**Report of the Portfolio Committee on Defence and Military Veterans on Budget Vote 23 (Department Of Defence) Dated 18 May 2022**

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered Budget Vote 23: Department of Defence (DOD), the 2022/23 Annual Performance Plans (APP) of the DOD and the 2022 Corporate Plan and budget of the Armaments Corporation of South Africa (Armscor) on 4 May 2022, as well as the 2022/23 budget and APP of the Castle Control Board (CCB) on 11 May 2022, reports as follows:

**INTRODUCTION**

**Mandate of the Committee**

Section 55 (2) of the Constitution of the Republic of South Africa (1996) states that “The National Assembly must provide for mechanisms (a) to ensure that all executive organs of state in the national sphere of government are accountable to it and (b) to maintain oversight of (i) the exercise of national executive authority, including the implementation of legislation; and (ii) any organ of state.”

**Process**

The Portfolio Committee considered the budget and 2022/23 budget allocation and APP of the DOD and Armscor on 4 May 2022 as well as the Corporate Plan and budget the CCB on 11 May 2022. The Committee made several observations during these enjoyments leading to recommendations to National Treasury, the DOD and the two entities to enhance their performance for the remainder of 2022/23. This Report is divided into two sections, with Part A dealing with the DOD and Part B with the two entities, namely the CCB and Armscor.

**PART A: DEPARTMENT OF DEFENCE**

**1. MANDATE OF THE DEPARTMENT OF DEFENCE**

Section 200(2) of the Constitution dictates that the mandate of the DOD is to defend and protect the country, its territorial integrity and its people, in accordance with the Constitution and the principles of international law. This aligns with the mission of the DOD that is to provide, manage, prepare and employ Defence capabilities commensurate with the needs of South Africa as regulated by the Constitution, national legislation, parliamentary and executive direction. The above is provided through the proper management, provision, preparedness and employment of defence capabilities, which are in line with the domestic and global needs of South Africa.

**2. COMMITTEE 2021/22 BUDGET REPORT**

In order to include a holistic review by the Committee, past recommendations are included. The Committee made the following recommendations in terms of the 2021/22 APP of the DOD:

* The Minister of Defence should indicate in writing to the PCODMV or the Joint Standing Committee on Defence, whichever may be relevant, whenever a response to a written or verbal question cannot be divulged due to security reasons in order for the committees to plan schedule closed meetings to address such issues.
* The DOD should provide the Committee with a written plan, before 30 June 2021, on how it will approach Compensation of Employees in 2021/22, including the following information:
  + The final allocation from National Treasury for Compensation of Employees for 2021/22. o The projected shortfall on Compensation of Employees for 2021/22.
  + How the DOD plans to fund the shortfall in Compensation of Employees, including any envisaged shifts in or between programmes and in terms of economic classifications.
  + The projected shortfall in Compensation of Employees over the MTEF.
  + Medium-term plans to bring Compensation of Employees expenditure in line with the National Treasury allocation.
  + An update on plans to curb expenditure on Compensation of Employees related to the high number of supernumeraries in the DOD.
  + Efforts to curb the Compensation of Employees related to lengthy suspension with full pay of personnel
* The Committee undertakes to have further engagements with the DOD and National Treasury on the funding for border safeguarding efforts.
* The DOD should, on a quarterly basis, update the Committee on its plans to refit the primary SA Navy vessels.
* The DOD should, before 30 June 2021, provide the Committee with a detailed, project-specific, written breakdown on the projected spending on contactors for 2021/22 as well as the reasons for the significant planned increase in spending compared to the previous year. Quarterly feedback on this expenditure should also be included in upcoming quarterly reports to the Committee.
* While the Committee accepts that the inclusion of medical services for the principals in the Ministry sub-programme, it increases the expenditure and the DOD is urged to review whether any savings cannot be incurred in this programme. In this regard, the DOD should provide the Committee, before 30 June 2021, with a written breakdown of the Ministry’s planned spending in terms of sub-sub programmes as well as economic classifications for 2021/22. The report should also include a breakdown of the function shift from SA Military Health Services (SAMHS) to the Ministry subprogramme.
* The Committee undertakes to schedule a follow-up meeting with the DOD and Armscor on the outcome of the Cabinet engagement on the future of Denel as it relates to Project Hoefyster, other major acquisition projects as well as ‘Original Equipment Manufacturer’ maintenance of SANDF equipment. This follow-up will be correlated with the Joint Standing Committee on Defence.
* The Committee urges the DOD to repurpose any possible savings to operational aspects of the DOD, specifically fuel and other operational needs that negatively affect the attaining of flying- and sea hour targets.
* The Committee undertakes to continue discussions with the DOD and National Treasury on the potential requirement for an alternative funding model to keep the SANDF ‘afloat’.

**3. DEPARTMENT OF DEFENCE ANNUAL PERFORMANCE PLAN 2022**

The 2022 DOD APP covers four main categories, namely the DOD Mandate, the DOD Strategic Focus, the measuring of DOD Performance and Technical Indicator Descriptions

**3.1 DOD Mandate, Policies and Strategies**

This section lists the Constitutional mandate as derived from the 1996 Constitution and refers specifically to sections 92, 198, 199, 200, 201, 202, 204, and 41(1). Reference is made to its legislative mandate as derived from the Defence Act 2002 (No. 42 of 2002), the Defence Amendment Act (No. 22 of 2010), and several other acts such as the PFMA (No, 1 of 1999), and the Military Ombud Act (No. 4 of 2012). The Policies and Strategies include the White Paper on Defence of 1996, the 2015 Defence Review, the DOD Strategy, the Military Strategy as well as the Defence Secretariat Strategy. It explains the 2015 Defence Review further by referring to the three defence strategic policy trajectory options namely:

* Option 1. *“Expand over the trajectory in partnership”.*
* Option 2. *“Expand independently”.*
* Option 3. *“Shrink to financial allocation”.*

Defence Strategic Policy Option 2 was selected, approved and endorsed by Cabinet and Parliament respectively. This selected option focusses on the maximum preservation of the sovereignty of the defence function and posits a level of defence ambition that is commensurate with South Africa’s continental gravitas, as well as the role that South Africa is expected to and should pursue on the African continent.

The Strategic Plan highlights the five strategic planning milestones as firm foundations to direct the development of South Africa’s defence capabilities through a DOD Extended Defence Development Plan. The first four milestones will provide the initial impetus to ensuring an adequate, appropriate and relevant defence capability for South Africa. Milestone 5 will remain the constitutional contingency which can be achieved from the firm foundation provided by Milestone 4. The Milestones are presented as follows:

* Milestone 0: The current situation within the DOD commencing 2017.
* Milestone 1: Arresting the decline in critical capabilities through immediate and direct interventions.
* Milestone 2: Re-balance and re-organise the Defence Force as the foundation for future growth.
* Milestone 3: Create a sustainable Defence Force able to meet ordered defence commitments.
* Milestone 4: Enhance the capacity of the Defence Force to respond to emerging threats and a wide range of strategic challenges.
* Milestone 5: Defence of the Republic against any direct threat.

*Crucially, the 2022 DOD APP notes that “the ‘Plan to Arrest the Decline’, has not been realised. Not only was the fiscal allocation not realised, the year-on-year reductions have exacerbated the defence decline with the cost-driven interventions not realised, and the non-cost interventions compromised. The SA Defence Review 2015 will not be achieved during the 2019-2024 MTSF.”*

**3.2 DOD Strategic Focus and situational analysis**

This section describes the DOD’s vision, mission, organisational values, individual values, the situational analysis which covers both the external and internal environments:

* **Vision**: “Effective defence for a democratic South Africa.”
* **Mission**: “To enable, prepare, employ, sustain and renew Defence capabilities in accordance with the needs of South Africa as regulated by the Constitution, National Legislation, Parliamentary and Executive direction”.
* **DOD organisational values:** The DOD has committed itself to organisational values that are rooted in individual values, codes of conduct and unit cohesion. In the execution of the defence Mission Statement, the DOD continues to pursue and adhere to the several organisational values, including accountability; consultation rooted in effective and efficient partnership and collaboration; discipline; ethics; excellence; openness and transparency; people; service standards; and, teamwork.

**The Updated 2022 Situational analysis**

The departmental situational analysis provides insight into both the evolving external and internal departmental dimensions that impact on the outcomes and outputs of the DOD. The matters identified in the situational analysis are a product of the departmental planning process that has taken also into consideration the 2019-2024 MTSF priorities and sources relevant to the defence portfolio mandate.

**External environmental analysis**

The external environment refers to factors external to the DOD and in some instances, external to the RSA, providing trends that could have an effect on the RSA and the DOD. It includes the following:

* **Political.** South Africa’s national security is centred on the advancement of its sovereignty, democracy, national values and freedoms, and its political and economic independence. There are domestic, regional and continental dimensions to the national security architecture. Domestically, South Africa’s national security focuses on human security, sovereignty and the related priorities of territorial integrity, constitutional order, the well-being, prosperity and upliftment of its people, economic growth and good governance. Regionally, South Africa’s national security hinges on the stability, unity and prosperity of the Southern African Region in particular, and the African continent in general. Defence takes into consideration the tasks and commitments arising from the National Security Council, the National Security architecture and the requirement to support Government interventions domestically, regionally and on the African continent, through the ability of the DOD to respond appropriately to emerging situations when called upon to do so and to conduct resourced internal and external ordered commitments.
* **Economic.** The under-performance of the different RSA economic sectors has resulted in the delayed implementation of the national developmental initiatives in support of the National Development Plan, “Vision 2030”. Coupled to this economic under-performance are the increasing socio-economic demands and competing priorities for service delivery that further aggravate an already constrained fiscal outlook. The defence funding forecast is likely to decline in real terms over the 2022/23 MTEF period and the immediate short-term. The continued disconnect between the government level of ambition required from the DOD and the declining defence budget allocation, continue to adversely impact on the Department’s ability to execute its mandate in support of the people of the South Africa.
* **Social.** The Government’s challenge to meet the demand for social services coupled to the lack of employment opportunities, increase in poverty14 and in-equality15 result in violent protests, particularly amongst the vulnerable and unemployed youth may posing a threat to domestic stability. These violent protests continue to be characterised by lawlessness resulting in criminal acts that continue to undermine the fabric of society with women and children bearing the brunt. Gangsterism and syndicated crime have the potential to undermine the authority of the State. Potential protest tipping points could require the employment of the SANDF, in cooperation with the South African Police Service (SAPS), to ensure national security and stability. The responsibility of the SANDF for border safeguarding continues within limited resource.
* **Technological.** The technological environment is characterised by three core aspects impacting on defence:
  + **Information warfare:** Cyber adversaries and information security professionals are perpetually engaged in a cyber-race focused on the access to and the prevention of unauthorised access to sensitive data. The State has placed cyber-security as a central national priority through the 2019-2024 revised MTSF and the DOD will contribute to national cyber space capacity development and operationalisation initiatives under the leadership of the State Security Agency.
  + **Increase in cybercrimes.**
  + **The Defence Industry:** The DOD’s continued investment in research, development capabilities and test facilities will facilitate an appropriate knowledge and technology base in Defence.
* **Legal.** Adherence to International Law. It is anticipated that the SANDF will continue to participate in peacekeeping operations and possible offensive operations, responding to global security threats. The SANDF will ensure that personnel involved in such operations are conversant with International Law regulating the use of force when conducting both offensive and defensive actions in the theatre of operations.
* **Physical (Environmental). -** Climate Change - Natural disasters remain a reality and may have catastrophic effects domestically, regionally and continentally. It is inevitable that the DOD will in the foreseeable future be called upon, through the conducting of both humanitarian and disaster operations, to assist local government authorities and other state departments both internally and in the SADC Region.
* **Military -** The operational environment of the future will become increasingly complex. South Africa will be required to maintain a credible defence capability and adopt a posture demonstrating resilience irrespective of the nature of potential conflict, thereby ensuring:
* The prevention and resolution of conflict.
* Peace-support operations.
* Support to the Combating of Maritime Piracy along the East Coast of Africa.
* Border safeguarding
* The provision of humanitarian assistance and disaster relief.

