2027 POLICY BRIEF

POLICY BRIEF NO. 1
Budget & Fiscal Federalism Series

FINANCIAL AND FISCAL COMMISSION
For an Equitable Sharing of National Revenue

South Africa's budget reforms in the context of fiscal federalism

Executive Summary

This research investigates the constitutional principles enshrined in Section 215 of the Constitution that underpin South Africa's budget process. A qualitative approach, drawing from the institutional framework and literature, is used to establish the context of public budgeting in South Africa's federalist system.

The study then provides an overview of National Treasury's recent budget reforms and identifies potential policy gaps that require strengthening to ensure alignment with constitutional imperatives. The National Treasury appears wholly committed to ensuring that the Budget process aligns with constitutional principles; however, the current budget reforms lack rigorous, clear-cut mechanisms and specific, measurable criteria to ensure that public budgeting is strategic and not reactive to arising fiscal pressures.

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FOCUS AREA	Budget reform & fiscal federalism
RELATED	Constitution s215 · s154 · PFMA · MFMA · 2026 MTEF Guidelines

THE FINANCIAL AND FISCAL COMMISSION

The Financial and Fiscal Commission is a constitutional institution that makes recommendations to organs of state on financial and fiscal matters. As an institution created in the Constitution of the Republic of South Africa, it is an independent juristic person subject only to the Constitution itself, the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997) (as amended) and relevant legislative prescripts.

The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between national, provincial and local spheres of government.

Through focused research, the Commission provides proactive, expert and independent advice on the intergovernmental fiscal relations system, using evidence-based policy analysis to ensure the realisation of constitutional values.

The Commission reports directly to Parliament and the provincial legislatures. Government must respond to the Commission's recommendations at the tabling of the annual national budget each February.

Commissioners are appointed by the President: the Chairperson and Deputy Chairperson, three provincial representatives, two representatives of organised local government, and two other persons.

Research findings

1. The statutory framework guiding the budget and fiscal federalism

Since South Africa's democratic transition in 1994, a series of budget reforms have been implemented to balance institutional decision-making and promote rational budgeting that improves service delivery. The national budget plays a central role in how the government fulfils its political, economic, social and administrative functions (Norton & Elson, 2002; Gibran & Sekwat, 2009). Section 215(2) of the Constitution is an enabling provision for further statutory regulation over the budget process, stating that national legislation must prescribe the form of national, provincial and municipal budgets and the timing of when national and provincial budgets must be tabled (Section 215(2)(a) and (b)).

South Africa has a system of multi-level government derived from Section 40 of the Constitution, which establishes the state as comprising three spheres of government: the national, provincial and local spheres. Each sphere is distinctive, interrelated and independent. At every sphere of government, the Constitution recognises functional and institutional integrity, providing a foundational constitutional basis for legislative and executive bodies (Mabugu & Rakabe, 2023). Despite this constitutional framework, the degree of federalism in South Africa remains a subject of debate, rooted in the country's political economy (Schwella, 2016). Joy (2025) recognises that there is a gravitation towards more centralised governance, which may undermine sub-national autonomy. The presence of concurrent functions across spheres further contributes to coordination challenges, undermining cooperation and creating service delivery challenges.

> *"Effective fiscal federalism — and budget implementation — hinges not only on the capacity of National Treasury, but also the capacity of subnational treasuries."*
>
> — AJAM & FOURIE, 2014

2. Overview of the National Treasury budget reforms

The National Treasury recognises that the 2025 budget cycle brought to the forefront the need for improved coordination, broader consultation and overcoming spending inefficiencies in the budget process. The 2026 MTEF Technical Guidelines introduce important shifts in the budget process, aimed at enhancing both procedural compliance and the credibility of budget submissions across all national departments, constitutional institutions, public entities and provincial governments and entities. The core principles underpinning the reforms are set out on the following page.

FIGURE 1
Principles guiding the 2026 MTEF budget reforms

PUBLIC DEBT
Stabilise and reduce debt-to-GDP through maintaining a primary surplus.

FISCAL ENVELOPE
The TARS process will determine whether the fiscal envelope can be expanded.

REVENUE GAINS
Higher than expected revenue gains will not be used to fund permanent expenditure increases.

