) \times RA \pm C$$

where

LGES is the local government equitable share
BS is the basic services component
I is the institutional component
CS is the community services component
RA is the revenue adjustment factor
C is the correction and stabilisation factor

The basic services component

This component helps municipalities provide free basic water, sanitation, electricity and refuse removal services to households that fall below an affordability threshold. Following municipal consultation, the formula's affordability measure (used to determine how many households need free basic services) is based on the level of two state old age pensions. When the 2011 Census was conducted, the state old age pension was worth R1 140 per month, which means that two pensions were worth R2 280 per month. A monthly household income of R2 300 per month in 2011 has therefore been used to define the formula's affordability threshold. Statistics South Africa has calculated that 59 per cent of all households in South Africa fall below this income threshold. However, the proportion in each municipality varies widely. In 2025 terms, this monthly income is equivalent to about R4 619 per month.

The threshold is not an official poverty line or a required level to be used by municipalities in their own indigence policies. If municipalities choose to provide fewer households with free basic services than they are funded for through the local government equitable share, then their budget documentation should clearly set out why they have made this choice and how they have consulted with their community during the budget process.

The number of households per municipality, as well as the number below the poverty threshold, is updated annually using the most recent official data available. However, for the 2025 MTEF, the household numbers will not be updated with the outcomes of the 2024 mid-year population estimates (the latest official data published by Statistics South Africa) because the population estimates do not incorporate the 2022 Census results.

This decision was informed by discussions in several intergovernmental forums, including the Local Government Equitable Share Working Group, the Technical Budget Forum, the Technical Committee for Finance and the Budget Forum. These forums collectively agreed to pause the growth of household numbers over the 2025 MTEF period to allow Statistics South Africa to finalise a new data series rebased on the 2022 Census.

As a result, the local government equitable share formula for the 2025 MTEF period will continue to use the 2023/24 household estimates from the 2024 MTEF formula. This approach ensures stability in municipal allocations until the new, Census-rebased data series becomes available.

The proportion of households below the affordability threshold in each municipality is still based on 2011 Census data. This is because the release of the 2023 Income and Expenditure Survey data was delayed, and the data has not been released at the municipal level to enable updates to the local government equitable share formula for the 2025 Division of Revenue Bill. Over the 2025 MTEF period, the subsidy is allocated to 100 per cent of the households below the poverty threshold. In 2025/26, the basic services subsidy will fund 11.2 million households.

The basic services component provides a subsidy of R609.70 per month in 2025/26 for the cost of providing basic services to each of these households. The subsidy includes funding for the provision of free basic water (six kilolitres per poor household per month), energy (50 kilowatt-hours per month) and sanitation and refuse removal (based on service levels defined by national policy). The monthly amount provided for each service is detailed in Table W1.24 and includes an allocation of 10 per cent for service maintenance costs.

Table W1.24 Amounts per basic service allocated through the local government equitable share, 2025/26

	Allocation per household below affordability threshold (R per month)			Total allocation per service (R million)
	Operations	Maintenance	Total	
Energy	135.0	15.0	150.0	20 131
Water	192.4	21.4	213.8	28 681
Sanitation	120.4	13.4	133.8	17 946
Refuse removal	100.9	11.2	112.1	15 044
Total basic services	**548.7**	**61.0**	**609.7**	**81 802**

Source: National Treasury

The formula uses the fairest estimates of the average costs of providing each service that could be derived from available information. More details of how the costs were estimated can be found in the discussion paper on the proposed structure of the new local government equitable share formula, available on the National Treasury website. The per household allocation for each of the basic services in Table W1.24 is updated annually based on the following factors.

The electricity cost estimate is made up of bulk and other costs. Bulk electricity costs will increase by 12.7 per cent in 2025/26 and 5.3 per cent in 2026/27. They are updated based on the bulk multi-year price determination approved by the National Energy Regulator of South Africa for period 6. The increase for the outer year, along with other (non-bulk) electricity costs, is updated based on the National Treasury’s inflation projections in the 2024 MTBPS (4.52 per cent).

The water cost estimate is also made up of bulk and other costs. Bulk water costs are updated based on the average increase in bulk tariffs charged by water boards (although not all municipalities purchase bulk water from water boards, their price increases serve as a proxy for the cost increases for all municipalities). The average increase in tariffs for bulk water from water boards is calculated at 11.1 per cent for 2025/26 and 2026/27. The increase for the outer year and other (non-bulk) water costs are updated based on the National Treasury’s inflation projections in the 2024 MTBPS (4.52 per cent).

The estimated costs for sanitation and refuse removal are updated based on the National Treasury’s inflation projections in the 2024 MTBPS (4.52 per cent).

The basic services component allocation to each municipality is calculated by multiplying the monthly subsidy per household by the updated number of households below the affordability threshold in each municipal area.

The basic services component

BS = basic services subsidy x number of poor households

Funding for each basic service is allocated to the municipality (metro, district or local) that is authorised to provide that service. If another municipality provides a service on behalf of the authorised municipality, it must transfer funds to the provider in terms of section 28 of the Division of Revenue Bill. The basic services component is worth R81.8 billion in 2025/26 and accounts for 83.4 per cent of the value of the local government equitable share formula allocation.

The institutional component

To provide basic services to households, municipalities need to be able to run a basic administration. Most municipalities should be able to fund the majority of their administration costs with their own revenue. But because poor households are unable to contribute in full, the equitable share includes an institutional support component to help meet some of these costs. To ensure that this component supports municipalities with limited revenue-raising abilities, a revenue adjustment factor is applied so that municipalities with less potential to raise their own revenue receive a larger proportion of the allocation. The revenue adjustment factor is described in more detail later in this annexure.

In 2025/26, this component consists of a base allocation of R9 million, and an additional amount that is based on the number of council seats in each municipality. The number of council seats accounts for the councillor numbers that took effect on the date of the 2021 local government elections. This component reflects the relative size of a municipality's administration and is not intended to fund the costs of councillors only (the Minister of Cooperative Governance and Traditional Affairs determines the number of seats recognised for the formula). The base allocation acknowledges that all municipalities have some fixed costs.

The institutional component

I = base allocation + [allocation per councillor x number of council seats]

The institutional component accounts for 6.6 per cent of the local government equitable share formula and is worth R6.5 billion in 2025/26. This component is also complemented by special support for councillor remuneration in poor municipalities, which is not part of the equitable share formula.

The community services component

This component funds services that benefit communities rather than individual households (which are provided for in the basic services component). It includes funding for municipal health services, fire services, municipal roads, cemeteries, planning, stormwater management, street lighting and parks. To ensure this component assists municipalities with limited revenue-raising abilities, a revenue adjustment factor is applied so that these municipalities receive a larger proportion of the allocation.

The allocation for this component is split between district and local municipalities, which both provide community services. In 2025/26, the allocation to district municipalities for municipal health and related services is R13 per household per month. The component's remaining funds are allocated to local and metropolitan municipalities for other services, based on the number of households in each municipality.

The community services component

CS = [municipal health and related services allocation x number of households] + [other services allocation x number of households]

The community services component accounts for 10 per cent of the local government equitable share formula and is worth R9.8 billion in 2025/26.

The revenue adjustment factor

The Constitution gives local government substantial revenue-raising powers (particularly through property rates and surcharges on services). Municipalities are expected to fund most of their own administrative costs and cross-subsidise some services for indigent residents. Given the varied levels of poverty across South Africa, the formula does not expect all municipalities to be able to generate similar amounts of own revenue. A revenue adjustment factor is applied to the institutional and community services components of the formula to ensure that the funds assist municipalities that are least likely to be able to fund these functions from their own revenue.

To account for the varying fiscal capacities of municipalities, this component is based on a per capita index using the following factors from the 2011 Census:

- Total income of all individuals/households in a municipality (as a measure of economic activity and earning).
- Reported property values.
- Number of households on traditional land.
- Unemployment rate.
- Proportion of poor households as a percentage of the total number of households in the municipality.

Based on this index, municipalities were ranked according to their per capita revenue-raising potential. The top 10 per cent of municipalities have a revenue adjustment factor of zero, which means that they do not receive an allocation from the institutional and community services components. The 25 per cent of municipalities with the lowest scores have a revenue adjustment factor of 100 per cent, which means that they receive their full allocation from the institutional and community services components. Municipalities between the bottom 25 per cent and top 10 per cent have a revenue adjustment factor applied on a sliding scale, so that those with higher per capita revenue-raising potential receive a lower revenue adjustment factor and those with less potential have a larger revenue adjustment factor.

