

EXPLANATORY MEMORANDUM TO THE DIVISION OF REVENUE

BACKGROUND

Section 214(1) of the Constitution requires that 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 2026 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(2)(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. 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 2026 division of revenue.
- Part 3 sets out how the FFC's recommendations on the 2026 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 2025 and 2026. The approach to local government allocations was discussed with organised local government at technical meetings with the South African Local Government Association (SALGA) and the Department of Cooperative Governance, culminating in meetings of the Budget Forum (made up of the Budget Council, SALGA and the Minister of Cooperative Governance and Traditional Affairs). The division of revenue, along with the government

priorities that underpin it, was agreed for the next three years at a Cabinet meeting on 10 February 2026.

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 subsections 2(a) to (j) are considered. The 10 constitutional principles considered in the 2026 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 through which South Africa can advance inclusive economic transformation. The 2024–2029 Medium Term Development Plan outlines the plan and a results framework for implementing South Africa’s national development priorities for the seventh administration of the government of national unity.

In the 2025 *Medium Term Budget Policy Statement* (MTBPS), the Minister of Finance outlined how the resources available to government over the 2026 medium-term expenditure framework (MTEF) period would be allocated to help address government’s areas of immediate focus. These focus areas are as follows:

- Achieving fiscal sustainability by stabilising public debt in 2025/26 and steadily increasing the main budget primary surplus over the MTEF period.
- Promoting economic growth and higher levels of investment by shifting the composition of spending towards capital investment and growth-enhancing infrastructure, and by advancing structural reforms in energy, transport and logistics, and water.
- Supporting and protecting critical social services, particularly the social wage (education, health, community development, social protection and jobs programmes), in a context of constrained budget resources and lower inflation.
- Improving the efficiency and effectiveness of public spending, including through the Targeted and Responsible Savings (TARS) initiative, the removal of ghost workers and better value-for-money in the public-service wage bill and other current spending.

These focus areas have informed the division of resources between the three spheres of government over the 2026 MTEF period. Chapter 4 of the 2025 MTBPS and chapters 5 and 6 of the *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 the 21 outcomes of government.

Provision for debt costs

Determined action to stabilise the public finances has brought the country to a turning point. For the first time since the mid-2000s, government is recording a sustained and rising primary surplus—meaning revenue exceeds non-interest expenditure—supporting efforts to stabilise debt. National government debt as a percentage of GDP is projected to peak in 2025/26,

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before declining for the rest of the decade. The budget deficit, which drives most of the borrowing requirement, is also expected to narrow over the next three years. This will strengthen government's capacity to manage substantial debt redemptions, averaging R283.8 billion from 2026/27 to 2033/34. Chapter 7 of the 2026 *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 basic 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 2026 MTEF period, R3.1 trillion or 51.8 per cent of non-interest spending is allocated to provinces and local government. Excluding provisional allocations, R2.5 billion or 42.3 per cent is allocated to provinces, while R566.9 billion or 9.5 per cent is allocated to local government. This is to continue funding local and provincial government priorities. These include health, education and municipal basic services, the costs of which are rising as a result of population growth and higher bulk electricity and water costs.

Fiscal capacity and efficiency

Fiscal capacity refers to the revenue-raising power of each sphere of government. High-level Income and Expenditure Survey data was released on 28 January 2025. The detailed data – still outstanding – did not inform the 2026 budget allocations for local government. Looking ahead, this data will play a crucial role in shaping the 2027 budget allocations, presenting an opportunity to refine the funding system to better reflect the fiscal capacity of each province and municipality. This is especially important as fiscal capacity may have shifted significantly since the 2011 Census update.

Of all three spheres of government, national government has the highest revenue-raising capacity. The revenue generated is shared with other spheres to support various services and initiatives. National government has large spending responsibilities and therefore typically receives the largest share of nationally raised revenue after accounting for the contingency reserve and debt-service 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 that many rural municipalities will depend on transfers for most of their funding. These transfers are made through the local government equitable share formula, which considers the fiscal capacity of each recipient municipality.

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

Developmental needs

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

Economic disparities

The equitable share and infrastructure grant formulas redistribute funds towards poorer provinces and municipalities (parts 4 and 5 of this annexure provide statistics illustrating this). Through the division of revenue, government continues to invest in economic infrastructure (such as roads), allocating R214.3 billion over the 2026 MTEF period, and social infrastructure (such as schools, hospitals and clinics), allocating R80.8 billion over the 2026 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 2026 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 2026 MTEF period, R1.8 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 emergencies, and 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 2026 DIVISION OF REVENUE

In the 2025 Medium Term Budget Policy Statement (MTBPS) and the 2026 Budget Review, the Minister of Finance outlined how the resources available to government over the 2026 medium-term expenditure framework (MTEF) period would be allocated to address government's immediate priorities in the context of stabilising public finances. These focus areas are as follows:

- Achieving fiscal sustainability by stabilising and then reducing debt as a share of GDP. The gross debt-to-GDP ratio peaks in 2025/26, supported by a growing main budget primary surplus, with debt-service costs projected to decline as a share of revenue over time.
- Supporting economic growth by avoiding additional tax increases signalled for 2026/27, thereby allowing households to retain more of their income, and by narrowing the gross borrowing requirement while directing a larger share of spending to capital investment and infrastructure.
- Improving the efficiency and composition of public spending through the Targeted and Responsible Savings (TARS) initiative, which identifies low-priority and underperforming programmes for reduction or closure, and through measures such as the removal of ghost workers and a managed Early Retirement Programme to contain the public-service wage bill.

Ensuring that sustainable public finances underpin the progressive realisation of socio-economic rights by protecting the social wage – including education, health, social protection and basic services – within a constrained fiscal envelope, and by progressing towards a principles-led fiscal anchor and legislation to embed fiscal sustainability and require each new administration to table a medium-term fiscal plan.

The most important public spending programmes that help poor South Africans, contribute to growth and create jobs have been protected from major reductions. The 2026 division of revenue reprioritises existing funds to ensure these objectives are met.

For 2025/26, the main budget deficit is forecast at 4.5 per cent of GDP, slightly lower than the 4.6 per cent projected in the 2025 Budget, largely because in-year revenue collections have been stronger than expected.

Compared with the 2025 MTBPS projections, the 2025/26 main budget deficit and primary surplus show a modest improvement. However, much of the revenue gain is offset by higher non-interest expenditure. Debt-service costs are also revised down by R10.6 billion over the medium term, reflecting improved bond yields, a stronger rand, and lower inflation and interest rates.

Over the MTEF period, the main budget deficit is projected to continue narrowing from 3.7 per cent of GDP in 2026/27 to 2.9 per cent in 2028/29, mainly as expenditure growth moderates relative to GDP.

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Government also proposes a contingency reserve of R32.6 billion over the 2026 MTEF to help manage significant unforeseen risks. In recent years, unavoidable spending pressures particularly those linked to natural disasters have become more frequent. Maintaining a relatively large contingency reserve helps to reduce these fiscal risks.

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 R2.67 trillion in 2026/27 to R2.89 trillion in 2028/29. The bulk of this spending will go towards supporting the social wage, which is a crucial aspect of government's commitment to social welfare. The main budget deficit is projected to keep declining over the MTEF period, falling from 3.7 per cent of GDP in 2026/27 to 2.9 per cent in 2028/29, largely because expenditure growth moderates relative to GDP.

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 2026 Budget. It sets out the growth assumptions and fiscal policy targets on which the fiscal framework is based and how these changed between the 2025 and 2026 Budgets.

Table W1.1 Medium-term macroeconomic assumptions

R billion/percentage of GDP	2025/26		2026/27		2027/28		2028/29
	2025 Budget	2026 Budget	2025 Budget	2026 Budget	2025 Budget	2026 Budget	2026 Budget
Gross domestic product	7 872.2	7 756.7	8 351.4	8 188.1	8 890.6	8 615.1	9 077.3
Real GDP growth	1.5%	1.8%	1.7%	1.5%	1.9%	1.8%	2.0%
GDP inflation	4.7%	3.0%	4.3%	4.0%	4.5%	3.3%	3.3%
National budget framework							
Revenue	1 949.4	1 978.2	2 095.4	2 082.0	2 229.2	2 190.8	2 320.6
Percentage of GDP	24.8%	25.5%	25.1%	25.4%	25.1%	25.4%	25.6%
Expenditure	2 310.7	2 327.1	2 403.0	2 383.3	2 515.6	2 475.4	2 581.1
Percentage of GDP	29.4%	30.0%	28.8%	29.1%	28.3%	28.7%	28.4%
Main budget balance¹	-361.3	-348.9	-307.7	-301.2	-286.4	-284.5	-260.5
Percentage of GDP	-4.6%	-4.5%	-3.7%	-3.7%	-3.2%	-3.3%	-2.9%

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 2026 MTEF period after accounting for new policy priorities.

ANNEXURE W1
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Table W1.2 Division of nationally raised revenue

R million	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Outcome			Preliminary outcome	Medium-term estimates		
Division of available funds							
National departments	855 868	826 897	860 482	939 417	951 716	939 934	987 864
<i>of which:</i>							
<i>Indirect transfers to provinces</i>	3 536	4 099	3 728	4 599	3 008	2 597	2 678
<i>Indirect transfers to local government</i>	7 182	8 174	7 088	7 612	7 473	8 031	8 280
Provinces	694 131	706 258	730 635	788 778	810 481	845 863	872 437
Equitable share	570 868	585 086	600 476	649 339	670 323	698 626	720 409
Conditional grants	123 263	121 172	130 159	139 439	140 158	147 238	152 028
Local government	150 699	157 650	167 685	178 336	182 278	189 307	195 291
Equitable share	83 938	92 262	99 504	103 776	110 090	114 483	118 041
Conditional grants	51 426	49 955	52 055	57 711	54 658	56 594	58 453
General fuel levy sharing with metros	15 335	15 433	16 127	16 849	17 530	18 230	18 796
Provisional allocations not appropriated ¹	–	–	–	–	1 322	38 207	39 199
Non-interest allocations	1 700 698	1 690 805	1 758 802	1 906 532	1 945 796	2 013 312	2 094 791
<i>Percentage increase</i>	5.0%	-0.6%	4.0%	8.4%	2.1%	3.5%	4.0%
Debt-service costs	308 459	356 110	385 844	420 610	432 449	451 450	469 321
Contingency reserve	–	–	–	–	5 008	10 603	16 957
Main budget expenditure	2 009 157	2 046 915	2 144 645	2 327 141	2 383 253	2 475 364	2 581 069
<i>Percentage increase</i>	6.5%	1.9%	4.8%	8.5%	2.4%	3.9%	4.3%
<i>Percentage shares</i>							
<i>National departments</i>	50.3%	48.9%	48.9%	49.3%	48.9%	47.6%	48.1%
<i>Provinces</i>	40.8%	41.8%	41.5%	41.4%	41.7%	42.8%	42.4%
<i>Local government</i>	8.9%	9.3%	9.5%	9.4%	9.4%	9.6%	9.5%

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

Source: National Treasury

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	2026/27	2027/28
National departments	45 499	-144
Provinces	12 054	12 059
Local government	-2 835	-1 496
Allocated expenditure	54 718	10 419

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.

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

R million	2026/27	2027/28	2028/29
	Allocation	Forward estimates	
National ¹	1 602 840	1 662 255	1 742 619
Provincial	670 323	698 626	720 409
Local	110 090	114 483	118 041
Total	2 383 253	2 475 364	2 581 069

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 2026 *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 of the Budget Review 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 2026/27* to Parliament in 2025. This year's theme is “sustainable development across the three fiscal spheres”. The 2026/27 recommendations cover the following areas: infrastructure and public-private partnerships, subnational government capacity, coalition government challenges and urban fiscal pressures.

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 3: Strengthening subnational governments' contribution to infrastructure-led growth in South Africa

The FFC recommends the following: "To strengthen the link between infrastructure performance and funding allocation, the Minister of Finance should introduce a performance-linked feedback mechanism in provincial and municipal incentive grants."

Government response

Government supports this recommendation. There are already several urban grants for municipalities that have performance-based allocation methodologies or have an incentive component built into the allocation criteria, such as the *integrated urban development grant*, the *urban development financing grant* and the *public transport network grant*.

However, as indicated in past conditional grant reviews, due to capacity issues faced by many municipalities, it is not yet feasible to make all municipal grants performance-based as this is likely to deepen existing disparities between well-resourced and struggling municipalities. As the National Treasury works with the relevant transferring officers to design incentives for non-urban grants over the 2026 MTEF period, it will be looking to shift the focus away from purely rewarding spending outcomes, to rewarding municipalities that put in place the right capacity, processes and systems to deliver infrastructure on time and to standard. The reforms emanating from both the recent conditional grants review and the review of capacity-building programmes for local government are designed to build capability where it is weakest, so that all municipalities (not only those already performing well) are able to access investment opportunities and deliver infrastructure that improves the lives of their communities.

A reform in the provincial sphere to introduce incentive-based allocations for infrastructure grants has been the performance-based system targeting the health and education sectors. The assessment process is focused on two areas: performance and planning. The performance area has a 70 per cent weighting, while the planning area accounts for 30 per cent of the total weight that determines the performance incentive.

Through the consultative mechanisms established within the system and guidelines issued to departments, there are signs of gradual improvements in planning. However, there are still challenges in project implementation and reporting and ultimately performance. Taking into consideration the findings from the conditional grants review, the National Treasury is reviewing the current performance-based incentive system to strengthen the allocation criteria for incentives, project implementation, monitoring and reporting. The review is being undertaken together with the provincial treasuries and the national departments of Basic Education and Health and is expected to be completed by June 2026.

Chapter 5: Measuring the fiscal pressures of urbanisation

The FFC recommends the following: “The Commission reiterates its recommendation from the 2018/19 Submission on the Division of Revenue that the Minister of Finance should create an awareness of the land value capture fiscal instruments among large cities and extend the scope of the Financial Management Grant to cater for capacity building in the design and implementation of land value capture mechanisms.”

