FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

Briefing by Financial and Fiscal Commission.

Tuesday, 18 March 2025

09:00-13:00

Joint meeting with
Standing Committee on Finance
Standing Committee on Appropriations
Select Committee on Finance
Select Committee on Appropriations
on the

2025 National Budget

Agenda

1. Financial and Fiscal Commission and the Budget in the Consitution
2. 2025 Macroeconomic Landscape and Fiscal Strategy
3. 2025 APPROPRIATION BILL
4. 2025 DIVISION OF REVENUE – PROVINCES
5. 2025 DIVISION OF REVENUE – Local Government
6. Recommendations

Financial and Fiscal Commission

- The Financial and Fiscal Commission is a constitutional institution established under Chapter 13: Finance, Sections 220-222 of the Constitution, which makes recommendations envisaged in the following sections of the Constitution to Parliament, provincial legislatures and any other authorities determined by national legislation:

FINANCIAL AND FISCAL COMMISSION

220. Establishment and functions

(1) There is a Financial and Fiscal Commission for the Republic which makes recommendations envisaged in this Chapter, or in national legislation to Parliament, provincial legislatures and any other authorities determined by national legislation.

  - s214(2) Equitable shares and allocations of revenue;
  - s218(2) Government guarantees;
  - s228(2)(b) Provincial taxes;
  - s229(5) Municipal fiscal powers and functions;
  - s230(2) Provincial loans; and
  - s230A(2) Municipal loans.
- All legislations referred in these sections “may be enacted only after” the “recommendations of the Financial and Fiscal Commission have been considered”.

FFC Recommendations in the Constitution

- When making its recommendations the Commission must take into account the following as listed in section 214 (2) (a) to (j) of the Constitution
  a) National interest
  b) any provision that must be made in respect of the national debt and other national obligations
  c) needs and interests of the national government, determined by objective criteria
  d) the need to ensure that the provinces and municipalities are able to provide basic services and perform the functions allocated to them
  e) fiscal capacity and efficiency of the provinces and municipalities
  f) developmental and other needs of provinces, local government and municipalities
  g) economic disparities within and among the provinces
  h) obligations of the provinces and municipalities in terms of national legislation
  i) desirability of stable and predictable allocations of revenue shares
  j) the need for flexibility in responding to emergencies or other temporary needs, and other factors based on similar objective criteria

Intergovernmental Fiscal Relations Act, 1997

Part 3: PROCESS FOR REVENUE-SHARING AMONG THE SPHERES OF GOVERNMENT

Section 9: Commission's Recommendation: E.g. Costed Norms, Rurality (End-May)

1) At least ten months (or a later date agreed 10 between the Minister and the Commission) before the start of each financial year, the Commission must submit to both Houses of Parliament and the provincial legislatures for tabling in the Houses and the legislatures, and also to the Minister, recommendations for **that financial year** regarding –
   a) an equitable division of revenue raised nationally, among the **national, provincial and local spheres** of government;
   b) the determination of each province's equitable share in the provincial share of that revenue; and
   c) 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.

Section 10: Division of Revenue Bill (Main Budget and MTBPS)

3) After receiving any recommendations of the Commission in terms of section 9(I), but before the Division of Revenue Bill is introduced in the National Assembly, the **Minister** must consult—
   c) the **Commission**.

4) The Commission must be consulted in terms of subsection (3) at least 14 days before the Division of Revenue Bill is introduced.

5) When the Division of Revenue Bill is **introduced**. it must be accompanied by a memorandum explaining -
   a) how the Bill takes account of each of the matters listed in **section 214(2)(a) to (j) of the Constitution;**
   b) the extent to which account was taken of any recommendations of the Commission submitted to the Minister in terms of section 9 or as a result of consultations with the Commission in terms of subsection (3) of this section; and
   c) any assumptions and formulae used in arriving at the respective shares mentioned in subsection (2)(a) and (b).

Money Bills Amendment Procedure and Related Matters Act (2009) and the FFC

Parliamentary committees for consideration of money Bills

4. (4) A committee on appropriations has the powers and functions conferred to it by the Constitution, legislation, the standing rules or a resolution of a House, including considering and reporting on—

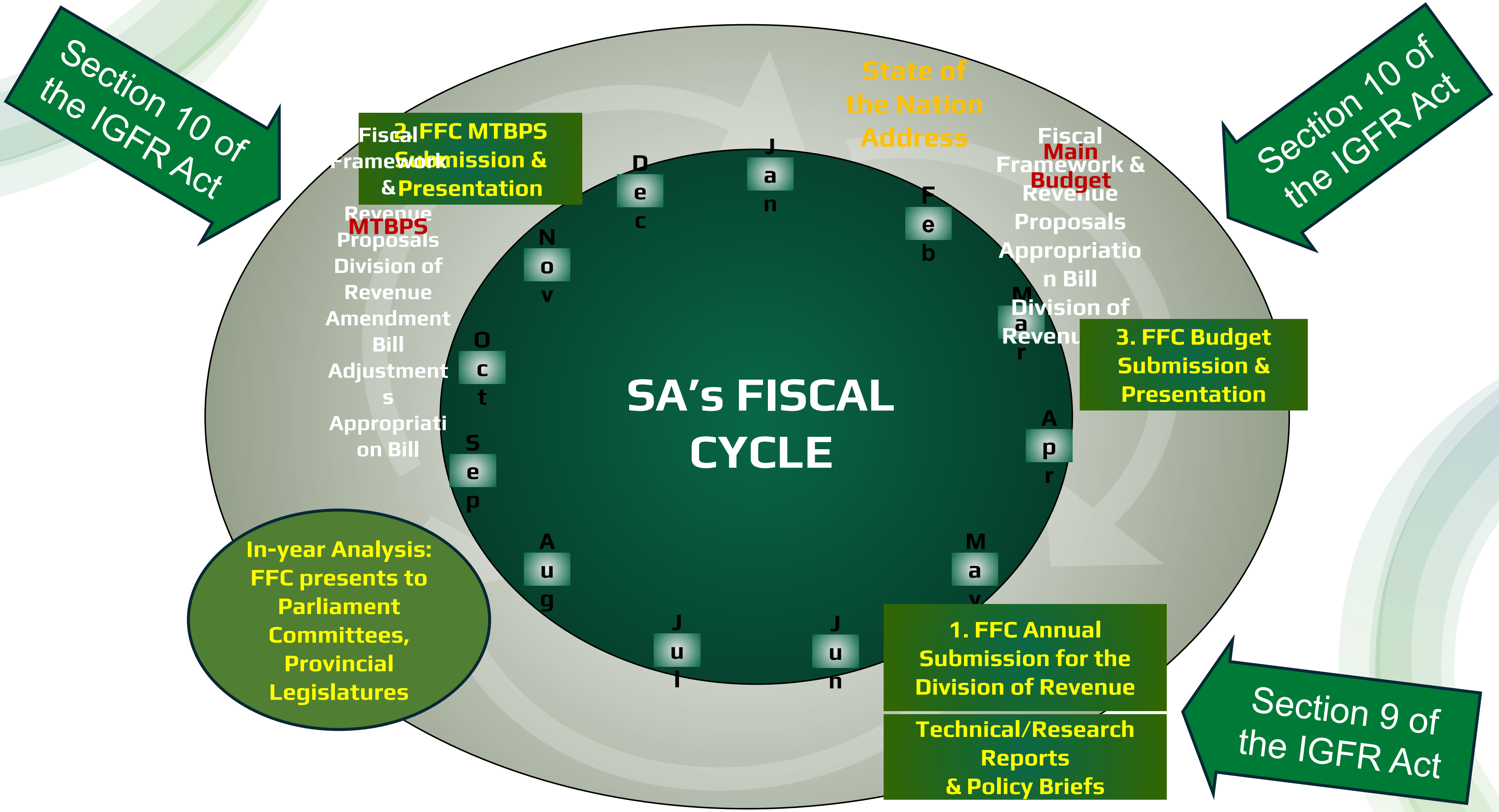
(c) **recommendations of the Financial and Fiscal Commission, including those referred to in the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997);**

Passing the Division of Revenue Bill

9. (7) The committees on appropriations must—

(a) consult with the Financial and Fiscal Commission;

FFC's Research and Recommendations in the Fiscal Cycle



FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

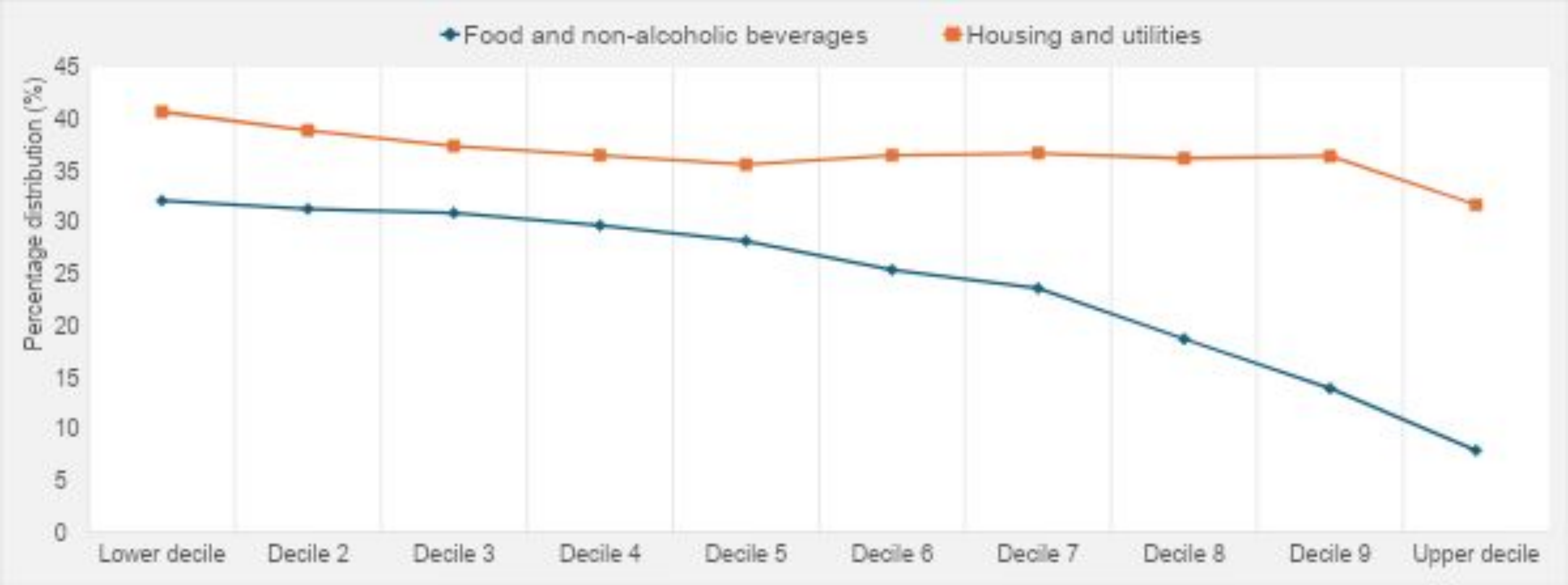
1. 2025 Macroeconomic Landscape and Fiscal Strategy

Global Economic Outlook and Inflation

- The data shows a convergence between core- and non-core inflation, suggesting increasing living costs and an erosion of purchasing power, especially for poorer consumers.
- Furthermore, the near identical patterns of the two series provide evidence that VAT exemptions on select essential products have not been sufficiently effective in mitigating the regressive nature of VAT in terms of the household consumption basket.