The revenue adjustment factor is not based on the actual revenues that municipalities collect. This ensures that this component does not create a perverse incentive for municipalities to under-collect revenue to receive a higher equitable share.

Because district municipalities do not collect revenue from property rates, the revenue adjustment factor applied to these municipalities is based on the *RSC/JSB levies replacement grant* allocations. This grant replaces a source of own revenue previously collected by district municipalities and it is still treated as an own revenue source in many respects. Similar to the revenue adjustment factor for local and metropolitan municipalities, the factor applied to district municipalities is based on their per capita *RSC/JSB levies replacement grant* allocations. District municipalities are given revenue adjustment factors on a sliding scale – those with a higher per capita *RSC/JSB levies replacement grant* allocation receive a lower revenue adjustment factor, while those with lower allocations have a higher revenue adjustment factor.

Correction and stabilisation factor

Providing municipalities with predictable and stable equitable share allocations is one of the principles of the equitable share formula. Indicative allocations are published for the second and third years of the MTEF period to ensure predictability. To provide stability for municipal planning while giving national government flexibility to account for overall budget constraints and amend the formula, municipalities are guaranteed to receive at least 90 per cent of the indicative allocation for the middle year of the MTEF period.

Ensuring the formula balances

The formula is structured so that all of the available funds are allocated. The basic services component is determined by the number of poor households per municipality and the estimated cost of free basic services, so it cannot be manipulated. This means that balancing the formula to the available resources must take place in the second part of the formula, which includes the institutional and community services components. The formula automatically determines the value of the allocation per council seat in the institutional component and the allocation per household for other services in the community services component to ensure that it balances. Increases in the cost of providing basic services can result in lower institutional and community services allocations.

Details of new allocations

In addition to the three-year formula allocations published in the Division of Revenue Bill, a copy of the formula, including the data used for each municipality and each component, is published online (http://mfma.treasury.gov.za/Media_Releases/LGESDiscussions/Pages/default.aspx).

Other unconditional allocations

RSC/JSB levies replacement grant

Before 2006, district municipalities raised levies on local businesses through a Regional Services Council (RSC) or Joint Services Board (JSB) levy. This source of revenue was replaced in 2006/07 with the *RSC/JSB levies replacement grant*, which was allocated to all district and metropolitan municipalities based on the amounts they had previously collected through the levies. The *RSC/JSB levies replacement grant* for metropolitan municipalities has since been replaced by the sharing of the general fuel levy.

The *RSC/JSB levies replacement grant* allocations are based on projected inflation. This allocation methodology will be in place until the Department of Cooperative Governance finalises its review of section 84 of the Municipal Structures Act (1998) to clarify and streamline the powers and functions of district municipalities. The review should inform the development of an appropriate funding model for district municipalities. The grant is allocated R21.6 billion over the 2025 MTEF period and grows at an average annual rate of 4.3 per cent.

Special support for councillor remuneration and ward committees

Councillors' salaries are subsidised in poor municipalities. The total value of the support provided in 2025/26 is R1.1 billion, calculated separately to the local government equitable share and in addition to the funding for governance costs provided in the institutional component. The level of support for each municipality is allocated based on a system gazetted by the Minister of Cooperative Governance and Traditional Affairs, which classifies municipal councils into six grades based on their total income and population size. Special support is provided to the lowest three grades of municipal councils (the smallest and poorest municipalities).

A subsidy of 90 per cent of the gazetted maximum remuneration for a part-time councillor is provided for every councillor in grade 1 municipalities, 80 per cent for grade 2 municipalities and 70 per cent for grade 3 municipalities. In addition to this support for councillor remuneration, each local municipality in grades 1 to 3 receives an allocation to provide stipends of R500 per month to 10 members of each ward committee in their municipality. Each municipality's allocation for this special support is published in the Division of Revenue Bill appendices.

Conditional grants to local government

National government allocates funds to local government through a variety of conditional grants. These grants fall into two main groups: infrastructure and capacity building. The total value of conditional grants directly transferred to local government grows from R53.9 billion in 2025/26 to R56.8 billion in 2026/27 and declines slightly to R56.7 billion in 2027/28.

There are four types of local government conditional grants:

- Schedule 4, part B sets out general grants that supplement various programmes partly funded by municipalities.
- Schedule 5, part B grants fund specific responsibilities and programmes implemented by municipalities.
- Schedule 6, part B grants provide in-kind allocations through which a national department implements projects in municipalities.

- Schedule 7, part B grants provide for the swift allocation and transfer of funds to a municipality to help it deal with a disaster.

Infrastructure conditional grants to local government

National transfers for infrastructure, including indirect or in-kind allocations to entities executing specific projects in municipalities, amount to R186 billion over the 2025 MTEF period.

Table W1.25 Infrastructure grants to local government

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
R million		Outcome		Adjusted budget		Medium-term estimates	
Direct transfers	**42 635**	**48 992**	**47 294**	**50 427**	**52 164**	**55 026**	**54 835**
Integrated urban development	1 009	1 085	1 172	1 146	1 278	1 386	1 449
Municipal disaster recovery	–	3 319	1 335	1 425	709	–	–
Municipal infrastructure	15 593	16 842	16 342	17 054	17 358	19 361	20 236
Informal settlements upgrading partnership	3 945	4 273	4 059	4 515	4 717	4 934	5 157
Urban settlements upgrading	7 405	7 352	7 596	8 705	9 250	9 819	9 327
Energy efficiency and demand-side management	221	223	224	236	246	258	269
Integrated national electrification programme	2 002	2 120	2 032	1 746	1 697	1 655	1 729
Neighbourhood development partnership	1 318	1 293	1 346	1 291	542	430	450
Urban development financing	–	–	–	–	1 024	1 365	1 343
Public transport network	5 175	6 013	6 194	6 523	7 241	8 044	7 099
Rural roads asset management systems	110	115	115	121	126	132	138
Regional bulk infrastructure	2 237	2 656	3 259	3 627	3 757	3 230	3 026
Water services infrastructure	3 620	3 701	3 620	4 038	4 219	4 412	4 611
Indirect transfers	**7 592**	**7 118**	**8 062**	**6 954**	**7 863**	**7 866**	**8 222**
Municipal infrastructure	–	–	–	58	494	–	–
Integrated national electrification programme	2 824	3 588	3 518	2 196	2 274	2 390	2 498
Neighbourhood development partnership	181	190	189	95	99	104	108
Smart meters	–	–	–	500	650	800	836
Regional bulk infrastructure	3 857	2 725	3 240	3 058	3 227	3 232	3 378
Water services infrastructure	730	615	1 114	1 047	1 119	1 341	1 402
Total	**50 227**	**56 110**	**55 356**	**57 381**	**60 027**	**62 892**	**63 057**

Source: National Treasury

Municipal infrastructure grant

The largest infrastructure transfer to municipalities is made through the *municipal infrastructure grant*, which supports government's aim to expand service delivery and alleviate poverty. The grant funds the provision of infrastructure for basic services, roads and social infrastructure for poor households in all non-metropolitan municipalities. The total allocations for this grant amount to R57 billion over the medium term and grow at an average annual rate of 5.9 per cent. The *municipal infrastructure grant* is allocated through a formula with a vertical and horizontal division. The vertical division allocates resources between sectors and the horizontal division takes account of poverty, backlogs and municipal powers and functions in allocating funds to municipalities. The five main components of the formula are described in the box that follows.

Municipal infrastructure grant = C + B + P + E + N

C Constant to ensure a minimum allocation for small municipalities (this allocation is made to all municipalities)

B Basic residential infrastructure (proportional allocations for water supply and sanitation, roads and other services such as street lighting and solid waste removal)

P Public municipal service infrastructure (including sport infrastructure)

E Allocation for social institutions and micro-enterprise infrastructure

N Allocation to the 27 priority districts identified by government

Allocations for the water and sanitation sub-components of the basic services component are based on the proportion of the national backlog for that service in each municipality. Other components are based on the proportion of the country's poor households located in each municipality. The formula considers poor households without access to services that meet sector standards to be a backlog.

