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ANALYSIS: SECOND QUARTER EXPENDITURE REPORT FOR THE DEPARTMENT OF DEFENCE FOR 2017/18

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1. INTRODUCTION

The following analysis of the Second Quarter Expenditure Report of the Department of Defence (DOD) for 2017/18 provides an overview of aspects that may require further examination by the Portfolio Committee on Defence and Military Veterans (PCDMV).

2. DEPARTMENT OF DEFENCE: EXPENDITURE REPORT

The DOD received a total main appropriation of R48.619 billion for the 2017/18 financial year. By the end of the Second Quarter ending in September 2017, it had spent 47.8 per cent of the allocated budget, which is in line with the projected expenditure of 47.5 per cent. It is also in line with expenditure in 2016/17, whereby the DOD spent 48 per cent of its budget by the end of the Second Quarter. The majority of spending per programme was in line with projections. However, spending on Force Employment (39.4 per cent) was lower than projected (41.8 per cent). On the contrary, spending on Military Health support (51.1 per cent) was higher than projected (47.4 per cent). Similarly, spending on General Support (43.9 per cent) was higher than projected (42.1 per cent).

In terms of economic classification, the main cost drivers were higher than planned spending on compensation of employees (R376.4 million) and payments for capital assets (R35.6 million). This spending was due to the overtime payments made for medical doctors, as well as the deployment of the Reserve Forces to perform guard services for the Military Academy and Personnel Services School.

Key issues for the PCDMV to note related to spending at the end of the **Second Quarter** on the various programmes and subprogrammes are presented below:

Programme 1: Administration	<ul style="list-style-type: none"> • The Communication Services subprogramme recorded overspending of R62.3 million against the approved projection of R19.1 million. It thus spent 134.2 per cent of its annual allocation by the end of the Second Quarter. • High spending against projections was also recorded in the Ministry (73.8 per cent) and Religious Services (81.6 per cent) subprogrammes.
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	<ul style="list-style-type: none"> • Lower than projected spending was recorded in the Departmental Direction (28.3 per cent) and Defence Foreign Relations (37.7 per cent) subprogrammes. • 34.3 per cent of payment for Machinery and Equipment was spent against a projection of 23 per cent.
Programme 2: Force Employment	<ul style="list-style-type: none"> • Slow spending was recorded in the Support to the People subprogramme (42.3 per cent) against a projection of 50.1 per cent. • Lower than projected spending was mainly due to the delay on the back loading of mission equipment from the DRC and Sudan to South Africa. The low spending was exacerbated by the delayed procurement processes regarding containers to be used as offices. • Spending on Buildings and fixed structures (R1.391 million) exceeded the annual allocation of R0.4 million by the end of the Second Quarter.
Programme 3: Landward Defence	<ul style="list-style-type: none"> • Slow spending was recorded in the Strategic Direction subprogramme (53.7 per cent) against a projection of 58.5 per cent. • Slow spending was recorded in the Training subprogramme (38.8 per cent) against a projection of 42.9 per cent. • Higher spending was recorded in the Engineering Capability subprogramme (53.6 per cent) against a projection of 49.9 per cent. • Goods and Services recorded a lower than projected spending of R41.4 million (2.4 per cent), mainly due to the delay on the approval of SITA Service Level Agreement.
Programme 4: Air Defence	<ul style="list-style-type: none"> • Spending on the Transport and Maritime Capability subprogramme was significantly lower (23.1 per cent) than projected (42.5 per cent). • Higher spending of 60.9 per cent was recorded on the Operational Direction subprogramme against projected spending of 41.6 per cent. • Higher spending of 57.6 per cent was recorded on the Technical Services subprogramme against projected spending of 51.2 per cent. • Spending is impacted by ongoing delays in finalising the multi –year maintenance and support contracts for aircraft systems.
Programme 5: Maritime Defence	<ul style="list-style-type: none"> • Spending on Maritime Defence was 1.1 per cent lower than the planned, largely due to the change on the Dockyard management agreement, which resulted in the reduction of the quarterly transfer payment to Armscor.
Programme 6: Military Health Support	<ul style="list-style-type: none"> • Higher spending (52.4 per cent) was recorded in the Specialist/Tertiary Health Services subprogramme against a projection of 45.6 per cent. • Significantly low spending of 26.4 per cent was recorded in the Military Health Product Support subprogramme against a projected expenditure of 44.6 per cent.
Programme 7: Defence Intelligence	<ul style="list-style-type: none"> • Overall expenditure on Defence Intelligence was 46 per cent of the allocated budget of R917.277 million. This is only slightly lower than the projected spending levels of 46.8 per cent.



