FINANCIAL
AND FISCAL
COMMISSION

For an Equitable Sharing
of National Revenue

Submission on the 2025 Budget

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Financial and Fiscal Commission

For an Equitable Sharing of National Revenue

17 March 2025

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1. Budget 2025 and the State of the Nation Address

1.1. As per the Constitution of the Republic of South Africa and the relevant legislative prescripts, the Financial and Fiscal Commission (FFC) tables its submission encompassing the Commission's research and recommendations to Parliament, provincial legislatures, and other authorities designated by national legislation, concerning financial and fiscal matters in the Budget of 2025. The analysis and recommendations include revenue laws and tax proposals as the fiscal framework, the Division of Revenue Bill, the Appropriation Bill and any other bills relevant to financial and fiscal matters. Specific provisions of the FFC's mandates are found in Sections 214, 218, 228, 229, and 230 of the Constitution of the Republic of South Africa (1996), Part 3 of the Intergovernmental Fiscal Relations (IGFR) Act (1998), and S4(4c) of the Money Bills Amendment Procedure and Related Matters Act, also known as MBAPARMA (Act 9 of 2009), as amended.

2025 State of the Nation Highlights

1.2. In the 2025 State of the Nation Address (SONA), President Ramaphosa reaffirmed that the Freedom Charter remains the foundation of South Africa's democratic Constitution, emphasising its vision of a united, non-racial, non-sexist, democratic, and prosperous nation. The President emphasised that the developed Medium-Term Development Plan, outlining a clear and ambitious program for the next five years, has been adopted with three strategic priorities:

- ***Driving inclusive growth and job creation.***
- ***Reducing poverty and tackling the high cost of living.***
- ***Building a capable, ethical, and developmental state.***

1.3. President Ramaphosa announced a new phase of economic reforms to elevate growth beyond 3% by unlocking R100 billion in infrastructure financing. Over the next three years, the government will invest more than R940 billion in infrastructure projects, including:

1.4. The second phase of Operation Vulindlela will focus on restructuring Eskom, Transnet, and other SOEs to provide world-class infrastructure while encouraging competition in operations, particularly in electricity generation, freight rail, and port terminals. A dedicated SOE Reform Unit will be established to oversee these initiatives.

1.5. The Electricity Regulation Amendment Act, effective from January 1, marks the beginning of a competitive electricity market. This will facilitate private-sector investment in the transmission network, enabling greater integration of renewable energy into the grid. To support the Just Energy Transition and meet carbon reduction commitments, international partners have pledged $13 billion, alongside significant private sector investment.

1.6. To address water security, the Infrastructure Fund has secured R23 billion for seven major water infrastructure projects. The establishment of a National Water Resource Infrastructure Agency will facilitate greater investment in water projects, supported by

the Water Services Amendment Bill, which will introduce a licensing system to ensure safe drinking water.

1.7. A fully digital Electronic Travel Authorisation system will be launched this year to streamline visa applications securely.

1.8. President Ramaphosa emphasized that 60% of the national budget is allocated to the social wage, covering health, education, social protection, community development, and public employment programs. Over 28 million unemployed and vulnerable citizens receive social grants, more than 10.5 million learners attend no-fee public schools, and over 900,000 students received funding for tertiary education last year. The Social Relief of Distress Grant remains a crucial tool for poverty alleviation and will serve as the foundation for a sustainable income support system for unemployed individuals.

1.9. Preparatory work for the National Health Insurance (NHI) will commence this year, starting with the development of a single electronic health record system, the establishment of Ministerial Advisory Committees on health technologies and benefits, and an accreditation framework for health service providers. The President expressed concern over the U.S. government's recent suspension of funding for HIV and TB programs in Africa, which impacts 17% of South Africa's HIV budget.

1.10. South Africa will continue to promote cooperation and multilateralism through its memberships in the United Nations, African Union, Non-Aligned Movement, and BRICS, ensuring its active participation in global governance and economic discussions.

2. FFC's Recommendations on the 2025 Budget

Concerning 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 are 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.*

Concerning the 2025 Revenue Laws Amendment Bill and the Public Sector Pension and Related Payments Bill

III. *The Commission reiterates the need for strategic realignments to improve productivity in public spending by addressing redundant positions and ensuring 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.*

Concerning 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 to improve the governance of SOEs, thoroughly evaluating their operating models, and streamlining operations by disposing of non-core assets.*

Concerning 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.*

Concerning 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.*

Concerning the 2025 Division of Revenue - 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 in the education, transport and health sectors of provinces. However, the Commission recommends 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, 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.*

Concerning 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.*

Approved by:

Dr Patience Nombeko Mbava

Chairperson

Date: 17 March 2025

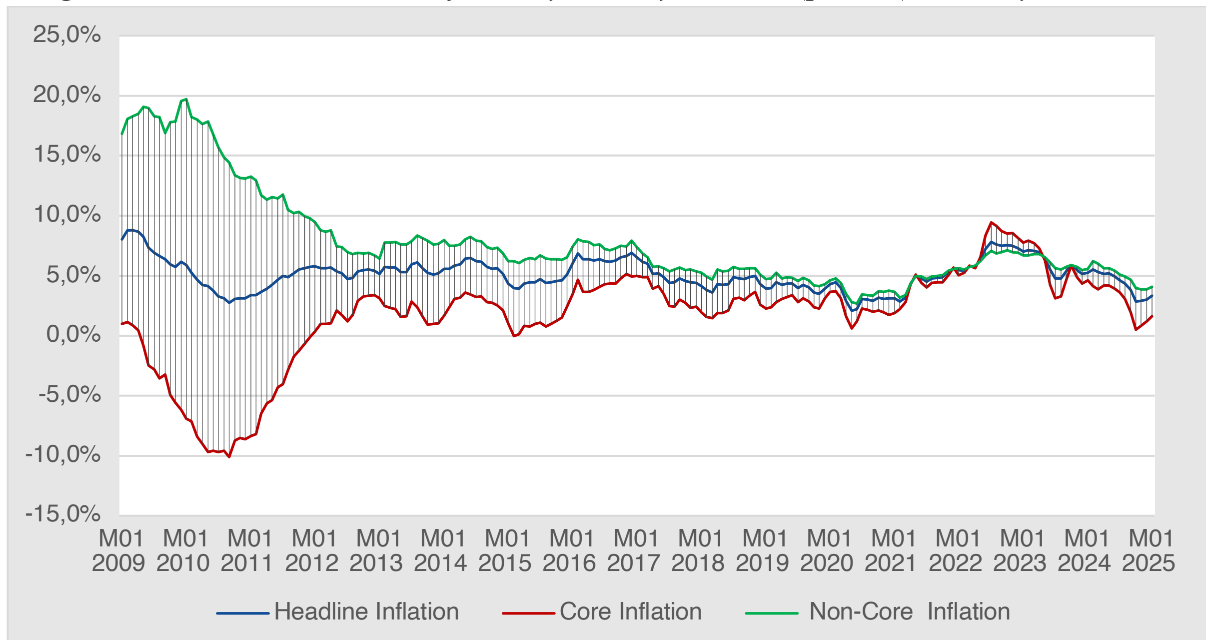
3. 2025 Macroeconomic Landscape and Fiscal Strategy

Global Economic Outlook and Inflation

3.1. South Africa's economic growth challenges are unique and predominantly driven by domestic rather than global influences. The Commission has previously acknowledged in its 2024 MTBPS submission that the legacy of racial segregation in South Africa has created a separating equilibrium in labour and capital markets, influencing the economy's growth trajectory (Financial and Fiscal Commission, 2024). Compounding these unequal domestic socio-economic conditions are the main ones: the continuing neglect of infrastructure to deteriorate without maintenance, the rising cost of energy due to supply challenges and systemic inefficiencies in the public sector have exacerbated the country's weak fiscal position (Financial and Fiscal Commission, 2024).

3.2. Inflation directly affects the lives and livelihoods of all households as consumers. Minimising price increases to keep essential goods and services affordable in the economy and maintaining stability in the value and medium of exchange is fundamental for sustainable and inclusive growth. Figure 1 illustrates the trends in headline, core- and non-core inflation between January 2009 and to date (January 2025) and provides insights into price changes and trends that impact on consumers' disposable incomes which is critical to inform inclusive policy choices. The basket of goods comprising core inflation includes essential items such as food, fuel, housing and utilities, and public transport, while non-essential items are encompassed in non-core inflation–such as alcoholic beverages, restaurants and other miscellaneous goods and services. Core inflation for essential items tends to have a greater impact on poorer households' consumption due to their smaller household budgets.

Figure 1: Core and Non-Core Inflation, year-on-year rates (percent), January 2025 latest

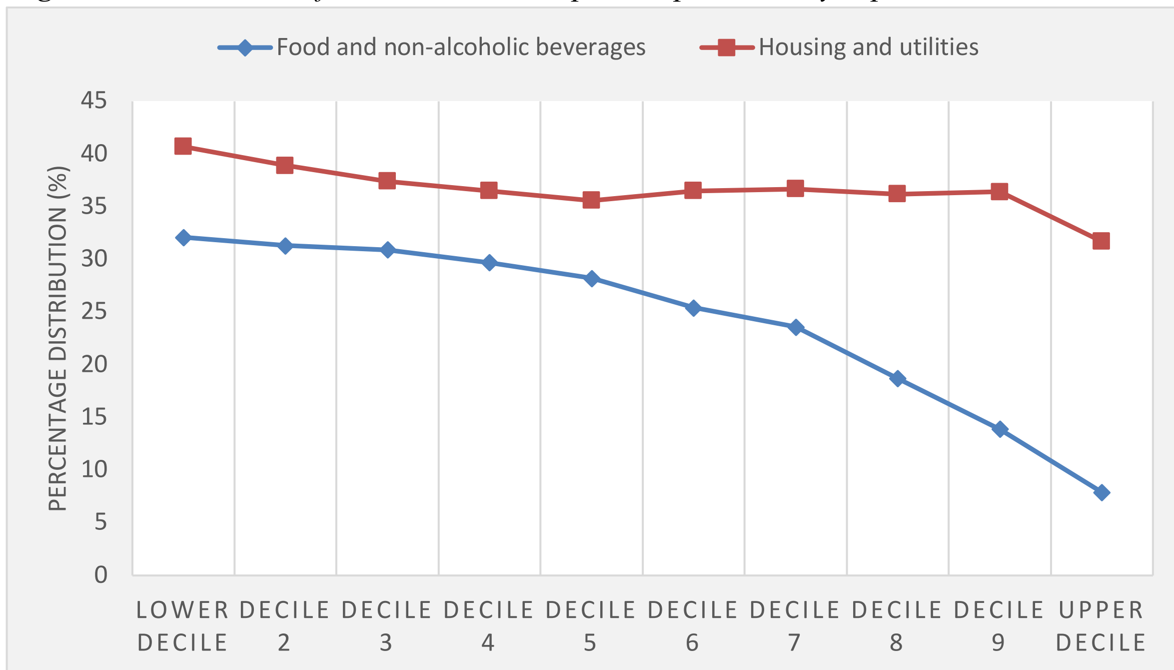


Source: Statistics South Africa (2025) and Commission's Own Calculations

Note: Core inflation encompasses food, clothing and footwear, housing and utilities (excluding maintenance and repair, health, transport (i.e. fuel, other running costs, public transport), communication, and primary and secondary education.

3.3. The data in Figure 1 demonstrates that before 2013, the separation between core and non-core inflation was significant, with non-core inflation increasing at notably higher rates than core inflation. Since 2013, the two series began to converge, suggesting that the speed at which the prices of both core- and non-core items increase have become similar. During COVID-19 and the associated economic lockdowns, inflation of core- and non-core items became identical to even surpass non-core inflation for nearly two consecutive years. This means that the price of essential goods was increasing at a faster rate than the price of non-essential goods, suggesting an increase in living costs and erosion of purchasing power, especially for poorer consumers during this period. The near-identical patterns of core- and non-core inflation trends from the data show that VAT exemptions on select essential products are not sufficiently effective in mitigating the regressive nature of VAT in terms of household consumption basket.

Figure 2: Distribution of household consumption expenditure by expenditure deciles 2022/23



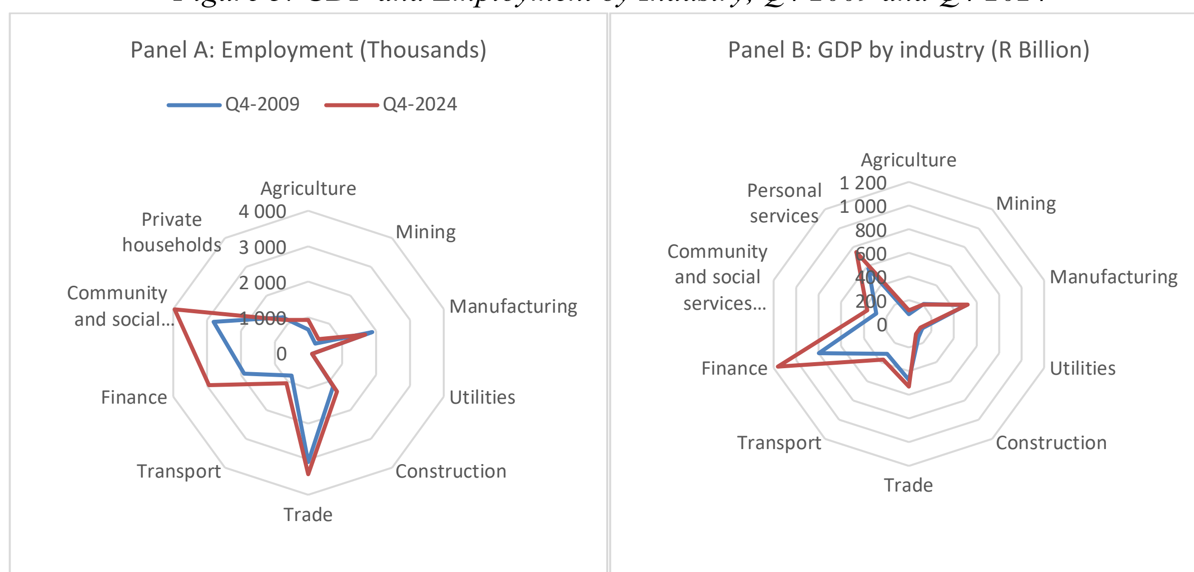
Source: Stats SA Income and Expenditure Survey 2022/23, StatsSA 2025.

