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2026 BUDGET REVIEW

DIVISION OF REVENUE AND SPENDING BY PROVINCES AND MUNICIPALITIES



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- The 2026 division of revenue continues to allocate more than half of nationally raised revenue to provinces and municipalities.
- Significant weaknesses in provincial and municipal operations and financial management persist, despite two decades of programmatic reform interventions.
- The 2026 *Budget Review* consequently marks a shift to structural intervention, with a focus on local government. Continued financial deterioration and instability in municipalities have adverse consequences for people's daily lives.
- National government is employing the powers granted to it under the Constitution to stabilise the system. A combination of targeted investment in revenue infrastructure, performance-based grant reforms and long-term financial planning support is intended to effect significant improvements in municipal self-reliance and fiscal sustainability.
- Provinces are rationalising public entities by reviewing mandates, governance arrangements and financial sustainability to identify duplication and non-performance.

OVERVIEW

The 2026 *Budget Review* announces strengthened measures to improve the operations and financial management of local and provincial government.

Over the 2026 medium-term expenditure framework (MTEF) period, more than half of nationally raised revenue will be transferred to the nine provinces and 257 municipalities, supporting their ability to fulfil their constitutionally mandated functions. Provinces provide basic education, health services, provincial roads, human settlements, social development and agricultural services. Local governments deliver core services including water, sanitation, electricity reticulation, refuse removal and local roads. These transfers play a redistributive role, shifting resources from high-activity economic areas to areas least able to afford public services. Provincial and local governments have autonomy to prepare their own plans and budgets within the national policy framework. Yet despite large transfers, operational and financial management weaknesses persist.

The 2026 Budget marks a fundamental shift in the subnational fiscal architecture. For over a decade, intergovernmental financing flows have masked provincial and municipal performance weaknesses. With 63 per cent (162) of municipalities in financial distress in 2023/24, and provinces struggling to balance compensation costs and service-delivery outputs, this approach has reached its limit. National government is now moving from oversight to active structural intervention.

At the municipal level, this shift involves changes to legislation, governance arrangements and technological intervention. In provinces, government is enforcing strict headcount controls and compensation discipline. These measures include centralising the functions of government's human resource, payroll and administration system, conducting employee verification through identification systems, and requiring provincial treasuries and premiers' offices to approve the filling of all posts against verified recruitment plans



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and available funding. Together, these reforms move the system towards a more capable, disciplined and performance-oriented model of subnational governance.

DIVISION OF REVENUE

Table 6.1 details the division of revenue over the next three years. Of the total funds available after providing for debt-service costs and the contingency reserve, 48.2 per cent is allocated to national government, 42.3 per cent to provincial government and 9.5 per cent to local government.

Table 6.1 Division of nationally raised revenue

R billion	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Average annual MTEF growth
	Outcome			Revised estimate	Medium-term estimates			
Division of available funds								
National departments	855.9	826.9	860.5	939.4	951.7	939.9	987.9	1.7%
<i>of which:</i>								
<i>Indirect transfers to provinces</i>	3.5	4.1	3.7	4.6	3.0	2.6	2.7	-16.5%
<i>Indirect transfers to local government</i>	7.2	8.2	7.1	7.6	7.5	8.0	8.3	2.8%
Provinces	694.1	706.3	730.6	788.8	810.5	845.9	872.4	3.4%
Equitable share	570.9	585.1	600.5	649.3	670.3	698.6	720.4	3.5%
Conditional grants	123.3	121.2	130.2	139.4	140.2	147.2	152.0	2.9%
Local government	150.7	157.7	167.7	178.3	182.3	189.3	195.3	3.1%
Equitable share	83.9	92.3	99.5	103.8	110.1	114.5	118.0	4.4%
Conditional grants	51.4	50.0	52.1	57.7	54.7	56.6	58.5	0.4%
General fuel levy sharing with metros	15.3	15.4	16.1	16.8	17.5	18.2	18.8	3.7%
Provisional allocations not appropriated ¹	–	–	–	–	1.3	38.2	39.2	
Non-interest allocations	1 700.7	1 690.8	1 758.8	1 906.5	1 945.8	2 013.3	2 094.8	3.2%
<i>Percentage increase</i>	5.0%	-0.6%	4.0%	8.4%	2.1%	3.5%	4.0%	
Debt-service costs	308.5	356.1	385.8	420.6	432.4	451.4	469.3	3.7%
Contingency reserve	–	–	–	–	5.0	10.6	17.0	
Main budget expenditure	2 009.2	2 046.9	2 144.6	2 327.1	2 383.3	2 475.4	2 581.1	3.5%
<i>Percentage increase</i>	6.5%	1.9%	4.8%	8.5%	2.4%	3.9%	4.3%	
<i>Percentage shares</i>								
<i>National departments</i>	50.3%	48.9%	48.9%	49.3%	48.9%	47.6%	48.1%	
<i>Provinces</i>	40.8%	41.8%	41.5%	41.4%	41.7%	42.8%	42.4%	
<i>Local government</i>	8.9%	9.3%	9.5%	9.4%	9.4%	9.6%	9.5%	

