

PRESENTED BY:  
**National Treasury: IGR**  
Intergovernmental Policy and  
Planning

# PROVINCIAL & LOCAL GOVERNMENT EQUITABLE SHARE

*Standing Committee of Appropriations*  
*17 September 2024*



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Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA



# Outline

## Provincial Equitable Share

- Provincial Equitable Share Formula

## Impact of the 2022 Census – PES Formula

## Provincial Equitable Share Formula Review

## Overview of the Local Government Equitable Share formula

## Components of the Local Government Equitable Share formula

- Basic services component
- Community services component
- Institutional component
- Revenue adjustment factor

## Impact of the 2022 Census – LGES formula

## Refinements to the Local Government Equitable Share formula

# PROVINCIAL EQUITABLE SHARE



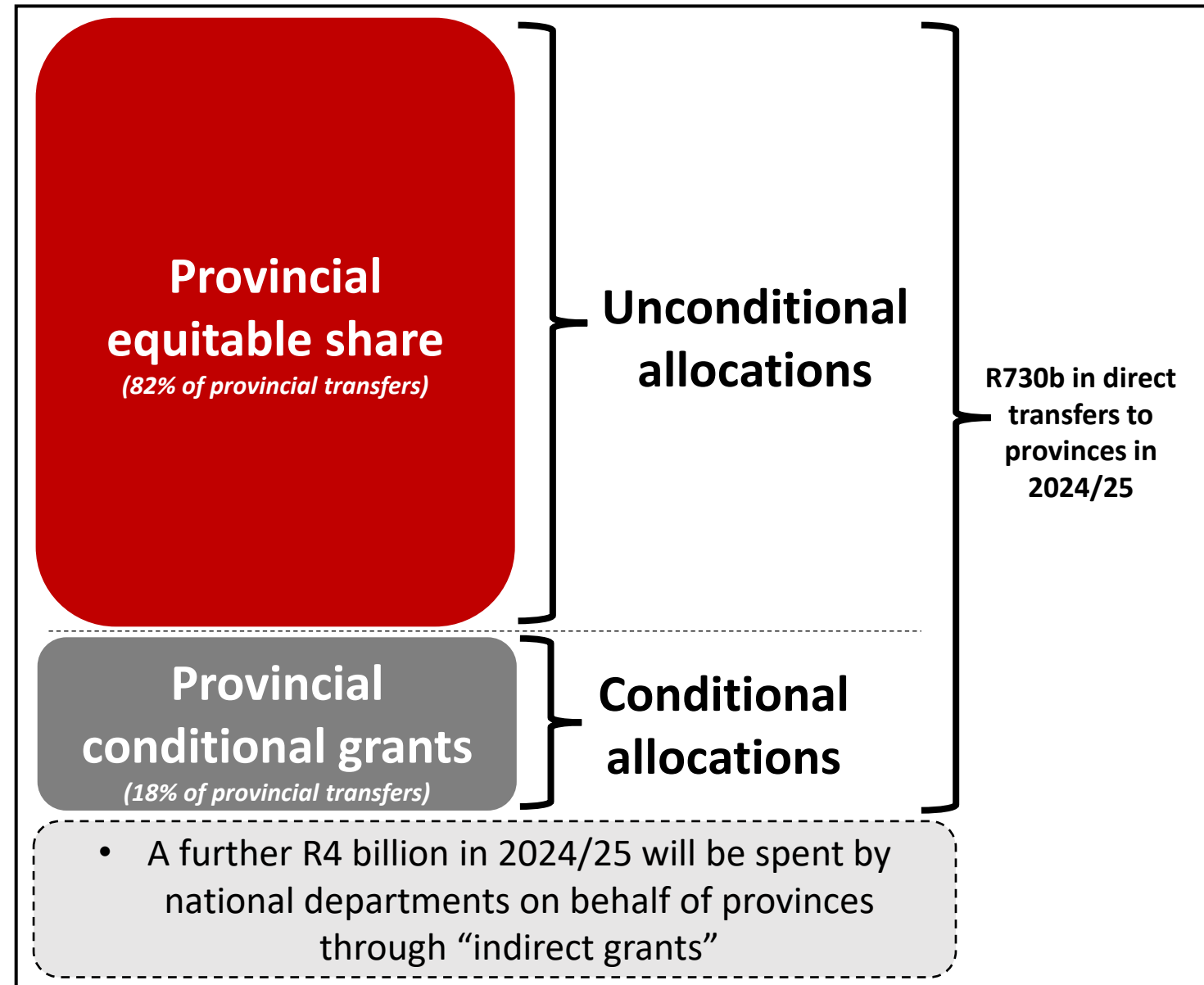
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# Overview – Transfers to provincial government

- National transfers to provinces account for over approximately **90 per cent of provincial revenue**
- **PES** - is the largest transfer of national revenue to provinces
  - Constitutes 82 per cent of national transfers to provincial government
  - Ensures provinces have the necessary resources to fulfill constitutional responsibilities and deliver essential services
  - Unconditional transfer – provinces allocate resources based on their local needs and priorities
- While the PES ensures basic resource allocation - **supplemented by conditional grants** that target specific national priorities



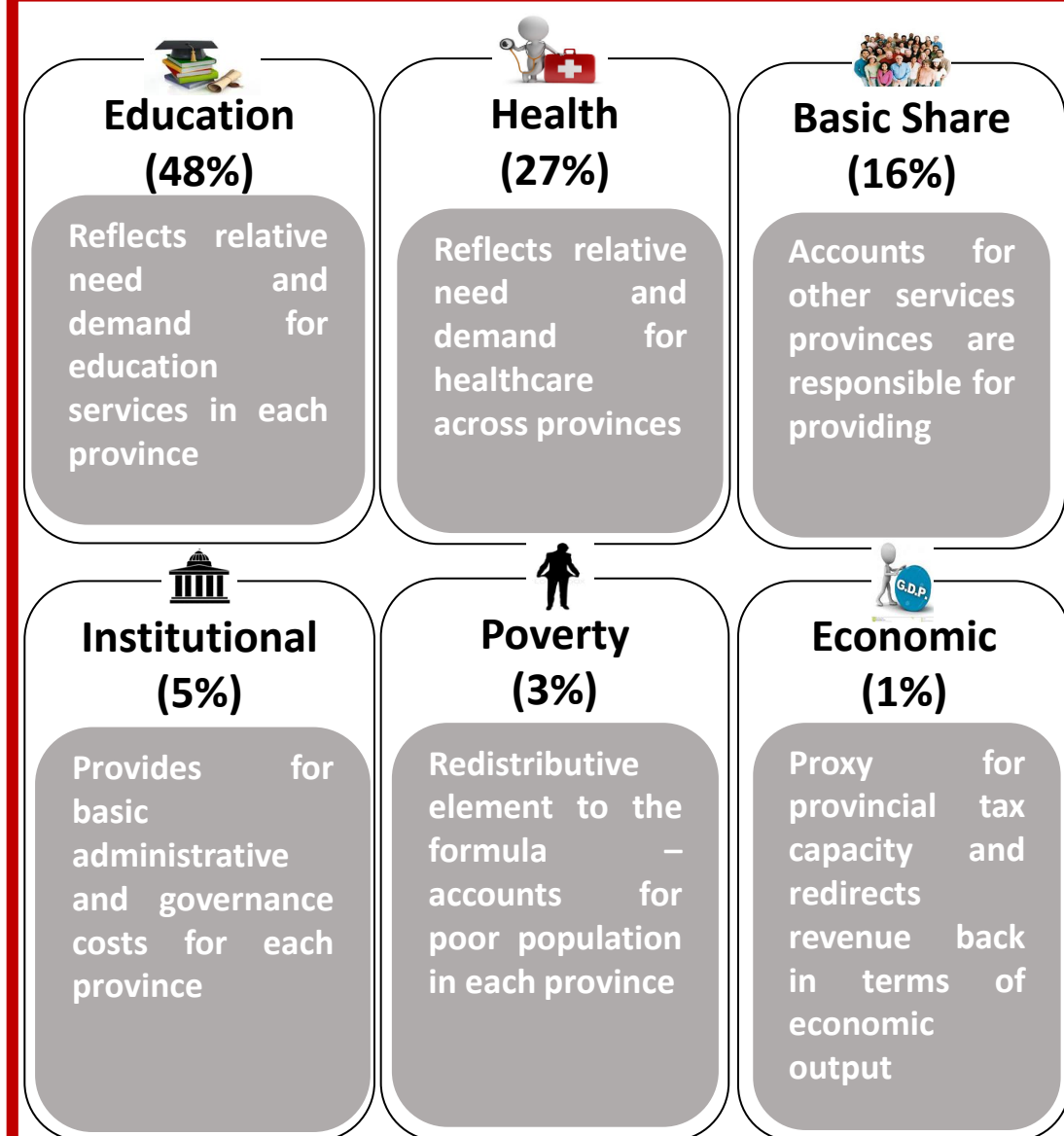
# Principles that guide the PES formula and PES Formula Review