3.4. The proposed Value-Added Tax (VAT) increase at 0.5 percent from May 2025 and April 2026 in the 2025 Budget (National Treasury, 2025) will adversely impact the poorer households with disproportionate effects as proven in Figure 2 from the 2022/23 Income and Expenditure Survey (StatsSA, 2025). The figure presents the spending patterns of two essential consumption items, namely food and non-alcoholic beverages, and housing and utilities which includes rentals, maintenance, and water and electricity, that the least affluent households are significantly more susceptible to price inflation. More specifically, the poorest households spend almost three-quarters (72.8 percent) of their total budgeted expenditure on these essential items—compared to 39.6 percent for the uppermost decile's household budget. This means that price increases in these essential items encompassed in core-inflation have a significant regressive effect on poorer consumers, disproportionately affecting households in the lower deciles.

Employment and Economic Growth

3.5. Figure 3 provides employment (Panel A) and GDP (Panel B) data by industry classification for Q4-2009 and Q4-2024. The data show the transition towards a service-oriented economy with industries such as Transport, Trade and especially Financial services of the South African economy. Traditional labour-intensive sectors, such as Agriculture and Manufacturing, have not shown increases in their GDP shares and remain low in terms of industry-labour absorption.

Figure 3: GDP and Employment by Industry, Q4 2009 and Q4 2024



Source: Statistics South Africa (2025)

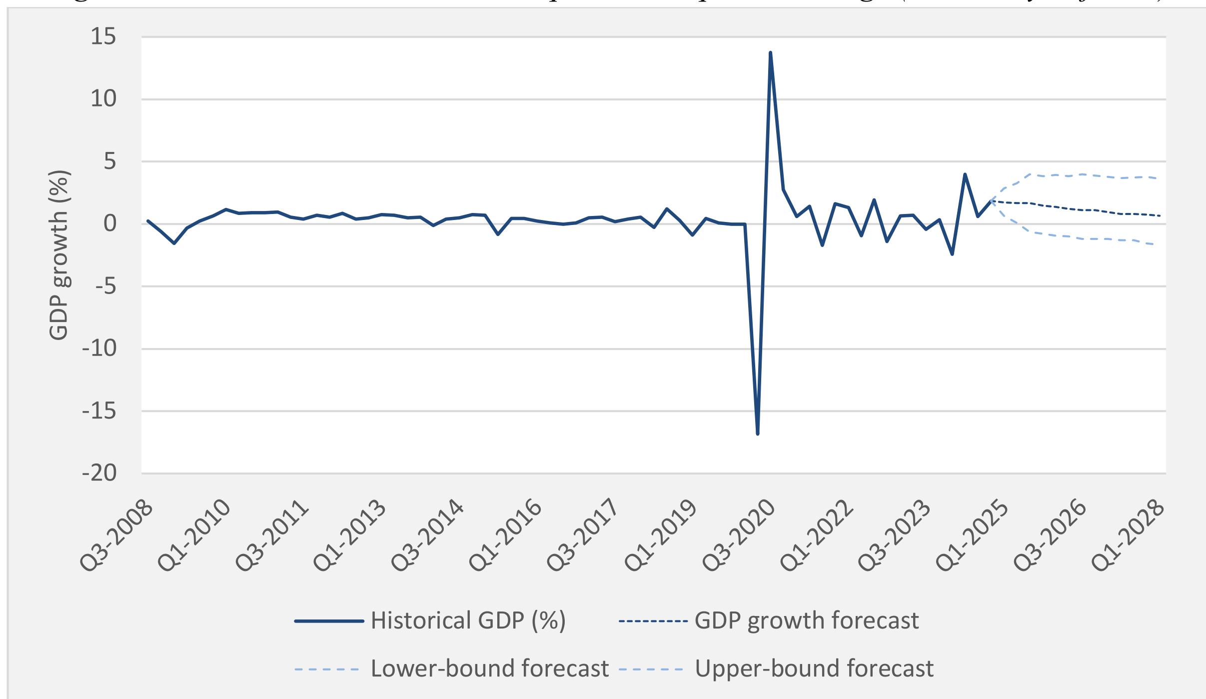
3.6. Significantly, persistent inefficiencies and failures in public service delivery suggest a relatively inelastic relationship between employees within the public, where increases in employment have not been met with proportional increases in the sector’s contribution to economic growth. As the Commission noted in its 2024 MTBPS Submission, modest growth in the public sector’s contribution to GDP coupled with increased expenditure pressures on the public sector wage bill may have the effect of crowding out private sector activities and investment in the economy (Financial and Fiscal Commission, 2024).

FFC’s Macroeconomic Projections of the South African Economy

3.7. It is unfortunate that despite the delay of the 2025 Budget by almost a month, it did not adjust its forecast of economic growth with the GDP data for the 4th quarter of 2024, published on 4 March 2025, and remained at 1.9 percent in 2025/26. The Commission’s economic growth forecast in Figure 4 illustrates its forecast with the latest data (i.e. 4th quarter 2025) to be at 1.45 percent for the 2025/26 financial year, registering a slight upward revision from the Commission’s forecast of 1.31 in its 2024 MTBPS Submission (Financial and Fiscal Commission, 2024). The marginal upward revision in the Commission’s latest forecast is due to the uptick in GDP growth for Q4-2024 of 0.6 percent, after a significant contraction of 0.1 percent in the previous quarter. Both estimates however are lower than the forecast made by National Treasury.

3.8. Looking forward, according to the Commission's calculations, real GDP growth is projected to average at 1.1 percent over the medium term, well below the National Treasury's forecast of 1.8 percent. The Commission's projection includes a lower-bound projection of -1.6 percent over the medium term, suggesting a rising recessionary risk of the economy over the horizon. Mitigating these risks will require decisive policy interventions with structural reforms that create an enabling environment conducive to economic growth, remove structural bottlenecks of unemployment (not just spending more,) and reallocate public expenditure towards infrastructure development to raise real productivity.

Figure 4: GDP and Potential Growth, quarter-on-quarter change (seasonally adjusted)



Source: Statistics South Africa, Q4 2024 and Commission's Own Calculation.

Note: 95% Confidence Interval used for estimation of lower- and upper-bound economic growth forecasts.

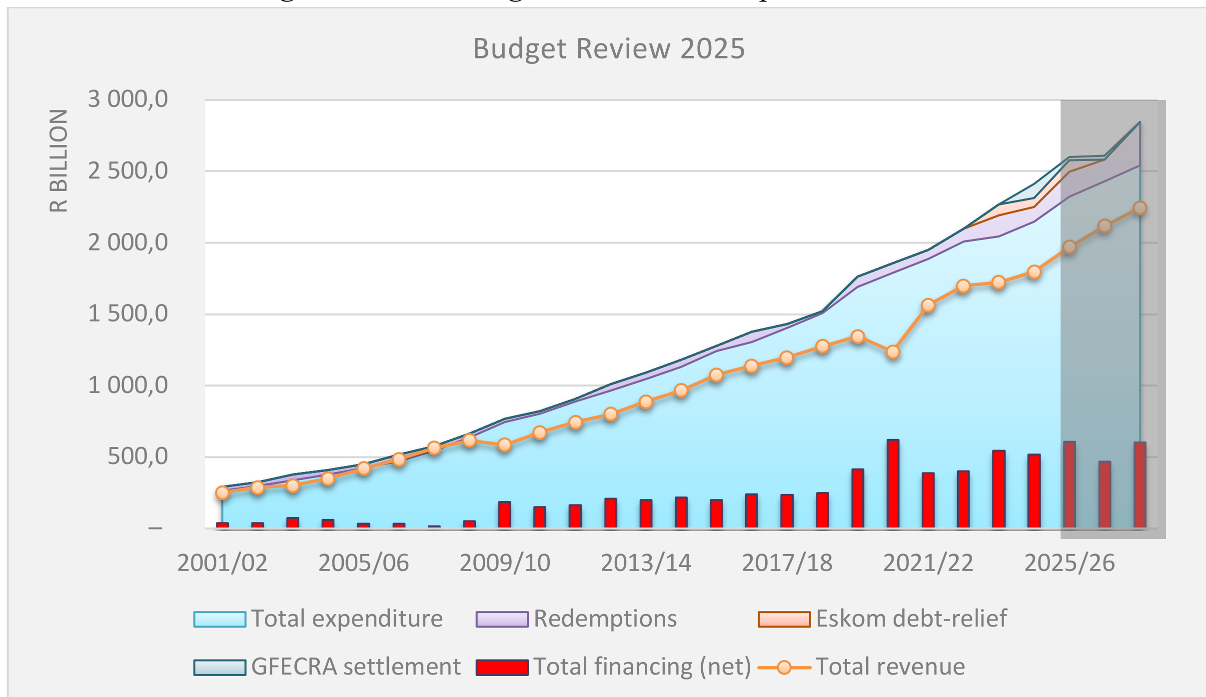
3.9. National Treasury's higher growth forecast is contingent on unrealistically favourable macroeconomic outlooks, with "improved investor confidence, stable supply of electricity, lower interest rates and declining risk premium" (National Treasury, 2025). Whilst, the South African Reserve Bank (SARB) lowered the repo rate in January 2025 for the third consecutive time (now at 7.50 percent), seeking to reduce the cost of borrowing and stimulate the economy, expecting improved economic productivity as GDP to levels consistent with the National Treasury's medium-term growth estimates is increasingly unrealistic given high public debt levels and debt-service that wipes out at least 22 cents on every one rand spent.

Fiscal Policy and Outlook

3.10. Figure 5 offers a historical perspective on the fiscal framework, underscoring the extensive growth in total government expenditure, which has consistently outpaced total revenue since the 2008 financial crisis. The widening fiscal gap between revenue and

expenditure indicates that the government has followed a trajectory of fiscal expansion, moving further away from a zero-balance budget. Moreover, credit rating downgrades have escalated the paces of debt redemptions, while special appropriations for the Eskom debt-relief arrangement have further inflated total financing requirements. Over the 2025 medium term, there has been no indication of balancing the main budget with debt considerations, pointing to a deepening debt cycle enveloping the South African economy. Ultimately, data highlight the pressing need for reaching a zero-balance budget through effective debt- and expenditure-management interventions to mitigate a vicious debt-spiral unfolding.

Figure 5: Main Budget Revenue and Expenditure, 2025

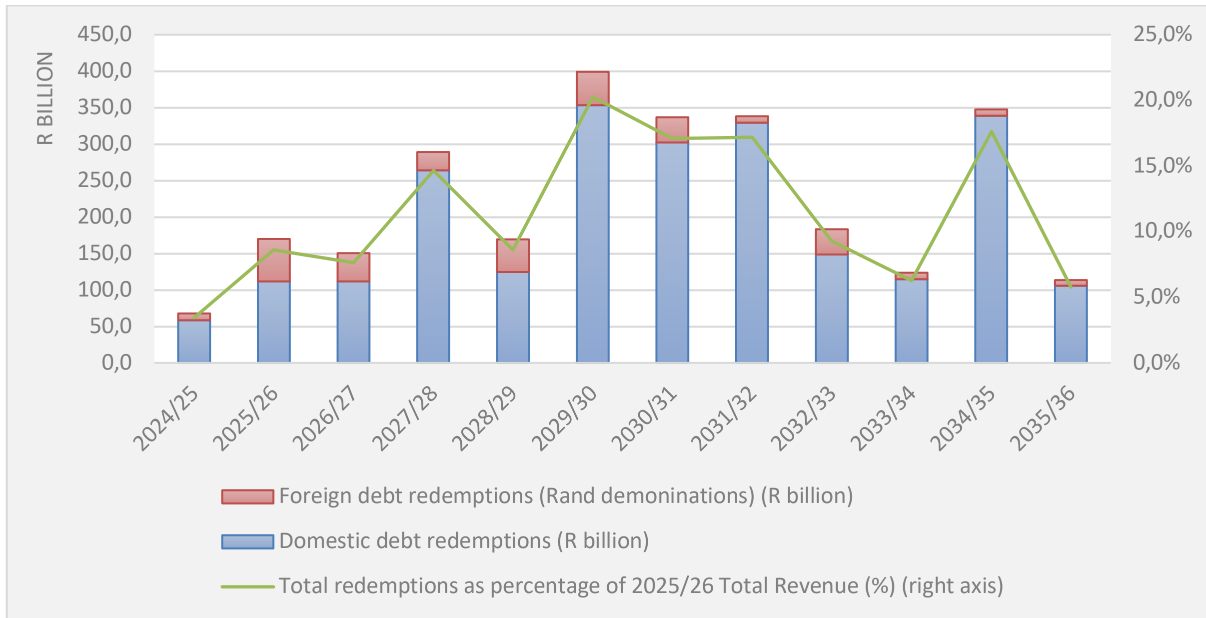


Source: National Treasury Budget Review, 2025

3.11. The Commission had previously emphasised its stance on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) that drawing down on the reserve account for funding revenue shortfalls comes at a considerable risk. Drawing down on this account weakens the country's capability and capacity to mitigate exchange rate volatility and keep price levels stable (Financial and Fiscal Commission, 2024).