**Internal environmental analysis**

The internal environment refers to factors that have been identified as trends that could have an effect on South Africa in general and the internal DOD, and includes the following:

* **Deployment of the SANDF.** The SANDF continues to be employed to any kind of environment or area, as tasked by Government and may include the following:
  + Execution of international obligations.
  + Safeguarding the territorial integrity of South Africa through effective border safeguarding operations.
  + Co-operation with the SAPS to effect law and order.
  + Support to other Government departments.
  + Humanitarian and disaster relief operations.
  + Contribution to national cyber resilience.
  + Support to the President, as and when required.
* **Human Resource Dimension.** Engagements between the DOD and parliamentary stakeholders in relation to the defence funding dilemma have advanced considerations to reduce the HR cost pressures on the current Compensation of Employees’ (CoE) allocation for the 2022/23 MTEF and beyond. Subsequent to concurrence reached, the MOD&MV has issued a Ministerial Policy Directive to implement HR interventions in order to reduce HR cost pressures for the 2022/23 MTEF. This Directive directs that the DOD shall pursue and implement HR cost saving measures in order to down-manage HR cost pressures over the 2022/23 MTEF and the 2019-2024 MTSF.
* **Financial dimension.** Owing to South Africa’s GDP growth projections of approximately 2.2%, and with an inflation rate of approximately 4.2%, the DOD does not foresee an increase in its declining budget allocation (0.84% of the GDP) during the medium-term. This as a result of the present high cost of South Africa having to service international loans, the pressure on Government to provide free education, increased social grants, national health insurance, and the priorities of the 2019-2024 MTSF focusing on the socio-economic development of the country and its people. The declining DOD budget allocation will place a requirement on the Department to adjust its spending in such a manner that it will continue to provide the requisite services as contemplated in its mandate.
* **Logistic Dimension.** The logistic support capability of the DOD will remain under pressure within the context of a declining Defence budget allocation. The DOD continues to operate aging legacy systems that have become increasingly more difficult and costly to maintain and repair due to obsolescence. This obsolescence is not only applicable to defence combat systems, but also to support equipment, inclusive of those procured commercially-off-the-shelf.
* **Information Technological Dimension.** The DOD will endeavour to develop departmental ICT systems aligned with both the national and internal requirements through the following:
* Governance of Information Technology. The DOD will strengthen its ICT Policy and Plans by institutionalising the Public Service Governance Framework.
* DOD Enterprise Architecture. The DOD Enterprise Architecture was deferred to the FY2023/24 to allow the implementation of the CGICT and the finalisation of the development of the GICT.
* The roll-out of the Integrated Financial Management System (IFMS), as part of the National Treasury IFMS Implementation Road Map, is envisaged for 2022/23 to 2024/25. The DOD ICT systems, must be strategically aligned, optimised, modernised, digitally transformed and secured, as required by the SA Defence Review 2015.

**3.3 Measuring DOD Performance**

This section provides an overview of the DOD contribution to national imperatives of government for 2022/23 to 2024/25:

* **National Development Plan 5-year Implementation Plan.**

The implementation of the NDP, “Vision 2030”, through the NDP 5-year Implementation Plan (2019-2024 MTSF) will primarily focus on job creation, poverty reduction and the reduction of inequality. The DOD will contribute both directly and indirectly as addressed in this Plan and endeavour to support the following Government Pillars and Priorities:

* MTSF Pillar 1: *A Strong and Inclusive Economy.*
* MTSF Priority 2: *Economic Transformation and Job Creation.*
* MTSF Pillar 2: *Capabilities of South Africans.*
* MTSF Priority 3: *Education, Skills and Health.*
* MTSF Priority 4: *Consolidating of Social wage through reliable and Basic Services.*
* MTSF Priority 5: *Spatial Development, Human Settlements and Local Government.*
* MTSF Priority 6: *Social Cohesion and Safer Communities*.
* MTSF Pillar 3: *A Capable State*.
* MTSF Priority 1: *A Capable, Ethical and Developmental State*.
* MTSF Priority 7: *A Better Africa and a Better World*.
* **The National Growth Path.**

The principle target of the policy is to create five million jobs by the year 2005. The DOD will endeavour to support the NGP through the following actions:

* DOD Internships.
* National Youth Services.
* The Defence Industry job creation.
* **The Industrial Policy Action Plan (IPAP).**

The DOD will play a role and support the IPAP in Public Private Government Initiative (PPGI) through the promulgated Defence Industry Strategy.

* **The 2022 State of the Nation Address (SONA).**

Several aspects referred to by the President in the 2022 SONA have reference to the functions of the DOD, whether directly or indirectly, including the following:

* DOD will continue, directly and indirectly, to combat unemployment, poverty and inequality through the execution and support to the national government priorities.
* The President articulated the need for agricultural projects to uplift rural and semi-rural areas. The DOD, through Project Koba Tlala, will continue to support this imperative.
* The South African National Defence Force is the implementing agent of the Welisizwe bridge construction programme.
* The DOD continues to pursue the payment of suppliers within 30 days.
* The DOD will contribute/participate in the consultative process to develop the National Security Strategy.
* **Ministerial priorities, the priorities of the Defence Secretariat and the priorities of the Chief of the SANDF.** The Table below which highlights key focus areas on each priority by the Minister of Defence, the Secretary for Defence, as well as the Chief of the SANDF:

| **PRIORITY** | **MINISTER OF DEFENCE FOCUS AREAS** | **SECDEF FOCUS AREAS** | **CHIEF SANDF FOCUS AREAS** |
| --- | --- | --- | --- |
| **Strategic Direction** | Implementation of 2015 Defence Review (Arresting the Decline in the DOD). | * Pursue implementation of the principles and recommendations of the 2015 DR. * Engage with the Executive and Legislature to determine a resourced and sustainable level of defence ambition. * Formulate a resourced Department of Defence Apex Strategy (DOD Strategy), spanning a minimum of two MTSF periods * Account to Parliament for the exercising of powers and performance. * Ensure legislative compliance by the DOD. | Identify and implement (1) resource interventions to arrest decline, (2) multi-mission capabilities and (3) research and development. |
| Ensuring appropriate organisational form and structure. |
| **Strategic Resourcing** | Generating revenue to supplement the insufficient fiscal allocation. | Focus on procurement efficiency, internal controls to minimise fraud, sweating of assets and disposal of redundant equipment. |
| **Human Resources Management** | Maintaining the SANDF establishment force levels (Focus on rejuvenation and the role of the reserves). | Pursue the eradication of gender-based violence, femicide, sexual exploitation and abuse. | Optimise personnel utilisation, ensure discipline and maintain the current operational capability. |
| **Organisational renewal** | Departmental Governance, Administration and Accountability. | * Pursue ongoing alternate funding options. * Ensure the eradication of fraud, corruption and misconduct. * Reduce the number of audit qualifications * Ensure the resourced institutionalisation of a departmental ethics culture. * Ensure timeous application of consequence management. | Focus on force rejuvenation. Finalise the SANDF force design and structure based on a command and staff approach. Establish cyber defence. |
| **Capability sustainment** | Maintenance of capabilities. | Pursue the advancement of Defence diplomacy | Ensure maintenance of prime mission equipment and ensure maximum re-imbursement for deployments. |
| **Ordered defence commitments** | Increased expectation for SANDF to contribute to National Development Agenda. | Enhance border safeguarding through adding technology. Contributing to RSA developmental agenda and foreign policy. |

**Table 1: Priorities of the Minister, the Secretary for Defence and the Chief of the SANDF**

**4. Overview of the 2021/22 financial year**

Verified information on spending and performance by the DOD is only available up to the end of the Third Quarter of 2021/22. The DOD received a total main appropriation of R46.268 billion for 2021/22 which was adjusted higher during the mid-year adjustment period and increased to R48.796 billion. At the end of the Third Quarter (December 2021), the DOD spent R35.180 billion (72.1%) of its adjusted appropriation, which was *slightly higher than projected expenditure*.

At programme level, some variances can be noted in terms of actual expenditure against projected expenditure for the Third Quarter. The largest variances can be noted in the Landward Defence, Force employment and Air Defence programmes. In terms of economic classification, the overall higher than projected expenditure can be explained in terms of higher spending on CoE (by R1.086 billion). The higher spending on compensation of employees was mainly due to the compensation of employees ceiling which does not support the personnel numbers of the department. During 2021/22, CoE continued to be the main cost driver in the DOD. Overall spending on the main economic classification categories at the end of the Third Quarter was as follows:

* Compensation of employees: R25.199 billion. 4.5% higher than projected.
* Payment on capital assets: R459 million. 6.6 higher than projected spending.
* Goods and Services: R7.460 billion. 7.1% lower than projected.

**5. 2022/23 DOD budget analysis**

**5.1 Overview of expenditure**

The total allocation for the DOD for 2022/23 is R49.090 billion, which is only slightly higher than the adjusted appropriation of R48.796 billion for 2021/22. The DOD budget therefore increase by 0.6% in nominal terms and decreases by 3.7% in real terms[[1]](#footnote-1) from 2021/22 to 2022/23.

The defence allocation for 2022/23 represents 2.48% of the country’s total expenditure of R1.975 trillion (2.29% in 2021/22). However, as a percentage of GDP for 2022/23 (R6.395 trillion), defence expenditure stands at 0.76% (0.86% in 2021/22).[[2]](#footnote-2)

The Table below reflects the nominal and real percentage changes per programme for the DOD’s 2022/23 budget. The real percentage changes are adjusted for Consumer Price Inflation (CPI) and do not take into account other forms of inflation such as medical[[3]](#footnote-3) or the concept of ‘defence inflation’ which are generally considered higher than CPI.[[4]](#footnote-4) Individual programmes will be discussed in subsequent sections.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2022/23** | **Real Increase / Decrease in 2022/23** | **Nominal Percent change in 2022/23** | **Real Percent change in 2022/23** |
| **R million** | **2021/22** | **2022/23** |
| Programme 1: Administration | 5 571,4 | 5 779,3 | 207,9 | - 41,0 | 3,73% | -0,74% |
| Programme 2: Force employment | 4 475,1 | 3 700,3 | - 774,8 | - 934,1 | -17,31% | -20,87% |
| Programme 3: Landward Defence | 15 194,7 | 15 550,4 | 355,7 | - 313,9 | 2,34% | -2,07% |
| Programme 4: Air Defence | 6 369,6 | 6 201,3 | - 168,3 | - 435,3 | -2,64% | -6,83% |
| Programme 5: Maritime Defence | 4 492,8 | 4 662,4 | 169,6 | - 31,2 | 3,77% | -0,69% |
| Programme 5: Military Health Support | 5 474,3 | 5 525,6 | 51,3 | - 186,6 | 0,94% | -3,41% |
| Programme 7: Defence Intelligence | 776,3 | 1 151,3 | 375,0 | 325,4 | 48,31% | 41,92% |
| Programme 8: General Support | 6 442,1 | 6 519,4 | 77,3 | - 203,4 | 1,20% | -3,16% |
| **TOTAL** | **48 796,3** | **49 090,0** | **293,7** | **- 1 820,2** | **0,60%** | **-3,73%** |

**Table 2: Increase/decrease per programme from 2021/22 to 2022/23**

**5.2 Key cost drivers for 2022/23**

Key cost drivers and other concerns of the DOD 2022/23 budget include the following (in terms of broad economic classifications):

* **Compensation of employees.** Spending on CoE has been an ongoing concern for the DOD in recent years, resulting in irregular expenditure as the DOD is unable to bring CoE to levels below the ceiling imposed by National Treasury. This will continue to affect the Department in 2022/23, where the allocation for spending on CoE is set to decrease from R31.014 billion in 2021/22 to R30.697 billion in the current financial year. However, the Department has already indicated to the PCODMV that they will not be able to lower CoE to this required level (R30.697 billion) in 2022/23 and that expected CoE expenditure for the year will be a projected R33.762 billion.

The DOD is continuing with the implementation of measures to bring CoE expenditure   
 within the National Treasury ceiling. For 2022/23, these interventions will include:

* + De-activate unfunded vacant normal posts (20 000 posts).
  + Reduce personnel strength from 73 098 in 2022/23 to 72 597 in 2024/25.
  + Utilise R1 billion additional allocation from National Treasury in 2022/23 for the implementation of an exit mechanism.
  + Reduce Reserve Force man days by 706 504 man days in 2022/23.
  + Military recruitment only every second year.
* **Contractors.** The allocation for spending on contractors decreases from R3.063 billion in 2021/22 to R2.486 billion in 2022/23. However, this level of expenditure is significantly higher than in the recent past:
  + 2018/19: R1.715 billion
  + 2019/20: R1.681 billion
  + 2020/21: R1.656 billion
* **Employee Social benefits** increases from R173.7 million in 2021/22 to R1.193 billion in 2022/23. The reason for this increase is unclear and it is unclear whether the additional   
  R1 billion provided by National Treasury for an exit mechanism is included in this amount for 2022/23.
* **The Special Defence Account (SDA).** Transfers to the SDA increases from R1.520 billion in 2021/22 to R1.952 billion in 2022/23.
* **Operating leases.** The allocation for operating leases increase from R1.681 billion in 2021/22 to R1.737 billion in 2022/23.

**Reductions in key economic classifications**

* **Fuel, oil and gas.** The allocation for fuel, oil and gas continues to decreases from R891.6 million in 2021/22 to R796 million in 2022/23. Given the significant increase in fuel costs in recent months, this decreased allocation will result in decreased fuel availability for the DOD and the impact of this reduction on SANDF operations and operational capacity should be considered.
* **Buildings and fixed structures.** The allocation for buildings and fixed structures have decreased significantly in recent years. In 2019/20 and 2020/21, the allocation was consistently above R800 million per year. Yet, in 20221/22 it decreased to R419.7 million and remains at this level (R428.7 million) for 2022/23.

**6. National Treasury feedback to the PCoDMV**

In 2021, following its engagement with the DOD on the 2020/21 Annual Report, the PCODMV made specific recommendations to National Treasury. The responses to these recommendations are essential to consider in the light of the 2022/23 budget. The following recommendations were responded to:

**Committee recommendation 1:**

The Committee notes with concern the DOD’s continuous overspending on Compensation of Employees against the ceiling set by National Treasury that again resulted in irregular expenditure in 2020/21. This concern requires short-term and long-term solutions. National Treasury should reconsider assisting the DOD with its plans to cut Compensation of Employees by providing additional funding for an Exit Mechanism and indicate to the Committee whether it is willing to start funding such a mechanism should the DOD show success in the implementation of its plans to curtail Compensation of Employees expenditure.