1. For early retirement costs in 2026/27 and SRD in the outer two years

Source: National Treasury

Transfers to provinces and local government are made through the equitable share and conditional grants. Equitable share allocations are determined by formulas that consider demographic and developmental factors, ensuring a fair and predictable distribution of resources. Conditional grants are designed to achieve specific policy goals. Provinces and municipalities must meet defined criteria to receive these funds and adhere to strict conditions when spending them. The 16.5 per cent reduction in indirect provincial grants over the MTEF period is attributable to the merger of the indirect *school infrastructure*

backlogs grant into the *education infrastructure grant*, resulting in the combined grant structure reflecting reduced indirect-grant allocations.

PROVINCIAL REVENUE AND SPENDING

Provinces shoulder the primary responsibility for delivering social services according to nationally determined norms and standards, including providing basic education for 13.6 million learners and healthcare for the 53.4 million people without private medical insurance. Because legislation limits provinces' ability to raise their own revenue, they are highly dependent on national transfers, which accounted for about 97 per cent of provincial revenue in 2024/25. Provincial own revenue collections are estimated to total R95.2 billion over the MTEF period, generated primarily from motor vehicle licence fees.



Direct national transfers to provinces are projected to grow by an annual average of 3.4 per cent, from R788.8 billion in 2025/26 to R872.4 billion in 2028/29. In 2026/27, these transfers include R670.3 billion for the provincial equitable share and R140.2 billion for conditional grants.

Table 6.2 Provincial equitable share

R million	2025/26	2026/27	2027/28	2028/29	Average annual MTEF growth
	Estimate	Medium-term estimates			
Eastern Cape	84 080	86 599	89 813	92 199	3.1%
Free State	35 837	36 761	38 247	39 364	3.2%
Gauteng	139 085	140 952	147 063	151 711	2.9%
KwaZulu-Natal	130 291	136 378	142 178	146 679	4.0%
Limpopo	75 328	78 951	82 364	84 979	4.1%
Mpumalanga	53 338	56 019	58 585	60 580	4.3%
Northern Cape	17 448	18 242	19 097	19 765	4.2%
North West	47 300	46 867	48 522	49 860	1.8%
Western Cape	66 632	69 553	72 757	75 273	4.1%
Total	649 339	670 323	698 626	720 409	3.5%

Source: National Treasury

Over the next three years, provinces are allocated an additional R32.3 billion, of which R9.9 billion supports employee compensation pressures in education. The remaining R21.3 billion is for health sector compensation and the employment of doctors, and to make up for shortfalls in goods and services expenditure. Additional allocations to the provincial equitable share include R341.7 million to equalise Grade R teacher pay, R340.3 million for the Early Retirement Programme, and R318.8 million for the presidential employment initiative. Within the conditional grant framework:

- The *early childhood development grant* receives an additional R12.8 billion.
- R5 million is reprioritised from the *expanded public works programme integrated grant for provinces* to address existing pressures in the Department of Public Works and Infrastructure.
- R3 billion is reprioritised from the *human settlements development grant* to the *informal settlements upgrading partnership grant* to provinces.

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- R1.5 billion is added to the *provincial roads maintenance grant* in 2026/27 to fund the carry-through costs of the disasters that occurred between April 2024 and June 2025.
- R109 million will be reprioritised from the *comprehensive agricultural support programme grant* to develop an e-certification system and implement animal identification, recording and traceability systems.



More than 80 per cent of provincial transfers are allocated through the equitable share formula. The National Treasury, in collaboration with provincial treasuries, national departments and Statistics South Africa, continues to review this formula to ensure it remains fair and responsive. At a technical level, the review focuses on the reliability and frequency of data updates. At a policy level, it considers structural issues such as the specific funding burdens of poorer schools and service provision costs across provinces.

