South Africa’s provincial and municipal fiscal allocations – 2026

Actuarial Society of South Africa: Masterclass
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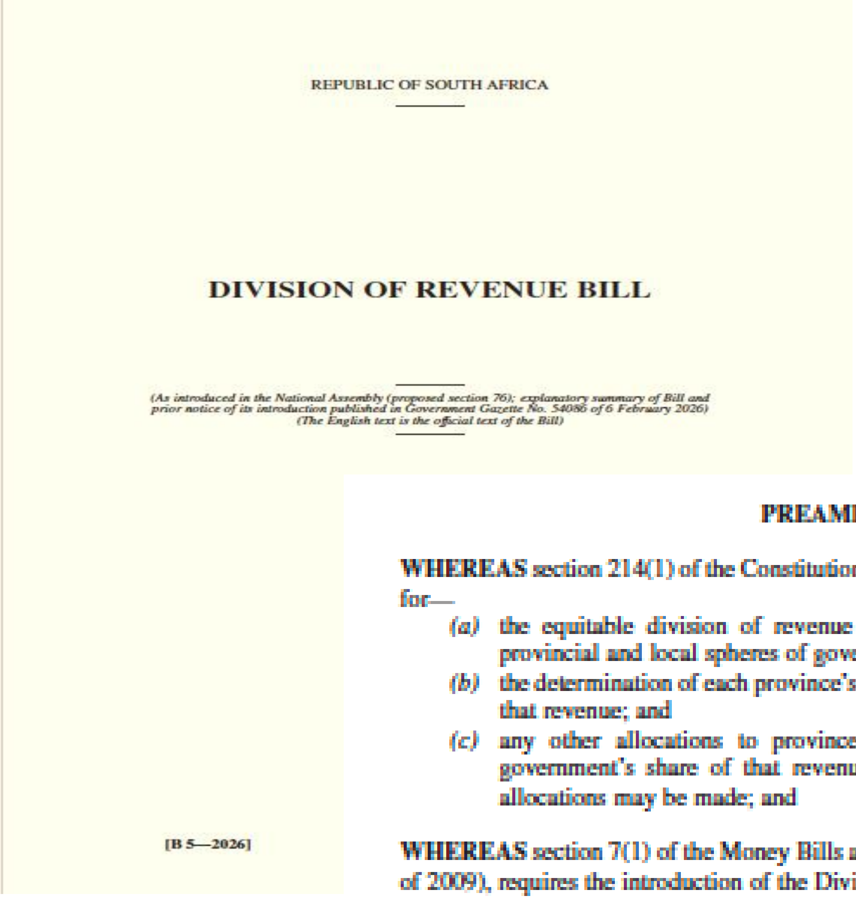
Government finances are governed by law…

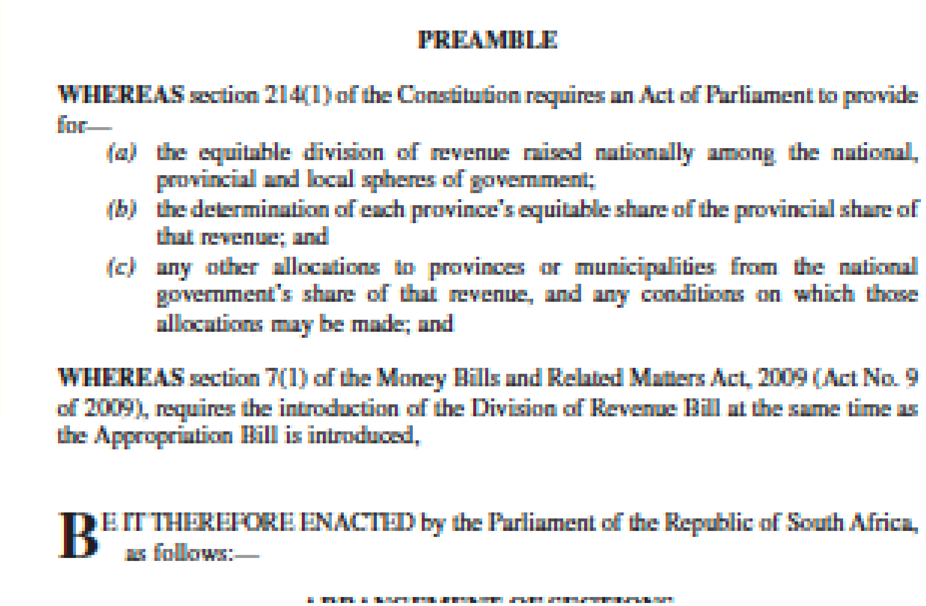
- Constitution requires an equitable division of revenue and sets out relevant criteria
- 2026 *Explanatory Memorandum* highlights 4 focus areas:
    - Fiscal sustainability
    - Promoting growth & investment
    - Supporting critical social services
    - Improving efficiency and effectiveness of public spending
- Detailed schedules and allocations
    - 2026 Division of Revenue Bill 340pp