**Response from National Treasury 1:**

National Treasury agrees that the Department requires both short and long-term planning to manage CoE pressures. The DOD is allocated **R1.8 billion over the medium term** to implement an exit mechanism that includes employee-initiated severance packages and early retirement without penalising pension benefits.

**Committee recommendation 2:**

The committee is aware of the fiscal constraints and noted National Treasury’s previous response to the BRRR that no funds were available for a ring‐fenced allocation to fund the midlife upgrades of the South African Navy (SA Navy) vessels. However, the committee again recommends that National Treasury reprioritise funds to provide a ring‐fenced allocation to upgrade the SA Navy’s Frigate and Submarine fleet in the coming years. The non‐availability of naval platforms due to maintenance requirements results in the SA Navy not achieving its targets for coastal patrols and sea hours, thus affecting its constitutional mandate to ensure the territorial integrity of South Africa. Additional funding over the medium term for the midlife upgrade is therefore essential.

**Response from National Treasury 2:**

The National Treasury notes the committee’s concern. Given the limited scope to provide additional funding, the National Treasury’s recent engagements with the department have focused on resolving its immediate compensation spending pressures. The reforms described above are expected to generate savings that can be used for other priorities such as the midlife upgrade of the SA Navy vessels.

**7. budget and performance analysis per programme**

**7.1 Programme 1 (Administration)**

**7.1.1 Programme 1 Budget Analysis**

The Administration programme received a nominal increase of R207.9 million from R5.571 billion in 2021/22 to R5.779 billion in 2022/23. However, this increase translates to a real percentage decrease of 0.74% when adjusted for inflation. The allocation to Programme 1 therefore remained relatively stable for 2022/23 compared to the previous financial year. Two subprogrammes received somewhat larger increases than others which may be noted:

* The *Human Resources Support Services* allocation increased from R954 million in 2021/22 to R1.024 billion in 2022/23.
* The *Legal Services* allocation increased from R348.6 million in 2021/22 to R371.9 million in 2022/23.

In terms of economic classifications, allocations also remained fairly static. However, the following aspects can be noted:

* *Advertising.* Spending is set to increase from R75.3 million in 2021/22 to R78 million in 2022/23. While this does not constitute a big increase, the need for spending R78 million on advertising in light of the DOD’s halt in recruitment for 2022/23 as well as capacity and financial constraints can be questioned.
* *Household* payments increases from R16.1 million in 2021/22 to R81.4 million in 2022/23.
* *Operating payments* increases from R58.7 million in 2021/22 to R70.3 million in 2022/23. This increased should be seen against much lower allocations (less than R40 million annually) to operating leases prior to 2021/22.

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2022/23** | **Real Increase / Decrease in 2022/23** | **Nominal Percent change in 2022/23** | **Real Percent change in 2022/23** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2021/22** | **2022/23** |
| Sub-programme 1: Ministry | 127,4 | 126,6 | - 0,8 | - 6,3 | -0,63% | -4,91% |
| Sub-programme 2: Departmental Direction | 44,9 | 45,0 | 0,1 | - 1,8 | 0,22% | -4,09% |
| Sub-programme 3: Policy and Planning | 117,2 | 122,8 | 5,6 | 0,3 | 4,78% | 0,27% |
| Sub-programme 4: Financial Services | 420,1 | 430,5 | 10,4 | - 8,1 | 2,48% | -1,94% |
| Sub-programme 5: Human Resources Support Services | 954,0 | 1 023,5 | 69,5 | 25,4 | 7,29% | 2,67% |
| Sub-programme 6: Legal Services | 348,6 | 371,9 | 23,3 | 7,3 | 6,68% | 2,09% |
| Sub-programme 7: Inspection and Audit Services | 144,3 | 148,7 | 4,4 | - 2,0 | 3,05% | -1,39% |
| Sub-programme 8: Acquisition Services | 70,3 | 75,4 | 5,1 | 1,9 | 7,25% | 2,64% |
| Sub-programme 9: Communications Services | 120,2 | 122,7 | 2,5 | - 2,8 | 2,08% | -2,32% |
| Sub-programme 10: SANDF Command and Control | 182,1 | 184,3 | 2,2 | - 5,7 | 1,21% | -3,15% |
| Sub-programme 11: Religious Services | 20,3 | 20,5 | 0,2 | - 0,7 | 0,99% | -3,36% |
| Sub-programme 12: Defence Reserve Direction | 36,8 | 37,3 | 0,5 | - 1,1 | 1,36% | -3,01% |
| Sub-programme 13: Defence Foreign Relations | 269,2 | 272,8 | 3,6 | - 8,1 | 1,34% | -3,03% |
| Sub-programme 14: Office Accommodation | 2 716,1 | 2 797,2 | 81,1 | - 39,4 | 2,99% | -1,45% |
| **TOTAL** | **5 571,4** | **5 779,3** | **207,9** | **- 41,0** | **3,7%** | **-0,74%** |

**Table 3: Nominal and real increases/decreases in the Administration Programme**

**7.1.2 Programme 1 Performance Planning**

Table 3 below captures the seven performance targets set for Programme 1. One target was removed that was present in the 2021/22 APP, related to “% Adherence to DOD Master Record Index for Strategies”. A new target was added related to the “payment of legitimate invoices within 30 days.”

|  |  |  |  |
| --- | --- | --- | --- |
| **DOD Output** | **Indicator** | **2021/22 Estimated performance** | **2022/23 Target** |
| Defence effectively administered | % Adherence to DOD Master Record Index for Policies | 60% | **60%** |
| % Adherence to DOD Master Record Index for Plans | 100% (44) | **100% (41)** |
| Number of Reserve Force man days | 2 601 591 | **1 988 352** |
| Percentage of audits completed ito approved audit plan | 80% | **80%** |
| % Compliance with SANDF battle fitness requirement | Classified | **Classified** |
| Percentage payments within 30 days from receipt of legitimate invoices\* | 75% | **75%** |
| Defence Capabilities provided | Number of Defence Attaché Offices | 44 | **44** |

**Table 4: Performance Targets for Programme 1**

**7.2 Programme 2 (Force Employment)**

**7.2.1 Programme 2 Budget Analysis**

The allocation for the Force Employment programme decreased significantly by R2.775 billion, resulting in a real percentage decrease of 63.64%. This can largely be attributed to a decrease in the allocation to Subprogramme 4 (Regional Security) that received a 37% reduction in real terms and Subprogramme 5 (Support to the People) that received a 21.426% reduction in real terms. The reduction in the allocation to Programme should be viewed against higher than planned expenditure for deployments in 2021/22 due to the SANDF deployments related to the July 2021 unrest in KwaZulu-Natal and Gauteng. However, the SANDF operations in Mozambique remain in place and the reduction in funding to subprogramme 4 (Regional security) may require clarification.

In terms of economic classifications, most reductions are aligned with a reduced deployment need. However, the following changes in spending in terms of economic classifications should be considered for questions of clarity.

* *Contractors.* Despite the overall reduction in the allocation to Programme 2, the allocation to Contractors remain high and decreased only somewhat from R276.6 million in 2021/22 to R236.6 million in 2022/23.
* *Travel and subsistence* increases from R205.6 million in 2021/22 to R217.6 million in 2022/23, despite the overall reduction in the allocation to the programme.
* *Household* payments increases from R8.2 million in 2021/22 to R55.5 million in 2022/23.

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2022/23** | **Real Increase / Decrease in 2022/23** | **Nominal Percent change in 2022/23** | **Real Percent change in 2022/23** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2021/22** | **2022/23** |
| Sub-programme 1: Strategic Direction | 181,6 | 212,3 | 30,7 | 21,6 | 16,91% | 11,87% |
| Sub-programme 2: Operational Direction | 377,3 | 388,4 | 11,1 | - 5,6 | 2,94% | -1,49% |
| Sub-programme 3: Special Operations | 1 048,1 | 967,6 | - 80,5 | - 122,2 | -7,68% | -11,66% |
| Sub-programme 4: Regional Security | 1 371,1 | 902,7 | - 468,4 | - 507,3 | -34,16% | -37,00% |
| Sub-programme 5: Support to the people | 1 497,1 | 1 229,3 | - 267,8 | - 320,7 | -17,89% | -21,42% |
| **TOTAL** | **4 475,1** | **1 700,3** | **- 2 774,8** | **- 2 848,0** | **-62,0**% | **-63,64**% |

**Table 5: Nominal and real increases/decreases in the Force Employment Programme**

**7.2.2 Programme 2 Performance Planning**

The Force Employment Programme has 12 set targets for 2022/23 of which five are not elaborated on due to the information being classified. All targets set for 2021/22 are in line with performance in the preceding years. The DOD should be commended for again increasing the planned number of joint, interdepartmental, interagency and multinational military exercises conducted to four for 2022/23. Other noteworthy targets for 2022/23 include:

* 15 landward sub-units deployed for border safeguarding.
* An expected 70% reimbursement by the UN/AU for deployments (Members may note that only a 52% reimbursement was achieved in 2020/21, which is the most recent audited outcome).
* Four maritime coastal patrols planned for the year.
* 100% compliance with the SADC Standby Force requirements (Members may note that only an 87.5% compliance was achieved in 2020/21, which is the most recent audited outcome).

**7.3 Programme 3 (Landward Defence)**

**7.3.1 Programme 3 Budget Analysis**

The Landward Defence programme is the largest programme in the DOD and includes the SA Army that constitutes the bulk of the SANDF personnel. For 2022/23, the programme received a small nominal increase of R355.7 million, resulting in a real percentage decrease of 2.07%.

The allocation to most subprogrammes in the Landward Defence programme remained relatively stable for 2022/23 when compared to the previous financial year. The exception are major shifts in the following two subprogrammes:

* The allocation for the *Strategic Direction* subprogrammes more than doubles from R387.4 million in 2021/22 to R832.9 million in 2022/23.
* The allocation for the *Support Capability* subprogramme decreases by R296.8 million from R4.508 billion in 2021/22 to R4.211 billion in 2022/23. The allocation to this subprogramme is set to continue declining over the medium-term.

In terms of economic classifications, the allocations remained fairly stable from 2021/22 to 2022/2. The allocation to *Households* increased from R68 million in 2021/22 to R518.7 million in 2022/23 which represents a major increase. Furthermore, the allocation for *Contractors* decreased slightly from R623.9 million in 2021/22 to R600 million in 2022/23; yet, this amount remains significantly higher than in previous years (R139 million in 2018/19; R100 million in 2019/20; R76.6 million in 2020/21).

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2022/23** | **Real Increase / Decrease in 2022/23** | **Nominal Percent change in 2022/23** | **Real Percent change in 2022/23** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2021/22** | **2022/23** |
| Sub-programme 1: Strategic Direction | 387,4 | 832,9 | 445,5 | 409,6 | 115,00% | 105,74% |
| Sub-programme 2: Infantry Capability | 5 682,6 | 5 783,6 | 101,0 | - 148,1 | 1,78% | -2,61% |
| Sub-programme 3: Armour Capability | 509,7 | 520,8 | 11,1 | - 11,3 | 2,18% | -2,22% |
| Sub-programme 4: Artillery Capability | 557,7 | 574,6 | 16,9 | - 7,8 | 3,03% | -1,41% |
| Sub-programme 5: Air Defence Artillery Capability | 374,7 | 382,5 | 7,8 | - 8,7 | 2,08% | -2,31% |
| Sub-programme 6: Engineering Capability | 848,6 | 864,4 | 15,8 | - 21,4 | 1,86% | -2,52% |
| Sub-programme 7: Operational Intelligence | 227,0 | 232,6 | 5,6 | - 4,4 | 2,47% | -1,95% |
| Sub-programme 8: Command and Control | 218,0 | 222,4 | 4,4 | - 5,2 | 2,02% | -2,37% |
| Sub-programme 9: Support Capability | 4 507,7 | 4 210,9 | - 296,8 | - 478,1 | -6,58% | -10,61% |
| Sub-programme 10: General Training Capability | 479,3 | 495,1 | 15,8 | - 5,5 | 3,30% | -1,15% |
| Sub-programme 11: Signal Capability | 1 401,8 | 1 430,5 | 28,7 | - 32,9 | 2,05% | -2,35% |
| **TOTAL** | **15 194,7** | **15 550,4** | **355,7** | **- 313,9** | **2,3%** | **-2,07%** |

**Table 6: Nominal and real increases/decreases in the Landward Defence Programme**

**7.3.2 Programme 3 Performance Planning**

Four performance targets were set for the Landward Defence Programme for 2021/22. The target related to the percentage combat ready capabilities available to the SANDF as well as the target related to Joint Force employment requirements remain classified.

The two other targets set for 2021/22 remain in line with the preceding year. The target “Percentage compliance with DOD Training targets” is 80% (1 645 learning opportunities). This figure is, however, lower than any number of learning opportunities offered since 2018/19. The SA Army will also conduct three unique Landward Defence training exercises.

