**1. REPORT OF THE PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS ON BUDGET VOTE 19 (DEFENCE AND MILITARY VETERANS) DATED 10 JULY 2019**

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered Budget Vote 19: Defence and Military Veterans and the 2019 Annual Performance Plans of the Department of Defence (DOD), the Department of Military Veterans (DMV) and its entities namely the Castle Control Board (CCB) and Armscor, reports as follows:

**1. INTRODUCTION**

**1.1 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.”

**1.2 Process**

The Portfolio Committee considered the 2019/20 budget allocations of the DOD and the DMV, as well as its entities, the CCB and Armscor, against their Annual Performance Plans for the 2019/20 financial year on 3 July 2019. The Committee made several observations that led to recommendations to the two Departments and the entities, to enhance their performance for the remainder of 2019/20.

This Report is divided into three sections, with Part A dealing with the DOD, Part B with the DMV, and Part C 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. Overview of policy focus areas of the department of defence**

Three key overarching guidelines provide direction in terms of the DOD’s policy focus areas, namely the National Development Plan, the Medium-term Strategic Framework (MTSF) for 2014-2019 as well as the Ministerial priorities and priorities of the Chief of the South African National Defence Force (SANDF).

**2.1 The National Development Plan (NDP)**

The NDP and its related policies provide a national framework that will inform the contribution by national departments. The DOD contributions to the NDP include the following focus areas:

* All people in South Africa are and feel safe (NDP Chapters 12 and 14). This is achieved through Border Safeguarding with 15 sub-units being deployed, establishing a Cyber Command Centre Headquarters, and reducing the levels of DOD corruption where prevalent.
* Create a better South Africa, a better Africa and a better world (NDP Chapter 7). This is achieved through the DOD’s International contributions of conflict prevention, peacekeeping, peace, security and post-conflict reconstruction and development as ordered by Government.

In addition to these two direct contributions, the DOD also contributes to the reduction in youth unemployment; the provision of assistance in disaster aid and disaster relief; combatting piracy along the east coast of Africa; strengthening the research and development capacity in South Africa; building safer communities; and building a capable and developmental state. The focus areas for defence within the NDP flows over into the MTSF for 2014 to 2019.

**2.2 The Medium Term Strategic Framework (2014 - 2019)**

The MTSF Outcomes to which DOD will contribute include the following:

* *Outcome 3 (Sub-outcome 3* *- All people in South Africa are and feel safe)*: Defence will contribute to this outcome through its participation in border safeguarding. During 2019/20, the SANDF will continue to deploy 15 sub-units for the purpose of border safeguarding. However, DOD officials indicated to the PCODMV that at least 22 sub-units are required for effective border safeguarding as well as the use of force multiplying technologies. The SANDF will also be involved in anti-poaching operations in relevant national parks along the South African borders while the SA Navy will conduct similar operations to protect marine resources.
* *Outcome 3 (Sub-outcome 4 – Secure cyber-space)*: The DOD states that it will continue to contribute to cyber-security initiative. During 2019/20, the development and consultation with identified stakeholders of a DOD Cyber Warfare Strategy will be undertaken, that will inform subsequent cyber security implementation instruments. However, the 2019 APP notes that targets related to the development of the Cyber Strategy and Cyber-warfare Plan were removed for the year under consideration.
* *Outcome 3 (Sub-outcome 7 – Corruption in the private and public sectors reduced)*: The DOD will continue to implement measures to reduce corruption and fraud.
* *Outcome 11 (Sub-outcome 3 – Political cohesion in Southern Africa to ensure a peaceful, secure and stable region)*: The DOD will contribute to conflict prevention, peacekeeping and post-conflict reconstruction and development as ordered by Government. Most notably, this includes the SANDF’s participation in UN-led peacekeeping operations in the Democratic Republic of the Congo (DRC) and SA Navy operations in the Mozambican channel.