REPUBLIC OF SOUTH AFRICA

DIVISION OF REVENUE BILL

(As introduced in the National Assembly (proposed section 76); explanatory summary of Bill and prior notice of its introduction published in Government Gazette No. 54086 of 6 February 2026)
(The English text is the official text of the Bill)

[B 5—2026]


PREAMBLE

WHEREAS section 214(1) of the Constitution requires an Act of Parliament to provide for—

(a) the equitable division of revenue raised nationally among the national, provincial and local spheres of government;
(b) the determination of each province's equitable share of the provincial share of that revenue; and
(c) any other allocations to provinces or municipalities from the national government's share of that revenue, and any conditions on which those allocations may be made; and

WHEREAS section 7(1) of the Money Bills and Related Matters Act, 2009 (Act No. 9 of 2009), requires the introduction of the Division of Revenue Bill at the same time as the Appropriation Bill is introduced,

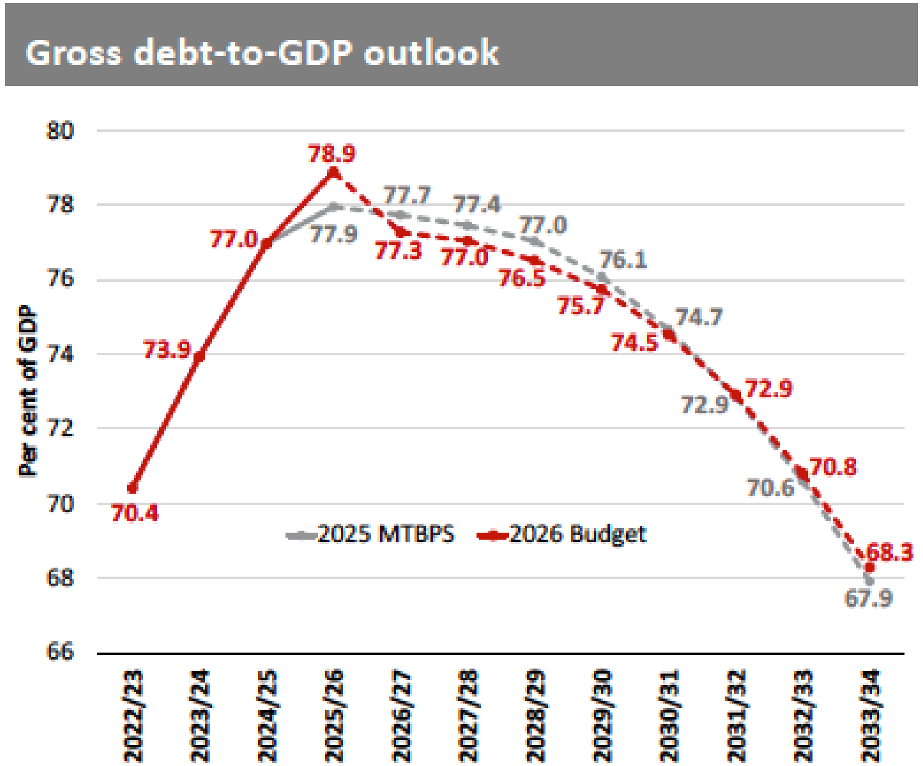
BE IT THEREFORE ENACTED by the Parliament of the Republic of South Africa, as follows:—

The fiscal framework

Budget process has several steps:

- Economic growth projections
- ...taking into account inflation
- Generates revenue projections
  - Consider tax policy changes
- Fiscal policy & budget deficit target
- ...set limit to expenditure

- Public policy and development objectives shape expenditure allocations and therefore the division of revenue



The division of revenue is essentially an *expenditure allocation* process

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- National functions
  - Justice, police, defence, foreign affairs, home affairs, higher education, social development, trade and industry promotion, national roads…
  - Social development (grants) was initially a provincial function, shifted to national
- Provincial functions
  - Basic education, health services, provincial roads & transport, safety & security, some economic development functions
- Local government functions
  - Electricity and water distribution, municipal roads, spatial planning
  - …*Largely functions that rely on cost recovery from residents*

- ”Concurrent” national and provincial / local responsibility largely means national legislation governing norms and standards, provincial/local delivery of services