<b>Equitable and fair</b>	Allocations must be based on the legitimate burden faced by each province in delivering their functions - a similar quality of services should be delivered to all South Africans, regardless of where they reside
<b>Objective and Impartial</b>	Data that informs the formula should not be vulnerable to manipulation, and the formula should not reward policy choices of provinces one way or another
<b>Responsive (Dynamic)</b>	Formula must have the flexibility to respond to changes – it should be able to enable smooth updating of data and be able to respond to policy adjustments
<b>Stable and predictable</b>	Provinces must be afforded a degree of certainty about their allocations over a three year period in order to enable them to plan and budget effectively
<b>Robust and sustainable</b>	Formula should be designed for the long-term and be capable of ensuring equitable allocations even under difficult circumstances, without needing to amend the formula
<b>Based on assigned functions</b>	The allocation formula must be cognizant of the legally prescribed functional responsibilities that provinces shoulder
<b>Avoid perverse incentives</b>	The formula must not reward inefficiencies in provinces, nor should it penalise efficiencies
<b>Transparent and simple</b>	The formula and information about how allocations are derived must be transparent and available to provinces and the general public - this will make the allocations, replicable by any interested parties
<b>Consistent with policy</b>	The formula must be consistent with policies set by national departments and not set new ones
<b>High quality data</b>	Given the importance of quality data, data will only be considered high quality if it is, official, frequent, reliable, valid and verifiable

# Provincial equitable share – components (1 of 3)

- Allocated through a formula
  - Ensures the **equitable distribution** of national resources based on the diverse needs of provinces
- Consists of 6 components which serve as a guide to allocate the equitable share - neither indicative of budgets nor guidelines as to how much should be spent
  - Education and health, is based on the demand and the need for education and health services
  - Other four components enable provinces to perform their other functions
- The formula is based on objective data - each component is updated annually to reflect changes in relative demand for public services across provinces

## Provincial Equitable Share Formula - Components



# Provincial equitable share – data informing components (2 of 3)

- Two main types of data sources - **official data** from Stats SA and **administrative data** from the NDoH and DBE
- The **formula** is updated annually with the most recent data available from these sources to ensure fairness in the allocations

## Provincial Equitable Share Formula - Data

### Education (48%)

School-going age population (50%)



- Number of children who are of a school-going age
- **Data source:** Mid-year population estimates (Stats SA)

School enrollment (50%)



- Number of learners enrolled in schools
- **Data source:** Learner Unit Record Information and Tracking System (DBE)

### Health (27%)

Health risk profile each province (75%)



- Population without medical aid, adjusted for health risk
- **Data source:**
  - Mid-year population estimates (Stats SA)
  - General household survey (Stats SA)
  - Mortality and causes of death report (Stats SA)
  - Council for medical schemes annual report (CMS)

Patient load data (25%)



- Number of clinic visits (5%)
- Number of hospital visits (25%)
- **Data source:** District Health Information System (NDoH)

### Basic Share (16%)



Share of each province's national population

- Number people in each province
- **Data source:** Mid-year population estimates (Stats SA)

### Institutional (5%)



Divided equally amongst provinces

- No data is used for this component

### Poverty (3%)



Share of each province's poor population

- Number of poor people in each province
- **Data source:**
  - Mid-year population estimates (Stats SA)
  - Income and expenditure survey (Stats- SA)

### Economic (1%)



Share of each province's GDP

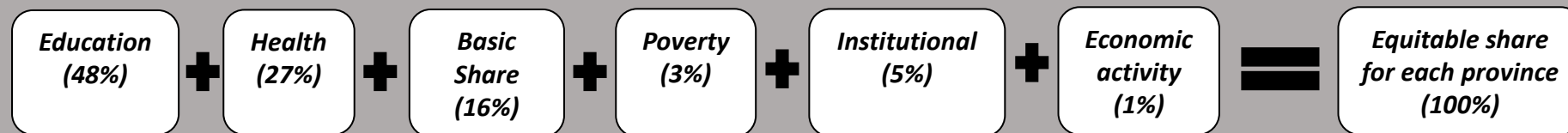
- Regional GDP
- **Data source:** Growth Domestic Product Statistical Release (Stats SA)

# Provincial equitable share – guide for resource allocation

(3 of 3)

- The PES is therefore **purely based on data of the different components**
  - The formula is **not based on** and does not determine the cost of services or mandates that are **carried out by the provinces**
  - The formula is merely **used as a guide** and provinces are then responsible for determining the allocations for the different sectors
  - As mentioned previously **provinces allocate resources based on their local needs and priorities**
- Any pressures that provinces are facing in delivering on their functions or mandates, have to be considered as part of the annual budget process
  - This is will have to be done in light of the fact that government is functioning under a constrained fiscal environment