Government response

Since March 2020, the National Treasury, through the Cities Support Programme, has been working with the Development Action Group and the Lincoln Institute of Land Policy on establishing a national land value capture programme. It also seeks to create awareness and deepen understanding of land value capture fiscal instruments, initially with the metropolitan municipalities and later with some secondary cities. Through this programme, a community of practice has been established, supported through a land value capture webinar series, peer-to-peer workshops and national dialogues. Technical support has also been provided to support policy development, implementation and monitoring of land value capture instruments. A key focus has been supporting the municipalities in understanding how to create value using the planning instruments and land governance mechanisms at their disposal. Furthermore, over this period, the National Treasury has championed the implementation and rollout of development charges as a significant land-based financing tool for municipalities, through amending legislation and developing regulations. A development charges guideline document and supporting tools such as the development charges calculator have also been developed and workshopped with relevant provincial departments and municipalities across all provinces.

The FFC recommends the following: “The Minister of Cooperative Governance and Traditional Affairs, in conjunction with the Minister of Finance, should speed up the review of the local government equitable share formula. The new formula must reflect growth in urban populations, as well as the rising cost of service delivery and the unique challenges faced by urban municipalities.”

Government response

The local government equitable share formula is being reviewed as part of the review of the local government fiscal framework, which is envisaged to be completed by March 2027. The review process includes ongoing engagements with Statistics South Africa on the outstanding

municipal-level data, which is critical to updating the formula. The intention is to update household data and to refine the cost assumptions underpinning the basic services and community services components.

Not all urban pressures can or should be absorbed through the equitable share alone; some are more appropriately addressed through targeted support instruments – for example, the metro trading services reforms being implemented through the *urban development financing grant*. Any revisions to the local government equitable share will therefore be carefully modelled, consulted on and phased in over time to maintain fiscal sustainability and system stability, while ensuring the formula remains responsive to demographic and cost trends observed from credible data.

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 42.3 per cent of nationally raised revenue over the medium term. In addition, they receive conditional grants to help them fulfil their mandates. Transfers to provinces account for over 96 per cent of provincial revenue.

This section outlines national transfers to provinces for the 2026 MTEF period announced in the 2025 MTBPS and changes to the conditional grants that were effected after it was tabled. Having taken the revisions to the provincial fiscal framework into account, national transfers to provinces increase from R788.8 billion in 2025/26 to R810.5 billion in 2026/27. Over the MTEF period, provincial transfers will grow at an average annual rate of 3.4 per cent to R872.4 billion in 2028/29. Table W1.5 sets out the transfers to provinces for 2026/27. A total of R670.3 billion is allocated to the provincial equitable share and R140.2 billion to conditional grants, which includes an unallocated amount of R157 million for the *provincial disaster response grant*.

Table W1.5 Total transfers to provinces, 2026/27

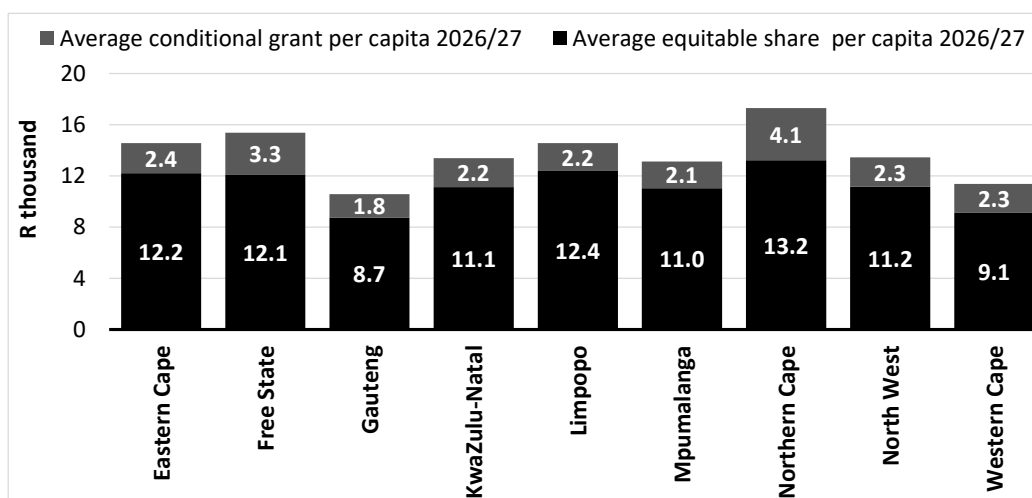
R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	86 599	16 610	103 208
Free State	36 761	9 876	46 637
Gauteng	140 952	29 240	170 192
KwaZulu-Natal	136 378	27 273	163 651
Limpopo	78 951	13 810	92 761
Mpumalanga	56 019	10 733	66 753
Northern Cape	18 242	5 514	23 756
North West	46 867	9 513	56 380
Western Cape	69 553	17 431	86 984
Unallocated		157	157
Total	670 323	140 158	810 481

Source: National Treasury

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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, 2026/27



Source: National Treasury

Changes to provincial allocations

For the 2026 MTEF period, changes to provincial allocations include downward revisions to provincial transfers, the reprioritisation of funds from conditional grants to national government and additional allocations to the provincial equitable share and conditional grants. Table W1.6 provides a summary of the changes to the provincial fiscal framework.

For the 2026 MTEF, Cabinet endorsed lower consumer price index (CPI) levels, as reflected in the fiscal framework for the 2025 MTBPS. Planned spending levels across all three spheres of government have thus been revised downward to reflect these lower CPI projections. The revised CPI projections indicate a decline in cost escalations, including construction costs, over the MTEF period. Accordingly, the total provincial equitable share baseline has been adjusted downward by R1.0 billion in 2026/27, R2.2 billion in 2027/28 and R2.2 billion in 2028/29, relative to the indicative allocations. Similarly, conditional grants have been revised downward by R568 million in 2026/27, R1.2 billion in 2027/28 and R3.1 billion in 2028/29.

An amount of R31.3 billion has been added to the provincial equitable share for the education and health sectors. Of this amount, R3.2 billion in 2026/27, R3.3 billion in 2027/28 and R3.4 billion in 2028/29 are added for the education sector to support provinces with compensation of employee costs and other pressures the sector is facing. The remaining R6.9 billion in 2026/27, R7.1 billion in 2027/28 and R7.3 billion in 2028/29 are for the health sector to fund compensation of employee costs, shortfalls in goods and services expenditure, and the employment of doctors. An amount of R342 million has been added to the provincial equitable share over the MTEF to cover the progressive equalisation of the remuneration of Grade R teachers in provinces. In order to support provinces with the implementation of the

Early Retirement Programme, R340 million has also been added in 2026/27, to the provincial equitable share. The purpose of the funding is to cover financial incentive costs in provinces. R319 million will be added to the provincial equitable share in 2026/27 for the continuation of the education assistants programme, which was introduced in 2020 as part of the Presidential Employment Stimulus.

R12.8 billion has been added over the 2026 MTEF to the *early childhood development grant* for the continued expansion of early childhood development services. Of this, R175 million over the MTEF has been added for the implementation of e-cares. The purpose of the funds is to pay the salaries to the employees who will be responsible for collecting and managing data for the system, their operational expenses and tools of trade. R1.5 billion has been added to the *provincial roads maintenance grant* in 2026/27 to fund the carry through costs of the disasters that occurred between April 2024 and June 2025. This funding will be used for the reconstruction and rehabilitation of provincial infrastructure damaged by rainfall, flooding, thunderstorms, and strong winds. Additions to the provincial allocations have also been made through the Budget Facility for Infrastructure. An amount of R218 million is added in the *health facility revitalisation grant* for the Tygerberg and Klipfontein Regional hospitals.

Other changes to provincial allocations include reprioritisation of funds from and within conditional grants. The 2026 Budget makes funding available for the Presidential Employment Stimulus introduced in 2020. Given the constrained fiscal environment, funding has had to be reprioritised from various parts of government to continue with the implementation of the Presidential Employment Stimulus. For the provincial conditional grants, R503 million is reprioritised from the *education infrastructure grant* and R747 million from the *provincial roads maintenance grant* for this purpose. An amount of R109 million will be reprioritised from the *comprehensive agricultural support grant* to the Department of Agriculture. This funding will be used to develop an e-certification system; implement animal identification, recording and traceability systems; and continue to implement blended financing.

R800 million in 2026/27 has been reprioritised from the *early childhood development grant* to make funding available to protect the *national school nutrition programme* and *learners with severe to profound intellectual disabilities grant* from inflationary adjustments and to progressively fund the equalisation of remuneration for Grade R educators in the education sector. Of the R800 million, the *national school nutrition programme* is allocated R446 million, R13 million is added to the *learners with profound to severe intellectual disabilities*, and R342 million is allocated for the equalisation of remuneration for Grade R educators. The allocation for the equalisation of remuneration for Grade R educators will be added through the provincial equitable share. An amount of R3 billion is reprioritised from the *human settlements development grant* to the *informal settlements partnership upgrading grant* to address previous reductions that significantly lowered the baseline of the *informal settlements partnership upgrading grant*, while ensuring that the grant has sufficient funds to deliver its activities. In addition, for the 2026 MTEF, a total of R1 million in 2026/27 and R1 million in 2027/28 has been reduced from the *human settlements development grant* and the *informal settlements partnership upgrading grant* and added to the provincial equitable share. This is to correct for funding that was erroneously allocated as a top up for

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compensation of employees in the human settlements grants, specifically for the KwaZulu-Natal province. In 2026/27, R5 million will be reprioritised from the *expanded public works programme integrated grant for provinces* to make funding available for existing pressures in the national Department of Public Works and Infrastructure.

Several changes will also be made to the provincial conditional grants based on the recommendations of the review of the conditional grant system. These continue to be implemented in a phased manner over the 2026 MTEF.

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

R million	2026/27	2027/28	2028/29	MTEF total revision
Technical adjustments	-1 398	-515	-309	-2 223
Direct transfers	-1 398	-515	-309	-2 223
Provincial equitable share	54	108	182	344
Ilima/Letsema projects	-708	-740	-774	-2 223
Early childhood development grant	-800	–	–	-800
Learners with profound intellectual disabilities	2	3	8	13
National school nutrition programme	56	115	275	446
Human settlements development	-1 001	-1 001	-1 000	-3 002
Informal settlements upgrading partnership	1 000	1 000	1 000	3 000
Additions to baselines	15 719	15 165	15 593	46 477
Direct transfers	15 719	15 165	15 593	46 477
Provincial equitable share	10 744	10 435	10 760	31 939
Early childhood development	3 286	4 688	4 834	12 808
Health facility revitalisation	177	41	–	218
Provincial roads maintenance	1 512	–	–	1 512
Reductions to baselines	-17 460	-27 825	-66 823	-112 108
Direct transfers	-1 931	-1 170	-3 094	-6 195
Comprehensive agricultural support programme	-119	-22	-56	-197
Land care programme: poverty relief and infrastructure development	-1	-1	-3	-4
Early childhood development	-11	-23	-54	-88
Education infrastructure	-590	-171	-408	-1 169
HIV and AIDS (life skills education)	-1	-3	-7	-11
Learners with profound intellectual disabilities	-1	-1	-5	-7
Maths, science and technology	-2	-5	-12	-20
National school nutrition programme	-53	-110	-268	-431
Provincial disaster response	-1	-2	-4	-7
District health programme grant	-93	-193	-587	-391
Health facility revitalisation	-37	-80	-195	-313
Human resources and training grant	-2	-5	-71	-78
National health insurance grant	-0.5	-1	-7	-8
National tertiary services	-44	-91	-307	-592
Human settlements development	-74	-153	-365	-592
Informal settlements upgrading partnership	-5	-10	-24	-38
Expanded public works programme integrated grant for provinces	-7	-5	-13	-25
Community library services	-6	-13	-36	-55
Mass participation and sport development	-3	-7	-17	-27
Provincial roads maintenance	-836	-184	-439	-1 459
Public transport operations	-44	-90	-215	-349
Indirect transfers	-15 529	-26 655	-63 729	-105 913
School infrastructure backlogs	-2 323	–	–	-2 323
National health insurance indirect	-13 206	-26 655	-63 729	-103 590
Total change to provincial government allocations				
Change to direct transfers	12 390	13 480	12 190	38 060
Change to indirect transfers	-15 529	-26 655	-63 729	-391
Net change to provincial government allocations	-3 139	-13 175	-51 539	-67 853

Source: National Treasury

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After accounting for these changes, the provincial equitable share grows at an average annual rate of 3.5 per cent over the MTEF period, while direct conditional grant allocations grow at an average annual rate of 2.9 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 2026 MTEF period, the following amounts are allocated to the provincial equitable share: R670.3 billion in 2026/27, R698.6 billion in 2027/28 and R720.4 billion in 2028/29.

The equitable share formula

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

The review of the formula is ongoing. Changes are being made to the components of the formula as the review progresses. For the 2026 MTEF, no structural changes will be made to the components of the provincial equitable share formula.

Previously, the equitable share formula used data from the 2010/11 Income and Expenditure Survey from Statistics South Africa to account for the proportion of the population considered to be poor in each province. This data has been used consistently in the poverty component and was last updated following the release of the 2011 Census. In 2025, Statistics South Africa officially released the 2022/23 Income and Expenditure Survey. This data has been used to update the proportion of the population that is considered poor in each province.

For the 2026 MTEF, the rest of the formula has been updated with data from Statistics South Africa's 2025 mid-year population estimates on age cohorts and 2025 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 2023/24 and 2024/25 and the 2024 General Household Survey for medical aid coverage is also used to update the formula. The formula has been updated with 2024 provincial GDP data. The impact of these data updates on the provincial equitable shares will be phased in over the three years of the MTEF.