Table W1.26 Data used in the municipal infrastructure grant formula

Component	Input for horizontal calculation	Proxy used in 2025 (corresponding with data available from 2011 Census)
B	Number of water backlogs	Water access: Poor households[1] report having access to piped water inside their dwelling, in the yard or within 200 meters of their dwelling
	Number of sanitation backlogs	Sanitation access: Poor households report flush toilet, chemical toilet, pit toilet with ventilation or ecological toilet
	Number of road backlogs	Roads backlog: Number of households
	Number of other backlogs	Refuse access: Poor households report that refuse is mainly removed by local authorities or a private company once a week (urban, traditional and farms). It should be noted that acceptable services standards differ by area. For traditional and farms the following conditions apply: removed by local authority / private company / community members less than once a week, communal refuse dump and communal contained / central collection point. For farms the following further addition applies: own refuse dump
P	Number of poor households	Number of poor households
E	Number of poor households	Number of poor households
N	Number of poor households in nodal areas	Allocated to the 27 priority districts identified by Cabinet as having large backlogs. Allocation is based on total households (not poor households)

1. Poor household defined as a monthly household income of less than R2 300 per month in 2011 Census data
Source: National Treasury

Table W1.27 sets out the proportion of the grant accounted for by each component of the formula. The constant component provides a R5 million base to all municipalities receiving *municipal infrastructure grant* allocations. However, from the 2026 MTEF, this base allocation will be increased in line with inflation to keep up with rising infrastructure costs. This reform emanates from the conditional grants review process, which was concluded in 2024. Please see Part 6 for further details regarding the review.

Table W1.27 Municipal infrastructure grant allocations per sector

Municipal infrastructure grant (formula)	Component weights	Value of component 2025/26 (R million)[1]	Proportion of municipal infrastructure grant per sector
B-component	**75.0%**	**12 240**	**68.6%**
Water and sanitation	72.0%	8 812	49.4%
Roads	23.0%	2 815	15.8%
Other	5.0%	612	3.4%
P-component	**15.0%**	**2 448**	**13.7%**
Sports	33.0%	808	4.5%
E-component	**5.0%**	**816**	**4.6%**
N-component	**5.0%**	**816**	**4.6%**
Constant		**1 080**	**6.0%**
Ring-fenced funding for sport infrastructure		**452**	**2.5%**
Total		**17 851**	**100.0%**

1. Inclusive of the indirect component of the grant
Source: National Treasury

The *municipal infrastructure grant* includes an amount allocated outside of the grant formula and earmarked for specific sport infrastructure projects identified by the Department of Sport, Arts and Culture. These earmarked funds amount to R1.4 billion over the 2025 MTEF period (R452 million in each year of the three-year period). While ringfencing funds can ensure national priorities are addressed, the conditional grants review highlighted its impact on locally determined priorities. Consequently, the review proposes eliminating the ringfencing of the sports component in this grant. This change will enable municipalities to prioritise spending based on local needs identified in their integrated development plans. The recommendation has been shared with the sector, with further discussions planned after the 2025 budget to finalise implementation.

In addition, municipalities are required to spend a third of the P-component (equivalent to 4.5 per cent of the grant) on sport and recreation infrastructure identified in their own integrated development plans. Municipalities are also encouraged to increase their investment in other community infrastructure, including cemeteries, community centres, taxi ranks and marketplaces.

Over the 2025 MTEF period, municipalities will continue to be allowed to use up to 5 per cent of their allocations to fund the development of infrastructure asset management plans. This is intended to build the necessary asset management capabilities in municipalities. It allows for phased-in and systematic reforms to incentivise municipalities to start appropriately budgeting for the repairs and maintenance of municipal infrastructure. To make use of this provision, municipalities must submit a business plan to the Department of Cooperative Governance, accompanied by a copy of their audited asset register.

To support municipalities experiencing project implementation challenges, the Department of Cooperative Governance will continue to use the indirect component of the grant to implement projects on behalf of identified municipalities over the next three years. The indirect component will be R494 million for 2025/26. Further details regarding the criteria that will be used, including the conditions, and the responsibilities of the transferring officer and receiving officer are contained in the grant framework.

Integrated urban development grant

The *integrated urban development grant* is allocated to selected urban local municipalities in place of the *municipal infrastructure grant*. The grant recognises that municipalities differ in terms of their context and introduces a differentiated approach to encourage integrated development in cities.

The grant is intended to:

- Support spatially aligned public infrastructure investment that will lead to functional and efficient urban spaces.
- Enable and incentivise municipalities to invest more non-grant funding in infrastructure projects in intermediate cities.

The grant extends some of the fiscal reforms already implemented in metropolitan municipalities to non-metropolitan cities and is administered by the Department of Cooperative Governance.

Municipalities must meet certain criteria and apply to receive the *integrated urban development grant* instead of the *municipal infrastructure grant* in terms of a process set out in section 26(5) of the Division of Revenue Bill. The qualification criteria cover the following areas:

- Management stability (low vacancy rates among senior management).
- Audit findings.
- Unauthorised, irregular, fruitless and wasteful expenditure.
- Capital expenditure.
- Reporting in terms of the Municipal Finance Management Act.

To remain in the grant, cities must continue to meet or exceed the entry criteria. If they do not do so, they will be placed on a performance improvement plan. If they still do not meet the criteria in the subsequent year, they will shift back to receiving grant transfers through the *municipal infrastructure grant*, which comes with closer oversight and support from national and provincial departments. The base allocations a municipality receives through the *municipal infrastructure grant* and the *integrated urban development grant* will be the same and are determined in terms of the *municipal infrastructure grant* formula described above.

In addition to the basic formula-based allocation, municipalities participating in the *integrated urban development grant* are eligible to receive a performance-based incentive component, which is based on performance against the weighted indicators set out below.

Table W1.28 Performance-based component weighted indicators for integrated urban development grant

Indicators	Purpose	Weight	Scores
Non-grant capital as a percentage of total capital expenditure	Encourage cities to increase their capital investments funded through own revenue and borrowing	40%	1 if 70% or higher 0 if 30% or lower Linear scale in between
Repairs and maintenance expenditure as percentage of operating expenditure	Reward cities that take good care of their existing asset base	30%	1 if 8% or higher
Asset management plan	Must have a plan in place that has been approved by municipal council and updated in the last three years	30%	1 if yes for all three 0 if no for any of the three
Land-use applications in priority areas	Due to the lack of available data, these indicators, which are intended to reward spatial targeting of investment, remain dormant in 2025/26		1 if 50% or higher 0 if 10% or lower
Building plans applications in priority areas	Due to the lack of available data, these indicators, which are intended to reward spatial targeting of investment, remain dormant in 2025/26		Linear scale in between

Source: National Treasury

The conditional grants review highlighted the need to reassess the relevance of certain indicators in the grants incentive component calculation that have remained dormant since the grant's inception due to data limitations. It also identified the need to introduce greater flexibility by allowing intermediate cities more discretion in the use of incentives. These reforms will be discussed after the tabling of the 2025 Budget, with implementation planned from 2026/27.

The total allocations for this grant amount to R4.1 billion over the 2025 MTEF period and grow at an average annual rate of 8.2 per cent. The above-inflation growth rate is due to the inclusion of Alfred Duma Local Municipality as a grant participant over the 2025 MTEF period.

Table W1.29 Formula for integrated urban development grant incentive component

		Performance incentive						
	Planning allocation (R 000)	Non-grant capital as percent-age of total capital spend	Mainten-ance spend	Asset manage-ment plan	Land use and building plans in priority areas	Weighted score	Total incentive (R 000)	Total for incentive and planning (R 000)
Mogale City	–	10%	20%	0%	–	6%	10 780	10 780
Ray Nkonyeni	–	10%	20%	10%	–	8%	14 374	14 374
Alfred Duma	2 278	20%	20%	0%	–	8%	14 374	16 652
uMhlathuze	–	30%	20%	20%	–	14%	25 154	25 154
Polokwane	–	10%	10%	20%	–	8%	14 374	14 374
Steve Tshwete	–	10%	10%	10%	–	6%	10 780	10 780
Sol Plaatje	–	10%	30%	10%	–	10%	17 967	17 967
Drakenstein	–	10%	20%	30%	–	12%	21 561	21 561
Stellenbosch	–	30%	10%	20%	–	12%	21 561	21 561
George	–	20%	20%	30%	–	14%	25 154	25 154
Total	**2 278**					**100%**	**176 081**	**178 359**

Source: Department of Cooperative Governance

Urban settlements development grant

Over the years, the *urban settlements development grant* has been criticised for limiting the amount of discretion provided to municipalities that benefit from it, with the grant being largely associated with housing or human settlements. This has neglected other important municipal functions, such as bulk infrastructure. In 2024/25, the grant framework was amended to emphasise the importance of spending on both new and existing bulk infrastructure. This emphasis remains and will be strengthened through metro trading services reforms over the 2025 MTEF period.

