W1

2024 BUDGET REVIEW

EXPLANATORY MEMORANDUM TO THE DIVISION OF REVENUE

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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 2024 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 2024 division of revenue.
- Part 3 sets out how the FFC's recommendations on the 2024 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), culminating in meetings of the Budget Forum (made up of the Budget Council and SALGA). The division of revenue, along with the government priorities that underpin it, was agreed for the next three years at a Cabinet meeting on 7 February 2024.

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 2024 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 2019–2024 Medium Term Strategic Framework outlines the plan and outcome-based monitoring framework for implementing South Africa's national development priorities for the sixth administration.

In the 2023 *Medium Term Budget Policy Statement* (MTBPS), the Minister of Finance outlined how the resources available to government over the 2024 medium-term expenditure framework (MTEF) period would be allocated to help address government's areas of immediate focus. These focus areas are as follows:

- Achieve fiscal sustainability by narrowing the budget deficit and stabilising debt.
- Promote economic growth by increasing spending on policy priorities such as security and infrastructure.
- Reduce fiscal and economic risks, including through targeted support to key public entities and building fiscal buffers against future shocks.

These focus areas have informed the division of resources between the three spheres of government over the 2024 MTEF period. Chapter 4 of the 2023 MTBPS and Chapters 5 and 6 of the 2024 *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 is expected to increase from R5.2 trillion (73.9 per cent of GDP) in 2023/24 to R5.5 trillion (74.1 per cent of GDP) in 2024/25 and will peak at R6.3 trillion (74.7 per cent of GDP) in 2026/27. 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 2024 *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 2024 MTEF period, R2.8 trillion or 51.1 per cent of non-interest spending is allocated to provinces and local government. Of this, R2.3 trillion or 42.2 per cent is allocated to provinces, while R531.7 billion or 9.8 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 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. The upcoming availability of 2022 Census data will offer an opportunity to further differentiate the funding system in a way that better reflects each province or municipality's fiscal capacity. This is especially relevant given that fiscal capacity, which refers to the revenue-raising power of each sphere of government, may have changed 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 upcoming census data, it is 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 R109.7 billion over the 2024 MTEF period, and social infrastructure (such as schools, hospitals and clinics), allocating R262.3 billion over the 2024 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 2024 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 2024 MTEF period, R1.6 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 2024 DIVISION OF REVENUE

Medium-term fiscal policy is focused on reducing the budget deficit and stabilising the debt-to-GDP ratio. Over the medium term, restoring fiscal sustainability requires continued restraint in expenditure growth and reforms to raise economic growth. The 2024 Budget proposes:

- Additional allocations to address immediate spending pressures, including extending the *COVID-19 social relief of distress grant* for 12 months until March 2025, and bolstering provincial transfers for health and education.
- Supporting economic growth through a range of reforms, including the infrastructure-build programme financed through innovative funding mechanisms and supported by improved technical capabilities (see Chapter 3 of the 2024 *Budget Review*).

The most important public spending programmes that help poor South Africans, contribute to growth and create jobs have been protected from major reductions. The 2024 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 R1.7 trillion in 2024/25, R1.8 trillion in 2025/26 and R1.9 trillion in 2026/27. 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 R2.3 trillion in 2023/24 to R2.6 trillion in 2026/27, with an annual growth rate of 4.6 per cent. 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 4.9 per cent of GDP in 2023/24 to 3.3 per cent of GDP in 2026/27. However, public entities, social security funds and provinces are expected to accumulate a combined cash deficit over the next two years, which will add to the primary budget deficit. Nonetheless, a small combined cash surplus is anticipated for these entities in 2026/27.

Additionally, spending will increase by R251.3 billion over the same period, including R57.2 billion for the carry-through costs of the 2023/24 wage increase in labour-intensive sectors and R33.6 billion to extend the *COVID-19 social relief of distress grant* for another year.

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 2024 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

	2023/24		2024/25		2025/26		2026/27
R billion/percentage of GDP	2023 Budget	2024 Budget	2023 Budget	2024 Budget	2023 Budget	2024 Budget	2024 Budget
Gross domestic product	7 005.7	7 049.0	7 452.4	7 452.2	7 938.5	7 913.8	8 422.3
Real GDP growth	*1.0%*	*0.7%*	*1.7%*	*1.4%*	*1.9%*	*1.7%*	*1.8%*
GDP inflation	*4.3%*	*4.1%*	*4.6%*	*4.2%*	*4.6%*	*4.5%*	*4.5%*
National budget framework			–		–		
Revenue	**1 759.2**	**1 712.8**	**1 868.1**	**1 815.0**	**2 007.7**	**1 947.4**	**2 086.0**
Percentage of GDP	*25.1%*	*24.3%*	*25.1%*	*24.4%*	*25.3%*	*24.6%*	*24.8%*
Expenditure	**2 034.6**	**2 044.2**	**2 137.9**	**2 136.0**	**2 266.5**	**2 255.6**	**2 373.2**
Percentage of GDP	*29.0%*	*29.0%*	*28.7%*	*28.7%*	*28.6%*	*28.5%*	*28.2%*
Main budget balance[1]	**-275.4**	**-331.4**	**-269.9**	**-320.9**	**-258.8**	**-308.2**	**-287.2**
Percentage of GDP	*-3.9%*	*-4.7%*	*-3.6%*	*-4.3%*	*-3.3%*	*-3.9%*	*-3.4%*

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 2024 MTEF period after accounting for new policy priorities.

Table W1.2 Division of nationally raised revenue

R million	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Revised estimate	Medium-term estimates		
Division of available funds							
National departments	**790 545**	**822 785**	**855 868**	**823 903**	**848 460**	**853 711**	**890 452**
of which:							
Indirect transfers to provinces	*3 023*	*3 757*	*3 536*	*3 998*	*3 841*	*4 195*	*4 177*
Indirect transfers to local government	*4 100*	*5 702*	*6 956*	*8 297*	*7 098*	*7 540*	*8 034*
Provinces	**628 777**	**660 799**	**694 131**	**706 404**	**729 459**	**760 853**	**790 802**
Equitable share	520 717	544 835	570 868	585 086	600 476	627 442	655 704
Conditional grants	108 060	115 964	123 263	121 318	128 984	133 411	135 098
Local government	**137 098**	**135 625**	**150 699**	**157 774**	**170 294**	**177 656**	**183 775**
Equitable share	83 102	76 169	83 938	92 689	101 178	106 087	110 661
Conditional grants	39 969	44 839	51 426	49 652	52 990	54 720	55 493
General fuel levy sharing with metros	14 027	14 617	15 335	15 433	16 127	16 849	17 621
Provisional allocation not assigned to votes[1]	–	–	–	–	570	41 093	53 453
Non-interest allocations	**1 556 420**	**1 619 208**	**1 700 698**	**1 688 081**	**1 748 784**	**1 833 313**	**1 918 482**
Percentage increase	*4.7%*	*4.0%*	*5.0%*	*-0.7%*	*3.6%*	*4.8%*	*4.6%*
Debt-service costs	232 596	268 072	308 459	356 141	382 183	414 664	440 240
Contingency reserve	–	–	–	–	5 000	7 600	14 500
Main budget expenditure	**1 789 016**	**1 887 280**	**2 009 157**	**2 044 222**	**2 135 967**	**2 255 576**	**2 373 222**
Percentage increase	*5.8%*	*5.5%*	*6.5%*	*1.7%*	*4.5%*	*5.6%*	*5.2%*
Percentage shares							
National department	*50.8%*	*50.8%*	*50.3%*	*48.8%*	*48.5%*	*47.6%*	*47.7%*
Provinces	*40.4%*	*40.8%*	*40.8%*	*41.8%*	*41.7%*	*42.5%*	*42.4%*
Local government	*8.8%*	*8.4%*	*8.9%*	*9.3%*	*9.7%*	*9.9%*	*9.9%*

1. Infrastructure Fund 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	2024/25	2025/26
National departments	12 795	-24 209
Provinces	8 997	6 180
Local government	-4 088	-5 674
Allocated expenditure	**17 703**	**-23 703**

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

	2024/25	2025/26	2026/27
R million	Allocation	Forward estimates	
National[1]	1 434 313	1 522 047	1 606 856
Provincial	600 476	627 442	655 704
Local	101 178	106 087	110 661
Total	**2 135 967**	**2 255 576**	**2 373 222**

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 2024 *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 2024/2*5 to Parliament in 2023. This year's theme is "Improving service delivery and inclusivity in an environment of expenditure moderation". The 2024/25 recommendations cover the following areas: the sources, spillovers and fiscal sustainability of escalating global inflation; the impact of state-owned enterprises and basic income grant on fiscal sustainability; learner teacher support materials and learner transport in South Africa; assessment of the response to climate change in local government; investigation into spatial inequalities and the efficacy of municipal spending in driving local economic development; and municipal cost recovery and the affordability of basic services.

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 4: Assessing the response to climate change in local government

The FFC recommends the following: "National Treasury, together with COGTA [Department of Cooperative Governance and Traditional Affairs] and the DPW&I [Department of Public Works and Infrastructure], should, as a starting point, revise formats for the infrastructure grant frameworks to include climate change response specifications so as to be able to gradually achieve climate resilient infrastructure, with a strategic approach in the medium to long term of incorporating climate change mitigation and adaptation measures to all infrastructure related projects."

Government response

Government recognises that all municipalities should prioritise the construction of climate-resilient infrastructure. Nonetheless, this process cannot be solely regulated through conditional grants, as disaster mitigation, preparedness, and repairs and maintenance must form part of municipal budgeting and day-to-day operations to minimise the vulnerability of infrastructure to climate risks. Capital grants are not suitable to address these activities. Conditional grants are established according to relevant sectoral policies, standards and norms. Project appraisal officers must ensure that the specifications and engineering designs of each project align with these provisions, including those pertaining to climate change. The term "building back better" coined by the National Disaster Management Centre is a positive initiative that engages with relevant stakeholders, including grant-administering departments, to rebuild recovered infrastructure and create new infrastructure that is climate resilient. This collaboration will ensure that the country's infrastructure remains resilient to climate risks, safeguarding service delivery and progress in all sectors of the economy.

Chapter 5: Investigating spatial inequalities and the efficacy of municipal spending in driving local economic development

The FFC recommends the following: "to overcome persistent challenges municipalities face in the context of the rapidly changing economic environment, the Minister of COGTA and the Minister of Finance should critically review the local government fiscal framework. A differentiated approach is needed to ensure the policy is well-tailored to overcome unique issues individual municipalities face. To achieve this, the fiscal framework may need to be radically, rather than incrementally, reconfigured."

Government response

The National Treasury is reviewing the fiscal framework. The findings will undergo a rigorous consultation process, and all reforms will be phased in incrementally. It should be noted that the diagnostic review of capacity building indicates that poor local government performance is not primarily funding related but a result of systemic issues rooted in poor governance.