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 2026 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, 2026 MTEF

	Education	Health	Basic share	Poverty	Economic activity	Institutional	Weighted average
Eastern Cape	13.1%	13.7%	11.2%	12.7%	7.6%	11.1%	12.8%
Free State	5.1%	5.5%	4.8%	5.3%	5.0%	11.1%	5.5%
Gauteng	20.6%	21.0%	25.5%	18.7%	33.2%	11.1%	21.1%
KwaZulu-Natal	21.2%	21.0%	19.4%	22.4%	16.1%	11.1%	20.4%
Limpopo	12.8%	11.2%	10.1%	12.8%	7.8%	11.1%	11.8%
Mpumalanga	8.4%	8.0%	8.0%	9.7%	7.7%	11.1%	8.4%
Northern Cape	2.3%	2.3%	2.2%	2.6%	2.2%	11.1%	2.7%
North West	6.6%	6.8%	6.6%	7.2%	6.3%	11.1%	6.9%
Western Cape	9.9%	10.4%	12.1%	8.6%	14.2%	11.1%	10.5%
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 subcomponents, 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 2025 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 2025. These subcomponents 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.

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

Thousand	Age 5-17	School enrolment		Changes in enrolment data	Weighted average		Difference in weighted average
		2024	2025		2025 MTEF	2026 MTEF	
Eastern Cape	1 873	1 790	1 782	-8	13.1%	13.1%	-0.05%
Free State	707	716	713	-3	5.1%	5.1%	-0.04%
Gauteng	3 087	2 660	2 675	16	20.5%	20.6%	0.08%
KwaZulu-Natal	3 026	2 889	2 901	11	21.4%	21.2%	-0.16%
Limpopo	1 723	1 818	1 843	26	12.7%	12.8%	0.04%
Mpumalanga	1 169	1 160	1 173	13	8.4%	8.4%	0.03%
Northern Cape	328	309	311	3	2.3%	2.3%	0.02%
North West	965	882	890	8	6.6%	6.6%	0.06%
Western Cape	1 478	1 278	1 283	6	9.9%	9.9%	0.02%
Total	14 355	13 501	13 572	71	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	Insured population	Risk- adjusted index	Weighted population	Risk-adjusted shares		Change
	2025				2026	2025 MTEF	
Eastern Cape	7 091	10.4%	120.3%	7 640	14.3%	14.1%	-0.2%
Free State	3 040	12.4%	110.3%	2 937	5.4%	5.4%	0.0%
Gauteng	16 105	21.3%	87.6%	11 098	20.0%	20.4%	0.4%
KwaZulu-Natal	12 232	10.2%	101.9%	11 196	20.7%	20.6%	-0.1%
Limpopo	6 366	10.0%	110.8%	6 353	11.9%	11.7%	-0.2%
Mpumalanga	5 076	10.4%	103.3%	4 696	8.6%	8.6%	0.0%
Northern Cape	1 379	15.9%	113.1%	1 312	2.4%	2.4%	-0.0%
North West	4 184	13.7%	108.6%	3 920	7.2%	7.2%	-0.0%
Western Cape	7 628	25.4%	91.6%	5 215	9.5%	9.6%	0.1%
Total	63 101			54 366	100.0%	100.0%	0.0%

Source: National Treasury

The risk-adjusted subcomponent estimates a weighted population in each province using the risk-adjusted index. The percentage of the population with medical insurance, based on the 2024 General Household Survey, is deducted from the 2025 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 subcomponent. The last column in Table W1.9 shows the change in this subcomponent between the 2025 and 2026 MTEF.

Table W1.10 Output sub-component shares

Thousand	Primary healthcare visits				Hospital workload patient-day equivalents			
	2023/24	2024/25	Average	Share	2023/24	2024/25	Average	Share
Eastern Cape	13 943	13 608	13 775	13.1%	3 872	3 843	3 857	12.5%
Free State	5 207	5 103	5 155	4.9%	1 881	1 807	1 844	6.0%
Gauteng	19 293	19 581	19 437	18.5%	7 265	7 405	7 335	23.7%
KwaZulu-Natal	24 041	24 267	24 154	23.0%	6 695	7 004	6 850	22.2%
Limpopo	12 463	12 327	12 395	11.8%	2 864	2 813	2 838	9.2%
Mpumalanga	8 167	8 320	8 244	7.9%	1 804	1 799	1 802	5.8%
Northern Cape	2 683	2 771	2 727	2.6%	614	612	613	2.0%
North West	7 118	7 186	7 152	6.8%	1 598	1 644	1 621	5.2%
Western Cape	11 859	11 941	11 900	11.3%	4 216	4 091	4 153	13.4%
Total	104 773	105 105	104 939	100.0%	30 809	31 017	30 913	100.0%

Source: National Treasury

The output subcomponent (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 2023/24 and 2024/25 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 2023/24 and 2024/25 is used to estimate their share of this part of the output subcomponent, which makes up 20 per cent of the health component. In total, the output subcomponent is 25 per cent of the health component.

Table W1.11 presents the health component in three parts, 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	Primary healthcare	Hospital component	Weighted shares		Change
	75.0%	5.0%	20.0%	2025 MTEF	2025 MTEF	
Eastern Cape	14.1%	13.1%	12.5%	13.9%	13.7%	-0.2%
Free State	5.4%	4.9%	6.0%	5.5%	5.5%	-0.0%
Gauteng	20.4%	18.5%	23.7%	20.7%	21.0%	0.3%
KwaZulu-Natal	20.6%	23.0%	22.2%	21.0%	21.0%	0.1%
Limpopo	11.7%	11.8%	9.2%	11.4%	11.2%	-0.2%
Mpumalanga	8.6%	7.9%	5.8%	8.0%	8.0%	0.0%
Northern Cape	2.4%	2.6%	2.0%	2.3%	2.3%	0.0%
North West	7.2%	6.8%	5.2%	6.8%	6.8%	-0.0%
Western Cape	9.6%	11.3%	13.4%	10.5%	10.4%	-0.0%
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 2026 MTEF, population data is drawn from the 2025 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.

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

Thousand	Mid-year population estimates		Population change	% population change	Basic component shares		Change
	2024	2025			2025 MTEF	2026 MTEF	
Eastern Cape	7 176	7 091	-85	-1%	11.4%	11.2%	-0.2%
Free State	3 044	3 040	-4	-0%	4.8%	4.8%	-0.0%
Gauteng	15 932	16 105	173	1%	25.3%	25.5%	0.2%
KwaZulu-Natal	12 313	12 232	-80	-1%	19.5%	19.4%	-0.2%
Limpopo	6 403	6 366	-36	-1%	10.2%	10.1%	-0.1%
Mpumalanga	5 058	5 076	18	0%	8.0%	8.0%	0.0%
Northern Cape	1 373	1 379	6	0%	2.2%	2.2%	0.0%
North West	4 155	4 184	29	1%	6.6%	6.6%	0.0%
Western Cape	7 563	7 628	65	1%	12.0%	12.1%	0.1%
Total	63 016	63 101	85	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, Free State and 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. 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 2025 mid-year population estimates. For the 2026 MTEF, these provincial proportions are updated using data from the 2022/23 Income and Expenditure Survey. Table W1.13 shows the change in the proportion of the poor in each province between the 2010/11 and 2022/23 Income and Expenditure Survey. The table also shows the change in the weighted share of the poverty component per province from the 2025 MTEF to the 2026 MTEF.

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

Thousand	Income and Expenditure Survey 2010/11	2025 MTEF			Income and Expenditure Survey 2022/23	2026 MTEF			Difference in weighted shares
		Mid-year population estimates 2024	Poor population	Weighted shares		Mid-year population estimates 2025	Poor population	Weighted shares	
Eastern Cape	52.0%	7 176	3 734	14.8%	45.9%	7 091	3 255	12.7%	-2.1%
Free State	41.4%	3 044	1 260	5.0%	44.3%	3 040	1 348	5.3%	0.3%
Gauteng	28.9%	15 932	4 599	18.3%	29.7%	16 105	4 775	18.7%	0.4%
KwaZulu-Natal	45.3%	12 313	5 579	22.2%	46.9%	12 232	5 737	22.4%	0.2%
Limpopo	52.9%	6 403	3 384	13.5%	51.4%	6 366	3 273	12.8%	-0.7%
Mpumalanga	47.3%	5 058	2 390	9.5%	49.0%	5 076	2 489	9.7%	0.2%
Northern Cape	40.8%	1 373	560	2.2%	48.4%	1 379	667	2.6%	0.4%
North West	47.9%	4 155	1 990	7.9%	44.1%	4 184	1 844	7.2%	-0.7%
Western Cape	21.9%	7 563	1 653	6.6%	29.0%	7 628	2 213	8.6%	2.1%
Total		63 016	25 150	100.0%		63 101	25 601	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 2026 MTEF, the economic activity component has been updated with provincial GDP data from Statistics South Africa. Table W1.14 shows the weighted shares of the economic activity component.

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

	2025 MTEF		2026 MTEF		Difference in weighted shares
	GDP-R, 2019 (R million)	Weighted shares	GDP-R, 2024 (R million)	Weighted shares	
Eastern Cape	537 352	7.7%	557 247	7.6%	-0.1%
Free State	342 064	4.9%	364 919	5.0%	0.1%
Gauteng	2 329 820	33.2%	2 442 020	33.2%	0.0%
KwaZulu-Natal	1 137 671	16.2%	1 184 102	16.1%	-0.1%
Limpopo	535 582	7.6%	570 666	7.8%	0.1%
Mpumalanga	549 466	7.8%	567 648	7.7%	-0.1%
Northern Cape	158 236	2.3%	164 651	2.2%	-0.0%
North West	449 149	6.4%	459 802	6.3%	-0.1%
Western Cape	984 653	14.0%	1 041 394	14.2%	0.1%
Total	7 023 994	100.0%	7 352 449	100.0%	0.0%

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 2025 and 2026 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 2025 to 2026 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 subsections above.

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

	2025 MTEF weighted average	2026 MTEF weighted average	Difference
Eastern Cape	13.0%	12.9%	-0.1%
Free State	5.5%	5.5%	-0.0%
Gauteng	21.2%	21.0%	-0.1%
KwaZulu-Natal	20.2%	20.3%	0.1%
Limpopo	11.7%	11.8%	0.1%
Mpumalanga	8.3%	8.4%	0.1%
Northern Cape	2.7%	2.7%	0.0%
North West	7.1%	7.0%	-0.1%
Western Cape	10.3%	10.4%	0.1%
Total	100.0%	100.0%	0.0%

Source: National Treasury

Phasing in the formula

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

The equitable share formula data is updated every year, and a new target share for each province is calculated. The phase-in mechanism provides a smooth path to achieving the new weighted shares by the third year of the MTEF period. It takes the difference between the target weighted share for each province at the end of the MTEF period and the indicative allocation for 2026/27 published in the 2025 MTEF and closes the gap between these shares by a third in each year of the 2026 MTEF period. As a result, one third of the impact of the data updates is implemented in 2026/27 and two thirds in the indicative allocations for 2027/28. The updates are thus fully implemented in the indicative allocations for 2028/29.

Allocations calculated outside the equitable share formula

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

In the 2026 MTEF, the following allocations that are included in the provincial equitable share allocations to provinces have been determined using other methodologies:

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- R2.3 million that has been reduced from the *human settlements development grant* and the *informal settlements partnership upgrading grant* and added to the provincial equitable share;
- R342 million that has added to the provincial equitable share to equalise remuneration as per the conditions of service for qualified educators in Grade R.
- R319 million that has been added to the provincial equitable share in 2026/27 for the continuation of the education assistants programme.
- R340 million has also been added in 2026/27 to the provincial equitable share to cover financial incentive costs in provinces for the Early Retirement Programme

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

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Table W1.16 Allocations outside provincial equitable share formula

R thousand	2025/26	2026/27	2027/28	2028/29	Allocation criteria
	Revised estimates	Medium-term estimates			
Food relief shift	84 942	88 754	92 739	95 621	Allocated equally among the provinces
Social worker employment grant shift	285 683	298 502	311 907	321 601	Allocated in terms of what provinces would have received had the grant continued
Substance abuse treatment grant shift	99 356	103 814	108 476	111 848	Allocated in terms of what provinces would have received had the grant continued
Municipal intervention	110 987	115 967	121 175	124 941	Allocated equally among the provinces
HIV prevention programmes	129 941	135 772	141 869	146 278	Allocated based on the non-profit organisations located in the 27 priority districts
Social worker additional support shift	166 530	174 003	181 817	187 467	Allocated according to areas of high prevalence of gender-based violence, substance abuse and issues affecting children
Sanitary Dignity Programme	257 118	268 655	280 719	289 444	Allocated proportionately based on the number of girl learners per province in quintiles 1 to 3 schools
Infrastructure delivery improvement programme shift	53 703	56 113	58 633	60 455	Allocated equally among the provinces
Education sector presidential employment initiative		318 806			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	848 000	307 000	115 000	–	Allocated only to Eastern Cape
Reallocation from human settlements grants		1 137	1 191	–	Allocated only to KwaZulu-Natal to make technical correction
Grade R Equalisation		53 267	106 534	181 898	Allocated according to the number of qualifying grade R teachers whose salaries need to be equalised
Early Retirement & Voluntary Exit Programmes		340 275	–	–	Allocated according to the number of approved applications in each province
Total	2 036 262	1 867 386	1 412 335	1 337 655	

Source: National Treasury

Final provincial equitable share allocations

The final equitable share allocations per province for the 2026 MTEF period are detailed in Table W1.17. These allocations include the full impact of the data updates, phased in over three years, and the allocations that are made separately from the formula.

Table W1.17 Provincial equitable share

R million	2026/27	2027/28	2028/29
Eastern Cape	86 599	89 813	92 199
Free State	36 761	38 247	39 364
Gauteng	140 952	147 063	151 711
KwaZulu-Natal	136 378	142 178	146 679
Limpopo	78 951	82 364	84 979
Mpumalanga	56 019	58 585	60 580
Northern Cape	18 242	19 097	19 765
North West	46 867	48 522	49 860
Western Cape	69 553	72 757	75 273
Total	670 323	698 626	720 409

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 2.9 per cent over the medium term. Direct conditional grant baselines total R140.2 billion in 2026/27, R147.2 billion in 2027/28 and R152 billion in 2028/29. Indirect conditional grants amount to R3 billion, R2.6 billion and R2.7 billion respectively for each year of the same period. Table W1.18 provides a summary of conditional grants by sector for the 2026 MTEF period. More detailed information, including the framework and allocation criteria for each grant, is provided in Annexure W2 of this 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 2024/25.

