

BRIEFING ON THE MILITARY SKILLS DEVELOPMENT SYSTEM (MSDS) INTAKES

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SCOPE

- AIM
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- COMPARING TARGETS FROM THE DEFENCE REVIEW, 2015 WITH ACTUAL AND PLANNED STRENGTH AND EXPENDITURE
- OVERVIEW ON MSDS INTAKES SINCE 2003
- UNIFORM MEMBERS ATTRITION
- HR BUDGET CUTS IMPLICATIONS
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AIM

- THE AIM OF THIS BRIEFING IS TO INFORM THE JOINT STANDING COMMITTEE ON DEFENCE ON THE PROGRESS REGARDING THE INCREASE OF THE NUMBER OF MILITARY SKILLS DEVELOPMENT SYSTEM (MSDS) INTAKES AND PLANS TO MEET THE REQUIREMENTS OF THE DEFENCE REVIEW

BACKGROUND

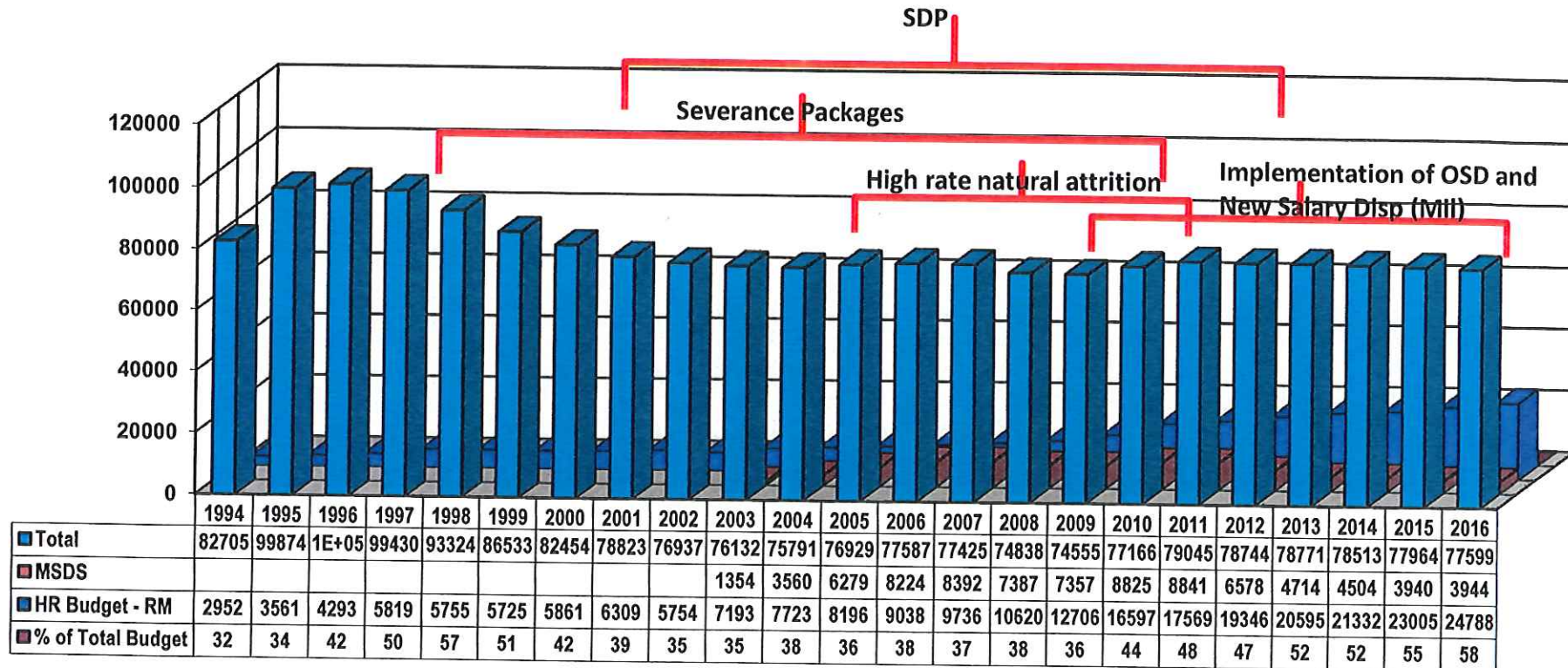
- The MSDS was developed to be the primary human resources supply source for the Regulars as well as the Reserves. Two of the goals of the MSDS are to:
 - guarantee a rapid throughput of young personnel to meet those deployment contingencies that require an adequate number of young, fit and healthy personnel within the Regulars
 - sustain the Reserves with trained troops and junior leaders
- According to the Defence Review, 2015 in Milestone 1 , the Defence Force will broadly:
 - Consist of not more than 72 000 employees inclusive of Regulars, Reserves and Defence Civilians (average of 45% personnel expenditure). This should comprise of:
 - 47 000 Regulars.
 - 15 000 Reserves on active service.
 - 10 000 Defence Civilians, excluding members of the Ministry of Defence and the Defence Secretariat.
 - Have sustainable funding in the order of R40 bn in 2013 rand value, equating to 1.1% of GDP and 3.8% of government expenditure. The principle of maintaining the 40:30:30 ratio in the defence budget (at the corporate level) between the funding of personnel, operating and capital should inform all defence planning.
 - The cost of the MSDS, NYS and other similar personnel systems should be viewed outside of the 40:30:30 rationale and funded separately.
 - The cost of operational commitments should be funded additional to the baseline defence allocation and not form part of the 40:30:30 ratio.

