

POLICY BRIEF NO. 8

Budget & Fiscal Federalism Series

A Review of Input Data in the Local Government Equitable Share

Executive Summary

Local government is mainly responsible for providing basic services, including water and sanitation, refuse removal, and electricity. Intergovernmental fiscal transfers, especially the local government equitable share (LGES), play a key role in ensuring that municipalities fulfil their mandates. The LGES formula relies heavily on data that determines how much each municipality receives from the local government funding pool. Therefore, accurate and available input data is key. Often, availability, reliability, and up-to-date data are debated and remain a challenge. This policy brief examines whether data used in the LGES formula is up to date and its impact on municipalities.

PUBLISHED: 2027 Division of Revenue cycle

FOCUS AREA: Local government equitable share & data integrity

RELATED: Local Government Equitable Share formula; Division of Revenue Bill

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Background

The local government is mainly responsible for providing basic services, including water and sanitation, refuse removal, and electricity. Municipalities are expected to raise significant revenue from the provision of these services, but they differ widely in their ability to raise revenue due to several factors. Metropolitan municipalities and secondary cities are able to raise a significant amount of their own revenue from the services they provide compared to local municipalities. Intergovernmental fiscal transfers using the Local Government Equitable Share (LGES) instrument, therefore, play a key role in ensuring that municipalities fulfil their mandates. The LGES determines the shares each municipality receives from the local government funding pool and relies heavily on data. Therefore, accurate and available input data is key. Often, availability, reliability, and up-to-date data are debated and remain a challenge.

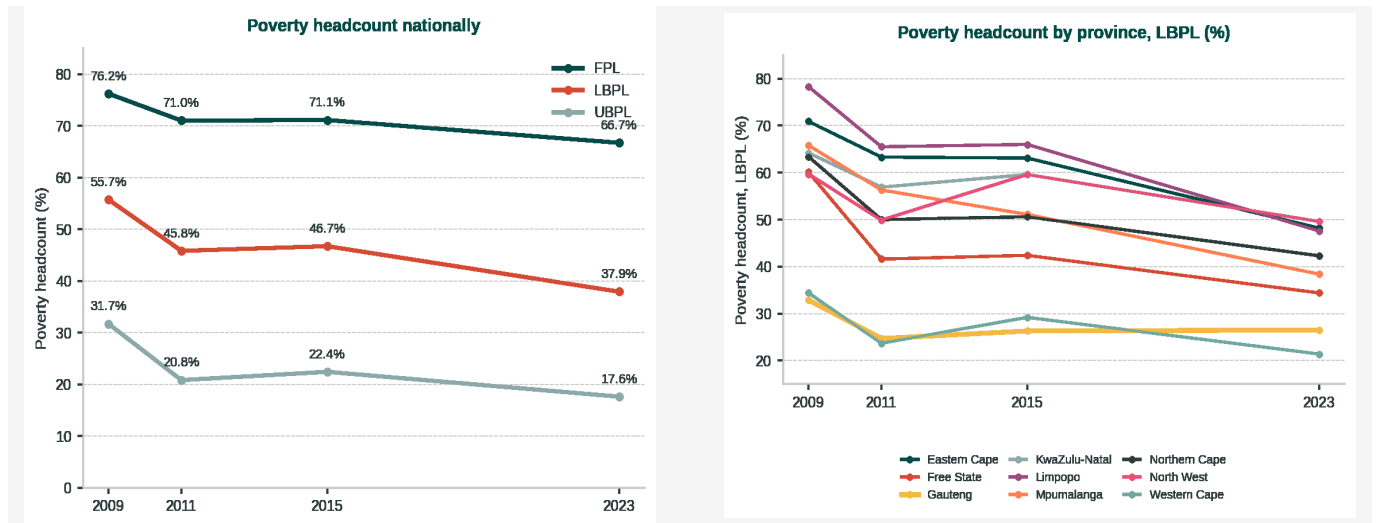
Research Findings

Data Used to Determine the Local Government Equitable Share

Among LGES, one key component is the basic services component, which aims to help municipalities provide free basic water, sanitation, electricity, and refuse removal services to households that fall below an affordability threshold. The LGES for this component uses an affordability measure to determine how many households need or qualify for free basic services, based on the levels of the two state old-age pensions. For example, if the old-age pension per month was R1,150, as in 2011, multiplying it by 2 yields R2,300 to determine a household's affordability.

Poverty levels change over time due to many factors. Currently, South Africa has three levels of the National Poverty Lines (food poverty line (FPL), upper-bound poverty line (UBPL), and lower-bound poverty line (LBPL)). It is therefore important to update the national poverty lines regularly to inform policymakers and support resource allocation, ensuring that data and measurements remain relevant and effective in identifying individuals who need assistance. Data on the national poverty lines show an improvement in South Africa over the past few years, from 2009 to 2023, as the poverty measured by the FPL, and both the UBPL and LBPL, has been declining in all provinces except for Gauteng, as illustrated in Figure 1. This indicates that the use of the 2011 affordability threshold disadvantages some of the Gauteng municipalities but benefits municipalities from the rest of the provinces.