The *urban settlements development grant* serves as an integrated source of funding for infrastructure development in municipal services in the eight metropolitan municipalities. This grant is allocated as a supplementary fund to these cities under schedule 4, part B of the Division of Revenue Bill. Accordingly, the eight metropolitan municipalities are expected to use a combination of grant and own revenue funds to support the development of urban infrastructure and integrated human settlements.

To ensure progress on these projects, cities must report their progress against the set targets in their service delivery and budget implementation plans. From 2019/20, cities have also been required to report in line with the requirements of the Municipal Finance Management Act Circular 88. Consequently, cities report on an agreed set of indicators used by multiple stakeholders to monitor progress on the integrated and functional outcomes instead of reporting separately to each department.

The grant is allocated R28.4 billion over the medium term. This amount includes R2.4 billion from the Budget Facility for Infrastructure for the City of Johannesburg's Lufhereng Mixed Used Development Programme. The allocation per municipality (excluding the Budget Facility for Infrastructure allocations) is based on the *municipal infrastructure grant* formula. Up to 3 per cent of a municipality's allocation may be used to fund municipal capacity in the built environment in line with the Department of Human Settlements' capacity-building guideline.

Informal settlements upgrading partnership grant

Upgrading informal settlements remains a priority over the medium term. The *informal settlements upgrading partnership grant* is allocated R4.7 billion in 2025/26, R4.9 billion in 2026/27 and R5.2 billion in 2027/28. Upgrading informal settlements is an inclusive process through which informal residential areas are incrementally improved, formalised and incorporated into the city or neighbourhood by extending land tenure security, infrastructure and services to residents of informal settlements. This grant requires cities to work in partnership with communities to develop and complete their strategies for such upgrades.

Programme and project preparation support grant

The *programme and project preparation support grant* ceases to exist in its current form from 2025/26. This emanates from the conditional grants review, which recommended rationalising several conditional grants to address duplication and mitigate the unintended consequences associated with the proliferation of grants and for better alignment. Over the MTEF period, R245 million from the *programme and project preparation support grant* will be merged into the newly redesigned *neighbourhood development partnership grant*, with a specific focus on non-metropolitan municipalities. Meanwhile, R981 million from this grant will be allocated to the new *urban development finance grant*, which will target metropolitan municipalities.

Public transport network grant

The *public transport network grant*, administered by the Department of Transport, helps cities create or improve public transport systems in line with the National Land Transport Act (2009) and the Public Transport Strategy. This includes all integrated public transport network infrastructure, such as bus rapid transit systems, conventional bus services and pedestrian and cycling infrastructure. The grant also subsidises the operation of these services.

Following the conditional grants review, the allocation methodology for this grant has been amended to augment the incentive component, which has only accounted for 5 per cent of the grant baseline since the introduction of the formula in 2016/17. This change allows for more allocative efficiency as a larger portion of the grant will now be based on performance.

The grant is allocated R22.4 billion over the medium term. Allocations are still largely determined through a formula, accounting for 90 per cent of the baseline. This is to give continued certainty about the extent of national funding that municipalities can expect when planning their public transport networks and encourages cities to make more sustainable public transport investments.

The performance-based incentive component accounts for the remaining 10 per cent of the baseline. To qualify for an allocation from the performance incentive, a city must have an operational municipal public transport system approved by the national Department of Transport and it must have spent more than 80 per cent of its grant allocation in the previous financial year. Incentive allocations are calculated based on the coverage of costs from fares, passenger trips and the city's own financial commitment to the system. Cities must exceed the minimum threshold in at least two of these three indicators.

The calculation of the performance incentive allocations for 2025/26 is set out in Table W1.30. The raw scores for the cities are weighted using the sum of the base and formula components to account for the size of the city.

Table W1.30 Public transport network grant

	Oper-ational public transport system	Grant spent in 2023/24	Eligible for incentive	Coverage of direct costs from farebox	Average weekday passenger trips (% of population)	City's contri-bution (% of property rates)	Raw scores for incentive	Incentive allocation for 2025/26 (R 000)
Minimum threshold								
City of Cape Town	Yes	83%	Yes	0.9%	1.5%	0.0%	0.38	415 759
City of Johannesburg	Yes	58%	No	0.0%	0.0%	0.0%	–	–
City of Tshwane	Yes	87%	Yes	0.0%	0.0%	0.0%	–	–
Ekurhuleni	Yes	87%	Yes	0.0%	0.0%	0.0%	–	–
eThekwini	No	49%	No	0.0%	0.0%	0.0%	–	–
George	Yes	125%	Yes	0.0%	9.0%	2.4%	0.62	117 848
Mangaung	No	12%	No	0.0%	0.0%	0.0%	–	–
Msunduzi	No	0%	No	0.0%	0.0%	0.0%	–	–
Nelson Mandela Bay	Yes	20%	No	0.0%	0.0%	0.0%	–	–
Polokwane	Yes	67%	No	0.0%	0.0%	0.0%	–	–
Rustenburg	Yes	228%	Yes	0.0%	0.0%	0.0%	–	–
Total							**1.00**	**533 607**

Source: National Treasury

During 2020/21, three cities were suspended from receiving this grant due to having been in the planning phase since the grant's introduction in the 2006 MTEF period. Msunduzi Local Municipality was among these cities but has since demonstrated notable progress in implementing its integrated public transport network plan, with the goal of making its system operational over the medium term. As a result, the Department of Transport began to gradually reintroduce the municipality into the grant from 2024/25. As determined outside of the formula, the municipality has been allocated R300 million over the medium term.

In the formula for the grant, a base component accounts for 20 per cent of total allocations and is divided equally among all participating cities – this ensures that smaller cities in particular have a significant base allocation to run their transport system regardless of their size. A portion of the City of Johannesburg's and eThekwini Metropolitan Municipality's base allocations for 2025/26 are reprioritised to fund the phased-in re-entry of Msunduzi Local Municipality. The bulk of the formula (70 per cent) is allocated based on three demand-driven factors, which account for the number of people in a city, the number of public transport users in a city (the weighting of train commuters is reduced as trains are subsidised separately through the Passenger Rail Agency of South Africa) and the size of a city's economy.

Table W1.31 sets out how the final allocation for each municipality is determined, taking account of both the formula and incentive component.

Table W1.31 Formula for the public transport network grant

	Base 20%	Demand-driven factors 70%					100%
	Equally shared[1]	Population component shares	Regional gross value added component shares	Public transport users component shares	Subtotal: base and demand-driven factors	Performance 10%	Grant allocations [2] (R 000)
City of Cape Town	10.0%	17.8%	16.8%	15.1%	15.1%	415 759	**972 486**
City of Johannesburg	5.5%	21.1%	26.9%	22.3%	19.4%	-	**972 942**
City of Tshwane	10.0%	13.9%	16.0%	15.2%	13.9%	-	**696 253**
Ekurhuleni	10.0%	15.1%	10.1%	16.2%	13.0%	-	**649 286**
eThekwini	5.5%	16.4%	16.9%	19.6%	14.9%	-	**746 609**
George	10.0%	0.9%	0.5%	0.3%	2.6%	117 848	**250 300**
Mangaung	10.0%	3.6%	2.5%	3.5%	4.7%	-	**235 430**
Msunduzi	9.0%	0.0%	0.0%	0.0%	2.0%	-	**100 000**
Nelson Mandela Bay	10.0%	5.5%	5.0%	3.9%	6.0%	-	**298 225**
Polokwane	10.0%	3.0%	1.6%	1.4%	3.8%	-	**189 331**
Rustenburg	10.0%	2.6%	3.7%	2.5%	4.5%	-	**225 211**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**533 607**	**5 336 074**

1. Equally shared among 8 of the 11 cities. A portion of the City of Johannesburg and eThekwini's base allocations for 2025/26 is reprioritised to fund the phased-in re-entry of Msunduzi Local Municipality
2. Excludes additional funds for the City of Cape Town allocated through the Budget Facility for Infrastructure
Source: National Treasury

The baseline of this grant includes R4.4 billion over the medium term to complete Phase 2A of the City of Cape Town's MyCiTi public transport network, linking the underserved areas of Khayelitsha and Mitchells Plain to the city centre. This project is funded through the Budget Facility for Infrastructure.

Neighbourhood development partnership grant

The *neighbourhood development partnership grant* (NDPG) will be redesigned from 2025/26, merging the non-metro component of the NDPG with a portion of the *programme and project preparation support grant* into a single grant, still called the NDPG. The grant will be phased out over the 2025 MTEF period, with its focus now on completing all projects at various stages of development and implementation. No new projects will be initiated. The redesigned grant will aim to identify, plan and invest in strategic locations in non-metropolitan municipalities to attract and sustain third-party capital investments for spatial transformation. It will also develop a pipeline of investment-ready capital projects by establishing an efficient system for programme and project preparation.