BACKGROUND (cont)

- The DOD's corporate spending on Compensation of Employees has increased from 32% in 1994 to 55% in 2015, although the average strength reduced with 5106 employees over the same period. This increase can be attributed to the higher total allocation to the DOD due to the Strategic Defence Packages (SDP) over period 2001 to 2013 as well as the implementation of the Occupational Specific Dispensation (OSD) and New Military Salary Dispensation in 2009 (see next slide).
- The National Treasury (NT) final letter of allocation dd 19 Jan 16 to the Department of Defence (DOD) reduced the Department's HR budget for the FY2016/17 MTEF period as follows:
 - R0 for the 2016/17 financial year.
 - R1,897,401,000 for the 2017/18 financial year.
 - R2,911,783,000 for the 2018/19 financial year.
- Even after the HR budget was reduced by NT with Rb1.8 in FY2017/18 and Rb2.9 in FY2018/19, the DOD will still corporately spend more than 45% on Compensation of Employees. The challenge is that the total allocation of the DOD is estimated at 1.03% for FY2017/18 and 0.98% for FY2018/19, where the Defence Review, 2015 calculations were done and targets were set on a total Defence Budget of at least 1.1% of GDP.

BACKGROUND (cont)

DOD Full-Time HR Component Evolution



Note 1: Strengths are as on 1 April of each year

Note 2: MSDS strength indicated is included in the Total Strength

2016/09/09

DEFENCE REVIEW TARGETS VS ACTUAL/PLANNED

NOTE: ALL STATISTICS PROVIDED ARE AS ON 31 JULY 2016

STRENGTH

| SER NO | COMPONENT | TARGET | ACTUAL (as on 31 July 2016) | PLANNED AVERAGE STRENGTH FY2017/18 |
|--------|----------------------|--------|-----------------------------------|---|
| | a | b | c | d |
| 1 | REGULARS | 47 000 | 61 575 | 62 297 |
| | + MSDS | | 3 803 | 3 923 |
| | = TOTAL | | 65 378 | 66 220 |
| 2 | ACTIVE RESERVES | 15 000 | 14 891 | 14 891* |
| 3 | CIVILIANS | 10 000 | 11 319 | 11 762 |
| | + MEMBERS OF MOD | | 52 | 52 |
| | /DEFENCE SECRETARIAT | | 31 | 45 |
| | = TOTAL | | 11 402 | 11 859 |
| 4 | TOTAL | 72 000 | 91 671 | 92 970 |

DEFENCE REVIEW TARGETS VS ACTUAL/PLANNED (cont)

NOTE: ALL STATISTICS PROVIDED ARE AS ON 31 JULY 2016

EXPENDITURE

| SER NO | FINANCIAL YEAR | TOTAL DEFENCE BUDGET (R'000 000) | % GDP (1.1%) | HR EXPENDITURE/ ALLOCATION (R'000 000) | HR AS % OF TOTAL ALLOCATION (45%) | MSDS EXPENDITURE (SALARIES & BONUS) (R'000 000) |
|--------|----------------|----------------------------------|--------------|--|-----------------------------------|---|
| | a | b | c | d | e | f |
| 1 | FY2016/17 | 47 170 | 1.07% | 26 884 | 56.9% | 361 |
| 2 | FY2017/18 | 48 745 | 1.03% | 26 447 | 54.2% | 377 |
| 3 | FY2018/19 | 50 726 | 0.98% | 27 116 | 53.4% | 400 |

- The Defence Review, 2015 states that the MSDS should be viewed outside of the 40:30:30 ratio and be funded separately. This is not the case currently as the MSDS current and planned HR budget forms part of the total DOD HR budget as appropriated by NT.