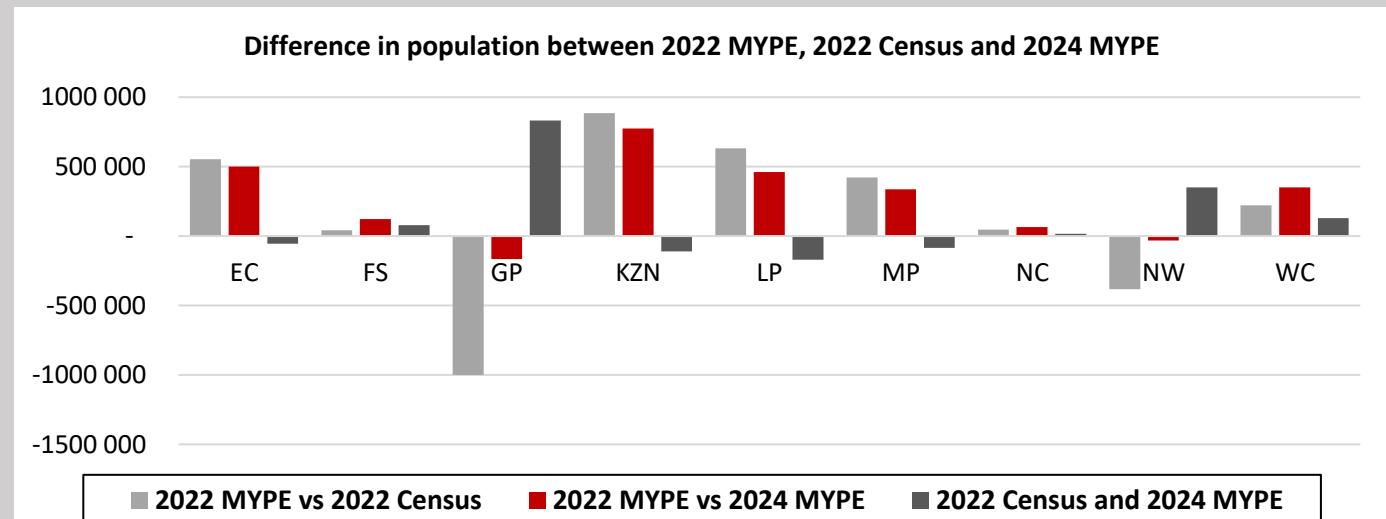
The combination of these components are then utilised to determine each province's weighted share



# 2022 Census data and its impact on PES

- The 2024 MTEF utilised 2022 Mid-Year Population Estimates data to make updates to the PES formula
  - Possibility of 2022 Census data informing the formula data was deferred to 2025 MTEF
  - A significant amount of the data required for the formula was unavailable at the time of updating the formula
- During the course of 2024, National Treasury began the process of liaising with StatsSA on the availability of the 2022 Census data for the purposes of the PES formula
- More recently StatsSA has also released updated population estimates through the 2024 Mid-Year Population Estimates
  - Given that one of the principles underpinning the PES formula is to use the latest available data, the 2024 Mid-Year Population Estimates will be used to update all relevant components of the PES formula
- Regional GDP numbers are expected to be released by StatsSA in Sept 2024
- The 2025 MTEF PES allocations per province will be released as part of the 2024 MTBPS

**Comparison of population for 2022 MYPE, 2022 Census and 2024 MYPE** - preliminary comparison of 2022 MYPE to 2022 Census and 2024 MYPE reveal similar patterns of increases or decreases for provinces, but the differences in the 2024 MYPE seem to be smaller for most provinces than for the 2022 Census. Comparison of 2022 Census to 2024 MYPE shows vastly different results - for example where some provinces' population increased in previous comparison, they are now showing negative growth rates



# PROVINCIAL EQUITABLE SHARE REVIEW



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# PES Formula review - background (1 of 2)

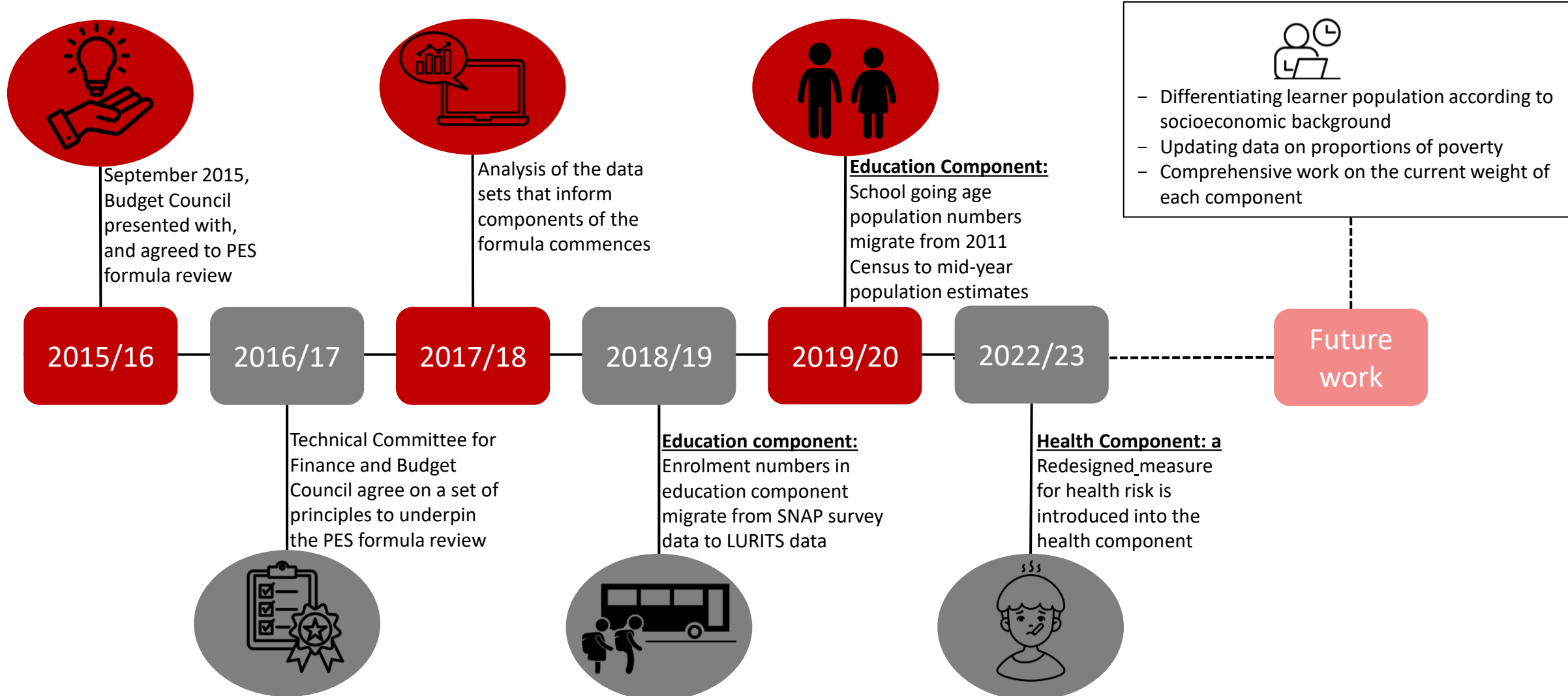
- The PES formula has been under review since September 2015
- The review is being carried out by a task team comprising of representatives from National Treasury and provincial treasuries
  - Relevant sector departments [NDoH, Stats SA and DBE] are co-opted into the review, as and when the need arises
- The purpose of the review is to assess the current data that informs the formula and the structure of each component
  - Phase 1 reviewed all the datasets that inform the current formula - using credible, verifiable and up to date data ensures that the components respond to demand on the ground
  - Phase 2 consists of technical work done to improve the components in the current structure of the PES formula
- The review is guided by a set of principles and changes are made as the review is being carried out
  - A set of principles to underpin the review were previously adopted by the Technical Committee for Finance
  - The Budget Council also adopted a decision that changes to each of the components will be made to PES formula in a phased manner, while the review is ongoing