The metro component of the NDPG and a portion of the *programme and project preparation support grant* will transition to the new *urban development financing grant* in 2025/26, focusing exclusively on metropolitan municipalities. Once existing projects are completed, funds will be redirected to enhance incentives for trading services reforms under the *urban development financing grant*. The indirect NDPG will be integrated into the National Treasury's budget baseline, ensuring that allocations remain earmarked for their original purpose.

A total of R1.7 billion has been allocated to the NDPG over the 2025 MTEF period to support the phased transition and alignment with broader urban development objectives. This amount is made up of R1.4 billion for the direct component and R311 million for the indirect technical assistance component.

The technical assistance funding will assist in enhancing the capabilities of both metropolitan and non-metropolitan local municipalities to prepare infrastructure project pipelines. Enhanced capacity at the national and local municipality level will be required to drive the changes identified by conditional grant reviews to ensure efficiency.

Urban development financing grant

The National Treasury will introduce the *urban development financing grant* in 2025/26 to support spatially targeted urban development, strengthen the project preparation system for infrastructure and address declining service delivery in metropolitan municipalities caused by underinvestment in infrastructure and a lack of technical expertise. This grant consolidates previous urban grants and aims to boost investment in resilient infrastructure, improve urban services and promote financial sustainability in metros.

The grant will be administered through three components:

- **Metro trading services:** Focuses on improving water, electricity and waste management services by linking funding to performance milestones such as governance reforms, service delivery improvements and financial transparency that will create an enabling environment for municipalities to increase investment in infrastructure through loan finance.
- **Neighbourhood development partnership:** Supports targeted investments in strategic locations to attract third-party capital and promote spatial transformation.
- **Programme and project preparation:** Develops a pipeline of investment-ready capital projects by institutionalising efficient systems for project preparation.

Over the 2025 MTEF period, R3.7 billion has been allocated to the grant to support sustainable urban development and improve service delivery outcomes in South Africa's metropolitan municipalities. This amount includes R450 million in 2025/26 to the neighbourhood development partnership component to fund the Cities Public Employment Programme, which will target informal settlements upgrading and waste-related issues, as well as R56 million as viability gap funding for the implementation of a project to address non-revenue water in eThekwini Metropolitan Municipality.

The grant also extends fiscal reforms to metro trading services, incentivising efficient operations and enabling access to loan finance. Performance will be monitored through key indicators covering institutional, financial and operational reforms. Over the medium term, the fiscal framework provides for a provisional allocation of R8.5 billion as the financial incentive for municipalities to implement these changes, with allocations for 2025/26 to be confirmed in the 2025 adjustments budget. Municipalities need to meet the conditions of having Council-approved plans and clean or qualified financial audits to be eligible for funding. Non-compliant metros will lose funding access but can rejoin on meeting the conditions. Allocations will prioritise water (40 per cent), electricity (20 per cent) and waste (10 per cent), with flexibility for metros to set priorities.

Regional bulk infrastructure grant

This grant supplements the financing of the social component of regional bulk water and sanitation infrastructure. It targets projects that cut across several municipalities or large bulk projects within one municipality. The grant funds the bulk infrastructure needed to provide reticulated water and sanitation services to individual households. It may also be used to appoint service providers to carry out feasibility studies, related planning or management studies for infrastructure projects.

This grant has a direct and indirect component. In areas where municipalities have the capacity to implement projects themselves, funds are transferred through a direct component. In other areas, the Department of Water and Sanitation implements projects on behalf of municipalities through an indirect component. A parallel programme, funded by the Department of Water and Sanitation, also funds water boards for the construction of bulk infrastructure. Though not part of the division of revenue, these projects still form part of the Department of Water and Sanitation’s larger programme of subsidising the construction of regional bulk infrastructure for water and sanitation.

The direct component of the grant is allocated R10 billion over the 2025 MTEF period. This amount includes amounts from the Budget Facility for Infrastructure over the medium term. Sol Plaatje Local Municipality is allocated R1.6 billion over the medium term to refurbish and renew old water supply infrastructure. Drakenstein Local Municipality is allocated R490 million in 2025/26 and R225 million in 2026/27 to upgrade sanitation infrastructure. Nelson Mandela Bay Metropolitan Municipality is allocated R390 million in 2025/26 to avert the water supply crisis caused by the ongoing drought. The programme includes fixing water leaks, upgrading the water treatment works, exploring and developing boreholes, and upgrading a bulk water pipeline.

The indirect component of this grant is allocated R9.8 billion over the 2025 MTEF period.

Water services infrastructure grant

This grant, administered by the Department of Water and Sanitation, aims to accelerate the delivery of clean water and sanitation facilities to communities that do not have access to basic water services. It provides funding for various projects, including the construction of new infrastructure and the refurbishment and extension of existing water schemes. This grant has a direct and indirect component. In areas where municipalities have the capacity to implement projects themselves, funds are transferred through a direct component. In other areas, the Department of Water and Sanitation implements projects on behalf of municipalities through the indirect component.

Over the 2025 MTEF period, the direct component of this grant is allocated R13.2 billion and the indirect component is allocated R3.9 billion.

Integrated national electrification programme grants

These grants aim to provide capital subsidies to municipalities to provide electricity to poor households and fund bulk infrastructure to ensure a constant supply of electricity. Allocations are based on the backlog of households without electricity and administered by the Department of Electricity and Energy. These grants only fund bulk infrastructure and alternative energy technologies that serve poor households. Recent census data from 2022 indicates that the national electrification programme has been successful in providing electricity access to 95 per cent of poor households. This is a notable increase from the 91 per cent documented in the 2016 Community Survey and the 85 per cent documented in the 2011 Census. To sustain this progress, government will spend R12.2 billion on the programme over the 2025 MTEF period.

The integrated national electrification programme (municipal) grant is allocated R5.1 billion over the 2025 MTEF period. The integrated national electrification programme (Eskom) grant is allocated R7.2 billion over the medium term.

Energy efficiency and demand-side management grant

The *energy efficiency and demand-side management grant* provides selected municipalities with funds to implement projects focused on public lighting, traffic lights and energy-efficient municipal infrastructure such as wastewater treatment works and pump stations. This grant also enables municipalities to use funding for planning and preparing for the Energy Efficiency in Public Infrastructure and Building Programme, which aims to create a market for private investment in the large-scale retrofitting of municipal infrastructure, with repayment made through the achieved energy cost savings. Such an approach has the potential to unlock much-needed energy and cost savings on a large scale. Furthermore, municipalities can use 15 per cent of this grant funding to develop a project pipeline and strengthen the market for energy companies offering retrofitting services.

Expanding energy-efficiency retrofits is a critical component of achieving the objectives outlined in the National Climate Change Response Strategy and the United Nations Framework Convention on Climate Change. The approach also supports municipalities in accessing donor financing. The grant has been allocated R773 million over the medium term and is projected to grow at an average annual rate of 4.5 per cent.

Rural roads asset management systems grant

The Department of Transport administers the *rural roads asset management systems grant.* The grant funds the collection of data on the condition and usage of rural roads in line with the Road Infrastructure Strategic Framework for South Africa. This information guides investments to maintain and improve these roads. District municipalities collect data on all the municipal roads in their area, ensuring that infrastructure spending (from the *municipal infrastructure grant* and elsewhere) can be properly planned to maximise impact. As data becomes available, incentives will be introduced to ensure that municipalities use this information to plan road maintenance appropriately.

The Department of Transport will continue to work with the *municipal infrastructure grant* administrators to ensure that municipal roads projects are chosen, prioritised and approved using roads asset management systems data wherever possible. The conditional grants review proposes merging the *rural roads asset management systems grant* with the roads component of the *municipal infrastructure grant* to better allow for this required interface. This grant is allocated R396 million over the 2025 MTEF period.

Municipal disaster recovery grant

After the initial response to a disaster has been addressed, including through funding from the *municipal disaster response grant* discussed below, repairing damaged municipal infrastructure is funded through the *municipal disaster recovery grant*. This grant is allocated R709 million over the 2025 MTEF period for municipalities in the Eastern Cape, KwaZulu-Natal, Limpopo and Mpumalanga to fund the repair and reconstruction of municipal infrastructure damaged by disaster incidents that occurred in 2023.

