



13 June 2014

BUDGET 2014: VOTE 22 – DEFENCE AND MILITARY VETERANS SECTORAL ANALYSIS

1. INTRODUCTION

The 2014 budgetary allocation to the Department of Defence and Military Veterans (DODMV) for the 2014/15 financial year can be viewed against the background of several important issues in the defence environment. The first relates to the pending 2014 Defence Review which will *inter alia* assist the Minister of Defence and Military Veterans to motivate the requested defence budget. The second is the view that the Department is underfunded and that this impact on the delivery of ordered commitments by the Defence Force. The third relates to important governmental policy guidelines such as the National Development Plan (2030),¹ the New Growth Path (NGP), the Medium Term Budget Policy Statement, the Budget Review 2014 and reports of the Auditor-General as well as the relevant State of the Nation Addresses.² In addition, several other issues that inform the budget allocation and especially the intended spending can be considered such as Department's strategic situational analysis, the policy priorities of the Minister, as well as the Strategic Plan and the Annual Performance Plans.

2. THE 2014/15 DEFENCE BUDGET

2.1 The Defence Budget³

Given shifting priorities, South Africa's defence budget has decreased significantly since 1994. This becomes clear as the defence budget as part of the Gross Domestic Product (GDP) is considered. In 1994, the defence budget stood at 2.5 per cent of the GDP and this decreased to only 1.3 per cent in 2011.⁴ This figure is comparatively low considering defence spending of a number of other countries including Saudi Arabia (8.4%), Israel (6.8%), USA (4.7%), Angola (3.6%), India (2.6%), Botswana (2.1%) and Brazil (1.6%).⁵

In a recent article it was also pointed out that South Africa is underspending on defence and has been doing so for at least a decade. It states further that a general rule of thumb is that developing countries should spend around 2 per cent of GDP on defence but as a middle-income regional leader, South Africa's "pretences to continental leadership and imposing regional leadership" should also be considered. In addition, other countries on the continent in 2013 such as Algeria, Angola, Burundi, the DRC, Morocco, Swaziland and Uganda, spent more than 2 per cent of GDP on defence.⁶

The 2014 Estimates of National Expenditure (ENE) allocated an amount of R42.831 billion (R40.658 billion in 2013/14) to the Department of Defence and Military Veterans (DODMV) for the 2014/15 financial year.⁷ The budgetary allocation is important for various reasons, primary amongst them the "perpetual underfunding" of the Department and for those opposing it, the need to address socio-economic issues in the country. The advent of the 2014 Defence Review will herald in a new era in defence matters, once approved by Parliament. In the second State of the Nation Address, reference

was made to the resourcing of the SANDF mandate in line with the recently concluded Defence Review.⁸ It is therefore hoped that this will put to rest the argument whether defence spending should be mandate-driven or budget-driven. Put differently, “Unless the allocation is increased, the SANDF will be able to maintain only a reduced level of the force design (fund driven) as opposed to a credible force design (mandate driven).”⁹ It also pertinently states that “There must be either a greater budget allocation or, significantly scaled-down level of ambition and commitment which is aligned to the current budget allocation. In short, there are two strategic options available for government: budget must be determined by policy or budget must drive policy. The reality will most probably lie somewhere in between.”¹⁰

2.1 Arguments for an increased Defence Budget

Arguments abound that the percentage of Gross Domestic Product (GDP) spend on the DODMV should be increased from the current less than 1.2% - which translates to less than 5 cents out of every rand - to at least 2% of our GDP.¹¹ The 2014 Defence Review states further that “The Defence Force is effectively 24% underfunded (in terms of its current size and shape).”¹² It further holds that if this situation is left unchecked and at present funding levels, the decline will severely compromise and further fragment the defence capability. Prominent reasons for the increase of the budget allocation include the increasing role the defence force play on the Continent, border safeguarding responsibilities as well as anti-piracy operations along the east coast of the Continent.