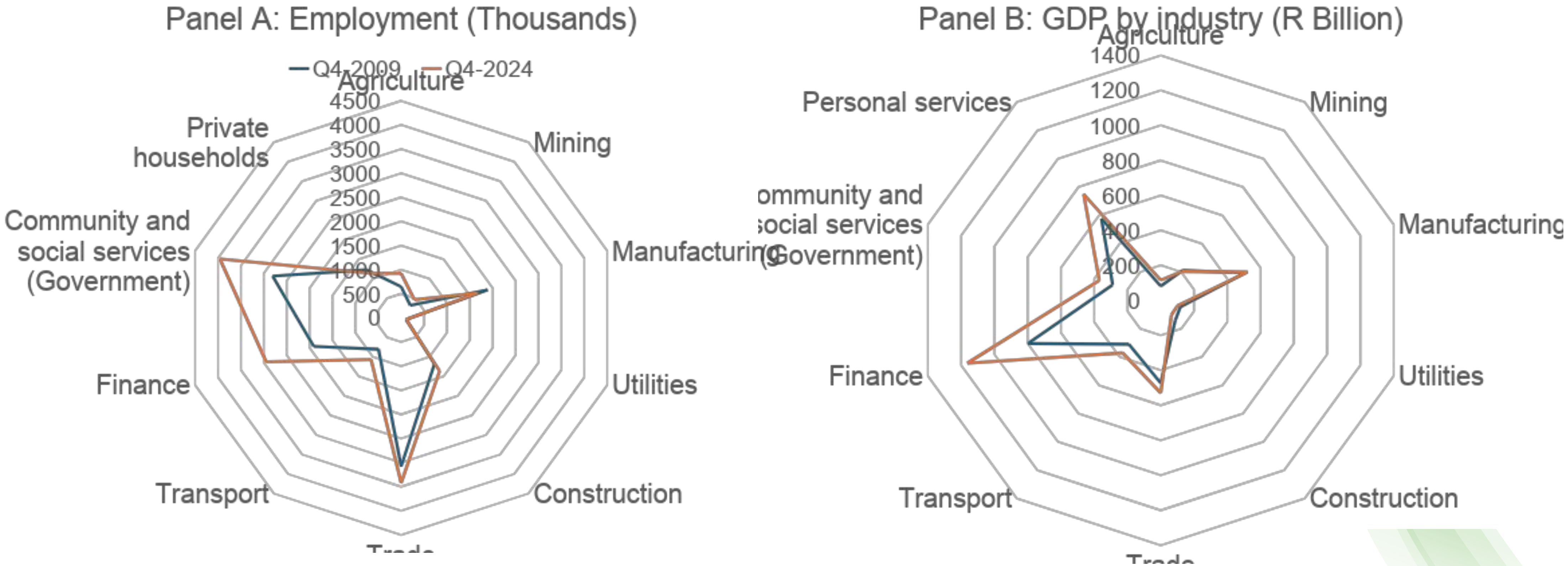
Global Economic Outlook and Inflation

- The data shows that lower deciles spend a much larger proportion of their household budgets on key essential items – namely food, housing and utilities – compared to more affluent households. This suggests their greater susceptibility to price increases for core consumption goods.
- Spending patterns of essential goods thus provide critical insights into the regressive impact of VAT, as they suggest that increasing VAT would have a disproportionate adverse effect on lower-income households.



Employment and Economic Growth

- The data points to a positive elasticity of employment to GDP growth in service-orientated industries of Finance and Transport, whereas Agriculture, Mining and Manufacturing have demonstrated significantly lower labour absorption than traditionally expected.
- There is evidence of inelasticity of employment to GDP within the public sector (Community and Social Services) since increases in employment have not been met with proportional increases in the sector's contribution to economic growth. This points to an urgent need to address inefficiencies in the public sector and failures in service delivery.

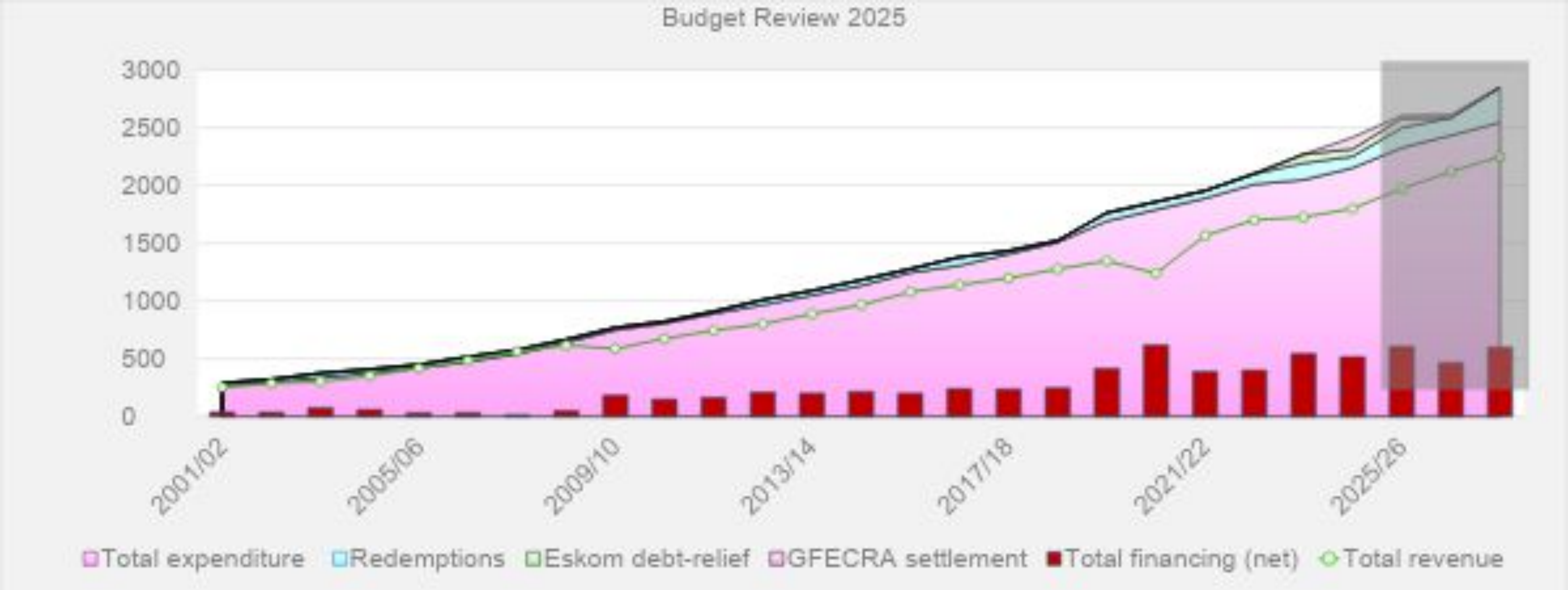


FFC's Macroeconomic Projections of the South African Economy

- The Commission forecasts real GDP growth at 1.45 per cent for 2025/26, averaging at 1.1 per cent over the medium-term. The lower-bound forecast of -1.6 per cent over the medium-term raises concerns of rising recessionary risk.
- Mitigating recessionary risks will require decisive policy – such as removing structural bottlenecks in unemployment and raising real productivity in the economy, rather than focusing on increasing expenditure.