The FFC recommends the following: "Careful attention must be given to the funding mechanism of conditional grants and the Commission thus recommends that COGTA and National Treasury develop an appropriate funding mechanism or funding plan in a targeted and phased approach, which enhances the capacity of municipalities to spend conditional grants effectively. The DDM [district development model] must be strengthened and financed for local government to fulfil its developmental role."

Government response

The recommendation is noted. The National Treasury and COGTA are continuously reviewing and improving funding mechanisms to ensure effective spending of conditional grants. Through the conditional grants review process currently under way, government will work towards developing an appropriate funding mechanism for conditional grants in a targeted and phased approach while improving the capacity of municipalities to spend effectively. Government acknowledges the importance of strengthening the district development model and its financing to enable local government to fulfil its developmental role. Funding to institutionalise the model is available through the *municipal systems improvement grant* for the 2024 MTEF period.

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 42.2 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 96.6 per cent of provincial revenue.

This section outlines national transfers to provinces for the 2024 MTEF period announced in the 2023 MTBPS and changes to the equitable share and 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 R706.4 billion in 2023/24 to R729.5 billion in 2024/25. Over the MTEF period, provincial transfers will grow at an average annual rate of 3.8 per cent to R790.8 billion in 2026/27. Table W1.5 sets out the transfers to provinces for 2024/25. A total of R600.5 billion is allocated to the provincial equitable share and R129 billion to conditional grants, which includes an unallocated amount of R149 million for the *provincial disaster response grant*.

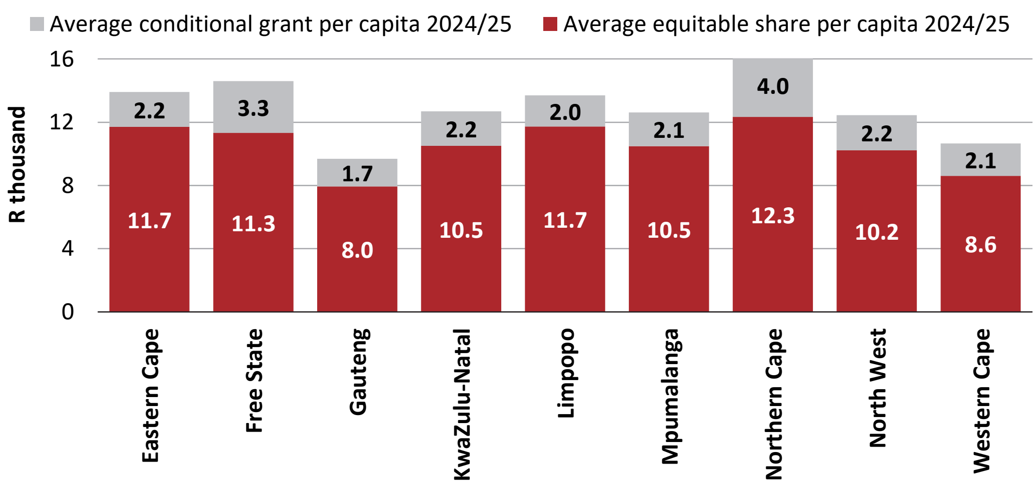
Table W1.5 Total transfers to provinces, 2024/25

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	78 093	14 759	92 852
Free State	33 091	9 548	42 639
Gauteng	127 992	27 891	155 883
KwaZulu-Natal	121 145	25 396	146 541
Limpopo	69 625	11 779	81 404
Mpumalanga	49 499	10 099	59 599
Northern Cape	16 143	5 224	21 367
North West	42 816	9 284	52 100
Western Cape	62 071	14 854	76 926
Unallocated		149	149
Total	**600 476**	**128 984**	**729 459**

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, 2024/25



Source: National Treasury

Changes to provincial allocations

For the 2024 MTEF period, revisions to the provincial fiscal framework reflect fiscal consolidation reductions that respond to the fiscal pressures by government. Over the 2024 MTEF period, additions have been made to cover the costs associated with the 2023 public-service wage agreement. The revisions also include the shift of funds to national government and between conditional grants. Table W1.6 provides a summary of the changes to the provincial fiscal framework.

Over the medium term, provincial transfers are reduced by R88.4 billion. Of this amount, direct transfers are reduced by R86.1 billion and indirect transfers by R2.3 billion.

The provincial equitable share is reduced by R19.6 billion in 2024/25, R20.6 billion in 2025/26 and R21.3 billion in 2026/27. The 2023 MTBPS announced that the education and health sectors in the provinces would receive an allocation of R68.2 billion over the 2024 MTEF period to cover the carry-through cost of implementing the 2023 public-service wage agreement. These funds were initially allocated through the provincial equitable share. Of these funds, R3.9 billion has since been redirected to the provincial conditional grants in these two sectors that fund employee compensation. The remaining R64.2 billion remains in the provincial equitable share and is allocated to provinces through the equitable share formula. A total of R136 million has been redirected to the conditional grants in the education sector and R3.8 billion to the conditional grants in the health sector. Conditional grants to provinces are reduced by R6 billion in 2024/25, R9 billion in 2025/26 and R11.8 billion in 2026/27. Since the 2023 MTBPS, further additions of R37.3 billion have been made to the provincial equitable share over the MTEF period, mainly for education and health to deal with compensation of employees pressures emanating from the wage agreement. The additions are R12.2 billion in 2024/25, R12.4 billion in 2025/26 and R12.7 billion in 2026/27.

Funds were previously added to the *early childhood development grant* to pilot a nutrition support programme and a result-based service delivery model. From 2024/25, the nutrition support programme and result-based service delivery model will be implemented by national government. An amount of R1.1 billion is reprioritised from the *early childhood development grant* to national government over the medium term for this purpose.

Other changes include a shift of R737 million from the *national health insurance grant* to the *national tertiary services grant*. This shift allows for the funding of oncology services to be consolidated under a single conditional grant. The funds will be used for the continued development and expansion of tertiary services. To improve the management of the *national health insurance indirect grant*, the personal services component and the non-personal services component of the grant will be merged into one component for the 2024 MTEF period. The newly merged health systems component will continue to implement the programmes that were funded through the previous two components of this grant.

Table W1.6 Revisions to direct and indirect transfers to provincial government[1]

R million	2024/25	2025/26	2026/27	MTEF total revision
Technical adjustments	–	–	–	–
Direct transfers	–	–	–	–
Provincial equitable share	-1 244	-1 307	-1 371	-3 921
Early childhood development grant	1	1	1	2
Education infrastructure grant	12	13	13	38
HIV and AIDS (life skills education) grant	4	4	4	11
Learners with profound intellectual disabilities	7	7	7	21
Maths, science and technology grant	0	0	0	1
National school nutrition programme grant	20	21	21	63
District health programmes grant	553	582	611	1 746
Health facility revitalisation grant	11	11	12	34
Human resources and training grant	258	271	285	814
National health insurance grant	-232	-212	-234	-678
National tertiary services grant	610	609	651	1 870
Additions to baseline	**33 803**	**35 089**	**36 577**	**105 469**
Direct transfers	**33 803**	**35 089**	**36 577**	**105 469**
Provincial equitable share	32 559	33 782	35 207	101 548
Conditional grants	1 244	1 307	1 371	3 921
Reduction to baselines	**-25 564**	**-29 651**	**-33 180**	**-88 395**
Direct transfers	**-24 806**	**-28 909**	**-32 420**	**-86 135**
Provincial equitable share	-19 583	-20 611	-21 337	-61 531
Comprehensive agricultural support programme grant	-36	-70	-73	-179
Ilima/Letsema projects grant	-200	–	–	-200
Early childhood development grant	-297	-396	-414	-1 107
Education infrastructure grant	-176	-217	-219	-611
HIV and AIDS (life skills education) Grant	-6	-7	-7	-20
Maths, science and technology grant	-9	-14	-15	-38
Provincial disaster response grant	-3	-8	-8	-19
District health programmes grant	-663	-1 684	-1 761	-4 108
Health facility revitalisation grant	-220	-460	-481	-1 161
National health insurance grant	-29	-75	-78	-182
Human settlements development grant	-1 463	-1 647	-2 187	-5 297
Informal settlements upgrading partnership grant	-1 245	-1 928	-3 983	-7 155
Expanded public works programme integrated grant for provinces	-143	-159	-166	-468
Social sector expanded public works programme incentive grant for provinces	-140	-156	-163	-459
Community library services grant	-29	-72	-75	-176
Mass participation and sport development grant	-13	-33	-34	-80
Provincial roads maintenance grant	-445	-1 093	-1 126	-2 664
Indirect transfers	**-758**	**-742**	**-760**	**-2 260**
School infrastructure backlogs grant	-530	-493	-503	-1 526
National health insurance indirect grant	-228	-249	-256	-733
Total change to provincial government allocations	**8 239**	**5 438**	**3 398**	**17 075**
Change to direct transfers	8 997	6 180	4 157	19 334
Change to indirect transfers	-758	-742	-760	-2 260
Net change to provincial government allocations	**8 239**	**5 438**	**3 398**	**17 075**

Source: National Treasury

After accounting for these changes, the provincial equitable share grows at an average annual rate of 3.9 per cent over the MTEF period, while direct conditional grant allocations grow at an average annual rate of 3.7 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 2024 MTEF period, the following amounts are allocated to the provincial equitable share: R600.5 billion in 2024/25, R627.4 billion in 2025/26 and R655.7 billion in 2026/27.

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.

In addition to the annual data updates that are made to the provincial equitable share formula components, changes are being made to the components as part of the most recent review of the formula. The review, which started at the end of 2016, is being carried out in a phased manner. The changes to enrolment data and mid-year population estimates for the education component have been fully phased in. The most recent phase of the review involved updating the health component with a newly designed risk-adjusted index to inform the risk profile of each province. These changes started to be phased in over the 2022 MTEF period, with the changes taking full effect in 2024/25.

Data availability

Some of the components of the equitable share formula will continue to be updated with data used in the previous MTEF. There was no official release of mid-year population estimates by Statistics South Africa for 2023, as this was replaced with the anticipated official release of the 2022 Census. At the time of determining the provincial equitable share formula, most of the 2022 Census data needed to make annual technical updates to the formula was not yet available. As a result, the only data available is from the 2022 mid-year population estimates, which have been used to inform the updates in the current formula. The 2022 mid-year population estimates will therefore continue to inform the updates to the formula for the 2024 MTEF. Similarly, the economic activity component uses regional GDP data used in the 2023 MTEF. Statistics South Africa is reviewing the methodology that informs the determination of regional GDP. The 2019 regional GDP was the last official data published by Statistics South Africa and informs the updates for the equitable share formula over the 2024 MTEF period.

The rest of the formula has been updated with 2023 preliminary 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 2021/22 and

2022/23 and the 2022 General Household Survey for medical aid coverage is also used to update the formula.

The provincial equitable share formula continues to be reviewed. Further details of this review are discussed in Part 6.