## Principles for the review of the PES Formula

- Equitable and fair
- Objective and Impartial
- Responsive (Dynamic)
- Stable and predictable
- Robust and sustainable
- Based on assigned functions
- Avoid perverse incentives
- Transparent and simple
- Consistent with policy
- High-quality data that is official, frequent, reliable, valid and verifiable

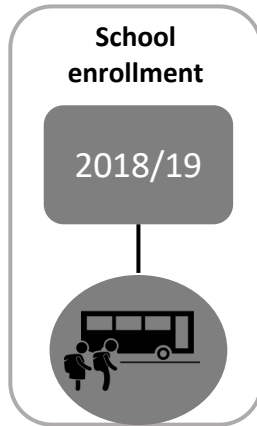
# PES Formula review – progress (2 of 2)

Several changes have been made to the formula emanating from the recommendations made on the review of the formula

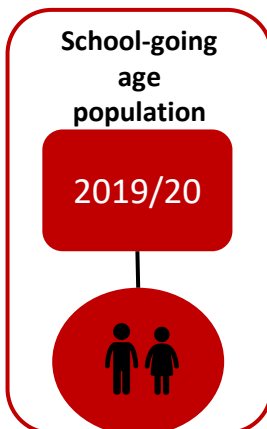


# Education Component – details of previous changes (1 of 2)

## Changes were made to the data that informs the education component as part of the review



- In **2018/19** major changes were made to improve the data in the **enrolment subcomponent** - transition was necessitated by an improvement in the learner tracking system
- DBE moved from collecting enrolment data through the School Reality Survey to a new tracking system - LURITS
- LURITS allows data to be verified and learner's progress to be tracked through schooling careers



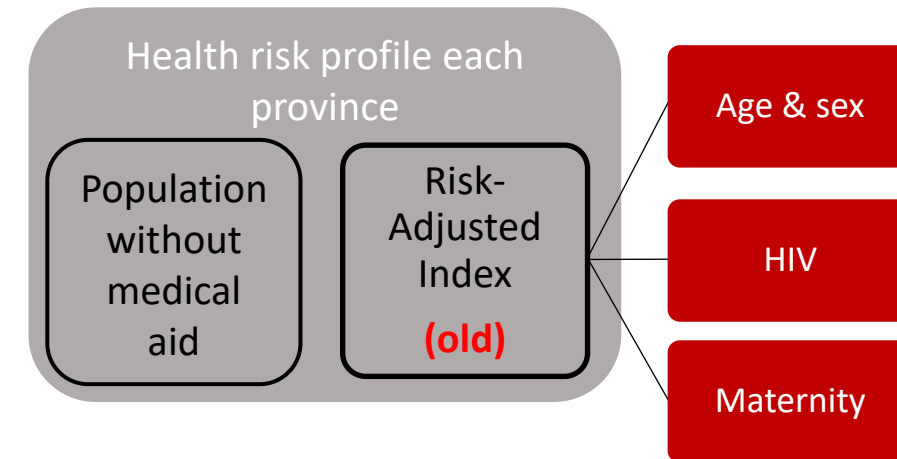
- In **2019/20** it was decided that 2011 Census numbers used to capture **5-17 age cohort** be replaced with Mid-Year Population Estimates
- Transition from 2011 Census to Mid-Year Population Estimates has assisted in ensuring that the school going age is frequently updated
- Furthermore, this change will mitigate for shocks that occur when making updates after a lag between Censuses

# Education Component – future work (2 of 2)

- The National Treasury in collaboration with the DBE and Stats SA has continued to undertake the process of exploring options available to improve the current structure of the education component
- Two reforms are proposed to the enrolment subcomponent – **inclusion of learners with special needs from special needs centres in the enrolment numbers and differentiation amongst learners**
- **Learners with Special Needs in Special Needs Centres**
  - These learners are currently not included in the enrolment numbers – legacy of how the old School Realities Survey collection method which did not collect data on special need schools
  - LURITS now caters for this data to be collected – the inclusion of these learners in the enrolment figures were deferred pending the conclusion of the work to improve the current enrolment component
- **Differentiation amongst learners**
  - Although all learners are funded through the PES, the current education component treats all learners the same - proposals were made on accounting for differentiation of learners in the education component
  - Meetings were held with DBE and the PES formula task team to take some of the proposals forward
  - Task team broadly agreed with the proposed approach of using weights that would differentiate learners in terms of different categories
  - Significant progress has since been made and a consultation process is underway

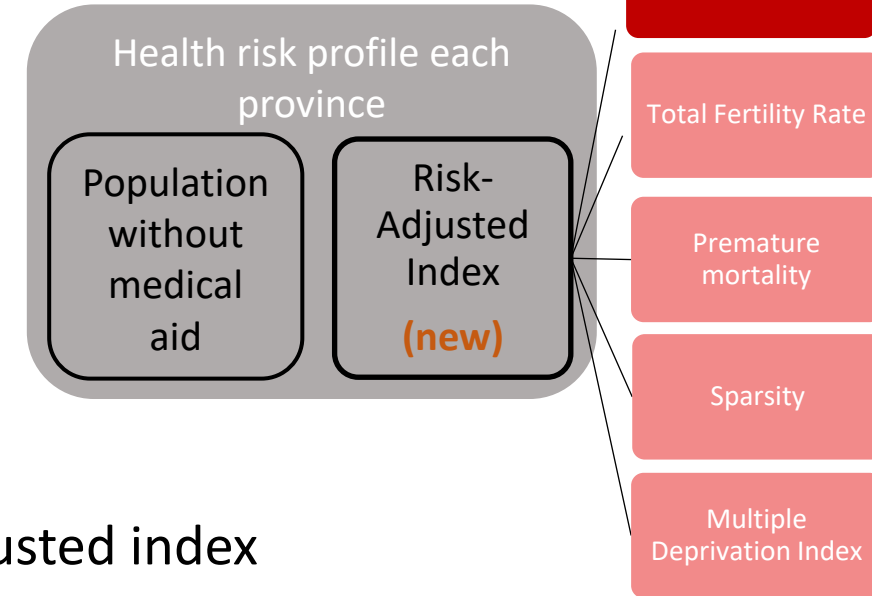
# Health Component – details of previous changes (1 of 2)

- The health component uses a risk-adjusted sub-component
  - Estimates a weighted population in each province using the risk-adjusted index and population without medical aid
  - The risk-adjusted index, which is an index of each province's health risk profile, is applied to the uninsured population to estimate the weighted population
- Risk-adjusted index was introduced into the health component in a previous review of the formula in 2010 - had not been updated since
- In the previous risk adjusted index, the following data was used to account for the health risk profile:
  - Data on the consumption of healthcare services, disaggregated by age and gender, was used to estimate the relative cost of the healthcare needs of the population for each province
  - For the purposes of the health component, the risk-adjusted index also accounted for the burden of delivering healthcare services to population living with HIV and maternity