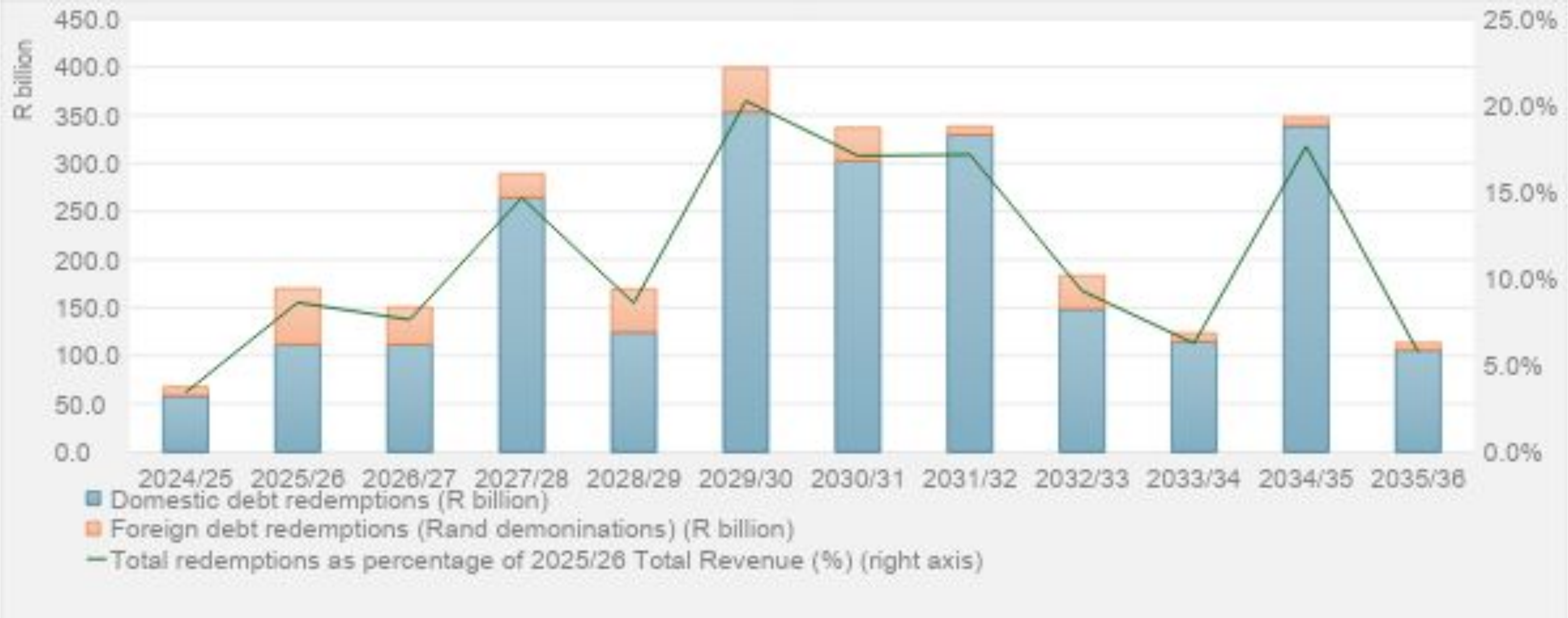
Fiscal Policy and Outlook

- Historical data shows that total government expenditure has consistently outpaced total revenue since 2008, with the widening fiscal gap indicating a trajectory of fiscal expansion.
- The total financing requirements, intensified by credit-rating downgrades and special appropriations for the Eskom debt-relief, point to a deepening debt cycle enveloping the South African economy, highlighting the pressing need for effective debt- and expenditure management interventions.



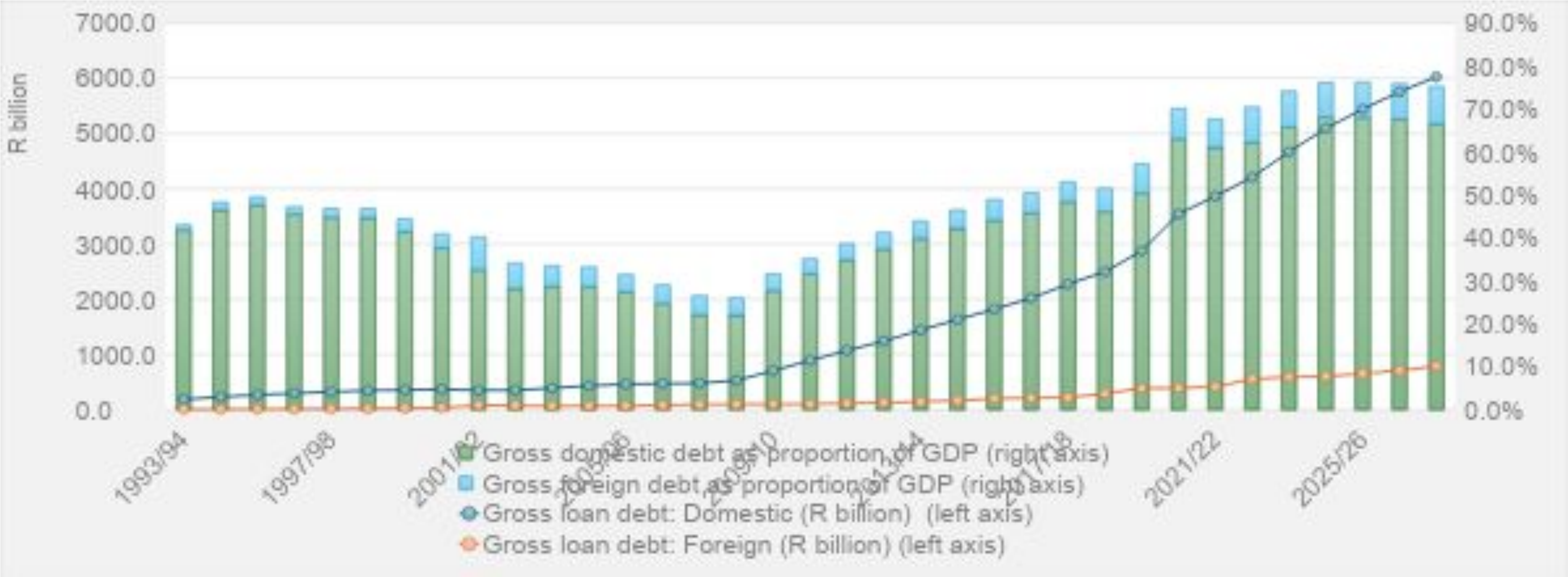
Fiscal Policy and Outlook

- Maturing government debt (i.e. debt redemptions) constitutes a first charge on the National Revenue Fund, representing a significant fiscal risk if improperly managed.
- The Commission calculates that debt redemptions for the 2025/26 fiscal year amount to R170 billion, or 8.6 per cent of total revenue. Over the medium-term, debt redemptions are estimated to reach R609.8 billion.



Fiscal Policy and Outlook

- Debt as a proportion of GDP is expected to peak at 76.1 per cent in the 2025/26 fiscal year, and debt-service costs remain high, averaging at 5.3 per cent of GDP over the medium-term (Budget Review 2025).
- While the government's debt portfolio appears to be diversified more towards domestic debt, which mitigates exchange rate risks, this still does not preclude investors from selling off domestic investments and shifting their capital towards foreign assets, which would weaken the country's fiscal position further.



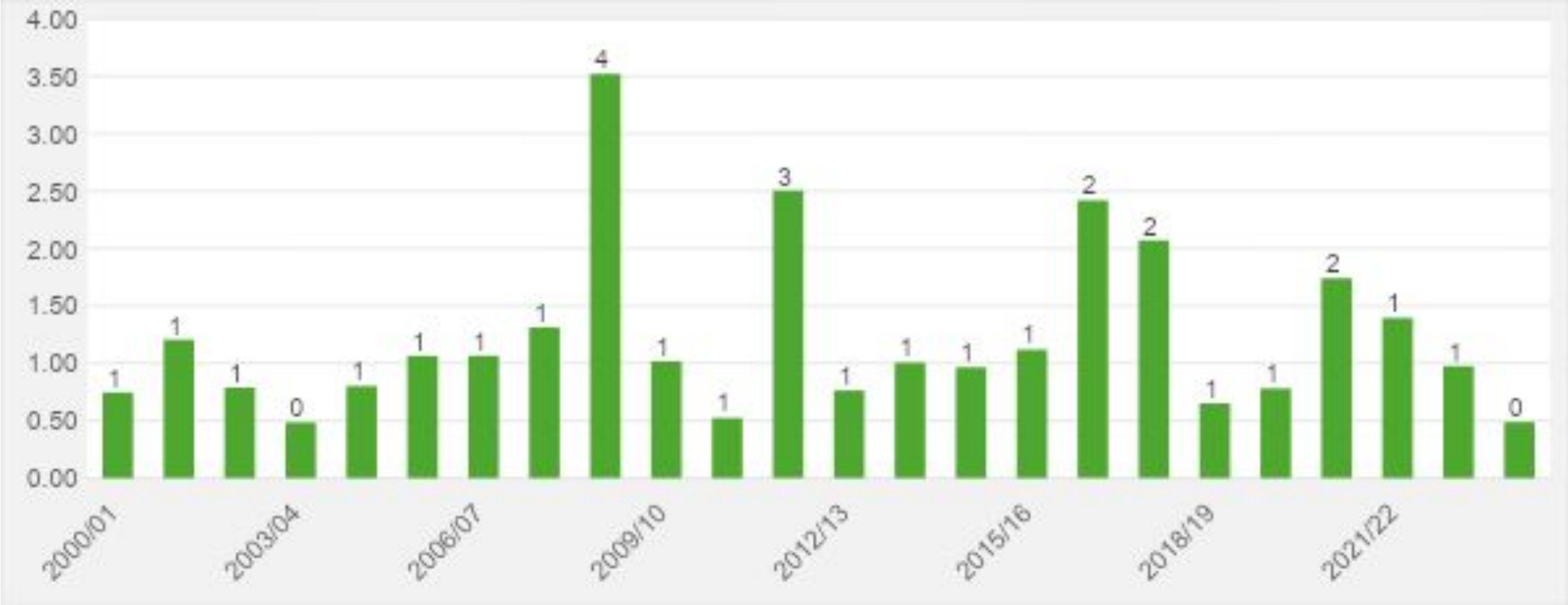
Eskom Debt-Relief and Revenue Laws Amendment Bills

- Eskom Debt-Relief Amendment Bill B4-2025:
  - The 2025 Amendment Bill seeks to raise the initial R40 billion to R80.23 billion for the 2025/26 fiscal year, with an additional R10 billion proposed for 2028/29.
  - While the total provision amounts to R20 billion less than the initial R110.2 billion provisioned for in the 2023 Debt-Relief Bill, the 2023 Bill created ambiguity in the separate treatment of R70 billion for a “debt takeover arrangement” as a direct charge (Section 2(3)).
  - Enhancing transparency, particularly in the handling of debt bailouts to SOEs which have significantly worsened South Africa’s fiscal stance, will be crucial for building fiscal credibility.

- Revenue Laws Amendment Bill B5-2025:
  - The Bill proposes amendments to provisions of the Income Tax Act 1962 (ITA) and the Revenue Laws Amendment Act 2024, which primarily concern the two-pot retirement system introduced in 2024.
  - Proposed amendments seek to bring about certainty and conditionality on members’ interest in three components of the two-pot system – the retirement component, savings component, and vested component.
  - Changes to the definitions concerning provident funds and retirement annuity funds in the ITA are also proposed.