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 2024 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, 2024 MTEF

	Education	Health	Basic share	Poverty	Economic activity	Institu-tional	Weighted average
Eastern Cape	13.2%	13.6%	11.0%	14.4%	7.6%	11.1%	12.8%
Free State	5.2%	5.6%	4.8%	5.0%	5.0%	11.1%	5.5%
Gauteng	20.7%	21.1%	26.6%	19.3%	34.5%	11.1%	21.4%
KwaZulu-Natal	21.2%	20.6%	19.0%	21.7%	15.9%	11.1%	20.1%
Limpopo	12.5%	11.3%	9.8%	13.1%	7.4%	11.1%	11.7%
Mpumalanga	8.2%	8.0%	7.8%	9.3%	7.5%	11.1%	8.3%
Northern Cape	2.2%	2.3%	2.2%	2.2%	2.0%	11.1%	2.7%
North West	6.8%	7.2%	6.9%	8.3%	6.5%	11.1%	7.2%
Western Cape	9.8%	10.4%	11.9%	6.6%	13.6%	11.1%	10.3%
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 2022 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 2023. 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 2022	School enrolment 2023	Changes in enrolment data	Weighted average 2023 MTEF	Weighted average 2024 MTEF	Difference in weighted average
Eastern Cape	1 881	1 824	1 804	-20	13.3%	13.2%	-0.08%
Free State	721	727	721	-5	5.2%	5.2%	-0.02%
Gauteng	3 190	2 602	2 618	16	20.7%	20.7%	0.05%
KwaZulu-Natal	3 047	2 880	2 872	-8	21.2%	21.2%	-0.04%
Limpopo	1 698	1 797	1 798	1	12.6%	12.5%	-0.00%
Mpumalanga	1 146	1 144	1 149	5	8.2%	8.2%	0.01%
Northern Cape	322	305	306	0	2.2%	2.2%	0.00%
North West	1 026	875	879	5	6.8%	6.8%	0.01%
Western Cape	1 484	1 242	1 267	24	9.7%	9.8%	0.08%
Total	**14 515**	**13 396**	**13 414**	**18**	**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 2022	Insured population 2022	Risk-adjusted index	Weighted population	Risk-adjusted shares 2023 MTEF	Risk-adjusted shares 2024 MTEF	Change
Eastern Cape	6 677	10.6%	119.8%	7 149	13.5%	13.8%	0.3%
Free State	2 922	14.5%	111.4%	2 783	5.2%	5.4%	0.1%
Gauteng	16 099	22.2%	85.4%	10 699	20.8%	20.6%	-0.2%
KwaZulu-Natal	11 538	11.1%	102.6%	10 526	20.4%	20.3%	-0.1%
Limpopo	5 941	8.9%	113.2%	6 125	11.7%	11.8%	0.1%
Mpumalanga	4 720	10.2%	104.7%	4 438	8.6%	8.6%	-0.1%
Northern Cape	1 309	15.7%	114.5%	1 264	2.3%	2.4%	0.1%
North West	4 187	13.6%	110.3%	3 989	7.5%	7.7%	0.2%
Western Cape	7 212	25.2%	90.6%	4 885	9.9%	9.4%	-0.4%
Total	**60 605**			**51 858**	**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 2022 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

	Primary healthcare visits				Hospital workload patient-day equivalents			
Thousand	2021/22	2022/23	Average	Share	2021/22	2022/23	Average	Share
Eastern Cape	13 693	14 118	13 905	13.4%	4 084	3 696	3 890	12.9%
Free State	4 772	5 059	4 915	4.7%	1 947	2 012	1 979	6.6%
Gauteng	18 648	19 725	19 186	18.5%	6 834	7 283	7 059	23.5%
KwaZulu-Natal	23 906	24 714	24 310	23.4%	6 139	6 388	6 264	20.8%
Limpopo	12 753	13 047	12 900	12.4%	2 660	2 809	2 734	9.1%
Mpumalanga	7 734	8 134	7 934	7.6%	1 733	1 790	1 762	5.9%
Northern Cape	2 333	2 538	2 435	2.3%	577	572	575	1.9%
North West	6 606	7 004	6 805	6.5%	1 631	1 629	1 630	5.4%
Western Cape	10 950	12 064	11 507	11.1%	4 075	4 235	4 155	13.8%
Total	**101 394**	**106 401**	**103 898**	**100.0%**	**29 680**	**30 414**	**30 047**	**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 2021/22 and 2022/23 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 2021/22 and 2022/23 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

Weight	Risk-adjusted 75.0%	Primary healthcare 5.0%	Hospital component 20.0%	Weighted shares 2023 MTEF	2024 MTEF	Change
Eastern Cape	13.8%	13.4%	12.9%	13.4%	13.6%	0.2%
Free State	5.4%	4.7%	6.6%	5.5%	5.6%	0.1%
Gauteng	20.6%	18.5%	23.5%	21.2%	21.1%	-0.1%
KwaZulu-Natal	20.3%	23.4%	20.8%	20.7%	20.6%	-0.1%
Limpopo	11.8%	12.4%	9.1%	11.2%	11.3%	0.1%
Mpumalanga	8.6%	7.6%	5.9%	8.0%	8.0%	-0.1%
Northern Cape	2.4%	2.3%	1.9%	2.3%	2.3%	0.1%
North West	7.7%	6.5%	5.4%	7.1%	7.2%	0.1%
Western Cape	9.4%	11.1%	13.8%	10.6%	10.4%	-0.3%
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 2024 MTEF, population data is drawn from the 2022 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	**2022**	**2022**			**2023 MTEF**	**2024 MTEF**	**Change**
Eastern Cape	6 677	6 677	–	0%	11.0%	11.0%	0%
Free State	2 922	2 922	–	0%	4.8%	4.8%	0%
Gauteng	16 099	16 099	–	0%	26.6%	26.6%	0%
KwaZulu-Natal	11 538	11 538	–	0%	19.0%	19.0%	0%
Limpopo	5 941	5 941	–	0%	9.8%	9.8%	0%
Mpumalanga	4 720	4 720	–	0%	7.8%	7.8%	0%
Northern Cape	1 309	1 309	–	0%	2.2%	2.2%	0%
North West	4 187	4 187	–	0%	6.9%	6.9%	0%
Western Cape	7 212	7 212	–	0%	11.9%	11.9%	0%
Total	**60 605**	**60 605**	**–**	**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 2022 mid-year population estimates. Table W1.13 shows the proportion of the poor in each province from the Income and Expenditure Survey, the 2022 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

Thousand	Income and Expenditure Survey 2011/12	2023 MTEF Mid-year population estimates 2022	2023 MTEF Poor population	2023 MTEF Weighted shares	2024 MTEF Mid-year population estimates 2022	2024 MTEF Poor population	2024 MTEF Weighted shares	Difference in weighted shares
Eastern Cape	52.0%	6 677	3 474	14.4%	6 677	3 474	14.4%	0.0%
Free State	41.4%	2 922	1 209	5.0%	2 922	1 209	5.0%	0.0%
Gauteng	28.9%	16 099	4 648	19.3%	16 099	4 648	19.3%	0.0%
KwaZulu-Natal	45.3%	11 538	5 228	21.7%	11 538	5 228	21.7%	0.0%
Limpopo	52.9%	5 941	3 141	13.1%	5 941	3 141	13.1%	0.0%
Mpumalanga	47.3%	4 720	2 231	9.3%	4 720	2 231	9.3%	0.0%
Northern Cape	40.8%	1 309	534	2.2%	1 309	534	2.2%	0.0%
North West	47.9%	4 187	2 005	8.3%	4 187	2 005	8.3%	0.0%
Western Cape	21.9%	7 212	1 577	6.6%	7 212	1 577	6.6%	0.0%
Total		**60 605**	**24 046**	**100.0%**	**60 605**	**24 046**	**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. For the 2024 MTEF, 2019 regional GDP data is used. Table W1.14 shows the weighted shares of the economic activity component.

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

	2023 MTEF GDP-R, 2019 (R million)	2023 MTEF Weighted shares	2024 MTEF GDP-R, 2019 (R million)[1]	2024 MTEF Weighted shares	Difference in weighted shares
Eastern Cape	387 332	7.6%	387 332	7.6%	0.0%
Free State	252 763	5.0%	252 763	5.0%	0.0%
Gauteng	1 750 062	34.5%	1 750 062	34.5%	0.0%
KwaZulu-Natal	806 843	15.9%	806 843	15.9%	0.0%
Limpopo	374 064	7.4%	374 064	7.4%	0.0%
Mpumalanga	381 915	7.5%	381 915	7.5%	0.0%
Northern Cape	103 349	2.0%	103 349	2.0%	0.0%
North West	329 363	6.5%	329 363	6.5%	0.0%
Western Cape	691 934	13.6%	691 934	13.6%	0.0%
Total	**5 077 625**	**100.0%**	**5 077 625**	**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 2023 and 2024 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 2023 to 2024 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

	2023 MTEF weighted average	2024 MTEF weighted average	Difference
Eastern Cape	12.9%	13.0%	0.1%
Free State	5.5%	5.5%	-0.0%
Gauteng	21.3%	21.3%	0.0%
KwaZulu-Natal	20.4%	20.2%	-0.3%
Limpopo	11.5%	11.6%	0.1%
Mpumalanga	8.2%	8.2%	0.0%
Northern Cape	2.7%	2.7%	0.0%
North West	7.1%	7.1%	0.1%
Western Cape	10.4%	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, as shown in Table W1.16. 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 2024/25 published in the 2023 MTEF and closes the gap between these shares by a third in each year of the 2024 MTEF period. As a result, one third of the impact of the data updates is implemented in 2024/25 and two thirds in the indicative allocations for 2025/26. The updates are thus fully implemented in the indicative allocations for 2026/27.

Table W1.16 Implementation of the equitable share weights

	2024/25	2024/25	2025/26	2026/27
	Indicative weighted shares from	2024 MTEF weighted shares		
Percentage	**2023 MTEF**	3-year phasing		
Eastern Cape	12.9%	13.0%	13.0%	12.9%
Free State	5.5%	5.5%	5.5%	5.5%
Gauteng	21.4%	21.3%	21.3%	21.4%
KwaZulu-Natal	20.2%	20.2%	20.1%	20.1%
Limpopo	11.6%	11.6%	11.6%	11.7%
Mpumalanga	8.2%	8.2%	8.2%	8.3%
Northern Cape	2.7%	2.7%	2.7%	2.7%
North West	7.1%	7.1%	7.2%	7.2%
Western Cape	10.4%	10.3%	10.3%	10.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: National Treasury

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.