Programme 8: General Support	<ul style="list-style-type: none">• The Joint Logistical Services subprogramme recorded a higher than projected spending (43.8 per cent spent vs 38.7 per cent projected).• Communication and Management Information Systems reflected slow spending of 31.5 per cent against projected expenditure of 39.4 per cent.
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3. ADDITIONAL INFORMATION

In addition to the spending trends, Members should take note of the following aspects related to spending by the DOD by the end of the Second Quarter:

Over-expenditure: By the end of the Second Quarter, the DOD has spent *in excess of 100 per cent* of its allocated budget on the following items:

- Advertising (R42.375 million spent against an allocation of R7.797 million)
- Communication (R334.936 million spent against an allocation of R99.106 million)

Very slow spending: By the end of the Second Quarter, DOD expenditure reflects very slow spending on the following items:

- Computer Services (R89.118 million spent against an allocation of R1.133 billion)
- Venues and Facilities (R1.744 million spent against an allocation of R18.413 million)

Additional matters of concern: Members may note the following information on departmental spending at the end of the Second Quarter:

- Departmental Revenue received stood at only 29.4 per cent against a projection of 34.9 per cent. It is indicated that no transfers were received from Foreign Governments against a projection of at least R121.796 million, which should have been received by the end of the Second Quarter.
- The Suspense Account closing balance is a concern. A closing balance of nearly R5.5 million is visible on the suspense Account. The DOD should ensure that the suspense accounts are cleared as per Treasury Regulation 17.1.2 (b), which states that suspense accounts must be cleared on a monthly basis.
- Reimbursement for SANDF involvement in the DRC. The reimbursement received (R77.729 million) by the end of the Second Quarter is significantly lower than the projected reimbursement of R399.507 million.

4. QUESTIONS ON EXPENDITURE TRENDS FOR THE SECOND QUARTER

Questions on expenditure trends by the end of the Second Quarter:

- What are the reasons for the DOD overspending on Communications (R334.936 million spent against an allocation of R99.106 million) and Advertising (R42.375 million spent against an allocation of R7.797 million)?



- In Programme 1, the DOD is likely to overspend on the Ministry and Religious Services subprogrammes, where expenditure already stands at 73.8 and 81.6 per cent respectively. What is being done to curb this expenditure and avoid overspending at the end of the 2017/18 financial year?
- Slow spending was recorded in the Support to the People subprogramme (42.3 per cent). How does this impact on border safeguarding operations?
- What are the reasons for the delay on the back loading of mission equipment from DRC and Sudan to South Africa and delayed procurement processes regarding containers to be used as offices?
- What are the reasons for overspending on Buildings and fixed structures in the Force Employment programme?
- What is the status of the Service Level Agreement with SITA? How does this impact on expenditure?
- Spending on the Transport and Maritime Capability in the Air Defence Programme was significantly lower (23.1 per cent) than projected (42.5 per cent). What are the reasons for this? How does this impact on flying hours and the patrol of South Africa's maritime borders?
- What is the status of multi-year maintenance and support contracts for aircraft systems for the SA Air Force?
- What is the status of the Dockyard management agreement? How does this impact on Departmental expenditure?
- In terms of military health, higher than projected spending of 52.4 per cent was recorded in the Specialist/Tertiary Health Services subprogramme against a projection of 45.6 per cent. What are the reasons for this?
- What was the percentage of medical stock availability in the SANDF by the end of the Second Quarter?
- What are the reasons for slow spending on Computer Services as well as Venues and Facilities?
- What funds are included in "Funds received from Foreign Governments"? What is the status of this income-stream for the DOD?
- Why was the Suspense Account's balance not cleared at the end of the Second Quarter as per Treasury Regulation 17.1.2 (b)?
- Members should ask clarity on reimbursements from the UN for the SANDF's participation in the DRC mission. By the end of the Second Quarter, how much was paid out by the UN and what was the correct projected amount? What are the reasons for a possible lower than expected payout?