# Health Component – details of previous changes (2 of 2)

- In the 2022 MTEF, changes were made to the health component - a newly redesigned risk-adjusted index was introduced into the formula
- Selecting the variables to improve the index was guided by the following principles:
  - Evidence based
  - Represent material differences in healthcare needs between provinces
  - Use data that is easily updateable and that had to be drawn from official statistics
- Extensive technical work was carried out to redesign the risk-adjusted index
- The redesigned risk-adjusted index retains the previous variables that were used and added three more
  - Age and sex – measures relative resource requirements of providing health care by age and sex
  - Total fertility rate – considers the additional burden of providing health care services to pregnant women
  - Premature mortality – serves as a proxy for the burden of all diseases, including HIV
  - Sparsity – accounts for the additional costs of delivering healthcare services in areas of low population density
  - Multiple deprivation index – captures the differences in the social determinants of health between provinces that have a bearing on the health of the population



# LOCAL GOVERNMENT EQUITABLE SHARE



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# OVERVIEW OF THE LOCAL GOVERNMENT EQUITABLE SHARE FORMULA



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# Principles of the Local Government Equitable Share (LGES) formula



Be objective and fair



Be dynamic and able to respond to changes



Recognise diversity among municipalities



Only use high quality, verifiable and credible data



Be transparent and simple



Provide for predictability and stability

# LGES formula

The LGES is allocated through a formula that has two objectives:

Enable municipalities to provide basic services to poor households

Enable municipalities with limited own resources to afford basic administrative and governance capacity and perform core municipal functions

Formula annually updated for:

Household growth

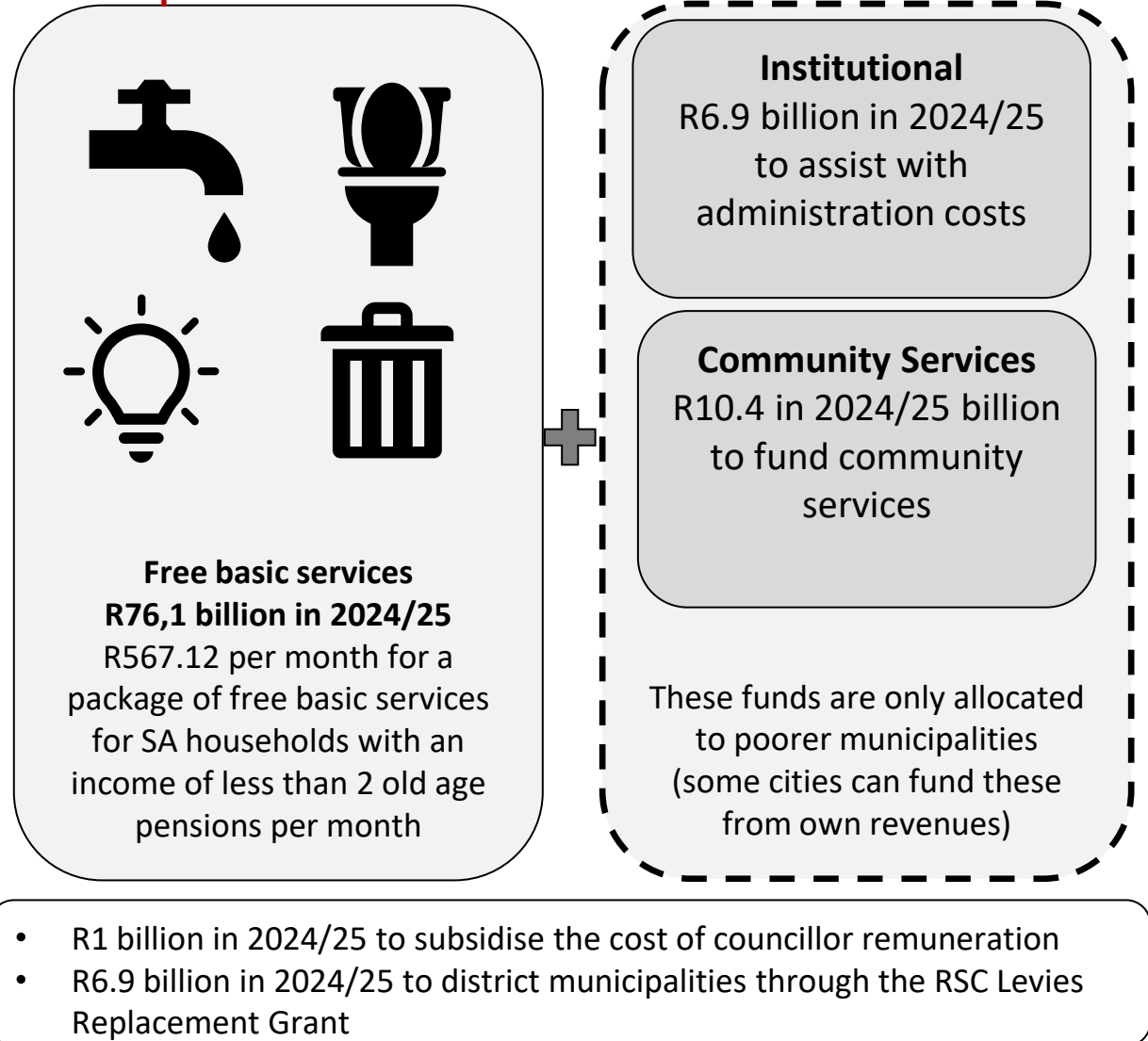
Bulk water costs

Bulk electricity

Projected CPI for other costs

Unconditional transfer means that municipalities are accountable for ensuring free basic services are provided to their residents

**Formula divides LGES allocation among the 257 municipalities**



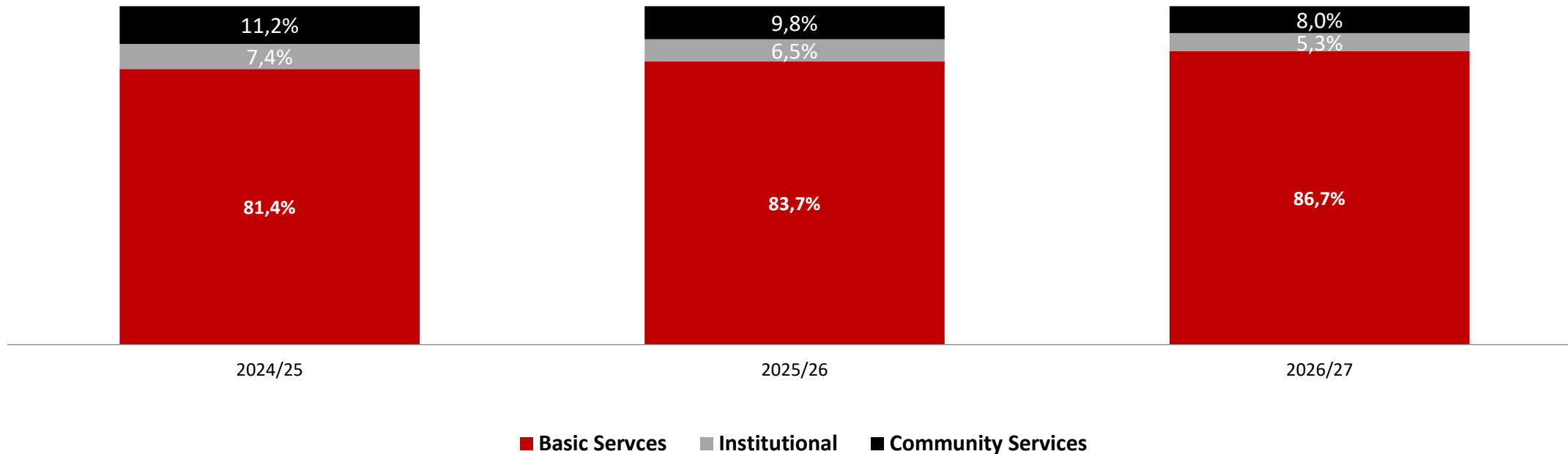
# Size of the different components of the LGES formula