**7.4 Programme 4 (Air Defence)**

**7.4.1 Programme 4 Budget Analysis**

The Air Defence programme has taken significant strain in recent years in terms of its budget allocation. Despite a sizeable increase in 2020/21, the decreased allocation to the Air Defence programme continues and current allocations are similar to those of 2018/19. The overall allocation decreased from R6.370 billion in 2021/22 to R6.201 billion in 2022/23, representing a 6.83% reduction in real terms. The most significant shifts in the allocation to subprogrammes include the following:

* Subprogramme 3 (Helicopter Capability) received **a major reduction** in its allocation from R1.208 billion in 2021/22 to R768.5 million in 2022/23. The allocation is expected to steadily increase again over the medium-term.
* Subprogramme 4 (Transport and maritime Capability) received a **major increase** in its allocation from R738.6 million in 2021/22 to R1.050 billion in 2022/23. However, the allocation is again set to decrease over the medium-term.
* Subprogramme 11 (Technical Support Services) received a reduced allocation of 13.7% in nominal terms from R692.7 million in 2021/22 to R597.7 million in 2022/23.
* Subprogramme 5 (Air Combat Capability) received a decreased allocation of R55.7 million (12.3% in nominal terms) from R346.9 million in 2021/22 to R304.3 million in 2022/23.

In terms of economic classifications, the following increases and decreases from 2021/22 to 2022/23 can be noted:

* The allocation for *Contractors* decreases from R1.596 billion to R1.124 billion.
* The allocation for *Travel and subsistence* increases to its highest levels in the past five years. It increases from R81 million in 2021/22 to R175.5 million in 2022/23.
* The allocation for *Training and Development* increases from R66.2 million to   
  R144.1 million.
* Only R169.6 million is allocated from the Air Defence programme to the SDA in 2022/23 (compared to R242.6 million in 2021/22), highlighting limited capital acquisition for the Programme.

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2022/23** | **Real Increase / Decrease in 2022/23** | **Nominal Percent change in 2022/23** | **Real Percent change in 2022/23** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2021/22** | **2022/23** |
| Sub-programme 1: Strategic Direction | 23,3 | 25,5 | 2,2 | 1,1 | 9,44% | 4,73% |
| Sub-programme 2: Operational Direction | 145,5 | 158,4 | 12,9 | 6,1 | 8,87% | 4,18% |
| Sub-programme 3: Helicopter Capability | 1 207,9 | 768,5 | - 439,4 | - 472,5 | -36,38% | -39,12% |
| Sub-programme 4: Transport and Maritime Capability | 738,6 | 1 049,5 | 310,9 | 265,7 | 42,09% | 35,97% |
| Sub-programme 5: Air Combat Capability | 346,9 | 304,3 | - 42,6 | - 55,7 | -12,28% | -16,06% |
| Sub-programme 6: Operational Support and Intelligence Capability | 384,8 | 345,8 | - 39,0 | - 53,9 | -10,14% | -14,00% |
| Sub-programme 7: Command and Control Capability | 373,9 | 342,6 | - 31,3 | - 46,1 | -8,37% | -12,32% |
| Sub-programme 8: Base Support Capability | 1 934,3 | 2 093,7 | 159,4 | 69,2 | 8,24% | 3,58% |
| Sub-programme 9: Command Post | 71,5 | 64,6 | - 6,9 | - 9,7 | -9,65% | -13,54% |
| Sub-programme 10: Training Capability | 450,2 | 450,7 | 0,5 | - 18,9 | 0,11% | -4,20% |
| Sub-programme 11: Technical Support Services | 692,7 | 597,7 | - 95,0 | - 120,7 | -13,71% | -17,43% |
| **TOTAL** | **6 369,6** | **6 201,3** | **- 168,3** | **- 435,3** | **-2,6%** | **-6,83%** |

**Table 7: Nominal and real increases/decreases in the Air Defence Programme**

**7.4.2 Programme 4 Performance Planning**

Five targets have been set for the Air Defence Programme of which two remain classified (‘percentage combat-ready capabilities available to the SANDF’ and ‘percentage compliance with Joint Force Employment requirements’).

The percentage compliance with DOD training targets for 2022/23 (80%) remains the same as in previous years, with 637 learning opportunities provided. The Air Defence programme, reduced the number of military development training by 50 learners for the 2022/23 MTEF to allow for the increase of number of learners on advance training and technical engineers training for the 2022/23. The target on flying hours for the year is set for 12 000, which is lower than the estimated 17 100 hours flown in 2021/22. The 12 000 planned hours for 2022/23 is set to include force preparation (7 000 hours), force employment (4 000 hours) and (1 000 VVIP hours).

**7.5 Programme 5 (Maritime Defence)**

**7.5.1 Programme 5 Budget Analysis**

The overall allocation to the Maritime Defence programme has remained fairly stable in recent years. It increased slightly from R4.493 billion in 2021/22 to R4.662 billion in 2022/23, resulting in a real percentage increase of 1.98% when adjusted for inflation. Allocation to subprogrammes also remain in line with previous years. The most significant variance is in terms of the *Base Support Capability* which sees its allocation decrease by R11.3 million from R526.5 million in 2021/22 to R515.2 million in 2022/23, equating to a 6.36% real reduction.

In terms of economic classifications, the following increases and decreases from 2021/22 to 2022/23 can be noted:

* The allocation for *Contractors de*creases from R411.6 million to R376.6 million. Yet, this amount is much higher than the general Contractor allocation prior to 2020/21.
* The allocation to the SDA increases from R606.6 million to R738.2 million, which is likely related to the funding of Project Biro and Project Hotel.
* The allocation for *Households* increases from R14 million to R104.9 million for the purposes of Employee Social Benefits.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2022/23** | **Real Increase / Decrease in 2022/23** | **Nominal Percent change in 2022/23** | **Real Percent change in 2022/23** |
| **R million** | **2021/22** | **2022/23** |
| Sub-programme 1: Maritime Direction | 723,1 | 770,6 | 47,5 | 14,3 | 6,57% | 1,98% |
| Sub-programme 2: Maritime Combat Capability | 1 577,6 | 1 676,3 | 98,7 | 26,5 | 6,26% | 1,68% |
| Sub-programme 3: Maritime Logistics support Capability | 1 168,5 | 1 185,8 | 17,3 | - 33,8 | 1,48% | -2,89% |
| Sub-programme 4: Maritime HR and Training Capability | 497,2 | 514,5 | 17,3 | - 4,9 | 3,48% | -0,98% |
| Sub-programme 5: Base Support Capability | 526,5 | 515,2 | - 11,3 | - 33,5 | -2,15% | -6,36% |
| **TOTAL** | **4 492,8** | **4 662,4** | **169,6** | **- 31,2** | **3,8%** | **-0,69%** |

**Table 8: Nominal and real increases/decreases in the Maritime Defence Programme**

**7.5.2 Programme 5 Performance Planning**

Five targets were set for the programme of which two are classified (‘percentage combat-ready capabilities available to the SANDF’ and ‘percentage compliance with Joint Force Employment requirements’).

The percentage compliance with maritime defence training targets remain at 80%, or 398 learning opportunities for 2022/23. The number of sea hours was reduced from 10 000 for 2020/21 to 8 000 in 2021/22 and remains at this level in 2022. It includes 2 144 hours for Force Preparation and 5 856 hours for Force Employment.

**7.6 Programme 6 (Military Health Support)**

**7.6.1 Programme 6 Budget Analysis**

The Military Health Support programme’s allocation was increased by R51.3 million in 2022/23, bringing its total allocation to R5.526 billion. This reflects a real percentage reduction of 3.41%. The most significant shifts in the allocation to subprogrammes include:

* The allocation for *Strategic Direction* increases from R251 million in 2021/22 to R318.3 million in 2022/23, which is a 21.35% increase in real terms.
* The *Area Military Health* allocation decreases by R63.3 million from R2.112 billion in 2021/22 to R2.049 billion in 2022/23, reflecting a 7.17% reduction in real terms.
* No funds are allocated to the *Military Health Maintenance* subprogramme over the MTEF.

In terms of economic classifications, several changes from 2021/22 to 2022/23 can be noted:

* The allocation for *Agency and support/outsourced services* decreases from R708.2 million to R624.5 million. However, the R624.5 million allocation for 2022/23 is still significantly higher than in the years prior to 2020/21. For example, between 2018/19 and 2020/21, the annual expenditure on outsourced services was R490.9 million. This ongoing concern should be viewed against observations by the PCODMV during its visit to 1 Military Hospital where it was noted that the delayed refurbishment programme is resulting in an elevated need for patient outsourcing.
* The allocation for *Households* increases from R26.2 million to R155.6 million for the purposes of Employee Social Benefits.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2022/23** | **Real Increase / Decrease in 2022/23** | **Nominal Percent change in 2022/23** | **Real Percent change in 2022/23** |
| **R million** | **2021/22** | **2022/23** |
| Sub-programme 1: Strategic Direction | 251,0 | 318,3 | 67,3 | 53,6 | 26,81% | 21,35% |
| Sub-programme 2: Mobile Military Health Support | 182,4 | 182,5 | 0,1 | - 7,8 | 0,05% | -4,25% |
| Sub-programme 3: Area Military Health Support | 2 112,1 | 2 048,8 | - 63,3 | - 151,5 | -3,00% | -7,17% |
| Sub-programme 4:Specialist Health Services | 2 174,6 | 2 224,2 | 49,6 | - 46,2 | 2,28% | -2,12% |
| Sub-programme 5: Military Health Product Support | 385,8 | 390,2 | 4,4 | - 12,4 | 1,14% | -3,21% |
| Sub-programme 6: Military Health Maintenance | 0,0 | 0,0 | - | - | - | - |
| Sub-programme 7: Military Health Training Capability | 368,3 | 361,7 | - 6,6 | - 22,2 | -1,79% | -6,02% |
| **TOTAL** | **5 474,3** | **5 525,6** | **51,3** | **- 186,6** | **0,9%** | **-3,41%** |

**Table 9: Nominal and real increases/decreases in the Military Health Support**

**7.6.2 Programme 6 Performance Planning**

Only four targets were set for Programme 6 of which three are considered classified. Only the target related to training is not classified (80% compliance for 2022/23 which includes 648 learning opportunities). Classified targets include:

* Percentage compliance with Joint Force Employment requirements as resourced.
* Percentage combat-ready capabilities available to the SANDF.
* Percentage compliance with availability of medical stock.

**7.7 Programme 7 (Defence Intelligence)**

**7.7.1 Programme 7 Budget Analysis**

The allocation for Defence Intelligence in 2022/23 reflects a significant increase from R776.3 million in 2021/22 to R1.151 billion in 2022/23. However, this increase merely returns the Defence Intelligence programme’s allocation to similar levels observed in 2020/21 and before. The main increase is in terms of the *Operations* subprogramme which sees its allocation increase from R234.8 million in 2021/2 to R584 million in 2022/23.

In terms of economic classifications, it becomes clear that the major increase in the Defence Intelligence allocation is for an allocation of R584 million to the SDA.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2023/24** | **Real Increase / Decrease in 2022/23** | **Nominal Percent change in 2022/23** | **Real Percent change in**  **2022/23** |
| **R million** | **2021/22** | **2022/23** |
| Sub-programme 1: Operations | 234,8 | 584,0 | 349,2 | 324,1 | 148,72% | 138,01% |
| Sub-programme 2: DI Support Services | 541,5 | 567,3 | 25,8 | 1,4 | 4,76% | 0,25% |
| **TOTAL** | **776,3** | **1 151,3** | **375,0** | **325,4** | **48,3%** | **41,92%** |

**Table 10: Nominal and real increases/decreases in the Defence Intelligence Programme**

**7.7.2 Programme 7 Performance Planning**

Only one performance target was included for 2022/23 related to the number of vetting decisions taken (5 500 for 2022/23, compared to an estimated performance of 5 000 in 2021/22).

It must be noted that the target related to the number of intelligence products produces was removed from the 2022 APP.

**7.8 Programme 8 (General Support)**

**7.8.1 Programme 8 Budget Analysis**

The General Support programme’s allocation was increased marginally from R6.442 billion in 2021/22 to R6.519 billion in 2022/23. The R77.3 million increase translates to a 3.16% reduction in real terms when adjusted for inflation. The programme mostly affected is the *Joint Logistics Services* programme that sees its allocation reduced by R94.3 million to R3.365 billion in 2022/23. The *Technology Development* programme did not receive any allocation in 2021/22, but its allocation resumed in 2022/23 with a R133.5 million allocation.

In terms of economic classifications, the following increases and decreases from 2021/22 to 2022/23 can be noted:

* The allocation for *Consultants (Business and advisory services)* decreased from R72.7 million to R57.8 million. This allocation is, however, still significantly higher than any allocation prior to 2020/21, with the highest allocation in the preceding three years being R800 000 in 2019/20.
* The allocation for *Property payments* decreased from R505.4 million in 2021/22 to R403.7 million in 2022/23. However, prior to 2020/21, property payments never exceeded R25 million per year.
* The allocation for *Households* increase from R15.6 million to R114.7 million for the purpose of employee social benefits.
* R135.4 million will be transferred from the programme to the SDA in 2022/23.