3.12. Maturing government debt i.e. debt redemptions constitute a first charge on the National Revenue Fund, representing a substantial fiscal risk if improperly managed. Figure 6 illustrates the debt redemption schedules for foreign and domestic marketable bonds shown in Rands from the period 2024/25 to 2035/36. For the current 2025/26 financial year, total maturing debt amounts to R170 billion, or 8.6 percent of total revenue (using 2025/26 as the baseline). Over the medium-term, the government's maturing debt is expected to total R609.8 billion, subject to the renegotiation of terms. As a proportion of total revenue, total debt redemptions are still expected to peak in 2029/30 in line with the Commission's previous calculations, albeit slightly lower at 20.3 percent (compared to 22.1 percent according to the FFC's 2024 MTBPS Submission).

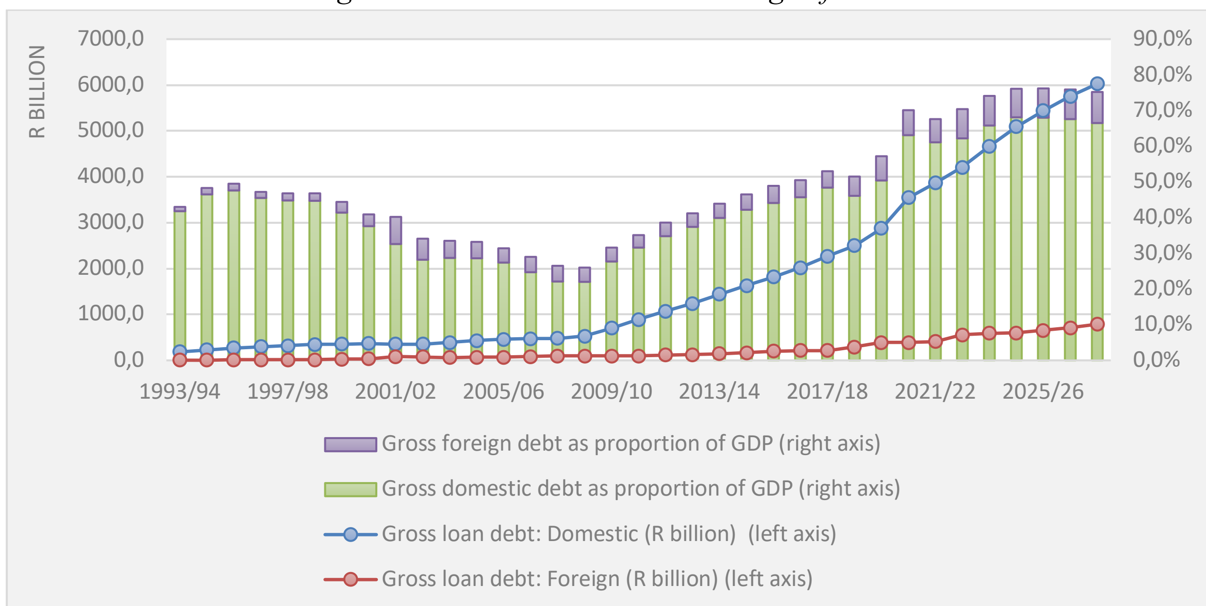
Figure 6: Debt Redemption Schedules



Source: South African Reserve Bank, 2025
Note: Foreign debt redemptions are diversified across the US Dollar, Canadian

3.13. Figure 7 shows gross government debt in nominal terms (R billion) and as a proportion of GDP by domestic and foreign denominations. The Budget Review 2025 projects gross loan debt as a proportion of GDP to peak in the 2025/26 financial year at 76.1 percent, reaching R5.69 trillion, higher than predicted in the 2024 MTBPS. The costs of servicing the government's debt remain high, averaging at 5.3 percent of GDP over the medium-term. In terms of domestic and foreign denominations of the debt, although the government's portfolio is seemingly diversified more towards domestic debt (denominated in Rands), thereby mitigating exchange rate risks. However, this does not preclude investors from selling off domestic investments and shifting their capital towards foreign assets instead. Alternatively, offshore entirely.

Figure 7: Gross Debt as a Percentage of GDP



Source: National Treasury Budget Review, 2025

Eskom Debt-Relief Amendment Bill B4-2025

3.14. The Eskom Debt-Relief Amendment Bill B4-2025 ("2025 Amendment Bill") seeks to raise the initial R40 billion provisions stipulated in the Eskom Debt Relief Bill B5-2023 ("2023 Bill") to R80.23 billion for the 2025/26 fiscal year. According to the 2023 Bill, over and above the R40 billion, there is an additional R70 billion "debt takeover arrangement" planned for as a direct charge (Section 2(3) of the Eskom Debt Relief Bill B5-2023), totalling R110.2 billion for the 2025/26 fiscal year. However, despite the separate treatment of the R40 billion and R70 billion in the legislation, the sum of R110.2 billion appeared in both the 2024 Budget Review and the 2024 MTBPS.

3.15. In the 2025 Amendment Bill, a new arrangement is made that the National Treasury will honour R80.2 billion of the original R110.2 billion debt arrangement in the 2025/26 fiscal year, and take over another R10 billion in 2028/29, totalling R90.2 billion in total to Eskom, which is R20 billion less than R110.2 billion. However, despite the R20 billion savings, it does not negate the ambiguity and lack of transparency regarding the treatment and intention behind the R70 billion debt-takeover arrangement envisioned in Section 2(3) of the 2023 Bill.

3.16. Enhancing transparency, especially concerning the government's handling of debt bailouts for struggling State-Owned Enterprises that severely worsen South Africa's fiscal stance and increase fiscal risks, is crucial for building fiscal credibility.

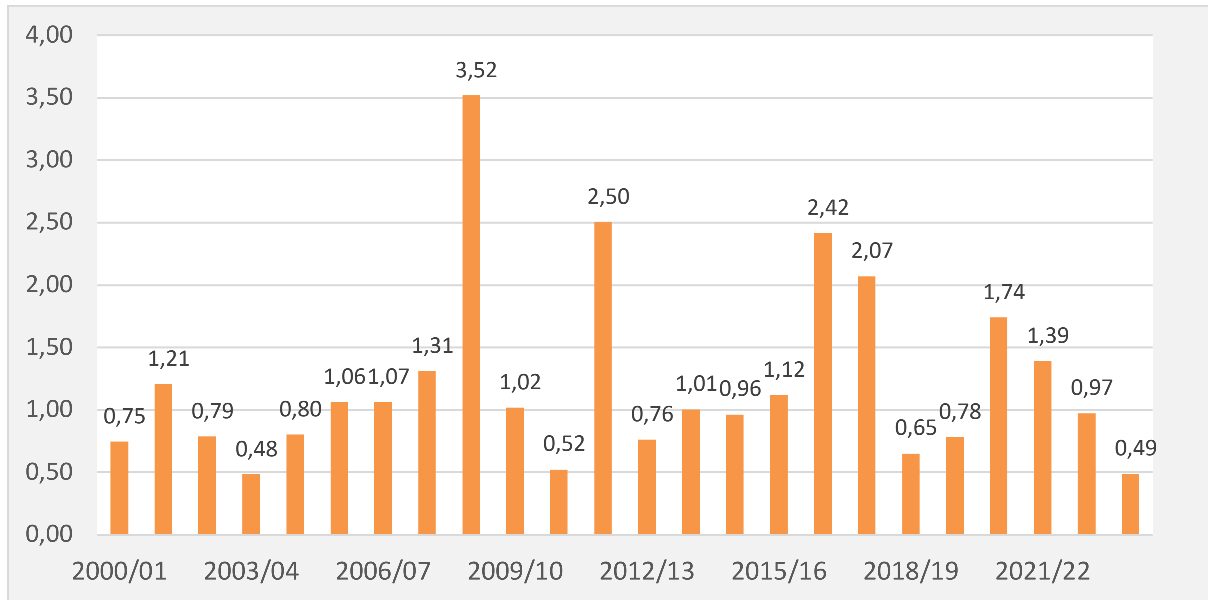
Revenue Laws Amendment Bill B5-2025

3.17. The Revenue Laws Amendment Bill B5-2025 proposes an amendment to the Income Tax Act 1962 ("ITA") and certain provisions of the Revenue Laws Amendment Act 2024 ("RLAA"). The most prominent changes appear to concern amendments to the ITA that relate to the two-pot retirement system introduced in 2024. Amendments seek to bring certainty and conditionality to member's interests in three components of the two-pot system, namely, the retirement component, savings component, and vested component. The Bill proposes further changes to the definitions in the ITA concerning provident funds and retirement annuity funds.

The Fiscal Impact of the VAT Increase

3.18. The 2025 Budget proposes a 0.5 percent hike in the VAT for 2025/26 with a further 0.5 percent hike in the following year. Figure 8 below presents the Total Gross Revenue-VAT elasticity to estimate the potential fiscal revenue impact in response to changes in VAT revenue from 2000/01 till 2023/24. 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 presented of the low revenue elasticity of VAT suggests that total gross revenue lacks responsiveness to changes in VAT revenue. Differently put, an increase in VAT, even if collected is unlikely to yield a proportional increase in revenues desired for the fiscus.

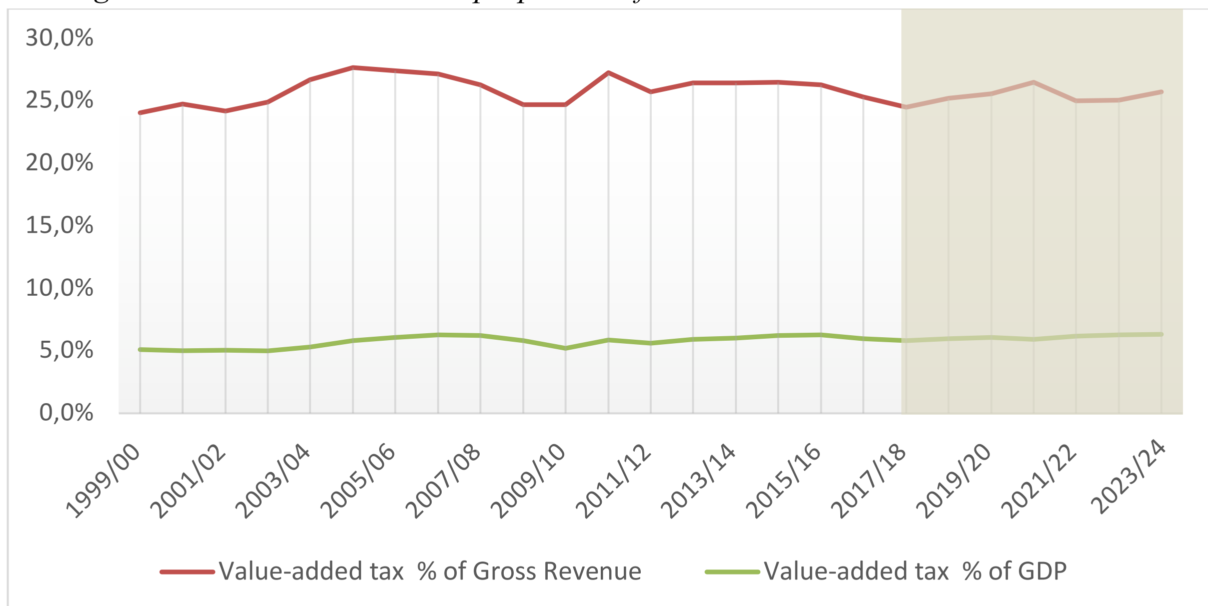
Figure 8: Total Gross Revenue Elasticity of Value-added Tax



Source: National Treasury Budget Review 2024 and Commission's Own Calculations

3.19. Consistent with the finding of revenue elasticity of VAT, Figure 10 illustrates the trends in VAT revenue as a proportion of total revenue, as well as VAT revenue as a percentage of Gross Domestic Product (GDP) in nominal values. The data shows that despite the VAT increase since April 2018 from 14 to 15 percent, VAT revenue as a proportion of gross revenue remained flat throughout the period, with VAT revenue at an average of 5 percent of GDP, and 25 percent of gross revenue. Hence, the empirical findings by the Commission suggest that raising VAT would lead to ineffective revenue outcomes. Notwithstanding the negative, regressive socio-economic impact on the poor, signalling limitations of using taxes as a fiscal instrument for generating additional revenues, given the current climate of economic stagnation to ease fiscal pressures.