Managing provincial spending pressures

Provincial departments face significant spending pressures, particularly in compensation of employees, which crowd out service delivery and capital investment. Provinces have begun to eliminate duplication and focus resources on activities with the greatest impact for citizens. In 2026, three provinces plan to conduct comprehensive spending reviews.



To reduce compensation pressures, provinces are tightening staffing and compensation controls (including headcount verification), closely monitoring overtime and improving efficiency in support services such as security, catering and fleet.

Several provinces have merged agencies in recent years to reduce overheads. The Free State, KwaZulu-Natal and Mpumalanga have combined separate entities that managed gambling, liquor and/or tourism. The Northern Cape has merged its tourism agency and the Kalahari Kid Corporation into an economic development agency.

Medico-legal claims remain a significant burden for provinces, though some progress has been made in this area. From 2023/24 to 2024/25, total medico-legal contingent liabilities declined by R4.9 billion, from R62.5 billion to R57.6 billion. Yet provinces spend an average of R1.5 billion each year on settling these claims – funds that could otherwise support frontline health services. Efforts to reduce such claims include strengthening patient recordkeeping and safety systems, upgrading infrastructure, promoting mediation, conducting investigations and ensuring health staff work in their areas of expertise.

Provincial and municipal grant reforms for the 2026 MTEF period

Grant reforms for the 2026 MTEF period focus on consolidation, better targeting and stronger performance incentives. In provinces, the *school infrastructure backlogs grant* will be fully merged into the *education infrastructure grant* in 2026/27. The *comprehensive agricultural support programme grant* and the *Ilima/Letsema projects grant* are being combined to streamline support to emerging farmers, while the *community library services grant* is earmarked for incorporation into the provincial equitable share in 2028/29.

Table 6.3 Conditional grants to provinces

R million	2025/26	2026/27	2027/28	2028/29	MTEF total
	Adjusted budget	Medium-term estimates			
Direct conditional grants					
Comprehensive agricultural support programme	2 022	2 298	2 517	2 597	7 413
Ilima/Letsema projects	677	–	–	–	–
Land care programme grant: poverty relief and infrastructure development	94	98	102	105	305
Early childhood development grant	3 957	4 611	6 903	7 117	18 631
Education infrastructure	16 028	16 257	16 590	17 106	49 954
HIV and AIDS (life skills education) grant	262	272	283	292	847
Learners with profound intellectual disabilities grant	293	307	322	337	967
Maths, science and technology grant	459	478	497	512	1 487
National school nutrition programme	10 319	10 794	11 284	11 792	33 870
Provincial disaster response grant	151	157	164	169	490
District health programmes grant	28 929	29 549	30 790	31 787	92 126
Health facility revitalisation	7 569	7 717	8 177	8 389	24 283
Human resources and training grant	5 650	5 909	6 174	6 385	18 468
National health insurance grant	467	475	497	513	1 485
National tertiary services	15 995	16 700	17 410	17 980	52 090
Human settlements development	14 149	13 258	13 827	14 289	41 374
Informal settlements upgrading partnership	2 770	1 925	1 962	1 992	5 879
Mass participation and sport development grant	627	653	679	700	2 031
Expanded public works programme integrated grant for provinces	627	649	681	703	2 033
Community library services	1 649	1 719	1 790	1 848	5 356
Provincial roads maintenance	18 663	17 923	17 844	18 399	54 167
Public transport operations	8 082	8 409	8 744	9 016	26 169
Total direct conditional grants	139 439	140 158	147 238	152 028	439 423
Indirect transfers	4 599	3 008	2 597	2 678	8 283
School infrastructure backlogs	1 284	448	–	–	448
National health insurance indirect	3 315	2 560	2 597	2 678	7 836

Source: National Treasury

In local government, the *integrated national electrification programme (municipal) grant* will be merged with the *energy efficiency and demand-side management grant*. To address chronic underinvestment in metropolitan trading services, the *urban settlements development grant* is being reconfigured: its metro trading services component, R19.5 billion, is moved to the *urban development financing grant*, and over the medium term, R8.6 billion is added to the performance-based *urban development financing grant*.

