ECONOMETRIX

WESTERN CAPE FISCAL FLOWS

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To understand the net fiscal position of the Western Cape, we use publicly available information to estimate government revenue raised and government expenditure received. Because there is insufficient data granularity at this level, we cannot directly observe all revenue and expenditure flows attributable to a province. We therefore apply a novel provincial attribution framework, estimating relevant provincial flows using conservative economic proxies and assignable indicators.

After excluding the distortionary effects of national borrowing and national debt-servicing costs (which are financing and leakage effects rather than genuine current-period provincial fiscal flows), and adjusting for inflation, we find:

- South Africa's redistributive fiscal system relies heavily on two net contributor provinces. Gauteng and the Western Cape.
- Over the period 2015 to 2024, the Western Cape generated approximately 36% more government revenue than it received back in attributable public expenditure.
- This equated to an average net fiscal contribution of approximately R98bn per year from the Western Cape to the rest of South Africa during the period.
- This net contribution has increased over time, indicating that an increasing share of revenue raised by the Western Cape is not returned to the province in attributable expenditure. In 2024, the Western Cape's net fiscal contribution reached roughly R140bn.
- This annual provincial net fiscal contribution in 2024, expressed as an amount per household, was equivalent to approximately R74,000 per Western Cape household.

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PART I:

I.) Understanding government's revenue collection and disbursement process

Depending on a country's political and fiscal structure, revenue may be raised and expenditure incurred at different levels of government, ranging from highly decentralised systems to highly centralised systems.

The South African fiscal system is a hybrid of these two extremes, but one which leans more heavily toward centralised revenue collection and expenditure allocation. For example, Personal Income Tax, Corporate Income Tax, and Value Added Tax (which are the largest sources of total revenue) are raised nationally.

In contrast, Property Rates and Service Charges (i.e., water and electricity) are raised at a municipal level (APPENDIX 1). Together, these decentralised revenue sources account for a much smaller share of total government revenue (roughly 25%) than nationally raised taxes.

We lay out a visual summary below using provincial households and businesses as the primary reference units of provincial tax revenue paid and of spending received.

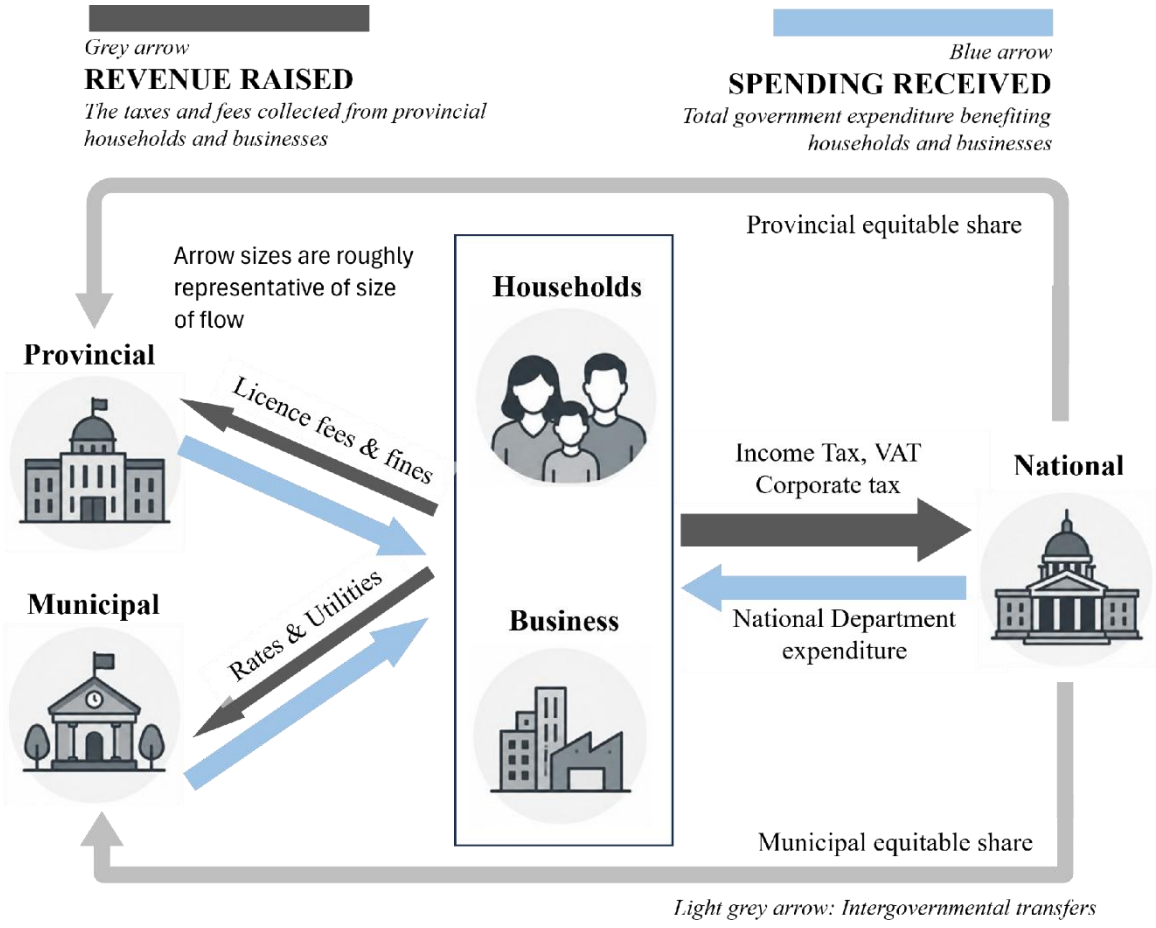


Figure I: Government's revenue collection and disbursement process

Nationally raised revenue is subsequently allocated back across provinces to fund services and government functions in two key ways:

1. Through the use of the Provincial Equitable Share (PES) and Municipal Equitable Share (MES), determined by formulas (APPENDIX 2).
2. Through expenditure by national government departments in the course of carrying out their mandate. An example of this would be the South African Police Service. Revenue collection and administration are controlled nationally, but departments incur expenditure in delivering public services in all nine provinces while carrying out their mandates.

As is clear from the above graphic, the majority (roughly 75%) of all government revenue is raised by national government (operationally collected by SARS), and a large proportion (roughly 55%) of subsequent revenue expenditure (which flows back to provinces) happens through national government departments.