**2.3 Priorities of the Minister and the Chief of the SANDF**

The Minister of Defence and Chief of the SANDF noted several key priorities for 2019/20 as reflected in the table below.

| **Minister of Defence Priorities** | **Chief of the SANDF priorities** |
| --- | --- |
| **Defence Strategic Direction:** This includes strategic direction for engagement on the 2015 Defence Review. | **Military Strategic Direction:** Implementing guidelines on the Defence Review; border safeguarding strategy; joint force employment strategy; developing the blue-print force design; and, a defence diplomacy strategy. |
| **Strategic Resourcing Direction:** Directing an appropriate defence resource mechanism. | **Restructuring the SANDF.** Compile a restructuring plan to be rolled out over the MTEF period as resources allow. |
| **Organisational Renewal:** Providing strategic direction to inform the restructuring of the DOD (new force structure) and positioning of the Defence Secretariat. | **Implement HR Strategy:** Appropriately compose, empower and manage the SANDF human resources. The Defence Academy will be established as resources allow. |
| **Enforcement of Military Discipline:** Ensure the enhancement of military discipline through the Military Discipline Bill when gazetted. |
| **Revitalisation and utilisation of Reserves:** Improved feeder system for the Reserves. |
| **Human Resources renewal:** Ensuring that the personnel profile meets both current and future defence obligations. | **Renovation of DOD Facilities:** Devolving the responsibility for Defence Endowment property from the DPW to the DOD and utilising the Defence Works Formation for maintenance. |
| **Development and maintenance of Strategic Reserves:** Chief SANDF will provide a strategy on stock levels and an overarching Logistics Strategy. |
| **Development of SANDF capabilities:** Physical development of appropriate capabilities through acquisition plans. Focus will be on development of landward defence capabilities, investigation of the establishment of a Coast Guard. |
| **Renewal of Landward Defence Capability:** Development of a multipurpose support vehicle; resourced production to take continue in 2019/20. |
| **Capability Sustainment:** Aligning defence acquisition to the 2015 Defence Review. Notable focus on the DOD Works Capability, cyber Warfare Capability and Defence Industry Policy and Strategy. | **Force Protection:** Improved Intelligence Capabilities on all levels and improved preparation and force employment stock levels. |
| **Border safeguarding:** Systematic increase of the SANDF’s footprint on the borders. |
| **Ordered defence commitments:** Sustaining ordered defence commitments. |  |

**Table 1: Priorities of the Minister and the Chief of the SANDF**

**3. COMMITTEE 2018/19 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 2018/19 Annual Performance Plan of the Department of Defence:

1. The Committee requested a copy of the letter from National Treasury to the department regarding the reimbursements from the United Nations.
2. The Committee requested the latest information regarding the Reprioritisation of the Department’s budget as well as quarterly updates on its spending priorities. This should include a summary of the fixed and moveable assets of the Department.
3. The Committee recommends that priority should be given to the repair and maintenance of the C130, Oryx and Rooivalk Helicopters to ensure that our peacekeepers are optimally supported in the Mission Area. Updates on the maintenance and serviceability of these support aircraft should be provided to the Committee on a quarterly basis.
4. Urgent engagement with National Treasury is required in an effort to find means of addressing the projected over-expenditure on compensation of employees in 2017/18 and beyond. Progress in this regard should be presented to the PCODMV on an ongoing basis.
5. The Committee recommends that the DOD prioritise the rejuvenation of the SANDF. While acknowledging that the Department has to work with National Treasury and the Department of Public Service and Administration (DPSA) to facilitate the exit of especially “older” members of the Defence Force, rejuvenation is essential. The Committee acknowledges that a rejuvenation plan is being developed by the DOD. However, the Committee requests that the Department provide it with a written outline of the rejuvenation plan no later than 60 days after the adoption of this report. Furthermore, future quarterly reports to Parliament should include a progress report on rejuvenation as a standing item.
6. The Committee recommends that the Department should prioritise the finalisation of the Military Discipline Bill for submissions to Parliament given that the effective functioning of the Command and Control relies primarily on a high level of discipline.
7. An urgent trilateral engagement between Parliament’s Defence Committees, the DOD and National Treasury is required regarding the funding of the implementation of Milestone 1 of the Defence Review, especially given the reduced budget of the DOD.
8. The Committee wanted to be updated on the latest information about the Dockyard given its strategic and critical role to repair and maintain the Navy’s vessels to allow them to protect our maritime resources.
9. The Committee recommends that the Department should make visible its anticipated role in national elections in its planning and the kind of resources and funding that are required.
10. The Committee requested more information on Project KOBA-TLALA, such as where it operates, and the costs and resources involved. A written report in this regard should be furnished to the Committee within 60 days of the adoption of this report.
11. The Committee wants the Department to provide it with a report on the situation at its Internal Audit Division, within 30 days of it finalising its investigation.
12. Flying hours in the SA Air Force remain a major concern. The Committee recommends that the DOD reports, on a quarterly basis, progress in the attainment of the 25 000 flying hours to be flown. A further breakdown of the total number of flying hours (training, operational, force employment, etc.) will further assist the PCODMV in its oversight.
13. Similar to the above, the PCODMV recommends that the DOD reports, on a quarterly basis, on   
     the progress being made to attain the 12 000 planned sea hours for the SA Navy.
14. The Committee recommends that active efforts be made by the Department to realign its   
     spending priorities with the envisaged 40:30:30 split between Compensation of   
     Employees, Operational Costs and Capital Expenditure. Given that no additional funds   
     are likely to be received by the DOD over the MTEF, the DOD should develop alternative   
     means to ensure this spending realignment. The DOD should provide the Committee with a   
     written report on efforts to realign spending patterns within 90 days of the adoption of this   
     report.

# 4. Overview of the 2018/19 financial year

For 2018/19, Parliament only received briefings on DOD expenditure patterns for the First and Second Quarters. Projections available for the Third Quarter, read in conjunction with the data from the First and Second Quarters indicate some concerns to be noted when considering budgetary implementation during 2019/20.

By the end of the Third Quarter, the DOD spent R35.3 billion against the approved projections of R34.9 billion. The higher than projected spending was mainly due to payment of compensation of employees higher than the projected expenditure. Some programmes did, however, show slow spending patterns. These include the Administration, Maritime Defence and Force employment programmes where slow spending was largely attributed to delays in processing the invoices for the payment of the quarterly accommodation charges from Department of Public Works and extended procurement processes for maintenance and ship repairs.

Other key concerns emerging by the end of the Third Quarter include:

* Only 43.7% of the R785.1 million allocated for Acquisition and upgrading of main weapon systems and technology in the Air Defence programme was spent by the end of the Third Quarter.
* Only 55.7% of the R785.1 million allocated for Acquisition and upgrading of main weapon systems and technology in the Maritime Defence programme was spent by the end of the Third Quarter.
* By the end of the Third Quarter, R49.8 million was spent on Severance packages in the Military Health Services programme against a total allocation of R12.5 million. This item was also exceeded in the Force employment programme.

The main concern emanating from quarterly expenditure in 2018/19 relates to compensation of employees. A request by the DOD to lift the compensation of employees ceiling by R3.2 billion in 2018/19 was not granted and the DOD was likely to overspend its compensation of employees. This was confirmed to the PCODMV by DOD officials on 3 July 2019.

**5. DOD BUDGET AND PERFORMANCE INDICATORS**

**5.1 Overview of the DOD 2019/20 Budget**

The DOD Budget Vote (Vote 19) has eight programmes with various sub-programmes through which planning for the Department is conducted. The total allocation for the DOD for 2019/20 is R50.513 billion, which is only slightly higher than the revised estimate of R48.496 billion allocated in 2018/19. The DOD budget therefore increases by 4.2% in nominal terms, but decreases by 0.99% in real terms from 2018/19 to 2019/20 (Real percentage takes into account a Consumer-Price Inflation of 5.2% for 2019/20).