2.2 Underspending

Counter arguments point out that “there appears to be a well funded campaign to drum up support for military spending in South Africa, but there are no military threats, we are a peaceful nation and that since we have many socio economic challenges, this should be prioritised, not spending money on the military.”¹³ Reference is also made to the underspending in the Air Defence programme, which has been complaining about underfunding for some time. In the December 2013 Budget and Expenditure Report for the DODMV it is stated that: “Surprisingly, the biggest underspending was recorded under the Air Defence programme, which has indicated before that they are grossly underfunded.”¹⁴

Another example relates to the funds in the Special Defence Account which led to questions whether the Department is indeed underfunded. This was based on the allocations to the Special Defence Account of R4.6 billion in 2012/13 and R5.8 billion for 2013/14, which brought the total amount in the SDA to R10.4 billion.¹⁵ The question was then asked whether the DOD has the ability to spend an amount of this magnitude and whether some of the funds should not be reallocated towards the operational requirements, for instance, of the South African Air Force (SAAF).

The Minister of Defence and Military Veterans is quoted as speaking along the same lines in her address recently to a group of generals when she stated that: “I have however expressed my disappointment that while we decry the underfunding of the Defence Force, we continue to see huge areas of underspending and wastage of resources.”¹⁶ Although these three examples are in no way representative of the DOD’s spending patterns, it serves as a reminder that the cost-effective utilisation of the allocated budget should receive more attention.

3. GOVERNMENTAL POLICY GUIDELINES

3.1 National Development Plan

The *National Development Plan: A vision for 2030* is in essence a plan which seeks to eliminate poverty and reduce inequality by 2030 in South Africa. Understanding the role of the military in socio-economic and human development is important to put the military's role regarding the National Development Plan (NDP) in perspective. The most relevant chapter of the National Development Plan to the military is chapter 12 entitled "*Building safer communities.*" Although the chapter mainly emphasises the role of the police in securing a safe environment, the overall role of the military in this regard is evident.

The 2014 Estimates of National Expenditure (ENE) states that a key objective of the National Development Plan (NDP) is to reduce youth unemployment. The Department aims to continue to contribute to this aspect through the National Youth Service (NYS) programme. It will also continue to recruit and train its Military Skills Development System (MSDS) members as a means of force rejuvenation. Another objective of the NDP is to strengthen South Africa's position in the SADC region and increase trade and investment. The Department will continue to provide defence force support in operations to bring economic and political stability to the Continent. This includes contributing to the SADC maritime security strategy by combating piracy along the east coast of Africa.¹⁷ These sentiments were once again reiterated by the President in his State of the Nation Address on 17 June 2014.

3.2 New Growth Path (NGP)

The New Growth Path (NGP) is aimed at enhancing growth, creating employment and equity. The principle of the policy is to create five million jobs by the year 2020. The DOD will endeavour to support the NGP by means of:

- Development of the NYS policy and preparing youths for employment
- Create sustainable jobs within the Defence Industry in accordance with approved DOD projects
- Filling of vacant funded posts
- Gender transformation on all levels of command in the DOD
- Ensure that corruption and fraud is a standing discussion point on DOD agendas.¹⁸

3.3 Medium Term Budget Policy Statement 2013

The 2013 Medium Term Budget Policy Statement sets out a framework for sustainable public finances, while managing vulnerability to economic and fiscal risks.¹⁹ It has as one of its main themes the beginning of the implementation of the NDP and thus attempts to ensure that the distribution of resources is in line with the NDP. It refers to the following defence matters:

- R150 million to deploy troops in the Democratic Republic of the Congo under the Revised national expenditure estimates.²⁰
- That real growth in spending in the defence function is mainly the result of additional salary requirements.

- The defence, public order and safety function is highly labour-intensive with compensation of employees 63 per cent of expenditure.²¹
- The DOD has reprioritised funds away from computer services and the special defence account for weapons procurement to the operational budget of the SA Air Force, and essential medical equipment and supplies.²²

3.4 Budget Review

National Treasury's budget review for 2014 mentions budgetary aspects related to the DODMV such as:

- Regarding the 2014 Budget priorities related to additional MTEF allocations for 2014/15 to 2016/17, R342 million, R387 Million and R555 million have been allocated for the years 2014/15, 2015/16 and 2016/17 respectively for improving the operational capability of the SA Air Force.²³
- The main spending increases in terms of economic classification over the MTEF period refers to the R5.0 billion that will be spend on goods and services, including for accommodation leases, maintenance of aircraft by the SA Air Force.²⁴
- The Department will spend about R5 billion on peace-support operations over the medium term. South African troops are supporting peacekeeping operations in the Democratic Republic of the Congo (DRC) and Sudan, and are participating in anti-piracy operations in the Mozambique Channel. A total of R1.5 billion is allocated for the maritime security strategy.²⁵