For the 2024 MTEF period, R1.8 billion for the Coega Special Economic Zone is allocated outside the provincial equitable share formula for a water security programme that will construct and upgrade bulk infrastructure. Table W1.17 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 W1.17 Allocations outside provincial equitable share formula

R million	2023/24 Adjusted budget	2024/25 Medium-term estimates	2025/26	2026/27	Allocation criteria
Food relief shift	77 806	81 300	84 942	88 754	Allocated equally among the provinces
Social worker employment grant shift	261 681	273 433	285 683	298 502	Allocated in terms of what provinces would have received had the grant continued
Substance abuse treatment grant shift	91 009	95 096	99 356	103 814	Allocated in terms of what provinces would have received had the grant continued
Municipal intervention	101 663	106 228	110 987	115 967	Allocated equally among the provinces
HIV Prevention Programmes	119 024	124 370	129 941	135 772	Allocated based on the non-profit organisations located in the 27 priority districts
Social worker additional support shift	152 539	159 390	166 530	174 003	Allocated according to areas of high prevalence of gender-based violence, substance abuse and issues affecting children
Sanitary Dignity Programme	235 516	246 093	257 118	268 655	Allocated proportionately based on the number of girl learners per province in quintiles 1 to 3 schools
Infrastructure delivery improvement programme shift	49 192	51 401	53 703	56 113	Allocated equally among the provinces
Education sector presidential employment initiative	6 457 600	–	–	–	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	298 000	632 000	848 000	307 000	Allocated only to Eastern Cape
KZN Izinduna	631 083	–	–	–	Allocated only to KwaZulu-Natal
Total	**7 546 029**	**1 137 310**	**1 188 262**	**1 241 580**	

Source: National Treasury

Final provincial equitable share allocations

The final equitable share allocations per province for the 2024 MTEF period are detailed in Table W1.18. 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 W1.18 Provincial equitable share

R million	2024/25	2025/26	2026/27
Eastern Cape	78 093	81 550	84 495
Free State	33 091	34 582	36 188
Gauteng	127 992	133 771	139 994
KwaZulu-Natal	121 145	126 360	131 972
Limpopo	69 625	72 925	76 482
Mpumalanga	49 499	51 739	54 150
Northern Cape	16 143	16 905	17 727
North West	42 816	44 882	47 109
Western Cape	62 071	64 728	67 588
Total	**600 476**	**627 442**	**655 704**

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 3.7 per cent over the medium term. Direct conditional grant baselines total R129 billion in 2024/25, R133.4 billion in 2025/26 and R135.1 billion in 2026/27. Indirect conditional grants amount to R3.8 billion, R4.2 billion and R4.2 billion respectively for each year of the same period.

Table W1.19 provides a summary of conditional grants by sector for the 2024 MTEF period. More detailed information, including the framework and allocation criteria for each grant, is provided in the 2024 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 2022/23.

Table W1.19 Conditional grants to provinces

R million	2023/24 Revised estimate	2024/25	2025/26	2026/27	MTEF total
Agriculture, Land Reform and Rural Development	**2 166**	**2 280**	**2 526**	**2 581**	**7 387**
Comprehensive agricultural support programme	1 502	1 741	1 754	1 774	5 270
Ilima/Letsema projects	585	448	677	708	1 834
Land care programme: poverty relief and infrastructure development	79	90	94	99	283
Basic Education	**23 598**	**26 041**	**27 505**	**28 251**	**81 798**
Early childhood development	1 184	1 589	1 946	2 035	5 571
Education infrastructure	12 278	13 681	14 234	14 373	42 288
HIV and AIDS (life skills education)	214	250	261	273	783
Learners with profound intellectual disabilities	260	279	291	304	875
Maths, science and technology	383	444	459	480	1 383
National school nutrition programme	9 279	9 798	10 314	10 786	30 899
Cooperative Governance	**146**	**149**	**151**	**158**	**459**
Provincial disaster response	146	149	151	158	459
Health	**52 743**	**56 351**	**57 450**	**60 087**	**173 888**
District health programme grant	25 866	27 963	28 228	29 523	85 714
Health facility revitalisation	6 680	7 152	7 243	7 575	21 969
Human resources and training grant	5 479	5 517	5 598	5 855	16 970
National health insurance grant	695	456	462	471	1 389
National tertiary services	14 024	15 264	15 919	16 662	47 845
Human Settlements	**17 081**	**16 906**	**16 919**	**15 262**	**49 087**
Human settlements development	13 255	13 655	14 149	14 332	42 137
Informal settlements upgrading partnership	3 826	3 251	2 770	930	6 951
Public Works and Infrastructure	**800**	**617**	**625**	**654**	**1 897**
Expanded public works programme integrated grant for provinces	404	312	316	330	957
Social sector expanded public works	396	306	310	324	939
Sport, Arts and Culture	**2 064**	**2 230**	**2 270**	**2 374**	**6 874**
Community library services	1 503	1 612	1 643	1 719	4 974
Mass participation and sport development	561	618	626	655	1 900
Transport	**22 720**	**24 408**	**25 965**	**25 731**	**76 104**
Provincial roads maintenance	15 317	16 672	17 883	17 279	51 834
Public transport operations	7 403	7 735	8 082	8 452	24 270
Total direct conditional allocations	**121 318**	**128 984**	**133 411**	**135 098**	**397 493**
Indirect transfers	**3 998**	**3 841**	**4 195**	**4 177**	**12 213**
Basic Education	**1 899**	**1 642**	**1 777**	**1 870**	**5 288**
School infrastructure backlogs	1 899	1 642	1 777	1 870	5 288
Health	**2 099**	**2 200**	**2 418**	**2 307**	**6 924**
National health insurance indirect	2 099	2 200	2 418	2 307	6 924

Source: National Treasury

Agriculture, land reform and rural development 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 *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 *Ilima/Letsema projects grant* aims to boost food production by helping previously disadvantaged farming communities.

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 2025/26 and 2026/27, as this will be informed by the outcomes of the infrastructure assessments that will be conducted in each province. Funds that were previously added to the subsidy component to pilot a nutrition support programme and a results-based service delivery model have been shifted to national government, which is best suited to provide the inter-departmental co-ordination and support required.

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.

To receive the 2024/25 incentive, the departments had to meet certain prerequisites in 2022/23 and have their infrastructure plans approved in 2023/24. 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 W1.20 shows the final score and incentive allocation for each province.

The Western Cape Rapid Schools Build Programme has been provisionally allocated funding over the MTEF period through the Budget Facility for Infrastructure. The funds for 2024/25 will flow at the time of the 2024 Adjustment Budget provided the Western Cape Education Department meets the stipulated conditions.

Table W1.20 Education infrastructure grant allocations

R thousand	Planning assessment results from 2023	2024/25 Basic component	2024/25 Incentive component	Final allocation for 2024/25
Eastern Cape	81%	1 759 106	89 074	1 848 180
Free State	87%	918 231	89 074	1 007 305
Gauteng	82%	2 207 575	89 074	2 296 649
KwaZulu-Natal	98%	2 299 244	89 074	2 388 318
Limpopo	79%	1 414 329	89 074	1 503 403
Mpumalanga	83%	1 221 820	89 074	1 310 894
Northern Cape	86%	627 229	89 074	716 303
North West	79%	1 214 960	89 074	1 304 034
Western Cape	93%	1 217 280	89 074	1 306 354
Total		**12 879 775**	**801 665**	**13 681 440**

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.

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).

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.

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.

The *learners with profound intellectual disabilities grant* aims to expand access to quality, publicly funded education for such learners by recruiting outreach teams.

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 2024 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.

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.

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. In the 2023 MTEF, funds that were unallocated for 2024/25 have now been allocated to the Eastern Cape, Limpopo, Mpumalanga and the North West provinces to develop and expand tertiary services in their facilities. In the 2024 MTEF, funding for oncology services will be shifted from the *national health insurance grant* to this grant. This shift allows for the funding of oncology services to be consolidated under a single conditional grant. The funds will be added to those being used to develop and expand tertiary services.

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.

Like the *education infrastructure grant* discussed previously, 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 W1.21 sets out the final score and the incentive allocation per province.

Table W1.21 Health facility revitalisation grant allocations

R thousand	Planning assessment results from 2023	2024/25 Basic component	2024/25 Incentive component	Final allocation for 2024/25
Eastern Cape	87%	716 990	72 952	789 942
Free State	81%	621 399	72 952	694 351
Gauteng	80%	1 070 959	72 952	1 143 911
KwaZulu-Natal	99%	1 385 240	72 952	1 458 192
Limpopo	76%	528 369	72 952	601 321
Mpumalanga	83%	386 343	72 952	459 295
Northern Cape	72%	437 961	–	437 961
North West	78%	632 609	72 952	705 561
Western Cape	94%	788 355	72 952	861 307
Total		**6 568 227**	**583 614**	**7 151 841**

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. In the 2023 MTEF, funds were unallocated in the training component for 2024/25. These funds have now been allocated to the Eastern Cape, Limpopo, Mpumalanga, the Northern Cape and the North West provinces to develop and expand tertiary services.

The *national health insurance indirect grant* continues to fund all preparatory work for universal health coverage, as announced in 2017/18. The conditional grant was previously implemented through three components, namely the health facility revitalisation component, the non-personnel services component and the personnel services component. From 2024/25, the non-personnel services component and the personnel services component will be merged to form a new health systems component. This will allow for better management and implementation of the conditional grant. The newly merged component will continue to fund priority services for national health insurance, which include:

- Testing and scaling up when ready, the technology platforms and information systems needed to ensure a successful transition to national health insurance.
- Strengthening health information systems, clinics and the dispensing and distribution of centralised chronic medicines.

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. Previously, the conditional grant also funded the delivery of oncology services. Over the medium term, funding for oncology will be shifted to the *national tertiary services grant.* This shift allows for the funding of oncology services to be consolidated under a single conditional grant. The funds will be used for the continued development and expansion of tertiary services.

Human settlements grants

The *human settlements development grant* seeks to establish habitable, stable and sustainable human settlements in which all citizens have access to social and economic amenities.

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 W1.22 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 Act 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.

Table W1.22 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 2024/25 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.

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.

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.

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.

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.

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 devolve 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.

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.

The incentive portion of the grant is allocated based on performance indicators relating to traffic loads, safety engineering and visual condition indicators.

PART 5: LOCAL GOVERNMENT FISCAL FRAMEWORK AND ALLOCATIONS

Funds raised by national government are transferred to municipalities through conditional and unconditional grants. National transfers to municipalities are published to enable them to plan fully for their 2024/25 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 2024 MTEF period announced in the 2023 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, R531.7 billion will be transferred directly to local government and a further R22.7 billion has been allocated to indirect grants. Direct transfers to local government over the medium term account for 9.8 per cent of national government's non-interest expenditure. When indirect transfers are added to this, total spending on local government increases to 10.1 per cent of national non-interest expenditure.