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2022/23** | **Real Increase / Decrease in 2022/23** | **Nominal Percent change in 2022/23** | **Real Percent change in**  **2022/23** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2021/22** | **2022/23** |
| Sub-programme 1: Joint Logistics Services | 3 458,9 | 3 364,6 | - 94,3 | - 239,2 | -2,73% | -6,92% |
| Sub-programme 2: Command and Maintenance Information Systems | 1 027,8 | 1 043,5 | 15,7 | - 29,2 | 1,53% | -2,84% |
| Sub-programme 3: Military Police | 694,4 | 719,4 | 25,0 | - 6,0 | 3,60% | -0,86% |
| Sub-programme 4: Technology Development | 0,0 | 133,5 | 133,5 | 127,8 | - | - |
| Sub-programme 5: Departmental Support | 1 261,0 | 1 258,3 | - 2,7 | - 56,9 | -0,21% | -4,51% |
| **TOTAL** | **6 442,1** | **6 519,4** | **77,3** | **- 203,4** | **1,2%** | **-3,16%** |

**Table 11: Nominal and real increases/decreases in the General Support Programme**

**7.8.2 Programme 8 Performance Planning**

The number of performance indicators used to track performance in Programme 8 remain at six for 2022/23. Targets set for 2022/23 include the following:

| **Performance Indicator** | **Audited Outcome** | **Estimated Performance** | **Estimated Performance** |
| --- | --- | --- | --- |
| **2020/21** | **2021/22** | **2022/23** |
| Percentage procurement requests fully completed within 90 days from registration | 99.87% | 95% | 95% |
| Percentage expenditure in accordance with facilities plan | 101.3% | 100% | 100% |
| Percentage compliance with DOD ICT Plan | 90.23% | 90% | 90% |
| Number of crime prevention operations | 114 | 124 | 124 |
| Percentage criminal cases investigated (backlog) | 56.57% | 40% | 50% |
| Percentage criminal cases investigated (in-year) | 44.59% | 25% | 30% |

**Table 12: Performance Indicators for Programme 8**

**9. COMMITTEE OBSERVATIONS**

During deliberations with the DOD on 4 May 2022, Members of the PCODMV made several observations related to the budgetary allocation, the performance indicators and the targets set in the Strategic Plan and the APP. The following were noted:

1. Members noted the need for DOD to take to heart the matters raised by the Auditor-General of South Africa (AGSA), but expressed understanding that some AGSA findings are multi-year findings that takes time to resolve.
2. Members expressed concern around the fact that the DOD will have to do major reprioritisation with the 2022/23 budget given the need to address expected over-expenditure on CoE as well as funding reprioritisation required for the SANDF’s unplanned deployments such as Operation Chariot in response to flooding in KwaZulu-Natal and the Eastern Cape.
3. The Committee reiterated its concerns around the lack of capital acquisition in the DOD and the long-term impact this will have on the operational capacity of the SANDF.
4. Members expressed the need for an urgent conclusion to the ongoing impasse around Project Hoefyster, acquisition of the SA Army’s Armoured Infantry Fighting Vehicles, the Badger.
5. Members noted concern around Project Thusano and its associated cost, especially in the context of the AGSA’s findings in this regard.
6. The Committee highlighted the potential income that can be generated for the DOD from the sale of obsolete equipment and the need for the DOD to consider enhancing this process.
7. Members expressed concern, in the context of fiscal constraints, around the rising cost of advertising in the DOD given the growth in this line item as a percentage of the DOD’s allocation in recent years.
8. Members also questioned the increase in the cost of ‘operating leases’ as a percentage of the DOD allocation, and was specifically concern about the need for new and unplanned leases.
9. Members noted concerns around the upgrading of DOD facilities, as observed and experienced by Members during their oversight visits.
10. The Committee noted the observation by the DOD that it plans to reduce the number of procurement centres from the current 73 by consolidating some of the smaller centres. Members also noted the need for fully functional defence enterprise management system for the effective management of all procurement centres and the broader business continuity of the DOD.
11. The Committee noted the need for the audit of the procurement centres to be sped up as this was concern was also noted by the AGSA in the Status of Record Review.
12. Members expressed concern around the slow progress in relation to investigations of irregular, fruitless and wasteful expenditure, with a very limited number of investigations being finalised. The view was that the DOD is therefore failing to take appropriate Consequence Management steps and efforts to recover funds for the Department.
13. Members also noted the continued disputes around material irregularities and expressed the need for this to be finalised.
14. Members expressed appreciation for the role that the Special Forces play in the SANDF, but raised concern around the reduced budgetary allocation for Special Forces capabilities in 2022/23.

**10. RECOMMENDATIONS**

The PCODMV identified the following areas that will be subject to monitoring by the Committee throughout the 2022/23 financial year:

1. The DOD and National Treasury should urgently engage around the funding requirements for unplanned SANDF deployments that were not budgeted for in the 2022/23 main allocation. Clarity on additional allocations for these purposes should be clearly reflected in the mid-year adjusted budget.
2. While the Committee welcomes the various interventions to bring over-expenditure on CoE under control over the medium-term, it stresses the need for effective implementation. The DOD should, as part of its quarterly reports to Parliament, indicate progress in the implementation of CoE interventions, adherence to the implementation schedule and the estimated savings. The Committee further encourages both the DOD and National Treasury to work together to find means to speed up the process of stabilising the CoE expenditure.
3. The lack of Capital expenditure by the DOD remains a concern. While aware of broader fiscal constraints, the Committee encourages renewed engagement between the DOD and National Treasury around the potential funding of key strategic capabilities that require urgent capital intervention for acquisition or maintenance. This refers specifically to cases where strategic capabilities may be lost as a result of non-funding or where a lack of short-term funding may result in significant investment requirements over the long-term. The outcome of such engagements should be reflected by the DOD and National Treasury in the mid-year adjusted budget.
4. During its recent oversight visit to Denel and Armscor facilities, the Committee expressed the urgent need for a final decision on Project Hoefyster. In line with the recommendation made by the head of the delegation during the oversight visit, the Committee recommends urgent engagements between Armscor, Denel and the DOD on the future of the project. Armscor should report back to the Committee, in writing, not later than 21 July 2022, on the outcome of such engagements and the way forward for Project Hoefyster.
5. The Committee undertakes to have further in-depth discussions with the DOD and the AGSA around Project Thusano and will make subsequent recommendations on the way forward.
6. The Committee recommends that the DOD and Armscor jointly develop a plan to speed up plans to generate revenue through the sale of obsolete equipment. The DOD and Armscor should report progress on this plan to the Committee during deliberations on the adjusted budget for 2022, including how projected revenue will be spent.
7. The Committee encourages the DOD to optimise its spending and identify areas for potential savings, especially as it relates to expenditure on (1) advertising and (2) operating leases, specifically new and unplanned leases. The DOD should provide the Committee with a detailed breakdown of all leases for 2022/23 by 21 July 2022 for further monitoring.
8. The DOD should provide quarterly feedback on progress related to the consolidation of its 73 procurement centres.
9. The DOD should provide quarterly feedback on efforts to acquire and implement a new, integrated defence enterprise system.
10. The Committee urges the SecDef and Chief SANDF to urgently speed up the investigations of irregular, fruitless and wasteful expenditure and enhance Consequence Management in this regard. The Committee also undertakes to have further engagements with the DOD on these investigations.
11. The DOD, in conjunction with Armscor, should provide the Committee with a long-term cost projection of the midlife upgrades of the SA Navy Frigates and submarines. The information should include calculations on expected cost escalations brought about by delays in performing the midlife upgrades. Armscor should submit this to the Committee by 21 July 2022 as it will allow the committee to engage the DOD and National Treasury on the matter.
12. Notwithstanding fiscal constraints, the use of technology and cyber capabilities as a force multiplier is crucial to SANDF’s operational success. The Committee will further engage the SANDF on the scope for use and funding in this regard, and the DOD should be prepared to respond with information in this regard at the next quarterly meeting.
13. The DOD and National Treasury should have continuous engagements to ensure that the Special Forces’ function in the SANDF is sufficiently funded, given its strategic importance and force multiplier effects.

**PART B: DEFENCE ENTITIES**

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered the 2022 Corporate Plan and budgetary allocation of the Armaments Corporation of South Africa (Armscor) on 4 May 2022, and the 2022/23 Annual Performance Plan of the Castle Control Board (CCB) on 11 May 2022 respectively, reports as follows:

**THE CASTLE CONTROL BOARD (CCB)**

**1. Introduction**

The Castle Control Board (CCB) submitted its Annual Performance Plan (APP) for FY2022/23 to Parliament on 11 March 2022. The Castle Management Act, 1993 (No. 207 of 1993) provides for a CCB to govern and manage the Castle of Good Hope (CGH) – South Africa’s oldest architectural structure - on behalf of the Minister of Defence and Military Veterans. The National Heritage Resources Act (No. 25 of 1999) provides for the management of the Castle as a national heritage site. The Castle’s objectives are set out in the Castle Management Act as follows:

* To preserve and protect the military and cultural heritage of the Castle;
* To optimise the tourist potential of the Castle; and
* To maximise accessibility to the public.

**2. THE COVID 19 PANDEMIC AND THE CHAIRPERSON’S FOREWORD**

The Minister, in her Foreword, points out that the Medium-Term Expenditure Framework (MTEF) is affected by the Coronavirus pandemic. She further states that despite a reduced budget, she is inviting the CCB to render continued support over the MTEF. The Chairperson of the Board, Lt Gen Mbuli, elaborates further on the devastating effect of the pandemic on the activities of the CCB, given that it is heavily reliant on tourism revenue and, in particular, the bedevilling effect it has on the planning and delivery environment. The Board Chairperson expressed his gratitude for the R5.5 million relief fund received from the DOD in 2021 and states that they are expecting R6 million for the DOD in 2022/23. “*The above assumes that the tourism economy will be on the mend.*” He outlined the following strategic risks as with the previous APP for 2022/23:

* **Going Concern status**: Even though they self-generate 95% of their operating income, concern remains around the CCB as a going concern, on which they continue to engage the Executive Authority.
* **Marketing and promotion**. The key to overcome this challenge is the aggressive marketing and promotion the Castle of Good Hope (CGH).
* **Health, safety and security concerns,** remains a key priority especially if they want to achieve the UNESCO World Heritage status.
* **4th Industrial Revolution technologies**. They plan to utilise all of these available technologies to cost-effectively maintain, enhance, and promote the CGH’s built and intangible heritage.
* **Non-classroom education.** The plan is to link up with global progressive forces to enhance their heritage status and provide visitors with a “*life-changing educational experience*” at the CGH.
* **Clean audit outcome.** The CCB has committed to achieving another clean audit outcome.

**3. ANNUAL PERFORMANCE PLAN 2022/23**

The CCB’s 2022/23 APP consists of four main parts namely Part A: CCB Mandate; Part B: CCB Strategic Focus; Part C: Measuring CCB Performance; and Part D: Technical Indicator Descriptions.

**3.1. Part A: CCB mandate**

This section lists the Constitutional mandate as derived from section 238. The legislative mandate is derived from the Castle Management Act (No. 207 of 1993); the Defence Endowment Property and Account Act (No. 33 of 1922); and the National Heritage Resources Act (No. 25 of 1999). The CCB is proposing to amend the Castle Management Act and the Defence Endowment Property and Account Act. As with the previous APP, it refers to the “*founding legislation being dated and that a review document has been submitted to the MOD&MV*.” Similarly, it is noted that the CCB is involved in a court case with the Castle Military Museum Foundation. No mention is made in the 2022/23 APP of the other court case with “*Kamers vol Geskenke,*” that was alluded to in the Strategic Plan.

**3.2 Part B: CCB Strategic Focus**

This Part deals with the CCB’s vision, mission, organisational values, situational analysis, external environment analysis, and internal environment analysis in the CCB’s 2022/23 APP.

**3.2.1 Situational analysis**

The Updated 2022 Situational Analysis starts off with a reference to the COVID-19 pandemic, and the havoc, pain and suffering this has caused. Reference is made to the issue of sustainable funding and this will be prioritised by the Deputy Minister in his engagements with his counterpart, the Minister of Sports, Arts and Culture to ascertain the role, functions and requirements of the CCB and Castle within the broader heritage community.

**External Environment Analysis**

The CCB is almost entirely reliant (98%) on self-generated income from tourism, events and rentals and given that it primarily relies on domestic tourism, this poses a significant threat. It also points out that experiences over the past few years demonstrated that the CCB needs to be legal-wise. “*Although two legal professionals on the Audit Committee assisted greatly, litigation frequency renders the organization vulnerable*.”

**Internal Environment Analysis**

Reference is made to the challenges with its *Going concern* which is linked to its financial sustainability. The 2022/23 APP laments the fact it that does not receive any direct financial subsidy from the national fiscus to date (despite legislation permitting the organisation). The APP further points out that there is a need for the precinct to be operationally managed solely by the CCB and all other entities present on or connected to the site must adhere to the policies and procedures of the CCB. “*The Board and Executive Authority must address the transfer of Het Bakhuys to the CCB. Ditto for the overall role of IZIKO and the Officers Messes at the CGH if the CCB is to realize its full financial viability*.” “*The additional resources required (under a typical, post-COVID year) has been calculated at a nominal amount of between R5.8m to R6m and should be ring-fenced as an operational subsidy based on a tightly managed MOA.”*

**3.3 Part C: Measuring CCB Performance**

The 2022/23 APP states that the CCB will, over the 2019-2024 MTSF period, support the government's priorities and ultimately, the National Development Plan (NDP), Vision 2030 as well as the NDP 5-year Implementation Plan.