Total  
formula:

R93.4 bn

R98.1 bn

R102.3 bn



- Default position of the LGES formula is to fully fund the Basic Services Component first

## Basic Services Component (1 of 3)

- Policy norms for the provision of free basic services



Free Basic Water - policy provides for **6kl** per household per month



Free Basic Sanitation – policy provides for access to sanitation (infrastructure should be VIP or better)



Free Basic Energy - policy provides for **50kWh** of electricity per household per month or free basic alternative energy (e.g., candles, gel) where electricity is not available



Basic Refuse Removal - policy provides for weekly removal in urban areas and less frequent removal or self disposal in rural areas

## Basic Services Component (2 of 3)

The **affordability threshold** used in the formula is household income of R2300 per month

- Based on value of 2 state Old Age Pensions in 2011



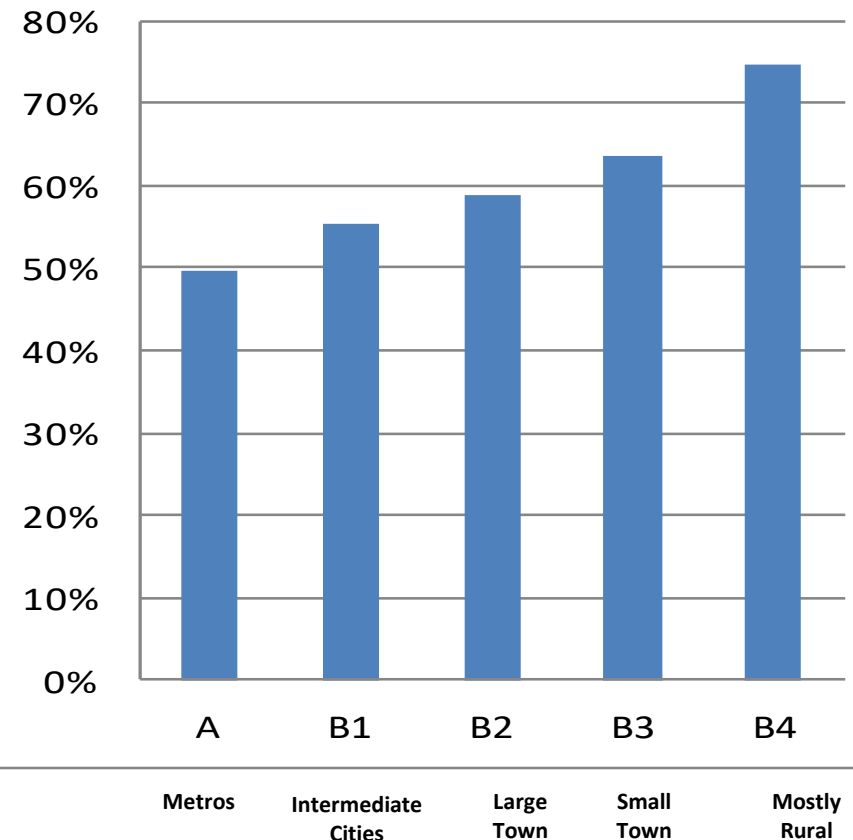
**59%** of all households in SA fall below this threshold



Must **not** be seen to be an official poverty line

Number of households is updated annually using average growth between 2001 and 2016 Community Survey per municipality (adjusted to balance with estimated national population growth – annual General Household Survey)

### % of HH below R2300 income level



Lowest proportion = 44%  
Highest proportion = 81%

## Basic Services Component (3 of 3)

**Subsidy of R567.12 per month for a package of free basic services**



Water: R196.24



Sanitation: R127.75



Energy: R136.03



Refuse removal: R107.09

**Includes 10% for maintenance**

**Provided for every household below the formula's affordability threshold (11.2 million in 2024/25)**

**Amounts are updated annually to reflect rising costs**

# Community Services Component



Allocated based on number of households in the municipality



Allocations for *municipal health* allocated to district municipalities



Allocations for all other services allocated to local municipalities



Average Community Services component allocation for selected types of municipalities (2024/25)

Large towns: R37.1 million

Small towns: R23.5 million

Rural municipalities: R89.4 million

**Revenue  
adjustment  
factor is  
applied**

# Institutional component



Provides funds for administration costs necessary to run a municipality



Allocated as follows:

Base allocation of R8 million for every municipality

Additional funds based on council size (recognises that bigger municipalities face more admin costs)



Average institutional component allocation for selected types of municipalities (2024/25)

Large towns: R18.9 million

Small towns: R16.8 million

Rural municipalities: R55.2 million

**Revenue adjustment factor is applied**

# Revenue adjustment factor

Ensures that funds from the Institutional and Community Services components only go to municipalities with limited own revenue

A statistical analysis was undertaken to assess the ability of municipalities to collect property rates given the following factors:

These factors were then used to construct an index to rank municipalities from greatest to lowest per capita revenue raising potential – only this measure of relative own-revenue raising ability is used in the formula