Table W1.23 Transfers to local government

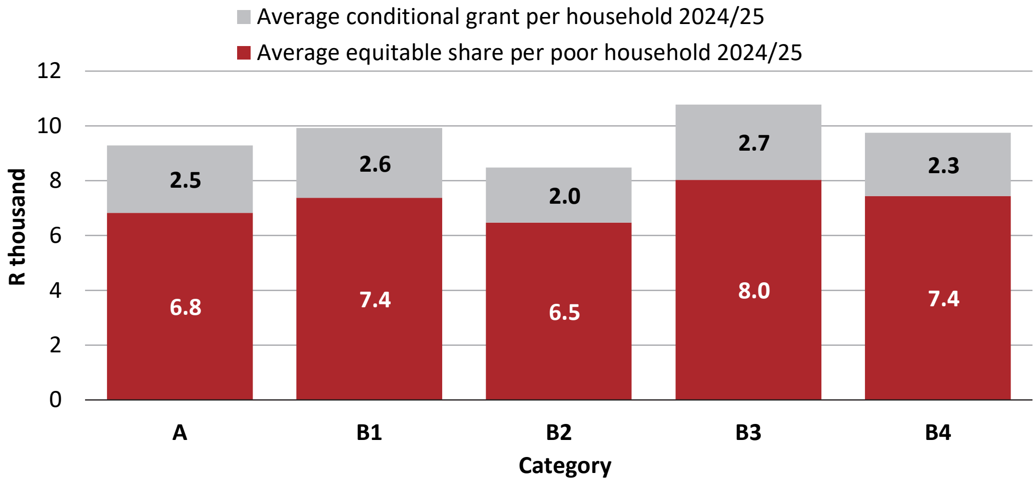
R million	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Adjusted budget	Medium-term estimates		
Direct transfers	**137 098**	**135 625**	**150 699**	**160 619**	**170 294**	**177 656**	**183 775**
Equitable share and related	**83 102**	**76 169**	**83 938**	**95 189**	**101 178**	**106 087**	**110 661**
Equitable share formula[1]	76 482	69 197	76 649	87 621	93 460	98 063	102 295
RSC levy replacement	5 652	5 963	6 249	6 524	6 647	6 909	7 207
Support for councillor remuneration and ward committees	969	1 009	1 040	1 044	1 071	1 115	1 160
General fuel levy sharing with metros	**14 027**	**14 617**	**15 335**	**15 433**	**16 127**	**16 849**	**17 621**
Conditional grants	**39 969**	**44 839**	**51 426**	**49 997**	**52 990**	**54 720**	**55 493**
Infrastructure	37 901	42 635	48 992	47 465	50 918	52 604	53 281
Capacity building and other	2 068	2 204	2 434	2 532	2 072	2 116	2 213
Indirect transfers	**4 100**	**7 638**	**7 182**	**8 297**	**7 098**	**7 540**	**8 034**
Infrastructure	4 072	7 592	7 118	8 150	6 954	7 389	7 876
Capacity building and other	28	46	64	147	145	151	158
Total	**141 198**	**143 262**	**157 880**	**168 916**	**177 393**	**185 196**	**191 810**

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 responds to the constitutional assignment of powers and functions to this sphere of government. The framework refers to all resources available to municipalities to meet their expenditure responsibilities. National transfers account for a relatively small proportion of the local government fiscal framework, with the majority of local government revenues being raised by municipalities themselves through their substantial revenue-raising powers. However, each municipality varies dramatically, with poor rural municipalities receiving most of their revenue from transfers, while urban municipalities raise the majority of their own revenues. This differentiation in the way municipalities are funded will continue in the period ahead. As a result, transfers per household to the most rural municipalities are more than twice as large as those to metropolitan municipalities.

Figure W1.2 Per household allocations to municipalities, 2024/25*



**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 reductions to local government allocations were proposed in the 2023 MTBPS. A number of these have been reversed or revised downwards and several further cuts and other reprioritisations effected to make funds available for other government priorities. The changes to each local government allocation are summarised in Table W1.24.

Previous reductions proposed to the general fuel levy sharing with metropolitan municipalities, the *rural roads asset management systems grant* and the *water services infrastructure grant* have been reversed.

The previous reduction of R218 million to the *integrated national electrification programme municipal grant* is revised to R204 million over the same period; the previous reduction of R49 million over the MTEF period to the *municipal disaster response grant* is revised to R35 million over the same period; and the previous reduction of R48 million over the MTEF period to the *municipal systems improvement grant* is revised to R27 million over the same period.

To make funds available for other government priorities, further reductions have been made to some municipal conditional grants over the 2024 MTEF period. These include an additional reduction of R3.5 billion to the *integrated national electrification programme Eskom grant*; an additional reduction of R73 million to the *integrated urban development grant*; an additional reduction of R14 million to the *energy efficiency and demand-side management grant*; an additional reduction of R4 million to the *public transport network grant*; an additional reduction of R127 million to the direct component of the *regional bulk infrastructure grant;* and an additional reduction of R852 million to the indirect component of the *regional bulk infrastructure grant*.

Table W1.24 Revisions to direct and indirect transfers to local government

R million	2024/25	2025/26	2026/27	2024 MTEF total revisions
Technical adjustments	**-200**	**-200**	**400**	**–**
Direct transfers	**-924**	**-1 056**	**-616**	**-2 596**
Local government equitable share	**–**	**–**	**–**	**–**
Equitable share formula	4	-3	-0	0
Support for councillor and ward committees	-4	3	0	-0
Conditional grants	**-924**	**-1 056**	**-616**	**-2 596**
Integrated urban development	-46	-45	–	-91
Municipal disaster recovery	741	709	–	1 450
Municipal infrastructure	-753	-664	–	-1 417
Integrated national electrification programme	-500	-650	-800	-1 950
Public transport network	-200	-200	400	–
Regional bulk infrastructure	-166	-206	-216	-587
Indirect transfers	**724**	**856**	**1 016**	**2 596**
Municipal infrastructure	58	–	–	58
Smart meters	500	650	800	1 950
Regional bulk infrastructure	-40	-34	-206	-279
Water Services Infrastructure	205	240	422	867
Additions	**650**	**–**	**–**	**650**
Direct transfers	**650**	**–**	**–**	**650**
Conditional grants	**650**	**–**	**–**	**650**
Neighbourhood development partnership	650	–	–	650
Reductions to baselines	**-6 302**	**-7 193**	**-7 759**	**-21 253**
Direct transfers	**-3 814**	**-4 618**	**-5 093**	**-13 526**
Local government equitable share	**-2 594**	**-3 281**	**-3 717**	**-9 593**
Equitable share formula	-2 396	-3 033	-3 436	-8 866
RSC levy replacement	-170	-214	-242	-626
Councillors and ward committees	-28	-34	-39	-101
Conditional grants	**-1 220**	**-1 337**	**-1 376**	**-3 933**
Integrated urban development	-35	-37	-39	-112
Municipal infrastructure	-524	-558	-584	-1 666
Informal settlements upgrading partnership	-46	-48	-50	-143
Urban settlements development	-88	-93	-99	-281
Energy efficiency and demand-side management	-7	-7	-7	-21
Integrated national electrification programme	-65	-68	-71	-204
Neighbourhood development partnership	-6	-7	-7	-20
Public transport network	-79	-85	-74	-238
Regional bulk infrastructure	-81	-83	-77	-241
Municipal disaster response	-11	-12	-12	-35
Infrastructure skills development	-2	-2	-2	-5
Local government financial management	-12	-31	-32	-75
Programme and project preparation support	-8	-21	-22	-50
Expanded public works programme integrated	-256	-286	-299	-841
Indirect transfers	**-2 488**	**-2 575**	**-2 665**	**-7 728**
Integrated national electrification programme	-1 797	-1 877	-1 963	-5 637
Neighbourhood development partnership	-11	-11	-12	-33
Regional bulk infrastructure	-672	-678	-681	-2 031
Municipal systems improvement	-9	-9	-9	-27
Total change to local government allocations				
Change to direct transfers	-4 088	-5 674	-5 710	-15 471
Change to indirect transfers	-1 764	-1 719	-1 649	-5 132
Net change to local government allocations	**-5 852**	**-7 393**	**-7 359**	**-20 603**

Source: National Treasury

Reprioritisations over the MTEF period include the following: R58.3 million from the direct component of the *municipal infrastructure grant* is converted to the indirect component of the grant; R587 million from the direct component of the *regional bulk infrastructure grant* is converted to the indirect component; R91 million from the *integrated urban development grant* and R1.4 billion from the *municipal infrastructure grant* are shifted to the *municipal disaster recovery grant* to fund the repair and reconstruction of municipal infrastructure damaged by the floods that occurred between February and March 2023; R400 million from the first two years of the MTEF period are shifted to the outer year in the *public transport network grant*; R2 billion is reprioritised from the *integrated national electrification programme municipal grant* to fund the baseline for the new *smart meters grant*; and R432 million is reprioritised from the *integrated national electrification programme Eskom grant* to fund other priorities in the energy sector.

Having taken these revisions into account, local government allocations decrease by R15.5 billion over the 2024 MTEF period. Direct allocations to municipalities over the next three years grow at an average annual rate of 5.2 per cent. Indirect allocations decline at an average annual rate of 1.1 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 2024 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 R317.9 billion (R101.2 billion in 2024/25, R106.1 billion in 2025/26 and R110.7 billion in 2026/27).

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) *x* ***RA ± 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 2024 terms, this monthly income is equivalent to about R4 418 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, and the number below the poverty threshold, is updated annually. The number of households per municipality used to calculate indicative allocations for the outer years of the MTEF period is updated based on the growth experienced between the 2001 Census and the 2016 Community Survey. Provincial growth rates are then rebalanced to match the average annual provincial growth reported between 2002 and 2022 in the annual General Household Survey. Statistics South Africa has advised the National Treasury that, in the absence of official municipal household estimates, this is a credible method of estimating the household numbers per municipality needed for the formula. Statistics South Africa is researching methods for producing municipal-level data estimates, which may be used to inform equitable share allocations in future.

The proportion of households below the affordability threshold in each municipality is still based on 2011 Census data. This is because the 2016 Community Survey did not publish data on household income. The total number of households in each municipality is adjusted every year to account for growth. Although the share of households subsidised for free basic services through the formula remains constant, the number of households subsidised increases annually in line with estimated household growth.

The recent release of the 2022 Census household data has shed light on the higher-than-expected growth in the number of households used in the local government equitable share formula for 2022/23, surpassing the current count of households by 1.1 million, which represents an increase of 6 per cent. These variances were found across all municipal categories, bringing attention to the need for further analysis and discussion.

The absence of the Income and Expenditure Survey from Statistics South Africa, which is expected to be released in late 2024, presents a major challenge in accurately quantifying the impact of these noted variances on municipal allocations. To address this issue, consultations with Statistics South Africa are scheduled for the upcoming financial year to determine the best course of action.

To minimise disruption to municipal allocations when the complete census data becomes available for implementation in the outer years of the MTEF period, several intergovernmental forums – including the Local Government Equitable Share Working Group, the Technical Budget Forum, the Technical Committee for Finance and the Budget Forum – have agreed to halt the growth of household numbers. This decision means that the local government equitable share formula for the 2024 MTEF period will rely on the 2023/24 household estimates as contained in the 2023/24 local government equitable share formula, effectively stabilising the process until the 2022 Census data has been evaluated and decisions made.