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Table W1.18 Conditional grants to provinces

R million	2025/26 Adjusted budget	2026/27	2027/28	2028/29	MTEF total
Agriculture	2 794	2 396	2 619	2 702	7 718
Comprehensive agricultural support programme	2 022	2 298	2 517	2 597	7 413
Ilima/Letsema projects	677	–	–	–	–
Land care programme: poverty relief and infrastructure development	94	98	102	105	305
Basic Education	31 317	32 719	35 880	37 157	105 755
Early childhood development	3 957	4 611	6 903	7 117	18 631
Education infrastructure	16 028	16 257	16 590	17 106	49 954
HIV and AIDS (life skills education)	262	272	283	292	847
Learners with profound intellectual disabilities	293	307	322	337	967
Maths, science and technology	459	478	497	512	1 487
National school nutrition programme	10 319	10 794	11 284	11 792	33 870
Cooperative Governance	151	157	164	169	490
Provincial disaster response	151	157	164	169	490
Health	58 609	60 351	63 048	65 053	188 452
District health programme grant	28 929	29 549	30 790	31 787	92 126
Health facility revitalisation	7 569	7 717	8 177	8 389	24 283
Human resources and training grant	5 650	5 909	6 174	6 385	18 468
National health insurance grant	467	475	497	513	1 485
National tertiary services	15 995	16 700	17 410	17 980	52 090
Human Settlements	16 919	15 183	15 789	16 281	47 253
Human settlements development	14 149	13 258	13 827	14 289	41 374
Informal settlements upgrading partnership	2 770	1 925	1 962	1 992	5 879
Public Works and Infrastructure	627	649	681	703	2 033
Expanded public works programme integrated grant for provinces	627	649	681	703	2 033
Sport, Arts and Culture	2 276	2 371	2 469	2 547	7 387
Community library services	1 649	1 719	1 790	1 848	5 356
Mass participation and sport development	627	653	679	700	2 031
Transport	26 745	26 332	26 589	27 415	80 335
Provincial roads maintenance	18 663	17 923	17 844	18 399	54 167
Public transport operations	8 082	8 409	8 744	9 016	26 169
Total direct conditional allocations	139 439	140 158	147 238	152 028	439 423
Indirect transfers	4 599	3 008	2 597	2 678	8 283
Basic Education	1 284	448	–	–	448
School infrastructure backlogs	1 284	448	–	–	448
Health	3 315	2 560	2 597	2 678	7 836
National health insurance indirect	3 315	2 560	2 597	2 678	7 836

Source: National Treasury

Agriculture grants

The *comprehensive agricultural support programme grant* aims to support newly established and emerging farmers, particularly subsistence, smallholder and previously disadvantaged farmers. The grant funds a range of projects, including providing training, developing agri-processing infrastructure and directly supporting targeted farmers. The grant has been allocated R7.4 billion over the medium term. This allocation includes the funding that has been shifted from the *Ilima/Letsema projects grant*.

The *comprehensive agricultural support programme grant* and the *Ilima/Letsema projects grant* have been merged from the 2026 MTEF period, as recommended by the conditional

grants review process. The merger will streamline administrative processes, reduce the workload on provincial departments, eliminate duplication of efforts in supporting smallholder and subsistence farmers, and provide a more cohesive and comprehensive support system for beneficiaries. The conditional grant framework of the *comprehensive agricultural support programme grant* has been amended to reflect the outputs of the *Ilima/Letsema projects grant*.

The *land care programme grant: poverty relief and infrastructure development* aims to improve productivity and the sustainable use of natural resources. Provinces are also encouraged to use this grant to create jobs through the Expanded Public Works Programme. The grant has been allocated R305 million over the medium term.

Basic education grants

The *early childhood development grant* supports government's prioritisation of early childhood development, as envisioned in the National Development Plan. The grant aims to improve poor children's access to early childhood programmes and ensure that early childhood development centres have adequate infrastructure. The grant has been allocated R18.6 billion over the medium term.

From 2026/27, the allocation methodology for the *early childhood development grant* is being updated to ensure that it is based on credible data and to meet the objectives of early learning. The revised formula is underpinned by the principles of simplicity, equity, fairness, efficiency, flexibility and predictability. To protect provincial allocations from sudden changes and shortfalls, the new formula will be phased in on a 70:30 ratio of the new to the old formula.

The *education infrastructure grant* provides supplementary funding for ongoing infrastructure programmes in provinces. This includes maintaining existing infrastructure and building new infrastructure to ensure school buildings meet the required norms and standards. Provincial education departments go through a two-year planning process to be eligible to receive incentive allocations for infrastructure projects. The grant has been allocated R50 billion over the medium term. To receive the 2026/27 incentive, the departments had to meet certain prerequisites in 2024/25 and have their infrastructure plans approved in 2025/26. The national Department of Basic Education and the National Treasury assessed the provinces' infrastructure plans. The national departments, provincial treasuries and provincial departments of basic education undertook a moderation process to agree on the final scores. Provinces needed a minimum score of 60 per cent to qualify for the incentive. Table W1.19 shows the final score and incentive allocation for each province.

In the 2024/25 adjustments budget, the grant was allocated funding for the Western Cape Rapid Schools Build Programme through the Budget Facility for Infrastructure. This project is allocated R1.3 billion in 2026/27.

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Table W1.19 Education infrastructure grant allocations

R thousand	Planning assessment results from 2025	2026/27		Final allocation for 2026/27
		Basic component	Incentive component	
Eastern Cape	79%	2 277 793	41 478	2 319 271
Free State	79%	1 004 096	41 478	1 045 574
Gauteng	77%	1 863 534	41 478	1 905 012
KwaZulu-Natal	95%	2 977 159	41 478	3 018 637
Limpopo	78%	1 831 294	41 478	1 872 772
Mpumalanga	77%	1 335 730	41 478	1 377 208
Northern Cape	77%	685 790	41 478	727 268
North West	81%	1 327 963	41 478	1 369 441
Western Cape	94%	2 580 740	41 478	2 622 218
Total		15 884 097	373 304	16 257 401

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 2025 Budget announced the merger of the *education infrastructure grant* and the *school infrastructure backlogs grant* over the 2026 MTEF period. Merging the two grants does not mean the objectives of the *school infrastructure backlogs grant* will no longer be considered. It is intended to improve the coordination of infrastructure delivery plans and programmes to ensure alignment in all the infrastructure projects.

The *school infrastructure backlogs grant* will be phased out incrementally over the MTEF period, with R448 million retained in the grant in 2026/27 to finalise the closeout of the projects while the remaining allocations for capital payments are shifted into the *education infrastructure grant*. The full allocation for compensation of employees in the *school infrastructure backlogs grant* will be shifted to the national department's compensation of employees from 2026/27 onwards to strengthen the department's oversight and monitoring capacity.

The *national school nutrition programme grant* aims to improve the nutrition of poor school children, enhance their capacity to learn and increase their school attendance. The programme provides a free daily meal to learners in the poorest schools (quintiles 1 to 3). Over the medium term, R33.9 billion has been allocated to the grant.

The *maths, science and technology grant* provides information and communications technology, workshop equipment and machinery to schools, which should lead to better outcomes in maths and science in the long term. Over the medium term, R1.5 billion has been allocated to the grant.

The *HIV and AIDS (life skills education) grant* provides for life skills training, and sexuality and HIV/AIDS education in primary and secondary schools. The programme is fully integrated into the school system, with learner and teacher support materials provided for Grades 1 to 9. Over the 2026 MTEF period, R847 million has been allocated to the grant.

The *learners with profound intellectual disabilities grant* aims to expand access to quality publicly funded education for such learners by recruiting outreach teams. A total of R967 million has been allocated to the grant over the medium term.

Cooperative governance grant

The *provincial disaster response grant* is administered by the National Disaster Management Centre in the Department of Cooperative Governance. It is unallocated at the start of the financial year. The grant allows the National Disaster Management Centre to immediately release funds (in-year) after a disaster is classified, without the need for the transfers to be gazetted first. To ensure that sufficient funds are available in the event of a disaster, section 20 of the 2026 Division of Revenue Bill allows for funds allocated to the *municipal disaster response grant* to be transferred to provinces if funds in the *provincial disaster response grant* have already been exhausted, and vice versa. The bill also allows for more than one transfer to be made to areas affected by disasters, so that an initial payment for emergency aid can be made before a full assessment of damages and costs has been completed. Over the medium term, R490 million has been allocated to this grant.

Health grants

The *district health programmes grant* consists of two main components: a comprehensive HIV/AIDS component and a district health component. The grant supports HIV/AIDS prevention programmes and specific interventions, including voluntary counselling and testing, prevention of mother-to-child transmission, post-exposure prophylaxis, antiretroviral therapy and home-based care. A total of R92.1 billion has been allocated to this grant over the medium term.

The *national tertiary services grant* provides strategic funding to enable provinces to plan, modernise and transform tertiary hospital service delivery in line with national policy objectives. The grant operates in 35 tertiary hospitals across the nine provinces and continues to fund medical specialists, equipment and advanced medical investigation and treatment according to approved service specifications. Patient referral pathways often cross provincial borders and, as a result, many patients receive care in neighbouring provinces if the required services are unavailable in their home province. The grant has been allocated R16.7 billion in 2026/27, R17.4 billion in 2027/28 and R18 billion in 2028/29.

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. The R295 million announced in the 2025 Budget that was approved through the Budget Facility for Infrastructure for the

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Tygerberg Hospital Redevelopment Public-Private Partnership (PPP) for 2027/28 remains. The funding is contingent on the finalisation of the PPP agreement and the submission of the final list of health technology costs. The grant has been allocated R7.7 billion in 2026/27, R8.2 billion in 2027/28 and R8.4 billion in 2028/29.

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

Table W1.20 Health facility revitalisation grant allocations

R thousand	Planning assessment results from 2025	2026/27		Final allocation for 2026/27
		Basic component	Incentive component	
Eastern Cape	85%	728 006	90 911	818 917
Free State	68%	624 036	–	624 036
Gauteng	80%	1 112 557	90 911	1 203 468
KwaZulu-Natal	83%	1 499 903	90 911	1 590 814
Limpopo	77%	568 191	90 911	659 102
Mpumalanga	84%	413 996	90 911	504 907
Northern Cape	69%	469 950	–	469 950
North West	83%	636 089	90 911	727 001
Western Cape	98%	1 028 014	90 911	1 118 925
Total		7 080 741	636 379	7 717 120

Source: National Treasury

The *human resources and training grant* has two components. The training component funds the training of health sciences professionals, including specialists, registrars and their supervisors. The statutory human resources component funds internship and community service posts, as well as some posts previously funded from the equitable share. Additional funds have been allocated for the developmental portion of the grant. These funds have been allocated to the Eastern Cape, Limpopo, Mpumalanga, Northern Cape and the North West. A total of R18.5 billion has been allocated to the grant over the medium term.

The *national health insurance grant* continues to fund the contracting of health professionals in the former national health insurance pilot sites. The conditional grant allows provinces to pay contractors directly. In addition, the grant funds the provision of mental health services. Over the medium term, the grant is allocated R1.5 billion.

The *national health insurance indirect grant* continues to fund all preparatory work for universal health coverage, as announced in 2017/18. The grant has been allocated R2.6 billion in 2026/27, R2.6 billion in 2027/28 and R2.7 billion in 2028/29. Through the Budget Facility for Infrastructure, R259 million in 2026/27 has been approved for the Siloam District Hospital

in Limpopo. The funding is subject to the finalisation of a socioeconomic analysis, a clear demand analysis and the funding structure of the project.

Human settlements grants

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

This grant is allocated using a formula with three components:

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

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

The reliance on outdated data from the 2011 Census and the 2010 General Household Survey is a notable limitation. More recent data is needed to ensure allocations reflect current realities. The planned review of the allocation methodology for the 2026 MTEF provides an opportunity to incorporate updated data sources, especially the 2022/23 Income and Expenditure Survey. A total of R41.4 billion has been allocated to this grant over the medium term.

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Table W1.21 Human settlements development grant formula calculation

Components	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%
eThekweni	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

The *informal settlements upgrading partnership grant* intensifies efforts to upgrade informal settlements in partnership with communities. The grant is dedicated to increasing investment in upgrading existing informal settlements, which includes identifying informal settlements for upgrades, providing households with tenure and providing municipal engineering services. The grant has been allocated R1.9 billion in 2026/27, R2 billion in 2026/27 and R2 billion in 2028/29.

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. The grant also 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. Grant allocations are determined upfront based on the performance of provincial departments in meeting job targets in the preceding financial year while also incentivising provincial departments to participate in the EPWP and measures the performance of each province relative to its peers, providing additional incentives to those that perform well. The National Treasury, in collaboration with the Presidency, is reviewing all public employment programmes. This

review aims to explore the synergies between the public employment programmes and the EPWP programmes and ensure alignment between the programmes. An amount of R2 billion has been allocated to the grant over the medium term.

Sport, arts and culture grants

The *community library services grant*, administered by the Department of Sport, Arts and Culture, aims to help South Africans access information to improve their socioeconomic situation. The grant is allocated to the relevant provincial department and administered by that department or through a service-level agreement with municipalities. In collaboration with provincial departments of basic education, the grant also funds libraries that serve both schools and the general public. Funds from this grant may be used to enable the shift of the libraries function between provinces and municipalities. A total amount of R5.4 billion has been allocated to the grant over the medium term.

