

A review of the provincial equitable share formula – Responsiveness to the changing social structure

Executive Summary

The Constitution of the Republic of South Africa established three distinct, yet interdependent spheres of government. It further assigned expenditure responsibilities to each of them. Accordingly, the Constitution provides that each sphere of government is entitled to a share of nationally raised revenue. All provinces in South Africa are therefore constitutionally entitled to a share of a general-purpose equitable share of nationally raised revenue to fulfill their obligations, as stipulated in the Bill of Rights and schedule 4 and 5 of the Constitution over and above conditional grants.

Two processes are vital in sharing nationally raised revenue in South Africa: vertical and horizontal revenue division. The vertical division of revenue is a political process that considers various functions and responsibilities assigned to each sphere of government and national priorities. The vertical division determines the share of the nationally raised revenue allocated to the national, provincial and local governments. The local government equitable share formula is utilised to allocate resources available for the local government sphere. For provinces, once the vertical division of revenue has been completed and determined, the total provincial equitable share pool is allocated horizontally across all nine provinces using the provincial equitable share formula (PES) proposed by the Financial and Fiscal Commission in 1996.

The PES formula has six components: health, education, basis, poverty, institutional and economic activity. A weighting is assigned to each component. While components of the PES, including assigned weights, are clearly understood, not much analysis has been undertaken concerning what happens after PES funding is left at the disposal of provinces. There is a need to understand whether provinces disregard the weightings provided by the PES formula; hence the question of adequacy concerning the education and health functional areas. The other challenge often raised by provinces is the responsiveness (or lack thereof) of the PES formula and funding to the changing social structure.



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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. This relates to the equitable division of government revenue among three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly to both Parliament and the provincial legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February each year.

The Commission consists of commissioners appointed by the President: the Chairperson and Deputy Chairperson, three representatives of provinces, two representatives of organised local government and two other persons. The Commission pledges its commitment to the betterment of South Africa and South Africans in the execution of its duties.

Therefore, the main aim of this paper is to review and analyse expenditure patterns for health and education for all provinces; and to evaluate and analyse social structure changes in provinces for education and how the PES and other fiscal instruments respond to such changes.

To achieve its aim, the study undertook an analysis of the PES allocations and how far provinces deviate from the PES formula weights and changes in social structures (using variables such as learners' enrolment, the number of schools and teachers in a province). To fully understand other intergovernmental fiscal challenges and how provinces respond to social changes within education, given limited resources, the study utilised stakeholder engagements (mainly with officials from selected provincial treasuries).

With respect to the funding of education, the study revealed that all provinces allocate close to or more than 48% of PES revenue to education, except for few provinces, including Gauteng and the Western Cape. With respect to health allocation, all provinces allocate more than 27% of their PES funding to health.

With respect to social changes, the study revealed that, while some provinces have experienced a decline in the number of learners and schools, the number of teachers remains constant or increases in some instances. Other challenges revealed by the study include a lack of infrastructure delivery plans between the national Department of Basic Education and the provincial departments of Education, as well as a skills gap (where teachers were trained on an old and outdated curriculum). This necessitates the employment of new teachers as some teachers in the system are unable to teach according to the new curriculum, increasing personnel costs. Hence, the Commission recommends that the national Department of Basic Education and the provincial departments of Education should improve and strengthen the alignment of infrastructure delivery plans and projects, and that the national Department of Basic Education should undertake a skills audit to identify the skills gap, and develop and implement teachers' training programmes.

Background

In South Africa, all spheres of government, including the provinces, are constitutionally entitled to a share of a general-purpose equitable share of nationally raised revenue to fulfill their obligations, as stipulated in the Bill of Rights and schedule 4 and 5 of the Constitution.

Two processes are vital in sharing nationally raised revenue in South Africa: vertical and horizontal revenue division. The former is a political process that considers various functions and responsibilities assigned to each sphere of government and national priorities, while the latter determines the share of the nationally raised revenue allocated to the national, provincial and local governments.