3.5 Departmental Strategic Plans

The Overarching Strategic Statement for the fiscal years 2011/12 to 2015/16 has revealed 10 priorities for the DODMV. These include the execution of the Border Safeguarding Function, the Establishment and Composition of the Defence Force Service Commission, the Enhancement of the SANDF's Landward Defence Capabilities, Maritime Security, Job Creation, the Enhancement of the SANDF's Peacekeeping Capability, National Youth Service (NYS), the Revitalisation of the Reserves, the Restructuring and Support of the Defence Industry, and the Defence Works Capability.²⁶

The strategic focus areas for the Minister of Defence and Military Veterans include the Military Skills Development System (MSDS), the finalisation of the Defence Review, transformation within the SANDF, ensuring that the DOD Grievance Procedure is functional and effective, the Maintenance and Enforcement of Discipline, the DOD Audit, the DOD Planning Instruments and eradicating Corruption and Fraud.²⁷

3.6 Annual Performance Plans

Annual Performance Plans are developed and informed by the Strategic Plans of the Departments and the entities, and in the case of Armscor, its Corporate Plan. Annual Performance Plans sets out what the institutions intend doing in the upcoming financial year and during the MTEF to implement its Strategic Plan. It sets out performance indicators and targets for budget programmes and sub-programmes where relevant to facilitate the institutions realising its goals and objectives set out in the Strategic Plan.²⁸ It covers the upcoming financial year and the MTEF period. As such, it is important for the Committee to monitor in year spending and activities.

Since the Annual Performance Plans sets out the various activities and targets an indication of how the Department fared in the previous financial year, is relevant.

Summary of planned targets²⁹	
Total targets sets:	247
Targets achieved:	196
Targets not substantially achieved:	51
Successful rate:	79%
Unsuccessful rate:	21%
Total Budget Spent (%):	99.5%

As indicated, there were 247 planned targets for 2012/13, and 196 or 79% of those were achieved. The 51 targets not substantially achieved represent 21 per cent of the total planned targets. According to the Auditor-general's report, this is mainly due to budget constraints.³⁰ Thus, the Department spent 99.5 per cent of its total allocation of R37.888 billion and but achieved 79% of its stated targets.³¹

3.7 Auditor-General Report

During the 2011/12 financial year the DOD received a departure from National Treasury to exclude Specialised Military Assets, Transport Assets and Immovable Assets from the Annual Financial Statements. This played a significant role in the Department receiving an **unqualified audit opinion for 2011/12**.

For the year 2012/13 the Department received a **qualified audit opinion** on the basis of the moveable tangible capital assets and intangible capital assets. Specifically, the Auditor-General states that with **Moveable tangible capital assets** that the Department did not disclose all these assets in accordance with the Reporting framework of National Treasury, and these assets were consequently understated by approximately R818 million. With regards to **Intangible capital assets**, it states that it was unable to obtain sufficient appropriate audit evidence that all intangible assets were disclosed in terms of the requirements by National Treasury. It was also unable to perform alternative audit procedures due to non-compliance with the framework and the lack of internal controls.

- **Unauthorised, fruitless and wasteful, and irregular expenditure**

The Annual Report indicates that an amount of R60.918 million unauthorised expenditure has been incurred for 2011/12. No unauthorised expenditure has been incurred for 2012/13. Fruitless and wasteful expenditure of R20 000 was carried from 2011/12. The irregular expenditure for 2012/13 amounted to R316.963 million compared with R350.364 million in 2011/12 (R8.354 million). Subsequently, this brings the total irregular expenditure awaiting condonement to R1.015 billion (R718 806 million in 2011/12).³²

4. MAIN DEFENCE BUDGETARY ISSUES FOR 2014/15

Table 1: Criminal Justice Cluster Budget³³

Department	2012/13	2014/15	2015/16	2016/7
Correctional Services	18 748	19 721	20 795	22 080
Defence	40 658	42 831	45 301	48 180
Independent Police Investigative Directorate	217	234	247	262
Justice and Constitutional Development	13 856	15 161	15 914	17 163
Police	68 791	72 507	76 541	81 682
Total	142 270	150 454	158 798	169 367