Figure 9: Value-added tax as a proportion of Gross Tax Revenue and Nominal GDP



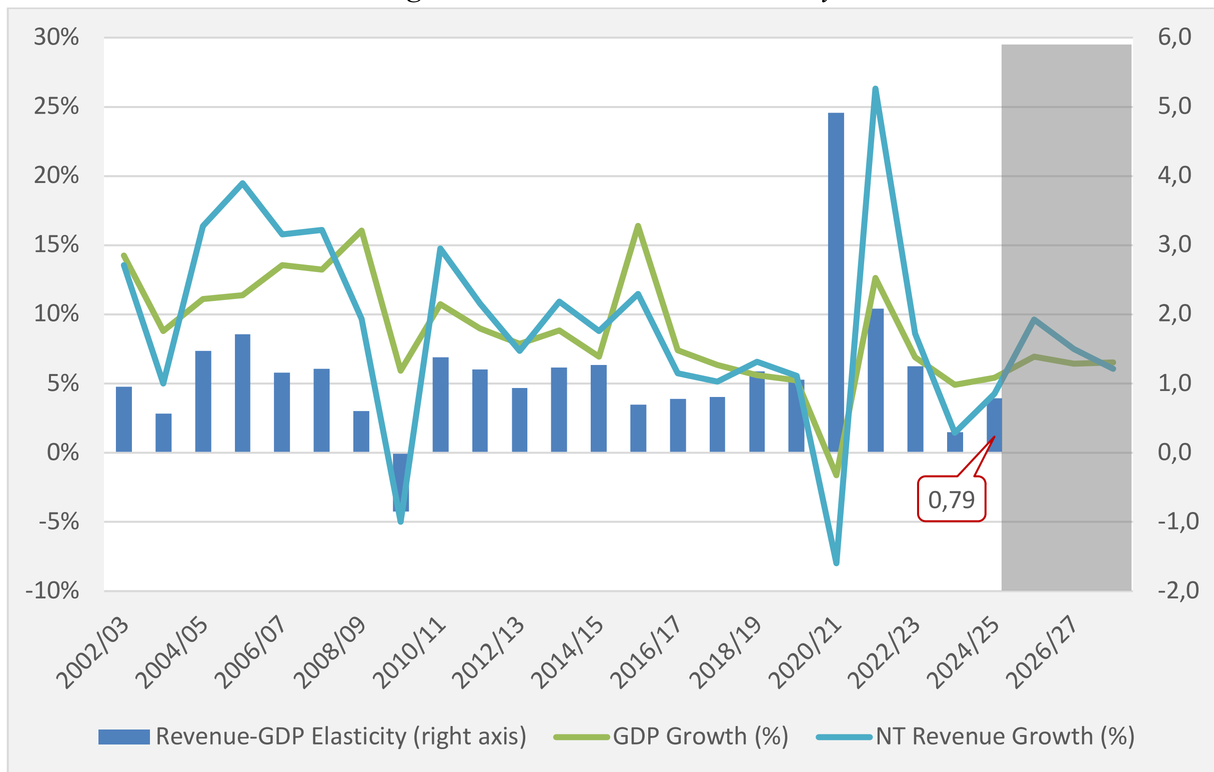
Source: National Treasury Budget Review 2024 and Commission's Own Calculations
Note: The last increase to South Africa's Value-Added Tax (VAT) rate was in April 2018, when it increased from 14% to 15%.

Revenue Trends and FFC's Proposed Fiscal Strategy

3.20. During the 2024 MTBPS, the Commission analysed the revenue trends and expressed concerns that the downward adjustments of fiscal revenue were driven primarily by reduced energy-related imports for power generation and a one-off diesel refund payment, which in turn lowered import VAT collections. This indicates that both revenue growth, the economy and the elasticity of the tax rates thereof are showing signs of fatigue and a negative relationship. As revenue is no longer being derived from household income growth or increased economic activities and employment, but from crisis management expenditures.

3.21. Figure 10 analyses the historical trend of Revenue-GDP elasticity in relation to revenue and GDP growth. During the 2024 MTBPS, the downward adjustment of revenue to be collected for the 2024/25 financial year showed a negative elasticity or tax buoyancy. In the 2025 Budget and revised total revenue, the data indicate that tax buoyancy has returned to positive and increasing marginally toward being proportional with GDP growth to 0.79. This is a welcoming trend, especially since the significant volatility due to the impact of the COVID-19 pandemic in 2020/21.

Figure 10: Revenue-GDP Elasticity

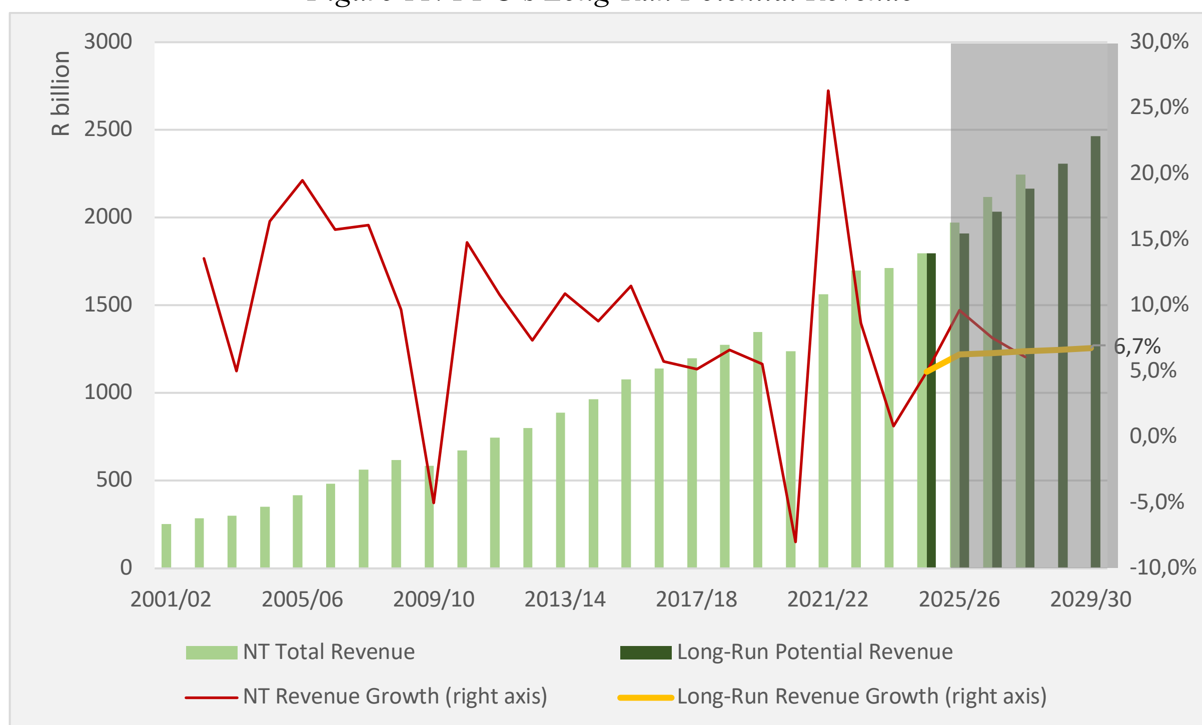


Source: National Treasury Budget Review, 2025

3.22. Figure 11 provides the Commission's long-run forecasts of potential revenue, based on collected (and revised) revenue and its growth observed just before the COVID era in 2019/20. Revenue growth is forecasted by the Commission to be 6.7 percent over the long term (nominal), below National Treasury's predictions of a revenue surge of 9.6 percent for the 2025/26 financial year, illustrating a more realistic revenue outlook. This long-run revenue forecast is then used to derive the proposed fiscal consolidatory path in Figure 11. It is worth noting that during the 2024 MTBPS, despite the Commission's more

conservative revenue forecast compared to National Treasury's forecast, the revised revenue collected for the 2024/25 financial year was even lower, indicating severe downside risks of revenue collection (see FFC's Submission on the 2024 MTBPS).

Figure 11: FFC's Long-Run Potential Revenue



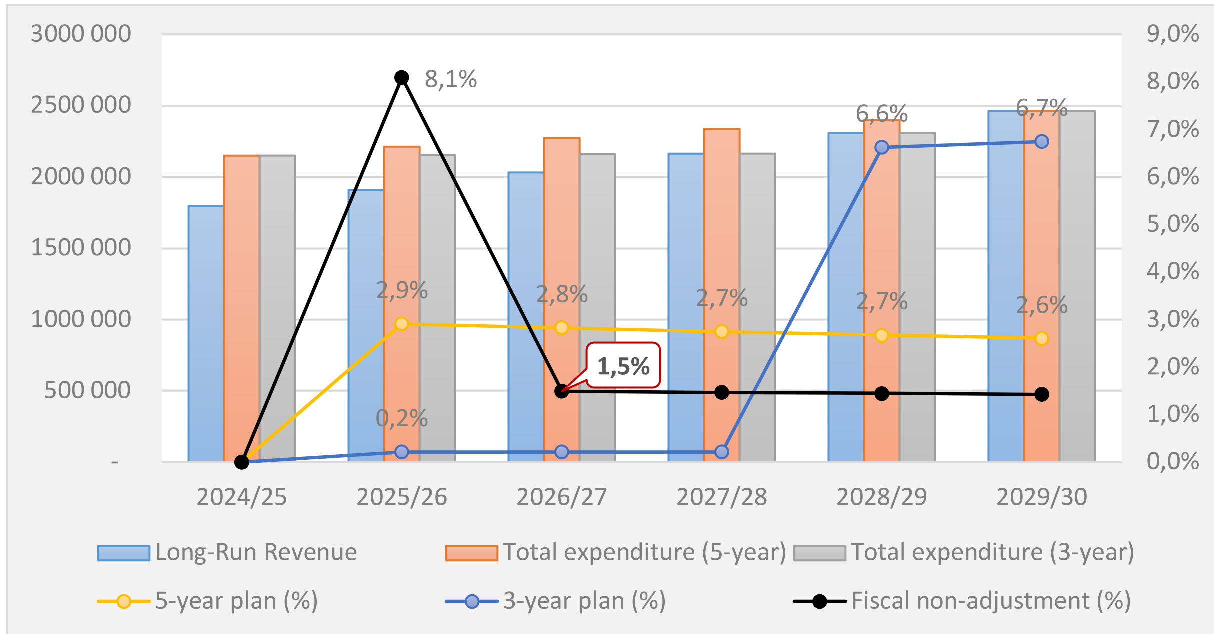
Source: National Treasury Budget Review, 2025

3.23. In the Commission's Annual Submission for the Division of Revenue, 2025/26, under the theme of "Public sector productivity and economic growth" and the 2024 MTBPS submission, it emphasised that restoring state efficiency requires the downsizing of the entire government. Only through fiscal consolidation will the state have the fiscal room to rebuild state capacity towards efficiency, maintain fiscal sustainability and refocus public service delivery—by returning to the core mandates and functions for financing. During the 2024 MTBPS, the Commission endorsed the Cabinet's decision to implement an early retirement programme, aimed at arresting government employment costs, turnover state capacity and expanding new employment. Additionally, the Commission proposes that a comprehensive performance and employee audit is essential to identify redundant positions and address the issue of "shirking workers" employed in "hybrid" or "remote" settings. Concurrently, a salary review and benchmarking exercise of job descriptions should accompany restructuring efforts to ensure that necessary skills are retained for passing over skills and effective service delivery knowhows to the next generation of public civil servants.

3.24. The Commission emphasises that, while the government intended to embark upon a plan of fiscal consolidation to reign in its debt and rising debt-service costs, total government expenditure has continued to increase creating a deepening fiscal crisis. Figure 12 presents the Commission's recalculated fiscal path for consolidation, illustrating two scenarios to restore fiscal sustainability within the government's expenditure framework:

a medium-term (5-year) path and a short-term (3-year) path of fiscal consolidation to reach a zero-balance of the main budget according to their horizons.

Figure 12: FFC's Fiscal Consolidatory Paths – 3-year and 5-year plans



Source: National Treasury, Budget Review 2025

3.25. Compared to the Commission's fiscal path proposal tabled during the 2024 MTBPS, the fiscal path has become significantly narrower and more stringent. The three-year consolidation plan, in particular, requires capping expenditure growth at 0.2 percent for three years to achieve a zero-balance budget by 2027/28. This is lower than the 1 percent nominal increase the Commission calculated during the 2024 MTBPS due to the rising expenditure coupled with revenue downgrade over the 2025 MTEF. Following three difficult years of fiscal consolidation, from 2028/29 onwards however, expenditure may increase in line with the long-run revenue growth of 6.6 percent and 6.7 percent annually, as projected, thereby restoring fiscal credibility within a three-year horizon.

3.26. Alternatively, the Commission suggests a five-year fiscal consolidation path, where expenditure growth would decrease by 2.9 percent in 2025/26, stepping down to 2.6 percent in 2029/30. This is also lower than the 3.3 percent projected in the 2024 MTBPS submission made by the Commission. In terms of the fiscal impact of having allowed the expenditure growth to run unchecked at 8.1 percent compared to the previous year, as well as having missed the opportunity to rein in expenditure in the 2025 Budget (i.e. Fiscal non-adjustment scenario), South Africa must survive with a 1.5 percent nominal increase throughout the consecutive years to reach a zero-balance by 2029/30. For the three-year scenario, without fiscal adjustments, the budget will have to be reduced in nominal terms.

Guarantees to state-owned entities (SOEs)

3.27. South Africa's ongoing State-Owned Enterprise (SOE) crisis poses a significant threat to national fiscal sustainability, undermining economic growth and depleting public resources, hindering service delivery by diverting funds from other essential areas.

3.28. Between 2024/25 and 2025/26, government's total contingent liabilities have been revised upward by R9.4 billion, as shown in Table 1, comprised of government's guarantees and other contingent liabilities. Eskom, Independent Power Producers and Transnet remain at the epicentre of government guarantee exposure, representing 53.8 percent of the total guarantee. While the Road Accident Fund constitutes the largest share of other contingent liabilities at 31.7 percent.