An important step in our investigation is to define what constitutes revenue raised by a province and expenditure received by a province. We define these terms below and estimate their size in the next section.

II.) Methodology and important considerations

This report aims to establish a clear and objective understanding of the relative fiscal position of South African provinces, with a specific focus on the Western Cape. Our framework distinguishes between where government money comes *from* and where it actually gets *spent*.

Frame of reference: This study adopts a province's households and businesses as the primary frame of reference rather than the administrative structures of government. The study looks at revenue raised from households and businesses located in a province, and government expenditure to provide goods and services in a province. The government acts as the intermediary mechanism through which revenue is collected, redistributed, and spent.

The analysis is confined to General Government fiscal flows. State-owned enterprises and public corporations, including their revenue, expenditure, assets, liabilities and borrowing activities, fall outside the scope of the attribution framework.

What this report does not measure: This report measures net provincial fiscal flows within the national fiscal system. It neither measures:

1) Net provincial economic benefit in a national economic system. Fiscal flows describe the difference between government revenue raised and government spending attributed to a province. Results should not be interpreted as a complete measure of the economic costs or

benefits associated with participation in South Africa's broader economic and institutional system.

2) The efficiency and efficacy of public spending. The report measures expenditure purely quantitatively, without accounting for its real efficacy, i.e. how effectively each rand of expenditure translates into actual services.

To formalise this, we model:

A. Revenue Raised

The taxes and fees raised from resident households and businesses within a province across all three spheres of government.

$$Revenue\ Raised_T = Provincial\ \&\ Municipal\ collections + PRRN$$

- Provinces and municipalities raise some of their own revenue directly in the form of motor vehicle licences, property rates and sales of water, amongst others.
    - It is straightforward to assign direct municipal and provincial revenue collections to a particular province.
- A larger share of revenue raised is collected by national government from resident households and businesses in a province.
    - We term this Provincial Revenue Raised Nationally (PRRN), and it must be estimated.

A robust and consistent provincial attribution framework is therefore required to estimate Provincial Revenue Raised Nationally (PRRN) at a provincial level. This framework is intended to attribute revenue generation to provinces rather than measure direct cash collections by provinces. We give one attribution example below, with a description of all attribution methods contained in (APPENDIX 3).

Example: Corporate Income Tax (CIT) is a significant portion of nationally raised revenue, but SARS provides no source of provincial breakdown. Even if such a source existed, it would likely be aggregated by where companies are headquartered, not where they actually operate. If a retailer, for example, sells products throughout the country, then a portion of its economic activity and taxable profits should therefore be attributable to each province.

To estimate provincial CIT revenue raised nationally, we combine SARS' sectoral CIT Tax Assessed breakdown, weighted by Statistics South Africa's provincial sectoral Gross Value-Added breakdown.

B. Spending Received

Total government expenditure attributable to and benefiting a province.

$$Spending\ Received_T = Provincial\ \&\ Muncipal\ collections + PES + MES + NSRP$$

- Provinces directly spend their self-raised provincial and municipal revenue.
    - This can be measured directly.

- Provinces receive and spend Provincial Equitable Share (PES) and Municipal Equitable Share (MES)
    - These transfers can largely be measured directly through National Treasury budget documentation.
    - In addition, a substantial portion of expenditure can be assigned directly to provinces. Provincial Equitable Share (PES) distributions are used to allocate provincial transfers, including conditional grants, while provincial municipal expenditure shares derived from Statistics South Africa's Quarterly Financial Statistics of Selected Municipalities (QFSSM) are used to allocate municipal transfers, including conditional grants.
    - As a result, a substantial share of intergovernmental fiscal transfers can be attributed using observed allocations and expenditure distributions rather than proxy-based estimation.

- Provinces receive expenditure incurred by national departments in carrying out their mandates within the province.
    - We term this National Spending Received Provincially (NSRP), which must likewise be estimated.

A robust and consistent provincial attribution framework is likewise required to estimate National Spending Received Provincially (NSRP) at a provincial level. This framework is intended to attribute expenditure to provinces rather than measure direct cash transfers to provinces. We give one attribution example below, with a description of all attribution methods contained in (APPENDIX 4).

Example: The Department of Social Development spends most of its budget on Social Assistance through the grant mechanism. SASSA publishes a breakdown of the number of provincial grant recipients, which allows us to estimate this spending in the various provinces.

Most national government departments do not, however, provide a provincial breakdown of their spending. Where departmental expenditure cannot be directly assigned to provinces, we allocate the remaining expenditure using a composite measure based equally on provincial GDP shares and provincial General Government Services value-added shares.

- This approach is applied only to expenditure that cannot be assigned through observed provincial allocations, i.e. residual national department expenditure.

Provincial GDP provides a measure of overall economic activity, while General Government Services value added provides a proxy for the geographic distribution of government operations and employment, see (APPENDIX 5). Further study of provincial net fiscal positions would benefit from additional refinement by allocating national department expenditures to provinces from actual financial statement analysis and departmental audits.

Net Fiscal Position

The gap between revenue raised and spending received (**Net Fiscal Position**) is the investigative goal of this project.

- Net Fiscal Position refers to the rand difference between revenue raised and spending received.

$$Net\ fiscal\ position = Spending\ Received_T - Revenue\ Raised_T$$

Because absolute rand values are strongly influenced by provincial economic size, we also use a standardised ratio measure for comparison.

- This is the **Net Fiscal Position Ratio (NFPR)**, which measures the ratio of revenue raised to spending received.

$$Net\ fiscal\ position = \frac{Spending\ Received_T}{Revenue\ Raised_T}$$

Borrowing & debt servicing

Revenue Raised and Spending Received give us the basis of our model. Important consideration must, however, be given to national government borrowing (which magnifies total expenditure) and national debt-servicing costs (which effectively act as a leakage from revenue raised).

Both distort the observed fiscal position because neither reflects revenue genuinely raised within the current period nor expenditure incurred in the delivery of services. While both are removed in order to better understand the underlying fiscal structure, debt servicing expenditure has the very real effect of displacing expenditure that would otherwise have gone toward public services.

- Borrowing acts to artificially inflate Spending Received because borrowed funds ultimately enter the expenditure system and are distributed across provinces in proportion to the expenditure they receive.
- Debt-servicing costs have a similar effect within our framework because retaining them would increase the residual expenditure pool subsequently attributed across provinces.
- In both cases, Spending Received would increase, and the Net Fiscal Position of all provinces would therefore spuriously improve if borrowing and debt-servicing costs were retained.

