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2025 BUDGET REVIEW

DIVISION OF REVENUE AND SPENDING BY PROVINCES AND MUNICIPALITIES

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CHAPTER 6

DIVISION OF REVENUE AND SPENDING BY PROVINCES AND MUNICIPALITIES

In brief

- The division of revenue makes R2.95 trillion available to provinces and municipalities over the medium term.
- Significant reforms are under way to improve provincial and municipal performance.
- Provinces need to improve the management of personnel costs, raise infrastructure investment and arrest the trend of rising accruals in the health and education sectors.
- Municipalities face governance, accountability and capacity challenges, with persistent irregular expenditure, rising debt accruals and declining revenue generation.
- Additional provision for disaster risk financing reforms aim to enhance resilience.
- Conditional grant reforms focus on streamlining, enhancing flexibility and aligning resources with service delivery priorities.

OVERVIEW

This chapter focuses on developments in provinces and municipalities – particularly the structural reforms under way to address persistent financial, accountability and service delivery problems, which include significant fiscal difficulties.

Municipalities are grappling with weak revenue generation as property tax and service charge collections decline in real terms. There is a growing reliance on intergovernmental transfers, which now account for over 70 per cent of municipal budgets in many cases. Urban municipalities are more resilient due to diversified revenue streams, but rural municipalities remain heavily dependent on transfers, exacerbating inequities in development and service delivery.

Provinces face similar fiscal pressures, with personnel costs – particularly in education and health – consuming over 70 per cent of budgets in some cases. Underspending on capital projects due to weak capacity and procurement further hampers service delivery.

Government is implementing a range of reforms to support resilience and disaster management, increase the financing and delivery of infrastructure and improve the delivery of services. A new performance-based grant has also been established that will reward improvements in the institutional capability, financial sustainability and operational performance of metro trading services such as water and sanitation.

Subnational governments need to implement structural reforms to improve spending efficiency, enhance revenue management and enforce accountability. Strategic planning and robust financial management are essential to ensure sustainable service delivery and reduce disparities between urban and rural areas.

DIVISION OF REVENUE

For the 2025 medium-term expenditure framework (MTEF) period, provinces and municipalities are allocated R2.95 trillion or 49.7 per cent of total non-interest spending. Of this amount, R2.4 trillion goes to provinces and local government receives R552.7 billion. Funds are allocated in the form of equitable shares, which are distributed through a formula that factors in demographic and developmental considerations, and conditional grants. Conditional grants are designed to achieve specific objectives, and they are made available once provinces and municipalities fulfil conditions relating to their use.

Provinces and municipalities face spending and revenue pressures from the rising costs of basic and social services, as well as declining economic growth and high borrowing costs. Table 6.1 sets out the division of revenue over the MTEF period. After providing for debt-service costs, the contingency reserve and provisional allocations, 48.5 per cent of nationally raised funds are allocated to national government, 41.9 per cent to provincial government and 9.6 per cent to local government.