The table above shows that the 2014/15 DODMV (R42.8bn) is the second biggest budget allocation after the Police (R72.5bn) and is followed by Correctional Services (R19.7 bn) and the Justice Department (R15.1bn) in the Criminal Justice Cluster. While the share of the Police's budget in the Criminal Justice Cluster is around 48%, that of the DODMV is 28% with Correctional Services being at 13% and Justice at around 10%. The DODMV budget will increase with R2.47 billion in 2015/16 and with R2.87 billion from 2015/16 to 2016/17.

4.1 The Defence Secretariat

The mandate of the Defence Secretariat is derived from *inter alia* the 1996 Constitution – relating to the establishment of a civilian defence secretariat; the Defence Act (No. 42 of 2002) especially sections 5 - 10 around the Defence secretariat; and the Public Finance Management Act (No. 1 of 1999) around the role of the accounting officer.

The 2014 Annual Performance Plan (APP) of the Defence Secretariat refers to various issues considered in its planning processes which include the:

- 2014 Defence Review
- Defence diplomacy
- DOD Supply Chain management
- National Cost Containment measures
- Corruption and Fraud
- Job creation.

Transformation within the DOD is pertinently addressed as it is felt that there is a need to improve the representation of women regarding recruitment, in the military command, defence attaches and in military courses.

Regarding the DOD Audit, the APP states for 2014 the DOD intends to focus on resolving challenges with asset management to ensure a clean audit. To this extent an Internal Audit Division was established to assist in achieving an unqualified audit through "Operation Clean Audit," although this office is not yet fully functional.³⁴ The increase of 42.1% in the Inspection Services sub-programme in 2014/15 provides for the establishment of the latter. This programme is also hosts to important

structures such as the Defence Force Service Commission, the Military Ombud and the Reserve Force Council.³⁵

The budget for the Def Sec is allocated in Programme 1: Administration and this programme amounts to 11.36% of the total Defence Budget. Specifically, the Def Sec budget amounts to 3.63% of the entire Defence Budget and 31.99% of the total Administration Budget.³⁶

Summary of the Administration Programme Performance³⁷

Total targets sets:	106
Targets achieved:	80
Targets underachieved:	26
Success rate:	75.4%
Budget Spent (%):	99.85%

4.2 The South African National Defence Force (SANDF)

The Budget of the SANDF should be viewed against the background of the overextension of the function of the SANDF in its “operating environment.” This relates *inter alia* to the management of intrastate and interstate conflicts and tensions on the African Continent. Another aspect is the Defence Review’s direction that the SANDF should provide the force design and force structure towards the implementation of the Defence Review.³⁸ Support to other Government Departments is also a crucial responsibility as it will not only be to provide support for the Police, but especially other Departments when required to do so.

Priorities include:

- Border safeguarding
- External deployments
- Renewal of the SANDF’s Landward defence capability³⁹
- The Execution of the Maritime Strategy
- Internal operations
- Capacitation of the Armscor Dockyard
- Establishment of a naval base in Durban.

Expenditure Trends

Focus will be on the following aspects over the medium term:

- Managing Department effectively
- Maintaining current defence capabilities
- Executing ordered peace missions
- Border safeguarding
- Implement maritime security strategy.

Expenditure in the **Force Employment Programme⁴⁰** will be on border safeguarding, anti-piracy operations and peacekeeping missions in foreign countries. The President stated in his second State of

the Nation address that the SANDF has been a source of national pride as it participates in peacekeeping missions on the Continent.

Summary of the Force Employment Programme Performance⁴¹	
Total targets sets:	6
Targets achieved:	5
Targets under achieved:	1
Success rate:	83%
Budget Spent (%):	99.1%

The **Landward Defence Programme⁴²** will focus over the medium term on preparing and providing forces for increased internal and external deployments and border safeguarding. Over the medium term the budget will provide for increased maintenance requirements of the Army’s ageing operational vehicle fleet, the modernisation of landward defence equipment and the procurement of critical ammunition.

