

POLICY BRIEF NO. 7

Budget & Fiscal Federalism Series

A Review of Input Data in the Provincial Equitable Share

Executive Summary

Provinces, in the main, are responsible for social functions, including education and health. These provincial functions are not generating revenue for provinces. Provinces, therefore, heavily rely on fiscal transfers and spend much of their transfers on the compensation of employees, as they pay salaries to personnel in these sectors. The provincial equitable share (PES) formula is key in determining the shares each province receives from the provincial funding pool. The PES formula relies heavily on data, and often, availability, reliability, and up-to-date data are debated and remain a challenge. Furthermore, there is a common practice of funding allocations added to the PES but not determined by the formula and the use of a phasing-in approach, which undermines objectiveness, creates uncertainty, affects transparency and predictability, and is against the principles of intergovernmental fiscal transfers. This policy brief therefore reviews input data utilised in the PES and quantifies provincial allocations which are outside the determinant of the formula.

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FOCUS AREA: Intergovernmental fiscal transfers & data integrity

RELATED: Provincial Equitable Share formula; Division of Revenue Bill

THE FINANCIAL AND FISCAL COMMISSION

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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.

Background

Intergovernmental fiscal transfers, especially the provincial equitable share (PES), play a key role in ensuring that provinces fulfil their mandates. The PES formula relies heavily on data that determines how much each province receives from the provincial funding pool. Therefore, accurate and available input data is key. Often, availability, reliability, and up-to-date data are debated and remain a challenge. Furthermore, the current practice of allocations added to the PES that were not determined by the formula, and National Treasury's phasing-in approach, undermine the principles of objectivity, transparency, and affordability. Using qualitative and quantitative approaches, this brief examines the accuracy of data used in the PES formula, the impact of a phased-in approach, and the extent of the use of funding outside the PES formula.

Research Findings

Data Used to Determine Provincial Allocations for the Provincial Equitable Share

To determine allocations to each province, outdated data are used in the PES formula. In 2024, the formula used data from the 2022 mid-year population estimates, as there were no official mid-year population data from Statistics South Africa. This is a challenge given the high rates of migration and urbanisation in South Africa. Regarding the economic activity component, which uses regional Gross Domestic Product data, the data used for the 2024 allocation was also outdated: the 2019 official data was last published by Statistics South Africa and used in this component to determine provincial allocations for the 2024 medium-term expenditure framework (MTEF). This means that data as old as five years was utilised to determine funding shares allocated to provinces.