As part of the recommendations of the conditional grants review process, the *community library services grant* will be incorporated into the provincial equitable share. In preparation for this transition in 2027/28, in 2026/27, the department must conduct the required consultations to ready the system for the grant's closure. This will involve two tracks:

- Provincial engagements led by the Department of Sport, Arts and Culture
- Intergovernmental processes led by the National Treasury, including the Technical Committee on Finance and the Budget Council.

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

- In 2027/28, the compensation of employees component of the grant will be moved into the provincial equitable share and ring-fenced using the allocations in the grant and not the provincial equitable share formula.
- In 2028/29, the balance of the conditional grant will be moved into the provincial equitable share formula.

The *mass participation and sport development grant* aims to increase and sustain mass participation in sport and recreational activities in the provinces, with greater emphasis on provincial and district academies. The grant has been allocated R653 million in 2026/27, R679 million in 2027/28 and R700 million in 2028/29.

Transport grants

The *public transport operations grant* subsidises commuter bus services. It helps ensure that provinces meet their contractual obligations and provide services. Most of the contracts subsidised through this grant continue to operate on long-standing routes that link dormitory towns and suburbs established under apartheid to places of work. The grant allows provinces to renegotiate contracts and routes, and/or to assign the function and funding to municipalities. This provides an opportunity for routes to be restructured in line with new

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settlement patterns and to promote more integrated urban development patterns in future. A total of R26.2 billion has been allocated to the grant over the medium term.

The *provincial roads maintenance grant* is a supplementary grant that supports the cost of maintaining provincial roads. Provinces are expected to fund the construction of new roads from their own budgets and supplement the cost of maintaining and upgrading existing roads. Grant allocations are determined using a formula based on provincial road networks, road traffic and weather conditions. These factors reflect the varying costs of maintaining road networks in each province. The grant requires provinces to follow best practices for planning and to use and regularly update road asset management systems.. A total of R54.2 billion has been allocated to the grant over the medium term. The incentive portion of the grant is allocated based on performance indicators relating to traffic loads, safety engineering and visual condition indicators.

PART 5: LOCAL GOVERNMENT FISCAL FRAMEWORK AND ALLOCATIONS

Funds raised by national government are transferred to municipalities through conditional grants and unconditional transfers. National transfers to municipalities are published to enable them to plan fully for their 2026/27 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 2026 MTEF period announced in the 2025 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, R566.9 billion will be transferred directly to local government and a further R23.8 billion has been allocated to indirect grants. Direct transfers to local government over the medium term account for 9.5 per cent of national government's non-interest expenditure.

Table W1.22 Transfers to local government

R million	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Outcome			Adjusted budget	Medium-term estimates		
Direct transfers	150 699	157 650	167 685	180 648	182 278	189 307	195 291
Equitable share and related	83 938	92 262	99 504	106 087	110 090	114 483	118 041
Equitable share formula ¹	76 649	84 694	91 786	98 063	101 766	105 834	109 123
RSC levy replacement	6 249	6 524	6 647	6 909	7 170	7 456	7 687
Support for councillor remuneration and ward committees	1 040	1 044	1 071	1 115	1 154	1 194	1 231
General fuel levy sharing with metros	15 335	15 433	16 127	16 849	17 530	18 230	18 796
Conditional grants	51 426	49 955	52 055	57 711	54 658	56 594	58 453
Infrastructure	48 992	47 294	49 983	55 987	52 868	54 728	56 529
Capacity building and other	2 434	2 661	2 072	1 725	1 790	1 866	1 924
Indirect transfers	7 182	8 174	7 089	7 863	7 473	8 031	8 280
Infrastructure	7 118	8 120	6 953	7 863	7 473	8 031	8 280
Capacity building and other	64	54	136	–	–	–	–
Total	157 880	165 824	174 775	188 510	189 751	197 338	203 571

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

Source: National Treasury

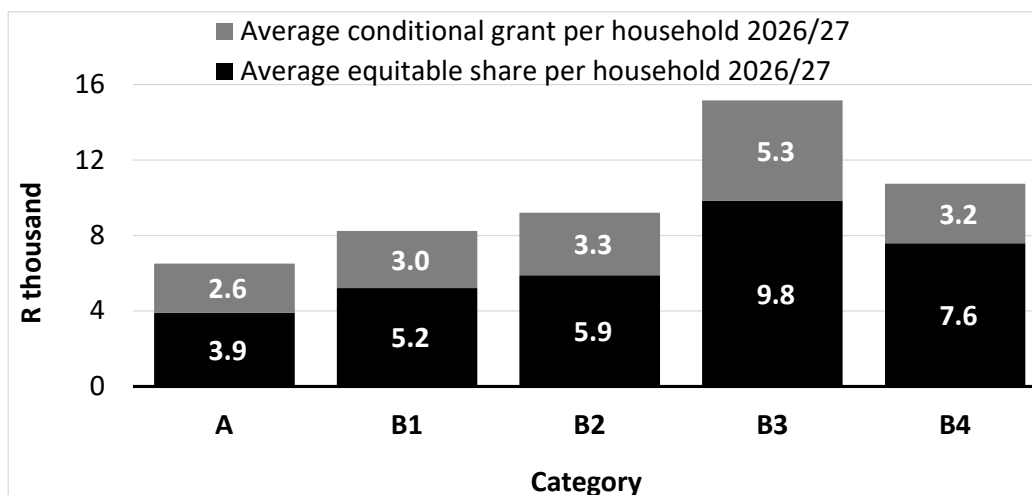
The local government fiscal framework is designed to respond to the constitutional assignment of powers and functions to municipalities, encompassing all resources available to meet their expenditure responsibilities. National transfers form a relatively small portion of this framework, with municipalities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

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

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

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Figure W1.2 Per household allocations to municipalities, 2026/27*



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

Source: National Treasury

Changes to local government allocations

Several changes to local government allocations proposed in the 2025 MTBPS have been endorsed. These include:

- The merger of the baselines of the *integrated national electrification programme grant* and the *energy efficiency demand side management grant* in 2026/27 to focus on energy efficiency and renewable energy programmes that can lead to more sustainable energy provision and enable the achievement of long-term energy security goals.
- A shift of R300 million in 2026/27 from the *municipal infrastructure grant* to the Department of Cooperative Governance's vote for the once-off gratuity payment to outgoing councillors after the local government elections.
- A shift of R536 million in 2026/27 from the direct component of the *municipal infrastructure grant* to the indirect component to address infrastructure delivery issues.
- A shift of R19.2 billion (R5.7 billion in 2026/27, R6.4 billion in 2027/28 and R7.1 billion in 2028/29) from the *urban settlements development grant* to the metro trading services component of the *urban development financing grant* to strengthen core utility functions; and an additional incentive allocation of R8.6 billion over the MTEF period towards the metro trading services component of the *urban development financing grant*, confirmed from the provisional allocations made in 2025.
- A reduction of R491 million in 2026/27 from the *informal settlements upgrading partnership grant: municipalities* to support the continuation of the implementation of the Presidential Employment Stimulus.

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- A reduction of R784 million in 2026/27 from the *integrated national electrification programme (Eskom) grant* to support the continuation of the implementation of the Presidential Employment Stimulus.
- A reduction of R921 million in 2026/27 from the *municipal infrastructure grant* to support the continuation of the implementation of the Public Employment Programme Presidential Employment Stimulus.
- The discontinuation of the indirect *neighbourhood development partnership grant*, with its baseline of R219 million over the MTEF shifted to the Vote of the National Treasury and earmarked to support government's infrastructure reforms.
- The correction of the BFI allocations for eThekweni Metropolitan Municipality, allocated through the urban development financing grant. The full allocation of R379 million for the non-revenue water project was erroneously allocated to eThekweni instead of being split between the municipality and the Infrastructure Fund as per the agreed work package. eThekweni's allocation in the *urban development financing grant* is reduced by R144 million over the MTEF and allocated to the Infrastructure Fund.
- An addition of R2.1 billion over the MTEF period to the *regional bulk infrastructure grant* for a regional wastewater treatment works project in Polokwane, funded through the Budget Facility for Infrastructure.
- A reduction of R8.3 billion over the MTEF period to the *public transport network grant*, identified through the Targeted and Responsible Savings process.

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

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

R million	2026/27	2027/28	2028/29	MTEF total
Technical adjustments	–	–	–	–
Direct transfers	-536	–	–	-536
Conditional grants	-536	–	–	-536
Municipal infrastructure	-536	–	–	-536
Urban settlements development	-5 690	-6 365	-7 102	-19 157
Energy efficiency and demand-side management	-256	-266	-275	-797
Integrated national electrification programme	256	266	275	797
Urban development financing	5 690	6 365	7 102	19 157
Indirect transfers	536	–	–	536
Municipal infrastructure	536	–	–	536
Additions	2 719	3 203	4 787	10 708
Direct transfers	2 719	3 203	4 787	10 708
Conditional grants	2 719	3 203	4 787	10 708
Urban development financing	2 031	2 333	4 226	8 589
Regional bulk infrastructure	688	870	561	2 119
Reductions to baselines	-4 950	-2 856	-4 041	-11 847
Direct transfers	-4 062	-2 749	-3 931	-10 741
Conditional grants	-4 062	-2 749	-3 931	-10 741
Municipal infrastructure	-1 221	–	–	-1 221
Informal settlements upgrading partnership	-491	–	–	-491
Neighbourhood development partnership	–	-182	-392	-575
Urban development financing	-54	-50	-40	-144
Public transport network	-2 291	-2 516	-3 498	-8 306
Expanded public works programme integrated	-5	–	–	-5
Indirect transfers	-888	-107	-111	-1 105
Integrated national electrification programme	-784	–	–	-784
Neighbourhood development partnership	-103	-107	-111	-321

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

R million	2026/27	2027/28	2028/29	MTEF total
Additional Adjustments	-996	-2 034	-4 852	-7 883
Direct transfers	-956	-1 950	-4 652	-7 558
Equitable share and related	-571	-1 182	-2 817	-4 570
Equitable share formula	-528	-1 093	-2 604	-4 225
RSC levy replacement	-37	-77	-183	-298
Councillors and ward committees	-6	-12	-29	-48
General fuel levy sharing	-91	-188	-448	-728
Conditional grants	-293	-580	-1 387	-2 260
Integrated urban development	-7	-15	-35	-57
Municipal infrastructure	-100	-207	-493	-800
Informal settlements upgrading partnership	-25	-53	-126	-204
Urban settlements development	-51	-95	-221	-367
Energy efficiency and demand-side management	-1	-3	-7	-11
Integrated national electrification programme	-9	-18	-42	-68
Neighbourhood development partnership	-2	-5	-11	-18
Urban development financing	-7	-14	-45	-66
Public transport network	-42	-73	-173	-287
Rural roads asset management systems	-1	-1	-3	-5
Regional bulk infrastructure	-17	-31	-74	-121
Water services infrastructure	-23	-47	-112	-182
Municipal disaster response	-2	-4	-11	-17
Infrastructure skills development	-1	-2	-5	-7
Local government financial management	-3	-7	-16	-25
Expanded public works programme integrated	-3	-6	-15	-25
Indirect transfers	-41	-84	-200	-325
Integrated national electrification programme	-12	-26	-61	-99
Neighbourhood development partnership	-1	-1	-3	-4
Smart meters	-4	-9	-20	-33
Regional bulk infrastructure	-17	-35	-82	-133
Water services infrastructure	-7	-14	-34	-55
Total change to local government allocations				
Change to direct transfers	-2 835	-1 496	-3 796	-8 127
Change to indirect transfers	-393	-191	-311	-895
Net change to local government allocations	-3 227	-1 688	-4 107	-9 022

Source: National Treasury

Having taken these revisions into account, local government allocations decrease by R9 billion over the 2026 MTEF period. Direct allocations to municipalities over the next three years grow at an average annual rate of 2.6 per cent. Indirect allocations grow at an average annual rate of 1.7 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.

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Over the 2026 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 R342.6 billion (R110.1 billion in 2026/27, R114.5 billion in 2027/28 and R118 billion in 2028/29).

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 Bill.

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 subsections that follow.

Structure of the local government equitable share formula

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

where

LGES is the local government equitable share

BS is the basic services component

I is the institutional component

CS is the community services component

RA is the revenue adjustment factor

C is the correction and stabilisation factor

The basic services component

This component helps municipalities provide free basic water, sanitation, electricity and refuse removal services to households that fall below an affordability threshold. Following municipal consultation, the formula's affordability measure (used to determine how many households need free basic services) is based on the level of two state old age pensions. When the 2011 Census was conducted, the state old age pension was worth R1 140 per month, which means that two pensions were worth R2 280 per month. A monthly household income of R2 300 per month in 2011 has therefore been used to define the formula's affordability threshold. Statistics South Africa has calculated that 59 per cent of all households in South Africa fall below this income threshold. However, the proportion in each municipality varies widely. In 2026 terms, this monthly income is equivalent to about R4 790 per month.

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

The number of households per municipality, as well as the number below the poverty threshold, is updated annually using the most recent official data available. However, for the 2026 MTEF, the household numbers will not be updated, as revisions based on the 2022 Census data will be undertaken in January 2027. Moreover, Statistics South Africa has advised that the data required to determine levels of indigence may be included in the Continuous Population Survey, also to be undertaken in 2027/28.

These data limitations were discussed in several intergovernmental forums, including the Local Government Equitable Share Working Group, the Technical Budget Forum, the Technical Committee for Finance and the Budget Forum. The pause to the growth of household numbers over the 2026 MTEF period allows Statistics South Africa to finalise a new data series rebased on the 2022 Census. As a result, the local government equitable share formula for the 2026 MTEF period will continue to use the 2023/24 household estimates used in the 2024 MTEF formula. This approach ensures stability in municipal allocations until the new, Census-rebased data series becomes available.

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Due to the data limitations, the proportion of households below the affordability threshold in each municipality is still based on 2011 Census data. The subsidy is allocated to 100 percent of the households below the poverty threshold in 2026/27 and 2027/28, and 95 percent in 2028/29. In 2026/27, the basic services subsidy will fund 11.2 million households.