Table 6.1 Division of nationally raised revenue

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Average annual MTEF growth
R billion	Outcome			Revised estimate	Medium-term estimates			
Division of available funds								
National departments	**822.8**	**855.9**	**826.9**	**862.3**	**917.5**	**915.0**	**949.6**	**3.3%**
of which:								
Indirect transfers to provinces	*3.8*	*3.5*	*4.1*	*3.9*	*5.1*	*3.0*	*2.6*	*-12.2%*
Indirect transfers to local government	*5.7*	*7.2*	*8.2*	*7.1*	*7.9*	*7.9*	*8.2*	*4.9%*
Provinces	**660.8**	**694.1**	**706.3**	**730.7**	**767.8**	**798.4**	**833.8**	**4.5%**
Equitable share	544.8	570.9	585.1	600.5	633.2	660.6	690.2	4.8%
Conditional grants	116.0	123.3	121.2	130.2	134.6	137.9	143.6	3.3%
Local government	**135.6**	**150.7**	**157.7**	**167.7**	**176.8**	**185.1**	**190.8**	**4.4%**
Equitable share	76.2	83.9	92.3	99.5	106.1	110.7	115.7	5.2%
Conditional grants	44.8	51.4	50.0	52.1	53.9	56.8	56.7	2.9%
General fuel levy sharing with metros	14.6	15.3	15.4	16.1	16.8	17.6	18.4	4.5%
Provisional allocations not appropriated[1]	–	–	–	–	38.6	84.6	86.5	
Non-interest allocations	**1 619.2**	**1 700.7**	**1 690.8**	**1 760.7**	**1 900.7**	**1 983.1**	**2 060.6**	**5.4%**
Percentage increase	*4.0%*	*5.0%*	*-0.6%*	*4.1%*	*7.9%*	*4.3%*	*3.9%*	
Debt-service costs	268.1	308.5	356.1	389.6	424.2	448.6	477.2	7.0%
Contingency reserve	–	–	–	–	8.0	10.0	15.0	
Main budget expenditure	**1 887.3**	**2 009.2**	**2 046.9**	**2 150.3**	**2 332.9**	**2 441.7**	**2 552.9**	**5.9%**
Percentage increase	*5.5%*	*6.5%*	*1.9%*	*5.0%*	*8.5%*	*4.7%*	*4.6%*	
Percentage shares								
National departments	*50.8%*	*50.3%*	*48.9%*	*49.0%*	*49.3%*	*48.2%*	*48.1%*	
Provinces	*40.8%*	*40.8%*	*41.8%*	*41.5%*	*41.2%*	*42.1%*	*42.2%*	
Local government	*8.4%*	*8.9%*	*9.3%*	*9.5%*	*9.5%*	*9.8%*	*9.7%*	

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

The *Explanatory Memorandum to the Division of Revenue* sets out the provincial and municipal allocations, details the equitable share formula and explains how the division takes into account the recommendations of the Financial and Fiscal Commission. The memorandum is available as Annexure W1 of the *Budget Review* on the National Treasury website.

PROVINCIAL REVENUE AND SPENDING

Provinces are responsible for providing social services according to nationally determined norms and standards, including basic education for 13.5 million learners and healthcare for 53.2 million South Africans without private medical insurance. In 2023/24, transfers through the division of revenue accounted for about 97 per cent of provincial revenue. The rest is composed of legislatively limited own-revenue collections, which are estimated to amount to R84.1 billion over the MTEF period, mainly from motor vehicle licence fees.

Direct national transfers to provinces are projected to grow from R730.7 billion in 2024/25 at an average annual rate of 4.5 per cent to reach R833.8 billion in 2027/28. The transfers include R633.2 billion for the provincial equitable share and R134.6 billion for conditional grants in 2025/26. Within conditional grants, R94 million is reprioritised over the MTEF period from the *provincial roads maintenance grant* to fund other transport priorities. To help implement the 2025 public-service wage agreement, provinces are allocated an additional R4.8 billion in 2025/26, R5.2 billion in 2026/27 and R5.4 billion in 2027/28.

PROVISIONAL ALLOCATIONS

The Budget includes provisional allocations that will be made available to provinces during 2025/26 and over the medium term, subject to the fulfilment of specific conditions or the completion of outstanding planning and administrative processes.

A total of R29.1 billion is provisionally allocated to provincial education departments for compensation costs and the expansion of early childhood development provision. Of this amount, R10 billion is earmarked for the *early childhood development grant*, and the remaining funds will flow through the provincial equitable share. In addition, R28.9 billion has been provisionally allocated to the health sector. Of this, R16.3 billion is set aside for compensation costs in provincial health departments and will be distributed through the provincial equitable share.

Table 6.2 Provincial equitable share

R million	2024/25	2025/26	2026/27	2027/28	Average annual
	Estimate	Medium-term estimates			MTEF growth
Eastern Cape	78 093	82 452	85 665	89 502	4.6%
Free State	33 091	34 836	36 305	37 876	4.6%
Gauteng	127 992	133 979	138 934	144 161	4.0%
KwaZulu-Natal	121 145	128 095	134 320	141 007	5.2%
Limpopo	69 625	74 064	77 792	81 807	5.5%
Mpumalanga	49 499	52 487	55 084	57 872	5.3%
Northern Cape	16 143	17 111	17 924	18 793	5.2%
North West	42 816	44 765	46 200	47 719	3.7%
Western Cape	62 071	65 376	68 344	71 507	4.8%
Total	**600 476**	**633 166**	**660 569**	**690 243**	**4.8%**

Source: National Treasury

Review on the education component of the provincial equitable share

The provincial equitable share is the main revenue source for provinces, comprising six key components: education, health, basic, institutional, poverty and economic activity. It is updated annually to ensure fair allocation based on demographic shifts and service delivery needs.