Table 1: Contingent liabilities for 2024/25 and 2025/26

R million	2024/25 Exposure	2024/25 %Share of	2025/26 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*

Source: National Treasury, Budget Review 2025

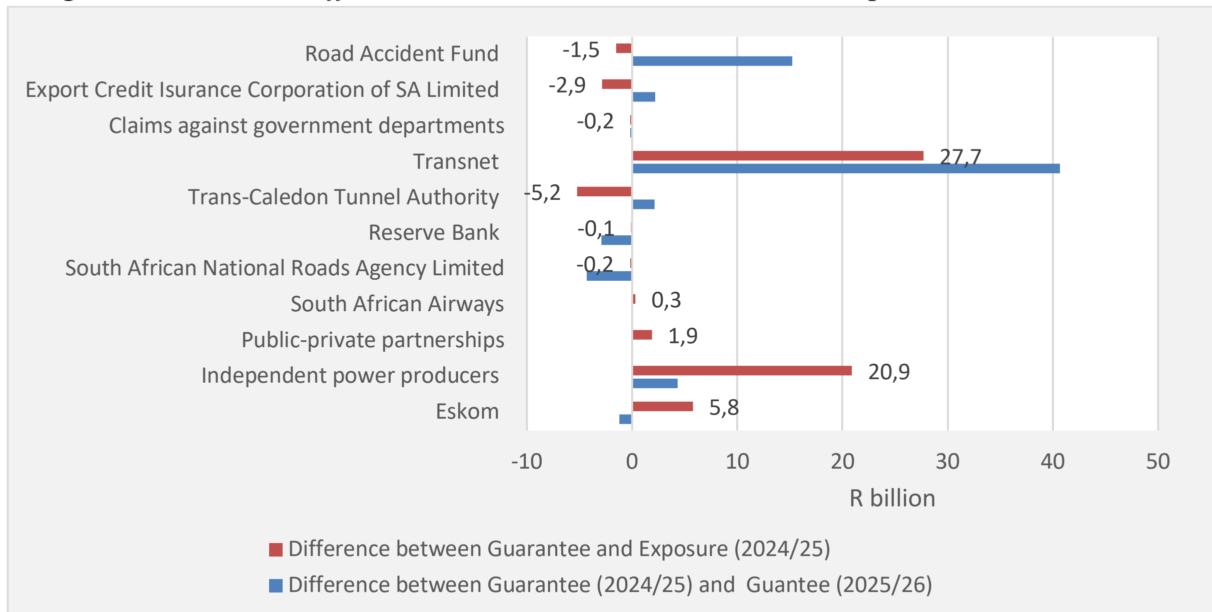
3.29. Eskom's exposure for 2024/25 increased by R5.8 billion relative to its guarantee, though the guarantee to Eskom for the 2025/26 fiscal year is projected to decline by R1.3 billion. However, given Eskom's share of exposure and its precarious financial position that continues to endanger the broader economy, the Commission continues to stress the need to confront the entity's financial and operational issues head-on and reduce fiscal dependency.

3.30. Similarly, the deterioration of the freight rail and port infrastructure under Transnet has led to the entity relying strictly on the fiscus through bailouts and debt transfers. 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. The Commission raises concern that given the entity's declining profitability which is a reflection of severe inefficiencies in freight rail and port systems, Transnet must be restructured to be more efficient.

3.31. 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, reflecting a reduction in the value of signed-off projects. The contingent liability risk from the Road Accident Fund increased by R15.2 billion for 2025/26. The Commission notes the

continuously increasing flow of state bailouts financed by borrowing, crowding-out spending in essential services and infrastructure investments.

Figure 13: Absolute Difference between 2024/25 and 2025/26 Exposures and Guarantees



Source: Source: National Treasury, Budget Review 2025 and Commission's calculations

Recommendations

Concerning 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 are 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.*

Concerning 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 by addressing redundant positions and ensuring 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.*

Concerning 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 to improve the governance of SOEs, thoroughly evaluating their operating models, and streamlining operations by disposing of non-core assets.*

4. 2025 Appropriation Bill

4.1. The 2025 Appropriation Bill makes provision for the appropriation of funds from the National Revenue Fund for the state's requirements concerning the 2025/26 financial year and estimates for the outer years. The total appropriation by vote amounts to R1.168 trillion which represents an increase of 4.7 percent increase when compared to the total appropriation planned for 2025/26 last year (i.e. over and above inflation embedded in the MTEF).

Table 2. Appropriation by national vote

R million	2023/24 Actual	2024/25 Revised	2025/26 Main	%Share
The Presidency	662.0	629.5	739.1	0.1%
Parliament	3 208.8	2 771.0	3 067.8	0.3%
Cooperative Governance	116 800.1	123 996.2	131 129.2	11.2%
Government Communication and Information System	738.4	760.8	820.3	0.1%
Home Affairs	12 379.3	12 095.5	11 060.0	0.9%
International Relations and Cooperation	7 268.3	7 081.2	7 090.2	0.6%
National School of Government	218.2	218.5	228.7	0.0%
National Treasury	27 457.0	26 316.8	27 972.9	2.4%
Planning, Monitoring and Evaluation	475.9	471.0	509.1	0.0%
Electricity and Energy	7 486.7	6 000.2	6 669.3	0.6%
Public Service and Administration	507.6	511.5	564.7	0.0%
Public Service Commission	299.3	288.5	302.0	0.0%
Public Works and Infrastructure	8 304.0	7 607.1	7 623.0	0.7%
Statistics South Africa	2 723.9	2 646.2	2 771.3	0.2%
Traditional Affairs	186.8	184.0	195.5	0.0%
Basic Education	29 961.2	32 635.4	35 489.2	3.0%
Higher Education	107 713.2	112 573.5	116 441.7	10.0%
Health	58 312.1	62 025.4	64 807.2	5.5%
Social Development	259 300.3	276 242.6	294 055.6	25.2%
Women, Youth and Persons with Disabilities	991.6	1 018.7	1 361.7	0.1%
Civilian Secretariat for the Police Service	150.2	156.0	172.2	0.0%
Correctional Services	27 185.2	27 758.9	29 222.0	2.5%
Defence	55 861.9	55 506.6	55 940.7	4.8%
Independent Police Investigative Directorate	364.1	370.6	428.6	0.0%
Justice and Constitutional Development	20 849.8	21 650.2	22 737.5	1.9%
Military Veterans	585.9	812.4	878.5	0.1%
Office of the Chief Justice	1 339.4	1 273.8	1 515.1	0.1%
Police	105 475.6	113 623.5	120 889.9	10.3%
Agriculture	7 028.3	7 871.1	7 609.7	0.7%
Communications and Digital Technologies	3 279.7	3 953.2	2 545.6	0.2%
Employment and Labour	3 996.0	3 819.1	4 153.1	0.4%
Forestry, Fisheries and the Environment	9 495.2	8 757.6	9 080.7	0.8%
Human Settlements	31 226.9	33 585.1	34 042.8	2.9%
Mineral and Petroleum Resources	2 512.2	2 910.2	2 859.6	0.2%
Science, Technology and Innovation	10 472.1	9 439.2	9 063.7	0.8%
Small Business Development	2 723.6	2 683.1	2 918.1	0.2%
Sport, Arts and Culture	6 065.4	6 090.7	6 309.9	0.5%
Tourism	2 372.3	2 346.9	2 434.9	0.2%

Trade, Industry and Competition	10 440.6	9 385.9	11 071.7	0.9%
Transport	78 014.8	85 302.6	95 692.1	8.2%
Water and Sanitation	21 331.6	23 346.8	26 678.7	2.3%
Land Reform and Rural Development	9 686.1	9 082.2	9 820.6	0.8%
Total appropriation by vote	**1 055 451.4**	**1 105 799.3**	**1 168 964.4**	**100.0%**

Source: 2025 Estimate of National Expenditure, Summary Table No. 2

4.2. As part of the national macro-organisation of government, in the 2025 Appropriation Bill:

- The Department of Agriculture, Rural Development and Land Reform was split into two: the Department of Agriculture and the Department of Land Reform and Rural Development. This shift is expected to be completed by March 2025.
- The Department of Mineral Resources and Energy was split into two departments, the Department of Electricity and Energy and the Department of Mineral and Petroleum Resources. The split is expected to be finalised by 31 March 2025.
- The Department of Public Enterprises (DPE) will close on 31 March 2025. Following the proclamation no 176 of 2024 on 27 August 2024, the State-Owned Companies reporting to the DPE were transferred to the respective policy departments.

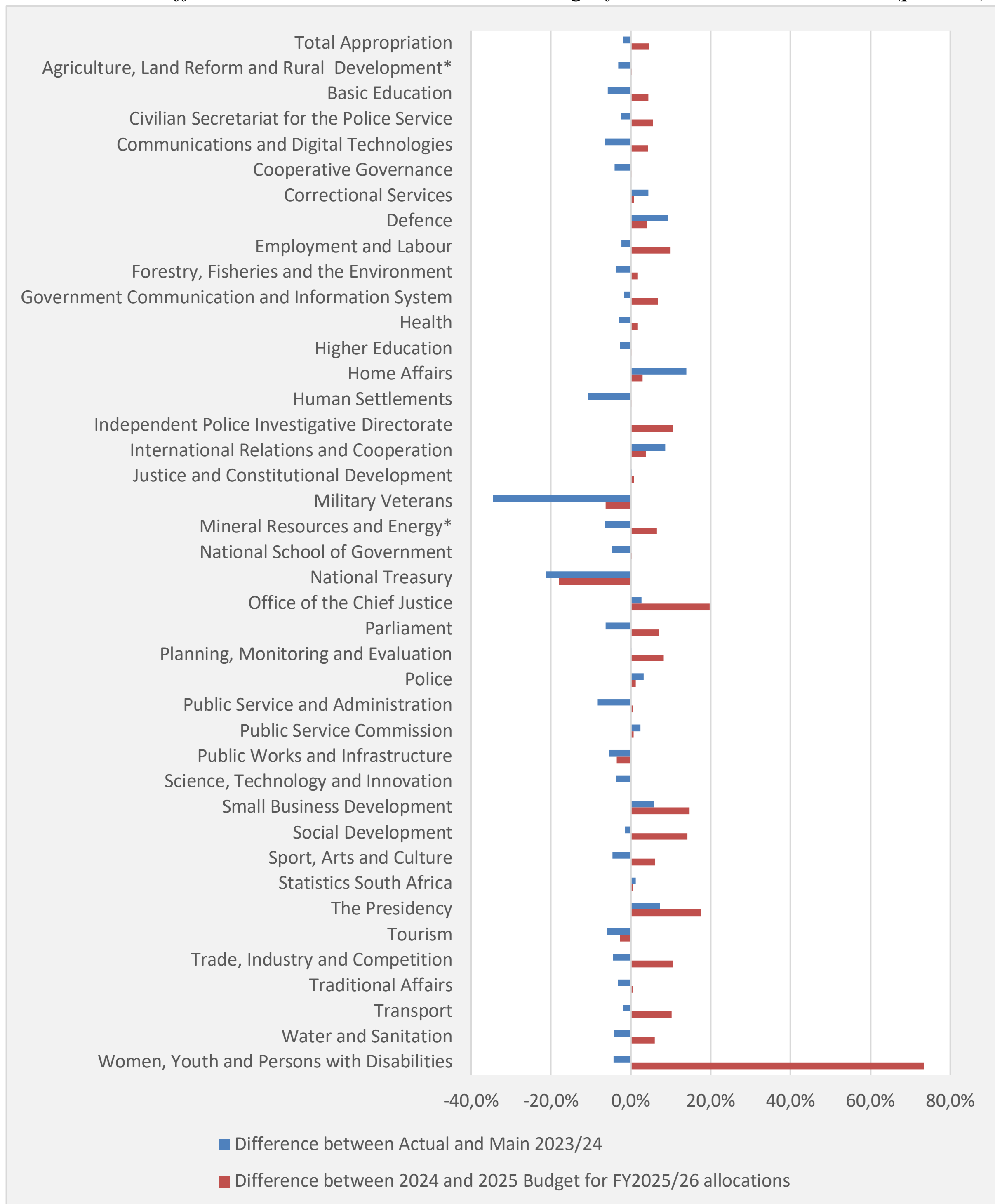
4.3. As shown in Table 2, for the 2025/26 fiscal year, the Social Development vote receives the largest budget allocation at 25.2 percent**,** reaffirming the government's commitment to social welfare and poverty alleviation through grants for vulnerable groups. The Cooperative Governance vote accounts for the second largest share at 11.2 percent of the budget which can be attributed to transfers and subsidies to provinces and municipalities.

4.4. Data in Table 2 reveals that less than 1.0 percent 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. This raises doubts that economic development and innovation-focused sectors receive sufficient fiscal priority to drive industrial growth, entrepreneurship, and infrastructure expansion. The 2025 Appropriation Bill reflects a budgetary focus on immediate social needs over long-term economic transformation.

4.5. Figure 14 illustrates the percentage change between the 2023 Budget appropriation and audited outcome for the 2023/24 fiscal year i.e. over/under spending as a proportion of the budget. As well as the percentage change between the allocations in the 2025 Appropriation Bill relative to the 2024 Bill for the 2025/26 financial year to reflect budget responsiveness and consistency, where overspending in 2023/24 should lead to increase in budget planning for the 2025/26 fiscal year.

4.6. The figure shows an overall underspending of 2.0 percent in 2023/24 relative to its budget. However, despite the underspending, the 2025/26 total appropriation for 2025/26 increased by 4.7 percent compared to the 2024 Budget for the financial year. This suggests a contradiction in appropriation given actual spending.

Figure 14: Difference between Main and Actual Budget as a proportion of the Main Budget, 2023/24 and Difference between 2024 and 2025 Budget for FY2025/26 allocations (percent)



Source: ENE Summary Table No. 2. National Treasury, 2023, 2024, 2025. and Commission's calculations.
Note: * indicates those votes that have been split but for comparative purposes their allocations are summed.