Total income of all individuals/households residing in a municipality

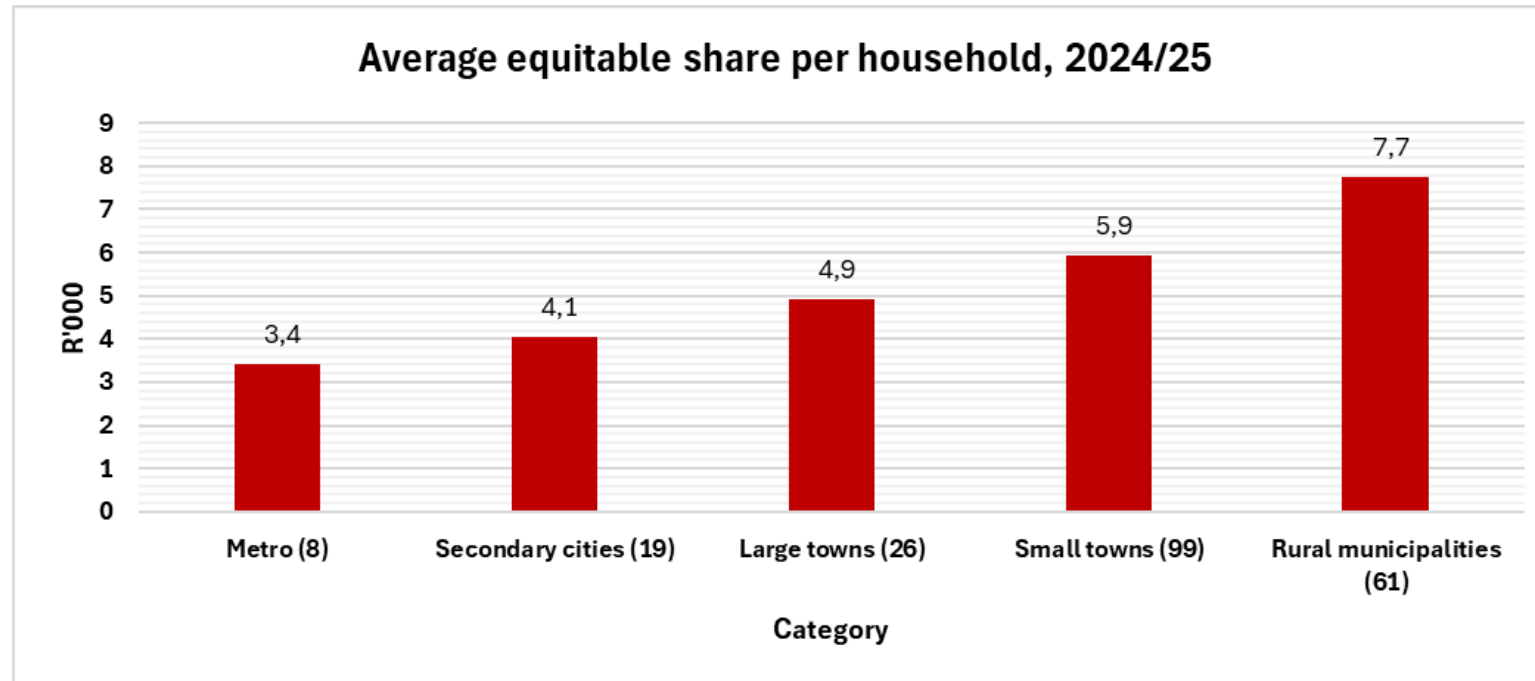
Reported property values

Number of households on traditional land

Unemployment rate

Proportion of poor households as percentage of total number of households in the municipality

# Redistributive nature of the LGES formula



- Though the tax base is concentrated in urban areas, rural areas receive more, per household, through the LGES
  - Transfers per household to the most rural municipalities are more than double those to metropolitan municipalities

# Impact of the 2022 Census on the LGES formula



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# Contributors to LGES formula



## Basic Services Component (84%)

- Number of poor households (Census, updated with data from the annual General Household Survey (GHS))

### NB:

- As per the formula's poverty threshold (current threshold of R2 300 per household per month (value of 2 old age pensions in 2011) to be increased to R4 400 per month (value of 2 old age pensions in 2024))
- The threshold is not an official poverty line or a required level to be used by municipalities in their own indigence policies



## Institutional Component (6%) (N/A)

- Number of Councillors (Gazetted by CoGTA)



## Community Services Component (10%)

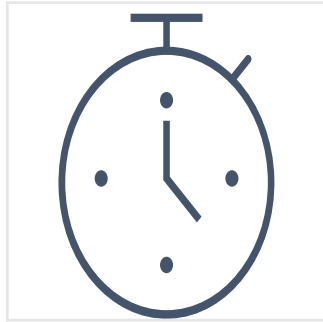
- Total number of households (Census updated with data from the GHS\*)



## Revenue Adjustment Factor (applied to institutional and community services components)

- Total income of all individuals/households in a municipality [as a measure of economic activity and earning] (Census and or Income and Expenditure Survey [IES])
- Reported property values (Census)
- Number of households on traditional land (Census)
- Unemployment rate (Census and/or IES)
- Proportion of poor households as a percentage of the total number of households in the municipality (Census and/or IES)

# Considerations to circumvent delays in the release of the outstanding data



## Time pressure

- Municipal level data is anticipated to be released later in year
- To allow for the necessary impact analysis, **the latest it can be received is October**



## Recommendation

- Should there be a delay in the release and analysis of data, it is proposed that the **formula be partially updated**:
  - update to account for the total number of households reported in the 2022 Census but retain the poverty ratios from the 2011 Census
  - this will allow the formula to also account for the growth estimates from the annual GHS

# Current LGES household numbers vs. 2022 Census

Province	2024 LGES Household Numbers	2022 Census Household numbers	Difference	Overcount (greater than 3%)/Undercount
Eastern Cape	1 872 095	1 838 960	(33 136)	1,8%
Free State	1 041 273	845 250	(196 023)	23,2%
Gauteng	5 951 770	5 318 672	(633 097)	11,9%
KwaZulu-Natal	3 236 175	2 853 741	(382 434)	13,4%
Limpopo	1 805 954	1 811 565	5 611	-0,3%
Mpumalanga	1 454 676	1 421 721	(32 955)	2,3%
Northern Cape	397 187	333 553	(63 634)	19,1%
North West	1 456 970	1 141 284	(315 686)	27,7%
Western Cape	2 225 374	2 264 032	38 658	-1,7%
<b>Total</b>	<b>19 441 475</b>	<b>17 828 778</b>	<b>(1 612 697)</b>	<b>9,0%</b>

Category	2024 LGES Household Numbers	2022 Census Household numbers	Difference	Overcount (greater than 3%)/Undercount
A	8 903 584	7 966 549	(937 036)	11,8%
B1	3 125 301	2 681 203	(444 098)	16,6%
B2	1 624 747	1 591 553	(33 194)	2,1%
B3	2 477 842	2 265 349	(212 493)	9,4%
B4	3 310 001	3 324 125	14 124	-0,4%
<b>Total</b>	<b>19 441 475</b>	<b>17 828 778</b>	<b>(1 612 697)</b>	<b>9,0%</b>

- LGES household numbers over a 10-year period (2013-2024) are higher than the Census (also covering a 10-year period [2011-2022])
  - 1.6 million more households in the 2024 LGES formula
- All but the estimates for B4 municipalities (**dense rural**) have been under-estimated in the LGES formula
- Significant over-estimates for metros, particularly for Nelson Mandela Bay, Mangaung the City of Johannesburg and eThekweni

Metro	2024 LGES Household Numbers	2022 Census Household numbers	Difference	Overcount (greater than 3%)/Undercount	
EC	Buffalo City	270 390	268 438	(1 952)	0,7%
EC	Nelson Mandela Bay	406 720	307 931	(98 789)	32,1%
FS	Mangaung	297 147	229 426	(67 721)	29,5%
GT	City of Ekurhuleni	1 550 738	1 421 003	(129 735)	9,1%
	City of Johannesburg	2 252 623	1 841 917	(410 706)	22,3%
	City of Tshwane	1 389 996	1 322 252	(67 745)	5,1%
KZN	eThekweni	1 278 375	1 122 738	(155 637)	13,9%
WC	City of Cape Town	1 457 595	1 452 845	(4 751)	0,3%
<b>Total</b>	<b>8 903 584</b>	<b>7 966 549</b>	<b>(937 036)</b>	<b>11,8%</b>	