Capacity-building grants and other current transfers

Capacity-building grants help develop municipalities' management, planning, technical, budgeting and financial management skills. Other current transfers include the *EPWP integrated grant for municipalities*, which promotes increased labour intensity in municipalities, and the *municipal disaster response grant*. A total of R5.4 billion is allocated to capacity-building grants and other current transfers to local government over the medium term.

Table W1.32 Capacity building and other current grants to local government

R million	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Outcome			Adjusted budget	Medium-term estimates		
Direct transfers	**2 204**	**2 434**	**2 661**	**2 072**	**1 725**	**1 804**	**1 885**
Municipal disaster response	330	517	873	378	395	413	432
Municipal emergency housing	66	53	–	–	–	–	–
Infrastructure skills development	155	159	151	165	173	181	189
Local government financial management	552	566	569	582	590	617	645
Programme and project preparation support	341	361	319	386	–	–	–
Expanded public works programme integrated grant for municipalities	759	778	749	560	567	593	620
Indirect transfers	**46**	**64**	**147**	**173**	**–**	**–**	**–**
Municipal systems improvement	46	64	147	173	–	–	–
Total	**2 250**	**2 498**	**2 807**	**2 245**	**1 725**	**1 804**	**1 885**

Source: National Treasury

Local government financial management grant

The *local government financial management grant*, managed by the National Treasury, funds the placement of financial management interns in municipalities over a multi-year period, with the aim of retaining their skills. This includes building in-house municipal capacity to implement multi-year budgeting, linking integrated development plans to budgets and producing quality and timely in-year and annual reports. This grant prioritises supporting municipalities with challenges in processes, procedures and systems to effectively implement the Municipal Finance Management Act and to improve compliance and areas of weakness identified in the financial management capability maturity model. The grant also provides funds for the implementation of the municipal standard chart of accounts. Over the 2025 MTEF period, R1.9 billion is allocated to this grant, with an allocation of R590 million in 2025/26, R617 million in 2026/27 and R645 million in 2027/28.

The conditional grants review highlighted the importance of a unified approach to capacity building by streamlining existing initiatives within the National Treasury and leveraging best practices. Over the 2025 MTEF period, the National Treasury will explore consolidating its financial management support initiatives – the *local government financial management grant*, the Municipal Finance Improvement Programme and the Municipal Revenue Management Improvement Programme – into a single, integrated programme tentatively referred to as the Local Government Financial Management Capability Programme. Further details on the consolidated programme are provided in Part 6.

Infrastructure skills development grant

The *infrastructure skills development grant* develops capacity within municipalities by creating a sustainable pool of young professionals with technical skills in areas such as water, electricity and town planning. The grant places interns under the relevant supervision in municipalities or entities so that they can complete the requirements of the relevant statutory council within their respective built environment fields. The interns can be hired by any municipality at the end of their internship. The grant aims to collaborate with other sectors, such as the Department of Water and Sanitation and the Department of Cooperative Governance, with the primary objective of improving *infrastructure skills development grant* services. A memorandum of agreement must be established in instances where a graduate is placed in another entity (private or public). The grant is allocated R542 million over the 2025 MTEF period, with an allocation of R173 million in 2025/26, R181 million in 2026/27 and R189 million in 2027/28.

Municipal systems improvement grant

The *municipal systems improvement grant* funds a range of projects in municipalities in support of the implementation of the district development model approach and the back to basics strategy, including helping municipalities set up adequate record management systems, drawing up organograms for municipalities and reviewing their appropriateness relative to their assigned functions, implementing the Integrated Urban Development Framework and assisting municipalities with revenue collection plans and the implementation of the municipal standard chart of accounts. From 2025/26, this grant will cease to exist as funds are shifted to the vote of the Department of Cooperative Governance. This reform aims to improve overall effectiveness and allow greater flexibility in resource allocation and spending efficiency. The funding will be earmarked to ensure continued prioritisation of the grant's original intent of optimising municipal systems improvements.

EPWP integrated grant for municipalities

This grant promotes the use of labour-intensive methods in delivering municipal infrastructure and services. To determine eligibility for funding, municipalities must have reported performance on the EPWP, including performance in the infrastructure, social and environment and culture sectors and on the full-time equivalent jobs created in these sectors in the last 18 months. A formula then determines allocations based on this performance as well as the labour intensity of the work opportunities created. The number of bands in which labour intensity is recorded in the formula has been expanded from seven to eight, providing an incentive for labour-intense projects to further increase their intensity. The formula is weighted to give larger allocations to rural municipalities. The grant is allocated R1.8 billion over the 2025 MTEF period, with an allocation of R567 million in 2025/26, R593 million in 2026/27 and R620 million in 2027/28.

Municipal disaster response grant

The *municipal disaster response grant* is administered by the National Disaster Management Centre in the Department of Cooperative Governance as an unallocated grant to local government. The centre is able to disburse disaster-response funds immediately, without the need for the transfers to be gazetted first. The grant supplements the resources local government would have already used in responding to disasters. To ensure that sufficient funds are available in the event of disasters, section 20 of the Division of Revenue Bill allows for funds allocated to the *provincial disaster response grant* to be transferred to municipalities if funds in the municipal grant have already been exhausted, and vice versa. The Bill also allows for more than one transfer to be made to areas affected by disasters, so that initial emergency aid can be provided before a full assessment of damages and costs is conducted.

Over the 2025 MTEF period, R1.2 billion is available for disbursement through this grant: R395 million in 2025/26, R413 million in 2026/27 and R432 million in 2027/28. The grant increases by an average annual rate of 4.5 per cent over the 2025 MTEF period.

To ensure that sufficient funds are available to respond to disasters, section 20(7) of the Division of Revenue Bill allows funds from other conditional grants to be reallocated for this purpose, subject to the National Treasury's approval.

Smart meters grant

The National Treasury administers the *smart meters grant* as an indirect grant through a transversal contract to manage distribution quality and costs. The purpose of this grant is to provide better efficiency in energy provision and the integration of renewable energy to meet consumer demands. Smart grid technologies can also help municipalities protect existing revenue and optimise overall revenue collection from their existing bases. As such, the grant will continue to prioritise the initial capital outlay and operational expenditure.

Over the 2025 MTEF period, the grant will continue to complement the municipal debt to Eskom relief measures by targeting municipalities already part of the programme. The grant is expected to progressively extend across municipalities to help improve financial sustainability and management.

A total of R2.3 billion has been allocated towards this grant: R650 million in 2025/26, R800 million in 2026/27 and R836 million in 2027/28.

PART 6: FUTURE WORK ON PROVINCIAL AND MUNICIPAL FISCAL FRAMEWORKS

Evolving fiscal frameworks for a dynamic intergovernmental system

The fiscal frameworks for provincial and local government represent the cornerstone of their ability to deliver on their mandates, encompassing all revenue sources and expenditure responsibilities. As the social and economic landscape shifts and the assignment of intergovernmental functions evolves, these frameworks must adapt to remain fit for purpose. The National Treasury, in collaboration with key stakeholders, undertakes rigorous reviews to ensure an equitable and sustainable balance between the revenue streams available to provinces and municipalities and their expenditure obligations. These reviews are guided by the principles of predictability, stability and responsiveness, while remaining cognisant of the finite resources available.

This section of the annexure outlines the critical areas of focus for the 2025/26 MTEF period as part of the ongoing refinement of the intergovernmental fiscal framework. The work ahead will ensure that the framework continues to support effective governance and service delivery while addressing emerging challenges. Provinces and municipalities will be fully engaged throughout the process, ensuring that all proposed changes are informed by their insights and aligned with the needs of the communities they serve.

Cross-cutting reforms

Review of the conditional grants system

In September 2024, government concluded a comprehensive review of the conditional grant system and developed reforms based on the findings. These reforms, which will be implemented progressively over the next three years, are designed to rationalise the conditional grant framework, integrate certain grants into the provincial equitable share and enhance the overall effectiveness of the system. This initiative underscores government's commitment to improving service delivery while ensuring the prudent management of public resources.

The review process was underpinned by an extensive consultation phase conducted between July and December 2024 during which the National Treasury presented the findings and recommendations arising from the review. While most of the proposed reforms are intended for medium- to long-term implementation, a select number of reforms have been prioritised for the short term and will be introduced during the 2025 MTEF period. These short-term reforms are detailed in parts 4 and 5 of this document under the relevant conditional grants.