The defence allocation for 2019/20 represents 3.06% of the country’s total expenditure of R1.646 trillion (3.17% in 2018/19). However, as a percentage of GDP for 2019/20 (R5.414 trillion), defence expenditure stands at 0.93% (0.95% in 2017/18).

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2019/20** | **Real Increase / Decrease in 2019/20** | **Nominal Percent change in 2019/20** | **Real Percent change in 2019/20** |
| **R million** | **2018/19** | **2019/20** |
| Programme 1: Administration | 5 653,3 | 6 187,1 | 533,8 | 228,0 | 9,44% | 4,03% |
| Programme 2: Force employment | 3 375,6 | 3 620,7 | 245,1 | 66,1 | 7,26% | 1,96% |
| Programme 3: Landward Defence | 16 271,2 | 16 464,3 | 193,1 | - 620,7 | 1,19% | -3,81% |
| Programme 4: Air Defence | 6 650,8 | 6 977,7 | 326,9 | - 18,0 | 4,92% | -0,27% |
| Programme 5: Maritime Defence | 4 699,4 | 4 517,9 | - 181,5 | - 404,8 | -3,86% | -8,61% |
| Programme 5: Military Health Support | 4 714,1 | 5 375,3 | 661,2 | 395,5 | 14,03% | 8,39% |
| Programme 7: Defence Intelligence | 950,4 | 1 020,5 | 70,1 | 19,7 | 7,38% | 2,07% |
| Programme 8: General Support | 6 181,6 | 6 349,5 | 167,9 | - 146,0 | 2,72% | -2,36% |
| **TOTAL** | **48 496,2** | **50 513,0** | **2 016,8** | **- 480,0** | **4,2%** | **-0,99%** |

**Table 2: Increase/decrease per programme from 2018/19 to 2019/20**

Key cost drivers and other concerns of the DOD 2019/20 budget include the following (in terms of broad economic classifications):

* **Compensation of employees.** The total expenditure on compensation of employees increased to R29.194 billion which equates to 57.79% of total defence expenditure for 2019/20 (revised estimates by National Treasury for 2018/19 reveals that spending on compensation of employees during that year was 55.92%). This portrays an ongoing increase in spending on compensation of employees that is not aligned to the 2015 Defence Review that calls for a maximum of 40% spending on personnel. The National Treasury further notes that spending on compensation of employees will stand at a total of 59% of total expenditure over the MTEF with a high of 63.90% by 2021/22.
* **Limited spending on buildings and fixed structures.** Spending on buildings and fixed structures are reduced from R529.7 million in 2018/19 to R351.3 in 2019/20. While a total of R2.4 billion is allocated to the Defence Works Formation over the medium-term to conduct repair and maintenance, the reduction on spending remains significant.
* **Capital acquisition.** Transfers to Departmental Agencies and Accounts (that largely consist of transfers to the Special Defence Account) are set to decrease over the MTEF from R5.977 billion in 2019/20 to R1.583 billion in 2021/22. This may have a lasting impact on force modernisation and defence capabilities.
* **The high cost of administering the DOD.** In a briefing to Parliament’s Standing Committee on Finance on 27 February 2019, Professor Jannie Rossouw of the Fiscal Cliff Study Group lamented the exorbitant cost of ministries in South Africa. He also noted that the DOD Ministry has the highest ministerial cost of all ministries (R137.7 million for 2019/20) compared to, for example, National Treasury with the lowest ministerial cost of R4.4 million.