**3.3.1. Measuring of the CCB Outcomes**

The detailed performance Outcomes over the MTSF is provided in the table below, the same as in the previous two APPs. These are the high level, measurable, impactful outcomes. The five APPs to be developed over the MTSF shall contain other, secondary outcomes and outcome indicators.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **S/No** | Outcomes | **Outcome Indicators** | **Baseline** | **FY2022/23 target** | **Five Year Target** |
| 1 | Accountable and effective  governance of the CCB | Percentage of CCB  accountability documents  submitted following National  Prescripts | 97% (Based on  the previous  MTSF audited  performance) | 100% | 97% (Based on the  last MTSF average  audited performance |
| Status of improved audit  opinions | Reduced number  of audit  qualifications | *65% Reduction in irregular expenditure*  *98% reduction in of fruitless and wasteful expenditure* | Decrease (reduce) the audit opinions to unqualified opinions. |
| 2 | A well-conserved  maintained and protected  Castle of Good Hope | Number of all preventative and scheduled heritage maintenance projects completed as per ICMP | 100% of all maintenance and repair projects completed | 8 | 96% (based on previous performance and erratic nature of breakages) |
| The annual number of  visitors and tourists  attracted to the Castle | 867 000 | 120 000 | 781 000 [981 000](Based on previous 3 years’ performances but reduced due to Covid-19) |
| Gross revenue generated  through tourism and events | R24.4 million | R10 005 000 | R25.5 million [R18.5m] (Based on previous three years’ Performances without Revenue Generation Plan |

***Table 1: Outcome indicators and five-year target***

**4. CASTLE CONTROL BOARD PROGRAMMES FOR 2022/23**

This section deals with the APP of the CCB and in particular with the programmatic outlines and the related financial aspects of the four programmes, through focusing on the relevant Performance Indicators and Targets, both annually and quarterly.

**4.1 Programme 1: Administration**

The purpose of the Administration programme is to ensure clean, sound administration and good corporate governance.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Output indicators** | **Annual Target** | **Quarterly targets** | | | |
| **Q1** | **Q2** | **Q3** | **Q4** |
| Number of corporate governance policies approved per annum | 4 | 1 | 1 | 1 | 1 |
| Percentage reduction in the number of audit findings within the CCB | 50% (100%) | - | - | - | 50% |
| CCB Annual Performance Plan timeously submitted to the Executive Authority | 100% (1) | - | - | - | 100% |
| CCB Annual Report timeously submitted to the Executive Authority | 100% (1) | - | 100% (1) | - | - |
| CCB Quarterly *Performance* Reports timeously submitted to the Executive Authority | 100% [4] | 100% (1) | 100% (1) | 100% (1) | 100% (1) |
| CCB Quarterly *Financial* Reports timeously submitted to the Executive Authority and National Treasury |  |  |  |  |  |
| CCB CEO Performance Agreement timeously submitted to the Executive Authority and National Treasury | 100% (1) | - | 100% (1) | - | - |
| *CCB CEO performance agreements submitted to the Board for approval* | *100% (1)* | *100% (1)* | *-* | *-* | *-* |
| *CCB members’ performance agreements to the CEO for…* | *100% (3)*- | - | - | - | - |
| *Submission of all reports and attendance of committee*  *meetings in support of parliamentary activities* | *100%* | *100%* | *100%* | *100%* | *100%* |
| *Percentage reduction in irregular expenditure within*  *the CCB* | 65% | - | - | - | 65% |
| *Percentage reduction in the number of fruitless and wasteful expenditures within the CCB* | 98% | - | - | - | 98% |

***Table 2: Programme Annual and quarterly targets***

**4.2** **Programme 2: Maintenance and Conservation at the CGH**

This programme aims to ensure the maintenance, preservation, interpretation and showcasing of the history of the CGH.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Output indicators** | **Annual Target** | **Quarterly targets with sources of verification noted** | | | |
| **Q1** | **Q2** | **Q3** | **Q4** |
| Number of preventative and regulation maintenance projects completed | 8 | 2 | 2 | 2 | 2 |
| An annual increase in number of tangible heritage projects implemented at the CGH | 4 (6) | 1 | 2 | 2 | 1 |
| Number of non-commercial, cultural events hosted at the CGH | 10 | 2 | 3 | 2 | 3 |
| Number of exhibitions hosted annually at the CGH | 3 (5) | - | - | 1 | 2 |

***Table 3: Programme 2 Annual and quarterly targets***

**4.3** **Programme 3: Maximising the Castle’s Tourism Potential**

The purpose of this programme is to optimise the tourism potential of the CGH.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Output indicators** | **Annual Target** | **Quarterly targets with sources of verification noted** | | | |
| **Q1** | **Q2** | **Q3** | **Q4** |
| The annual number of visitors and tourists attracted to the CGH | 120 000 (175 000) | 20 000 (40 000) | 20 000 (40 000) | 35 000 (45 000) | 45 000 (50 000) |
| Gross revenue generated through tourism and Events | R10 005 000 (R8.903 m) | R 1 103 000 (R1 435 000) | R 2 898 000 (R1 103 000) | R2 950 000 (R2 950 000) | R3 054 000 (R3950 000) |
| Number of commercial events hosted annually at the CGH | 20 | 5 | 5 | 5 | 5 |
| Number of film and fashion shoots  accommodated at the CGH per annum | 12 (10) | 2 | 4 (3) | 4 (3) | 2 |
| Number of tourism infrastructure upgrades Completed | 1 (2) | - |  | (1) | 1 |
| Number of Joint Marketing Initiatives  undertaken per year | 2 | - | 1 | - | 1 |

***Table 4: Programme 3 Annual and quarterly targets***

**4.4** **Programme 4: Increase public access to the CGH**

This programme aims to optimise public access and increase the CGH’s public profile and positive perception across all community sectors.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Output indicators** | **Annual Target** | **Quarterly targets with sources of verification noted** | | | |
| **Q1** | **Q2** | **Q3** | **Q4** |
| The annual number of potential visitors  reached through the media | 90m (80m) | 20m (20m) | 20m (10m) | 25m (20m) | 25m (20m) |
| Number of student interns hosted at the CGH  per annum | 12 | 6 | 2 | 2 | 2 |
| Number of heritage-educational programmes  organised for women, unemployed youth,  disabled and traditional communities | 15 (12) | 4 (3) | 3 | 3 | 5 |
| Number of heritage programmes organised for  Military Veterans | 6 | 2 | 1 | 1 | 2 |

***Table 5: Programme 4 Annual and quarterly targets***

**5. PROGRAMME RESOURCE CONSIDERATIONS**

This section of the APP refers to the CCB Expenditure estimates, annual increases per programme and the percentages of the programmes in relation to the total budget.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **2021/22** | | **2022/23** | | **2023/24** | | **2024/25** | |
| **(R’000)** | | **(R’000)** | | **(R’000)** | | **(R’000)** | |
| **Full Cost** | **Budget**  **Amount** | **Full Cost** | **Budget**  **Amount** | **Full Cost** | **Budget**  **Amount** | **Full Cost** | **Budget**  **Amount** |
| ***Administration*** | 8 450 | 8 450 | 8 957 | 8 957 | 9 360 | 9 360 | 8 018 | 8 018 |
| ***Conservation***  ***Management*** | 660 | 660 | 700 | 700 | 732 | 732 | 698 | 698 |
| ***Tourism***  ***Management*** | 85 | 85 | 90 | 90 | 94 | 94 | 15 | 15 |
| ***Public Access*** | 243 | 243 | 258 | 258 | 269 | 269 | 375 | 375 |
| **Total** | **9 438** | **9 438** | **10 005** | **10 005** | **10 455** | **10 455** | **9 106** | **9 106** |

***Table 6: CCB’s expenditure estimates for FY2021//22 to FY2024/25.***

The projected expenditure for 2022/23 is R10.005 million, an increase of R567 000 over the previous year. While note is taken of the uncertain future, the CCB spend R658 000 more that it planned mainly due to the R3 million it utilised of the R4.9 million grant from the DOD. Therefore, the CCB should prioritise its Revenue Optimisation Plan to become less reliant on the DOD. It is further concerning that the majority of the grant provided by the DOD was spent in Programme 1 (Administration) whose purpose is “to ensure clean, sound administration and good corporate governance.” It is also noted that for Tourism Management an amount of R85 000 was planned for 2021/22, and that none was expended and this should be viewed against the background of a target of R90 000 for this financial year.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2022/23** | **Real Increase / Decrease in 2022/23** | **Nominal Percent change in 2022/23** | **Real Percent change in 2022/23** |
| **R million** | **2021/22** | **2022/23** |
| Administration | 8 450.0 | 8 957.0 | 507.0 | 121.3 | 6.00 % | 1.44 % |
| Conservation Management | 660.0 | 700.0 | 40.0 | 9.9 | 6.06 % | 1.49 % |
| Tourism Management | 85.0 | 90.0 | 5.0 | 1.1 | 5.88 % | 1.32 % |
| Public Access | 243.0 | 258.0 | 15.0 | 3.9 | 6.17 % | 1.60 % |
| **TOTAL** | **9 438.0** | **10 005** | 567.0 | 136.2 | 6.0 % | 1.44 % |

***Table 7: Programmes’ nominal and real increases 2021/22 - 2022/23***

Table 7 shows that the overall budget increase of the CCB is 1.44% in real terms and that all programmes show a real increase of at least 1.32%, with the biggest increase in in the Public Access Programme with 1.60%. Overall the budget increased with R567 000 in nominal terms.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Programme** | **Budget** | **Percent of total budget per programme** | **Budget** | **Percent of total budget per programme** |
| **R million** | **2021/22** | | **2022/23** | |
| Programme 1: Administration | 8 450.0 | 89.53 % | 8 957.0 | 89.53 % |
| Programme 2: Conservation Management | 660.0 | 6.99 % | 700.0 | 7.00 % |
| Programme 3: Tourism Management | 85.0 | 0.90 % | 90.0 | 0.90 % |
| Programme 4: Public Access | 243.0 | 2.57 % | 258.0 | 2.58 % |
| TOTAL | 9 438.0 | 100.00 % | **10 005** | 100 % |

***Table 8: Percentages of programmes vs total budget 2021/22 - 2022/23***

Programme 1 remains the biggest programme, receiving 89.53% of the total allocation, largely related to the cost of employees. Programme 2 is the second largest with 7%, Programme 4 with 2.58% and Programme 3 with 0.90%.

**5.1 Programme 1 – Administration.**

This programme has been allocated R 8 957 000 for 2022/23. Similar to the previous years, the 2022/23 APP states that this is the most significant spending programme and that within this programme, employment cost is the most significant expenditure driver, as there are 19 people according to the 2022 ENE, while the APP refers to 18 employees.

**5.2 Programme 2 – Conservation Management.**

This is second biggest expenditure item with an allocated budget of R700 000 for 2022/23, an increase of around R40 000. As with the previous APP, it is stated that the organisation plans to deliver a series of innovative public events over the medium term. Some of their initiatives include an active marketing drive to get more South African learners and locals to visit the CGH, heritage programmes and cultural workshops for cultural and ethnic groups, skills training workshops for Military Veterans, interactive heritage displays, expansion of museum displays and the development of the CGH Chapel as a place of worship and reflection.

**5.3 Programme 3 - Tourism Management**

This Programme’s expected expenditure for 2022/23 is R90 000 and, as pointed to previously, no funds were spent in this programme during the previous financial year. As one of the premium issues around which the CCB’s continued existence revolve, this programme needs to be prioritised. It also refers to the fact that there are not enough indoor venues and would like to procure a 2 500-seater marquee.

**5.4 Programme 4 - Public Access**

For 2022/23 an allocation of R 258 000 has been made available for this programme, an increase of R15 000 from the previous year. It is worth pointed out that this crucial programme caters for, among others, public events and outreach programmes to schools.