Further consultations are planned to follow the tabling of the 2025 Budget, with a focus on reforms earmarked for medium- to long-term implementation. These engagements will include impact assessments and preparatory work to ensure the successful rollout of the proposed changes. The reforms aim to address systemic challenges within the grant system and are guided by the principles of equity, efficiency and sustainability. Key areas of reform include the following:

Enhancing differentiation and effectiveness in the grant system

A central objective of the reforms is to introduce greater differentiation within the grant system to address the diverse needs of municipalities. This includes reducing the growing reliance on grants by metropolitan municipalities while providing targeted support to municipalities with limited capacity. By addressing service delivery challenges and locational disparities, the reforms aim to create a more responsive and equitable system. Specific measures under this initiative include refining allocation methodologies to balance equity and efficiency considerations, strengthening co-funding requirements to promote shared responsibility and sustainability, reducing restrictive earmarking and ring-fencing to allow for greater flexibility in the use of funds, introducing or enhancing performance-based incentives to drive accountability and improve outcomes, and improving the alignment of related grants to reduce fragmentation and duplication.

Rationalising the number of grants

As part of the reforms, the number of conditional grants allocated to subnational governments will be streamlined to address the duplication of grants and mitigate the administrative burdens associated with the proliferation of funding streams. By simplifying the grant system, government aims to improve efficiency and reduce reporting requirements, enabling municipalities to focus on service delivery. Proposed measures include:

- Merging water reticulation grants to create a unified funding mechanism for water infrastructure.
- Consolidating energy grants to streamline support for energy-related projects.
- Combining urban development grants to enhance the coordination of urban infrastructure investments.
- Discontinuing grants that are better suited as provincial programmes, such as those for road maintenance, sports development and capacity-building initiatives.

These reforms represent a decisive step towards a more efficient and effective intergovernmental fiscal framework. By addressing systemic inefficiencies and aligning resources with service delivery priorities, government reaffirms its commitment to fostering sustainable development and improving the quality of life for all citizens. The implementation of these reforms will be closely monitored to ensure that they achieve their intended objectives while maintaining fiscal discipline and accountability.

Review of the disaster management system

Government is implementing a multipronged approach to strengthen disaster management systems, addressing immediate challenges while building long-term resilience. To improve the assessment and allocation of disaster response funding, the Development Bank of Southern Africa has been contracted to assist in reviewing current processes. For the 2025 MTEF, R12.1 billion is required to address backlog disaster funding and in-year requests, including R10.3 billion for disaster response and R1.8 billion for emergency housing. Simultaneously, the National Disaster Management Centre is leading a review of the national disaster management system, supported by a synthesis report and benchmarking against international best practices by the Department of Planning, Monitoring and Evaluation. These efforts aim to address inefficiencies, improve resource allocation and ensure that disaster management is mainstreamed into the Medium-Term Strategic Framework, embedding risk reduction into future planning processes.

Recognising the growing risks posed by climate change, government is shifting from reactive to proactive disaster management. The National Treasury and the National Disaster Management Centre are reviewing disaster funding systems to prioritise preparedness and long-term resilience, particularly for protracted disasters like droughts. Reforms to local government conditional grants in the built environment will further support disaster risk reduction by incentivising asset maintenance, infrastructure resilience and comprehensive preparedness. These measures aim to reduce vulnerabilities, improve land and environmental management and streamline decision-making processes. By embedding disaster risk reduction into planning and funding mechanisms, government is laying the foundation for a more sustainable and resilient future, ensuring that disaster management becomes an integral part of governance across all spheres.

To complement these efforts, the National Treasury has developed a Disaster Risk Financing Strategy to address the financial challenges posed by climate-induced disasters. This strategy adheres to the “build back better” principle and focuses on three key areas. First, effective finance mobilisation through tailored risk financing strategies, enhanced legislation and partnerships with financial institutions. Second, improved fund distribution by streamlining grant mechanisms, eliminating inefficiencies and decentralising response systems to include non-governmental organisations and the private sector for rapid aid delivery. Third, enhanced data collection through strengthened municipal asset registries and collaboration with the insurance sector to leverage claims data for better budgeting and risk management. Together, these reforms aim to create a resilient financial framework that supports effective disaster response, recovery and long-term risk reduction.

Review of the provincial fiscal framework

Review of the provincial equitable share formula

The Constitution mandates that provinces receive a share of nationally raised revenue to fulfil their service delivery responsibilities. This allocation is determined through the provincial equitable share formula, which is designed to reflect government priorities, address inequality and account for the varying service delivery burdens across provinces. The formula includes weighted elements that are periodically reviewed to ensure they remain relevant and effective in achieving their intended objectives. However, over the years, several items have been allocated outside the formula, and these will need to be reviewed to prevent them from diluting the impact of the provincial equitable share. The intention is to seek an endorsement from the Technical Committee for Finance to review these items, ensuring that the formula remains robust and aligned with its purpose.

The ongoing review of the provincial equitable share formula, led by the provincial equitable share task team comprising representatives from the National Treasury and provincial treasuries, has already achieved significant progress.

More recently, the National Treasury, in collaboration with the Department of Basic Education and Statistics South Africa, has continued to explore options available to improve the current structure of the education component. The education component has two subcomponents, school enrolment and the school-going age. The school enrolment data is sourced from the Learner Unit Record Information Tracking System (LURITS), while the school-going-age population (5-17) is sourced from the mid-year population estimates published by Statistics South Africa.

The proposed reforms to the enrolment subcomponent consist of two changes. The first is including learners with special needs from special needs centres into the enrolment numbers as they are currently not accounted for. This is a legacy of the way data was made available in the old SNAP survey, in which data on special needs schools was not presented together with data on ordinary schools. The second change is to the structure of the subcomponent to ensure that there is differentiation among learners. The redesigned enrolment subcomponent addresses this by assigning a higher weight to learners from a poor background than learners who are better off.

The proposed reforms are envisaged to be implemented in the 2026 MTEF. This is because the latest data on the Income and Expenditure Survey, which is required to update the quintile table used to categorise learners, is outstanding. The income and expenditure data will only be published in January 2025, which is too late for the annual provincial equitable share technical updates.

Preparing for national health insurance implementation

Certain provisions of the National Health Insurance Act (2023) have been challenged in the Constitutional Court, including concerns about the usurpation of provincial powers and the shifting of health functions from provinces without following the due process for function shifts. The outcome of this court process is expected to provide clarity on the intergovernmental and funding arrangements for the NHI, enabling greater agility in how the act is implemented. This legal determination will be pivotal in shaping the division of responsibilities across the three spheres of government and ensuring that the implementation process adheres to constitutional principles.

The funding model for the NHI will also be informed by the envisaged role of municipalities outlined in the act. This aspect remains subject to extensive consultation with the local government sector, given the significant implications for municipal health services and their integration into the broader NHI framework.

Preparatory work towards the progressive implementation of the NHI will continue, including strengthening the health system through strategic purchasing, piloting provider payment mechanisms and expanding the national insurance beneficiary registry. The quality improvement initiative, funded through the health systems component of the *NHI indirect grant*, will support health facilities in meeting the standards required for NHI accreditation. These efforts, combined with the clarity expected from the Constitutional Court, will guide the phased and consultative implementation of the NHI, ensuring alignment with constitutional mandates and the needs of all spheres of government.

Review of the local government fiscal framework

Refinements to the local government equitable share formula

Government remains committed to refining the local government equitable share formula to ensure it is responsive, equitable and aligned with the diverse needs of municipalities. The Budget Forum has approved a comprehensive programme of action to guide this work, including the terms of reference for the review and the initiation of a procurement process to secure expertise for the detailed technical work. This review will address methodological flaws and incorrect narratives that have emerged, which are based on inaccurate data and assumptions. By grounding the review in credible data and robust methodologies, government aims to strengthen the formula’s credibility and effectiveness.

Key areas of focus include improving the formula’s responsiveness to the distinct functions assigned to district and local municipalities. This requires accurate and credible records of functional assignments, which remain a challenge. Ongoing policy and administrative work by the National Disaster Management Centre, particularly in fire services, could enhance the targeting of funding for these critical functions. Additionally, the review will update the calculation of special support for councillor remuneration, which is provided to small and poor municipalities. The data used to determine eligibility for this support will be updated to ensure fairness and accuracy.

Over the 2025 MTEF period, the National Treasury, supported by the working group comprising the Department of Cooperative Governance, SALGA, the FFC and Statistics South Africa, will undertake several targeted reforms. These include reviewing the basic services component to explore the introduction of a cost differential model that accounts for factors such as distances, topography and settlement types. The community services component will be refined to include a separate allocation for municipal health services and an explicit sub-component for firefighting functions. For the institutional component, the review will develop objective criteria to benchmark municipalities’ administrative functions and explore policy options for financing infrastructure in small and rural municipalities. These reforms will ensure that the local government equitable share formula remains fit for purpose, equitable and responsive to the evolving needs of local government.