The basic services component provides a subsidy of R647.96 per month in 2026/27 for the cost of providing basic services to each of these households. The subsidy includes funding for the provision of free basic water (six kilolitres per poor household per month), energy (50 kilowatt-hours per month) and sanitation and refuse removal (based on service levels defined by national policy). The monthly amount provided for each service is detailed in Table W1.24 and includes an allocation of 10 per cent for service maintenance costs.

Table W1.24 Amounts per basic service allocated through the local government equitable share, 2026/27

	Allocation per household below affordability threshold (R per month)			Total allocation per service (R million)
	Operations	Maintenance	Total	
Energy	144.92	16.10	161.03	21 604
Water	208.75	23.19	231.95	31 119
Sanitation	124.84	13.87	138.71	18 610
Refuse removal	104.65	11.63	116.28	15 600
Total basic services	583.16	64.80	647.96	86 934

Source: National Treasury

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

The electricity cost estimate is made up of bulk and other costs. Bulk electricity costs will increase by 8.76 per cent in 2026/27, 8.83 per cent in 2027/28 and 8.80 per cent in 2028/29. These are updated based on the bulk multi-year price determination approved by the National Energy Regulator of South Africa for period 6, following the settlement reached with Eskom to address an oversight in the initial determination of January 2025. The increases for non-bulk electricity costs, are updated based on the National Treasury's inflation projections in the 2025 MTBPS (3.7 per cent in 2026/27, 3.3 per cent in 2027/28 and 3.2 per cent in 2028/29).

The water cost estimate is also made up of bulk and other costs. Bulk water costs are updated based on the average increase in bulk tariffs charged by water boards (although not all municipalities purchase bulk water from water boards, their price increases serve as a proxy for the cost increases for all municipalities). The average increase in tariffs for bulk water from water boards is calculated at 11.06 per cent for 2026/27. The increase for the outer years and other (non-bulk) water costs are updated based on the National Treasury's inflation projections in the 2025 MTBPS.

The estimated costs for sanitation and refuse removal are updated based on the National Treasury's inflation projections in the 2025 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

$$BS = \text{basic services subsidy} \times \text{number of poor households}$$

Funding for each basic service is allocated to the municipality (metro, district or local) that is authorised to provide that service. If another municipality provides a service on behalf of the authorised municipality, it must transfer funds to the provider in terms of section 28 of the Division of Revenue Bill. The basic services component is worth R86.9 billion in 2026/27 and accounts for 85.4 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 2026/27, this component consists of a base allocation of R10 million, and an additional amount that is based on the number of council seats in each municipality. The number of council seats accounts for the councillor numbers that took effect on the date of the 2021 local government elections. This component reflects the relative size of a municipality's administration and is not intended to fund the costs of councillors only (the Minister of Cooperative Governance and Traditional Affairs determines the number of seats recognised for the formula). The base allocation acknowledges that all municipalities have some fixed costs.

The institutional component

$$I = \text{base allocation} + [\text{allocation per councillor} \times \text{number of council seats}]$$

The institutional component accounts for 5.8 per cent of the local government equitable share formula and is worth R5.9 billion in 2026/27. 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 2026/27, the allocation to district municipalities for municipal health and related services is R13.48 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

$$CS = [municipal\ health\ and\ related\ services\ allocation \times number\ of\ households] + [other\ services\ allocation \times number\ of\ households]$$

The community services component accounts for 8.7 per cent of the local government equitable share formula and is worth R8.9 billion in 2026/27.

The revenue adjustment factor

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

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

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

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

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

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

Correction and stabilisation factor

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

Ensuring the formula balances

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

Details of new allocations

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

Other unconditional allocations

RSC/JSB levies replacement grant

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

The *RSC/JSB levies replacement grant* allocations are based on projected inflation. This allocation methodology will be in place until the Department of Cooperative Governance finalises its review of section 84 of the Municipal Structures Act (1998) to clarify and streamline the powers and functions of district municipalities. The review should inform the development of an appropriate funding model for district municipalities. The grant is allocated R22.3 billion over the 2026 MTEF period.

Special support for councillor remuneration and ward committees

Councillors' salaries are subsidised in poor municipalities. The total value of the support provided in 2026/27 is R1.2 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 R54.7 billion in 2026/27 to R58.5 billion in 2028/29.

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 R187.9 billion over the 2026 MTEF period.

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Table W1.25 Infrastructure grants to local government

R million	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Outcome			Adjusted budget	Medium-term estimates		
Direct transfers	48 992	47 294	49 983	55 987	52 868	54 728	56 529
Integrated urban development	1 085	1 172	1 146	1 278	1 379	1 434	1 479
Municipal disaster recovery	3 319	1 335	1 425	2 161	–	–	–
Municipal infrastructure	16 842	16 342	17 054	17 358	17 504	20 030	20 652
Informal settlements upgrading partnership	4 273	4 059	4 515	4 717	4 417	5 104	5 263
Urban settlements development	7 352	7 596	8 705	9 250	4 079	2 867	2 141
Energy efficiency and demand-side management	223	224	236	246	–	–	–
Integrated national electrification programme	2 120	2 032	1 746	1 697	1 902	1 978	2 040
Neighbourhood development partnership	1 293	1 346	1 291	542	428	263	66
Urban development financing	–	–	–	3 091	9 024	9 978	12 646
Public transport network	6 013	6 194	6 080	7 544	5 711	4 510	3 747
Rural roads asset management systems	115	115	121	126	131	136	141
Regional bulk infrastructure	2 656	3 259	3 627	3 757	3 902	3 865	3 649
Water services infrastructure	3 701	3 620	4 038	4 219	4 389	4 564	4 706
Indirect transfers	7 118	8 062	6 953	7 863	7 473	8 031	8 280
Municipal infrastructure	–	–	58	494	536	–	–
Integrated national electrification programme	3 588	3 518	2 196	2 274	1 593	2 472	2 549
Neighbourhood development partnership	190	189	95	99	–	–	–
Smart meters	–	–	500	650	796	828	853
Regional bulk infrastructure	2 725	3 240	3 058	3 227	3 215	3 343	3 447
Water services infrastructure	615	1 114	1 047	1 119	1 334	1 388	1 431
Total	56 110	55 356	56 937	63 849	60 341	62 759	64 810

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 R58.7 billion over the medium term. The 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 subcomponents of the basic services component are based on the proportion of the national backlog for that service in each municipality. Other components are based on the proportion of the country's poor households located in each municipality. The formula considers poor households without access to services that meet sector standards to be a backlog.

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

Component	Input for horizontal calculation	Proxy used in 2026 (corresponding with data available from 2011 Census)
B	Number of water backlogs	Water access: Poor households ¹ report having access to piped water inside their dwelling, in the yard or within 200 meters of their dwelling
	Number of sanitation backlogs	Sanitation access: Poor households report flush toilet, chemical toilet, pit toilet with ventilation or ecological toilet
	Number of road backlogs	Roads backlog: Number of households
	Number of other backlogs	Refuse access: Poor households report that refuse is mainly removed by local authorities or a private company once a week (urban, traditional and farms). It should be noted that acceptable services standards differ by area. For traditional and farms the following conditions apply: removed by local authority / private company / community members less than once a week, communal refuse dump and communal contained / central collection point. For farms the following further addition applies: own refuse dump
P	Number of poor households	Number of poor households
E	Number of poor households	Number of poor households
N	Number of poor households in nodal areas	Allocated to the 27 priority districts identified by Cabinet as having large backlogs. Allocation is based on total households (not poor households)

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

Table W1.27 sets out the proportion of the grant accounted for by each component of the formula. The constant component provides a R5 million base to all municipalities receiving *municipal infrastructure grant* allocations. However, in future, this base allocation will be increased in line with inflation to keep up with rising infrastructure costs. This reform

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emanates from the conditional grants review process, which was concluded in 2024. Please see Part 6 for further details regarding the review.

Table W1.27 Municipal infrastructure grant allocations per sector

Municipal infrastructure grant (formula)	Component weights	Value of component 2026/27 (R million) ¹	Proportion of municipal infrastructure grant per sector
B-component	75.0%	12 404	68.8%
Water and sanitation	72.0%	8 931	49.5%
Roads	23.0%	2 853	15.8%
Other	5.0%	620	3.4%
P-component	15.0%	2 481	13.8%
Sports	33.0%	819	4.5%
E-component	5.0%	827	4.6%
N-component	5.0%	827	4.6%
Constant		1 080	6.0%
Ring-fenced funding for sport infrastructure		421	2.3%
Total		18 040	100.0%

1. Inclusive of the indirect component of the grant

Source: National Treasury

The *municipal infrastructure grant* includes an amount allocated outside of the grant formula and earmarked for specific sport infrastructure projects identified by the Department of Sport, Arts and Culture. The earmarked funds for 2026/27 amount to R421 million. While ring-fencing funds can ensure national priorities are addressed, the conditional grants review proposes strengthening the monitoring of this provision and identifying ways in which the National Treasury, the Department of Cooperative Governance, and the Department of Sports, Arts and Culture can collaborate to improve the programme. This augmentation will enable municipalities to adequately use this funding and make quality sports facilities available to the public. The idea has been shared with the sector, with further discussions planned after the 2026 Budget.

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 2026 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 facing implementation challenges, the Department of Cooperative Governance will deploy the indirect component of conditional grants to deliver projects on their behalf. The range of implementing agents has been expanded beyond the Municipal Infrastructure Support Agency to include the Development Bank of Southern Africa and capable district municipalities, enabling the Department of Cooperative Governance to match implementation capacity to municipal need. Municipalities converted to indirect delivery will be subject to time-bound capability restoration plans, with clear milestones for skills transfer and institutional strengthening to support their return to direct funding. For 2026/27, the indirect component will support 21 municipalities with a budget of R536 million, with phased expansion contingent on demonstrated delivery performance and the readiness of implementing agents. This approach ensures continuity of service delivery while building long-term municipal institutional capacity.

Integrated urban development grant

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

The grant is intended to:

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

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

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

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

To remain in the grant, cities must continue to meet or exceed the entry criteria. If they do not do so, they will be placed on a performance improvement plan. If they still do not meet the criteria in the subsequent year, they will shift back to receiving grant transfers through

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the *municipal infrastructure grant*, which comes with closer oversight and support from national and provincial departments. The base allocations a municipality receives through the *municipal infrastructure grant* and the *integrated urban development grant* will be the same and are determined in terms of the *municipal infrastructure grant* formula described above. In addition to the basic formula-based allocation, municipalities participating in the *integrated urban development grant* are eligible to receive a performance-based incentive component, which is based on performance against the weighted indicators set out below.

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

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

Source: National Treasury

The conditional grants review highlighted the need to reassess the relevance of certain indicators in the grants incentive component calculation that have remained dormant since the grant's inception due to data limitations. It also identified the need to introduce greater flexibility by allowing intermediate cities more discretion in the use of incentives. These reforms will continue being implemented in 2026/27. The total allocations for this grant amount to R4.3 billion over the 2026 MTEF period and grow at an average annual rate of 5 per cent.

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

	Planning allocation (R 000)	Performance incentive						Total incentive (R 000)	Total for incentive and planning (R 000)
		Non-grant capital as percentage of total capital spend	Maintenance spend	Asset management plan	Land use and building plans in priority areas	Weighted score			
Mogale City	–	10%	30%	0%	–	7%	14 255	14 255	
Ray Nkonyeni	–	10%	30%	0%	–	7%	14 255	14 255	
Alfred Duma	–	20%	20%	30%	–	13%	24 946	24 946	
uMhlathuze	–	30%	20%	10%	–	11%	21 382	21 382	
Polokwane	–	20%	30%	10%	–	11%	21 382	21 382	
Steve Tshwete	–	10%	10%	10%	–	6%	10 691	10 691	
Sol Plaatje	–	10%	30%	30%	–	13%	24 946	24 946	
Drakenstein	–	10%	20%	30%	–	11%	21 382	21 382	
Stellenbosch	–	30%	10%	10%	–	9%	17 819	17 819	
George	–	10%	20%	30%	–	11%	21 382	21 382	
Total	–					100%	192 442	192 442	

Source: Department of Cooperative Governance

Urban settlements development grant

Over the years, the *urban settlements development grant* has faced criticism for restricting municipal discretion in its use, primarily due to its strong association with housing and human settlements projects. This focus has overlooked other critical municipal functions, notably bulk infrastructure development. In 2024/25, the grant framework was amended to underscore the importance of spending on both new and existing bulk infrastructure. This emphasis remains and will be reinforced through metropolitan trading services reforms over the 2026 MTEF period.

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

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

Over the 2026 MTEF period, R19.2 billion from the metro trading services component is shifted and reallocated to the *urban development financing grant* to support metro trading services reform. This shift establishes a new baseline for the grant of R9.1 billion over the medium term. This figure includes R1.4 billion from the Budget Facility for Infrastructure for

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the City of Johannesburg's Lufhereng Mixed-Use Development Programme. Municipal allocations (excluding Budget Facility for Infrastructure additions) are determined by the *municipal infrastructure grant* formula, with up to 3 per cent available to fund built-environment capacity in accordance with Department of Human Settlements guidelines.

Informal settlements upgrading partnership grant

Upgrading informal settlements remains a priority over the medium term. The *informal settlements upgrading partnership grant* is reduced by R491 million in 2026/27, with these funds reprioritised towards the Presidential Employment Stimulus and allocated R4.4 billion in 2026/27, R5.1 billion in 2027/28 and R5.3 billion in 2028/29. Upgrading informal settlements is an inclusive process through which informal residential areas are incrementally improved, formalised and integrated into the city or neighbourhood by extending land tenure security, infrastructure and essential services to residents of such settlements. The grant mandates collaboration between cities and affected communities in the development and execution of strategies for these upgrades.