UNDERPERFORMING PROGRAMMES
Should be considered for reprioritisation or reallocation.

REPRIORITISATION
Additional funding requirements must be offset by reprioritisation.

COMPENSATION
Compensation budgets must remain within the limits set.

SALARY ADJUSTMENTS
Must align with the public service wage bill management strategy.

EARLY RETIREMENT
Government is committed to implementing this in the 2025/26 and 2026/27 financial years.

BASELINE ANALYSIS
New funding requirements must be assessed within existing baselines.

Source: National Treasury 2026 MTEF Technical Guidelines

The MTEF Guidelines introduce the mechanism of Targeted and Responsible Savings (TARS) and Spending Reviews. According to National Treasury, multiple criteria will be used to identify programmes to be included in TARS, including historical and current performance, previous spending review findings and whether they are aligned with MTDP priority policies. The purpose of such a spending review is to start the process of de-implementation of the programme in the 2026/27 fiscal year.

In terms of operationalising the TARS mechanism, numerous initiatives will be instituted. These include spending reviews, data-driven approaches to eliminating “double dipping” in social grants and auditing ghost workers and payroll irregularities, updated proposals on public entity and department rationalisation, resolving inefficiencies in the public sector wage bill through personnel expenditure reviews (to be conducted by the Department of Public Service and Administration), and instituting technical baseline analyses to ensure departments and public entities are appropriately aligned to their core mandates.

FIGURE 2

Key strategic reforms for a strengthened budget process

01

Cabinet-endorsed budget calendar

Full Budget Calendar approved by Cabinet, creating a politically binding commitment and reinforcing departmental accountability.

02

Governance structures

Roles are being revised and terms of reference updated for key budget structures (MinComBud, Technical Committees, Functional Groups).

03

Enhanced departmental engagement

Enhancing participation in the budget cycle; all departments must adhere to the Calendar — late or incomplete submissions are non-negotiable.

04

Use of technology

Digital technologies are being leveraged to streamline the process, digitise the MTEF Calendar and deliverables, and track deadlines in real time.

05

Strengthened analytical capacity

Enhancing officials' capacity for in-depth baseline analysis, supporting substantive, evidence-based engagements throughout the process.

Source: National Treasury 2026 MTEF Technical Guidelines

Emphasis in the reforms introduced in the Technical Guidelines appears to be placed on improving programme efficiency and redirecting spending elsewhere. While this is crucial, less emphasis is placed on detailing how ineffective programmes that drain the fiscus will be phased out. Moreover, the ultimate decision-making power to eliminate spending inefficiencies rests with Cabinet, but the document lacks detail on the factors that must be considered in exercising this discretion.

Conclusion

The National Treasury appears wholly committed to ensuring that the Budget process aligns with the constitutional principles of transparency, accountability and responsible public debt management. However, it is uncertain whether there is political will to make the significant and difficult trade-offs required to realise its budget reform objectives. The current budget reforms lack rigorous, clear-cut mechanisms and specific, measurable criteria to make difficult spending trade-offs. Structural challenges within the intergovernmental fiscal system must also be addressed to ensure that transparency and accountability are realised across all spheres of government. Weak capacity at provincial and municipal levels, as well as ambiguities in functional responsibilities, undermine the effectiveness of the budget process as a whole.

The Commission recommends that:

1. The National Treasury, in line with Section 154 of the Constitution, needs to support capacity-building initiatives in subnational treasuries, and ensure that provincial treasuries are also capacitated to support local treasuries. Furthermore, the roles and responsibilities of concurrent functions must be clarified to strengthen budget alignment between national transfers and subnational spending outcomes.

Capacity-building support flow

Section 154 support should cascade through the intergovernmental system, rather than stopping at the provincial sphere.

TIER 1
National Treasury

Build provincial capacity

Direct capacity-building support to provincial treasuries, consistent with Section 154 obligations.

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TIER 2
Provincial Treasuries

Cascade to local level

Provincial treasuries are capacitated and resourced to support local treasuries in turn.

→

TIER 3
Concurrent functions

Clarify roles

Roles and responsibilities are clarified to align national transfers with subnational spending outcomes.

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