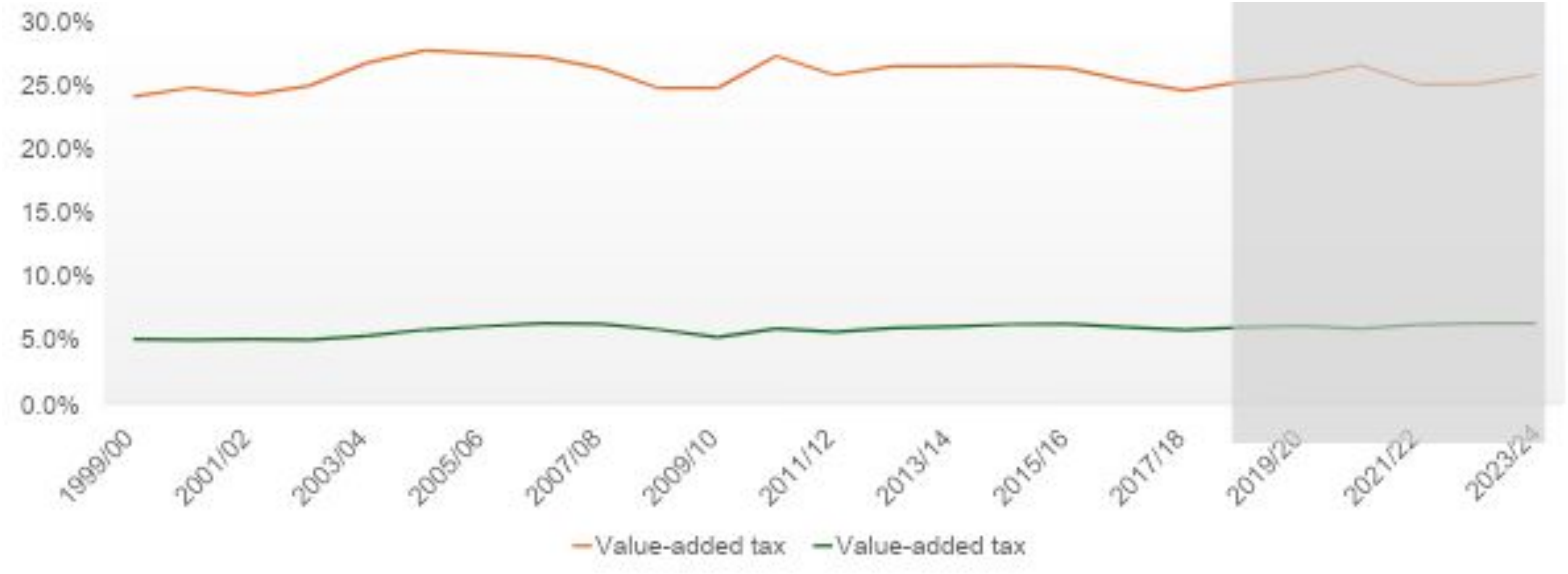
The Fiscal Impact of the VAT increase

- The Commission's calculations indicate that the revenue elasticity of VAT has declined consistently in the past four years since the COVID-19 pandemic to its 20-year low elasticity of 0.49.
- The empirical evidence thus indicates that total gross revenue lacks responsiveness to changes in VAT revenue, suggesting that an increase in VAT is unlikely to yield a proportional increase in desired revenues to support the fiscus.



The Fiscal Impact of the VAT increase

- Supporting the evidence that an increase in VAT is unlikely to yield a proportional increase in desired revenues, the data shows that, despite the VAT increase since April 2018 from 14 to 15 per cent, VAT revenue as a proportion of gross revenue remained flat throughout the period.
- Given the current climate of economic stagnation, empirical findings thus signal the limitations of using VAT as a fiscal instrument for generating additional revenues to ease South Africa's fiscal pressures.



Revenue Trends and FFC's Proposed Fiscal Strategy

- During the 2024 MTBPS, the downward adjustment of revenue collection for 2024/25 indicated a negative elasticity or tax buoyancy.
- The Commission welcomes the return to a positive tax buoyancy in the 2025 Budget, which is increasing marginally toward being proportional with GDP growth to 0.79, as evidenced in the data, particularly since the significant volatility seen during the Covid-19 pandemic.

Revenue Trends and FFC's Proposed Fiscal Strategy

- Notwithstanding the Commission's more conservative revenue forecast in its 2024 MTBPS compared to the National Treasury's forecast, the revised revenue collected for the 2024/25 financial year was even lower, pointing to severe downside risks of revenue collection.
- The Commission's forecasts demonstrate a more realistic revenue outlook, with revenue growth projected at 6.7 per cent over the long term (nominal), below the National Treasury's predictions of a revenue surge of 9.6 per cent.

FFC's Proposed Fiscal Consolidatory Paths

- In the 2024 MTBPS, the Commission endorsed the Cabinet's decision to implement an early retirement programme, further proposing a comprehensive performance and employee audit to identify redundancies, along with a benchmarking exercise to accompany restructuring efforts to ensure that necessary skills in the public sector are retained.
- The Commission emphasises that South Africa's fiscal crisis has deepened, with total government expenditure outpacing total revenue, and stresses that fiscal consolidation will be necessary to rebuild state capacity.
- The Commission's calculations indicate that the path to restoring fiscal credibility has become significantly narrower compared to the proposals of the 2024 MTBPS and proposes two paths of fiscal consolidation to reach a zero-balanced budget and restore fiscal sustainability: a three-year plan and a five-year plan.

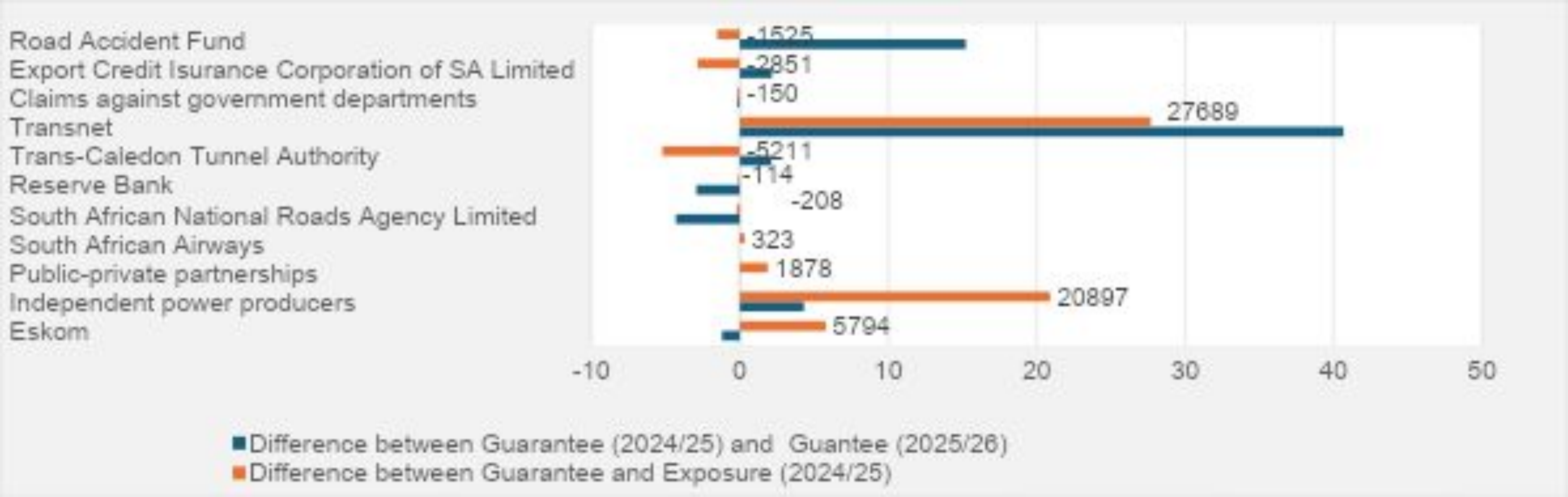
Contingent Liabilities

- Between 2024/25 and 2025/26, total government's contingent liabilities have been revised upward by R9.4 billion. Eskom, Independent Power Producers and Transnet remain at the epicentre of government guarantee exposure, representing 53.8 per cent of total guarantee. The Road Accident Fund constitutes the largest share of other contingent liabilities at 31.7 per cent.

	2024/25		2025/26
R million	Exposure	%Share of	Guarantee
Contingent liabilities	1 160 168	100.0%	1 169 574
Guarantees	675 472	58.2%	663 115
of which:			
Eskom	357 587	30.8%	350 595
Independent power producers	229 489	19.8%	212 907
Public-private partnerships	6 206	0.5%	4 325
South African Airways	323	0.0%	–
South African National Roads Agency Limited	22 643	2.0%	18 545
Reserve Bank	4 329	0.4%	1 522
Trans-Caledon Tunnel Authority	10 274	0.9%	17 606
Transnet	37 522	3.2%	50 500
Other contingent liabilities	484 696	41.8%	506 460
of which:			
Claims against government departments	37 871	3.3%	37 871
Export Credit Insurance Corporation of SA Limited	777	0.1%	5 797
Post-retirement medical assistance	69 938	6.0%	69 938
Road Accident Fund	368 190	31.7%	384 934

Exposures and Guarantees

- Eskom's exposure for 2024/25 increased by R5.8 billion relative to its guarantee, though the guarantee to Eskom for the 2025/26 fiscal year is projected to decline by R1.3 billion.
- Transnet's exposure increased by R27.7 billion in the 2024/25 fiscal year relative to the initial guaranteed amount, and the guarantee for 2025/26 is set to increase by an excessive amount of R40.7 billion.
- Independent Power Producers saw an increase of R20.9 billion in exposure in 2024/25; with a projected increase of R4.3 billion in the guarantee amount in 2025/26. Subsequently, The contingent liability risk from Road Accident Fund increased R15.2 billion for 2025/26.