In South Africa, different formulae are utilised to allocate the resources available for the local government and provinces in the form of the local government equitable share and the provincial equitable share, respectively. The PES formula has six components: health, education, basis, poverty, institutional and economic activity. A weighting is assigned to each component. Since 1996, the PES formula has been subjected to various reviews, aimed at improving resource distribution and equity, among other things. While components of the PES, including assigned weights, are clearly understood, not much analysis has been undertaken concerning what happens after PES funding is left at the disposal of provinces. There is a need to understand whether provinces disregard the weightings provided by the PES formula; hence the question of adequacy concerning the education and health functional areas. The other challenge often raised by provinces is the responsiveness (or lack thereof) of the PES formula and funding to the changing social structure. When learners migrate from one province to another, the PES formula internalises and adjusts resources through the education component to follow learners' movement, but it fails to consider other necessary intergovernmental fiscal instruments.

This paper firstly critically analyses whether provinces allocate adequate resources or deviate significantly from the PES formula weighting when allocating resources to education and health. The analysis undertaken included calculating and analysing the percentage of funding allocated to education and health by provinces, and comparing this with weights indicated in the PES formula. Secondly, the study undertook an analysis to determine the extent to which resource and expenditure allocation responded to changes in the social structure.

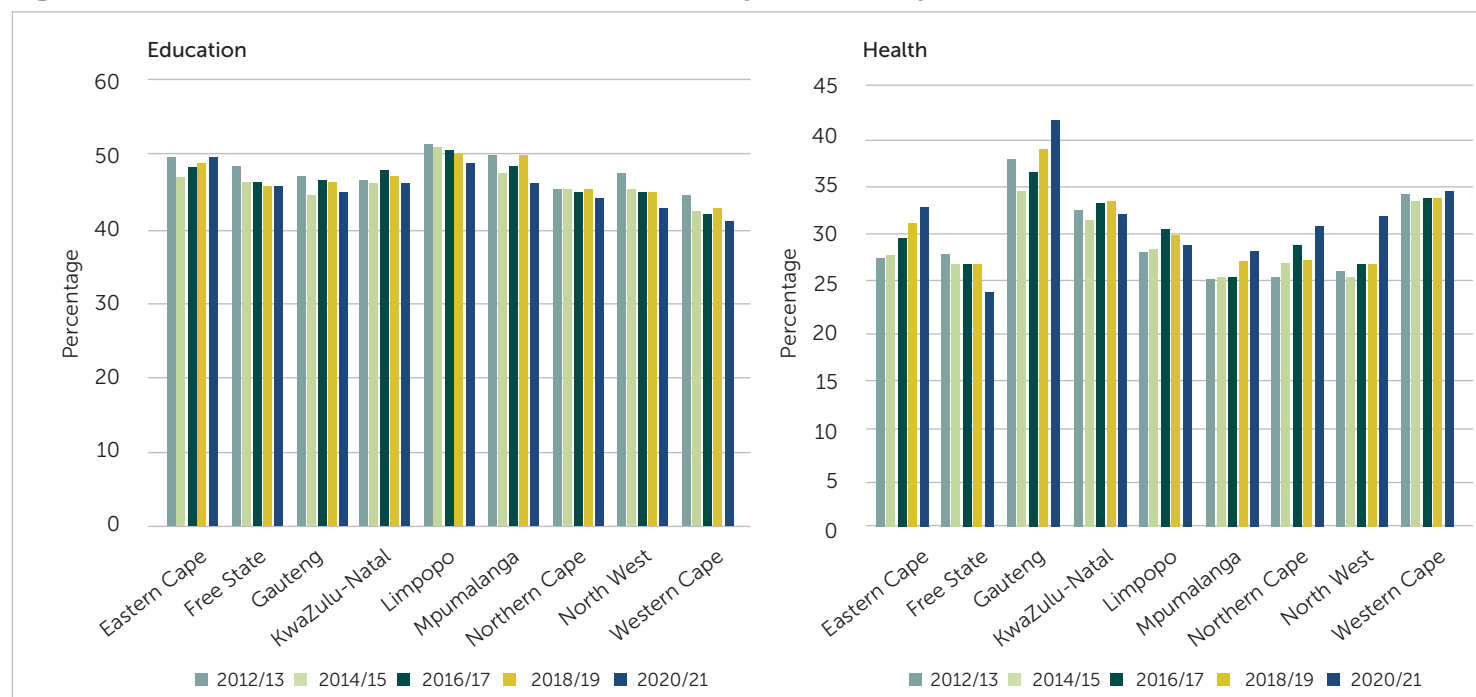
The analysis included taking a closer look at changes in the number of schools and learners’ enrolment per province against the number of teachers remaining in the employment of a province. Lastly, through a case study approach and stakeholder engagement, the paper reviewed other intergovernmental fiscal challenges and how provinces adjust to inadequate financial resources.