Public transport network grant

Emanating from the Targeted and Responsible Savings process detailed in the 2025 MTBPS, the Minister of Finance announced that the *public transport network grant* will be scaled down over the 2026 MTEF period, with part of its baseline shifted towards integrated, multimodal transport systems linked to higher-density housing to create more inclusive and productive cities.

The grant has persistently underperformed over a long period, with weak prospects of achieving its intended outcomes under the current design. The grant has struggled to move a number of municipalities from planning to implementation, with implementation repeatedly disrupted by the frequent reallocation of funds between cities to secure compliance and absorb spending pressures rather than deliver sustainable operational systems. Over the past seven years, aggregate spending performance has averaged around 66 per cent, reflecting chronic underspending and large annual variances between funds transferred and actual municipal expenditure. Remedial measures (including peer-to-peer support and other interventions) have delivered only limited gains. Several cities have faced suspensions and/or reductions to baselines due to poor implementation and weak institutional capability, while others have been unable to mobilise the requisite own funding needed to demonstrate operational sustainability of the systems. In parallel, passenger numbers have remained muted and erratic across participating cities, reinforcing the assessment that the grant has not consistently translated capital allocations into reliable, high-usage public transport services.

The close-out of the grant creates an opportunity to redirect funding in a way that supports innovation and more effective public transport provision. Critically, the closure is intended to remove perverse incentives that can encourage over-capitalisation of routes and infrastructure to secure allocations without adequate regard to operational rollout, sustainability and ongoing operating costs. The Department of Transport and the National

Treasury, with the assistance of the World Bank, are jointly working on the development of a programme that will replace the *public transport network grant*.

The grant is allocated R14 billion over the medium term. Allocations are still largely determined through a formula, accounting for 90 per cent of the baseline. This is to give continued certainty about the extent of national funding that municipalities can expect during the phase-out period.

The performance-based incentive component accounts for the remaining 10 per cent of the baseline. To qualify for an allocation from the performance incentive, a city must have an operational municipal public transport system approved by the national Department of Transport and it must have spent more than 80 per cent of its grant allocation in the previous financial year. Incentive allocations are calculated based on the coverage of costs from fares, passenger trips and the city's own financial commitment to the system. Cities must meet all three indicators. None of the cities met all three indicators for 2026/27, thus the incentive component is dormant in 2026/27, and the allocations determined fully through the formula.

Msunduzi Local Municipality was among the cities that were suspended in 2020/21 due to having been in the planning phase since the grant's introduction in the 2006 MTEF period. It has since demonstrated notable progress in implementing its integrated public transport network plan, with the goal of making its system operational over the medium term. As a result, the Department of Transport began to gradually reintroduce the municipality into the grant from 2024/25. As determined outside of the formula, the municipality has been allocated R330 million over the phase-out period of the grant.

The *public transport network grant* formula includes a base component that accounts for 20 per cent of total allocations and is divided equally among all participating cities – this ensures that smaller cities in particular have a significant base allocation to run their transport system regardless of their size. A portion of the City of Johannesburg's, eThekweni Metropolitan Municipality's and Mangaung Metropolitan Municipality's base allocations for 2026/27 are reprioritised towards Msunduzi Local Municipality. The bulk of the formula (80 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 W1.30 sets out how the final allocation for each municipality is determined, taking account of both the base and formula sub-components.

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Table W1.30 Formula for the public transport network grant

	Base 20%	Demand-driven factors 80%			Total: base and demand- driven factors	Performance (N/A)	100%
	Equally shared ¹	Population component shares	Regional gross value added component shares	Public transport users component shares			Grant allocations ² (R 000)
City of Cape Town	10%	17.8%	16.8%	15.1%	15.1%	-	2 710 507
City of Johannesburg	5.3%	21.1%	26.9%	22.3%	19.4%	-	685 392
City of Tshwane	10.0%	13.9%	16.0%	15.2%	13.9%	-	491 839
Ekurhuleni	10.0%	15.1%	10.1%	16.2%	13.0%	-	458 701
eThekweni	5.3%	16.4%	16.9%	19.6%	14.9%	-	525 700
George	21.5%	0.9%	0.5%	0.3%	5.2%	-	184 884
Mangaung	5.3%	3.6%	2.5%	3.5%	3.7%	-	129 752
Msunduzi	2.5%	0.0%	0.0%	0.0%	0.6%	-	20 000
Nelson Mandela Bay	10.0%	5.5%	5.0%	3.9%	6.0%	-	211 004
Polokwane	10.0%	3.0%	1.6%	1.4%	3.8%	-	134 173
Rustenburg	10.0%	2.6%	3.7%	2.5%	4.5%	-	159 488
Total	100.0%	100.0%	100.0%	100.0%	100.0%	-	5 711 440

1. Equally shared among 6 of the 11 cities. A portion of the City of Johannesburg and eThekweni and Mangaung's base allocations for 2026/27 is reprioritised to fund Msunduzi and George local municipalities during the phase-out period

2. Excludes additional funds for the City of Cape Town allocated through the Budget Facility for Infrastructure

Source: National Treasury

The baseline of this grant includes R2.5 billion over the medium term to complete Phase 2A of the City of Cape Town's MyCiTi public transport network, linking the underserved areas of Khayelitsha and Mitchells Plain to the city centre. This project is funded through the Budget Facility for Infrastructure.

Neighbourhood development partnership grant

The *neighbourhood development partnership grant* will be discontinued at the end of the 2026 MTEF period. Over the medium term, the focus will shift to completing all current projects at various stages of development and implementation, with no new projects initiated. The direct component of the grant has been allocated R757 million over the 2026 MTEF period to support the phased discontinuation of the grant.

The indirect component of the grant, which provides technical assistance to municipalities for infrastructure project pipeline preparation, will cease from 2026/27. Funding will be shifted to the National Treasury vote to continue supporting government's infrastructure reforms.

Urban development financing grant

Introduced in 2025/26, the *urban development financing grant* supports spatially targeted urban development in metropolitan municipalities. It consolidates previous urban grants to address underinvestment in infrastructure and technical capacity gaps, while boosting resilient infrastructure investment and financial sustainability.

The grant operates through three components:

- **Metro trading services:** Improves water, electricity and waste management by linking funding to performance milestones (governance reforms, service delivery improvements,

financial transparency), enabling municipalities to access loan finance for infrastructure investment.

- **Neighbourhood development partnership:** Supports targeted investments in strategic locations to attract third-party capital and drive spatial transformation.
- **Programme and project preparation:** Develops investment-ready capital projects through institutionalised, efficient project preparation systems.

For the 2026 MTEF period, R31.6 billion has been allocated, comprising:

- R19.2 billion shifted from the *urban settlements development grant* to metro trading services.
- An additional incentive allocation of R8.6 billion for metro trading services (from provisional allocations in the 2025 Budget).
- R1.7 billion from the Budget Facility for Infrastructure (BFI) funding towards projects in City of Johannesburg (R578 million in 2026/27, R533 million in 2027/28, and R489 in 2028/29), and eThekweni (R54 million in 2026/27, R50 million in 2027/28, and R40 million in 2028/29).
- R1.1 billion for the neighbourhood development partnership component, and R1 billion for the programme and project preparation component of the grant.

The grant extends fiscal reforms to metro trading services, incentivising efficiency and enabling access to loan finance. Performance will be monitored through institutional, financial and operational reform indicators. Cohort 1 metros will be assessed on maintaining minimum commitments, with independent verification by an independent verification agent. Reporting requirements are streamlined and integrated with existing metro systems to eliminate duplication.

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.

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The direct component of the grant is allocated R11.4 billion over the 2026 MTEF period. This amount includes amounts from the Budget Facility for Infrastructure over the medium term. Sol Plaatje Local Municipality is allocated R1.3 billion over the medium term to refurbish and renew old water supply infrastructure. Drakenstein Local Municipality is allocated R225 million in 2026/27 to complete upgrades on sanitation infrastructure. Polokwane Local Municipality is allocated R2.1 billion over the medium term for a regional wastewater treatment works project. The indirect component of this grant is allocated R10 billion over the 2026 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 2026 MTEF period, the direct component of this grant is allocated R13.7 billion and the indirect component is allocated R4.2 billion.

Integrated national electrification programme grants

Following the conditional grants review process, the *energy efficiency and demand-side management (EEDSM) grant* will be merged into the *integrated national electrification programme (INEP) (municipal) grant* starting from 2026/27. This rationalisation aims to mitigate the proliferation of grants, address duplication and better align electrification outcomes with energy-saving initiatives. To ensure a smooth transition, the EEDSM component will be incorporated as a dedicated window within the INEP framework, maintaining its focus on public lighting, traffic signals and energy-efficient municipal infrastructure.

The grant is allocated R5.9 billion over the 2026 MTEF period, contributing to a total programme spend of R13.3 billion aimed at sustaining electricity access for 95 per cent of poor households. Within the municipal allocation, R808 million is specifically earmarked for the merged EEDSM window. These funds will continue to support selected municipalities in implementing energy-saving projects and the retrofitting of public infrastructure, leveraging private-sector investment through energy cost savings to ensure long-term sustainability and demand-side efficiency. The *integrated national electrification programme (Eskom) grant* is reduced by R784 million in 2026/27 towards the Presidential Employment Stimulus and allocated R6.6 billion over the medium term.

Rural roads asset management systems grant

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

The Department of Transport will continue to work with the *municipal infrastructure grant* administrators to ensure that municipal roads projects are chosen, prioritised and approved using roads asset management systems data wherever possible. The conditional grants review proposed merging the *rural roads asset management systems grant* with the roads component of the *municipal infrastructure grant* to better allow for this required interface. Preparatory work for implementing this recommendation will continue in 2026/27. This grant is allocated R408 million over the 2026 MTEF period.

Capacity-building grants and other current transfers

Capacity-building grants help develop municipalities' management, planning, technical, budgeting and financial management skills. Other current transfers include the *EPWP integrated grant for municipalities*, which promotes increased labour intensity in municipalities, and the *municipal disaster response grant*. A total of R5.6 billion is allocated to capacity-building grants and other current transfers to local government over the medium term.

Table W1.31 Capacity building and other current grants to local government

R million	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Outcome			Adjusted budget	Medium-term estimates		
Direct transfers	2 434	2 661	2 072	1 725	1 790	1 866	1 924
Municipal disaster response	517	873	378	395	411	427	441
Municipal emergency housing	53	–	–	–	–	–	–
Infrastructure skills development	159	151	165	173	180	187	193
Local government financial management	566	569	582	590	614	638	658
Programme and project preparation support	361	319	386	–	–	–	–
Expanded public works programme integrated	778	749	560	567	586	614	633
Indirect transfers	64	147	136	–	–	–	–
Municipal systems improvement	64	147	136	–	–	–	–
Total	2 498	2 807	2 208	1 725	1 790	1 866	1 924

Source: National Treasury

Local government financial management grant

The *local government financial management grant*, managed by the National Treasury, funds the placement of financial management interns in municipalities over a multi-year period, with the aim of retaining their skills. This includes building in-house municipal capacity to implement multi-year budgeting, linking integrated development plans to budgets, and producing quality and timely in-year and annual reports. This grant prioritises supporting municipalities with challenges in processes, procedures and systems to effectively implement the Municipal Finance Management Act and to improve compliance and areas of weakness identified in the financial management capability maturity model. The grant also provides funds for the implementation of the municipal standard chart of accounts. Over the 2026 MTEF period, R1.9 billion is allocated to this grant, with an allocation of R614 million in 2026/27, R638 million in 2027/28 and R658 million in 2028/29.

The conditional grants review highlighted the importance of a unified approach to capacity building by streamlining existing initiatives within the National Treasury and leveraging best practices. Over the 2026 MTEF period, the National Treasury is rationalising its financial management support initiatives – the *local government financial management grant*, the Municipal Finance Improvement Programme and the Municipal Revenue Management Improvement Programme – into a single, integrated programme tentatively referred to as the Local Government Financial Management Capability Programme. Further details on the consolidated programme are provided in Part 6.

Infrastructure skills development grant

The *infrastructure skills development grant* develops capacity within municipalities by creating a sustainable pool of young professionals with technical skills in areas such as water, electricity and town planning. The grant places interns under the relevant supervision in municipalities or entities so that they can complete the requirements of the relevant statutory council within their respective built environment fields. The interns can be hired by any municipality at the end of their internship. The grant aims to collaborate with other sectors, such as the Department of Water and Sanitation and the Department of Cooperative Governance, with the primary objective of improving *infrastructure skills development grant* services. A memorandum of agreement must be established in instances where a graduate is placed in another entity (private or public). The grant is allocated R559 million over the 2026 MTEF period, with an allocation of R180 million in 2026/27, R187 million in 2027/28 and R193 million in 2028/29.

The *Infrastructure Skills Development Grant* will remain under the management of the National Treasury for the next three financial years when it will cease to exist as a conditional grant. To assist this transition, the grant has ceased the intake of new graduates to allow the current graduate cohort to complete their training. This transition aligns infrastructure skills development with national priorities.

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 on EPWP performance, 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-intensive projects to further increase their intensity. The formula is weighted to give larger allocations to rural municipalities. The grant is allocated R1.8 billion over the 2026 MTEF period, with an allocation of R586 million in 2026/27, R614 million in 2027/28 and R633 million in 2028/29.

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 2026 MTEF period, R1.3 billion is available for disbursement through this grant: R411 million in 2026/27, R427 million in 2027/28 and R441 million in 2028/29. The grant increases by an average annual rate of 3.7 per cent over the medium term.

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

Smart meters grant

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

Over the 2026 MTEF period, the grant will continue to complement the municipal debt to Eskom relief measures by targeting municipalities already part of the programme. As the baseline gets augmented, the grant is expected to progressively extend across municipalities to help improve financial sustainability and management. Over the medium term, R2.5 billion

has been allocated to this grant: R796 million in 2026/27, R828 million in 2027/28 and R853 million in 2028/29.