The review of the education component has been finalised and endorsed by the Department of Basic Education. Proposed reforms include incorporating learners with special needs into enrolment numbers and restructuring the enrolment subcomponent to differentiate among learners. This redesign assigns greater weight to learners from poorer backgrounds compared to those who are better off. However, implementation of these reforms has been deferred to the 2026 MTEF period due to the unavailability of updated Income and Expenditure Survey data from Statistics South Africa at the level required to revise the quintile table used for categorising learners.

Table 6.3 Conditional grants to provinces

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

Source: National Treasury

While there are indications that provinces are tightening financial controls, further improvements are needed. Irregular expenditure declined notably from R55 billion in 2022/23 to R20.7 billion in 2023/24. Unauthorised expenditure also decreased, from R3.1 billion in 2022/23 to R2.2 billion in 2023/24, while fruitless and wasteful expenditure fell from R626.6 million in 2022/23 to R193.1 million in 2023/24.

In contrast, accruals and payables, where an invoice has not yet been received or paid, increased sharply from R28.4 billion in 2022/23 to R37.1 billion in 2023/24. This increase in unpaid obligations is particularly pronounced in the health and education sectors, driven by rising service delivery demands due to population growth and the impact of higher sectoral inflation. These pressures highlight the need for improved cash flow management and prioritisation of spending.

Medico-legal claims

Medico-legal payments divert critical funds from healthcare services, exacerbating other problems, such as outdated equipment, understaffing and medication shortages. Many provinces either underestimate or fail to budget for these payments.

Contingent liabilities from medico-legal claims have decreased significantly, from R111.2 billion in 2019/20 to R76 billion in 2023/24, while expenditure on these claims fell from R1.7 billion to R1.5 billion over the same period. Although the liability remains alarmingly high, reflecting ongoing court cases and continued financial strain on the health sector, the improvement follows sustained efforts by provinces to address the root causes. Provinces are enhancing internal controls, including improving patient record management, enhancing patient safety, refining mediation processes and conducting forensic investigations into medico-legal claims.

MUNICIPAL REVENUE AND SPENDING

Greater commitment is needed from municipalities to ensure residents and businesses pay their bills, to improve internal governance and to ensure effective use of resources to meet the needs of their communities.

As part of a five-year programme of action to improve local governance, the National Treasury is leading a comprehensive review of the local government fiscal framework, which was endorsed by the Budget Forum in October 2024. This review aims to refine the funding model to ensure it is equitable, efficient and responsive to the diverse needs of municipalities. Key reforms include revising the local government equitable share formula to better target poor households and account for cost differences across municipalities. In addition, the National Treasury is consulting stakeholders as part of developing norms and standards for municipal electricity surcharges, which will help reform municipal revenue collection.

The challenges facing local government go beyond funding. Weak political and administrative management has resulted in persistent failures – including poor cash flow management, irregular and wasteful expenditure and non-compliance with financial management statutes – that highlight the need for stronger accountability. Vacancies in critical senior management positions, weak internal controls and poor implementation of audit findings further undermine financial discipline and service delivery.

CHANGES TO PROVINCIAL AND MUNICIPAL ALLOCATIONS

Adjustments to allocations since the 2024 *Medium Term Budget Policy Statement* address critical infrastructure needs, improve service delivery and enhance revenue collection. These adjustments include the first set of reforms flowing from the conditional grants review.

Progress on the conditional grants review

Following a comprehensive review of the conditional grant system and extensive stakeholder consultation, government has developed targeted reforms to be phased in over the next three years. These reforms will enhance the effectiveness, equity and sustainability of the system by streamlining the grant framework and integrating certain grants into the provincial equitable share. Some reforms will be introduced during the 2025 MTEF period. Further preparation, including consultations and impact assessments, will follow the tabling of the 2025 Budget to ensure the successful rollout of longer-term reforms.