The Impact of Phasing In – Provincial Equitable Share Per Province

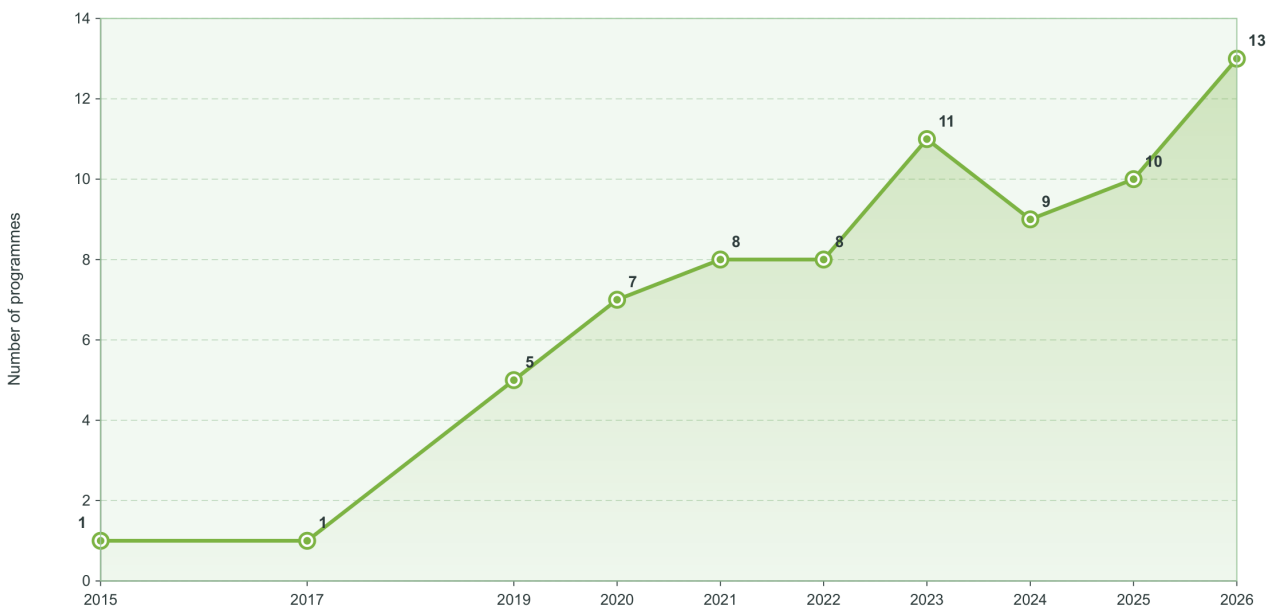
While the data is available and used to calculate shares for each province, the government does not implement all changes informed by the data; instead, a phased-in approach is used, aiming to achieve the new weighted shares only by the third year of the MTEF period. In this phasing-in approach, only one-third of the impact of the data updates is implemented in the first year of the MTEF. The justification for a phase-in mechanism suggests that provinces may lack the capacity to spend additional funding or could be destabilised by unexpected decreases in funding informed by socio-economic data changes. However, failure to implement the full impact of the data updates contravenes the intergovernmental fiscal principles of predictability and transparency. Therefore, a phase-in approach exacerbates funding challenges and backlog for provinces.

Quantifying Funding Allocation Outside the Provincial Equitable Share Formula

While only funding determined and calculated by the PES formula should be allocated to provinces using the PES, it is a common practice for the South African government to allocate funding for other specific programmes through the PES. This practice of adding funding for other programmes in the PES for provinces undermines the transparency and predictability of the PES formula.

In 2015, only funding for the devolution of property rates was added to the PES allocation for provinces, which was not determined by the formula, and in 2016, no funding was allocated outside the formula. Only funding for the adult basic education programme was added to the PES in 2017, and it was only for one financial year. In the 2026/27 financial year, three new programmes have been added: Early Retirement & Voluntary Exit Programmes, grade R equalisation, and reallocation from human settlements grants, increasing the number of programmes funded outside the PES formula to thirteen, as illustrated in Figure 1.

Figure 1: The number of programmes outside the Provincial Equitable Share Formula



Conclusion

The findings highlight challenges in implementing the PES formula due to outdated data. The study also reveals that the practice of implementing a phased-in approach deprives provinces of the full impact of the data update. The findings show an increasing number of programmes funded through the PES, thereby undermining the transparency, credibility, and predictability of the formula as an intergovernmental fiscal instrument. These are the challenges that must be addressed to ensure intergovernmental fiscal transfers remain equitable, transparent, credible, fair, and predictable.

The Commission Recommends That:

- 1 Statistics South Africa should prioritise improving the quality, timeliness, and relevance of input data used in the Provincial Equitable Share formula, while National Treasury, in the Division of Revenue Bill, should utilise input data directly provided by Statistics South Africa without subjective selection. This is to maintain the principles of transparency, objectivity, predictability, and fairness that underpin the integrity of intergovernmental fiscal relations and transfers.
- 2 National Treasury should refrain from a multi-year phasing-in approach used to implement changes in provincial allocations in the Division of Revenue Bill and move towards targeted capacity arrangements for provinces that may face challenges in absorbing rapid funding changes through conditional grants, with a clear limit.
- 3 For the provincial equitable share formula to remain objective, transparent, and predictable, and to ensure accountability and improve monitoring, the National Treasury in the Division of Revenue Bill should reduce or eliminate the practice of allocating funds through the Provincial Equitable Share that are not determined by the formula (i.e., outside the formula).

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