**6. CASTLE CONTROL BOARD ENTERPRISE RISK MANAGEMENT**

The identified CCB Enterprise Risks of the CCB is listed in the APP and differs with those in the previous APP.

|  |  |  |
| --- | --- | --- |
| **Outcome** | **Key risks** | **Risk mitigation** |
| A well-conserved maintained and  protected Castle of Good Hope | The inability of the CCB to remain a going concern in the aftermath of the most devastating event (COVID-19) because it cannot generate revenue  from its tourism and events portfolios. | Aggressive marketing and a compact  with government departments to use  the Castle facilities for their smaller meetings and conferences. |
| A well-conserved maintained and  protected Castle of Good Hope | We are experiencing a decline in financial resources inhibiting us from executing our primary mandate to conserve and promote CGH as a Heritage Site. | See through the legal and compliance processes to apply to Treasury for the retention of historic surpluses. |
| Accountable and effective governance of the CCB | We have insufficient Human Resources capacity hampering our endeavours to fulfil our core mandates. | Retrain and redeploy existing staff and recruit key staff, e.g., financial manager, in an HRD Plan. |
| A well-conserved maintained and  protected Castle of Good Hope | Blurred and overlapping responsibilities regarding the overall management of the CGH precinct negatively affecting our ability to coordinate and optimize the resource base. | Integrated CGH Management Plan  drafted, inter-institutional management structure revived, and Revenue Optimisation Plan to be finalized. |
| A well-conserved maintained and  protected Castle of Good Hope | Compromised security in and around the CGH undermining the work of the CCB. | Compromised security in and around the CGH undermining the work of the CCB. |
| Accountable and effective governance of the CCB | Lack of adherence to a Manual of Policies and Procedures to regulate control and compliance environment undermines our ability to build win-win partnerships with the private and public sectors. | Newly appointed Executive Director  and Chief Financial Officer are leading the initiative to ensure complete compliance |
| A well-conserved maintained and  protected Castle of Good Hope | The compromising of the image of the Castle either through malice or abuse of its spaces and amenities | The Executive Director shall actively engage stakeholders and the media. |

***Table 3: Enterprise risk and Risk Mitigation***

**7. COMMITTEE OBSERVATIONS**

During deliberations with the CCB on 11 May 2022, Members of the PCODMV made observations related to the budgetary allocation, the performance indicators and the targets set in the APP of the CCB. The following were noted:

1. The Committee enquired about the loss of personnel, especially since the advent of the Covid 19 pandemic, and wanted to be assured that these members left due to better opportunities rather than leaving due to cost saving measures. This against the background that the CCB refers to insufficient Human Resources capacity as one if its risks. The Committee was assured that only three managers left; two due to relocation and a better work opportunity and the other due to a disciplinary matter which still need to be concluded.
2. It was observed that there were challenges with the appointment and continued utilisation of interns and concern was expressed given the country’s challenge with youth unemployment.
3. While the Committee supports the CCB in the execution of their mandate, and especially to preserve such a historical site, it noted the continued reliance on the DOD to assist it with funding and to remain a Going concern.
4. Note was taken of the CCB’s Key risks and Mitigating factors and that there are attempts to mitigate these risks. However, the fact that the Mitigating factors have not been updated was noted as a concern, as can for example be noted by reference to “*See through the legal and compliance processes to apply to Treasury for the retention of historic surpluses*.” and “*Newly appointed Executive Director and Chief Financial Officer are leading the initiative to ensure complete compliance.*”
5. The Committee noted the continued challenge of people putting up temporary structures on the perimeter of the Castle, and the attempts by the City of Cape Town, the Metro Police and the Military Police to assist to address the situation. Members were also informed of a delay in the finalisation of a fence installation by the Department of Public Works and Infrastructure.

**10. RECOMMENDATIONS**

The PCODMV identified the following areas that will be subject to monitoring by the Committee throughout the 2022/23 financial year and beyond:

1. The Committee encouraged the CCB to ensure that their Human Resources Plan includes a viable retention strategy to facilitate the continued employment of their employees despite cost pressures, to prevent employees from exiting due to internal matters.
2. The CCB should pay specific attention to the appointment and utilisation of interns due to the many benefits of such a system to address youth unemployment in the country.
3. It was recommended that the CCB should review its Revenue Optimisation Strategy in line with the current restricted financial environment to assist with increasing its revenue and to remain a Going Concern, given that these circumstances are likely to persist in the immediate/short term.
4. The Committee recommends that the CCB updates it Key Risks and especially the mitigating strategies as a matter of urgency.
5. It is recommended that the CCB should conduct its engagement with stakeholders to address the people who erect temporary structures on its perimeter, within the confines of the law and with the necessary humane and a compassionate approach.

**PART C: ARMAMENTS CORPORATION OF SOUTH AFRICA (ARMSCOR)**

The PCODMV, having considered the 2022 Corporate Plan of Armscor on 4 May 2022, reports as follows:

1. **1. Introduction**

**1.1 Mandate of Armscor**

Armscor was established in terms of the Armaments Production and Development Act (No. 57 of 1968) to satisfy the requirements of the South African National Defence Force (SANDF) in respect of Defence Matériel.

**1.2 Main Objective of Armscor**

The objectives and mandate of Armscor are defined in the Armaments Corporation of South Africa Limited Act of 2003 and includes the objective of meeting the defence matériel requirements of the Department of Defence (DOD) effectively, efficiently, and economically. Furthermore, Armscor are to meet the defence technology, research, development, analysis, and test and evaluation requirements of the DOD effectively, efficiently, and economically.

1. **strategic focus areas**

* 1. **Notes from the introductory statement**

Key observations by the Armscor Board Chairperson referred specifically to Armscor’s capacity to deliver on its core mandate and for its key client, the SANDF. However, the Chairperson noted that progress forward, the legacy issues the organisation has will have to be addressed. These challenges include the declining defence budget and the ever-diminishing capacity of Denel. Another is the losses caused through project failures and the theft of intellectual property by a number of parties. None of these objectives will be achievable unless the various players in government and the private sector work together to address them.

The Armscor CEO noted a number of key focus areas for Armscor going forward as it aims to optimise operations amid significant fiscal constraints in the defence environment.

* Implementation of the Defence Sector Charter in partnership with the National Defence industry Council (NDIC).
* Implementation of the Armscor Commercialisations Strategy. This strategy seeks to mitigate the negative impact of the declining defence budget and to reposition Armscor as a sustainable organisation.
* Focus on Armscor’s four strategic outputs:
  + Revenue Generation
  + Cost Management
  + Efficient and Effective Delivery
  + Stakeholder Management
* Implementation of Armscor’s ‘On-Time, In-Time’ Strategy. The strategy is based on the relevance and sustainability of the Corporation, hence the focus on the commercialisation and expansion of Armscor’s services to a wider client base and looking at opportunities for partnerships with other defence procurement authorities around the world.
* Positioning Armscor as the primary procurement partner for the South African Government’s security cluster.
* Sweating of assets.
* Exploiting Intellectual Property (IP).
* Africa Aerospace and Defence Exhibition (AAD 2022), scheduled for 21-25 September 2022.

**2.2 Environmental scan**

The 2022 Corporate Plan further contains a detailed situational awareness which maps the external and internal environments that affect the Corporation. The consideration of these factors are essential to Members of Parliament as it shapes the constraints and conditions under which Armscor will have to operate in the medium-term. It is, however, a crucial backdrop against which to view developments in Armscor and the broader defence industry.

**External environment**

* *Political*: The domestic focus of national security is on Human Security and the growth of South Africa is dependent on peace, stability and economic development on the continent. The focus on human security was encapsulated in 2020 with the deployment of the military to assist in the country’s efforts to prevent the spread of the Covid-19 pandemic.
* *Economic*: There is increasing fear of economic downturn, with GDP growth continuously revised downwards. This downturn was exacerbated by the Covid-19 pandemic, negatively impacting the implementation of the National Development Plan (NDP). The defence allocation is expected to further decline over the medium-term.
* *Social:* Four aspects will shape future economic and political conditions, namely increased life expectancy; population growth and the youth bulge; migration; and, urbanisation. In addition, the social sphere will be impacted by the Fourth Industrial Revolution and cyber connectivity.
* *Technology:* The SANDF will be required to improve its Information Warfare capability while the Defence industry requires funding and planning to maximise its economic contribution.
* *Legal:* The DOD, especially the SANDF commanders could face various new international legal challenges during external operations. The SANDF must ensure that it operates within International Law.
* *Physical:* The SANDF could increasingly be required to become involved in humanitarian operations, specifically as a result of climate change. Furthermore, as demonstrated during the Covid-19 pandemic, SANDF involvement may be required to deal with humanitarian operations related to pandemic outbreaks.
* *Military:* The military will have to prepare for a deployment environment where the distinction between military and other containment measures become increasingly blurred. Of particular importance will be the SANDF’s role in border safeguarding as well as the need for technological means of securing the country’s borders.

**Internal environment**

* *Economic recession:* Slow economic growth will hamper the creation of job opportunities, industrial strikes and possibly contribute to conflict from the unemployed youth demographic.
* *Defence budget allocation:* The Defence Force is Armscor’s largest client and its budget allocation will remain constrained over the medium-term. DOD’s Human Resources expenditure is foreseen to continue rising, slightly above the inflation rate, effectively reducing the operating and capital budgets. This introduces an era where the ability of the SANDF to conduct operations is substantially curtailed, possibly negatively influencing the demand for Armscor capacity related to the contracting of maintenance, repair and overhaul (MRO) services. The impact of this, on the Strategic Capital Acquisition Master Plan (SCAMP) is severe.

The initiatives to position Armscor as the primary procurement agency for the security cluster; sweating its own assets; sourcing contracts from foreign governments and IP exploitation is taking longer than expected.

* *Corporate governance accountability:* Armscor will continue to operate and function under good governance principles as per the King IV Report and other guiding documents.
* *National cost containing measures:* Armscor will continue to implement cost containment measures as per National Treasury directives.
* *Service delivery improvement:* The Acquisition process and contracting process at Armscor will be improved to better serve the DOD needs.

**2.3 Armscor contribution to national government planning**

Armscor will seek to contribute to several Government outcomes as per the NDP and the Medium-Term Strategic Framework (MTSF) (2019-2024).

Armscor contributions to the **NDP**:

* Sharpening South Africa’s innovative edge by contributing to global scientific and technological advancement;
* Investing in Research and Development;
* Facilitating cooperation between public service and technology institutions;
* Committing to procurement approaches that stimulate domestic industry and job creation;
* Procuring from and supporting SMMEs, black-owned and black managed enterprises and female-led enterprises, the youth and military veterans.

Armscor contributions to the 2019-2024 **MTSF**

* **Priority 1:** Capable, ethical and developmental state. Armscor will contribute to improved corporate governance and continue to fight corruption. The institution will also follow a zero tolerance approach to sexual abuse toward women, the youth and people with disabilities.
* **Priority 2:** Economic transformation and job creation. Armscor will focus on domestic procurement of goods and services. Over 146 bursaries will be awarded for science and engineering. Military veterans support programmes were created to ensure access for this select group to the defence industry.
* **Priority 3:** Education skills and health. Armscor’s focus will be on the provision of domestic and foreign learning opportunities in the fields of science and technology.
* **Priority 5:** Spatial development, human settlements and local government. Armscor will support women, the youth and economic development in rural areas through Project Koba Tlala.
* **Priority 6:** Social cohesion and safer communities. Armscor will contribute to this priority through its contribution to the SANDF’s border safeguarding operations and the provision/acquisition of technology and equipment for the SANDF.
* **Priority 7:** A better Africa and a better world. Through supporting the DOD’s external operations in Africa, Armscor will contribute to regional and continental peace, security and stability.

1. **Budget Analysis**

**3.1 Overview of 2022/23 income and expenditure**

The projected income for the Armscor Group in 2022/23 (R1.492 billion) is lower than that which was projected for 2021/22 (R1.505 billion). After the inclusion of depreciation, Armscor is expected to have a net shortfall of R16.1 million for 2022/23. The shortfall emerges despite a significant reduction in personnel cost (see below).

The main cost drivers for Armscor in the 2022/23 financial year include the following:

* Direct personnel cost decreases from R1.127 billion in 2021/22 to R1.049 billion in 2022/23.
* External services costs increase from R102.7 million in 2021/22 to R120.5 million in 2022/23.
* Water and electricity costs increase from R46.4 million in 2021/22 to R57.6 million in 2022/23. *(This signifies an increase of 24% year-on-year).* No funds are allocated for Water and electricity for the Armscor dockyard for 2022/23.
* Computer services increase from R4.7 million in 2021/22 to R35.6 million in 2022/23.
* Subsistence and Travel expenditure decreases from R38.3 million in 2021/22 to R24.4 million in 2022/23.
* Publication and advertising costs increases from R3.5 million in 2021/22 to R9.5 million in 2022/23.