The concern with this outcome is that it would not represent a genuine improvement in the fiscal position of provinces. Rather, it would reflect accounting effects created by financing decisions made largely outside the sphere of provincial influence.

It would technically be possible to attribute national borrowing using the same provincial attribution framework currently applied to non-borrowing expenditure. The concern with this approach is that borrowing represents expenditure not supported by any underlying current-period tax raising and therefore distorts the true fiscal picture for all provinces.

The argument against debt-servicing costs is twofold:

1) Interest expenditure is an income payment to domestic and foreign bondholders, not the provision of public goods and services
2) Interest expenditure cannot be defensibly classified within our attribution framework, there is no rational basis for assigning interest expenditure based on provincial GDP or population splits. While some taxpayers receive this interest as income, a substantial share of this expenditure flows to international bondholders. A portfolio approach to identify domestic provincial concentrations would fall outside the scope and purpose of this report.

III.) Results

The table below summarises estimated revenue raised and spending received across provinces over the period 2015–2024. Values are expressed as ten-year annual averages in inflation-adjusted 2025 prices and exclude the effects of national borrowing and debt-servicing costs. The comparison provides an initial indication of each province's relative fiscal position before standardising the results using the Net Fiscal Position Ratio in the next section.

10 Year Average (2015 - 2024)

	Revenue Raised (R'bn)		Proportion	Spending received (R'bn)		Proportion	GDP Share (2024)	Pop share (2024)
Western Cape	**R**	**364.55**	**17%**	**R**	**267.01**	**13%**	**14%**	**12%**
Eastern Cape	R	150.55	7%	R	227.55	11%	8%	11%
Northern Cape	R	38.80	2%	R	45.14	2%	2%	2%
Free State	R	94.25	4%	R	112.10	5%	5%	5%
KwaZulu-Natal	R	320.32	15%	R	388.84	18%	16%	19%
North West	R	103.21	5%	R	124.57	6%	6%	7%
Gauteng	**R**	**873.38**	**40%**	**R**	**647.83**	**30%**	**33%**	**25%**
Mpumalanga	R	129.66	6%	R	139.23	7%	8%	8%
Limpopo	R	109.02	5%	R	183.09	9%	8%	10%
	Includes: Provincial & Municipal self-raised revenue and assignable nationally-raised revenue			*Includes: Provincial & Municipal self-raised revenue, PES, MES and national department spending*				

All Values: Inflation adjusted 2025 prices. Excluding the impact of government borrowing & debt servicing costs

Revenue generation is highly concentrated geographically. Roughly 57% of all revenue raised nationally originates from two provinces, Gauteng and the Western Cape. According to Statistics SA, these two provinces account for approximately 47% of total national GDP and 37% of the population. They are also the only provinces whose share of nationally raised revenue exceeds their share of national GDP.

Over the ten years from 2015–2024, an average of R365 billion per year (2025 prices) in taxes was raised in the Western Cape, while an average of R267 billion was received back in attributable expenditure.

Gauteng records the largest absolute contribution, with approximately R873 billion in revenue raised against approximately R647 billion in attributable expenditure.

In contrast, the Eastern Cape receives the largest net fiscal subsidy, raising approximately R151 billion while receiving approximately R228 billion in attributable expenditure.

The table below lays out the Net Fiscal Position over the sample period (2015 – 2024)

Net Fiscal Position	
Spending received - Revenue raised	
10 Year Average (2015 - 2024)	
Inflation adjusted 2025 prices	
Excluding borrowing & debt servicing	
	R'bn estimate
Western Cape	**-97.55**
Eastern Cape	77.00
Northern Cape	6.34
Free State	17.84
KwaZulu-Natal	68.52
North West	21.36
Gauteng	**-225.55**
Mpumalanga	9.57
Limpopo	74.07

Provinces can be placed into two groups[1]:

- **Net contributors** to the fiscal redistributive system *(negative (-) net fiscal position)*
    - Gauteng; Western Cape
    - These provinces raise more taxes from residents and resident businesses, i.e., contribute more to the national fiscus, than they receive back in spending.
- **Net beneficiaries** of the fiscal redistributive system *(positive (+) net fiscal position)*.
    - Eastern Cape; Free State; KwaZulu-Natal; Limpopo; Mpumalanga; Northern Cape; North West.
    - The residents and resident businesses in these provinces contribute less to the national fiscus than they receive back in spending.

Net Fiscal Position Ratio

As previously discussed, because provinces differ substantially in economic size, we also calculate a standardised comparison metric, the Net Fiscal Position Ratio (NFPR), which measures the ratio of revenue raised to spending received.

[1] Provincial net fiscal positions do not sum exactly to zero. The resulting residual reflects the exclusion of debt-servicing costs and the use of separate provincial attribution frameworks for revenue raised and expenditure received.

Net Fiscal Position Ratio (NFPR)	
Revenue raised / Spending received	
10 Year Average (2015 - 2024)	
Excluding borrowing & debt servicing	
	Ratio
Western Cape	**1.36**
Eastern Cape	0.66
Northern Cape	0.86
Free State	0.84
KwaZulu-Natal	0.82
North West	0.83
Gauteng	**1.35**
Mpumalanga	0.93
Limpopo	0.59

The interpretation of the ratios is as follows:

- Ratios above 1 imply that a province raises more revenue than it receives in expenditure, while ratios below 1 imply the opposite.
- 1.36x as much revenue is raised in the Western Cape as is spent on services, i.e., Western Cape residents and resident businesses contribute 36% more revenue than they receive in expenditure.
- Gauteng records a very similar ratio of approximately 1.35x, indicating that revenue raised exceeds attributable expenditure by around 35%.
- In contrast, households and businesses in Limpopo contribute revenue equivalent to just 59% of the expenditure the province receives.

Household-adjusted Net Fiscal Position

Absolute fiscal values and fiscal ratios provide useful comparisons, but they do not fully illustrate the relative burden or benefit experienced by residents within each province. We also express the Net Fiscal Position on a per-household basis.

This converts each province's aggregate net fiscal position into an average annual amount per household, allowing comparison across provinces with very different population sizes.

While revenue is often raised through businesses and other economic entities, the economic incidence of taxation and expenditure ultimately falls on households through some combination of wages, prices, profits and consumption. Put differently, businesses act as intermediaries and collection mechanisms, but the economy ultimately resolves back to households.