# LGES household growth vs. Census

Province	LGES growth rate (2013-2024) [over 10 years]	Census growth rate (2011- 2022)	Difference
Eastern Cape	1,0%	0,9%	-0,2%
Free State	2,4%	0,3%	-2,1%
Gauteng	4,3%	3,1%	-1,2%
KwaZulu-Natal	2,5%	1,2%	-1,3%
Limpopo	2,4%	2,5%	0,0%
Mpumalanga	3,1%	2,8%	-0,2%
Northern Cape	2,8%	1,0%	-1,8%
North West	3,2%	0,7%	-2,5%
Western Cape	3,1%	3,3%	0,2%
<b>National</b>	<b>2,8%</b>	<b>1,8%</b>	<b>-1%</b>

- Census household growth is slower than LGES growth estimates, particularly for metros, intermediate cities and B3 (**small town**) municipalities
- Growth rates for Buffalo City and the City of Cape Town have been underestimated in the LGES formula

	LGES growth rate (2013-2024) [over 10 years]	Census growth rate (2011- 2022)	Difference
<b>A</b>	3,2%	1,9%	-1%
<b>B1</b>	3,5%	2,0%	-2%
<b>B2</b>	2,8%	2,7%	0%
<b>B3</b>	2,5%	1,4%	-1%
<b>B4</b>	1,0%	0,8%	0%

	Metro	LGES Formula	Census	Difference
<b>EC</b>	Buffalo City	1%	1,5%	0,0%
	Nelson Mandela Bay	2%	-0,5%	-2,6%
<b>FS</b>	Mangaung	2%	-0,5%	-2,4%
<b>GT</b>	City of Ekurhuleni	4%	3,4%	-0,6%
	City of Johannesburg	4%	2,5%	-1,7%
	City of Tshwane	4%	3,8%	-0,1%
<b>KZN</b>	eThekweni	3%	1,5%	-1,1%
<b>WC</b>	City of Cape Town	3%	3,1%	0,3%

# Partial update of the LGES formula

- Balancing of Census growth and the annual General Household Survey (GHS) estimates to produce provincial GHS ratio
  - Growth rate between the 2001 Census and 2022 Census annualised and updated to produce 2025 MTEF estimates
  - Growth rate between the 2002 and 2023 GHS annualised and updated to produce 2025 MTEF estimates
- Phase-in of the 2022 Census data
  - Determination of the provincial GHS ratio remains as outlined above
  - For moderated annual growth, by municipality, the 2022 census numbers are phased-in (Scenario 2: Over 3 years, Scenario 3: Over 5 years)

**NB: Poverty ratio remains based on the 2011 Census**

# IMPACT OF UPDATING THE LGES FORMULA WITH 2022 CENSUS

## Scenario 1: No Phase-in

- While on aggregate there is a 90 per cent guarantee of indicative allocations for all municipal categories, some municipalities will receive less than 90 per cent, lowest in the 50s **(likely to be disruptive)**

		Revised allocations as % of indicative baselines		
		2025/26	2026/27	2027/28
<b>No. of households updated: Pre Phase-in</b>				
A	Metros	95,1%	97,1%	99,2%
B1	Intermediate cities	92,8%	94,0%	95,4%
B2	Large Towns	108,6%	108,6%	108,9%
B3	Small Towns	100,7%	99,3%	98,4%
B4	Dense rural	110,4%	107,0%	103,6%
C1	Districts without water function	106,7%	103,6%	101,8%
C2	Districts with the water function	100,3%	101,0%	101,9%

## Scenario 2: 3- Year Phase-in

- While on aggregate there is a 90 per cent guarantee of indicative allocations for all municipal categories, some municipalities will receive less than 90 per cent, lowest at 75 per cent **(also likely to be disruptive)**

		Revised allocations as % of indicative baselines		
		2025/26	2026/27	2027/28
<b>No. of households updated: 3-Year Phase-in (1/3, 2/3 and 3/3)</b>				
A	Metros	103,8%	99,4%	95,1%
B1	Intermediate cities	101,6%	97,2%	92,9%
B2	Large Towns	101,0%	104,9%	109,4%
B3	Small Towns	96,5%	98,7%	101,5%
B4	Dense rural	92,8%	101,7%	112,5%
C1	Districts without water function	93,3%	100,0%	110,0%
C2	Districts with the water function	101,8%	101,0%	100,4%

## Scenario 3: 5 Year Phase-in

- Less disruptive but disadvantages B4 (dense rural) municipalities, of which population has been underestimated over the last 10 years

		Revised allocations as % of indicative baselines		
		2025/26	2026/27	2027/28
<b>No. of households updated: 5-Year Phase-in (1/5, 2/5 and 3/5)</b>				
A	Metros	105,6%	102,9%	100,3%
B1	Intermediate cities	103,3%	100,7%	98,2%
B2	Large Towns	99,5%	101,8%	104,7%
B3	Small Towns	95,6%	96,8%	98,8%
B4	Dense rural	89,2%	93,9%	100,8%
C1	Districts without water function	90,6%	93,8%	100,7%
C2	Districts with the water function	102,2%	101,7%	101,3%

**NB: Analysis is on-going to find a measure to allow for a 90 per cent guarantee of indicative allocations for each municipality**

# Review of the LGES formula



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA



# Review of the Local Government Equitable Share

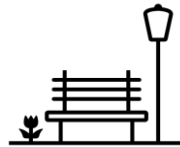
- Due to the unavailability of credible and comprehensive data for certain aspects of the formula when the LGES was last reviewed in 2012/13, it was resolved that these would be **refined** once data becomes available



## Basic services component

**Issue:** Use a single subsidy model, not accounting for varying contexts and how these affect the cost of providing services

- The review seeks to determine the extent to which the formula can account for differentiation



## Community services component

### Issues:

- Only directly funds municipal health and related services, at a single subsidy per household at district level, and a general allocation for "other" undefined services, at local municipality level
- Due to the adjustment of functions between district and local municipalities, these allocations are not entirely aligned to the assignment of the functions of each municipality
- The review seeks to:
  - update the costing of municipal health services
  - cost the provision of firefighting services, determine the feasibility of creating a sub-component for it and allocating it based on the assignment of the function



## Institutional component

**Issue:** Not based on criteria directly related administrative functions

- The review seeks to establish objective criteria for benchmarking municipalities' administrative functions



## Revenue adjustment factor

- While the current approach to estimating revenue potential is similar to the representative tax system or representative revenue system (RRS) method used to estimate revenue capacity and is in line with international best practice, the review seeks to explore latest or more innovative methods to improve on the current methodology

**National Treasury is in the process of finalising the Terms of Reference for the appointment of a service provider. Work is expected to commence in the last quarter of the 2024/25 financial year**

# Addressing unfunded mandates



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# Dealing with unfunded mandates

- **Not an issue that can be addressed through the PES and LGES**
- The concurrency of certain functions remains a problem:
  - The assignment of a function to a specific category of municipality, district municipalities in particular, does not necessarily result in the function being exclusively performed by the district municipality to which it is assigned
  - Where the local municipality also provides this service, the parties concerned do not always enter appropriate service level and funding arrangements; or adhere to the terms outlined
  - The same applies in instances where municipalities execute provincial functions on behalf of provinces
- Recourse required:
  - Clarification on the concurrency of functions and the implications on their execution
  - Strengthening of agency/service level agreements
- This matter will be addressed through the relevant structures/IGR forums

**THANK YOU**