Research findings

According to the PES formula, the education component has the highest weight of 48%. Provinces have discretion on how much to allocate to education; hence different provinces allocate different funding percentages from the PES to education. Notable from Figure 1 is that Limpopo has consistently allocated more than 48% of its equitable share to education in all the years. The Eastern Cape and Mpumalanga allocated more than 48% to education in many years (in only two and three years, where the Eastern Cape and Mpumalanga’s allocations were below 48%). The Western Cape, Gauteng and North-West consistently allocated less than 48% of their PES funding to education.

For health, the PES formula’s weight is 27%. While provinces have discretion on how to reprioritise funding from the PES once it is at their disposal, Figure 1 also illustrates that a number of provinces have been allocating more than 27% of their PES funding to health between 2012/13 and 2020/21. Gauteng has never allocated less than 33% of its PES funding to health since 2012/13. In 2020/21, Gauteng allocated over 41% of its PES funding to health, confirming the COVID-19-induced health needs. This shows the health expenditure pressures faced by all the provinces. While this could improve health care delivery and outcomes, it compromises the quality of education, especially given the increasing number of learners in these provinces. There is inconsistency in the percentage each province allocates to education and health. For example, the Eastern Cape allocated 49.7%, 48.7% and 49.9% to education in 2012/13, 2014/15 and 2020/21, respectively. In contrast, it allocated 27.8%, 29.4% and 32.8% respectively, to health over the same period. This may be as a result of the lack of costing needs or systems to guide the smooth allocation of resources.

Figure 1: Provincial allocation of resources from the provincial equitable share to education and health

