

**Request for Information
Budget Committee of 16 March 2021**

“The details of the new data that was used and the inputs that was provided to National Treasury which relates to the Equitable Share Formula”

Provincial Equitable Share

In terms of section 227 (1) of the Constitution of the Republic of South Africa (Act 108 of 1996), each province is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it.

The Provincial Equitable Share is the primary source of funding for provinces, accounting for more than 80 per cent of transfers to provinces. It is calculated using a formula based on demographic factors that affect demand for services.

The table below provides the Rand value of the Provincial Equitable Share for the 2021/22 MTEF.

Provincial equitable share (R'000)

	2020/21	2021/22	2022/23	2023/24	Average annual MTEF growth
R million		Medium-term estimates			
Eastern Cape	69 195	68 060	67 428	66 899	-1.1%
Free State	28 934	29 055	29 008	29 005	0.1%
Gauteng	108 310	111 429	112 561	113 870	1.7%
KwaZulu-Natal	107 608	107 126	106 928	106 895	-0.2%
Limpopo	60 299	60 028	59 621	59 306	-0.6%
Mpumalanga	42 637	42 828	42 798	42 835	0.2%
Northern Cape	13 749	13 919	13 928	13 959	0.5%
North West	36 307	36 793	36 939	37 144	0.8%
Western Cape	53 677	54 448	54 876	55 390	1.1%
Total	520 717	523 686	524 088	525 304	0.3%

Source: National Treasury

The Western Cape's share of the Provincial Equitable Share is calculated to increase over the MTEF. The Western Cape's share increases from 10.3 per cent in 2020/21 to 10.4 per cent in 2021/21 and then again to 10.5 per cent in 2021/22 and 2022/23 respectively. The annual updates to the official data used to calculate the formula result in changes to each province's share of the available funds. These changes reflect the changing balance of service delivery demands among the provinces. In order to ensure that the allocations remain stable and predictable in support of proper planning, changes are phased in over a three-year MTEF period.

Provincial equitable share (% total)

	2020/21	2021/22	2022/23	2023/24
R million			Medium-term estimates	
Eastern Cape	13.3%	13.0%	12.9%	12.7%
Free State	5.6%	5.5%	5.5%	5.5%
Gauteng	20.8%	21.3%	21.5%	21.7%
KwaZulu-Natal	20.7%	20.5%	20.4%	20.3%
Limpopo	11.6%	11.5%	11.4%	11.3%
Mpumalanga	8.2%	8.2%	8.2%	8.2%
Northern Cape	2.6%	2.7%	2.7%	2.7%
North West	7.0%	7.0%	7.0%	7.1%
Western Cape	10.3%	10.4%	10.5%	10.5%
Total	100.0%	100.0%	100.0%	100.0%

Source: National Treasury

New Data

The equitable share formula consists of six components that account for the relative demand of services and take into consideration the change of demographics in each province. The weighting allocated to each of the components is not indicative of how much a province should allocate to a specific area. Provinces, through their budget allocation procedures, determine allocations based on their own prioritisation process and specific circumstances, within the available fiscal envelope.

Summary of PES Formula and data updates

Weight	Component	Data used
48%	Education	<ul style="list-style-type: none"> ● Mid-Year Population Estimates 2020 age cohorts (new data) ● 2020 LURITS School Enrolment (new data)
27%	Health	<ul style="list-style-type: none"> ● 2020 Mid-Year Population Estimates (new data) ● Insured population (2018 GHS) (old data) ● Risk adjusted index ● Patient load data (DHIS 2018/19 - 2019/20) (new data)
16%	Basic	<ul style="list-style-type: none"> ● 2020 Mid-Year Population Estimates (new data)
3%	Poverty	<ul style="list-style-type: none"> ● 2020 Mid-Year Population Estimates (new data) ● Income and Expenditure Survey 2010/11
1%	Economic	<ul style="list-style-type: none"> ● GDPR 2018 (new data)
5%	Institutional	<ul style="list-style-type: none"> ● Not applicable - distributed equally amongst provinces (data not used)

Note: New data indicated in bold

The structure of the two largest components, education and health, is based on the demand and the need for education and health services. The other four components enable provinces to perform their other functions, taking into consideration population size of each province, the proportion of poor residents in each province, the level of economic activity and the costs associated with running a provincial administration.