Recommendations

With respect to the 2025 Fiscal Framework and Revenue Strategy

I. The Commission recommends that the government embark on a clear fiscal consolidatory path which achieves a zero-balanced budget within three to five years in line with the Commission's proposed strategies. And improve on its forecast accuracies of economic growth on which all financial and fiscal matters is based.

II. The Commission calls for a re-examination of the socio-economic and fiscal implications concerning the proposed VAT increase as a fiscal instrument. Particularly the effectiveness in generating additional revenues to support the fiscus in empirical data.

With respect to the 2025 Revenue Laws Amendment Bill and Public Sector Pension and Related Payments Bill

III. The Commission reiterates the need for strategic realignments to improve productivity in public spending through addressing redundant positions and ensure realignment with core mandates.

IV. The Commission urges the government to expedite its commitments in the 2024 MTBPS, particularly concerning managing the public-service wage bill through cost containment measures including implementation of the early retirement programme with pension implications, to alleviate the significant spending pressures on the fiscus.

With respect to the 2025 Eskom Debt Relief Amendment Bill

V. The Commission expresses its concern regarding the fiscal ambiguities of the Eskom-Debt Relief Bills and the appropriation of the relevant funds. Transparency measures are necessary to improve certainty and foster credibility in the government's treatment of public funds.

VI. The Commission reiterates its previous call on improving the governance of SOEs, thoroughly evaluating their operating models, and streamlining operations by disposing non-core assets.

FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

2. 2025 APPROPRIATION BILL

Appropriation By National Vote (Select Votes)

- Social Development vote receives the largest budget allocation at **25.2 per cent**, reaffirming the government's commitment to social welfare and poverty alleviation through grants for the vulnerable groups. While the Cooperative Governance vote accounts for the second largest share at **11.2 per cent**.
- Less than **1.0 per cent** of the total appropriation by vote is allocated to votes including Public Works and Infrastructure; Science, Technology and Innovation; Small Business Development; and Trade, Industry and Competition each which raises doubts that economic development and innovation-focused sectors receive sufficient fiscal priority to drive industrial growth, entrepreneurship, and infrastructure expansion.

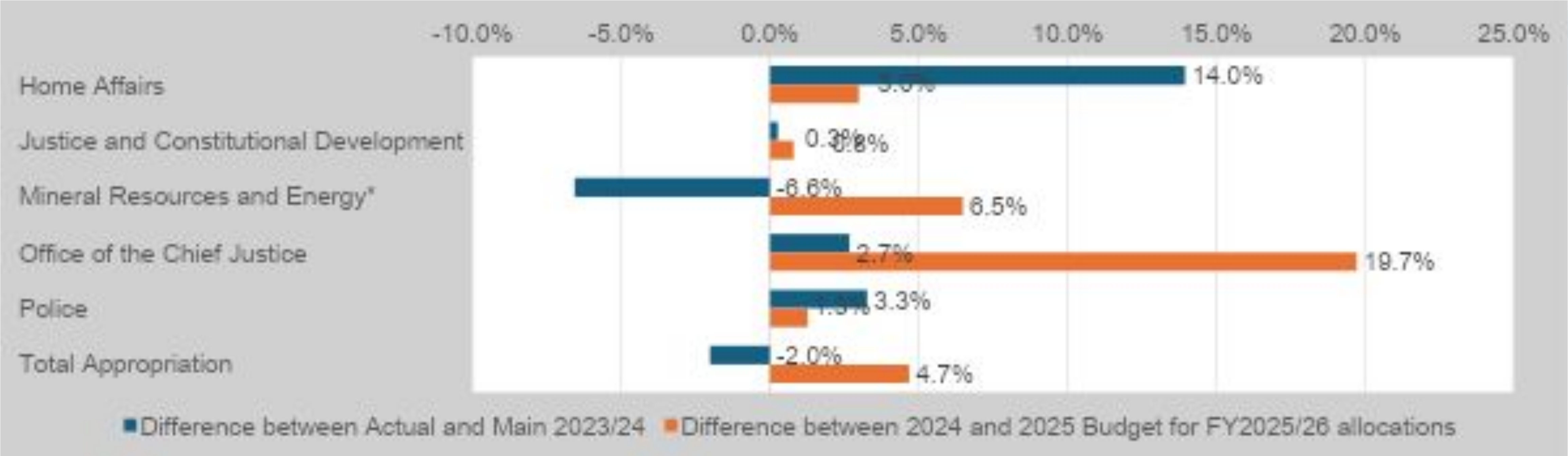
R million	2023/24 Actual	2024/25 Revised	2025/26 Main	%Share
Social Development	259 300.3	276 242.6	294 055.6	25.2%
Cooperative Governance	116 800.1	123 996.2	131 129.2	11.2%
Police	105 475.6	113 623.5	120 889.9	10.3%
Higher Education	107 713.2	112 573.5	116 441.7	10.0%
Transport	78 014.8	85 302.6	95 692.1	8.2%
Health	58 312.1	62 025.4	64 807.2	5.5%
Defence	55 861.9	55 506.6	55 940.7	4.8%
Basic Education	29 961.2	32 635.4	35 489.2	3.0%
Water and Sanitation	21 331.6	23 346.8	26 678.7	2.3%
Home Affairs	12 379.3	12 095.5	11 060.0	0.9%
Trade, Industry and Competition	10 440.6	9 385.9	11 071.7	0.9%
Forestry, Fisheries and the Environment	9 495.2	8 757.6	9 080.7	0.8%
Science, Technology and Innovation	10 472.1	9 439.2	9 063.7	0.8%
Land Reform and Rural Development	9 686.1	9 082.2	9 820.6	0.8%
Public Works and Infrastructure	8 304.0	7 607.1	7 623.0	0.7%
Agriculture	7 028.3	7 871.1	7 609.7	0.7%
Small Business Development	2 723.6	2 683.1	2 918.1	0.2%
Total appropriation by vote	**1 055 451.4**	**1 105 799.3**	**1 168 964.4**	**100.0%**

Select Votes of Emphasis Budget Deviations : 2023/24 vs 2024 and 2025 Budget for FY2025/26 Allocations

- **Basic Education:** allocation for ECD for 2025/26 has increased by R2.3 billion in the 2025 Appropriation Bill relative to its baseline–upward revision reflects a commitment to Early Childhood Development (ECD).
- **Defence:** increase is primarily associated with the R1.8 billion in 2025/26, for the deployment of the South African National Defence Force troops in the Democratic Republic of the Congo through Operation Thiba.
- **Health:** a substantial portion of this increase earmarked for supporting the employment of medical doctors, increasing the availability of medical supplies, and the preparatory work for the National Health Insurance (NHI) in line with Commission's recommendation in its Submission on the Division of Revenue, 2021/22.
- **Higher Education:** minimal increase suggests a misalignment with rollout of the 'missing middle' student loan program. Additionally, NSFAS transfers will decline from R55.8 billion (in Budget 2024) to R55.4 billion (2025 Budget).

Select Votes of Emphasis Budget Deviations : 2023/24 vs 2024 and 2025 Budget for FY2025/26 Allocations

- **Home Affairs:** The Commission notes and welcomes the government's efforts in devising strategies to strengthen border security and improve the management of ports of entry by reallocating R909 million over the 2025/26 MTEF period from the Department of Public Works and Infrastructure to the Boarder Management Authority and is of the view that this funding will help improve the management of infrastructure at ports of entry.
- **Mineral Resource and Energy:** vote increase in 2025/26 baseline for implementing a new, modern and transparent mining rights system to enable the issuance of about 600 mining licenses and rehabilitate dilapidated and ownerless mines.
- **Police:** The Commission notes the 1.3 per cent increase in 2025/26 as compared to the 2024 MTEEF period and calls for a heightened focus on combating cybercrime, extortion and protection racketeering as identified to be prevalent in the 2023 Global Crime Index.

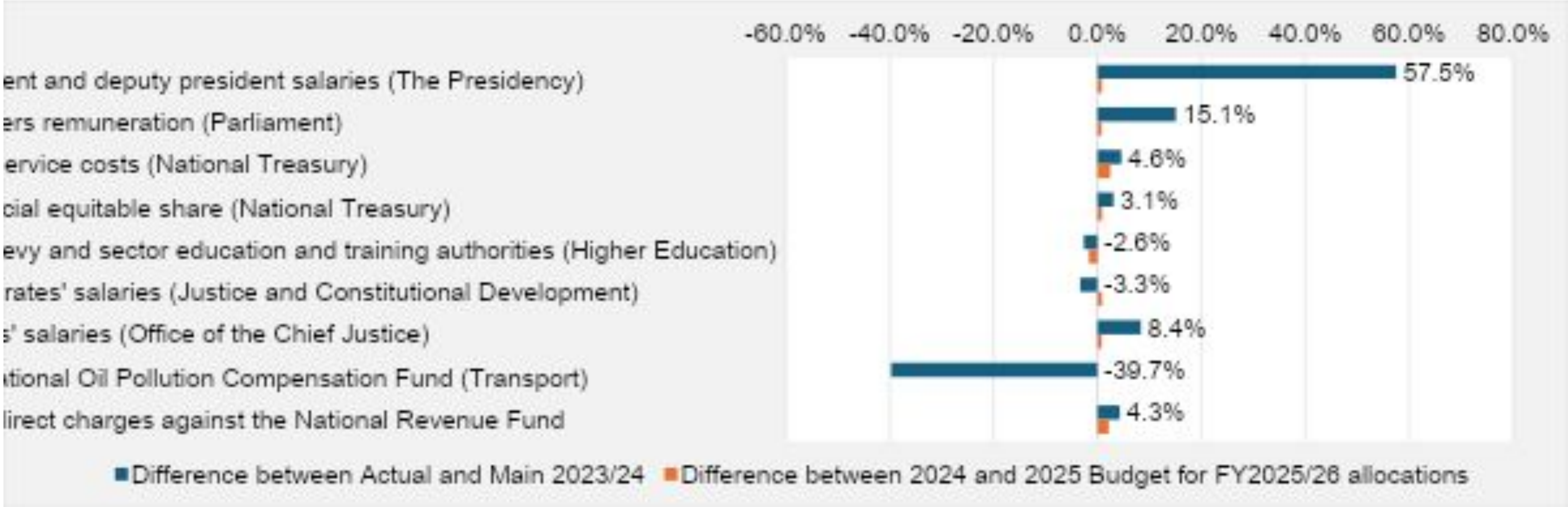


Select Votes of Emphasis Budget Deviations :
2023/24 vs 2024 and 2025 Budget for FY2025/26 Allocations