## **5.2 Personnel information and salaries**

Personnel figures for the DOD is set to decrease slightly from 75 210 in 2018/19 to 74 900 in 2019/20. Similar to previous years, the DOD indicated in its 2019/20 APP that it is currently not in a position to reduce personnel numbers due to the lack of an effective exit mechanism. During its engagement with the PCODMV on 3 July 2019, the DOD indicated that it cannot further reduce the number of employees as this will inhibit its ability to execute ordered commitments. Roughly 50 per cent of the SANDF have contracts until retirement and a viable exit mechanism is required to reduce personnel. As such, compensation of employees remain the main cost driver for the DOD and is set to increase to R29.194 billion (57.79%) of total defence expenditure in 2019/20. The continuous increase in expenditure on compensation of employees amid a stagnating allocation to the DOD is in contrast with the view put forth in the 2015 Defence Review to peg personnel expenditure at 40% of total defence spending. The lack of an effective exit mechanism is also impacting negatively on the DOD’s ability to endure force rejuvenation, particularly in the lower rank groups.

## **5.3 Programme 1: Administration**

**5.3.1 2019/20 Allocation to Programme 1: Administration**

The Administration programme received a significant nominal increase from R5.65 billion in 2018/19 to R6.19 billion in 2019/20. This increase resulted in a real percentage increase of 4.03%. The largest nominal increase was for the *Financial Services* subprogramme where the allocation increased from R369.4 million in 2018/19 to R435.6 million in 2019/20. Other sub-programmes that saw their allocation increase in real terms included *Departmental Direction* (14.2%), *Human Resources Services* (13.87%), *Defence Reserve Direction* (13.16%) and *Religious Services* (27.38%). The allocation for *Acquisition Services* was reduced by 50.77%. This may relate to the limited ability of the DOD to do capital acquisition amid financial constraints.

In terms of economic classifications, three increases from 2018/19 to 2019/20 are of significance:

* *Advertising* increased from R76.0 million to R89.2 million.
* *Computer services* increased from R75.5 million to R114.1 million. This increase should be seen in the context of a limited allocation for software which only received an allocation of R100 000 over the MTEF.
* *Property payments* increases from R976.5 million to R1.127 billion. This signifies an increase of 15.37%.

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2019/20** | **Real Increase / Decrease in 2019/20** | **Nominal Percent change in 2019/20** | **Real Percent change in 2019/20** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2018/19** | **2019/20** |
| Sub-programme 1: Ministry | 125,6 | 137,7 | 12,1 | 5,3 | 9,63% | 4,21% |
| Sub-programme 2: Departmental Direction | 43,2 | 51,9 | 8,7 | 6,1 | 20,1 % | 14,20% |
| Sub-programme 3: Policy and Planning | 114,9 | 123,6 | 8,7 | 2,6 | 7,57% | 2,25% |
| Sub-programme 4: Financial Services | 369,4 | 435,6 | 66,2 | 44,7 | 17,92% | 12,09% |
| Sub-programme 5: Human Resources Support Services | 800,3 | 958,7 | 158,4 | 111,0 | 19,79% | 13,87% |
| Sub-programme 6: Legal Services | 318,1 | 364,1 | 46,0 | 28,0 | 14,46% | 8,80% |
| Sub-programme 7: Inspection and Audit Services | 138,8 | 154,6 | 15,8 | 8,2 | 11,38% | 5,88% |
| Sub-programme 8: Acquisition Services | 173,4 | 89,8 | - 83,6 | - 88,0 | -48,21% | -50,77% |
| Sub-programme 9: Communications Services | 116,5 | 129,9 | 13,4 | 7,0 | 11,50% | 5,99% |
| Sub-programme 10: SANDF Command and Control | 165,0 | 185,8 | 20,8 | 11,6 | 12,61% | 7,04% |
| Sub-programme 11: Religious Services | 15,0 | 20,1 | 5,1 | 4,1 | 34,00% | 27,38% |
| Sub-programme 12: Defence Reserve Direction | 29,4 | 35,0 | 5,6 | 3,9 | 19,05% | 13,16% |
| Sub-programme 13: Defence Foreign Relations | 278,9 | 303,3 | 24,4 | 9,4 | 8,75% | 3,37% |
| Sub-programme 14: Office Accommodation | 2 337,7 | 2 534,7 | 197,0 | 71,7 | 8,43% | 3,07% |
| Sub-programme 15: Military Veterans Management | 627,1 | 662,6 | 35,5 | 2,7 | 5,66% | 0,44% |
| **TOTAL** | **5 653,3** | **6 187,1** | **533,8** | **228,0** | **9,4%** | **4,03%** |