The basic services subsidy is typically allocated to 100 per cent of households that fall below the poverty threshold. However, due to baseline reductions over the years and the rapid growth in the cost of bulk services, the basic services subsidy could not be fully funded, as the reductions had to spread across all components of the formula to minimise the impact on service delivery in smaller and more rural municipalities. Over the MTEF period ahead, the subsidy is allocated to 100 per cent of households below the poverty threshold. The basic services subsidy will fund 11.2 million households in 2024/25.

The basic services component provides a subsidy of R567.12 per month in 2024/25 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 W1.25 and includes an allocation of 10 per cent for service maintenance costs.

Table W1.25 Amounts per basic service allocated through the local government equitable share, 2024/25

	Allocation per household below affordability threshold (R per month)			Total allocation per service (R million)
	Operations	Maintenance	Total	
Energy	122.4	13.6	136.0	18 251
Water	176.6	19.6	196.2	26 329
Sanitation	115.0	12.8	127.8	17 140
Refuse removal	96.4	10.7	107.1	14 368
Total basic services	**510.4**	**56.7**	**567.1**	**76 088**

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 W1.25 is updated annually based on the following factors.

The electricity cost estimate is made up of bulk and other costs. Bulk costs are updated based on the bulk multi-year price determination – period 5 approved by the National Energy Regulator of South Africa. This price determination covered the 2023/24 and 2024/25 financial years at increases of 18.7 per cent and 12.7 per cent, respectively. Given the absence of approved increases for the outer years of the 2024 MTEF, the increases in the local government equitable share formula are estimated to be the average of the multi-year price determination 5 approvals (15.7 per cent) over this period. As such, the free basic electricity subsidy in the local government equitable share is calculated based on a 12.7 per cent tariff increase in 2024/25 and a 15.7 per cent increase in 2025/26 and 2026/27. Other (non-bulk) electricity costs are updated based on the National Treasury’s inflation projections in the 2023 MTBPS.

The water cost estimate is also made up of bulk and other costs. Bulk 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 10.8 per cent over the medium-term period. Other costs are updated based on the National Treasury’s inflation projections in the 2023 MTBPS. The costs for sanitation and refuse removal are updated based on the National Treasury’s inflation projections in the 2023 MTBPS.

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 Act. The basic services component is worth R76.1 billion in 2024/25 and accounts for 81.4 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 2024/25, this component consists of a base allocation of R8.9 million, which goes to every municipality, 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 7.4 per cent of the local government equitable share formula and is worth R6.9 billion in 2024/25. 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 2024/25, the allocation to district municipalities for municipal health and related services is R12.41 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 11.2 per cent of the local government equitable share formula and is worth R10.4 billion in 2024/25.

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, which 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* is allocated R20.8 billion over the 2024 MTEF period and grows at an average annual rate of 3.4 per cent.

From 2023/24, a uniform growth rate is applied for allocations to C1 and C2 district municipalities. 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.

Special support for councillor remuneration and ward committees

Councillors' salaries are subsidised in poor municipalities. The total value of the support provided in 2024/25 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 billion in 2024/25 to R54.7 billion in 2025/26 and R55.5 billion in 2026/27.

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 R179 billion over the 2024 MTEF period.

Table W1.26 Infrastructure grants to local government

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
R million	Outcome			Revised budget	Medium-term estimates		
Direct transfers	**37 901**	**42 635**	**48 992**	**47 465**	**50 918**	**52 604**	**53 281**
Integrated urban development	936	1 009	1 085	1 172	1 146	1 202	1 304
Municipal disaster recovery	–	–	3 319	1 505	741	709	–
Municipal infrastructure	14 491	15 593	16 842	16 342	17 054	17 927	19 444
Informal settlements upgrading partnership	–	3 945	4 273	4 059	4 515	4 717	4 934
Urban settlements development	10 572	7 405	7 352	7 596	8 705	9 250	9 819
Energy efficiency and demand-side management	193	221	223	224	236	246	258
Integrated national electrification programme	1 359	2 002	2 120	2 032	1 746	1 697	1 655
Neighbourhood development partnership	479	1 318	1 293	1 346	1 291	669	700
Public transport network	4 389	5 175	6 013	6 194	7 473	8 084	7 619
Rural roads asset management systems	108	110	115	115	121	126	132
Regional bulk infrastructure	2 006	2 237	2 656	3 259	3 852	3 757	3 005
Water services infrastructure	3 368	3 620	3 701	3 620	4 038	4 219	4 412
Indirect transfers	**4 072**	**7 592**	**7 118**	**8 150**	**6 954**	**7 389**	**7 876**
Municipal infrastructure	–	–	–	30	58	–	–
Integrated national electrification programme	1 983	2 824	3 588	3 518	2 196	2 294	2 400
Neighbourhood development partnership	61	181	190	189	95	99	104
Smart meters	–	–	–	–	500	650	800
Regional bulk infrastructure	1 724	3 857	2 725	3 298	3 058	3 227	3 232
Water services infrastructure	305	730	615	1 114	1 047	1 119	1 341
Total	**41 973**	**50 227**	**56 110**	**55 615**	**57 872**	**59 993**	**61 157**

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 R54.4 billion over the medium term and grow at an average annual rate of 6 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 W1.27 Data used in the municipal infrastructure grant formula

Component	Input for horizontal calculation	Proxy used in 2024 (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 W1.28 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.

Table W1.28 Municipal infrastructure grant allocations per sector

Municipal infrastructure grant (formula)	Component weights	Value of component 2024/25 (R million)	Proportion of municipal infrastructure grant per sector
B-component	**75.0%**	**12 021**	**68.4%**
Water and sanitation	54.0%	6 491	37.0%
Roads	17.3%	2 074	11.8%
Other	3.8%	451	2.6%
P-component	**15.0%**	**2 404**	**13.7%**
Sports	33.0%	793	4.5%
E-component	**5.0%**	**801**	**4.6%**
N-component	**5.0%**	**801**	**4.6%**
Constant		**1 085**	**6.2%**
Ring-fenced funding for sport infrastructure		**452**	**2.6%**
Total		**17 565**	**100.0%**

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 2024 MTEF period (R452 million in each year of the three-year period). 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 2024 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, over the 2024 MTEF period the Department of Cooperative Governance will continue to use the indirect component of the grant to implement projects on behalf of identified municipalities. 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. It 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 Act. 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 W1.29 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 2024/25		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 2024/25		Linear scale in between

Source: National Treasury

The total allocations for this grant amount to R3.6 billion over the 2024 MTEF period and grow at an average annual rate of 3.6 per cent. There are no new entrants to the *integrated urban development grant* over the period.

Table W1.30 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)
uMhlathuze	–	40%	30%	20%	–	16%	26 329	26 329
Drakenstein	–	20%	20%	30%	–	12%	20 478	20 478
Mogale City	–	10%	20%	20%	–	9%	14 627	14 627
Polokwane	–	10%	20%	20%	–	9%	14 627	14 627
Ray Nkonyeni	–	10%	20%	20%	–	9%	14 627	14 627
Sol Plaatje	–	20%	30%	10%	–	10%	17 552	17 552
Stellenbosch	–	30%	30%	20%	–	14%	23 403	23 403
Steve Tshwete	–	30%	30%	20%	–	14%	23 403	23 403
George	–	20%	10%	20%	–	9%	14 627	14 627
Total	**–**					**100%**	**169 673**	**169 673**

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. The grant's framework has been amended to emphasise the importance of spending on both new and existing bulk infrastructure.

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 Act. 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 R27.8 billion over the medium term and grows at an average annual rate of 8.9 per cent. This amount includes a total Budget Facility for Infrastructure allocation of R1.7 billion over the same period. eThekwini Metropolitan Municipality is allocated R118 million in 2024/25 for the implementation of phase 1 of the Avoca Node Programme, which entails upgrading roads and stormwater infrastructure. The City of Johannesburg is allocated R654 million in 2024/25 and R963 million in 2025/26 for the implementation of the Lufhereng Mixed Use Development Programme. These funds will be used to build municipal connection links for bulk electrical, water, sanitation, roads and stormwater infrastructure that will serve 30 000 housing units.

The allocation per municipality (excluding the BFI allocations) is based on the *municipal infrastructure grant* formula. Up to 3 per cent of the grant 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 R4.5 billion in 2024/25, R4.7 billion in 2025/26 and R4.9 billion in 2026/27. 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* assists metropolitan municipalities in developing a pipeline of investment-ready capital programmes and projects. This is done by establishing and institutionalising an effective and efficient system of programme and project preparation, as well as allocating a growing level of municipal resources for preparation activities. The grant is allocated R1.2 billion over the 2024 MTEF period and grows at an average annual rate of 8.6 per cent.

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. It is allocated R17.8 billion over the medium term.

A formula is used to determine 95 per cent of the allocations and a performance-based incentive component accounts for the remaining 5 per cent. The formula increases 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.

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 then 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 one of these three indicators.

In 2023/24, the incentive component was not active due to concerns regarding the credibility of the data. However, these issues have since been resolved and the component has been reinstated for 2024/25. The baseline for this year has been set at R303 million. To calculate the performance incentives for 2024/25, Table W1.31 has been created, which takes into account the raw scores for each city. These raw scores have been weighted based on the sum of the base and formula components, which helps to factor in the size of the city.

Table W1.31 Public transport network grant

	Oper-ational public transport system	Grant spent in 2022/23	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 2024/25 (R 000)
Minimum threshold	**Yes**	**80%**		**35.0%**	**1.0%**	**2.0%**		
City of Cape Town	Yes	99%	Yes	2.7%	0.62%	5.5%	0.282	210 435
City of Johannesburg	Yes	75%	No	0.0%	0.00%	2.8%	-	-
City of Tshwane	Yes	93%	Yes	0.0%	0.00%	0.0%	–	–
Ekurhuleni	Yes	100%	Yes	0.0%	0.00%	0.0%	–	–
eThekwini	No	60%	No	0.0%	0.00%	0.0%	–	–
George	Yes	85%	Yes	0.0%	6.33%	0.1%	0.306	38 190
Mangaung	No	0%	No	0.0%	0.00%	0.0%	–	–
Msunduzi	No	0%	No	0.0%	0.00%	0.0%	–	–
Nelson Mandela Bay	Yes	35%	No	0.0%	0.00%	0.0%	–	–
Polokwane	Yes	93%	Yes	23.9%	0.00%	0.0%	0.299	54 346
Rustenburg	Yes	100%	Yes	0.0%	0.00%	0.0%	–	–
Total								**302 972**

Source: National Treasury

During 2020/21, three cities were suspended from receiving this grant due to being in the planning phase since the grant's introduction in the 2006 MTEF period. Among these cities was Msunduzi Local Municipality, which 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 plans to gradually reintroduce the municipality into the grant from 2024/25 onwards. 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. In 2024/25, this component is equally shared among nine of the 11 cities. A portion of the City of Johannesburg's base allocation for 2024/25 is reprioritised to fund the phased-in re-entry of Msunduzi Local Municipality. The bulk of the formula (75 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 W1.32 sets out how the final allocation for each municipality is determined, taking account of both the formula and incentive components.