To protect infrastructure investment from municipal dysfunction, a general clause will be introduced in the 2026 Division of Revenue Bill. It will enable the National Treasury to redirect infrastructure grants from local municipalities that have proven incapable of implementation to the Development Bank of Southern Africa, the Municipal Infrastructure Support Agent or capable district municipalities.

The *public transport network grant* will be scaled down over the 2026 MTEF period as the system shifts towards integrated, multimodal transport linked to higher-density housing.

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The *neighbourhood development partnership grant* will be phased out over three years. In parallel, a review of the *water services infrastructure grant*, *regional bulk infrastructure grant* and *municipal infrastructure grant* will rationalise funding of water services.

MUNICIPAL REVENUE, SPENDING AND REFORMS

Table 6.4 shows medium-term transfers to local government. The 2026 Budget strengthens delivery by expanding the suite of implementing agencies that can be used where municipal capacity constraints undermine project execution, enabling infrastructure grants to be implemented through capable intermediaries.

Table 6.4 Transfers to local government

R million	2025/26	2026/27	2027/28	2028/29	MTEF total
	Adjusted budget	Medium-term estimates			
Equitable share and related	106 087	110 090	114 483	118 041	342 615
General fuel levy sharing	16 849	17 530	18 230	18 796	54 556
with metros					
Direct conditional grants	57 711	54 658	56 594	58 453	169 705
Integrated urban development	1 278	1 379	1 434	1 479	4 292
Municipal disaster recovery	2 161	–	–	–	–
Municipal disaster response	395	411	427	441	1 279
Municipal infrastructure	17 358	17 504	20 030	20 652	58 186
Energy efficiency and demand-side management	246	–	–	–	–
Expanded public works programme integrated	567	586	614	633	1 832
Integrated national electrification programme	1 697	1 902	1 978	2 040	5 920
Informal settlements upgrading partnership	4 717	4 417	5 104	5 263	14 784
Infrastructure skills development	173	180	187	193	559
Local government financial management	590	614	638	658	1 909
Urban settlements development	9 250	4 079	2 867	2 141	9 087
Urban development financing	3 091	9 024	9 978	12 646	31 648
Neighbourhood development partnership	542	428	263	66	757
Public transport network	7 544	5 711	4 510	3 747	13 968
Rural roads asset management systems	126	131	136	141	408
Regional bulk infrastructure	3 757	3 902	3 865	3 649	11 415
Water services infrastructure	4 219	4 389	4 564	4 706	13 659
Total direct transfers	180 648	182 278	189 307	195 291	566 876
Indirect transfers	7 863	7 473	8 031	8 280	23 785
Integrated national electrification programme	2 274	1 593	2 472	2 549	6 615
Municipal infrastructure	494	536	–	–	536
Neighbourhood development partnership	99	–	–	–	–
Smart meters	650	796	828	853	2 477
Regional bulk infrastructure	3 227	3 215	3 343	3 447	10 005
Water services infrastructure	1 119	1 334	1 388	1 431	4 153

Source: National Treasury

Key considerations in municipal reform

The 2026 Budget announces major initiatives to address persistent deterioration in a large share of municipalities.

The key factors in municipal financial instability are weak revenue collection, poor credit control and lack of financial discipline. Rising electricity and water input costs intensify financial pressures, but the accumulation of arrears largely reflects failures to bill



accurately, collect revenue consistently, and ring-fence and remit collections for bulk services. These weaknesses have left 88 municipalities with unfunded budgets and limited capacity to maintain infrastructure and sustain services. To address this, the National Treasury is revitalising support for long-term financial plans to improve project identification, sustainably plan cash flows and inform financial decisions.

Proposed municipal reforms are rooted in the revised White Paper on Local Government and the local government fiscal framework review. The white paper's proposals include a more differentiated system in which functions are assigned according to demonstrated capacity. In non-metro areas, this includes moving towards a single-tier model of elected local government where appropriate. The local government fiscal framework review proposes strengthening the links between the equitable share, conditional grants and measurable improvements in core functions such as revenue collection and asset maintenance, with a particular focus on the viability of the equitable share formula.

Three key reforms for local government

Reforms fall into three broad categories: legislative, governance and technological.

At the legislative level, the Municipal Finance Management Act (MFMA) Amendment Bill, scheduled for public comment in early 2026, forms the legal backbone of the reform package. It will support the local government fiscal framework by enforcing funded budgets, strengthen expenditure controls and consequence management, and clarify the treatment of irregular expenditure to focus on financial losses. The bill will strengthen monitoring and intervention tools for the national and provincial treasuries, including more effective financial recovery measures and clearer safeguards during interventions.