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

**5.3.2 Performance Indicators for Programme 1 (Administration)**

Programme 1 constitutes the highest number of set targets for the DOD, reflecting 57 set targets across the various sub-programmes (excluding the Military Veterans sub-programme). Several of these targets relate simply to the legislative requirements of submitting annual reports and annual performance plans of the DOD and other sub-departments/entities to Parliament on time. The table below reflects some *selected targets* in the Administration Programme across the 2017/18, 2018/19 and 2019/20 financial years for comparative analysis.

| **Performance Indicator** | **Audited Outcome** | **Estimated Performance** | **Estimated Performance** |
| --- | --- | --- | --- |
| **2017/18** | **2018/19** | **2019/20** |
| Defence Review implementation status | Monitor implementation of the Defence Review Implementation Plan | Monitor implementation of the Defence Review Implementation Plan | Monitor implementation of the Defence Review Implementation Plan |
| Number of qualified audit opinions | 5 | 0 | 0 |
| Percentage of combat-ready SANDF capabilities | Classified target | Classified target | Classified target (Combat-readiness Index Tool developed in 2019 MTEF period) |
| Percentage payment of legitimate invoices within 30 days | 77.9% | 75% | 75% |
| Number of Military Skills Development System members in the system | 3 476 | 3 568 | 3 510 |
| Number of Reserve Force man days | 2 425 899 | 2 674 761 | 2 693 048 |
| Percentage cases of fraud and corruption prosecuted | 13% | 25% | 25% |
| Percentage military court cases finalised (in-year) | 66.11% | 40% | 40% |
| Measure of DOD Morale | Neutral | Positive | Positive |
| Number of Defence attaché offices | 44 | 44 | 44 |

**Table 4: Selected performance targets for Programme 1**

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## **5.4 Programme 2: Force Employment**

**5.4.1 2019/20 Allocations to Programme 2: Force Employment**

The allocation for the Force Employment programme increased by a total of R245.1 million from 2018/19 to 2019/20, resulting in a real percentage increase of 1.96%. The largest increase was to the *Support to the People* subprogramme that received a real percentage increase of 11.23%. This relates, among others, to the SANDF’s assistance in the restoration of sewage plants along the Vaal River as well as deployments during the 2019 general elections. The *Regional Security* subprogramme received a real percentage reduction of 10.21% over the same period.

In terms of economic classifications, several increases and decreases in allocation between 2018/19 and 2019/20 can be noted:

* *Fleet services* increased from R27 million to R46.6 million.
* *Food and food supplies* increased from R150.1 million to R215.7 million.
* *Fuel, oil and gas* increased from R53.7 million to R93.6 million.
* *Travel and subsistence* increased from R182.6 million to R227.8 million.
* *Machinery and equipment* decreased from R89 million to R34 million.