In addition to the formula, R5.4 billion is allocated through the *public transport network grant* over the medium term for 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 BFI.

Table W1.32 Formula for the public transport network grant

	Base 20%	Demand-driven factors 75%					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 5%	Grant allocations[2] (R 000)
City of Cape Town	10.0%	17.8%	16.8%	16.4%	15.2%	210 435	885 316
City of Johannesburg	5.9%	21.1%	26.9%	22.0%	19.7%	-	1 135 473
City of Tshwane	10.0%	13.9%	16.0%	15.1%	14.0%	-	804 327
Ekurhuleni	10.0%	15.1%	10.1%	16.4%	13.0%	-	749 530
eThekwini	10.0%	16.4%	16.9%	19.0%	16.0%	-	921 411
George	10.0%	0.9%	0.5%	0.2%	2.5%	38 190	184 733
Mangaung	10.0%	3.6%	2.5%	3.3%	4.6%	-	266 686
Msunduzi	4.1%	0.0%	0.0%	0.0%	0.9%	-	50 000
Nelson Mandela Bay	10.0%	5.5%	5.0%	3.8%	5.9%	-	339 948
Polokwane	10.0%	3.0%	1.6%	1.3%	3.7%	54 346	267 249
Rustenburg	10.0%	2.6%	3.7%	2.4%	4.4%	-	254 763
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**302 972**	**5 859 434**

1. Equally shared amongst 9 of the 11 cities. A portion of the City of Johannesburg's base allocation for 2024/25 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

Neighbourhood development partnership grant

The *neighbourhood development partnership grant* supports municipalities in developing and implementing urban network plans. The grant funds the upgrading of identified precincts to stimulate third-party public and private investment. In metropolitan municipalities, the focus is on upgrading urban hubs in townships. The National Treasury, in collaboration with other stakeholders, including the Department of Agriculture, Rural Development and Land Reform and the Department of Cooperative Governance, had identified a cohort of non-metropolitan municipalities to implement new projects as part of this grant. The National Treasury will continue to partner with these municipalities to identify, plan and implement infrastructure upgrades in targeted urban hub precincts.

As part of government's efforts to promote job creation, R650 million is being added in 2024/25 to the *neighbourhood development partnership grant* to fund the Cities Public Employment Programme. The grant is allocated R3 billion over the 2024 MTEF period, made up of R2.7 billion for the direct capital component and R298 million for the indirect technical assistance component.

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 R10.6 billion over the 2024 MTEF period. This amount includes amounts from the Budget Facility for Infrastructure over the medium term. Sol Plaatje Local Municipality is allocated R492 million in 2024/25, R574 million in 2025/26 and R579 million in 2026/27 to refurbish and renew old water supply infrastructure. Drakenstein Local Municipality is allocated R593 million in 2024/25 and R481 million in 2025/26 to upgrade sanitation infrastructure. Nelson Mandela Bay is allocated R250 million in 2024/25 and R390 million in 2025/26 to avert the water supply crisis from the ongoing drought over the short term. The programme includes fixing water leaks, upgrading the water treatment works, borehole exploration and development, and upgrading a bulk water pipeline.

The indirect component of this grant is allocated R9.5 billion over the 2024 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 2024 MTEF period, the direct component of this grant is allocated R12.7 billion and the indirect component is allocated R3.5 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 Mineral Resources and Energy. The grant only funds 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 billion on the programme over the 2024 MTEF period.

The *integrated national electrification programme (municipal) grant* is allocated R5.1 billion over the 2024 MTEF period. The *integrated national electrification programme (Eskom) grant* is allocated R6.9 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 and energy-efficient municipal infrastructure. 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 R740 million over the medium term and is projected to grow at an average annual rate of 4.7 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. This grant is allocated R121 million in 2024/25, R126 million in 2025/26 and R132 million in 2026/27.

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 R1.4 billion over the 2024 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 to 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 R6.9 billion is allocated to capacity-building grants and other current transfers to local government over the medium term.

Table W1.33 Capacity building and other current grants to local government

R million	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Revised budget	Medium-term estimates		
Direct transfers	**2 068**	**2 204**	**2 434**	**2 532**	**2 072**	**2 116**	**2 213**
Municipal disaster response	151	330	517	745	378	395	413
Municipal emergency housing	166	66	53	–	–	–	–
Infrastructure skills development	144	155	159	151	165	173	181
Local government financial management	545	552	566	569	582	590	617
Programme and project preparation support	314	341	361	319	386	391	409
Expanded public works programme integrated grant for municipalities	748	759	778	749	560	567	593
Indirect transfers	**28**	**46**	**64**	**147**	**145**	**151**	**158**
Municipal systems improvement	28	46	64	147	145	151	158
Total	**2 096**	**2 250**	**2 498**	**2 679**	**2 216**	**2 267**	**2 371**

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 act and to improve compliance and areas of weakness identified in the financial management capability maturity model. The grant also supports municipalities in the implementation of the Municipal Finance Management Act and provides funds for the implementation of the municipal standard chart of accounts. Over the 2024 MTEF period, R1.8 billion is allocated to this grant.

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 R519 million over the 2024 MTEF period, with an allocation of R165 million in 2024/25, R173 million in 2025/26 and R181 million in 2026/27.

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. The Department of Cooperative Governance implements the indirect grant. The grant's total allocations amount to R454 million over the 2024 MTEF period and grow at an average annual rate of 2.6 per cent.

Over the next three years, the grant will continue to prioritise the institutionalisation of the district development model adopted by Cabinet in August 2019. The model is intended to improve coordination between national, provincial and local government, focusing on the municipal district and metropolitan spaces as the impact areas of joint planning, budgeting and implementation. In 2024/25, the grant will fund:

- Comprehensive institutional diagnostic assessments of the 21 district municipalities that are water service authorities. The purpose of the diagnostic assessments is to determine skills, systems, performance, institutional gaps and the main constraints impeding effective municipal performance.
- The development of institutional improvement and support plans that will inform all future capacity development programmes, towards institutionalisation of the district development model and implementation of One Plans – integrated plans that align resources and efforts across the three spheres of government and stakeholders to develop designated districts.

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 R1.7 billion over the 2024 MTEF period, with an allocation of R560 million in 2024/25, R567 million in 2025/26 and R593 million in 2026/27.

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 2024 MTEF period, R1.2 billion is available for disbursement through this grant: R378 million in 2024/25, R395 million in 2025/26 and R413 million in 2026/27. The grant decreases by an average annual rate of 17.8 per cent. This is due to the additional funding of R372 million that was added in 2023/24 following the depletion of this grant by the time of the 2023 MTBPS.

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.

Municipal smart prepaid meter rollout grant

A new conditional grant focused on the rollout of smart prepaid meters has been introduced as part of the 2024 Budget. This grant will complement the Municipal Debt to Eskom relief measures and will target municipalities already part of the programme. The purpose of this grant is to provide better efficiency in energy provision and the integration of renewable energy to meet consumer demands. Apart from aiding these objectives, smart grid technologies can also help municipalities protect existing revenue and optimise overall revenue collection from their existing bases. In light of this, this new grant will fund the initial capital outlay and operational expenditure required to implement smart systems that integrate with existing local financial systems. The grant will initially focus on those municipalities that the National Treasury has approved for municipal debt relief.

The grant is expected to progressively extend across municipalities to help improve financial sustainability and management.

To manage distributions, the National Treasury will manage this grant as an indirect grant and set up a transversal contract to manage quality and costs. A total of R2 billion has been allocated towards this grant, with R500 million set for 2024/25, R650 million for 2025/26 and R800 million for 2026/27 over the medium term. By implementing this grant, municipalities will efficiently provide crucial public services and function sustainably while maintaining financial stability.

PART 6: FUTURE WORK ON PROVINCIAL AND MUNICIPAL FISCAL FRAMEWORKS

The fiscal frameworks for provincial and local government encompass all their revenue sources and expenditure responsibilities. As underlying social and economic trends evolve and the assignment of intergovernmental functions change, so must the fiscal frameworks. The National Treasury, together with relevant stakeholders, conducts reviews to ensure that provinces and municipalities have an appropriate balance of available revenues and expenditure responsibilities, while taking account of the resources available and the principles of predictability and stability.

This part of the annexure describes the main areas of work to be undertaken over the 2024 MTEF period as part of the ongoing review and refinement of the intergovernmental fiscal framework. Provinces and municipalities will be consulted on all proposed changes.

Cross-cutting reforms

Review of the conditional grants system

The review was initiated after concerns were raised regarding the effectiveness of the existing grant system, including frequent underspending on infrastructure grants and duplication and fragmentation in both the provincial and municipal grant systems. The review aims to assess whether the existing grant system is optimally structured to provide efficient service delivery, roll out infrastructure, build capacity and provide operational support.

A thorough stakeholder consultation process was conducted to ensure that the review addresses the identified concerns adequately. Literature reviews were conducted in identified research areas to gain insights into conditional grant programs and recent trends. The findings from the research and consultations are being used to make evidence-based recommendations for reform.

The review process for the conditional grants has reached a significant milestone. The preliminary findings have been shared with the multi-stakeholder team, who have provided inputs that are being factored into the review document. In addition, various other reforms have emanated from the review, which are being discussed with affected sectors. As part of these reforms, the 2024/25 conditional grant frameworks were amended to signal the changes that are likely to be introduced.

The proposed reforms will be considered in the 2025 budget process, with no large-scale changes to conditional grants in the 2024 budget. The amended conditional grant frameworks will signal the changes that are likely to be introduced.

Improving intergovernmental coordination on infrastructure investment

To transform South Africa's spatial development patterns, intergovernmental coordination in planning and budgeting for infrastructure needs to be significantly improved. The National Treasury is partnering with provinces to ensure that investments in schools, roads, health facilities and housing are made in locations that align with municipalities' spatial development plans. Municipalities are consulted and must agree on the location and bulk services requirements for provincial infrastructure projects. This joint planning is in line with the Cabinet-approved district development model, and support will continue into 2024/25. National departments will also be supported to review policies and funding strategies to promote better alignment with spatial development frameworks.

One of the key efforts to improve intergovernmental coordination and infrastructure investment is the customisation of the infrastructure delivery management system for local government. This is under way in eight pilot municipalities with support from the government of Switzerland. The process will result in a local government infrastructure delivery management system toolkit applicable to all municipalities except metropolitan municipalities, which already have the city infrastructure delivery management system. The infrastructure reporting model is also being customised for implementation in six pilot municipalities, enabling a coordinated process of infrastructure delivery and reporting. The Framework for Infrastructure Delivery and Procurement Management sets out minimum requirements for infrastructure delivery compliance and training support is provided to practitioners. Ultimately, these initiatives aim to ensure cost-effective and efficient infrastructure delivery, with reporting incorporated into the Municipal Standard Chart of Accounts.