PART 6: FUTURE WORK ON PROVINCIAL AND MUNICIPAL FISCAL FRAMEWORKS

Evolving fiscal frameworks for a dynamic intergovernmental system

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

This section of the annexure outlines the critical areas of focus for the 2026 MTEF period as part of the ongoing refinement of the intergovernmental fiscal framework. The work ahead will ensure that the framework continues to support effective governance and service delivery while addressing emerging challenges. Provinces and municipalities will be fully engaged throughout the process, ensuring that all proposed changes are informed by their insights and aligned with the needs of the communities they serve.

Cross-cutting reforms

Review of the conditional grants system

The review of the conditional grants system concluded in September 2024, and reforms based on its findings have been developed and are being progressively implemented. The reforms are designed to rationalise the conditional grant framework, integrate certain grants into the provincial equitable share and enhance the overall effectiveness of the system. This initiative underscores government's commitment to improving service delivery while ensuring the prudent management of public resources.

The review process has been underpinned by extensive consultation processes since July 2024 during which the National Treasury presented the findings and recommendations of the review. Most of the proposed reforms are intended for medium- to long-term implementation, while a select few have been prioritised for short-term introduction within the 2025 MTEF period. Further consultations have been conducted following the tabling of the 2025 Budget, focusing on reforms earmarked for medium- to long-term implementation. These ongoing engagements include impact assessments and preparatory work aimed at ensuring the successful rollout of the proposed changes. Over the 2026 MTEF period, government will roll out several local and provincial government reforms aimed at streamlining funding flows, reducing duplication, and aligning recurrent obligations with the appropriate funding base. These reforms are detailed in parts 4 and 5 of this annexure under

the relevant conditional grants. They aim to address systemic challenges within the grant system and are guided by the principles of equity, efficiency and sustainability.

Review of the disaster management system

Government is implementing a multipronged approach to strengthen disaster management systems, addressing immediate challenges while building long-term resilience. Simultaneously, the National Disaster Management Centre is leading a review of the national disaster management system, supported by a synthesis report and benchmarking against international best practices by the Department of Planning, Monitoring and Evaluation. These efforts aim to address inefficiencies, improve resource allocation and ensure that disaster management is mainstreamed into the medium-term strategic framework, embedding risk reduction into future planning processes.

The main aim of the review is to create an agile, climate-resilient and fiscally sustainable disaster risk management system that delivers coordinated and measurable results at a community level.

The National Treasury and the National Disaster Management Centre will work collaboratively to ensure that implementation of the 12-pillar model considers the legislative framework to avoid absolving municipalities from their responsibility to execute the disaster management function, which ought to be funded from own revenue. The model should outline the role of municipalities; clarify the role of the SANDF in responding to national, provincial and local disasters; and explain what this approach means for the disaster response funds currently specifically and exclusively appropriated for provincial and local government and for ownership and maintenance of their assets.

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

To complement these efforts, the National Treasury has developed a Disaster Risk Financing Strategy to address the financial challenges posed by climate-induced disasters. This strategy adheres to the “build back better” principle and focuses on three key areas. First, effective finance mobilisation through tailored risk financing strategies, enhanced legislation and partnerships with financial institutions. Second, improved fund distribution by streamlining grant mechanisms, eliminating inefficiencies and decentralising response systems to include non-governmental organisations and the private sector for rapid aid delivery. Third, enhanced

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data collection through strengthened municipal asset registries and collaboration with the insurance sector to leverage claims data for better budgeting and risk management. Together, these reforms aim to create a resilient financial framework that supports effective disaster response, recovery and long-term risk reduction.

Review of the provincial fiscal framework

Review of the provincial equitable share formula

The provincial equitable share formula is under review, with changes introduced into the formula as the review is being carried out. The current structure of the formula remains unchanged over the 2026 MTEF period. For this MTEF, the formula reflects the changing demographics in each province, with all its components updated with the most recent data available. The formula has been updated to account for the changes in population across provinces, the increasing number of children enrolled in schools as well as people who are not medically insured. The formula also accounts for the level of economic activity in each province.

Although the structure of the formula remains the same, the data used to calculate the proportion of people considered poor differs significantly from the previous MTEF. Members of the general population are considered poor when they fall into the first two quintiles of household incomes. In 2025, Statistics South Africa officially released the 2022/23 Income and Expenditure Survey, which has been used to update the provincial poverty proportions. Previously, the formula used data from the 2010/11 Income and Expenditure Survey, which has been used consistently since 2013/14. The proportions have changed significantly, with most provinces recording an increase in the proportion of households in the first two quintiles, except for the Eastern Cape, Limpopo and the North West.

Table W1.32 Proportion used to account for poor people

	Income and expenditure survey 2010/11	Income and expenditure survey 2022/23	Difference
Eastern Cape	52.0%	45.9%	-6.1%
Free State	41.4%	44.3%	2.9%
Gauteng	28.9%	29.7%	0.8%
KwaZulu-Natal	45.3%	46.9%	1.6%
Limpopo	52.9%	51.4%	-1.5%
Mpumalanga	47.3%	49.0%	1.7%
Northern Cape	40.8%	48.4%	7.6%
North West	47.9%	44.1%	-3.8%
Western Cape	21.9%	29.0%	7.1%

Source: National Treasury

Previously, the National Treasury, in collaboration with the Department of Basic Education and Statistics South Africa, carried out technical work to explore options to improve the current structure of the education component. The proposed reforms to the enrolment subcomponent comprise two changes. The first is including learners with special needs from special needs centres into the enrolment numbers as they are currently not accounted for. This is a legacy of the way data was made available in the old SNAP survey, in which data on

special needs schools was not presented together with data on ordinary schools. The second change is to the structure of the enrolment subcomponent to ensure that there is differentiation among learners. The redesigned enrolment subcomponent addresses this by assigning a higher weight to learners from a poor background than learners who are better off.

The implementation of these reforms had to be paused for the 2026 MTEF to allow for consultations with the education sector. In addition, further technical work will be done to assess how the data from the latest Income and Expenditure Survey may be incorporated into the new proposed enrolment subcomponent.

Review of the provincial performance-based incentive system

The Minister of Finance introduced the performance-based incentive system in the 2012 MTBPS. The system aims to improve inefficiencies in the infrastructure delivery chain by promoting sound planning to achieve better value for money. Provinces have an opportunity to access additional funding for the provincial infrastructure baselines by submitting planning documents and performance reports that meet the minimum requirements outlined in the guidelines for the performance-based system. The financial incentive is ring-fenced as “unallocated” within the baselines of the *education infrastructure grant* and the *health facility revitalisation grant* over the 2026 MTEF period.

The assessments have shown a gradual improvement in infrastructure planning in both the provincial departments of education and health since the system’s introduction over 10 years ago. However, challenges remain in project implementation and reporting. In some cases, planned projects are not implemented as intended, and unplanned projects are undertaken instead, leading to project failure and negatively affecting service delivery.

The National Treasury is reviewing the current performance-based system for provinces to strengthen mainly the allocation criteria for incentives, project implementation, monitoring and reporting. The review is anticipated to be completed by June 2026 and will be undertaken together with the provincial treasuries and the national departments of Basic Education and Health.

Preparing for national health insurance implementation

Certain provisions of the National Health Insurance Act (NHI) (2023) have been challenged in court, including concerns about the shifting of health functions from provinces without adequate public and provincial participation in the legislative process. The outcome of these court processes may bring greater clarity on the division of responsibilities across the three spheres of government and ensure that the implementation process adheres to constitutional principles and intergovernmental mandates.

Preparatory work on the progressive implementation of the NHI will continue, including developing systems and processes that will improve the functioning of and quality of care in the health system. This work is primarily funded via the *NHI indirect grant*, which is implemented by the national Department of Health, and the direct *NHI grant*, which is

implemented by provinces. Investments in health infrastructure are also critical in preparing the health system for NHI implementation.

Review of the local government fiscal framework

Government remains committed to reviewing the local government fiscal framework. The Budget Forum has approved a comprehensive programme of action to guide this work, including the terms of reference for the review and the initiation of a procurement process to secure expertise for the detailed technical work.

The aim of the review is to critically examine the financial viability of the local government fiscal framework and identify key factors influencing its effectiveness, stability and long-term sustainability. This will be achieved by conducting an in-depth examination of existing policies, practices and mechanisms governing the allocation, management and use of fiscal resources at the local government level.

The review will be structured as per the following thematic areas:

- Overall local government fiscal framework baseline profile of distressed and optimally functioning municipalities and refinement of the problem statement.
- Local government equitable share formula.
- Local government expenditure reviews.
- Fiscal leakages in local government.
- Additional revenue considerations, including existing revenues options, including those that are undersubscribed, and exploring new additional own revenue sources and improved municipal borrowing for strengthening infrastructure investment and maintenance.

To ensure credibility and inclusivity, the review is guided by several oversight and engagement structures. A reference group has been established to provide expert inputs, validate findings and incorporate stakeholder perspectives throughout the study. The reference group is scheduled to meet four times during the review process, with meetings strategically aligned with key deliverables.

A working group coordinates technical inputs, monitors progress and addresses operational challenges. This group meets online every two months, providing a platform for continuous oversight and technical collaboration. In addition, a core project management group has been tasked with managing day-to-day project execution, coordinating research activities and preparing reports. This group meets fortnightly, ensuring consistent monitoring and agile management of the review process.

Engagement with municipalities has been a central component of the study. A representative sample of 32 municipalities was selected to participate in the review. Chief financial officers, Municipal managers and senior managers responsible for planning from these municipalities

are being interviewed to provide detailed data and insights. They are also invited to contribute to the review through up to four structured online engagements.

Involving the three groups and municipal chief financial officers guarantees that the review has adequate oversight and direction, broad stakeholder participation and meaningful input. This transparent and consultative approach strengthens the credibility of the review and ensures that its outcomes are practical, evidence-based and responsive to the needs of municipalities and citizens alike.

This work will be undertaken with the support of task teams comprising the Department of Cooperative Governance, SALGA and Statistics South Africa over the 2026 MTEF period.

Review of the 1998 White Paper on Local Government

The White Paper on Local Government review is in the synthesis-and-consolidation phase, following the April 2025 gazetting of the discussion document and the completion of the underpinning research programme. The synthesis report sets out the remaining tasks that need to be finalised: further testing of the emerging proposals with departmental units, political principals, practitioners and legal advisors; targeted follow-up engagements with key stakeholders (including SALGA and the National Treasury); closure of identified policy gaps; and preparation of a first draft of the revised White Paper by end-January 2026. The review team then anticipates a further public process in February 2026 (subject to confirmation), preparation of a Cabinet memorandum in March 2026 and submission of the final revised white paper by end-March 2026.

Key emerging findings point to a need for both immediate stabilisation and longer-term structural reform, anchored in a sharper diagnosis of root causes: weak accountability and consequences, political interference in administration, misaligned powers/functions and capability, fiscal design and structural funding gaps, and an overly complex “one-size-fits-all” system. The direction of reform is shifting from “developmental local government” as a municipal-only endeavour to “developmental governance at the local level,” emphasising shared responsibility across spheres, state-owned enterprises and communities.

Reforms to local government own revenue sources

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

Norms and standards for electricity surcharges

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

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

To date, the draft compulsory national norms and standards for regulating the municipal electricity surcharge have been developed, and the National Treasury has consulted the relevant external stakeholders to solicit their views. The National Treasury is reviewing the draft norms and standards based on the views received. Following the review process, the draft norms and standards will be published for public comment before being submitted to Parliament for scrutiny.

Development charges

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

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

Following the enactment of the amendment act, the National Treasury resumed the process of developing regulations to ensure effective implementation of development charges. To date, the draft development charges regulations have been developed and are being reviewed internally. It is anticipated that the review process will conclude by the end of February 2026 and the National Treasury will engage external stakeholders to solicit their views. Once the external consultation processes are concluded, the National Treasury will submit the draft regulations to Parliament for scrutiny.

Municipal borrowing

Government continues to observe a gradual increase in outstanding municipal long-term debt. Over the 25-year period from 1999/2000 to 2024/25, the municipal long-term debt rose from R20.3 billion to R66.6 billion, equivalent to an average annual growth rate of about 4.9 per cent. The stock at the end of 2023/24 amounted to R65.78 billion, increasing to R66.6 billion in 2024/25. While this year-on-year rise confirms an increase in continued use

of borrowing as a financing instrument for capital investment, the pace of new borrowing has moderated in recent years. This moderation reflects weaker credit appetite among lenders and affordability constraints, particularly outside the metropolitan segment.

The National Treasury has observed that the slow growth in municipal borrowing is largely due to the weak creditworthiness of municipalities. In conjunction with reforms aimed at strengthening municipal financial sustainability, the National Treasury embarked on staging a creditworthiness academy with the World Bank. The week-long workshop was designed to help municipalities assess both their capacity and readiness to borrow funds for infrastructure development. It is an effort to improve local financial management from the perspective of potential lenders and investors. Following the workshop, the National Treasury initiated a process on providing guidelines to alternative financing mechanisms that would practically assist municipalities in determining where they are from a financial sustainability perspective and offering practical guidance on implementing alternative financing mechanisms. In 2026, the National Treasury will work on finalising the guideline and workshopping it with municipalities.

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

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

ENHANCING THE LOCAL GOVERNMENT FISCAL FRAMEWORK THROUGH TARGETED REFORMS

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

Review of the municipal capacity-building system

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

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

Metro trading services incentive grant component

Over the medium term, metros must continue to maintain the minimum commitments and demonstrate measurable performance improvements against the scalable indicators and reform milestones set out in their approved A3-performance implementation action plans. Budgets must sustain multi-year implementation of operational and capital reforms, ensure ongoing ring-fencing and correct the Municipal Standard Chart of Accounts (mSCOA) classification of *urban development financing grant*—metro trading services incentive funding, and reflect verified performance outcomes and incentive allocations communicated through the annual budget process. Metros must also maintain readiness for independent verification by ensuring timely submission of credible evidence through the National Treasury reporting portal and continued alignment of Metro Trading Services Reform (MTSR) reporting with existing statutory and grant reporting obligations.