Select Votes of Emphasis

4.7. Figure 14 shows that the **Women, Youth and Persons with Disabilities** vote had the largest adjustment for 2025/26, at 73.4 percent. This significant increase can be attributed to the R549.8 million that has been allocated to the National Youth Development Agency under the Presidential Employment Initiative as outlined in the 2025 Budget Review.

4.8. The allocation to the **Transport** vote for 2025/26 increased from its baseline of R86.9 billion to R95.7 billion (an increase of 10.2 percent). This increase reflects an R8.7 billion transfer to the South African National Roads Agency for debt repayment and the Gauteng Freeway Improvement Project's maintenance backlog. And R50.4 billion allocated for road infrastructure over the next three years as outlined in the 2025 Budget Review. Additionally, this increase also underlines the priority attached to investments in passenger rail transport, with an additional R19.2 billion provisionally allocated over the medium term for critical signalling system upgrades. This aligns with a recommendation made by the Commission in our 2025/26 Annual Submission on the Division of Revenue that advocated for the implementation of data-driven strategies aimed at improving rail infrastructure maintenance and modernising train tracking and scheduling systems.

4.9. Following a 4.2 percent underspending to **Water and Sanitation** in 2023/24, there is an increase of 6.0 percent for 2025/26 relative to its baseline. This increase correlates with planned infrastructure projects relating to water resources and bulk infrastructure. Considering the current state of water resources and systems in the country, the Commission is concerned about the underspending, though welcomes the upward adjustment to the votes allocation.

4.10. The **Basic Education** vote saw an upward revision of 4.3 percent in 2025/26 relative to what was outlined in Budget 2024. This follows on from a 5.7 percent underspending in 2023/24. The expansion reflects a commitment to Early Childhood Development (ECD), with R10 billion allocated over the medium term to raise the ECD allocation from R17 to R24 per child per day and expand access to 700,000 more children according to the 2025 Budget Review. The Commission notes that the allocation for ECD for 2025/26 has increased by R2.3 billion in the 2025 Appropriation Bill relative to its baseline, but is concerned that the allocation for workbooks and learner materials (LTSM) has reduced by R84 million, presenting potential disjoints in learning outcomes.

4.11. The **Higher Education** vote sees a minimal 0.2 percent increase for 2025/26 relative to its original baseline, following an underspending in 2023/24, suggesting a misalignment with the Department of Higher Education's rollout of the 'missing middle' student loan programme worth unpacking. Additionally**,** NSFAS transfers will decline from R55.8 billion (in Budget 2024) to R55.4 billion (2025 Budget). The Commission remains concerned about maladministration at NSFAS, highlighting the need for improved governance, financial controls, and transparency. Furthermore, shifting 'missing middle' funding to loans rather than grants may increase the financial strain on graduates**.**

4.12. The **Social Development** vote gets a 6.9 percent addition in 2025/26 relative to the 2024 Appropriation despite a 1.4 percent underspending in 2023/24. The inconsistent budgeting between actual spending and financial planning reflects inefficiencies experienced with the payout of grants and fiscal uncertainty. The upward revision in 2025/26 is primarily driven by the additional R35.2 billion required to fund the social relief of distress (SRD) grant until the end of March 2026. It is worth noting that government has allocated an additional R300 million to help administer the SRD grant, which raises questions on the functions, roles and responsibilities of the Social Development department. As announced in the 2025 SONA, the SRD grant will serve as

the foundation for a sustainable income support system for the unemployed. The Commission stresses the urgent need for a clear, sustainable support structure to ensure fiscal certainty.

4.13. **Agriculture**, **Rural Development, and Land Reform**[1] votes see a 4.3 percent upward revision compared to the Budget 2024 allocation for its 2025/26 budget, following a 3.1 percent underspending in 2023/24. This reflects plans to merge the Comprehensive Agricultural Support Programme and Ilima Letsema grants into a single grant, with a R2.4 billion baseline in 2025/26 and R7.3 billion over the MTEF. The Commission supports this grant consolidation, which aligns with the recommendation in its 2025/26 Annual Submission on the Division of Revenue that the three agriculture conditional grants (the Comprehensive Agricultural Support Programme, Ilima Letsema and the Land Care Grant) should be amalgamated, along with other existing pools of funding geared at assisting smallholder farmers to consolidate efforts to support farmers.

4.14. The allocation to the **Health** Vote is projected to increase by 1.7 percent, from R63.7 billion which was announced in the 2024 MTEF to R 64.8 billion in the 2025 Budget, despite a marginal underspending in 2023/24. A substantial portion of this increment is 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 the President's SONA 2025 regarding the development of a single electronic health record system, and Commission's recommendation in its Submission on the Division of Revenue, 2021/22.

4.15. Despite the 2025 Budget's focus on infrastructure-led growth, the **Public Works and Infrastructure** vote sees a 3.6 percent reduction in 2025/26 (compared to what was outlined in the 2024 MTEF), however, following a 5.4 percent underspending in 2023/24**.** Aligning with this is a R17.9 million (0.8 percent) reduction for the Expanded Public Works Programme **(**EPWP)**,** which may reduce job opportunities. The Commission urges a comprehensive review and investigation into the returns on infrastructure investments and implementation to remove any bottlenecks that may exist in the system of infrastructure development**.**

4.16. In line with the 2025 SONA, the **Police** vote shows an increase of 1.3 percent in 2025/26 as compared to the 2024 MTEF, with indications of growth being maintained over the rest of the 2025 MTEF period. The commission calls for a heightened focus on combating cybercrime, extortion and protection racketeering as identified to be prevalent in the 2023 Global Crime Index.

4.17. The **Justice and Constitutional Development** vote is set to grow at a muted 0.8 percent in 2025/26 relative to its original baseline in the 2024 MTEF. The **Office of the Chief Justice** vote received an upward revision of 19.7 percent for 2025/26. The focus of the expenditure for 2025/26 and over the medium term will be on modernising processes in the superior courts, enhancing capacity in superior courts, addressing the historical

[1] These two departments were summed together to enable comparative analysis over the 2023/24 spending and 2025/26 budget.

funding shortfall on compensation of employees and covering operational costs, including judges' vehicles outlined in the 2025 Budget Review. The Commission notes the intention to modernise the court infrastructure but is concerned about the low efficiencies of the magistrate courts in particular, driven largely by the quality of magistrates (as highlighted in the FFC's Recommendations for the Division of Revenue, 2025/26).

4.18. The **Mineral Resource and Energy** vote saw a 6.5 percent increase in the 2025/26 baseline for implementing a new, modern and transparent mining rights system to enable the issuance of about 600 mining licences to historically disadvantaged South Africans and rehabilitate dilapidated and ownerless mines.

4.19. The **Home Affairs** vote is set to increase by 3 percent in 2025/26 relative to its original baseline in the 2024 MTEF. The Commission notes the government 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 Border Management Authority under Home Affairs, as stated in the 2025 Budget. The Commission welcomes the government's decision and is of the view that this funding will help improve the management of infrastructure at ports of entry.

4.20. For the 2025/26 fiscal year, the **Defence** vote increased by 4 percent compared to what was stated in the 2024 Budget. This increase is primarily associated with the R5 billion carry-through cost over the MTEF period, including 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, as mentioned in the 2025 Budget.

Direct Charges Against the National Revenue Fund

4.21. Direct charges constitute nearly as much as the total appropriation by national vote at R1.1113 trillion for the 2025/26 fiscal year, comprised of mainly the Provincial equitable share at 56.9 percent of the total direct charges, and debt-service costs at 38.2 percent.

Table 3: Direct charges against the National Revenue Fund

R million	2023/24 Actual	2024/25 Revised	2025/26 Budget	%Share
Debt-service costs (National Treasury)	356 109.9	389 560.8	424 869.1	38.2%
Provincial equitable share (National Treasury)	585 085.9	600 475.6	633 166.0	56.9%
General fuel levy sharing with metropolitan municipalities (National Treasury)	15 433.5	16 126.6	16 849.1	1.5%
Skills levy and sector education and training authorities (Higher Education)	22 424.5	24 493.3	26 006.0	2.3%
…	12 413.7	13 831.7	12 444.0	1.1%
Total direct charges against the National Revenue Fund	**991 467.5**	**1 044 488.0**	**1 113 334.1**	100.0%

Source: 2025 Estimate of National Expenditure, Summary Table No. 2

4.22. Figure 15 shows that in terms of Direct Charges Against the National Revenue Fund, there is an upward revision of 2.2 percent in 2025/26 relative to the baseline originally set

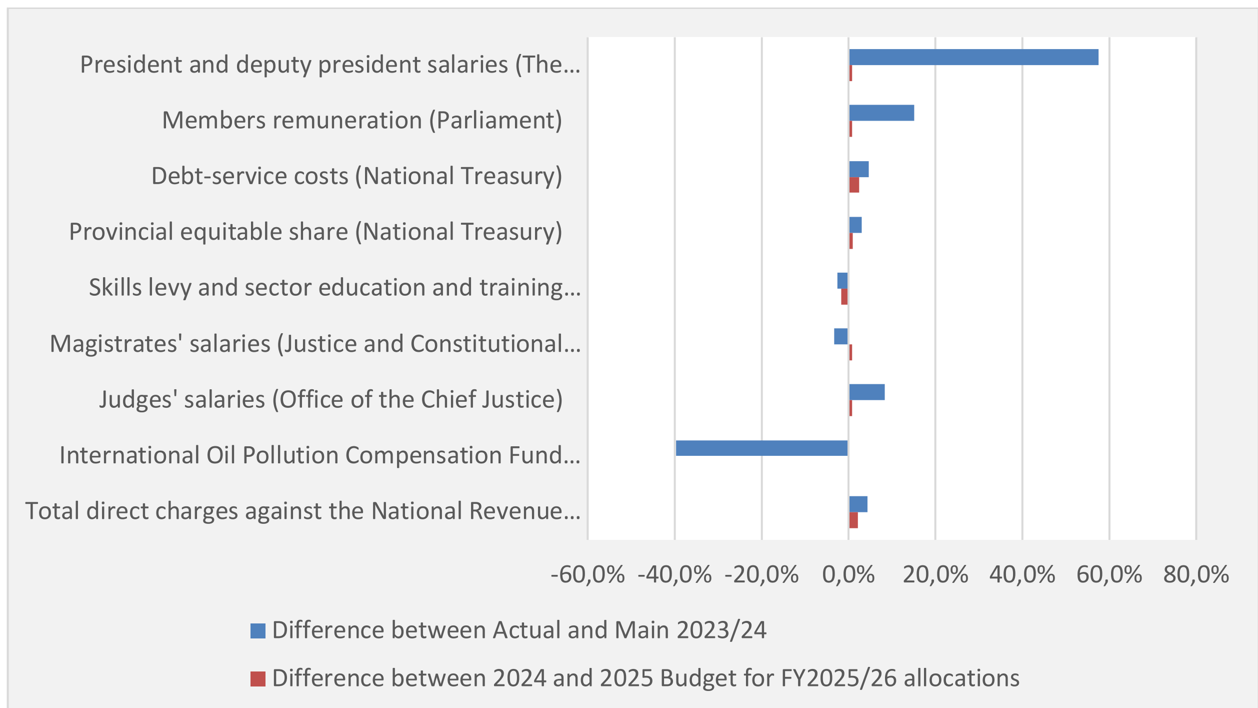
in 2024 MTEF for the fiscal year. This budget response and planning is consistent with the overspending of 4.3 percent in the 2023/24 fiscal year relative to the budget.

4.23. Despite data showing large fluctuations in the President and Deputy President's salaries as well as for the International Oil Pollution Compensation Fund (intended to provide financial compensation for oil pollution damage resulting from spills of oil from tankers), these direct charges against the National Revenue Fund are relatively small in shares, as shown in Table 3.

4.24. Notably, data illustrates an under-budgeting (i.e. overspending) of 4.6 percent for debt service costs in 2023/24, which means that the 2.5 percent upward revision from its 2024 MTEF baseline for 2025/26 may be inadequate.

4.25. Provincial equitable share shows spending pressure as seen by the over-expenditure of 3.1 percent 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.

Figure 15. %Change in Total Direct Charges against the National Revenue Fund for 2023/24 and 2025/26 Fiscal Year allocations



Source: ENE Summary Table No. 2. National Treasury, 2023, 2024, 2025. and Commission's calculations.

4.26. The 2025 Appropriation Bill allocates R7.9 billion for the 2025/26 fiscal year towards public-sector pensions, post-retirement medical benefits, and other entitlements as mandated by statutory and collective agreements. This allocation should support the new early retirement initiative targeting up to 30,000 state employees. However, given the limited success of the 2019 early retirement initiative, the Commission questions the rationale for an anticipated average annual provision of R7.1 billion over the medium term to support this initiative as detailed in the 2025 Budget.

4.27. It is crucial to note that pension and medical benefits are funded by contributions linked to employee salaries according to pension and employer policies. Additionally, the

implementation of the early retirement scheme should ideally be accompanied by reductions in departmental budgets for public sector wage bills to realize fiscal savings, not more direct charges against the revenue fund.

Public Sector Pension and Related Payments Bill

4.28. 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. This measure aims to facilitate the payment of public sector pensions that predate the current retirement policy framework.

4.29. Under this Bill, the responsibilities of the employer, the Government Employees Pension Fund (GEPF), and the employees must be clearly defined as policies, processes 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

Concerning 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.

Concerning 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.