- **Public Works and Infrastructure:** reduction in vote despite the 2025 Budget's infrastructure-led growth focus (compared to what was outlined in the 2024 MTEF) which aligns with a R17.9 million (0.8 per cent) reduction for the Expanded Public Works Programme (EPWP), which may reduce job opportunities.
- **Social Development:** allocation of an additional R300 million to help administer the SRD grant raises questions on the functions, roles and responsibilities of the Social Development department.
- **Women, Youth and Persons with Disabilities:** significant vote increase can be attributed to the R549.8 million that has been allocated to the National Youth Development Agency under the Presidential Employment Initiative

Direct Charges Against National Revenue Fund

- Commission notes that budget response and planning is consistent with the overspending of 4.3 per cent in the 2023/24 fiscal year relative to the budget.
- Data illustrates an under-budgeting (i.e. overspending) of 4.6 per cent for debt service costs in 2023/24, which means that the 2.5 per cent upward revision from its 2024 MTEF baseline for 2025/26 may be inadequate.
- Provincial equitable share shows a spending pressure as seen by the over expenditure of 3.1 per cent relative to its budget in the 2023/24 financial year. As such, the minor upward adjustment for 2025/26 may not be sufficient to meet its spending needs.



Public Sector Pension and Related Payments Bill

- This Bill proposes to designate specific public sector pension and post-retirement benefits as direct charges against the National Revenue Fund, following legislative and collective agreement mandates.
- Measure aims to facilitate the payment of public sector pensions that predate the current retirement policy framework.
- Under this Bill, it is essential that the responsibilities of the employer, the Government Employees Pension Fund (GEPF), and the employees are clearly defined as policies, process and procedures.
- The employer's primary responsibility should continue to be the deduction of pension contributions from employee salaries and the timely transfer of these funds to the GEPF.
- Employees are expected to maintain their pension contributions until opting for early retirement.
- Moreover, the GEPF, in conjunction with the National Treasury, should manage the pension fund and fiscus with clear distinctions between early withdrawals and fiscal savings to mitigate impacts on the National Revenue Fund.

Recommendations

With respect to the 2025 Appropriation Bill

VII. The Commission endorses the primary allocations in the 2025 Appropriation Bill, proposing specific amendments informed by historical expenditure trends to enhance the efficiency, consistency, and responsiveness of the budgeting process to incur savings and enhance fiscal consistency, coherency and credibility.

VIII. As the major components of the 2025 Appropriation Bill, the Commission urges all Ministers covered by the Bill to reassess their mandates and functions to identify opportunities for integrating policies that facilitate an effective framework for achieving the strategic goals outlined in the Medium-Term Development Plan. For example, merging income support programmes with the inclusive, developmental goals of the Expanded Public Works Programme and aligning them with infrastructure development in transport and logistics could significantly amplify socio-economic benefits and boost economic growth.

With respect to the 2025 Public Sector Pension and Related Payments Bill

IX. The Commission expresses concerns over the rationale behind the provisions made in the 2025 Appropriation Bill's Public-sector-related pension, post-retirement medical and other benefits in terms of statutory and collective agreement obligations, and calls for greater fiscal transparency of its origination, defined roles and responsibility in the handling of pension contributions and benefits as outlined in the Public Sector Pension and Related Payments Bill.

FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

3. 2025 DIVISION OF REVENUE –PROVINCES

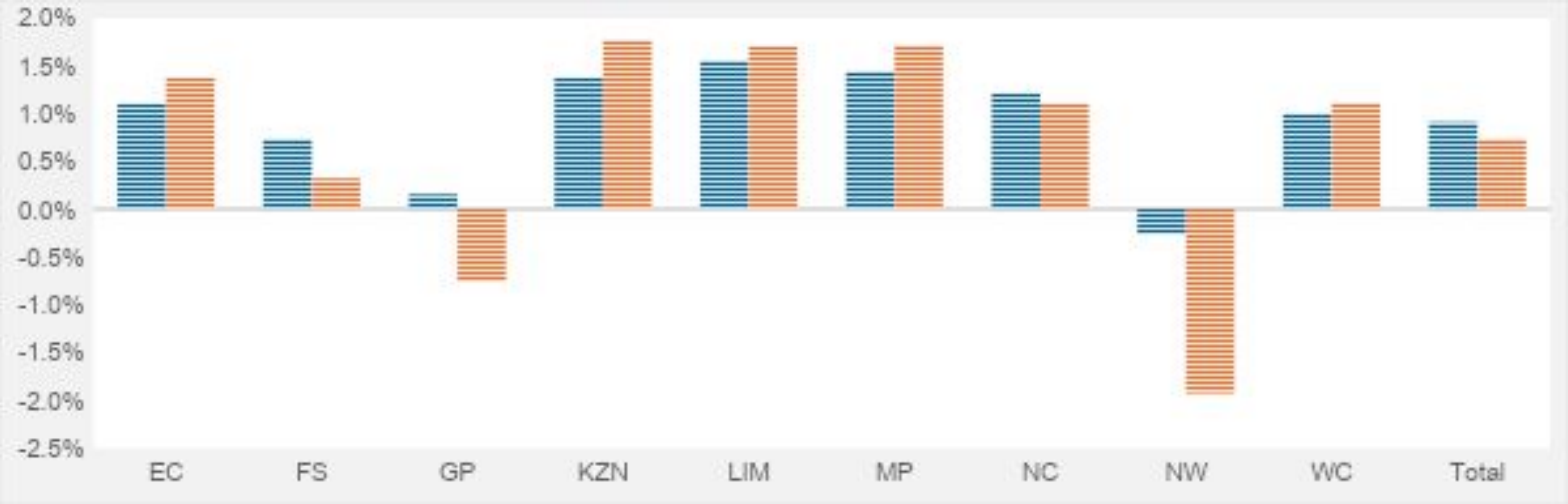
2025 Division of Revenue for Provinces

- Provinces are mainly responsible for social goods and service making them dependent on fiscal transfers – hence transfers (in the form of provincial equitable share and conditional grants) to provinces constitute 41.3 per cent of the main budget in 2025/26.
- With respect to the provincial equitable share, allocation for 2025/26 projected in the 2024 Budget was R627.44 billion and was adjusted by 0.9 per cent to R633.17 billion in the 2025 Budget, while conditional grants which were projected to be allocated R137.61 billion in the 2024 Budget was adjusted by 1.4 per cent to R139.53 billion in the 2025 Budget.

	Budget	2025/26FY	2026/27FY
Provincial Equitable Share	2024 Budget	627.44	655.70
	2025 Budget	633.17	660.57
	% Change	0.9%	0.7%
Conditional Grants	2024 Budget	137.61	139.28
	2025 Budget	139.53	140.88
	% Change	1.4%	1.2%
Total	2024 Budget	765.05	794.98
	2025 Budget	772.7	801.45
	% Change	1.0%	0.8%

2025 Division of Revenue for Provinces

- Concerning the provincial equitable share, some provinces will receive less funding in 20225/26 and in 2026/27 relative to their baselines in the 2024 Division of Revenue Bill (DoRB)
- The adjustment to the provincial equitable share is mainly due to the impact of the data update on its formula components, hence, the commission notes with concern the use of additional allocations outside the provincial equitable share formula included in the allocation without justification of its determination - some of these allocations are allocated to specific provinces only, while others are distributed equally, thereby undermining the certainty of the provincial equitable share formula as an intergovernmental fiscal relations instrument