The reforms aim to better address the diverse needs of provinces and municipalities by:

- Refining allocation methodologies to balance equity and efficiency.
- Strengthening co-funding requirements to promote shared responsibility.
- Reducing restrictive earmarking to allow greater flexibility in fund use.
- Introducing performance-based incentives to improve accountability.
- Aligning related grants to reduce fragmentation and duplication.

Streamlining the grant system will reduce duplication and administrative burdens in municipalities. Proposed measures include merging water reticulation grants into a unified water infrastructure fund, consolidating energy grants, combining urban development grants, and replacing grants for road maintenance, sports development and capacity-building initiatives with better-suited provincial programmes. Implementation will be closely monitored to ensure the intended objectives are achieved while maintaining fiscal discipline.

A key development is the introduction of the *urban development financing grant,* which merges the metro component of the *neighbourhood development partnership grant* with the *programme and project preparation support grant.* The new grant is intended to strengthen the management of and infrastructure investment in municipal entities that supply water and sanitation, electricity, energy and solid waste management services. Allocations will be paid to metros based on the achievement of targets related to management accountability, transparency and institutional capability; financial performance, including better collections, cash flow, debtors management and capital investment; and service delivery efficiency, such as reduced losses and better quality and reliability. The grant will be augmented by results-based financing from international development finance partners such as the World Bank. This merged grant will have baselines of R518 million in 2025/26, R678 million in 2026/27 and R709 million in 2027/28. Over the MTEF period, R8.5 billion is provisionally allocated pending the fulfilment of agreed performance conditions and obligations by metropolitan municipalities. Additional results-based financing in 2025/26 is linked to the *urban settlements development grant*, which supplements municipal capital budgets for bulk infrastructure.

In the provincial sphere, the *expanded public works programme integrated grant* will be merged with the *social sector expanded public works programme incentive grant* from 2025/26, combining their allocations.

Furthermore, the *municipal systems improvement grant* will be discontinued, with funds redirected to the Department of Cooperative Governance for municipal support. In addition, R494 million in 2025/26 will be shifted from the direct to the indirect component of the *municipal infrastructure grant* to address wastewater infrastructure issues in 21 municipalities. Alfred Duma Local Municipality will become a recipient of the *integrated urban development grant,* with allocations of R76 million in 2025/26, R83 million in 2026/27 and R86 million in 2027/28.

Table 6.4 Transfers to local government

R million	2024/25 Adjusted budget	2025/26 Medium-term estimates	2026/27	2027/28	MTEF total
Equitable share and related	**99 478**	**106 087**	**110 661**	**115 666**	**332 414**
General fuel levy sharing with metros	**16 127**	**16 849**	**17 621**	**18 418**	**52 888**
Direct conditional grants	**52 129**	**53 889**	**56 830**	**56 720**	**167 439**
Integrated urban development	1 146	1 278	1 386	1 449	4 114
Municipal disaster recovery	1 225	709	–	–	709
Municipal disaster response	378	395	413	432	1 240
Municipal infrastructure	17 054	17 358	19 361	20 236	56 955
Energy efficiency and demand-side management	236	246	258	269	773
Expanded public works programme integrated	560	567	593	620	1 781
Integrated national electricification programme	1 746	1 697	1 655	1 729	5 081
Informal settlements upgrading partnership	4 515	4 717	4 934	5 157	14 808
Infrastructure skills development	165	173	181	189	542
Local government financial management	582	590	617	645	1 851
Urban settlements development	8 705	9 250	9 819	9 327	28 396
Urban development financing	–	1 024	1 365	1 343	3 732
Neighbourhood development partnership	1 291	542	430	450	1 422
Programme and project preparation support	386	–	–	–	–
Public transport network	6 523	7 241	8 044	7 099	22 384
Rural roads asset management systems	121	126	132	138	396
Regional bulk infrastructure	3 627	3 757	3 230	3 026	10 013
Water services infrastructure	3 868	4 219	4 412	4 611	13 242
Total direct transfers	**167 734**	**176 825**	**185 112**	**190 804**	**552 741**
Indirect transfers	**7 127**	**7 863**	**7 866**	**8 222**	**23 951**
Integrated national electricification programme	2 196	2 274	2 390	2 498	7 162
Municipal infrastructure	58	494	–	–	494
Municipal systems improvement	173	–	–	–	–
Neighbourhood development partnership	95	99	104	108	311
Smart meters	500	650	800	836	2 286
Regional bulk infrastructure	3 058	3 227	3 232	3 378	9 836
Water services infrastructure	1 047	1 119	1 341	1 402	3 862