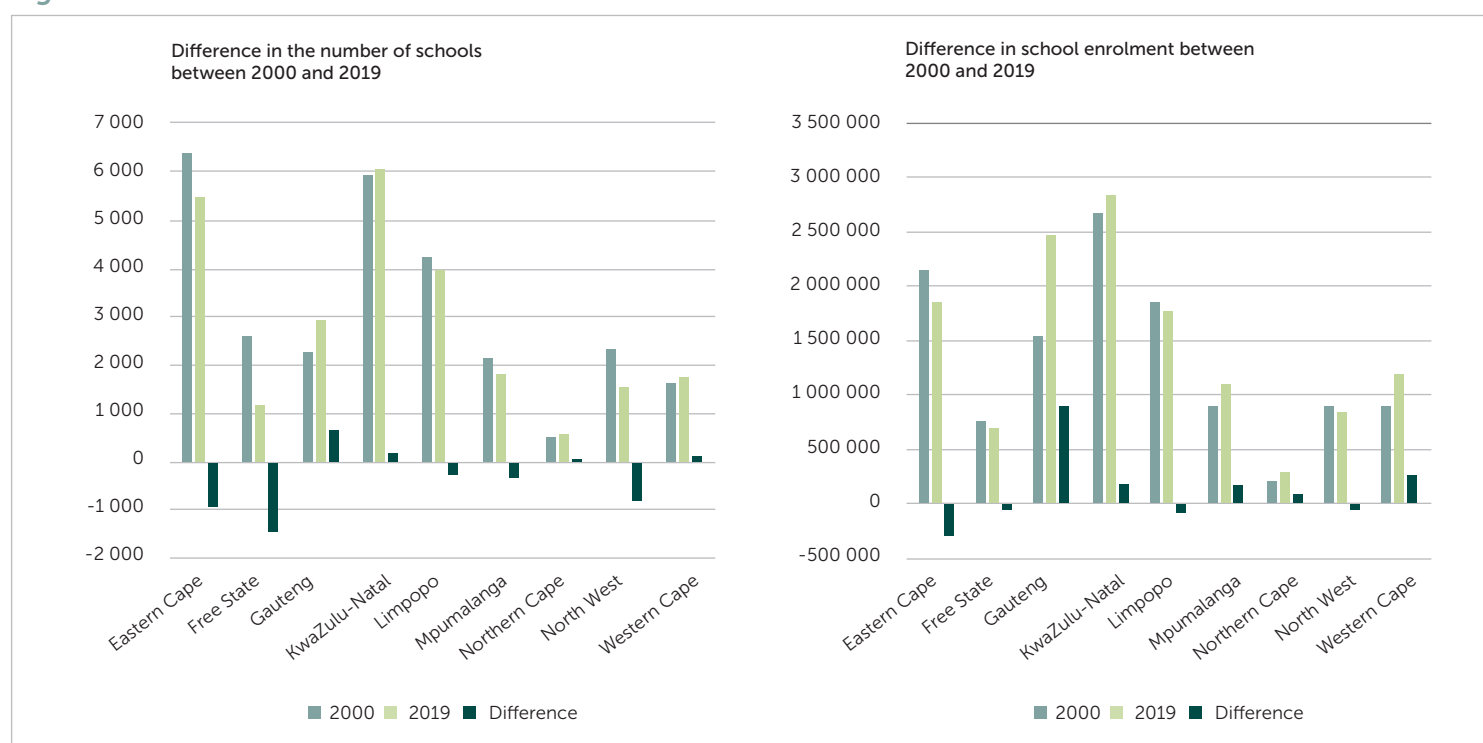


Source: National Treasury, 2012–2021¹

¹ National Treasury. 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020. *Estimates of Provincial Revenue and Expenditure*. Pretoria: National Treasury.

With respect to the changing social structure and resources requirements, there have been changes in the number of schools in provinces, mainly due to learners’ movement between provinces, leading to some provinces losing learners, while others are gaining learners. Some schools had to be shut down and merged, primarily in provinces losing a significant number of learners, while a need for more schools arose in provinces receiving more learners. Figure 2 shows that the total number of schools has decreased by 2 196 nationally (from 27 194 in 2000 to 24 998 in 2019), provinces with the highest drop are the Free State, Eastern Cape, and Northwest. Decrease in the number of schools in the Eastern Cape and North-West correspond to the decreasing number of learners over the same period, while in the Free State, there was only a slight decrease in the number of learners. The number of schools in Gauteng increased significantly from 2 270 in 2000 to 2 913 in 2019, which corresponds to a significant increase in enrolment numbers, indicating a need for new schools in the province. In the Western Cape, there was an increase in enrolment and the number of schools. There is a positive relationship between the number of learners and the number of schools in a province. Since the PES uses school enrolment numbers, it plays a vital role in ensuring that provinces with more learners receive a higher share. However, there is no alignment between the PES and other complementary intergovernmental fiscal instruments, such as school infrastructure grants, to ensure the availability of adequate funding for the development of new school infrastructure.

Figure 2: Difference in the number of schools and school enrolment between 2000 and 2019



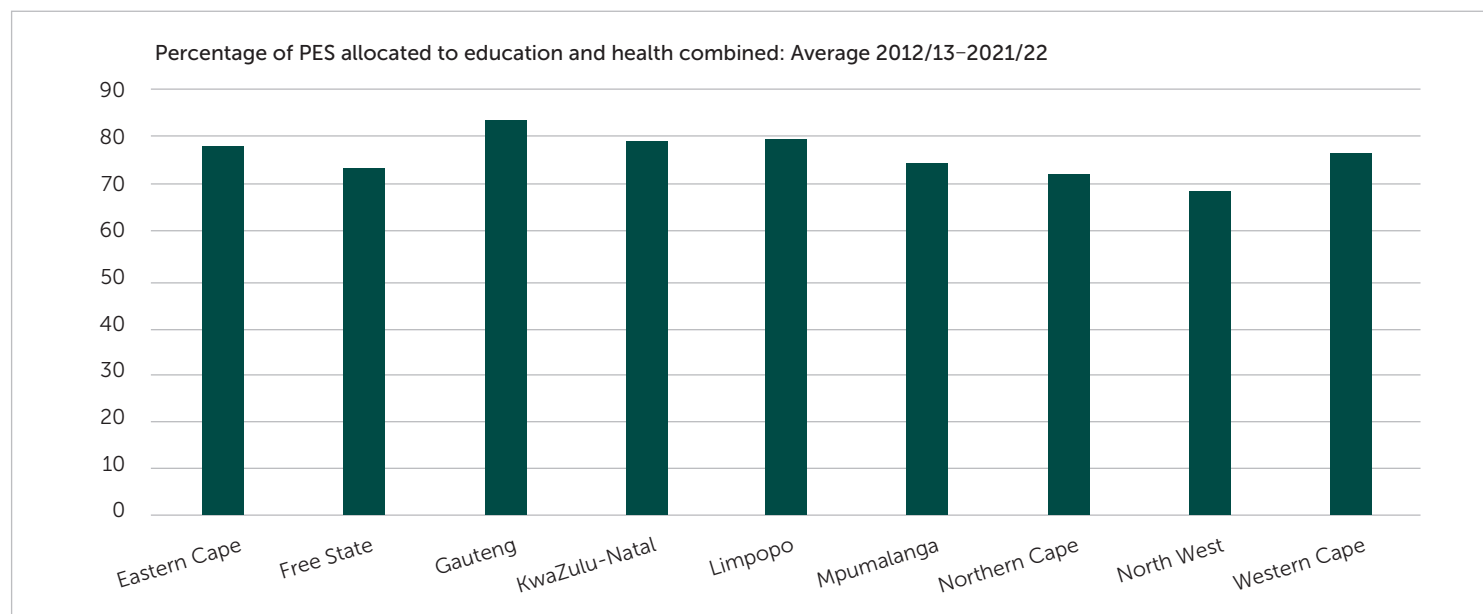
Source: Department of Education, 2000² and 2019³

