1. INTRODUCTION

The Provincial Government Equitable Share (PGES) allocation is derived from Section 214(1)(a) of the Constitution, which requires an Act of Parliament to provide for “the equitable division of revenue raised nationally among the national, provincial and local spheres of government”, (Constitution of the Republic of South Africa, 1996). The Act referred to in Section 214 (1)(a) of the Constitution is the Division of Revenue Act which provides for the equitable division of revenue among the three spheres of government and sets out the responsibilities of all three spheres in respect of the revenues allocated. In addition, Section 227 of the Constitution states that the Provincial Government is entitled to an equitable share of nationally raised revenue to enable them to provide basic services and perform their allocated functions.¹

This brief provides Members of the Select Committee on Appropriations with an overview of the PGES formula components.

2. PROVINCIAL GOVERNMENT EQUITABLE SHARE (PGES)

The Provincial Government Equitable Share (PGES) allocation is determined by the national budget process and is endorsed by Cabinet; this is what is referred to as the vertical division of revenue. The proportion of the aggregate equitable share pool, which goes to an individual province such as Gauteng, is determined using a formula, which is referred to as the horizontal division of revenue.

2.1. PGES Formula components

The PGES allocation to provinces is based on a formula, which is comprised of a number of components that influences the final allocation to each province.

The provincial equitable share formula is comprised of six components, as follows:

1. An *Education component* (48 per cent weighting) based on the size of the school-age population (ages 5-17) and the number of learners (Grade R to 12) enrolled in public ordinary schools;

2. A *Health component* (27 per cent weighting) based on each province’s risk profile and the health system caseload (i.e. a combination of each province’s share of the average number of visits to primary healthcare clinics and average patient-day equivalents from public hospitals);

3. A *Basic share component* (16 per cent weighting) is derived from each province’s share of the national population. This component captures the relative demand for services across the provinces;

4. An *Institutional component* (5 per cent weighting), which is divided equally between the provinces. This component provides funding for some costs associated with running a provincial government and providing services that are not directly related to the size of a province’s population;

5. A *Poverty component* (3 per cent weighting) introduces a redistributive element to the formula and is based on income data to estimate the size of the poor population (i.e. lowest 40 per cent of household incomes) in each province; and

6. An *Economic activity component* (1 per cent weighting) is based on regional Gross Domestic Product (GDP-R) data as measured by Statistics South Africa.

Simply stated, if R100 were available to all nine provinces, in terms of the PES formula there would be:

- R48 would be allocated through the *Education component*; or all nine provinces;
- R27 for the *Health component*;
- R16 for the *Basic share component*;
- R5 for the *Institutional component*;
- R3 for the *Poverty component* and
- R1 for the *Economic activity component*.

Gauteng’s allocation would therefore amount to **R21.70** in total based on the scenario of R100 available for PES. See Box 1 below, which illustrates how the different components are calculated.

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2 National Treasury (2021), p. 75.
# Box 1: PES allocation calculations

## Education component

Uses the school age population (5-17 years) based on Statistics South Africa’s annual mid-year population estimates. This data is updated yearly, unlike the 2011 Census data, which was previously used to update the school-age population.

While the enrolment data is obtained from the Department of Basic Education’s School Realities Survey.

\[
\text{Age Cohort Share} \times \text{School Enrolment Share} = \text{Average Weighted Share}
\]

\[
\left(\frac{\text{Age Cohort GP}}{\text{Age Cohort RSA}}\right) \times \left(\frac{\text{School Enrolment GP}}{\text{School Enrolment RSA}}\right) = \text{Average Weighted Share}
\]

\[
(3 \text{ million} / 14.2 \text{ million}) \times (2.5 \text{ million} / 13.2 \text{ million}) = 19.9\%
\]

- Of the R48 available for the education component, GP gets 19.8\% \times R48 = R9.55

## Health component

The Health component consists of the sum of two sub-components, the Risk adjusted sub-component, and the Output sub-component.

The Risk adjusted sub-component share (weighted 75\%) + Primary health care sub-component (weighted 5\%) + Hospital sub-component (weighted 20\%) = Health Share.

The Risk adjusted sub-component is calculated as below:

\[
\left(\frac{\text{Mid-Year Population Estimate GP} \times \text{Insured Population GP} \times \text{Risk Adjusted Index GP}}{\text{Weighted Risk Population GP} / \text{Total Weighted Risk Population RSA}}\right)
\]

\[
15.5 \text{ million} \times (1-23.9\%) \times 105.4 \% = 12.4 \text{ million} / 49.8 \text{ million} = 24.9 \%
\]

The Risk Adjusted sub-component essentially deducts the percentage of the population with medical insurance (based on the 2015 General Household Survey) from the 2020 Mid-Year Population Estimate to arrive at an estimate of the uninsured population per province. While, the risk-adjusted capitation index, which is calculated using data from the Council for Medical Schemes’ Risk Equalisation Fund.