DEFENCE REVIEW TARGETS VS ACTUAL/PLANNED (cont)

NOTE: ALL STATISTICS PROVIDED ARE AS ON 31 JULY 2016

- If the 45% ratio is applied to the FY2017/18 Total Defence Budget, only Rb21 765 should be spent on HR, excluding the MSDS budget estimated at Rm377. If the component ratio prescribed by the Defence Review is applied (65% Regular, 21% Reserve and 14% Civilian), the component distributions should be as tabled below:

| SER NO | COMPONENT | TOTAL (based on 45% ratio) | ACTUAL (as on 31 July 2016) | DIFFERENCE |
|--------|--------------------------|-------------------------------|-----------------------------------|------------|
| | a | b | c | d |
| 1 | Regular (excluding MSDS) | 44 596 | 61 575 | 16 979 |
| 2 | Active Reserves | 14 408 | 14 891 | 483 |
| 3 | Civilians | 9 605 | 11 319 | 1 714 |
| 4 | Total | 68 609 | 87 785 | 19 176 |

- If the HR budget ceiling is considered, the 45% ratio is disregarded and the current distribution ratio is applied (70% Regular, 17% Reserve and 13% Civilian) the component distribution will be as tabled below:

| SER NO | COMPONENT | TOTAL AFFORDABLE STRENGTH (based on HR budget ceiling) | | ACTUAL (as on 31 July 2016) | REDUCTION REQUIRED | | |
|--------|--------------------------|---|-----------|-----------------------------------|--------------------|-----------|-------|
| | | FY2017/18 | FY2018/19 | | FY2017/18 | FY2018/19 | TOTAL |
| | a | b | d | e | f | g | h |
| 1 | Regular (excluding MSDS) | 57 735 | 55 923 | 61 575 | 3 840 | 1 812 | 5 652 |
| 2 | Active Reserves | 13 833 | 13 399 | 14 891 | 1 058 | 434 | 1 492 |
| 3 | Civilians | 10 608 | 10 276 | 11 319 | 711 | 332 | 1 043 |
| 4 | Total | 82 176 | 79 598 | 87 785 | 5 609 | 2 578 | 8 187 |

DEFENCE REVIEW TARGETS VS ACTUAL/PLANNED (cont)

- The DOD is not planning according to the Defence Review, 2015, mainly due to the fact that the impact on the reduction of personnel has not yet been analysed and that an attractive exit mechanism is not funded.
- In order to achieve a ratio of a DOD HR budget of 45% of the Total DOD budget, the number of employees must be reduced with approximately 19 000 employees, of which 17 000 is regular employees.
- It will be a challenge to achieve the reduction of approximately 17 000 regular employees by FY2017/18. If Table 4 is considered, which then implies that more than the prescribed 45% will be spent on compensation of employees, the regular component should reduce with 3 840 by FY2017/18 and with a further 1 812 by FY2018/19.
- If personnel are not reduced, the DOD will exceed the HR budget ceiling as appropriated by NT.

OVERVIEW ON MSDS INTAKES SINCE 2003

NOTE: ALL STATISTICS PROVIDED ARE AS ON 31 JULY 2016

| SE R NO | INTAKES | EXITED BEFORE 2 YEARS | EXITED ON COMPLETION OF 2 YEARS | TRANSLATED TO CORE SERVICE SYSTEM (CSS) (EITHER BEFORE OR ON COMPLETION OF 2 YEARS) | MSDS STILL SERVING | TOTAL INTAKE |
|---------------|---------|-----------------------------|---------------------------------------|--|-----------------------|-----------------|
| | a | b | c | d | e | f |
| 1 | 2003 | 220 (10%) | 260 (12%) | 1695 (78%) | 0 | 2175 |
| 2 | 2004 | 187 (10%) | 153 (8%) | 1625 (83%) | 0 | 1965 |
| 3 | 2005 | 183 (4%) | 614 (14%) | 3524 (82%) | 0 | 4321 |
| 4 | 2006 | 323 (7%) | 1913 (40%) | 2498 (53%) | 0 | 4734 |
| 5 | 2007 | 234 (5%) | 1186 (25%) | 3281 (70%) | 0 | 4701 |
| 6 | 2008 | 126 (4%) | 273 (8%) | 2979 (88%) | 0 | 3378 |
| 7 | 2009 | 191 (4%) | 913 (20%) | 3431 (76%) | 0 | 4535 |
| 8 | 2010 | 112 (3%) | 1510 (34%) | 2787 (63%) | 0 | 4409 |
| 9 | 2011 | 144 (3%) | 1292 (30%) | 2922 (67%) | 0 | 4358 |
| 10 | 2012 | 83 (4%) | 259 (13%) | 1714 (83%) | 0 | 2056 |
| 11 | 2013 | 50 (2%) | 303 (13%) | 2074 (85%) | 0 | 2427 |
| 12 | 2014 | 92 (5%) | 258 (13%) | 1596 (82%) | 0 | 1946 |
| 13 | 2015 | 113 | | 14 | 2011 | 2138 |
| 14 | 2016 | 36 | | | 1792 | 1828 |