Because comparable household-level data is not consistently available throughout the sample period, we use an approximate household estimate based on the provincial population divided by 4. This provides a simple standardised comparison metric rather than a precise demographic estimate.

Household-adjusted Net Fiscal Position

Net Fiscal Position per household (4 persons)

Rand per household

Inflation adjusted 2025 prices

Excluding borrowing & debt servicing

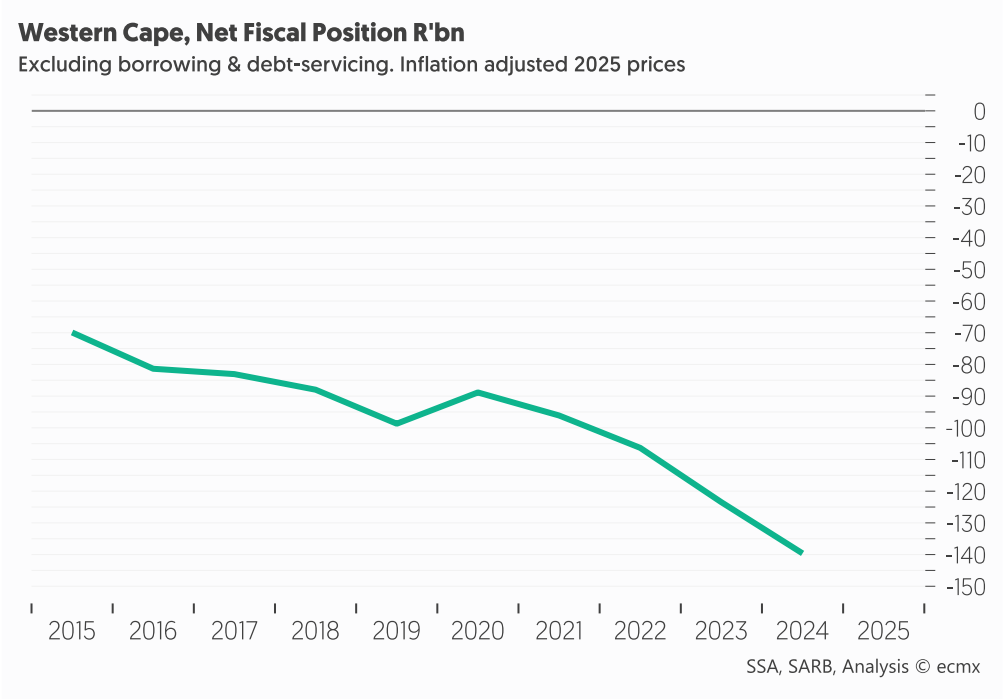
	10 Year Average (2015 - 2024)	Latest data: 2024
Western Cape	**-R55,695**	**-R74,437**
Eastern Cape	R45,740	R40,826
Northern Cape	R19,616	R17,114
Free State	R24,368	R24,310
KwaZulu-Natal	R23,768	R14,065
North West	R20,796	R18,978
Gauteng	**-R58,250**	**-R67,033**
Mpumalanga	R8,178	R6,135
Limpopo	R50,861	R48,034

Household-adjusted fiscal positions vary substantially across provinces. The gap between the largest net contributors and the largest net beneficiaries exceeds R109,000 per household per year.

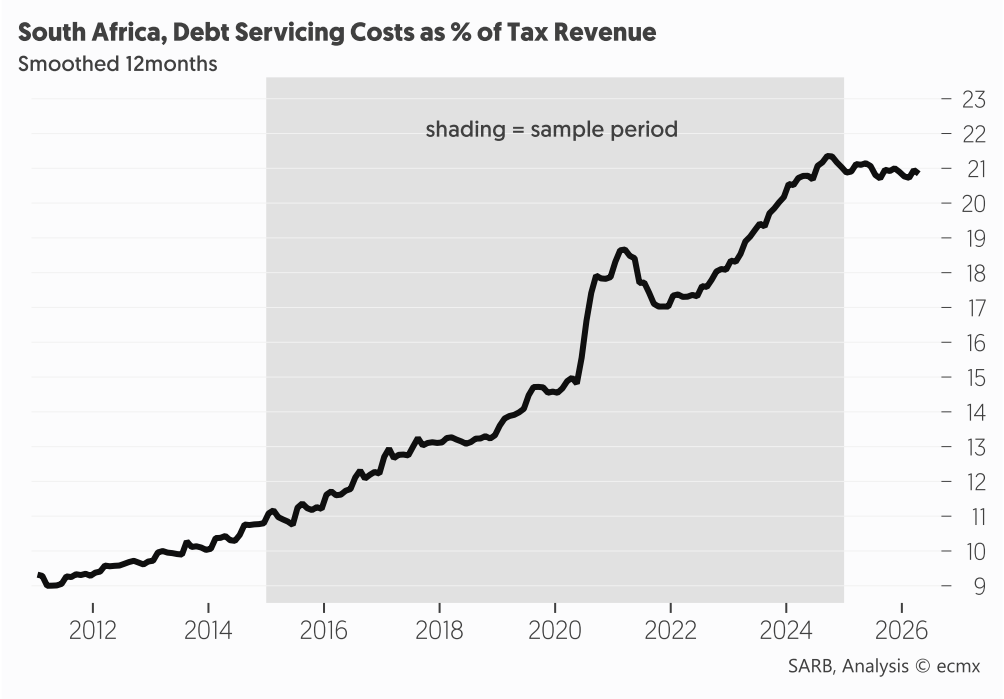
- For the Western Cape, the ten-year average is approximately R56,000 per household per year, increasing to around R74,000 per household using the latest available data. This implies that an increasing share of revenue generated by Western Cape households and businesses is associated with expenditure attributed outside the province.
- Gauteng records the largest household-adjusted contribution over the full sample period, averaging approximately R58,000 per household per year. This increases to roughly R67,000 in the latest year. This reinforces that Gauteng and the Western Cape together carry a disproportionate share of the national fiscal contribution burden.
- Limpopo records the largest household-adjusted net fiscal benefit, receiving support equivalent to approximately R51,000 per household per year, moderating slightly to approximately R48,000 in the latest year.

Changes over time

It's worth noting that this 10-year average masks changes in Net Fiscal Position over the period. The Western Cape is a particularly strong example of a growing net fiscal contribution over time.