The Output sub-component is calculated from patient load data from the District Health Information Services. The Output sub-component is comprised of patient load data from Primary Healthcare Clinics and Hospitals.
Health component continued

(Average PHC Visits GP / Total Average PHC Visits RSA) = 21.1 million/ 119.5 million = 17.7%

The average number of visits to primary healthcare clinics in 2018/19 and 2019/20 is calculated to estimate each province’s share of this part of the output component, which account for 5 per cent of the Health component.

(Average Hospital Workload GP / Total Average Hospital Workload RSA) = 7.6 million/ 32.6 million = 23.2%

For hospitals, each province’s share of the total patient-day equivalents at public hospitals in 2018/19 and 2019/20 is used to estimate their share of this part of the output subcomponent, which account 20 per cent of the Health component. In total, the output component is 25 per cent of the Health component.

The Health component is therefore calculated as follows:

Risk Adjusted share (75% x 24.9%) + Primary Health Care (5% x 17.7%) + Hospital Component (20% x 23.2%) = 24.2%

- Of the R27 available for the health component, GP gets 24.2% x R27 = R6.53

Basic share component

The Basic share component (comprising 16 per cent) is derived from each province’s share of the national population, as measured by the 2020 Mid-year Population Estimates produced by Statistics South Africa.

Mid-year Population Estimate GP / Total RSA Population = Basic Share GP

(15.5 million / 59.6 million) = 26%

- Of the R16 available for the basic component, GP gets 26% x R16 = R4.16

This component benefits provinces with smaller populations, especially the Northern Cape, the Free State and the North West, because the allocation per person for these provinces is much higher in this component.
3. CONCLUSION

The PGES formula was last reviewed in 2010, which was conducted in two phases. The Financial and Fiscal Commission (FFC) concluded the first phase in 2009. The FFC identified the policy imperatives of the review and made proposals regarding the reform of provincial fiscal powers and the provincial fiscal framework. The National Treasury was responsible for the second phase of the review and presented their recommendations to the Budget Council on 04 October 2010. The Government only responded to the recommendations relating to the Provincial Equitable Share formula and not to the proposed changes to the fiscal (revenue/tax-raising) powers of Provinces.

The FFC has made recommendations in 2010, 2018 and 2020 regarding reforms to the PGES formula. The FFC concluded that the challenges and concerns on the PGES could

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**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 other factors included in other components. It is distributed equally among the provinces and constitute 11.1%.

- Of the R5 available for the institutional component, GP gets 11.1% x R5 = R0.56

**Poverty component**

For this component, the poor population is defined as people who fall into the lowest 40 per cent of household incomes in the 2010/11 Income and Expenditure Survey.

\[
\text{(Mid-year Population Estimate GP x Income and Expenditure Survey} \times \% \text{ of Poor Population GP) / Total RSA Poor Population = Poverty Share GP}
\]

\[
(15.5 \text{ million} \times 28.9\% / 23.7 \text{ million}) = 18.9\%
\]

- Of the R3 available for the poverty component, GP gets 18.8% x R3 = R0.56

**Economic activity component**

This component serves as a proxy for provincial tax capacity and expenditure assignments. For the 2021 MTEF, 2018 GDP-R data is used.

\[
\text{GDP-R GP/ GDP RSA = Economic Output Share GP}
\]

\[
(R1.67 \text{ billion} / R4.87 \text{ billion}) = 34.3\%
\]

- Of the R1 available for economic output, GP gets 34.3% x R1=R0.34
not be resolved solely by changing the formula; the vertical division of revenue, (i.e. issues with the equitable allocation among the three Governments spheres) need to be considered alongside relative accountability.³

Lastly, the FFC and the 2010 National Treasury recommendations regarding fiscal revenue/tax-raising powers of Provinces must be revisited, for the following reasons:

- Nationally raised revenue has been under strain for some years now, coming in below annual projections, meaning that the available revenue to be shared among the three Government spheres is becoming smaller;
- The Coronavirus pandemic has had a negative impact on the economy and revenue collection rates across the three Government spheres, which means that alternative sources of revenue need to be explored.

REFERENCES


National Treasury (2021), Division of Revenue Bill [B3-2021].