

NATIONAL COUNCIL OF PROVINCES
QUESTIONS FOR WRITTEN REPLY
QUESTION NUMBER: 84 [CW157E]
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Provincial Equitable Share distribution

84. Mr H J Van den Berg (Northern Cape: FF Plus) to ask the Minister of Finance:

Whether, with reference to his reply to Question 26 on 31 July 2024 and considering the geographical expanse of the Northern Cape, his department is considering (a) geography, (b) economic development and (c) the need for economic development as part of the components that make up the reviewed formula for the Provincial Equitable Share; if not, why not; if so, what are the relevant details in each case? CW157E

REPLY:

- The PES formula comprises of six components namely, education, health, basic, institutional, poverty and economic components. 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 the 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. These components serve to guide resource allocation to provinces, rather than determine allocations based on specific provincial functions. Provinces have the autonomy to allocate resources to meet basic needs and respond to provincial priorities, including developmental needs, while aligning with national objectives.

- The PES formula considers the relative demand for services and the legitimate burden provinces face in service delivery through its components:

Health component

- Allocates resources based on the number of uninsured individuals likely to use public healthcare.
- Considers service delivery costs in sparsely populated provinces like Northern Cape.
- Accounts for provincial deprivation levels, including education, living environment, and asset ownership.

Institutional component

- Recognises fixed costs of running a provincial government.
- Distributed equally among provinces, benefiting those with smaller populations (e.g., Northern Cape, Free State, North-West).

Poverty component:

- Accounts for the proportion of people in each province falling into the lowest 40% of household incomes.
- This combination of factors results in a redistributive element in the allocations. Rural and lower-income provinces receive higher per capita funding due to higher service delivery costs associated with lower population density. While urban provinces receive a higher proportion of funding and have higher provincial gross domestic products, rural provinces like Northern Cape receive more funding per capita. Additionally, conditional grants are provided to improve and expand service provision.
- Economic development, while not explicitly considered in the Provincial Equitable Share (PES) review, is indirectly addressed through the formula's structure and its consideration of economic disparities among the general population.

The review of economic development funding should not be limited to the PES or conditional grants. Economic development functions receive extensive funding across national, provincial, and local budgets. A comprehensive review should account for the cost and effectiveness of various economic development spending, including development agencies, tax incentives, and economic development departments. The relationship between PES and grants should also be considered, as many provinces allocate substantial PES funds to economic development functions.