In terms of governance, the state is strengthening its intervention framework for municipalities in severe financial distress. Currently, 29 municipalities are under mandatory financial recovery plans in terms of section 139(5) of the Constitution, with seven recovery plans reviewed and amended in 2024/25 and four new plans developed in 2025/26. Implementation progress has been slower than anticipated. A key weakness is that responsibility for implementing the financial recovery plans rests with the troubled municipalities themselves. Without addressing deep-rooted dysfunction, municipalities are unlikely to lead themselves out of financial crisis. The forthcoming MFMA amendments will provide more decisive powers for the design and enforcement of financial recovery plans, ensuring earlier intervention and consequence management.

Unauthorised, irregular, fruitless and wasteful expenditure in municipalities reached R236.3 billion in 2023/24 (R81.6 billion unauthorised, R137 billion irregular and R17.7 billion fruitless and wasteful). After years of support measures to strengthen financial governance, the National Treasury has invoked section 216(2) of the Constitution against persistently noncompliant municipalities, enabling the Treasury to halt national transfers to those in consistent breach of the MFMA. This provision was applied against



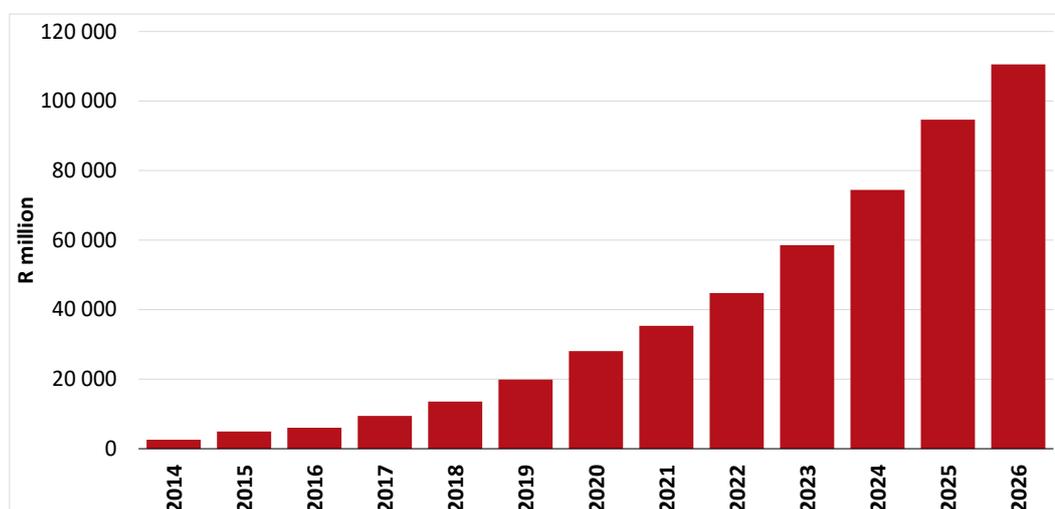
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75 municipalities – a decisive intervention necessary to restore good financial governance and financial integrity, protect public resources and ensure sustainable service delivery.

The Municipal Debt Relief Programme is at a critical juncture. Municipalities participating in this programme owed Eskom R85.2 billion in December 2025. Of the 71 participants only 15 have consistently met programme conditions. To protect the national grid and municipal viability, government will introduce Distribution Agency Agreements, under which Eskom takes over electricity distribution on behalf of defaulting municipalities to ensure revenue is collected, current accounts are paid and service reliability is restored. Municipalities refusing these conditions will be removed from the programme and become liable for the entirety of their debts.

Figure 6.1 Historical municipal overdue debt owed to Eskom



Source: Eskom



A key technological reform is the Smart Meters Grant Programme, which is allocated R2.5 billion over the MTEF period. In 71 debt-stressed municipalities, the programme has already installed over 139 000 smart meters, with 96 400 more planned for the next budget cycle. Beyond improving billing accuracy, these systems provide real-time data to identify leaks and illegal connections, directly addressing structural revenue losses. Grant disbursements are contingent on municipalities demonstrating improved collection rates.

CONCLUSION

The 2026 division of revenue marks a decisive shift to active structural intervention to reverse poor performance in provinces and municipalities.