Grouping available to
feed Reserves

| INTAKE | TOTAL NUMBER EXITED | TOTAL NUMBER TO RESERVE | NOT RESERVE |
|--------|---------------------------|-------------------------------|-------------|
| TOTAL | 10 879 | 7 172 (66%) | 3 707 (34%) |

- The average age of the Reserve members utilised during FY2015/16 was 40.
- If the average age is utilised as an indicator, the MSDS did not succeed in rejuvenating the Reserve component as intended.
- If the number of Reserves utilised during FY2015/16 (14 891) are considered "active", the Reserve component is close to the target as set in the Defence Review.

Natural attrition

| Fin Year | Total Natural Attrition | Total Normal Retirements | % Normal Retirements | MSDS Intakes | Reduction in HR Strength |
|----------|-------------------------|--------------------------|----------------------|--------------|--------------------------|
| 2012/13 | 3429 | 562 | 16,39% | 2380 | 1049 |
| 2013/14 | 3280 | 646 | 19,70% | 2244 | 1036 |
| 2014/15 | 3331 | 839 | 25,19% | 2047 | 1284 |
| 2015/16 | 3351 | 812 | 24,22% | 1979 | 1372 |
| 2016/17* | 3348 | 450 | 13,44% | 3000 | 348 |
| 2017/18* | 3348 | 515 | 15,38% | 3000 | 348 |
| 2018/19* | 3348 | 656 | 19,59% | 3000 | 348 |

* Total Natural Attrition based on average of last four years

Note:

The translations of the MSDS Intakes mainly fed the Regulars and filled gaps left by attrition. A small number of specialised uniform members can be recruited and appointed in the CSS (for example within SAMHS and Legal Division etc), but translation from MSDS to CSS is the main feeder system to fill the remainder of the gaps within the Regulars left by attrition.

The number of members reaching retirement age increases drastically in the next 3 financial years, but not significant enough to reduce the number of Regulars to the target as set in the Defence Review, 2015 without an intervention. The HR budget ceiling from FY2017/18 will possibly influence the number of MSDS which can translate to the CSS if the current regular component is not reduced/right-sized.

HR Budget Cuts Implications

- Reduced staffing levels affecting forces available for force preparation and employment.
- Unabated attrition. The DOD average strength is on a year-to-year basis reducing (without any intervention). The reduced MSDS intakes from Jan 2013 worsened the situation.
- Increased skills gap due to a loss of expertise. This is a contributing factor to fatigue, low morale and outsourcing.
- The increase use of Reserve Forces due to insufficient Regulars impacts the operations its cohesiveness, command and control and morale.
- It will be difficult for the DOD to meet any further additional commitments.

HR Budget Cuts Implications

- Increased knowledge gap due to fast tracking.
- A continuously ageing workforce. The average Pte age (Regular Force) increased from 2010 (28 years) to 2016 (31 years). The average age of the Reserve Forces utilised in FY2015/16 was 40 years.
- Insufficient Regular Force members meeting operational profile, which results in an increase use of Reserve Forces, impacting on the HR budget. This also results in deployment fatigue due to members not deploying every third rotation but every second rotation and in turn contributes to an increase in social problems.

HR Budget Cuts Implications

- Safety implications: By way of example, not satisfactorily staffing PSAP posts at the Naval Engineering Services will result in engineering changes affecting the safety on ships and submarines not taking place. Reduction in training availability will also have safety implications for ships and submarines.
- HR budget cuts will directly impact on the full escalation of Naval Station Durban to a fully-fledged naval base (Proj Siyanda), thus not only affecting the conduct of military operations but also OP Phakisa.

WAY FORWARD

- Requested NT to lift the HR budget ceiling and to provide the required funding. NT also requested to exclude the MSDS Intake funding from the DOD HR budget baseline.
- To analyse the impact of the reduction of at least 3 840 regular employees.
- To discuss an attractive exit mechanism and the funding thereof with the Department of Public Service Administration (DPSA) and NT.

CONCLUSION

- The DOD does not intend to increase the MSDS Intakes, unless the MSDS is viewed outside of the 40:30:30 ratio and funded separately. The current requirement will determine the MSDS Intake numbers.
- It is foreseen that the Military Strategy, Force Structure and Design, once completed, and Baseline Allocation from NT will in future influence the MSDS Intake numbers.
- The Defence Review Implementation Plan is not yet finalised or approved within the DOD, which will guide the process of implementing the Defence Review, 2015.

COMMENTS/QUESTIONS?