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2019/20** | **Real Increase / Decrease in 2019/20** | **Nominal Percent change in 2019/20** | **Real Percent change in 2019/20** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2018/19** | **2019/20** |
| Sub-programme 1: Strategic Direction | 175,5 | 191,3 | 15,8 | 6,3 | 9,00% | 3,61% |
| Sub-programme 2: Operational Direction | 340,1 | 378,2 | 38,1 | 19,4 | 11,20% | 5,71% |
| Sub-programme 3: Special Operations | 844,3 | 936,4 | 92,1 | 45,8 | 10,91% | 5,43% |
| Sub-programme 4: Regional Security | 1 081,1 | 1 021,2 | - 59,9 | - 110,4 | -5,54% | -10,21% |
| Sub-programme 5: Support to the people | 934,6 | 1 093,6 | 159,0 | 104,9 | 17,01% | 11,23% |
| **TOTAL** | **3 375,6** | **3 620,7** | **245,1** | **66,1** | **7,3%** | **1,96%** |

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

**5.4.2 Performance Indicators for Programme 2: Force Employment**

The Force Employment Programme has 10 set targets for 2019/20 of which five are not elaborated on due to the information being classified. Performance on predetermined targets are generally aligned with that of previous years. The only significant change observed is in terms of the number of joint, interdepartmental, interagency and multinational military exercises to be conducted per year. For 2019/20, only one international training exercise will be conducted as per agreement with foreign countries. This represents a reduction from three exercises held in the previous year.

The classification of information is (in some instances) questionable, specifically where information was previously released and is now deemed ‘classified’. These classified targets for 2019/20 include:

* Percentage compliance with force levels for external operations (previously released target was 98 per cent in 2014/15).
* Percentage compliance of equipment for external operations (previously released target was 77 per cent in 2013/14).
* Percentage reimbursement by the UN/AU (previously released target was 78 per cent in 2014/15).
* Percentage compliance with self-sustainment of personnel (previously released target was 79 per cent in 2014/15).

## **4.5 Programme 3: Landward Defence**

## **4.5.1 2019/20 Allocations to Programme 3: Landward Defence**

The Landward Defence programme is the largest programme in the DOD and includes the SA Army with a personnel component of 37 593 (out of 74 900) in 2019/20. For 2019/20, the programme received only a marginal nominal increase resulting in a real percentage decrease of 3.81%. The most significant decrease is reflected in the *Air Defence Artillery Capability* subprogramme (14.23%). However, this should be seen in the context of an increase in previous years for the upgrading of equipment. The allocation for the *Infantry capability* subprogramme also decreased by 10.21% in real terms. Subprogramme 4 (Artillery Capability), in turn, received a major increase of 41.46% in real terms from 2018/19 to 2019/20.

In terms of economic classifications, the following increases and decreases from 2018/19 to 2019/20 can be noted:

* The allocation for *contractors* increased from R266.9 million to R297.9 million.
* The allocation for *fleet services* increased from R81.4 million to R187.1 million.
* The allocation for *Departmental agencies and accounts* decreased from R2.483 billion to R1.873 billion.

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2019/20** | **Real Increase / Decrease in 2019/20** | **Nominal Percent change in 2019/20** | **Real Percent change in 2019/20** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2018/19** | **2019/20** |
| Sub-programme 1: Strategic Direction | 396,2 | 395,1 | - 1,1 | - 20,6 | -0,28% | -5,21% |
| Sub-programme 2: Infantry Capability | 6 663,6 | 6 294,5 | - 369,1 | - 680,2 | -5,54% | -10,21% |
| Sub-programme 3: Armour Capability | 472,8 | 497,0 | 24,2 | - 0,4 | 5,12% | -0,08% |
| Sub-programme 4: Artillery Capability | 482,8 | 718,5 | 235,7 | 200,2 | 48,82% | 41,46% |
| Sub-programme 5: Air Defence Artillery Capability | 547,8 | 494,3 | - 53,5 | - 77,9 | -9,77% | -14,23% |
| Sub-programme 6: Engineering Capability | 795,3 | 814,0 | 18,7 | - 21,5 | 2,35% | -2,71% |
| Sub-programme 7: Operational Intelligence | 233,5 | 246,4 | 12,9 | 0,7 | 5,52% | 0,31% |
| Sub-programme 8: Command and Control Capability | 218,1 | 235,1 | 17,0 | 5,4 | 7,79% | 2,47% |
| Sub-programme 9: Support Capability | 4 595,5 | 4 816,7 | 221,2 | - 16,9 | 4,81% | -0,37% |
| Sub-programme 10: General Training Capability | 528,2 | 544,6 | 16,4 | - 10,5 | 3,10% | -1,99% |
| Sub-programme 11: Signal Capability | 1 337,6 | 1 408,1 | 70,5 | 0,9 | 5,27% | 0,07% |
| **TOTAL** | **16 271,2** | **16 464,3** | **193,1** | **- 620,7** | **1,2%** | **-3,81%** |