Source: National Treasury

The local government equitable share formula has been updated to include revised cost factors for bulk services such as electricity and water. For the 2025 MTEF period, the formula will continue to use the 2023/24 household estimates from the 2024 MTEF formula. This approach provides stability in allocations until Statistics South Africa releases a new data series based on the 2022 Census. Similarly, the proportion of households below the affordability threshold in each municipality continues to be based on 2011 Census data. This is because the 2022/23 Income and Expenditure Survey data was delayed and has not been released at the municipal level to enable updates to the local government equitable share formula for the 2025 Division of Revenue Bill.

Updating the formula with the latest official data is necessary to ensure that municipal allocations reflect demographic changes. To this end, the National Treasury is engaging with Statistics South Africa so that the necessary data is available for the 2026 Budget.

UPDATE ON THE MUNICIPAL DEBT-RELIEF PROGRAMME

Many of the 71 municipalities in the municipal debt-relief programme are failing to meet the required conditions for national government to write off their arrears debt to Eskom in equal tranches over three years. Key issues include persistent non-payment of monthly electricity accounts and an inability to collect the mandated 85 per cent of revenue. Forty-seven municipalities have consistently defaulted and already accumulated substantial arrears after receiving debt relief. Despite monthly support from provincial treasuries, these municipalities continue to struggle with financial management, risking termination from the programme.

The National Treasury has issued final warnings to several municipalities, including Mangaung Metro, Richtersveld and Inxuba Yethemba. Termination from the programme will require municipalities to repay their debt and accumulated arrears in full while facing credit control measures from Eskom, such as legal proceedings and the introduction of prepaid bulk electricity systems. The National Treasury and provincial treasuries will continue to enforce programme conditions and support municipalities. Municipalities need to improve efforts to meet their obligations by implementing cost-reflective tariffs, sustainably managing free basic services, and exploring smart prepaid meters to improve revenue collection and financial sustainability.

While challenges persist, there are success stories. Eleven municipalities have had one-third of their debt written off after meeting the programme conditions. These successes highlight the programme’s potential to improve municipal financial stability.

STRENGTHENING DISASTER RISK FINANCING

The National Treasury is leading reforms to enhance the disaster risk financing framework in the context of increasingly frequent and severe disasters. Reforms are aimed at ensuring that disaster response is timely, efficient and equitable, while proactively reducing risks. A multi-layered risk financing strategy has been developed that will address overreliance on budget reallocations, which often delays disaster response and recovery.

Insights from high-risk municipalities

The National Treasury surveyed the 40 municipalities at highest risk of natural disasters. The results highlighted significant delays in municipalities accessing disaster response funds and recovery grants, averaging five months and 12.25 months respectively. These delays hinder an effective response in resource-constrained municipalities. Complex application, verification and reporting processes, combined with limited technical capacity, exacerbate the delays, particularly in smaller municipalities. Challenges such as access to disaster sites, reliance on consultants and unclear processes are contributing factors.

In coastal and rural municipalities, which are heavily reliant on disaster recovery grants, reported expenditure often falls below allocations due to data discrepancies – such as issues with data quality and reporting practices – and spending challenges. Disaster risk reduction remains underfunded, with ageing infrastructure and poor maintenance increasing vulnerability. Inefficiencies are worsened by fragmentation, delays in provincial collation for disaster declarations and unclear roles across government.

CONCLUSION

The 2025 *Budget Review* emphasises the need for structural reforms to improve revenue generation, efficiency and accountability in provinces and municipalities. Government is implementing targeted reforms to address these challenges. Stronger intergovernmental collaboration and improved governance at all levels of government are also required.

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