**3.2 How is Armscor funded?**

Armscor is largely funded from state finances through a transfer payment. The reduced defence allocation is pressuring Armscor to supplements this income with other commercial projects. In order to lessen the pressure on the fiscus, these projects require expansion, as per Armscor’s APP, to increase commercial activities in order to increase Armscor’s economic viability. For 2022/23, Armscor planned funding comprises the following:

* Transfer payment: R1.252 billion (R1.207 billion in 2021/22)
* Net sales: R581.3 million (R801.9 million in 2021/22)
* Other income: R92.8 million (R65 million in 2021/22)
* Recoveries: R23.7 million (R88.4 million in 2021/22)

**3.3 Additional financial information:**

Armscor has shown progress in returning most of its subsidiaries to profitability in recent years. However, for 2022/23, the Research and Development Division shows a shortfall of R130 million which brings down the surpluses achieved in other divisions. Projected profit/losses for the 2022/23 financial year per component includes:

* Armscor Corporate: Surplus of R107.3 million (R47.7 million surplus was   
   projected for 2021/22)
* Research and Development: Shortfall of R130 million (R45.1 million shortfall was   
   projected for 2021/22)
* Armscor Dockyard: Surplus of R6.6 million (R0.4 million surplus was   
   projected for 2021/22)
* **Armscor Group: Shortfall of R16.1 million**

In terms of the Group Capital Expenditure[[5]](#footnote-5) for 2022/23, a number of requirements are identified in the Corporate Plan. Group Capital Expenditure does, however, decrease from R354.3 million in 2021/22 to R276.9 million in 2022/23. The most significant reduction is in terms of capital expenditure on computer equipment that decreases by R64.311 million in 2022/23 compared to the previous financial year. When planned expenditure in 2022/23 is compared to that of 2021/22, the following increases/decreases can be noted:

* Office Equipment: R9.157 million (R1.834 million in 2021/22)
* Computer Equipment: R16.975 million (R81.286 million in 2021/22)
* Office furniture: R2.725 million (R2.062 million in 2021/22)
* Computer software: R79.65 million (R97.416 million in 2021/22
* Buildings and infrastructure: R125.898 million (R133.205 million in 2021/22)
* Machinery and Equipment: R32.613 million (R26.228 million in 2021/22)
* Motor Vehicles: R2.8 million (R4.9 million in 2021/22)
* Capital assets: R7.085 million (R7.4 million in 2021/22)

When reviewing the Armscor expenditure per activity, as presented by National Treasury, overall expenditure is set to increase marginally from R1.942 billion in 2021/22 to R1.989 billion in 2022/23.[[6]](#footnote-6) This translates to a nominal increase in expenditure of 2.4%. The largest increase in expenditure is expected in terms of Administration which increases by R109.6 million to R834.3 million in 2022/23. The Management of strategic facilities (Armscor Dockyard) will see expenditure increase by R64.3 million to R420.4 million in 2022/23. The most significant reduction in expenditure relates to the Management of Defence Matériel Acquisition that decreases by R60.3 million to R208.4 million in 2022/23. This reduction in expenditure is most likely explained by the reduced DOD budget and the limited need for the management of large defence acquisition projects.

| **Programme/objective/**  **activity** | **Budget** | | **Nominal Increase / Decrease in 2021/22** | **Real Increase / Decrease in 2021/22** | **Nominal Percent change in 2021/22** | **Real Percent change in 2021/22** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2021/22** | **2022/23** |
| Administration | 724,7 | 834,3 | 109,6 | 73,7 | 15,12% | 10,17% |
| Quality Assurance | 135,4 | 119,0 | - 16,4 | - 21,5 | -12,11% | -15,90% |
| Management of Defence Matériel Acquisition | 268,7 | 208,4 | - 60,3 | - 69,3 | -22,44% | -25,78% |
| Logistics Support | 30,2 | 24,9 | - 5,3 | - 6,4 | -17,55% | -21,10% |
| Management of strategic facilities: Armscor Dockyard | 356,1 | 420,4 | 64,3 | 46,2 | 18,06% | 12,97% |
| Management of strategic facilities: Research and Development | 426,7 | 381,8 | - 44,9 | - 61,3 | -10,52% | -14,38% |
| **TOTAL** | **1 941,8** | **1 988,8** | **47,0** | **- 38,6** | **2,4%** | **-1,99%** |

**Table 1: Armscor expenditure trends from 2020/21 to 2021/22**

1. **THE SWEATING OF ASSETS**

As a means of raising income for Armscor, the sweating of assets has previously been considered. The 2018/19 Annual Report noted that “Armscor identified four of its properties to sweat; two at Erasmuskloof, one at Pretoria West and one at Northern Cape. The latter two are at Armscor’s facilities – Gerotek and Alkantpan. The Corporation issued a request for bids, inviting potential developers and investors to submit bids for the development of these land parcels. While the response received was positive, an internal process is underway and the necessary approval will have to be obtained.”[[7]](#footnote-7)

The 2022/23 APP noted no significant progress related to the sweating of these assets and it remains unclear whether the necessary approval was obtained. Armscor does note, however, that it established the Property Management and Leveraging Division for the purposes of sweating property assets.”[[8]](#footnote-8)

1. **Personnel information**

The total personnel strength for 2022/23 is reflected in the table below and comes to 1 348, which is lower than the projection of 1 498 for 2021/22. This figure includes 56 Contract Employees as well as 56 personnel in the Talent Development Programme.

The reduction in personnel is aligned with a statement by the National Treasury noting that “the corporation will aim to improve its financial sustainability by reducing its number of personnel – from 1 627 in 2021/22 to 1 462 in 2024/25 – through offering voluntary severance packages, natural attrition and the non‐renewal of expired contracts. This is expected to result in a decrease of R161 million over the MTEF period in spending on compensation of employees. Overall spending on compensation of employees is expected to stabilise at R1.1 billion over the medium term.”[[9]](#footnote-9) Clarity should be sought on the difference between personnel figures in the Armscor Corporate Plan (as per the table below) and those provided by National Treasury (as per the quoted figures). As such, should personnel figures be lowered to the expected levels stated in the Armscor APP in 2022/23, the entity’s personnel strength should fall within the desired framework set by National Treasury.

|  |  |  |
| --- | --- | --- |
| **Armscor Group** | **Total Permanent employees projected in the 2021/22 Corporate Plan** | **Total Permanent employees provided for 2022/23** |
| Armscor (excluding R&D) | 721 | 629 |
| Research & Development | 348 | 347 |
| Armscor Dockyard | 429 | 372 |
| **TOTAL** | **1 498** | **1 348** |

**Table 2: Personnel figure comparison**

**6. SELECTED PERFORMANCE INDICATORS**

**6.1 Service delivery indicators**

The table below highlights a number of service delivery performance targets across Armscor’s six goals that Members should consider and track throughout the year. Goals include the following:

* Goal 1: Defence Materiel Acquisition.
* Goal 2: System Support Acquisition
* Goal 3: Schedule placement
* Goal 4: Management of Defence Industrial Participation (DIP)
* Goal 5: Defence technology research, test and evaluation; Intellectual Property management
* Goal 6: Performance against Dockyard Mandate

| **Goal** | **Performance indicator** | **2020/21**  **Achievement** | **2021/22**  **Target** | **2022/23**  **Target** |
| --- | --- | --- | --- | --- |
| **1**  (Defence Materiel acquisition) | Percentage of DOD capital requirements converted into orders placed | 98.23% | 95% | 95% |
| Execution of contracts measured through cash flow on DOD orders placed | 97.39% | 95% | 95% |
| **2**  (System Support Acquisition) | Percentage of DOD system support and procurement requirements converted into orders placed | 98.34% | 95% | 95% |
| Execution of contracts measured through cash flow on DOD orders placed | 96.27% | 95% | 95% |
| **3**  (Schedule placement) | Average time from receipt of requirement to placement of contract | 64.65 days for shortened process items  104.42 days for standard acquisition  147.47 days for SDA programmes | 95 days for shortened process items  125 days for standard acquisition  140 days for SDA programmes | 95 days for shortened process items  120 days for standard acquisition  140 days for SDA programmes |
| **4**  (DIP Management) | Value of Defence Industrial Participation (DIP) credits granted | R95.76 million | R129.95 million | R11.31 million |
| **5**  (Defence Technology and Research) | Percentage of execution of technology requirements | 97.5% | 95% | 95% |
| **6**  (Dockyard Management) | Adherence to contractual project tasking and job cards executed | 92.5% | 90% | 90% |
| Percentage compliance to project finance | 99.9% | 90% | 90% |
| Provision of Ancillary Services to the SA Navy | 100% | 95% | 95% |
| Ensure training is provided in accordance with the requirements of the SA Navy | 100% | 90% | 100% |
| Percentage compliance with quarterly report timelines | 100% | 90% | 100% |

**Table 3: Selected performance indicators per Armscor goal**

Armscor states in its APP that it “aspires to settle all payable invoices within 30 days upon receipt thereof.”[[10]](#footnote-10) There is, however, no KPI in this regard that will allow the PCDMV to track compliance with National Treasury regulations on payments within 30 days.

**6.2 Armscor strategic outputs**

In addition to the service delivery performance indicators, Armscor also set itself a number of targets in terms of its strategic output. These are summarised in the table below:

| **Outcome** | **Output** | **2020/21**  **Achievement** | **2021/22**  **Target** | **2022/23**  **Target** |
| --- | --- | --- | --- | --- |
| **Revenue generation** | Group revenue | R1.289 billion | R1.324 billion | R1.401 billion |
| Revenue from Armscor R&D | R341 million | R310 million | R206 million |
| Revenue from Business Enablement Unit | R16.9 million | R33.3 million | R31.4 million |
| **Cost Management** | Improve net financial position | R124.3 million surplus | R3.1 million surplus | R16.1 million surplus |
| **Efficient and effective deliver** | Percentage compliance with work in accordance with DOD-Armscor SLA | 98.6% | 90% | 90% |
| Completion of Intellectual Property requests | 100% | 80% | 90% |
| Commercialise one IP Technology | 31 March 2021 | 31 March 2022 | 31 March 2023 |
| Maintain a comprehensive IP register | 31 March 2021 | 31 March 2022 | 31 March 2023 |
| Appoint an Enterprise Resource Planning Service Provider | New indicator | 31 May 2021 | - |
| Implementation of approved application system renewal plan | 60% | 80% | 80% |
| Improve Cybersecurity Capability   |  | | --- | | (80% Implementation of the annually approved Cybersecurity Capability) | | New indicator | 30 June 2021 | 31 March 2023 |
| **.Stakeholder management** | Stakeholder satisfaction improvement survey | 26 March 2021 | N/A | 1% improvement |
| Employee engagement survey to determine baseline | % remain unchanged | % improvement on 2020/21 baseline | 60% |
| Increase black representation | 83.48% black employees | 83% | 83% |
| Improve female representation | 39.2% female employees | 40% | 40% |
| Controllable staff turnover | 1.55% | <4% | <4% |
| Provision of bursaries for full-time students | 34 | 23 | 23 |
| Contracting and development of graduates as interns | 40 | 30 | 30 |
| Succession Planning Development (Percentage compliance with succession plan) | 87.5% | 80% | 80% |
| Number of people with disabilities | 25 | 28 | 28 |

**Table 4: Selected Armscor’s strategic outputs**

**7. COMMITTEE OBSERVATIONS**

During deliberations with Armscor on 4 May 2021, Members of the PCODMV made several observations related to Armscor’s Corporate Plan:

1. While acknowledging that Armscor is only the contracting agent, Members expressed concern at Armscor’s indication that no work will be done on the SA Navy Frigates in 2022/23, specifically given the urgent need for midlife upgrades of these vessels.
2. Members raised questions around the ability of service providers, such as Denel, to take over maintenance work of SANDF equipment, such as those being done by Project Thusano, and expressed concern around the indication by Armscor that such a shift would not be possible.
3. Members again expressed frustration around the lack of a final decision on Project Hoefyster and the impact this has not only on Armscor as contract managing agent, but also on the SANDF’s long-term strategic planning.
4. Members welcomed the input by Armscor that it forms part of ongoing discussions with the DOD around budgetary reprioritisation.
5. Members noted the renewed focus by Armscor to pay service providers within 30 days.
6. Members expressed the need for Armscor to engage more urgently with the findings of the AGSA and heed the findings contained in the management letters.
7. Members encouraged Armscor to seek partnerships with the private sector, government departments and state-owned enterprises to market its services and expand cooperation. This can be of specific value given the reduced defence allocation and the impact this has on Armscor’s fiscal position. In this regard, Members also noted the observation by Armscor in its Corporate Plan that the sweating its own assets, sourcing contracts from foreign governments and Intellectual Property exploitation; are taking longer than expected.

**8. RECOMMENDATIONS**

The PCODMV identified the following areas and proposes the following recommendation that will be subject to monitoring by the Committee throughout the 2022/23 financial year:

1. Armscor should, in conjunction with the DOD, provide the Committee with a long-term cost projection of the midlife upgrades of the SA Navy Frigates and submarines. The information should include calculations on expected cost escalations brought about by delays in performing the midlife upgrades. Armscor should submit this to the Committee by 21 July 2022 as it will allow the committee to engage the DOD and National Treasury on the matter.
2. During its recent oversight visit to Denel and Armscor facilities, the Committee expressed the urgent need for a final decision on Project Hoefyster. In line with the recommendation made by the head of the delegation during the oversight visit, the Committee recommends urgent engagements between Armscor, Denel and the SANDF on the future of the project. Armscor should report back to the Committee in writing, not later than 21 July 2022, on the outcome of such engagements and the way forward for Project Hoefyster.
3. Armscor should include a target around the payment of its service providers within 30 days in its Annual Report for 2022/23.
4. Armscor is encouraged to have regular engagements with the AGSA and address its audit findings with the urgency it deserves.
5. Armscor should provide the Committee with a written explanation, by 21 June 2022, of the following:
   1. Reasons for the delays in the planned sweating of Armscor assets and plans to address this in 2022/23.
   2. Reasons for the difficulty in sourcing contracts from foreign investors and plans to address this in 2022/23.
   3. Reasons for the slow exploitation of Intellectual Property and plans to address this in 2022/23.

***Report to be considered.***

1. Real percentage takes into account Consumer-Price Inflation. [↑](#footnote-ref-1)
2. National Treasury (2022). p. 14 [↑](#footnote-ref-2)
3. See for example Khumalo (2017) [↑](#footnote-ref-3)
4. See Solomon and Hartley (2016) [↑](#footnote-ref-4)
5. Armscor (2022). p. 94. [↑](#footnote-ref-5)
6. These figures are based on a revised estimate as presented by National Treasury in the 2022 ENE. [↑](#footnote-ref-6)
7. Armscor (2019). P. 94. [↑](#footnote-ref-7)
8. Armscor (2022) p. 35. [↑](#footnote-ref-8)
9. National Treasury (2022) p. 424. [↑](#footnote-ref-9)
10. Armscor (2022) p. 31. [↑](#footnote-ref-10)