In 2024/25, the infrastructure reporting model will expand to cover all spheres of government, becoming the only infrastructure reporting framework for the country. The model currently supports reporting against 15 518 provincial projects totalling R71 billion, with amounts set to increase after testing and piloting the local government infrastructure reporting model. The National Treasury has also secured accredited training for up to 1 200 people on infrastructure delivery processes through the Public Service Sector Education and Training Authority to ensure the successful implementation of these important initiatives.

Review of the disaster management system

A two-pronged approach was adopted to implement Cabinet's recommendation to review the national disaster management system. The National Disaster Management Centre appointed a service provider to produce a synthesis report, which would inform the system review. Simultaneously, the Department of Planning, Monitoring and Evaluation assumed the responsibility of benchmarking against selected countries.

Mainstreaming disaster management in the Medium Term Strategic Framework of the new administration will help ensure that disaster management becomes an integral part of future planning processes. This approach will reduce disaster risks through systematic efforts to analyse and manage the causal factors of disasters, including reduced exposure to hazards, lessened vulnerability of people and property, wise management of land and the environment, and improved preparedness across the three spheres of government.

However, climate change will make extreme weather events more common, and the disaster funding system needs to adapt. In 2024/25, the National Treasury will continue to work with the National Disaster Management Centre to review the funding of disaster response and recovery activities. The current funding system is designed for the rapid release of funds following a declaration of disaster. The review needs to address problems and inefficiencies within the existing system while placing greater emphasis on being prepared before disasters occur and responding better to disasters that may last for several years, such as drought conditions.

Review of the provincial fiscal framework

Review of the provincial equitable share formula

The Constitution stipulates that provinces are entitled to a share of nationally raised revenue to deliver on their mandates. Provincial funds are allocated using a formula that considers the spread of the burden of service delivery across provinces. The provincial equitable share formula contains weighted elements that reflect government priorities and incorporates elements to redress inequality and poverty across provinces.

The provincial equitable share task team, made up of representatives from the National Treasury and provincial treasuries, is reviewing the formula. The task team partners with sector departments, Statistics South Africa and the FFC on different components of the review. It reports to the Technical Committee on Finance, and the Budget Council considers and approves any proposed changes to the formula. All components of the formula will be assessed, and changes are phased into the formula at every stage of the review as it is carried out.

In line with this approach, substantial changes were made in previous years to the education and health components. For the education component, following the assessment of the datasets that inform the equitable share formula, changes were made to the data that informs the learner enrolment numbers and the school-going age population. School enrolment numbers are now taken from the LURITS, following the improvement in the collection and tracking method of scholars by the Department of Basic Education. Previously the Census data was used to capture the school-going age population within the same component. This has since been replaced with Statistics South Africa’s mid-year population estimates. These numbers are more up to date and will assist with mitigating significant changes in data between Census updates.

Similarly, changes were made recently in the health component. In 2022, a redesigned risk-adjusted index was introduced into the formula to inform the allocation methodology of the health component. The index of each province’s risk profile accounts for the relative cost of providing health care services for members of the general population. In addition, it accounts for the general burden of disease, the additional burden associated with providing healthcare services to women and the additional cost of providing health care services in areas with low population density.

The work on exploring options available to improve the current structure of the education component will continue in 2024. In the previous year, technical work was carried out on how different funding needs of different types of schools and learners may be accounted for in the formula. This work was done in collaboration with the Department of Basic Education. The rest of this year will focus on taking forward the consultations that are under way. The aim is to conclude these in time to make changes to the education component in the next Budget.

Preparing for national health insurance implementation

The National Health Insurance Bill has been passed by the National Assembly and the National Council of Provinces. It is not yet assented to by the President and it is unclear which clauses will come into effect when. Preparatory work towards the progressive implementation of national health insurance will continue. The establishment of the National Health Insurance Fund will only be considered once the bill is enacted and listed as a 3A public entity in terms of the Public Finance Management Act. The bill will have profound implications for the division of health functions across the three spheres of government, including health financing. These may include relatively early changes in certain direct conditional grants and, in later phases, shifting parts of the grants (including provincial equitable share) via this fund. This will be considered through consultative structures, particularly the Technical Committee on Finance.

In parallel, the health sector will continue to strengthen the health system. This includes work on strategic purchasing, including developing and piloting provider payment mechanisms, expanding the national insurance beneficiary registry, and buying and providing a prioritised set of health services. The quality improvement initiative, funded through the health systems component of *the national health insurance indirect grant,* will help facilities meet the envisaged standards required for national health insurance accreditation.

Review of the local government fiscal framework

Refinements to the local government equitable share formula

Government continues to work with stakeholders to improve the local government equitable share formula. Areas of work in the period ahead include:

- Improving the responsiveness of the formula to the different functions assigned to district and local municipalities. This work depends on the availability of credible official records of the functions assigned to each sphere of government. Policy and administrative work under way in the National Disaster Management Centre could help improve the targeting of funding for fire services.
- Reviewing and updating how the special support for councillor remuneration is calculated. This support is calculated separately from the rest of the equitable share formula but transferred with equitable share allocations. Support is only provided to small and poor municipalities, and the data used for determining eligibility needs to be updated.

A working group, comprising the Department of Cooperative Governance, the National Treasury and SALGA, with technical support from the FFC and Statistics South Africa, has identified areas for possible refinements that could not be accommodated in the 2012/13 formula review due to data availability.

Over the 2024 MTEF period, the National Treasury, with the support of the working group, will undertake the following reforms to refine the local government equitable share formula:

- Basic services component: Review the possibility of introducing a cost differential model, which takes into account factors such as distances, topography and settlement type.
- Community services component: Introduce a separate component in the *local government equitable share* for municipal health services, and an explicit sub-component for the firefighting function.
- Institutional component: Develop an objective criterion that municipalities can be benchmarked against in relation to their administrative functions and the policy options related to financing infrastructure in small and rural municipalities.

Review of the municipal capacity-building system

As part of the ongoing review of local government capacity-building programmes, the National Treasury, the Department of Cooperative Governance, SALGA and the FFC will work closely to implement the reforms agreed to through the review, including:

- Following a change management approach to tackling systems within the broader local government capacity-building system, starting with an inward approach within the National Treasury.
- Building on existing National Treasury work and seeking improvements in capacity building in parallel with new capability development initiatives.
- Following a new framework for sustainable capability development that emphasises collaboration, a problem-led approach and a whole-municipality (fully integrated) approach.
- Improving the administration of capacity-building grants and programmes, including rationalising them.

Improving efficiency of urban utility services

Due to years of neglect and inadequate maintenance, South Africa's municipalities face severe utility services issues, including in water, wastewater and electricity. A loss of essential management and technical skills has also contributed to the decline in service quality and reliability. Metro water services alone suffer from an investment gap of R9 billion per year. These inefficiencies threaten economic growth and job creation and increase poverty. Government transferred R61.7 billion to local government in the 2023 Budget to support water services, but the outcome and value for money of these transfers is low. To address this, an incentive grant system is being explored for 2025/26 to increase investments, change management and governance structures, promote professional management and ensure transparency, starting with metros.

The grant reforms will aim to:

- Increase the level of investments in utility services (water, wastewater, electricity and solid waste) by leveraging grant finance with loan finance, linked to improved operational and financial performance of services providers.

- Catalyse changes in the structure, management, and governance of utility services businesses to support improvements in operational, technical and financial performance.
- Promote professional management with a single point of management accountability for utility services in cities, suitable managerial autonomy and the technical skills necessary to manage an effective service.
- Promote and ensure full financial transparency, including by making the financial relationship between municipalities and the utility services explicit.

Reforms to local government own revenue sources

Municipalities play an important role in driving economic growth and facilitating job creation through the provision of efficient and well-managed infrastructure services. Unfortunately, the task of constructing infrastructure to meet the demands of a rapidly urbanising population and supporting growth has become increasingly challenging for municipalities. In light of this, the National Treasury is taking an active role in 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.

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 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. With electricity being the largest component of service charges from which municipalities generate their revenue, it is crucial to identify sustainable revenue sources. The declining reliability of supply and increasing electricity prices, along with a gradual shift to renewable energy sources by households and businesses, has led to structural changes in the municipal electricity market that requires the reconsideration of charging and revenue collection processes.

This process began in May 2022, and the National Treasury is reviewing the draft report. Once approved, this report will be subjected to consultation with relevant external stakeholders.

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 their potential as an alternative option to finance infrastructure, municipalities have not fully used development charges due to uncertainty surrounding the regulatory frameworks. To address this uncertainty, amendments to the Municipal Fiscal Powers and Functions Act (2007) are proposed. The Municipal Fiscal Powers and Functions Amendment Bill proposes uniform regulations for levying development charges. This will allow municipalities to mobilise their own revenue resources to fund their infrastructure needs and support economic growth. Once enacted, these amendments will create legal certainty for municipalities to levy development charges, regulate their applicability and create a more standardised, equitable and sustainable framework for development charges.

The Municipal Fiscal Powers and Functions Amendment Bill was tabled in Parliament in September 2022. Parallel to this process, a service provider has been appointed to undertake a capacity assessment of different categories of municipalities to implement development charges. The purpose of this assessment is to ensure that municipalities have the capacity to implement development charges once the bill has been enacted. To date, various tools (including guidelines, policies and calculators) have been developed. The National Treasury organised municipal development charges workshops in October 2023 to train municipalities on using these tools. The National Treasury will issue regulations following the enactment of the amendment bill.

Municipal borrowing

Government is witnessing a steady rise in outstanding municipal long-term debt, which has grown at an average annual rate of 5.5 per cent over the last 23 years. Long-term debt has increased from R20.3 billion in 1999/2000 to R70.1 billion at the end of 2022/23. Municipalities usually seek funds through loans and securities (municipal bonds), and municipal loan debt increased faster than bonds. Municipal bonds grew at a slower pace, increasing from R9.8 billion to only R12.2 billion in the same period.

The increased participation of financiers in the municipal debt market notwithstanding, unlocking financing for bulk infrastructure to drive economic growth remains a challenge. To tackle this challenge, the Development Bank of Southern Africa has introduced a product called Project Vumela, which blends municipal revenue sources with financing from development finance institutions and commercial financiers. The Vumela product is intended to raise funds for the bulk infrastructure required for a range of services, such as water, sanitation, roads and stormwater, electricity and solid waste. The special purpose vehicle managed by the bank will raise financing and ensures that borrowing capacity within municipalities remains intact. Financing will be secured against future revenues emanating from these developments, including development charges, grants allocated by municipalities to the project and an increase in property rates.

This Development Bank of Southern Africa project has been endorsed by the National Treasury to complement a wide range of initiatives aimed at increasing investment in infrastructure. The National Treasury is confident that Project Vumela will be critical in increasing investment in bulk infrastructure, furthering economic growth and improving the quality of life for South Africans.

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