The 2026 Division of revenue

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Percentage distribution between spheres of Non-interest Allocations:

R million	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Outcome			Preliminary outcome	Medium-term estimates		
Non-interest allocations	**1,700,698**	**1,690,805**	**1,758,802**	**1,906,532**	**1,945,796**	**2,013,312**	**2,094,791**
Percentage increase	*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**
Percentage increase	*6.5%*	*1.9%*	*4.8%*	*8.5%*	*2.4%*	*3.9%*	*4.3%*
Percentage shares							
National departments	*50.3%*	*48.9%*	*48.9%*	*49.3%*	*48.9%*	*47.6%*	*48.1%*
Provinces	*40.8%*	*41.8%*	*41.5%*	*41.4%*	*41.7%*	*42.8%*	*42.4%*
Local government	*8.9%*	*9.3%*	*9.5%*	*9.4%*	*9.4%*	*9.6%*	*9.5%*

…DoR in law: National share is 2/3rd of Expenditure

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

DoR: Equitable shares and conditional grants

R million	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**
of which:							
Indirect transfers to provinces	*3,536*	*4,099*	*3,728*	*4,599*	*3,008*	*2,597*	*2,678*
Indirect transfers to local government	*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

Changes to baseline, 2024-2026

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2024 Budget

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

2025 Budget

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

2026 Budget

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**

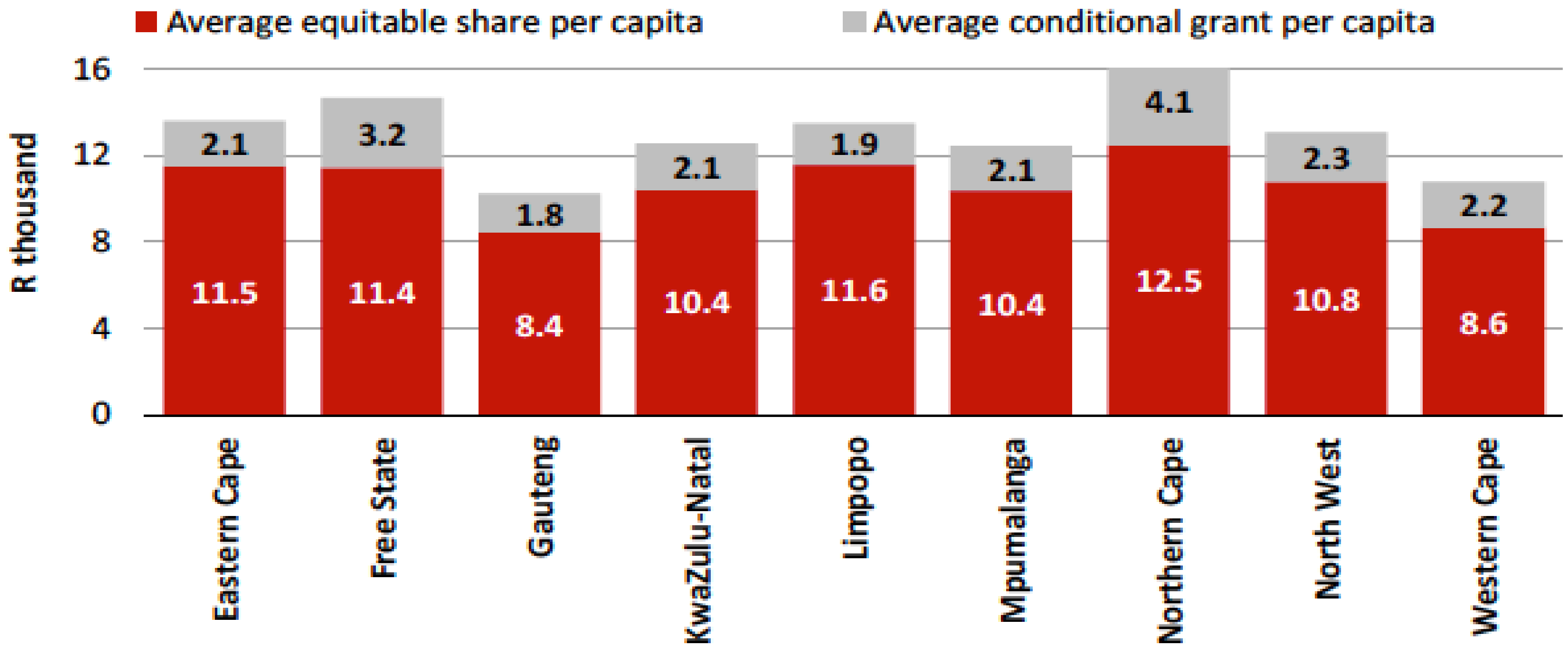
Financial & Fiscal Commission recommendations