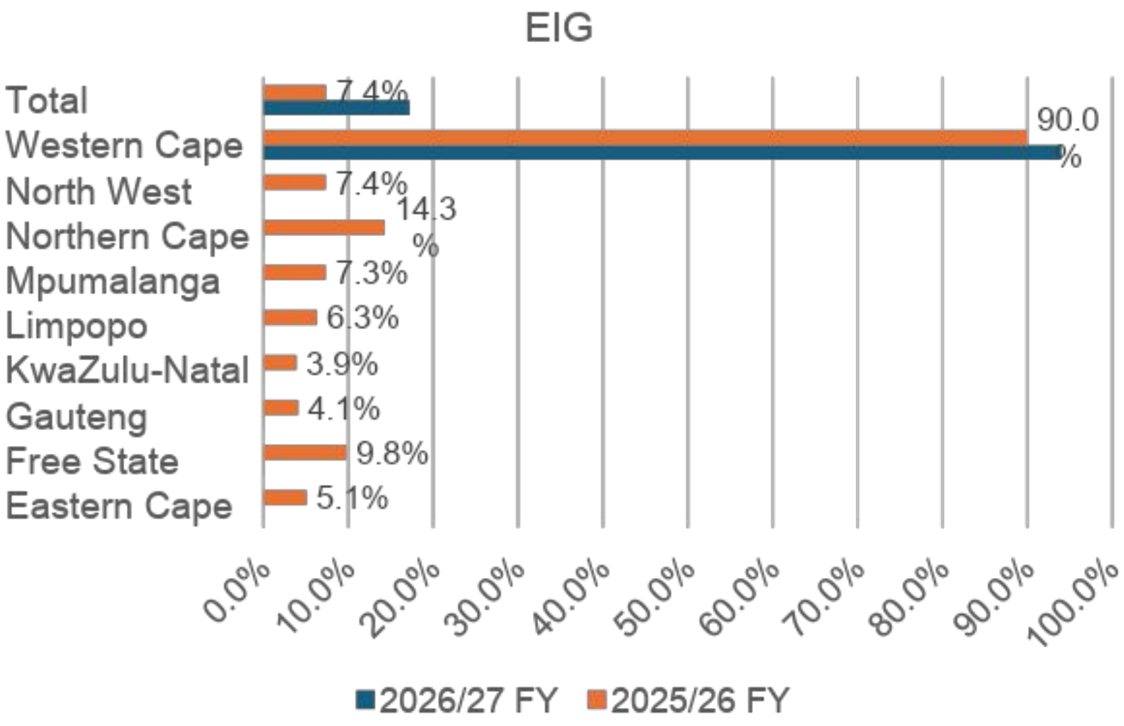


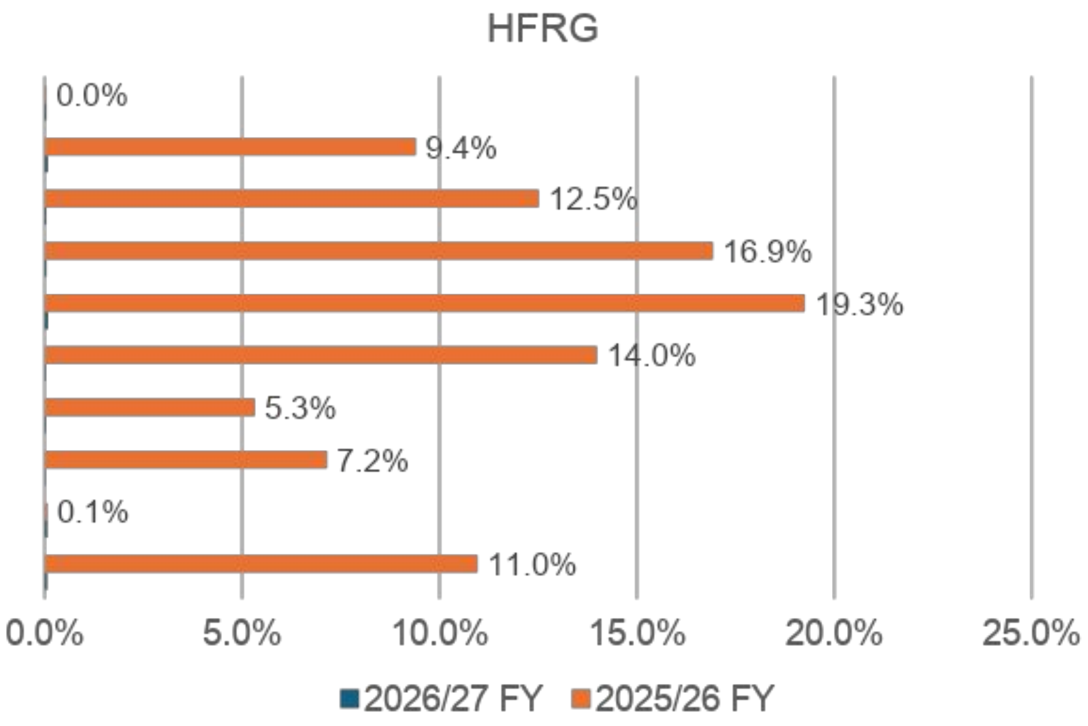
2025 Division of Revenue for Provinces – Conditional Grants

- With respect to the percentage changes between the 2024 and 2025 MTEF for conditional grants a – there are significant adjustments with respect to the NHI, SIBG and EIG and CASP.
- The NHI has been increased by per cent through the Budget Facility for Infrastructure of R858 million and funding approved for Siloam District hospital in Limpopo.
- The SIBG has been reduced by 8.4 per cent in 2025/26 between the 2024 and 2025 MTEF budget planning, and 75.9 per cent reduction for 2026/27 - This is a result of the historically poor performance of the indirect grant that will be merged with the direct, incentivised grant of EIG to provinces.
- R1.1 billion has been provisionally allocated in 2025/26 and 2026/27 to the NHI grant: health facility revitalisation component for the Siloam District Hospital.

2025 Division of Revenue for Provinces - Conditional Grants adjustments by Province: EIG & HFRG

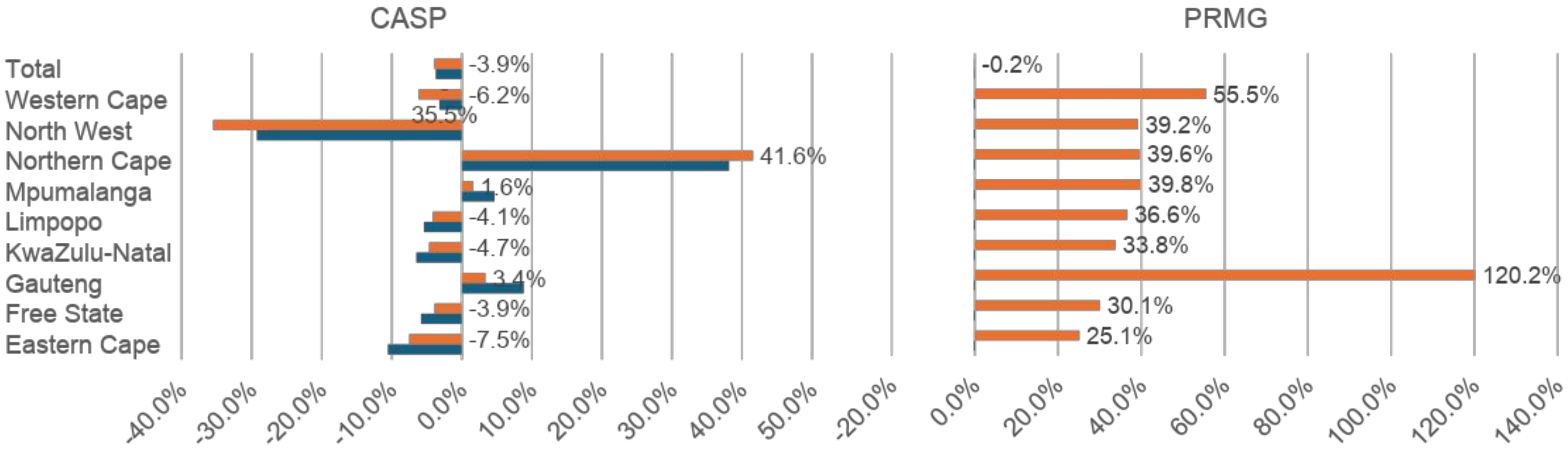
- The allocation for the Western Cape for EIG increased significantly by 90 per cent for the 2025/26 and 94 per cent for the 2026/27 between the 2024 and 2025 MTEF as a result of the funding for Cape Rapid Schools Build Program through the Budget Facility Infrastructure.
- All provinces received significant increases for the HFRG for 2025/26 in the 2025 DORB due to the unallocated component of the grant in the 2024 DORB being converted to be allocated to provinces in the 2025 DORB.





2025 Division of Revenue for Provinces - Conditional Grants Adjustments by Province: CASP & PRMG

- CASP decrease significantly for the North-West province and increased for the Northern Cape province in both 2025/26 and 2026/27 financial years between the 2024 DORB and the 2025 DORB
- For the PRMG, there has been significant increases for all provinces for 2025/26 from the 2024 DORB budget, with Gauteng increasing by over 120 per cent and the Western Cape with 55.5 per cent. This is due to the conversion of unallocated funds to direct provincial funding based on incentive and performance indicators relating to traffic loads, safety engineering, and visual condition indicators in the 2025 DORB
- The NHI has been increased by 35.8 per cent through the Budget Facility for Infrastructure of R858 million and funding approved for Siloam District hospital in Limpopo.



Recommendations- Allocation for Provinces

With respect to the 2025 Division of Revenue for Provinces

X. The Commission warns against the extensive use of multiple phase-ins and additional allocations outside the provincial equitable share formula (Table W1.16 of the Explanatory Memorandum to the Division of Revenue Bill), adjusting provincial allocations without objective mechanisms or clear justifications. This practice creates fiscal uncertainty in the division of revenue among provinces, which may lead to intergovernmental fiscal tensions and disputes.

XI. The Commission welcomes the incentive components of grants to encourage grant performance, in particular the education, transport and health sectors of provinces. However, the Commission recommends a greater transparency of the formula determining their allocations from unallocated portion, and the progressivity of the incentive component.

XII. While the Commission supports the merging of conditional grants, provided that greater transparency and criteria of the grant framework, process and procedures of implementation, to simplify and amplify the grant impact (e.g. merging of agricultural grants).

XIII. The Commission continues to await the development and implementation of a single, electronic system that includes live health record information, as recommended in the Submission for the Division of Revenue 2021/22 for operationalising the National Health Insurance and reiterated in the President's State of the Nation Address 2025.

FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

4. DIVISION OF REVENUE – LOCAL GOVERNMENT

Local Government Allocations

- The share of local government allocations as a proportion in the main budget over the 2025 MTEF shall rise modestly from 9.5 per cent in 2025/26 to 9.8 per cent in 2026/27 and 9.7 per cent in the outer year.
- Compared to the 2024 baseline for 2025/26, the 2025 Division of Revenue did not make any changes to the local government equitable share for the two financial years, while conditional grants decreased in 2025/26 by 1.5 per cent.
- Local government transfers for the 2025/26 financial year decreased relative to its baseline in the 2024 Division of Revenue Bill at 0.5 per cent.