A portion of this trend reflects broader national fiscal developments. Over the period, an increasing share of total government expenditure has been supported through sovereign borrowing, while a growing share of revenue has been absorbed by debt-servicing costs (see chart below).

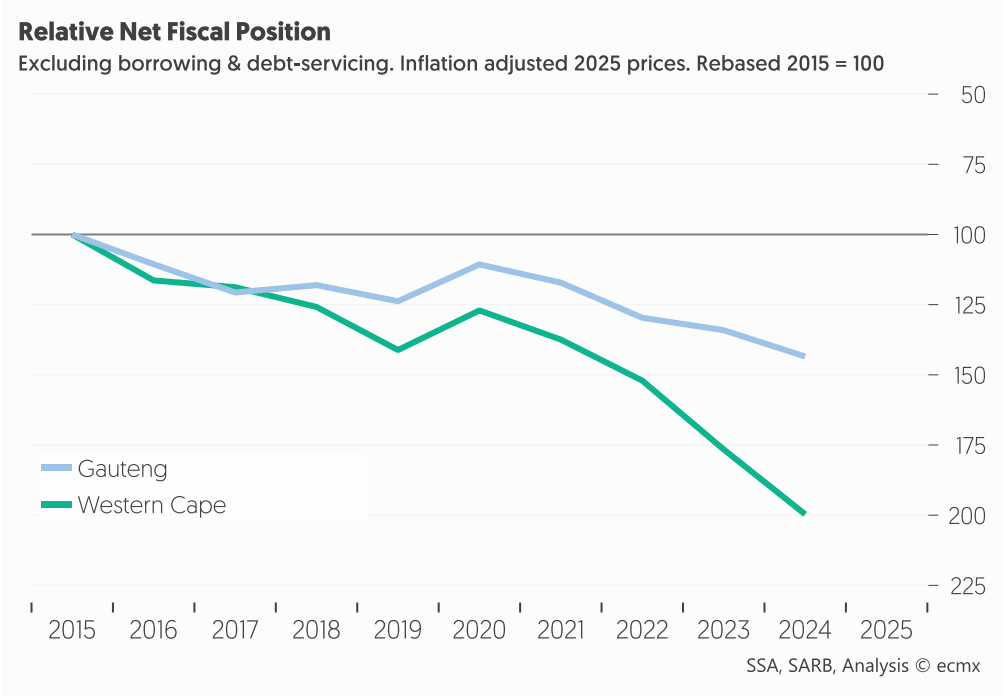


These dynamics affect the relationship between revenue raised and expenditure received across all provinces. As a growing share of nationally raised revenue is absorbed by debt-servicing costs, less expenditure remains available for redistribution through the fiscal system. The result is a broad

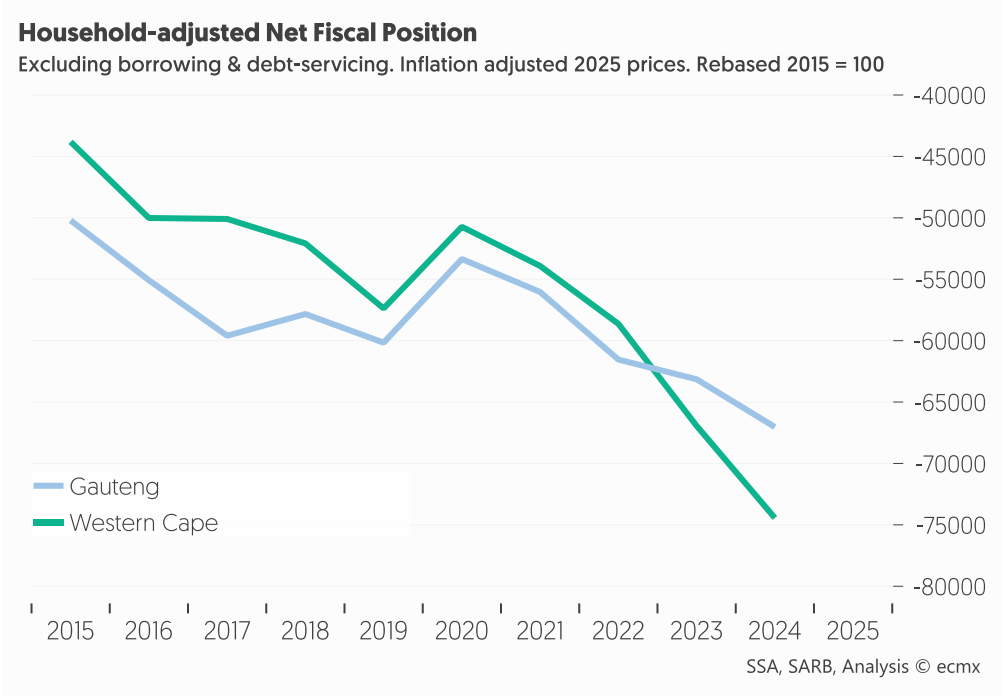
deterioration in provincial fiscal positions over time, although the magnitude varies considerably between provinces. The largest deterioration is observed in the Western Cape, Gauteng and KwaZulu-Natal.

However, the Western Cape has experienced a more pronounced increase in net fiscal contribution. The chart below illustrates a rebased Net Fiscal Position (Jan 2015 = 100), enabling a more intuitive comparison of changes in relative fiscal position across the two net contributor provinces. The Western Cape's increase in net fiscal contribution has been materially more significant than Gauteng's and is estimated to have accelerated meaningfully since 2020.

In percentage terms, the Western Cape is estimated to have experienced the largest deterioration in fiscal position over the period, with its annual net fiscal contribution increasing by approximately 100% since 2015, compared with roughly 43% in Gauteng. KwaZulu-Natal's net fiscal benefit declined by approximately 50% over the same period, although it remains a substantial net beneficiary province.



This effect is also evident from the perspective of household-adjusted Net Fiscal Position. As the chart below shows, the household-adjusted net fiscal contribution associated with Western Cape households is estimated to have surpassed Gauteng levels.



While the broader deterioration in the two provinces' fiscal positions is robust, its precise magnitude is sensitive to our national department spending-by-province attribution assumptions and to Statistics South Africa's estimates of provincial GDP, population, and government activity.

Additional structural factors that may be influencing the Western Cape's fiscal position are discussed further in Part II.

IV.) Limitations & data quality

Our methodology contains several important assumptions and limitations.