Summary of the Landward Defence Programme Performance⁴³	
Total targets sets:	23
Targets achieved:	19
Targets under achieved:	4
Success rate:	83%
Budget Spent (%):	100%

The **Air Defence Programme** will over the medium term focus on creating capacity to supply and support prepared forces, integrate new air defence equipment and prepare deployable air systems. Because of an increase in deployment and presidential commitments, R341.9 million was reprioritised from the Special Defence Account (SDA) over the medium term to improve the SAAF’s operational capability.

Summary of the Air Defence Programme Performance⁴⁴	
Total targets sets:	14
Targets achieved:	13
Targets under achieved:	1
Success rate:	93%
Budget Spent (%):	100%

The **Maritime Defence Programme** will focus on the ongoing implementation of the maritime security strategy to combat piracy on the east coast of Africa and the Mozambican Channel. It will also focus on preparing and maintaining vessels and associated supporting systems, including human resources at the required readiness levels.

Summary of the Maritime Defence Programme Performance⁴⁵	
Total targets sets:	14
Targets achieved:	10
Targets under achieved:	4
Success rate:	71%
Budget Spent (%):	100%

The **Military Health Support Programme** will focus on providing a comprehensive military health service, maintaining and improving tertiary and specialist health support, and maintaining the military health facilities. These activities are labour intensive therefore spending on compensation of employees is expected to account for 68.6% of the programme's overall allocation over the medium term.⁴⁶

Summary of the Military Health Support Programme Performance⁴⁷	
Total targets sets:	15
Targets achieved:	11
Targets under achieved:	4
Success rate:	73%
Budget Spent (%):	100%

The **Defence Intelligence Programme** will focus on collecting, analysing and disseminating strategic defence intelligence in support of the Department's outputs.

Summary of the Defence Intelligence Programme Performance⁴⁸	
Total targets sets:	2
Targets achieved:	2
Targets under achieved:	0
Success rate:	100%
Budget Spent (%):	100%

The **General Support Programme⁴⁹** will focus on providing continuous general support capabilities, consolidating and sustaining the Defence Works Capability, providing key information and communication systems, providing a military policing capability and maintaining defence facilities.

Summary of the General Support Programme Performance⁵⁰	
Total targets sets:	36
Targets achieved:	28
Targets under achieved:	8
Success rate:	78%
Budget Spent (%):	96.7%

4.3 Expenditure on Employees

The increase in expenditure on compensation of employees between 2010/11 and 2013/14 was mainly due to the implementation of the military salary dispensation for regular and reserve force members. The Department had a funded establishment of 76 538 posts and reported that there were no vacancies at the end of November 2013. Personnel numbers are expected to increase to 78 582 in 2016/17 to rejuvenate the landward forces and build capacity in the Defence Works Formation. According to the Defence Review the DODMV spends a disproportionate amount of its budget on salaries and faces a lack of key equipment. The current budget allocation can only support about 66 000 members and 66 combat units, while the SANDF is already far larger than that.⁵¹

4.4 Infrastructure spending

The Department facilitates the building of medical health facilities and security installations, upgrades infrastructure for disabled persons, and improves and upgrades accommodation and training facilities, through its capital works programme. It funded 25 capital works building projects in 2013/14. Spending on capital works increases from R109 million in 2014/15 to R121 million in 2016/17 to provide for the relocation of the air force base in Durban and the construction of training facilities. The Department also continued with 46 refurbishment projects in 2013/14, of which 20 are expected to be completed over the medium term. It has prioritised the refurbishments of its military bases, units, depots, ammunition sites, hospitals, accommodation facilities and energy saving devices. In addition, R28 million has been allocated over the medium term to demolish unserviceable infrastructure.⁵²

4.5 Defence Works Formation

The establishment of the DOD Works Formation within Programme 8 (General Support) seeks to achieve an end state where the DOD will have a fully functional and resourced in-house capability that will ultimately assume full responsibility for the repair and maintenance of Defence facilities. Deteriorating conditions of facilities remain a cause for concern and the arrangements between the DODMV and the National Department of Public Works (NDPW) should be concluded to ensure that the Defence Works Capability can execute an increasing number of the repair and maintenance priorities.⁵³ The Department has reported to the PCODMV that the poor living and working conditions impact negatively on the morale of soldiers. In addition, the non-compliance with Occupational Health and Safety (OHS) and other environmental legislative requirements have led to the closure of units and that the state of facilities also has a negative impact on the image of the SANDF.⁵⁴

Given the above, it is important to outline how the Department has attempted to manage its limited budget through a reprioritisation process in collaboration with National Treasury.