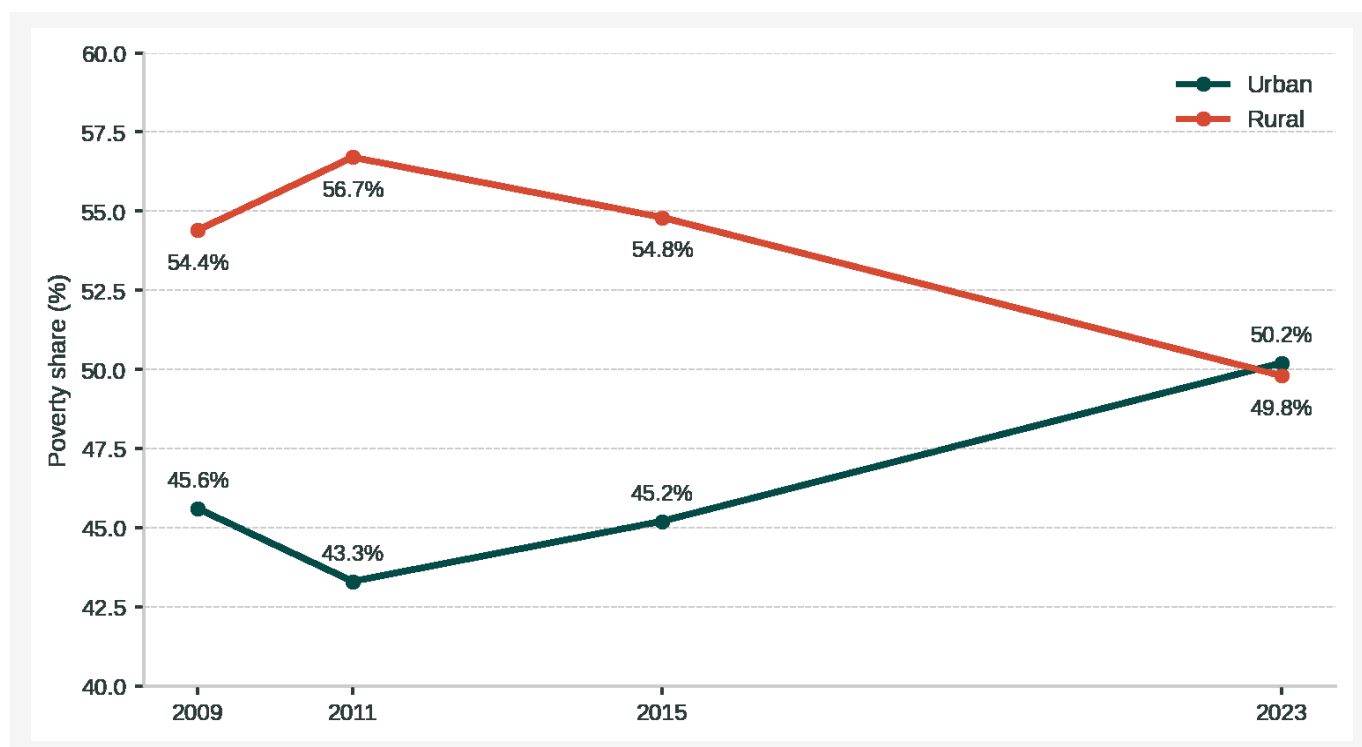
Figure 1: Poverty levels in South Africa



Data source: Statistics South Africa, 2025.

With respect to poverty shares by settlement type, Figure 2 shows a declining poverty rate in rural areas, while poverty shares increase in urban areas. This trend could be attributed to urbanisation. Therefore, utilising outdated poverty-level data negatively affects urban settlements more than rural ones, as poverty shares shift due to urbanisation.

Figure 2: Poverty shares by settlement type - LBPL



Data source: Statistics South Africa, 2025.

Table 1 shows poverty shares by metropolitan municipalities for the period 2009–2023, with the majority of metropolitan municipalities experiencing decreases, especially between 2015 and 2023. However, for the City of Tshwane, poverty shares have increased.

Table 1: Poverty shares by metropolitan municipalities

Municipality	2009	2011	2015	2023
City of Cape Town	18.4	14.1	16.1	12.7
Buffalo City	–	–	4.9	3.7
Nelson Mandela Bay	8	8.6	7	5.1
eThekweni	22.1	26	23.7	22.9
Mangaung	–	5.7	3.2	3.5
City of Johannesburg	22.3	21.3	17	21.2
Ekurhuleni	17.1	14.1	16.4	14.4
City of Tshwane	12.2	10.2	11.6	16.5

Data source: Statistics South Africa, 2025.

The number of households per municipality and the number below the affordability threshold are key in determining the number of poor households. While updated data on poverty levels is key to determining shares for each municipality through the poverty component, for the 2025 poverty component, the proportion of households falling below the government's affordability threshold was still based on the 2011 Census data.

Conclusion

Unconditional fiscal transfers to municipalities are key to ensuring they receive adequate financial resources to deliver on their constitutional mandates. The share for each municipality from unconditional transfers is determined by the LGES formula. The findings highlight challenges in implementing the LGES formula due to outdated data. For example, while updated data on poverty levels is key to determining shares for each municipality through the poverty component, for the 2025 poverty component, the proportion of households falling below the government's affordability threshold was still based on the 2011 Census data. The use of outdated data benefits some municipalities while disadvantaging other municipalities, resulting in unfairness.

The Commission Recommends That:

- 1 Statistics South Africa should prioritise improving the quality, timeliness, and relevance of input data used in the Local Government Equitable Share formulae, while National Treasury, in the Division of Revenue Bill, should utilise input data directly provided by Statistics South Africa without subjective selection. This is to maintain the principles of transparency, objectivity, predictability, and fairness that underpin the integrity of intergovernmental fiscal relations and transfers.

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