We have attempted to make the most significant assumption explicit throughout the report. We cannot directly observe all revenue and expenditure flows at a provincial level. For example, a substantial share of revenue is raised nationally and not reported provincially by SARS. Our provincial attribution framework, therefore, relies on conservative economic proxies and assignable indicators rather than direct observation in all cases (APPENDIX 3 & 4).

This means that the magnitude of results is sensitive to attribution assumptions. For example, changes in our attribution decisions regarding how national departmental spending is allocated would affect the results.

For this reason, we have chosen conservative, economically defensible proxies. Results should not be interpreted as precise accounting identities.

We highlight additional assumptions and side effects below for robustness.

- Alternative fiscal arrangements: This report measures fiscal flows within South Africa's current fiscal system. It does not attempt to model how fiscal flows might change under alternative arrangements where provinces raise, retain, or spend revenue differently.
- No measure of indirect effects: While fiscal flows and economic benefits overlap substantially, fiscal flows are technically not 1:1 with economic benefits. Our study does not attempt to quantify or account for economic spillovers, interprovincial trade effects, national public goods, and other indirect benefits that might exist in South Africa's centralised-decentralised hybrid fiscal system.
- Borrowing and debt-servicing costs have been excluded from the attribution framework; the reasoning is discussed in Part I.
- Expenditure quality: This study is interested in money quantities of flows, and therefore treats expenditure flowing to provinces through national government departments as equal in quality to revenue administered by the provinces and municipalities themselves, as well as flows in different provinces and municipalities. The framework implicitly assumes equivalent expenditure value across spending channels. Differences in expenditure efficiency or service quality are not explicitly modelled.
- Time-period restrictions and limitations: Our investigation relies on several public data sources in order to construct the provincial attribution framework. These sources are not always reported on a consistent time basis, with some datasets compiled on a calendar-year basis (Jan–Dec) while others follow the national financial year (Apr–Mar). This creates minor discontinuities within the data compilation process. However, because the framework primarily allocates broad provincial shares and structural proportions rather than attempting precise transactional accounting, these timing differences are unlikely to materially alter the overall fiscal structure identified in the report.
- Remittances and non-provincial expenditure effects: Fiscal expenditure and economic benefits do not always occur within the same province. For example, a resident may earn income or receive government support in one province but spend part of that money in, or transfer it to,

another province. These secondary cross-provincial effects are not explicitly modelled in our framework.

V.) Conclusion

Our investigation indicates that South Africa's consolidated fiscal system relies heavily on two net contributor provinces, Gauteng and the Western Cape, whose net fiscal contributions fund expenditure across the remaining seven net beneficiary provinces. The findings also indicate that provincial revenue generation is highly concentrated geographically, whereas expenditure is more broadly distributed across provinces.

These findings are derived after excluding the distorting effects of sovereign borrowing and debt-servicing costs and are based on a provincial attribution framework using conservative, economically defensible proxies.

Over the period investigated (2015-2024), the Western Cape consistently raised substantially more government revenue than it received back in expenditure, with an average net fiscal outflow of roughly R98 billion per year, and this contribution increased over time. Gauteng exhibits a similar pattern at an even larger absolute scale, while the remaining provinces operate as net fiscal beneficiaries to varying degrees.

The use of deliberately conservative assumptions and economically defensible proxies to arrive at our estimates means that the broad structure of the findings appears robust to a wide range of reasonable methodological critiques. While refinements to attribution choices may alter the scale of provincial positions at the margin, they will not materially alter the core result that South Africa's current fiscal arrangement is characterised by a concentrated revenue base and a dispersed, widespread beneficiary base.

Questions regarding alternative fiscal arrangements, including different provincial tax-raising powers, expenditure responsibilities and revenue-sharing mechanisms, fall outside the scope of this investigation and remain areas for future research.

----------END OF PART 1----------

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PART II:

Discussion

Part I established the structure of fiscal flows and the relative fiscal position of provinces. We now turn to several broader implications that emerge from these findings. Unlike Part I, the purpose here is not to establish empirical findings, but rather to consider what the observed structure implies in practice.

South Africa

Our findings confirm that South Africa operates a highly uneven fiscal system. Revenue generation is heavily concentrated in Gauteng and the Western Cape, while expenditure received is distributed more broadly across all provinces.

This fiscal system results in resident households and businesses in these two net contributor provinces supporting expenditure in the remaining seven net beneficiary provinces.

Large-scale interprovincial or interregional fiscal flows are not unique to South Africa, and many countries rely on wealthier regions or taxpayers to support national government expenditure in poorer regions. However, the concentration identified in our findings is notable. Roughly 57% of all nationally attributable revenue raised originates from just two provinces, despite these provinces, according to Statistics SA, accounting for less than half of GDP and substantially less than half of the population.

The locus of revenue raising and spending impacts the quality, responsiveness, and responsibility of public spending.

Fiscal federalism literature[2] commonly argues that stronger alignment between expenditure responsibility and revenue generation can improve accountability incentives. Where governments are responsible for raising a larger share of the revenue they spend, the costs and benefits of certain policy choices that impact revenue may become more directly visible to both policymakers and taxpayers, leading to more fiscal accountability. Conversely, when revenue is subsidised from other sources, the costs and benefits of certain policy choices translate less readily into revenue and spending consequences, diminishing fiscal accountability.

The South African fiscal system, however, is more complex than a simple provincial "tax-and-spend" model, as provinces and municipalities receive substantial funding through nationally redistributed revenue streams such as the Provincial Equitable Share and Municipal Equitable Share. Consequently, provincial governments, even in net contributor provinces such as Gauteng and the Western Cape, receive substantially more expenditure support through the broader national fiscal system than they are expected to generate in revenue.

[2] For example, Oates, W.E. (1999). An Essay on Fiscal Federalism. Journal of Economic Literature, 37(3), 1120–1149

But positive governance effects may still operate through the resident political constituency itself. Provinces such as Gauteng and the Western Cape have relatively higher concentrations of economically active and taxpaying households and businesses than other provinces. It is reasonable to expect taxpayers to demand higher standards of governance, infrastructure, public order, and service delivery than non-taxpayers, given the costs they bear. Where these expectations are not met, stronger democratic pressure may emerge through electoral competition, civic activism, and taxpayer resistance.

Western Cape

Our empirical analysis shows that the Western Cape is a large net contributor to the national fiscal system. Over the sample period (2015-2024), the province raised approximately R98bn more in revenue than it received in attributable expenditure annually.