Education Component

The education component is comprised of two sub-components school-age population (5 – 17 years) and enrolment data which are weighted equally.

Table W1.8 Impact of changes in school enrolment on the education component share

	Age 5-17	School enrolment		Changes in enrolment data	Weighted average		Difference in weighted average
		2019	2020		2020 MTEF	2021 MTEF	
Thousand							
Eastern Cape	1 901	1 841	1 841	-0	14.0%	13.6%	-0.40%
Free State	724	714	718	4	5.3%	5.3%	-0.07%
Gauteng	2 965	2 440	2 500	60	19.4%	19.9%	0.49%
KwaZulu-Natal	3 034	2 841	2 864	23	21.6%	21.5%	-0.08%
Limpopo	1 680	1 753	1 758	5	12.7%	12.5%	-0.18%
Mpumalanga	1 165	1 095	1 107	13	8.4%	8.3%	-0.07%
Northern Cape	318	298	303	5	2.3%	2.3%	0.00%
North West	1 004	852	863	10	6.8%	6.8%	0.05%
Western Cape	1 449	1 186	1 240	55	9.5%	9.8%	0.26%
Total	14 240	13 021	13 195	174	100.0%	100.0%	-

Source: National Treasury

Health Component

Table W1.11 Health component weighted shares

Weight	Risk-adjusted	Primary healthcare	Hospital component	Weighted shares		Change
	75.0%	5.0%	20.0%	2020	2021	
Eastern Cape	11.8%	13.8%	13.3%	12.3%	12.2%	-0.13%
Free State	5.1%	4.5%	6.6%	5.3%	5.4%	0.05%
Gauteng	24.9%	17.7%	23.2%	24.0%	24.2%	0.19%
KwaZulu-Natal	20.0%	23.8%	21.9%	20.5%	20.6%	0.09%
Limpopo	9.9%	12.0%	9.2%	10.2%	9.9%	-0.30%
Mpumalanga	7.9%	7.7%	5.8%	7.5%	7.4%	-0.02%
Northern Cape	2.2%	2.3%	1.8%	2.1%	2.1%	0.02%
North West	7.3%	6.3%	5.0%	6.7%	6.8%	0.06%
Western Cape	11.0%	11.9%	13.1%	11.4%	11.4%	0.03%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	-

Source: National Treasury

The risk adjusted component accounts for 75 per cent of the Health component is based on a weighted population in each province using data from the Council for Medical Schemes Risk Equalisation Fund. The percentage of the population with medical insurance (based on the 2018 General Household Survey) is deducted from the 2020 mid-year population estimates to estimate the uninsured population per province. 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. The output sub-component which used patient load data from primary healthcare visits and hospital workload patient-day equivalents comprise the remaining 25 per cent.

Basic Component

This component which accounts for 16 per cent of the total equitable share used population data from the 2020 mid-year population estimates from Statistics South Africa. The shifts between the 2019 and 2020 Mid-Year Population Estimates and their impact on the change in the provincial share of the population are reflected in the table below.

Table W1.12 Impact of the changes in population on the basic component shares

Thousand	Mid-year population estimates		Population change	% population change	Basic component shares		Change
	2019	2020			2020 MTEF	2021 MTEF	
Eastern Cape	6 712	6 734	22	0.3%	11.4%	11.3%	-0.13%
Free State	2 887	2 929	41	1.4%	4.9%	4.9%	-0.00%
Gauteng	15 176	15 488	312	2.1%	25.8%	26.0%	0.16%
KwaZulu-Natal	11 289	11 532	243	2.1%	19.2%	19.3%	0.13%
Limpopo	5 983	5 853	-130	-2.2%	10.2%	9.8%	-0.36%
Mpumalanga	4 592	4 680	88	1.9%	7.8%	7.8%	0.04%
Northern Cape	1 264	1 293	29	2.3%	2.2%	2.2%	0.02%
North West	4 027	4 109	82	2.0%	6.9%	6.9%	0.04%
Western Cape	6 844	7 006	161	2.4%	11.6%	11.8%	0.11%
Total	58 775	59 622	847	-	100.0%	100.0%	-

Source: National Treasury

Institutional Component

This component recognises that some costs associated with running a provincial government and providing services are not directly related to the size of a province's population or factors included in other components. The Institutional Component remains unchanged as it is independent of data (is equally divided between provinces).