5. 2025 Division of Revenue Bill – Provinces

5.1. Provinces are responsible for the concurrent functions and delivery of social goods and services such as education, health and social welfare services which are not revenue generating, making provinces highly dependent on fiscal transfers at 41.3 percent of the main budget in 2025/26. Fiscal transfers to provinces are mainly from the Provincial Equitable Share funding, which is determined through the Provincial Equitable Share formula; and conditional grants, which include both direct and indirect grants.

5.2. Table 4 shows the total allocation and percentage changes for provinces and allocation breakdown (provincial equitable share and conditional grants). In the 2024 Budget, the total provincial equitable share was projected to be R627.4 billion for the 2025/26 financial year, which increased to R633.2 billion in the 2025 Budget and the Division of Revenue Bill, a 0.9 percent increase. For the 2026/27 financial year, an adjustment of 0.7% is made to increase the allocation from R655.7 billion to R660.6 billion for the Provincial Equitable Share.

5.3. Similarly, conditional grants increased by 1.4 percent and 1.2 percent for the 2025/26 and 2026/27 fiscal years, respectively, making the total allocation to provinces a 1.0% increase in 2025/26 and 0.8% in 2025/26.

Table 4: Provincial equitable share and conditional grant allocations and %change

		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 Grant	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	772.70	801.45
	%Change	1.0%	0.8%

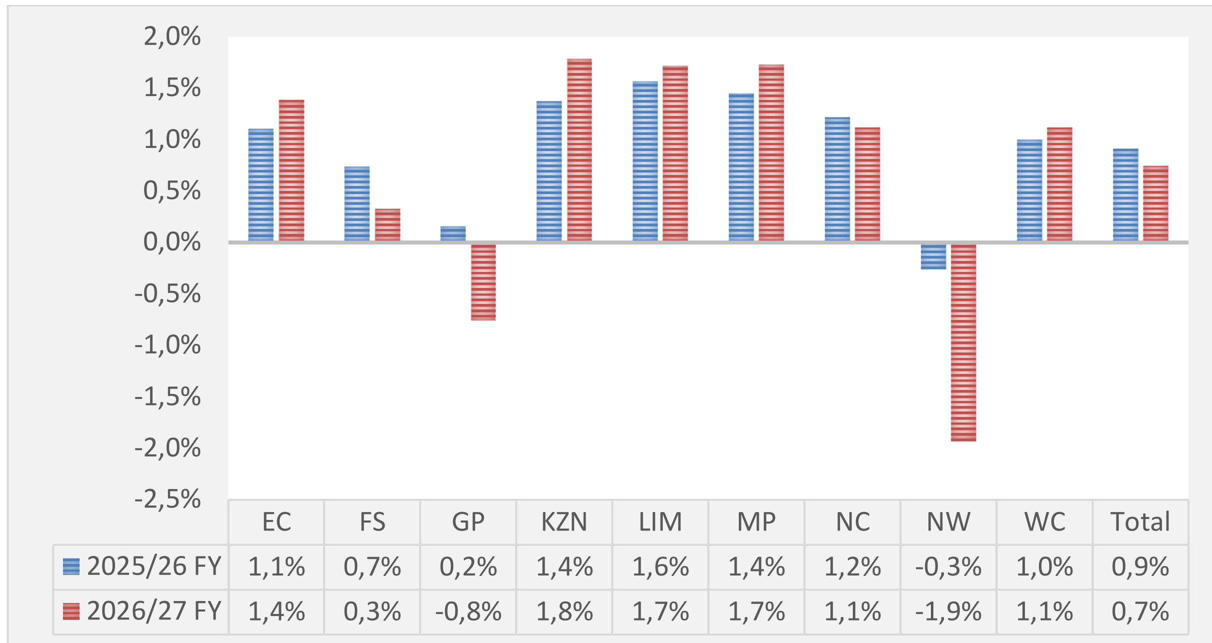
Source: Division of Revenue Bills 2024 & 2025.

Provincial equitable share

5.4. The percentage changes to provincial equitable share allocations for provinces is presented in Figure 16 shows that provinces that will receive fewer allocations for the 2025/26 and 2026/27 financial years, relative to their baselines in the 2024 Division of Revenue Bill is the North West province. Gauteng's allocation is also reduced relative to its original baseline in the 2026/27 financial year.

5.5. The adjustment to the provincial equitable share is mainly due to the impact of the data update on its formula components. However, the Commission notes with concern the use of additional allocations outside the provincial equitable share formula included in the allocation without formula or 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.

Figure 16: Provincial Equitable Share %change between 2024 and 2025 MTEFs



	EC	FS	GP	KZN	LIM	MP	NC	NW	WC	Total
2025/26 FY	1,1%	0,7%	0,2%	1,4%	1,6%	1,4%	1,2%	-0,3%	1,0%	0,9%
2026/27 FY	1,4%	0,3%	-0,8%	1,8%	1,7%	1,7%	1,1%	-1,9%	1,1%	0,7%

Source: National Treasury, Division of Revenue Bill, 2024 and 2025

Conditional grants for provinces

5.6. The total conditional grants for provinces allocation for the 2025/26 financial year amounts to R134.6 billion, increasing from R130.2 billion (revised estimate) in the 2024/25 financial year. Conditional grants are projected to increase to R137.9 billion and R143.6 billion in the outer years of the 2025 MTEF.

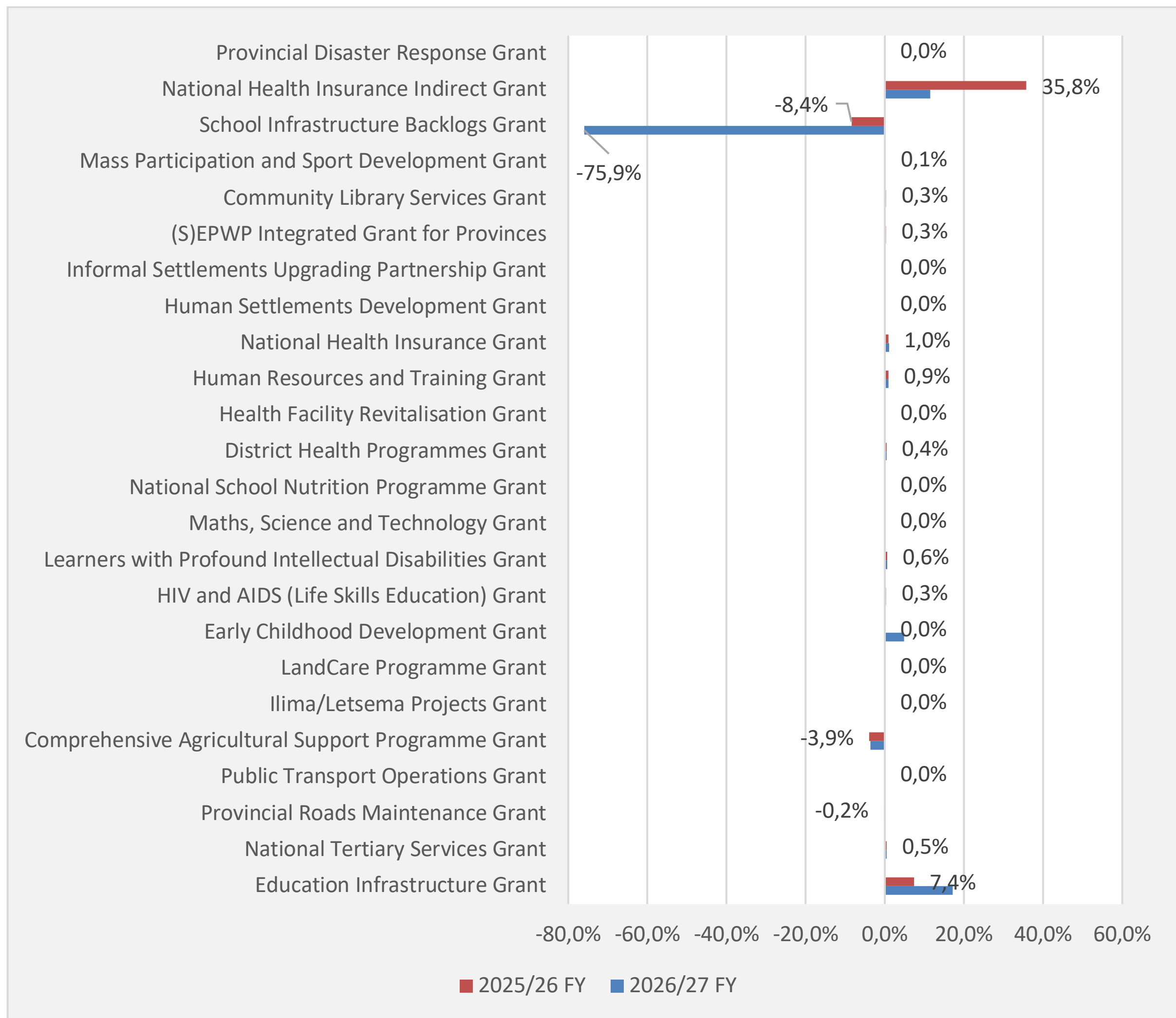
5.7. Figure 17 illustrates the percentage changes between the 2024 and 2025 MTEF in provincial conditional grants for the 2025/26 and 2026/27 financial years. Data indicate significant adjustments in three conditional grants at the aggregate level: the National Health Insurance Grant, the School Infrastructure Backlogs and Education Infrastructure Grant and the Comprehensive Agricultural Support Programme.

5.8. For the 2025/26 financial year, the National Health Insurance Grants have been increased by 35.8 percent through the Budget Facility for Infrastructure of R858 million and funding approved for Siloam District Hospital in Limpopo.

5.9. The School Infrastructure Backlogs Grant has been reduced by 8.4 percent in 2025/26 between the 2024 and 2025 MTEF budget planning, and a 75.9 percent reduction for 2026/27. This is a result of the historically poor performance of the indirect grant that will be shifted to be merged with the direct, incentivised grant of Education Infrastructure Grant to provinces.

5.10. An amount of R1.1 billion has been provisionally allocated in 2025/26 and 2026/27 to the national health insurance indirect grant: health facility revitalisation component for the Siloam District Hospital. The project is approved for funding subject to the Limpopo Provincial Health Department fulfilling some requirements, hence the increases in the data.

Figure 17: %Change in Provincial conditional grants between 2024 and 2025 Division of Revenue Bills



Source: Budget Review 2024

5.11. Examining in detail the provincial grants of: Education Infrastructure, Health Facility Revitalisation, Comprehensive Agriculture Support and the Provincial Road Maintenance by province in Figure 18. In terms of the Education Infrastructure Grant, significant changes are in the Western Cape where there is an increase of 90 percent for the 2025/26 financial year and a further 94 percent for 2026/27 between the 2024 and 2025 MTEF. This is increasing as a result of the funding of R1.048 billion and R1.250 billion allocated in 2025/26 and 2026/27 respectively for the Cape Rapid Schools Build Programme through the Budget Facility Infrastructure.

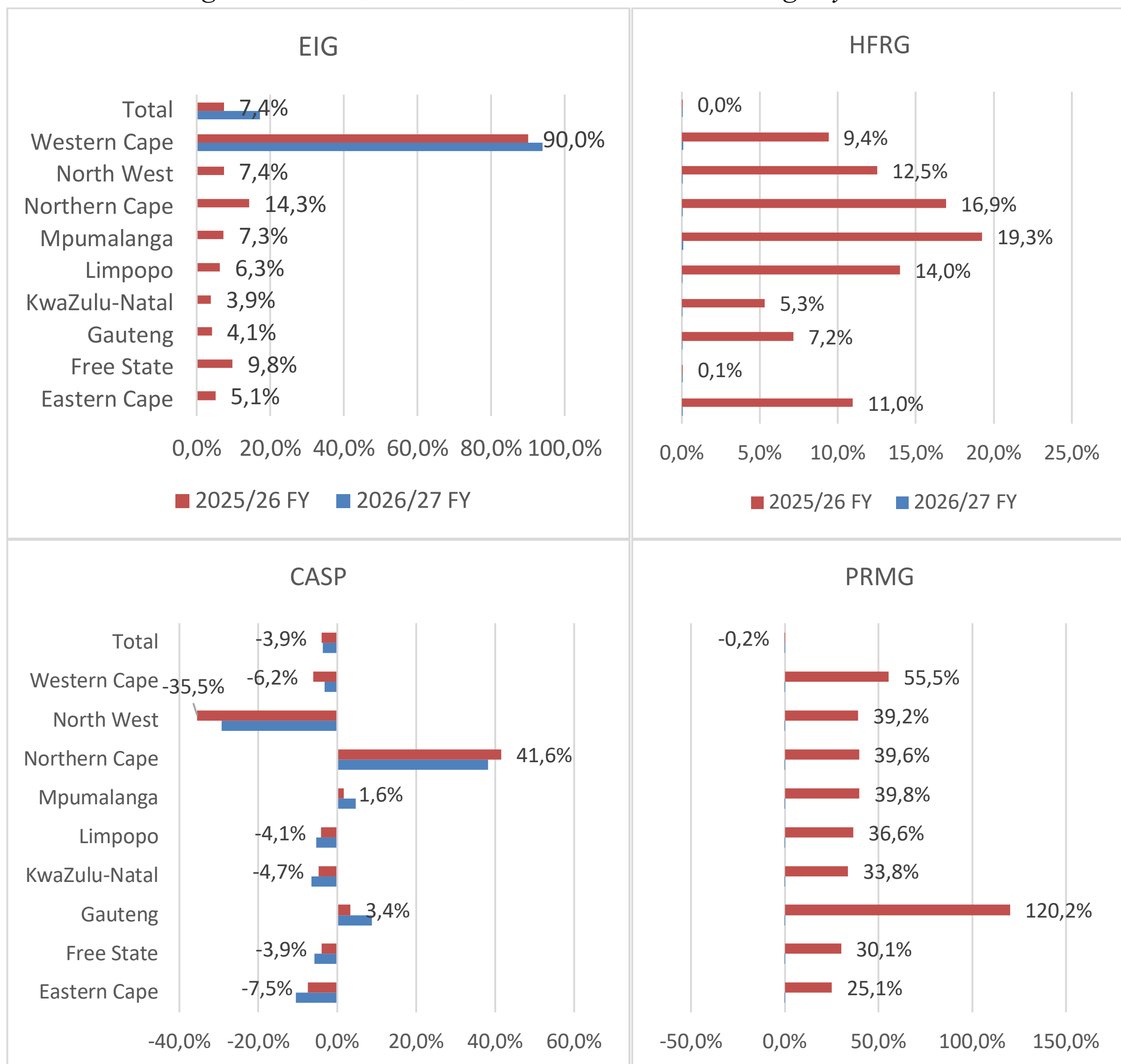
5.12. All provinces received significant increases for the Health Facility Revitalisation Grant for 2025/26 in the 2025 Division of Revenue Bill due to the unallocated component of the grant in the 2024 Division of Revenue Bill being converted to be allocated to provinces in the 2025 Bill. Hence in total, the grant amount has not changed between the two Division of Revenue Bills.