Reforms to local government own revenue sources

Municipal own revenue is a critical component of the local government fiscal framework, as it enables municipalities to exercise financial autonomy, respond to local priorities and ensure sustainable service delivery. Unfortunately, the challenges of low revenue collection, inefficiencies and fiscal leakages make it increasingly difficult for municipalities to meet the demands of a rapidly urbanising population and support growth. The National Treasury continues to play an active role by exploring alternative financing options for municipalities with higher revenue bases to supplement conventional infrastructure funding sources. The National Treasury is committed to implementing the reforms outlined below to address these challenges.

I) Norms and standards for electricity surcharges

The National Treasury is taking steps to develop compulsory national norms and standards for regulating municipal surcharges on electricity and to identify alternative sources of revenue that can replace or supplement these surcharges.

The process municipalities need to follow to levy surcharges remains unclear, which has led to some municipalities being legally challenged when imposing these surcharges. Electricity used to be the largest component of service charges from which municipalities generated their revenue. However, the declining reliability of supply, increasing electricity prices and a gradual shift to renewable energy sources by households and businesses have led to a need for structural changes in the municipal electricity market that requires the reconsideration of charging and revenue collection processes.

To date, the draft compulsory national norms and standards for regulating the municipal electricity surcharge have been developed, and the National Treasury is consulting the relevant external stakeholders to solicit their views. Once reviewed in line with the views received, the draft compulsory national norms and standards will be published for public comment before being submitted to Parliament for scrutiny.

II) Development charges

Development charges are important components of a sustainable municipal infrastructure financing system, especially for cities and large urban municipalities, as they are used to finance the provision of infrastructure resulting from land intensification. Despite the potential of development charges as an alternative option to finance infrastructure, municipalities have not fully used them due to uncertainty surrounding the regulatory frameworks.

To address this uncertainty, amendments to the Municipal Fiscal Powers and Functions Act (2007) have been introduced. To date, the Municipal Fiscal Powers and Functions Amendment Act has been enacted. These amendments allow municipalities to mobilise their own revenue resources to fund their infrastructure needs and support economic growth. The amendment act creates legal certainty for municipalities to levy development charges, regulate their applicability and create a more standardised, equitable and sustainable framework for development charges.

Following the enactment of the amendment act, the National Treasury resumed the process of developing regulations to ensure effective implementation of development charges. To date, the draft development charges regulations have been developed and are being reviewed internally. It is anticipated that the review process will conclude by the end of January 2025 and the National Treasury will engage external stakeholders to solicit their views. Once the external consultation processes are concluded, the National Treasury will submit the draft regulations to Parliament for scrutiny.

III) Municipal borrowing

Government is witnessing a steady yet slow rise in outstanding municipal long-term debt, which has grown at an average annual rate of 3.7 per cent over the last 24 years. Long-term debt has increased from R20.3 billion in 1999/2000 to R67.8 billion at the end of 2023/24. Municipal long-term debt shows a decline in loans and bonds taken up over 2023/24 relative to 2022/23.

The National Treasury has observed that the slow growth in municipal borrowing is largely due to the creditworthiness of municipalities. In conjunction with reforms aimed at strengthening municipal financial sustainability, the National Treasury is also embarking on staging a creditworthiness academy with the World Bank. This week-long workshop is designed to help municipalities assess both their capacity and readiness to borrow funds for infrastructure development. It is an effort to improve local financial management from the perspective of potential lenders and investors.

The increased participation of financiers in the municipal debt market notwithstanding, unlocking financing for bulk infrastructure to drive economic growth remains a challenge. The National Treasury is implementing reforms to unlock greater financing. The first reform is the metro trading services reform, where the turnaround and the increased sustainability of services will lead to metros borrowing more to expand their services. Furthermore, government has committed significantly to the just energy transition process. This reform provides a platform for the National Treasury, financiers and municipalities to pilot innovative financing mechanisms such as performance-based contracts in the energy and water sectors. These contracts will not only provide additional financing from the private sector but innovation in how to efficiently and effectively deliver critical basic services to communities.

The disaster space is anchored by the Disaster Risk Financing Strategy, which advocates for the use and increased issuance of climate-related bonds and blended financing structures to increase investment in resilient infrastructure. To support the design and implementation of these financing mechanisms, studies are being undertaken to determine barriers such as financial constraints, governance inefficiencies and capacity deficits. This is to understand the applicability of these innovative instruments at the municipal level.

The National Treasury continues to publish the Municipal Borrowing Bulletin on a quarterly basis. Copies can be obtained from www.mfma.treasury.gov.za.

ENHANCING THE LOCAL GOVERNMENT FISCAL FRAMEWORK THROUGH TARGETED REFORMS

Enhancing the effectiveness of the local government fiscal framework is essential to ensuring that municipalities can fulfil their service delivery mandates while maintaining financial sustainability. Over the upcoming MTEF period, the National Treasury will prioritise targeted reforms focused on capability development. This area remains critical to empowering municipalities to manage their resources more effectively and efficiently, thereby improving service delivery to their communities. These reforms include:

Review of the municipal capacity-building system

As part of the next phase of the ongoing review of local government capacity-building programmes, the National Treasury will consolidate its financial management support initiatives into a unified Local Government Financial Management Capability Programme. This integrated programme will provide a comprehensive framework for equipping municipalities with the tools, knowledge and resources needed to strengthen governance and improve service delivery. By streamlining existing initiatives and fostering collaboration, the programme aims to deliver targeted, impactful and sustainable support to municipalities across the country.

The programme will align with the National Treasury's Capability Development Framework and adopt a differentiated approach tailored to the unique needs and maturity levels of municipalities. Key features include pre-grant capacity assessments to identify gaps, multi-year grants to build sustainable in-house capabilities and a municipal scorecard to monitor progress and link it to grant allocations. Collaboration with partners such as SALGA, the Department of Cooperative Governance and academic institutions will ensure the design and delivery of customised capacity-building packages. Beyond financial management, the programme will serve as a foundation for a broader government-wide initiative to integrate capability development across all municipal functions, including governance and service delivery. This cohesive, long-term strategy underscores the importance of a unified effort to achieve sustainable municipal development and improve outcomes for communities nationwide.

Provisional allocations for the metro trading services incentive grant component

The metro trading services component of the urban development finance grant will initially be allocated to the metros according to a formula based on two variables:

- Households as a proxy for expenditure needs.
- Poverty for equity considerations.

The metros will be allowed a level of discretion in setting priorities across the trading services but would need to allocate the grant with a minimum floor of at least 40 per cent for water, 20 per cent for electricity and 10 per cent for solid waste.

The metro trading services component will operate as a performance-based finance incentive for metros, with payments linked to achieving milestones linked to improvements in governance and accountability, and service delivery performance. Key performance indicators will be used to set performance targets for the metros. The performance indicators will cover institutional reforms, financial transparency reforms, business reforms, and operational and service efficiencies.

Eligibility for this component is based on two conditions:

- **Condition 1 (at start):** Submission of Council-approved documents, namely a sector strategy, an institutional roadmap, a business and investment plan, and a performance improvement action plan of acceptable quality within the prescribed period requested by the National Treasury. The metros that do not submit timeously or at the quality required will be excluded from grant access for the subsequent financial year. Such a metro will be given an opportunity to join the year after provided they meet the criteria.

- **Condition 2 (throughout the programme's duration):** Clean or qualified financial audit report of the metro for the previous financial year. Metros that receive an adverse or disclaimed audit report will not access the grant in the next financial year but can rejoin the programme after showing improvement.

Provisional allocations, based on metros' compliance with Condition 1, for the metro trading services incentive grant component are in Table W1.33. These provisional allocations will be confirmed as actual allocations in the Division of Revenue Amendment Bill. Metros' ability to access their allocations will be based on an independent assessment of metros meeting performance targets in their approved performance improvement action plans.

Table W1.33 Provisional allocations for metro trading services incentive grant component

R million	2025/26	2026/27	2027/28	MTEF
Johannesburg	561	1 497	1 871	3 929
Cape Town	479	1 277	1 597	3 353
eThekwini	476	1 268	1 586	3 330
Ekurhuleni	146	1 170	1 462	2 778
Tshwane	397	1 060	1 324	2 781
Nelson Mandela Bay	–	633	791	1 424
Buffalo City	212	566	708	1 486
Mangaung	132	529	661	1 322
Total	**2 403**	**8 000**	**10 000**	**20 403**

Source: National Treasury