With respect to how provinces adjust to inadequate financial resources, analysis revealed that provinces prioritise and protect education and health, as combined spending on these two areas exceeds 75% of allocated funds from the PES. For example, Gauteng allocates over 83% of PES funding to education and health. This implies that provinces allocate very few resources to other functional areas.

² Department of Education. 2002. Education Statistics in South at glance in 2000. https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwjdt6b_0Mr3AhWNTcAKHcTsBclQFnoECBIQAQ&url=https://www.dhet.gov.za/DHET%20Statistics%20Publication/DoE%20Stats%20at%20a%20Glance%202000.pdf&usq=AOvVaw2C8j1w4ZkjmsJBFq4sbXEB

³ Department of Education. 2020. 2019 School Realities. Available at School Realities 2019 Final .pdf (education.gov.za)

Figure 3: Provincial allocation of resources from the provincial equitable share: education and health combined



The research also revealed that provinces reduce funding on goods and services (which includes learner support material) when faced with funding challenges, since it is difficult to reduce compensation of employees. This compromises the quality of education as a shortage of learner support material affects education quality. Stakeholder engagement also revealed that, in some instances, provinces delay the replacement of teachers (e.g. when they retire), which compromises the quality of education. KwaZulu-Natal, for example, indicated that it is unable to afford and replace over 6 000 teachers currently. The Eastern Cape also indicated that there were just over 54 000 vacant teachers’ posts in 2021. For 2022, this number was readjusted and reduced due to funding pressure. Freezing teachers’ posts as result of funding constraints will have a detrimental effect on the quality of education outcomes. Through stakeholder engagement, the study also revealed a challenge related to the absence of infrastructure delivery plans (coordination) in some instances between the national Department of Basic Education and the provincial departments of Education with respect to some infrastructure grants within the sector (particular the Accelerated School Infrastructure Development Initiative, an indirect infrastructure grant). The other key challenge revealed by the study relates to the education skills gap faced by provinces, where some teachers, who were trained on an old and outdated curriculum, are unable to teach according to the new curriculum, which necessitates the employment of new teachers in the system, increasing personnel costs.

Conclusion

Most provinces consistently allocate closer to or more than 48% of their PES funding to education, with the few (including Gauteng and the Western Cape) consistently allocating less. Findings reveal that many provinces have been allocating more than 27% of their PES funding to health, which shows the health expenditure pressures. Notable is that some provinces move resources between education and health, and other activities. Moving financial resources from other functional areas to education and health has serious implications for funding other key sectors and activities, such as economic development. Study findings reveal a lack of coordination of education infrastructure delivery plans between the national Department of Basic Education, as a custodian of indirect grants (responsible for capital spending as part of the delivery of school infrastructure) and provincial departments of Basic Education (recipients of the PES funding and responsible for the operational spending of infrastructure delivered by the national Department of Basic Education through indirect grants). Analysis reveals that a large percentage of PES funding, both on education and health, is spent on personnel due to various reasons, including public sector wage agreements which are not taken into account when determining the PES to provinces and the teachers’ skills gap.

Based on these findings, it is recommended that the national Department of Basic Education and provincial departments of Education should improve the coordination of infrastructure delivery plans and that the national Department of Basic Education should undertake a skills audit to identify the skills gap and develop and implement teachers’ training programmes

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