Poverty Component

The estimated size of the poor population in each province is calculated by multiplying the proportion of people in that province who fall into the poorest 40 per cent of South African households by the province's population figure from the 2020 mid-year population estimates.

Table W1.13 Comparison of current and new poverty component weighted shares

Thousand	Income and Expenditure Survey 2010/11	Current (2020 MTEF)			New (2021 MTEF)			Difference in weighted shares
		Mid-year population estimates 2019	Poor population	Weighted shares	Mid-year population estimates 2020	Poor population	Weighted shares	
Eastern Cape	52.0%	6 712	3 492	14.9%	6 734	3 504	14.8%	-0.1%
Free State	41.4%	2 887	1 195	5.1%	2 929	1 212	5.1%	0.0%
Gauteng	28.9%	15 176	4 381	18.7%	15 488	4 471	18.8%	0.2%
KwaZulu-Natal	45.3%	11 289	5 115	21.8%	11 532	5 225	22.0%	0.2%
Limpopo	52.9%	5 983	3 162	13.5%	5 853	3 094	13.0%	-0.5%
Mpumalanga	47.3%	4 592	2 170	9.3%	4 680	2 211	9.3%	0.1%
Northern Cape	40.8%	1 264	515	2.2%	1 293	527	2.2%	0.0%
North West	47.9%	4 027	1 929	8.2%	4 109	1 968	8.3%	0.1%
Western Cape	21.9%	6 844	1 496	6.4%	7 006	1 532	6.5%	0.1%
Total		58 775	23 457	100.0%	59 622	23 744	100.0%	-

Source: National Treasury

Economic Activity Component

The economic activity component is a proxy for provincial tax capacity and expenditure assignments.

Table W1.14 Current and new economic activity component weighted shares

	Current (2020 MTEF)		New (2021 MTEF)		Difference in weighted shares
	GDP-R, 2017 (R million)	Weighted shares	GDP-R, 2018 (R million)	Weighted shares	
Eastern Cape	358 627	7,7%	375 489	7,7%	-0,0%
Free State	234 505	5,0%	243 139	5,0%	-0,1%
Gauteng	1 593 874	34,3%	1 672 745	34,3%	0,1%
KwaZulu-Natal	746 360	16,0%	778 763	16,0%	-0,1%
Limpopo	340 273	7,3%	359 885	7,4%	0,1%
Mpumalanga	348 987	7,5%	366 839	7,5%	0,0%
Northern Cape	96 487	2,1%	100 120	2,1%	-0,0%
North West	301 477	6,5%	313 645	6,4%	-0,0%
Western Cape	632 990	13,6%	663 276	13,6%	0,0%
Total	4 653 579	100,0%	4 873 899	100,0%	0,0%

Source: National Treasury

Inputs provided to the National Treasury

The Provincial Treasury has engaged with National Treasury as part of the PES Formula Review Task Team.

Several discussions have been held on the need for the PES Formula to take account of the different costs of delivering services in urban and rural areas, including substantial presentations and discussions at the 2018 TCF Lekgotla. Even though there has been a broad consensus that rural and urban costs are different, there has so far not been an agreement on an appropriate approach to identify which areas are 'rural' and how to quantify the higher costs. As a result of the complexities the PES task team recommends pausing work on rurality in order to prioritise work on the health, education and poverty components in the short-term.

The PES formula review task team has held several meetings during 2020 to discuss and agree on the way forward on several aspects of the review. Meetings have also been held with the Department of Health and Department of Basic Education to discuss possible improvements to the health and education components and to obtain data from them. The matters are complex and proposed changes have not yet been finalised.