4.6 Reported spending pressures

The DOD stated towards the end of 2013 that it is experiencing the following **funding pressures** which will necessitate reprioritisation and requests for additional funding from Treasury.⁵⁵

- Landward Defence capabilities: Funds for ammunition, tactical Radio's and Operational Vehicles
- DOD Facilities, including the ARMSCOR Dockyard
- Internal DOD maintenance and repair capability
- DOD Military messes and rations
- Air Defence capabilities: Funds for additional flying hours and aircraft Maintenance backlog
- Ship Maintenance and Refits
- Provisioning of comprehensive health care: Funds for the Renewal of healthcare technology, Deployable healthcare capabilities and Trauma units
- Computer Systems/Accountability: Funds for IT System Modernisation, Codification, Software, Disaster Recovery, Asset Verification and E-Procure
- Fuel.

The Department states that it continues to face an ever increasing output requirement whilst confronted with a non-commensurate budget allocation necessitating internal Departmental budget reprioritisation and the implementation of austerity measures resulting in the adverse impact on the achievement of the defence mandate. Reductions proposed by National Treasury to the Department include:

Table 2: National Treasury reprioritisation

Purpose	Amount (R'000)		
	2013/14	2014/15	2015/16
Compensation of employees	- R205 645	- R675 006	-R 1 038 900
Travel and subsistence	-R 96 100	-R 96 100	-R 96 100
Special Defence Account	-R 583 255	-R 263 894	0
Contractors	-R 250 000	-R 300 000	- R 350 000
Total	- R 1 135 000	-R 1 335 000	-R 1 485 000

4.7 Special Defence Account and Claims against the Department

As indicated earlier the spending pattern of the Special Defence Account (SDA) has been of concern to National Treasury. At the end of the financial year 2013/14, National Treasury indicated that the “huge balance in the SDA” is of concern to it. Preliminary figures indicate that the balance in the SDA is R3.476 billion as at 31 March 2014. The Report also refers to the concern that National Treasury has regarding the amount of R299 million that the Department had to pay for a claim against it, which was not reported to National Treasury.⁵⁶

5. MILITARY VETERANS 2014/15 BUDGET

The Department of Military Veterans’ (DMV) mandate is to provide national policy and standards on socio-economic support to military veterans and their dependants.⁵⁷ The DMV resorted under the DODMV for purposes of the 2012/13 ENE and started operating independently from the DOD as from 1 April 2013.⁵⁸ The DMV submitted its first 5 year Strategic Plan to Parliament in April 2012.

It identified one of its major risk as the insufficient budget allocated to fund the filling of all critical posts, critical operational requirements and Section 5 in terms of the Military Veterans Act (No. 18 of 2011) benefits to be provided to deserving military veterans, for the financial year 2012/13. Two other major risks related to insufficient accommodation for all recruited staff members and the reliability, accuracy and completeness of the military veterans beneficiary database.⁵⁹

The DMV has been allocated a budget of R504.2 million for the 2014/15 financial year, as against an allocation of R351.4 million for the 2013/14 financial year. National Treasury indicates that 100% of the latter amount has been spent by the DMV.⁶⁰ The table below indicates the allocations since the establishment of the DMV as well as those allocations two years beyond.

Table 2: Military Veterans Budget 2014/15⁶¹

Programme <i>R million</i>	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Administration	20	45.4	97	152.8	178.2	169.2	166.5
Socio-economic Support	-	-	-	122.2	168.1	267.5	295.4
Empowerment & Stakeholder Management	-	-	-	76.5	157.9	170.2	179.2
Total	20	45.4	97	351.4	504.2	606.8	641.1

5.1 National Development Plan

The ENE⁶² refers to the NDP which calls for a reduction in unemployment and expansion in enrolments in further education and training. The DMV states it will provide socio-economic services to facilitate employment opportunities for military veterans with the support of line function departments, private companies and state agencies. To date around 1 176 job opportunities have been created for military veterans and it is envisaged that by the end of 2014/15 a further 1 000 job opportunities will have been created. In 2013/14, 1 000 dependants were provided with bursaries and 1 800 bursaries will have been provided to dependants of military veterans through the National Student Financial Aid Scheme (NASFAS) by 2016/17.