The quantum is substantial. If all the revenue raised in the Western Cape remained within the province, provincial authorities would have 36% more resources to allocate to additional government services, give back to households and businesses through tax relief, or a combination of both.

These are important findings in their own right, but in Part I, we estimate that the Western Cape's net fiscal contribution is increasing faster than that of any other province.

- By 2024, the province's annual net fiscal contribution had increased to about R140bn.
- The household-adjusted Net Fiscal Position increased from an average of approximately R56,000 per household to roughly R74,000 in the latest period.

This trend raises important questions regarding long-term fiscal sustainability.

As laid out in Part I, rising sovereign borrowing and debt-servicing costs contribute to this trend, but the estimated additional growth in the Western Cape's net fiscal contribution points to other structural causes.

One clear trend is the persistent rise in estimated provincial tax collections.

- Consider the total personal income tax (PIT) assessed by SARS. In 2015, the Western Cape accounted for 16.4% of total national PIT, but by 2024, this share had risen to 18.4%.
- In contrast (according to Statistics SA), the province's share of GDP had barely moved (from 14.1% to 14.2%), and neither had its share of the population (from 11.6% to 12.0%) over the same period.
- These Statistics SA estimates play a significant role in fiscal allocations, impacting equitable share transfers, conditional grants, and national department spending. For example, in 2015, the Western Cape's Provincial Equitable Share allocation from National Treasury was 10.0% of the total national allocation. By 2024, it was at 10.3%, barely an increase over the decade.

At a time when the Western Cape's share of national GDP is estimated by Statistics SA to have stagnated and its share of the population to have grown by just 3%, the province's share of personal

income tax assessed by SARS increased by over 12% (the percentage increase from a share of 16.4% to 18.4%). This is a remarkable divergence. It may indicate widening errors in provincial GDP and population estimates. Alternatively, Western Cape tax buoyancy may be improving relative to the rest of the country. Perhaps the province has received an influx of high-income taxpayers who live in the Western Cape (where they are measured for PIT) but work for companies based in Gauteng (where those companies are measured for GDP) and work remotely or commute regularly.

Regardless, the Western Cape's tax revenue production is increasing considerably faster than it is being reimbursed through the provincial and municipal equitable share formulas. The longer this divergence continues, the more fiscal resources the province will export to the rest of the country.

It is not clear how long this trend can be sustained fiscally, economically, and socio-politically, but such a trajectory warrants attention, as it represents not just a fiscal subsidy, which is not uncommon, but one that is both substantial and estimated to be increasing in real terms.

Finally, it is important to distinguish between measuring fiscal flows and designing alternative fiscal systems. The purpose of this report is to quantify the current relationship between revenue raised and expenditure received within South Africa's existing fiscal framework.

There is a wide range of possible fiscal arrangements. For example, provinces could assume greater responsibility for setting tax rates and raising revenue while continuing to contribute toward certain nationally provided services and functions.

Such arrangements would involve both additional costs and additional benefits that are not captured within this study. Modelling these alternatives would require a detailed analysis of national functions, expenditure responsibilities and institutional design. While beyond the scope of this report, the findings presented here provide a foundation for such future work.

----------END OF PART 2----------

APPENDIX:

APPENDIX 1

Examples of sources of revenue collections

Collected Nationally	Collected Provincially	Collected Municipally
Personal Income Tax	Motor Vehicle Licence Fees	Property Rates
Corporate Income Tax	Hospital Patient Fees	Sales of Water
VAT	Casino & Horse Racing Taxes	Sales of Electricity
General Fuel Levy	Liquor Licence Fees	Refuse Removal
Dividends Tax	*Other smaller categories*	*Other Service Charges*
Customs Duties		Fines
Excise Duties		*Other smaller categories*
Other smaller categories		

APPENDIX 2

Provincial equitable share calculation

The Provincial Equitable Share (PES) calculation is based on the following formula. Ref: Western Cape Provincial Budget 2025 pg. 61

Table 3.3 Provincial Equitable Share data updates

Weight	Component	Data used
48%	Education	• Mid-Year Population Estimates 2024 age cohorts (5 – 17) (new data) • School enrolment (Grade R -12: enrolled in ordinary public schools) obtained from the Department of Basic Education's LURITS system with most recent data collected in 2024 (new data)
27%	Health	• 2024 Mid-Year Population Estimates (new data) • Medically Insured population, based on 2022/23 Council for Medical Schemes data, 2023 General Household Survey • Total fertility rate (new data) • Premature Mortality (new data) • Patient load data (DHIS 2022/23 – 2023/24) (new data)
16%	Basic	• 2024 Mid-Year Population Estimates (new data)
3%	Poverty	• 2024 Mid-Year Population Estimates (new data) • Income and Expenditure Survey (IES) 2010/11 (old data)
1%	Economic	• GDP-R 2023 (new data)
5%	Institutional	• Not applicable – distributed equally amongst provinces (data not used)

APPENDIX 3

Provincial revenue raised nationally (PRRN) assumptions and weighting

National Source	Assumption to calculate PRRN Data from 2023	Approximate weighting in total Western Cape revenue raised
Personal Income Tax (PIT)	Rationale *Tax collections arising from resident taxpayers within a province.* Calculated Total PIT collections are adjusted using provincial taxable income proportions from SARS Tax Statistics publications. "Unknown province" values are redistributed in the same proportions as the nine provinces.	30.6%
Net Value Added Tax (VAT)	Rationale *Tax collections arising from the consumption of goods and services within a province. Because a relatively small share of taxpayers accounts for a disproportionate share of consumption expenditure, provincial taxpayer counts are used as a proxy for the geographic distribution of VAT collections.* Calculated Total VAT collections are adjusted using provincial numbers of taxpayers from SARS Tax Statistics publications. "Unknown province" values are redistributed in the same proportions as the nine provinces.	21.4%
Corporate Income Tax (CIT)	Rationale *Tax collections arising from business operations within a province.* Calculated To estimate provincial CIT revenue raised nationally, total CIT collections are first allocated across industries using SARS sectoral CIT Tax Assessed data from SARS Tax Statistics publications. These sectoral proportions are then weighted using Statistics South Africa's provincial sectoral Gross Value-Added breakdown to estimate the geographic distribution of underlying economic activity.	11.6%
Fuel Levy	Rationale *Tax collections arising from fuel purchases (and assumed use) within a province.* Calculated Total fuel levy collections are adjusted using the provincial live vehicle population as published by eNatis.	3.8%
Customs Duties, Dividends Tax, Other Direct Tax	Rationale *Smaller tax collection categories are assumed to accrue broadly in line with provincial economic activity.* Calculated Each individual tax collection is adjusted using Statistics South Africa provincial Gross Value-Added proportions.	2.6% + 1.4% + 1.0% = 5.0%
Specific Excise Duties	Rationale *Specific excise collections are likely to fall disproportionately on higher-consuming taxpayers, and provincial taxpayer counts are therefore used as a proxy for the geographic distribution of consumption.* Calculated Collections are adjusted using provincial numbers of taxpayers from SARS Tax Statistics publications. "Unknown province" values are redistributed in the same proportions as the nine provinces.	2.6%
Other	Rationale *Provincial own revenue collected by SARS must first be removed. The residual tax collections are assumed to accrue broadly in line with provincial economic activity.*	0.6%