- FFC's 2024 Recommendations related to DoR include:
  - Consolidate grants into an incentive grant for economic infrastructure and PPPs
  - Review support for smallholder farmers
  - Indirect grants (healthcare) should be "last resort" while building subnational capacity
  - Review NHI funding to ensure activities and infrastructure allocations prioritised

- FFC's 2025 Recommendations:
  - Strengthening subnational contribution to infrastructure-led growth
  - Measuring fiscal pressure of urbanization
  - Speed up review of local government equitable share formula

Provincial allocations per capita

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



The provincial equitable share formula

- Six components:
  - *Education – 48%*
    - *School-age population (5-17)* 50%
    - *School enrolment (GradeR-12)* 50%
  - *Health – 27%*
    - *Risk-adjusted uninsured population* 75%
    - *Primary healthcare visits* 5%
    - *Hospital patient-days* 20%
  - *Basic component – 16%*
    - *Population, StatsSA mid-year estimate*
  - *Institutional component – 5%*
    - *Distributed equally (11.1% each)*
  - *Poverty – 3%*
    - *Provincial share of poorest 40% of SA households (based on StatsSA IES)*
  - *Economic activity – 1%*
    - *Regional GDP estimates (2024) (65% to Gauteng, KZN, WC)*

Impact of data updates, 2025 & 2026

2025 Budget

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

2026 Budget

	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%**

Equitable shares – other issues

- Changes to the formula are typically phased in over the 3-year MTEF period
- Demographic data is typically dated – no forward projections are used
- Most recent census is contested – potential for disputes between provinces
- Where conditional grants are phased into the equitable share, these allocations are determined in other ways (around R2 billion in 2025/26)

- Strong emphasis on social service functions and redistributive elements –
- Limited role in promoting growth and investment