5.2 Expenditure trends

The spending focus over the medium term will be on building sufficient capacity to support the delivery of benefits to military veterans. The bulk of the budget over the period will therefore go towards spending in the *Socio-economic Support* and *Empowerment and Stakeholder Management* programmes.

The *Administration programme* provides the management and strategic administrative support to the ministry, and overall management of the Department. In 2013/14 the allocation was R152.8 million versus R178.2 in 2014/15.⁶³ Spending focus⁶⁴ over the MTEF period will be on establishing the management and administrative capacity required by the Department to support the delivery of benefits to the military veterans. Budgetary issues to pursue are:

- the filling of critical posts
- the development and implementation of IT systems
- Funding the internal and external audit professional services
- Acquisition and upgrading of national and provincial office spaces
- Expenditure on consultants.

The *Socio-economic Support Programme* increase in this programme will be to deliver houses, bursaries and health care services to military veterans and their dependants. In 2013/14 the allocation was R122.2 million versus R168.1 million in 2014/15. Spending focus⁶⁵ over the MTEF period will be on filling the remaining critical posts and building sufficient capacity to ensure service delivery benefits are provided to the military veterans.

The projected increase in the *Empowerment and Stakeholder Management* programme is expected to deliver access to training and skills development and to form partnerships with private sector

companies and other organs of state to ensure that jobs are provided for the veterans. In 2013/14 the allocation was R176.5 million versus R157.9 million in 2014/15. Spending focus⁶⁶ over the MTEF period will be on filling the remaining critical posts and building sufficient capacity to ensure service delivery benefits are provided to the military veterans.

5.3 Human resources

The ENE reports that the Department had 63 filled posts and 72 vacancies at the end of November 2013. These vacancies could not be filled as the Department did not have adequate office space. As it moved to a more appropriate building it is projected that personnel numbers will grow from 135 in 2013/14 to 169 in 2016/17.⁶⁷

6. ARMSCOR

The Armaments Corporation of South Africa Ltd (Armcor) was established in terms of the Armaments Corporation of South Africa Limited Act (No. 51 of 2003) to satisfy the requirements of the SANDF in respect of Defence Matériel. Armcor is a critical stakeholder in so far as the SANDF operational effectiveness is concerned. Armcor also manages the Simon's Town Naval Dockyard, which carries out planned preventative and corrective maintenance, reconstruction and repairs and upgrades of all SA Navy ships and submarines.⁶⁸

The main source of revenue for Armcor is transfer payments received from the DOD and sales of goods and services such as redundant equipment. According to the ENE, these payments increase at an average annual rate of 6 per cent and do not usually cover the total operational costs. Interest earned on its revenue is also used to finance operating expenditure. The spending focus over the medium term is to meet the defence materiel requirements of the DOD effectively, efficiently and economically.⁶⁹

The entity has a funded establishment of 1 567 posts and there were 172 vacant posts at the end of November 2013 due to retirements and resignations. Most vacancies have been advertised and are being filled.

6.1 Armcor Corporate Plan 2012/13 – 2014/15

Armcor aligns its strategic priorities with the Government's Medium-Term Strategic Framework (MTSF) and the DOD Outcomes derived from the MTSF. It states that it plays a supporting role in terms of contributing to Outcome 3: "All people in South Africa are and feel safe."

6.2 Strategic goals

The corporation's strategic goals over the medium term are:

- Continued focus and commitment on delivering on its role of acquiring equipment economically and efficiently;
- ensure the growth and sustainability of the corporation;
- transformation of the corporation to grow human capabilities to support growth opportunities;

- organisational effectiveness and efficiencies through infrastructure renewal; and
- review and maintain stakeholder relationships to optimise the corporation's brand positioning and marketing.⁷⁰

6.3 Concerns

The following selected concerns regarding Armscor are noted:

- The delay with the appointment of a new Chief Executive Officer as the former CEO's contract was terminated with effect from 7 January 2010. Mr JS Mkwanazi, General Manager Acquisition, has been appointed as acting CEO and has been acting up to the time this report was drafted.
- The need for a review of the relationship between the DOD and Armscor has been an issue over time especially as it impacts on the efficiency and economy of the entity.
- The active participation of black female-owned enterprises in Armscor programmes is a challenge that needs to be addressed in the Broad-based Black Economic Empowerment (BBBEE) context.
- The Simon's Town Dockyard is experiencing challenges resulting from insufficient capacity and capability to execute its mandate.
- The Defence Industrial Participation objective has not been achieved and no new DIP agreements were entered into during the period under review as the DIP policy was revised in 2012.⁷¹

7. CASTLE CONTROL BOARD

The Castle Management Act (No. 207 of 1993) provides for a Castle Control Board (CCB) to govern and manage the Castle 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 board's strategic goals are to:

- establish a human resources development plan for the Castle,
- prepare and implement displays on World War 1,
- combine the maintenance activities of the Department of Public Works and the Castle Control Board, which includes appointing a maintenance team to carry out minor preventative maintenance.⁷²

Revenue for the Castle Control Board is primarily generated from ticket sales to visitors to the Castle of Good Hope, the renting out of venues in the Castle and fees from hosting special events with no direct funding from the department. This revenue increased between 2010/11 and 2013/14 and is expected to increase at an average annual rate of 7 per cent over the medium term.⁷³

The Castle received an unqualified audit opinion from the Auditor-General (A-G) in the previous financial year. The A-G found no matters to be reported in terms of the financial health and human resources of the entity and was largely positive about the improvements made on previous recommendations. However, the audit opinion identified problems in the following areas:

- **Internal Audit.** No internal audit function for some part of the year.
- **Supply chain management.** The SCM was again identified as a problem as the CCB did not fully comply with the rules regarding the procurement of goods and services for entities.
- **Performance against predetermined objectives.** A vast improvement was noted by the AG, but a need to develop a properly-designed performance management methodology was noted.
- **Compliance.** The AG suggested the use of a compliance checklist to monitor outstanding responsibilities and approvals.
- **Retention of a surplus.** The CCB did not apply to National Treasury to accumulate a surplus in previous years but submitted a request to retain its surplus in 2012/13. The result of this request is not yet certain and, as such, the AG noted again that the CCB retained a surplus without National Treasury approval.
- **Leadership.** The AG noted concerns in terms of the leadership by the accounting authority. The accounting authority failed to effectively communicate policies and procedures to ensure effective internal control.

8. CONCLUSION

This sectoral analysis of the DODMV attempted to highlight some of the main issues to be considered when engaging with the 2014 annual defence budgetary allocation. It highlights some of the policy guidelines that have to be considered as well as some of the plans that set out the intended spending of the budget. This sets the background against which the specifics of the 2014 ENE budgetary allocation for the Department of Defence, Department of Military Veterans and the two entities namely Armscor and the Castle Control Board can be considered.

END NOTES

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3 Janse van Rensburg W. & Manganyi C. 2013. General Observations related to the Defence Budget and policies as well as Budgetary implications for the defence entities. 16 May 2013.

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7 See Budget 2014. Estimates of National Expenditure. Vote 22: Defence and Military Veterans. National Treasury.

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9 Department of Defence 2014: South African National Defence Force, Annual Performance Plan 2014. p.1.

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11 The estimated GDP for South Africa was around R3 445 billion in 2013.11 A 2% increase will equate to around R69.90 billion. The question is therefore whether the South African fiscus can afford to increase the defence budget from the current R42.8 billion to R69.90 billion - a difference of around R27.10 billion. Such an increase in one financial year after the annual ENE has been released is highly unlikely given the financial constraints as well as the budgetary processes in the country .

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- 18 See for instance Department of Defence: Defence Secretariat Annual Performance Plan 2014. p.13.
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- 21 National Treasury, 2013. Medium Term Budget Policy Statement 2013. p. 40.
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- 32 DOD. 2013. Annual Report FY 2012/13 Department of Defence and Military Veterans. p 232 and p. 240.
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- 36 Department of Defence: Defence Secretariat Annual Performance Plan 2014. p.22 .
- 37 Manganyi, C. 2013. Summary and analysis: Department of Defence Annual Report for the Financial Year 2012/13. p.19.
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