	Calculated Provincial own revenue from each of the nine provinces is removed. The remainder is adjusted using Statistics South Africa provincial Gross Value-Added proportions.	
Total PRRN contribution to total Western Cape *revenue raised*		75.5%

APPENDIX 4

National spending received provincially (NSRP) assumptions and weighting

National Source	**Assumption to calculate NSRP Data from 2023 Excluding debt servicing costs**	**Approximate weighting in total Western Cape spending received**
Social Development	Rationale *Social assistance expenditure attributable to households within a provincial geographical area.* Calculated Total social assistance expenditure is adjusted using the number of social grant recipients per province as published by SASSA.	10.1%
Higher Education and Training	Rationale *University funding expenditure attributable to institutions operating within a province.* Calculated Total university funding expenditure is adjusted using the Department of Higher Education and Training's University State Budgets report, aggregated into provincial proportions.	6.8%
All other National Departments i.e. Residual National Department Expenditure	Rationale *A substantial share of expenditure can be assigned using observed allocations, including equitable share distributions, provincial and municipal grant transfers, social grants and university funding. The remaining expenditure consists largely of operational expenditure incurred directly by national departments. Most departments do not publish a sufficiently detailed provincial breakdown of this expenditure.* Calculated After removing expenditure that can be assigned through observed provincial allocations, the remaining national departmental expenditure is allocated using a composite measure based equally on: 1.) Provincial GDP shares 2.) Provincial General Government Services value-added shares as published by Statistics South Africa. GDP shares provide a proxy for the geographic distribution of economic activity, while General Government Services value added provides a proxy for the geographic distribution of government operations and employment.	38%
Total NSRP contribution to total Western Cape *spending received*		57%

APPENDIX 5

Residual national department expenditure attribution

A substantial share of government expenditure can be assigned to provinces using observed allocation data via Provincial Equitable Share (PES) distributions, Municipal Equitable Share (MES) distributions, provincial grant transfers, municipal grant transfers, social grants and university funding.

The challenge arises with the remaining expenditure incurred directly by national government departments. Most national departments do not publish a clear provincial breakdown of operational expenditure, despite delivering services throughout the country. After the expenditure streams above have been allocated, roughly 35% of total expenditure received remains unattributed and must be assigned across provinces in a methodologically robust way.

A simple population-based allocation was considered but ultimately rejected. Population is already a significant determinant of the Provincial Equitable Share and Municipal Equitable Share formulas and therefore already influences a large share of expenditure captured elsewhere in the framework.

Conversely, allocating the remaining expenditure entirely on the basis of provincial GDP would likely overstate expenditure in highly productive provinces. While GDP provides a reasonable proxy for overall economic activity, many national government functions are labour-intensive, and their expenditure is strongly influenced by the physical location of government operations and personnel.

- This consideration is particularly important because a substantial share of equitable share allocations and grant expenditure to provinces and municipalities has already been accounted for.

As such, the remaining expenditure pool consists largely of operational expenditure incurred by national departments. Such expenditure is dominated by compensation of employees, office operations, administration, policing, regulatory functions and other government services. A significant proportion of these activities is concentrated in provinces that host large national government operations, particularly Gauteng.

- To address these competing considerations, residual national departmental expenditure is allocated using a composite measure based equally on provincial GDP shares and provincial General Government Services value-added shares, as published by Statistics South Africa.

GDP shares provide a proxy for the geographic distribution of economic activity, while General Government Services value added provides a proxy for the geographic distribution of government operations and employment. The resulting composite measure is intended to balance these two dimensions. It recognises that national departmental expenditure is neither distributed purely according to population nor purely according to economic activity, but rather reflects a combination of economic activity and the physical location of government service delivery.

Importantly, this methodology is applied only to the residual expenditure pool. The majority of provincial expenditure flows are allocated using observed distributions before this proxy is applied.

INFORMATION SOURCES:

National Treasury, Budget Review, *various years*

National Treasury, Division of Revenue Bill, *various years*

National Treasury, Estimates of National Expenditure, *various years*

Statistics South Africa, Gross Domestic Product (GDP), Quarterly and Regional, *various years*

Statistics South Africa, Mid-year Population Estimates, *various years*

Statistics South Africa, Quarterly Financial Statistics of Municipalities, *various years*

South African Revenue Service and National Treasury, Tax Statistics, *various years*

Department of Higher Education and Training, University State Budgets, *various years*

Eastern Cape Provincial Treasury, Estimates of Provincial Revenue and Expenditure, *various years*

Free State Provincial Treasury, Estimates of Provincial Revenue and Expenditure, *various years*

Gauteng Provincial Treasury, Estimates of Provincial Revenue and Expenditure, *various years*

KwaZulu-Natal Provincial Treasury, Estimates of Provincial Revenue and Expenditure, *various years*

Limpopo Provincial Treasury, Estimates of Provincial Revenue and Expenditure, *various years*

Mpumalanga Provincial Treasury, Estimates of Provincial Revenue and Expenditure, *various years*

Northern Cape Provincial Treasury, Estimates of Provincial Revenue and Expenditure, *various years*

North West Provincial Treasury, Estimates of Provincial Revenue and Expenditure, *various years*

Western Cape Provincial Treasury, Estimates of Provincial Revenue and Expenditure, *various years*

National Traffic Information System (eNatis), Live Vehicle Population, *various years*

South African Social Security Agency (SASSA), Social Grant Payments Report, *various years*

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