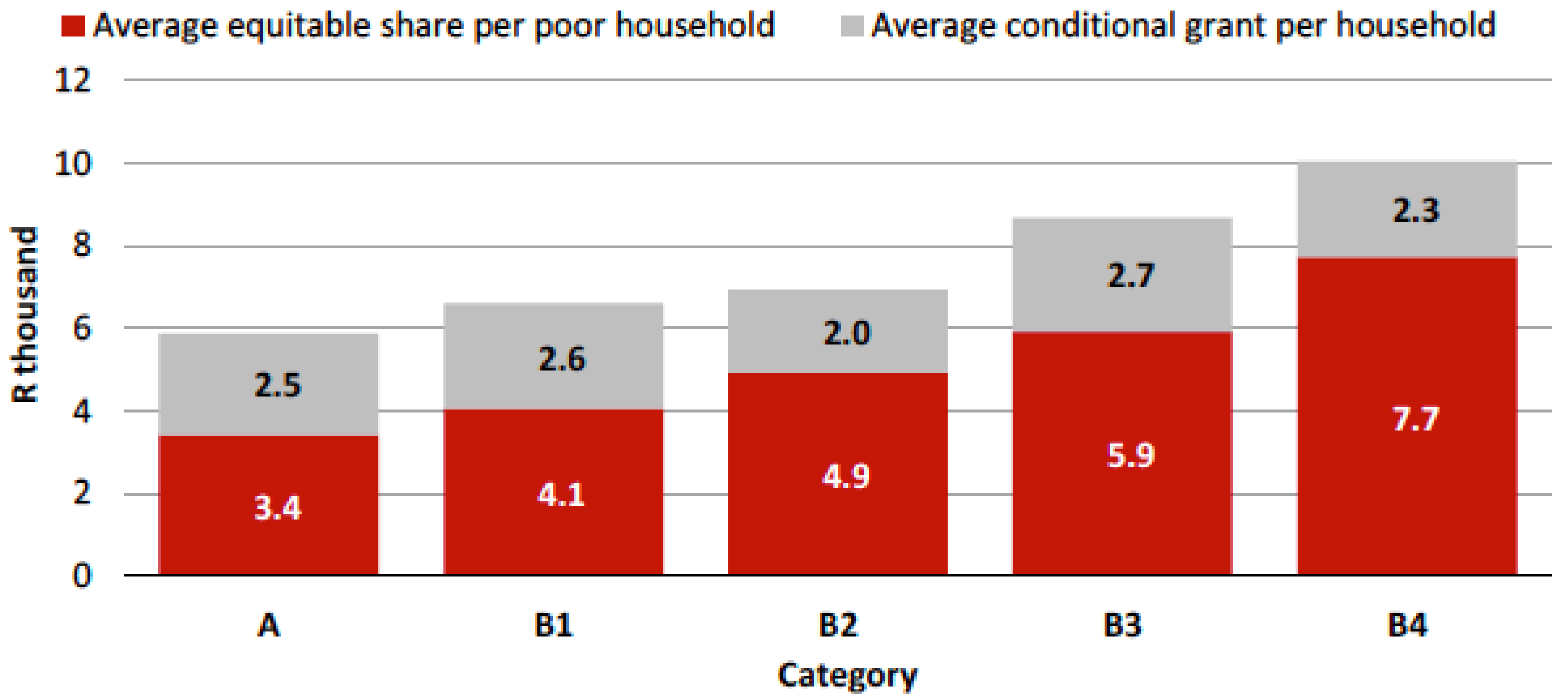
Provincial conditional grants

- Several conditional grants have significant distributional impacts:
    - Formula-based ECD allocations
    - Planning & incentive considerations in education infrastructure grants
    - School nutrition grant for learners in quintile 1-3 schools
    - District health programmes: HIV/AIDS prevention & district services
    - Health tertiary services: 35 tertiary hospitals, recognizing cross-border referrals
    - Health facility revitalization: planning and incentive elements
    - Human settlements: 70% based on households w inadequate housing, 20% share of poor households, 10% population distribution
    - Dedicated formulae for transport and roads maintenance grants
- Many grants rely on dated census estimates or unreliable administrative data

Local government allocations

A: Metropolitan
B1: Secondary cities
B2: Municipalities with large towns
B3: Mainly urban, no large town
B4: Mainly rural

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



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

Local government equitable share

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
(85% of total)

- To provide free basic water, sanitation, electricity and refuse removal services to households below an affordability level of 2x the state old-age grant
  - Municipalities can adopt their own indigence policies
  - Household numbers have not been updated due to concern about the 2022 census

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**

Other local govt equitable share components

- *Institutional component:* R10m plus allocation per councillor seats

  (5.8% of total)
- *Community services component:* Split between district and local municipalities & based on household numbers

  (8.7% of total)
- *Revenue adjustment:* Fiscal capacity adjustment based on a per capita index of household income, property values, households on traditional land, unemployment, poor household %

  Zero for top 10% of municipalities, 100% for bottom 25%, sliding scale between
- *Correction & stabilization:* Phasing in of adjustments to provide stability
- To ensure formula balances available funds, institutional and community components can be adjusted

Conditional grants

- Special support for councillor remuneration: R1.2 billion (unconditional)
- Infrastructure transfers include direct & indirect allocations
- *Municipal infrastructure grant* allocated through “vertical” and “horizontal” formulae, taking account of sectoral and poverty/backlog needs

$$MIG = C + B + P + E + N$$

Constant base allocation + residential + public service + social & micro-enterprise + 27 priority districts

- *Public transport network grant* – scaled down as a 2026 savings measure
- *Urban development financing grant* – supports metro trading services & targeted infrastructure projects
- *Regional bulk infrastructure* – projects that cut across municipalities, refurbish water infrastructure
- *Water services* and *Electrification grants* – directed at service backlogs
- *Capacity building and other grants* - Municipal financial management, skills development, smart meters, EPWP, disaster response

Provincial and municipal finance reform

- Review of conditional grants was conducted in 2024, currently being implemented
  - Streamlining funding flows, reducing duplication, aligning recurrent obligations with funding base
  - Climate-resilient disaster response and proactive capability
- Approach to determining poverty allocations has been revised, taking account of the 2022/23 Income & Expenditure Survey
- Shift to performance-based incentives
- Preparing for NHI implementation
- Local government fiscal framework under review, alongside Local Govt White Paper process
  - Own revenue sources under consideration
  - Municipal borrowing
  - Review of capacity-building framework
  - Metro trading services
  - Transition to single tier local government?
- Analysis and research opportunities: Many issues that need well-considered advice !!

- **Useful sources:**
  - National Treasury, *Provincial Budgets and Expenditure Review, 2021-2026/27*
  - National Treasury, *2026 Budget Review*
  - National Treasury, *Division of Revenue Bill and Explanatory Memorandum* (Annexure W1 to the Budget Review)
  - National Treasury, *The State of Local Government Finances and Financial Management as at 30 June 2024: Audit Outcomes of the 2023/24 financial year*
  - National Treasury, *System of Capacity Building for Local Government: Diagnostic Review*. February 2022

Available at: www.treasury.gov.za – Budget Information; Publications