5.13. The allocation to provinces through the Comprehensive Agricultural Support Programme decreased by 3.9 percent for the 2025/26 financial year between the 2024 and 2025

Division of Revenue Bills. In terms of provinces, significant shifts as decreases for the North West and increases for the Northern Cape for both 2025/26 and 2026/27 financial years from 2024 to 2025 Division of Revenue Bills, with minor adjustments to other provinces.

5.14. For the Provincial Roads Maintenance Grant, there have been significant increases for all provinces for 2025/26 from the 2024 Division of Revenue Bill budget, with Gauteng increasing by over 120 percent and the Western Cape by 55.5 percent. However, 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 Division of Revenue Bill. The total allocation for Provincial Road Maintenance in fact has been reduced by 0.2 percent of its original baseline (2024 Division of Revenue Bill).

Figure 18: EIG, HFRG, CASP and PRMG %Change by Province



Source: Division of Revenue Bill 2024 and 2025; FFC Own Calculations

Recommendations

Concerning the 2025 Division of Revenue - 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 sectors of provinces. However, the Commission recommends 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, 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.*

6. 2025 Division of Revenue Bill – Local Government

6.1. The share of local government allocations as a proportion in the main budget over the 2025 MTEF shall rise modestly from 9.5 percent in 2025/26 to 9.8 percent in 2026/27 and 9.7 percent in the outer year.

6.2. Table 3 below compares the 2025/26 and 2026/27 allocations to the local government sphere from 2024 to the 2025 Division of Revenue Bill. The table shows that 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 percent. In total, local government transfers for the 2025/26 financial year decreased relative to its baseline in the 2024 Division of Revenue Bill at 0.5 percent.

Table 5: Local government allocations

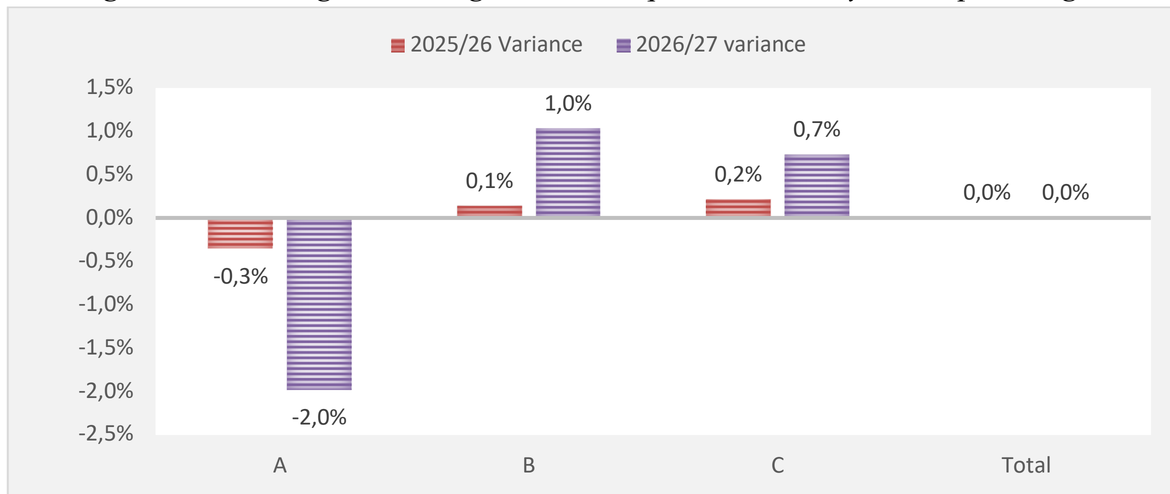
	2025/26			2026/27		
	2024 Budget	**2025 budget**	**% Change**	**2024 Budget**	**2025 budget**	**% Change**
Equitable share	106.1	106.1	0.0%	110.7	110.7	0.0%
Conditional grants	54.3	53.5	-1.5%	55.1	56.4	2.4%
Total	160.4	159.6	-0.5%	165.7	167.1	0.8%

Source: Division of Revenue Bill 2024 and 2025; FFC Own Calculations

Local government equitable share

6.3. Figure 19 below shows the variations of the local government equitable share allocations between the 2024 and 2025 Division of Revenue Bills for the 2025/26 and 2026/27 financial years. Data show that 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 percent, to category B local, and C district municipalities.

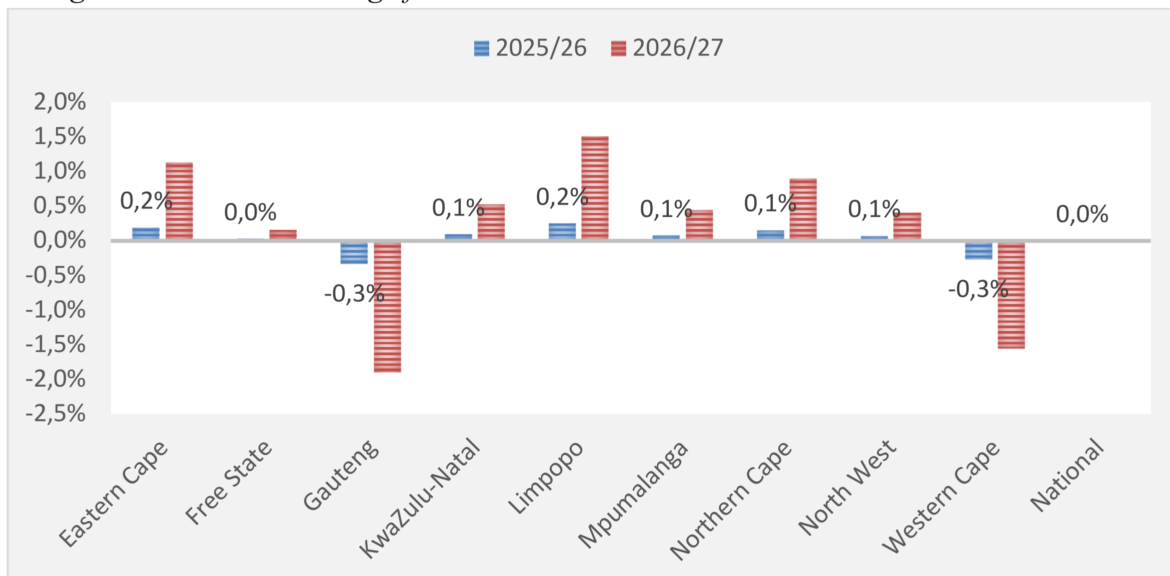
Figure 19: %Change in Local government equitable share by municipal categories



Source: Division of Revenue Bill 2024 and 2025; FFC Own Calculations

6.4. Figure 20 below shows the percentage changes to local government equitable share allocations to municipalities in provinces. 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 percent in the 2025/26 financial year. The two most rural provinces in the country (Limpopo and Eastern Cape), are benefiting the most from the redistribution of the local government equitable share.

Figure 20: LGES %Change for 2025/26 and 2026/27 FY between 2024 and 2025 MTEF



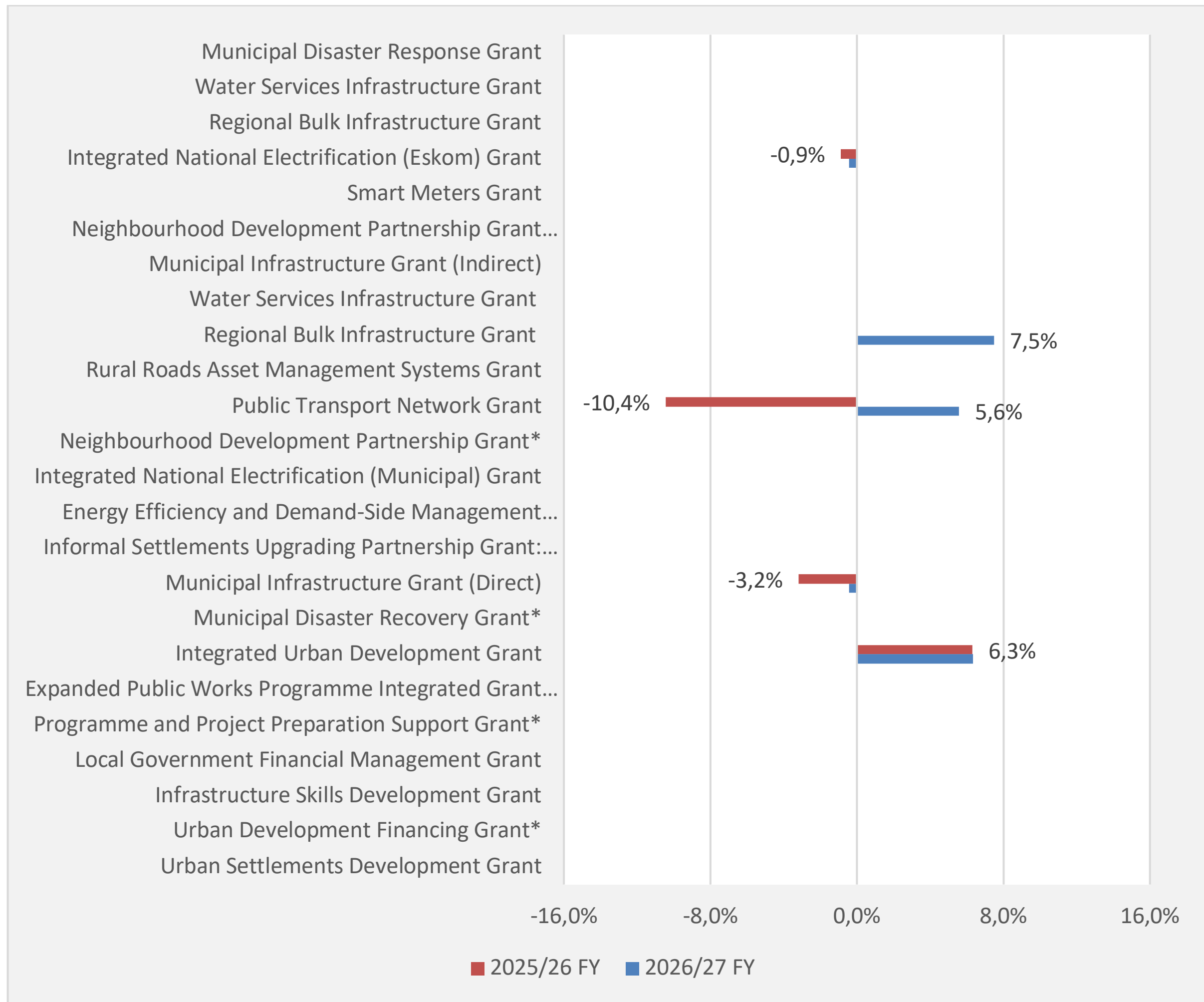
Source: Division of Revenue Bill 2024 and 2025; FFC Own Calculations

Local government conditional grants

6.5. 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 Commission notes that 20 percent of the Programme and Project Preparation Support Grant (National Treasury) funding is split (as opposed to "merge") into the newly established Neighbourhood Development Partnership Grant (National Treasury) for non-metro municipalities. While the remaining 80 percent to the new Urban Development Financing Grant (National Treasury) for metropolitan cities in the 2025 Division of Revenue Bill.

6.6. Figure 21 below presents the percentage changes in conditional grant allocations for the 2025/26 and 2026/27 financial years between the 2024 and 2025 Division of Revenue Bills. 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 a 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 percent in 2025/26 is due to the shift of R245 million over the MTEF to the integrated urban development grant at 6.3 percent. An additional R225 million in 2026/27 to the regional bulk infrastructure grant allocation for Drakenstein Local Municipality at 7.5 percent.

Figure 21: Budget %Change for 2025/26 and 2026/27 FY between 2024 and 2025 MTEF



Source: Division of Revenue 2024 & 2025.

6.7. 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 percent) and increase of R425 million in 2026/27 (5.6 percent). 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.

6.8. The reduction in the indirect, Integrated National Electrification Programme (Eskom) Grant of 0.9 percent 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.

Recommendations

Concerning 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.*