	2025/26			**2026/27**		
	2024 Budget	2025 budget	% Change	2024 Budget	2025 budget	% Change
Equitable share	106.1	106.1	0.0%	110.7	110.7	0.0%
Conditional grants	54.3	53.5	-1.5%	55.1	56.4	2.4%
Total	160.4	159.6	-0.5%	165.7	167.1	0.8%

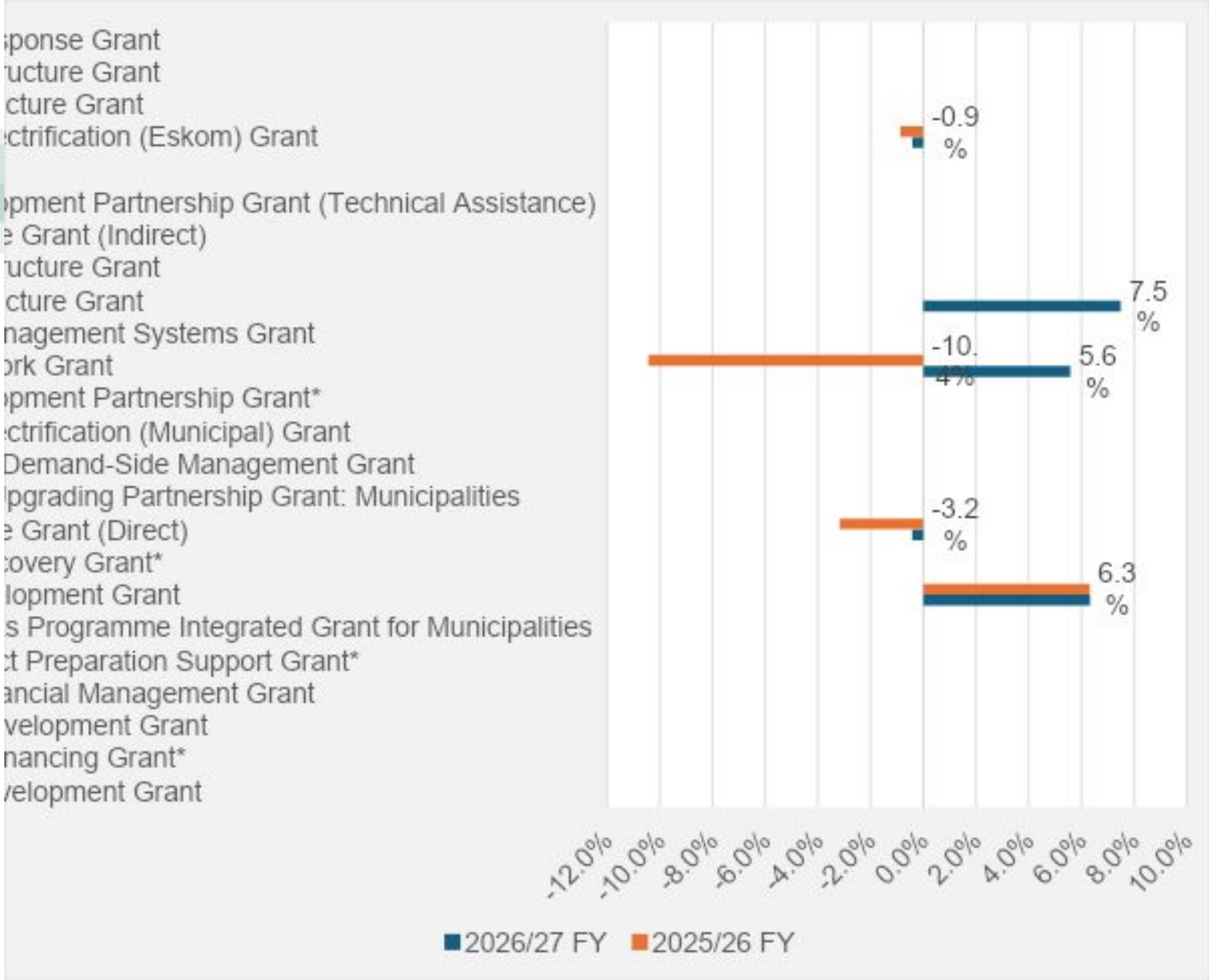
Local Government Equitable Share By Municipal Categories

- Although the total local government equitable share allocations remain the same, significant horizontal shifts have been made from local government equitable share allocations to metropolitan cities at negative 0.3 and 2.0 per cent, to category B local, and C district municipalities.

Local Government Equitable Share Allocations by Province

- The data displays the redistributive nature of the local government equitable share formula as allocations to urban provinces such as the Gauteng province and the Western Cape province have declined by 0.3 per cent in the 2025/26 financial year.
- The two most rural provinces in the country (Limpopo & Eastern Cape), are benefiting the most from the redistribution of the local government equitable share.

Local Government Conditional Grants



- The local government sphere is set to receive conditional grants amounting to R53.9 billion in the 2025/26 financial year, which is set to increase to R56.8 billion in 2026/27.
- The figure presents the percentage changes in conditional grants allocations 2025/26 and 2026/27 financial years between the 2024 and 2025 Division of Revenue Bills.
- The Commission notes that 20 per cent of the Programme and Project Preparation Support Grant (National Treasury) funding is split into the newly established Neighbourhood Development Partnership Grant (National Treasury) for non-metro municipalities. The remaining 80 per cent is transferred to the new Urban Development Financing Grant (National Treasury) for metropolitan cities in the 2025 Division of Revenue Bill.

Local Government Conditional Grants

- It is worth noting that the Municipal Infrastructure Grant (Indirect) is allocated within the financial year only, while the direct grant of the same name is based on formula of infrastructure categories (e.g. Basic residual infrastructure, Public municipal service infrastructure, etc.).
- The reduction in the direct Municipal Infrastructure Grant at -3.2 per cent in 2025/26 is due to the shift of R245 million over the MTEF to the integrated urban development grant at 6.3 per cent.
- An additional R225 million in 2026/27 to the regional bulk infrastructure grant allocation for Drakenstein Local Municipality at 7.5 per cent.
- A significant change to the Public Transport Network Grant in the 2025 Division of Revenue Bill is the reduction of R435 million in 2025/26 (at -10.4 per cent) and increases of R425 million in 2026/27 (5.6 per cent). This is to align with the revised implementation plan and cash flow projections for the City of Cape Town’s MyCiTi programme linking the underserved areas of Khayelitsha and Mitchells Plain to the city centre, funded from the Budget Facility for Infrastructure.
- The reduction in the indirect, Integrated National Electrification Programme (Eskom) Grant of 0.9 per cent is due to the reprioritisation of R40 million over the 2025 MTEF period, said to complete the National Electrification Master Plan in the Explanatory Memorandum. While the direct Integrated National Electrification Programme (Municipal) Grant saw changes in allocations for 2025/26 and 2026/27 between the 2024 and 2025 Division of Revenue Bills.

FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

5. Recommendations

Recommendations

With respect to the 2025 Fiscal Framework and Revenue Strategy

I. The Commission recommends that the government embark on a clear fiscal consolidatory path which achieves a zero-balanced budget within three to five years in line with the Commission's proposed strategies. And improve on its forecast accuracies of economic growth on which all financial and fiscal matters is based.

II. The Commission calls for a re-examination of the socio-economic and fiscal implications concerning the proposed VAT increase as a fiscal instrument. Particularly the effectiveness in generating additional revenues to support the fiscus in empirical data.

With respect to the 2025 Revenue Laws Amendment Bill and Public Sector Pension and Related Payments Bill

III. The Commission reiterates the need for strategic realignments to improve productivity in public spending through addressing redundant positions and ensure realignment with core mandates.

IV. The Commission urges the government to expedite its commitments in the 2024 MTBPS, particularly concerning managing the public-service wage bill through cost containment measures including implementation of the early retirement programme with pension implications, to alleviate the significant spending pressures on the fiscus.

With respect to the 2025 Eskom Debt Relief Amendment Bill

V. The Commission expresses its concern regarding the fiscal ambiguities of the Eskom-Debt Relief Bills and the appropriation of the relevant funds. Transparency measures are necessary to improve certainty and foster credibility in the government's treatment of public funds.

VI. The Commission reiterates its previous call on improving the governance of SOEs, thoroughly evaluating their operating models, and streamlining operations by disposing non-core assets.

Recommendations

With respect to the 2025 Appropriation Bill

VII. The Commission endorses the primary allocations in the 2025 Appropriation Bill, proposing specific amendments informed by historical expenditure trends to enhance the efficiency, consistency, and responsiveness of the budgeting process to incur savings and enhance fiscal consistency, coherency and credibility.

VIII. As the major components of the 2025 Appropriation Bill, the Commission urges all Ministers covered by the Bill to reassess their mandates and functions to identify opportunities for integrating policies that facilitate an effective framework for achieving the strategic goals outlined in the Medium-Term Development Plan. For example, merging income support programmes with the inclusive, developmental goals of the Expanded Public Works Programme and aligning them with infrastructure development in transport and logistics could significantly amplify socio-economic benefits and boost economic growth.

With respect to the 2025 Public Sector Pension and Related Payments Bill

IX. The Commission expresses concerns over the rationale behind the provisions made in the 2025 Appropriation Bill's Public-sector-related pension, post-retirement medical and other benefits in terms of statutory and collective agreement obligations, and calls for greater fiscal transparency of its origination, defined roles and responsibility in the handling of pension contributions and benefits as outlined in the Public Sector Pension and Related Payments Bill.

Recommendations - Allocation for Provinces

With respect to the 2025 Division of Revenue for Provinces

X. The Commission warns against the extensive use of multiple phase-ins and additional allocations outside the provincial equitable share formula (Table W1.16 of the Explanatory Memorandum to the Division of Revenue Bill), adjusting provincial allocations without objective mechanisms or clear justifications. This practice creates fiscal uncertainty in the division of revenue among provinces that may lead to intergovernmental fiscal tensions and disputes.

XI. The Commission welcomes the incentive components of grants to encourage grant performance in particular the education, transport and health sector of provinces. However, the Commission recommends a greater transparency of the formula determining their allocations from unallocated portions, and the progressivity of the incentive component.

XII. While the Commission supports the merging of conditional grants, provided that greater transparency and criteria of the grant framework, process and procedures of implementation, to simplify and amplify the grant impact (e.g. merging of agricultural grants).

XIII. The Commission continues to await the development and implementation of a single, electronic system that includes live health record information, as recommended in the Submission for the Division of Revenue 2021/22 for operationalising the National Health Insurance, and reiterated in the President's State of the Nation Address 2025.

With respect to the 2025 Division of Revenue – Local Government:

XIV. The Commission appreciates the redistributive properties of the local government equitable share formula but strongly recommends reviewing and finalising the new local government White Paper along with the Municipal Fiscal Powers and Functions Act. This is to effectively address the underlying issues of fiscal disparity in the local government sphere, prioritising local fiscal powers before transfers.

XV. The Commission expresses concern over the exceedingly convoluted conditional grants which affects spending under capacity strains of the local government. As well as the grants evolving into perpetual mechanisms that resemble unconditional transfers akin to equitable shares.

Dr PN Mbava
Chairperson
Financial and Fiscal Commission

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