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

**5.5.2 Performance Indicators for Programme 3 (Landward Defence)**

Only three performance targets were set for the Landward Defence Programme. The first target on compliance with Joint Force employment requirements remains classified. The Second Target relates to the ‘Percentage compliance with DOD Training targets’ and is set for 80% (2 485 learners) for 2019/20. This is a significant reduction form the 3 681 learners in 2018/19.” The target for the number of SA Army unique force training exercises conducted is set for two for 2019/20.

## **5.6 Programme 4: Air Defence**

**5.6.1 2019/20 Allocations to Programme 4: Air Defence**

The Air Defence programme has taken significant strain in recent years in terms of its budget allocation. By 2015/16, the programme’s allocation stood at R7.086 billion, but since then it has not breached the R7 billion level again. For 2019/20, the allocation for the programme increased slightly from R6.651 billion in 2018/19 to R6.978 billion in 2019/20. This translates to a real percentage reduction of 0.27%. The *Operational direction* subprogramme received a significant increase from R97.3 million in 2018/19 to R189 million in 2019/20 (84.64% in real terms). Similarly, the *Transport and maritime capability* received an additional R480 million, resulting in a real percentage increase of 62.6%. The *Command and control* capability also received an additional R184.6 million, resulting in a real percentage increase of 20.41%. Key to the “sharp end” of the SA Air Force is its *Helicopter* and *Air combat* capabilities. These sub-programmes have received real reductions of 29.8% and 17.77% respectively.

In terms of economic classifications, the following increases and decreases from 2018/19 to 2019/20 can be noted:

* The allocation for *Property payments* increased from R56.6 million to R82.1 million.
* The allocation for *Operating payments* increased from R107.8 million to R171.7 million.
* The allocation for *Departmental agencies and accounts* increased from R1.020 billion to R1.255 billion.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2019/20** | **Real Increase / Decrease in 2019/20** | **Nominal Percent change in 2019/20** | **Real Percent change in 2019/20** |
| **R million** | **2018/19** | **2019/20** |
| Sub-programme 1: Strategic Direction | 31,0 | 32,0 | 1,0 | - 0,6 | 3,23% | -1,88% |
| Sub-programme 2: Operational Direction | 97,3 | 189,0 | 91,7 | 82,4 | 94,24% | 84,64% |
| Sub-programme 3: Helicopter Capability | 948,5 | 700,5 | - 248,0 | - 282,6 | -26,15% | -29,80% |
| Sub-programme 4: Transport and Maritime Capability | 675,8 | 1 156,0 | 480,2 | 423,1 | 71,06% | 62,60% |
| Sub-programme 5: Air Combat Capability | 840,1 | 726,7 | - 113,4 | - 149,3 | -13,50% | -17,77% |
| Sub-programme 6: Operational Support and Intelligence Capability | 343,3 | 370,1 | 26,8 | 8,5 | 7,81% | 2,48% |
| Sub-programme 7: Command and Control Capability | 692,0 | 876,6 | 184,6 | 141,3 | 26,68% | 20,41% |
| Sub-programme 8: Base Support Capability | 1 803,8 | 1 763,9 | - 39,9 | - 127,1 | -2,21% | -7,05% |
| Sub-programme 9: Command Post | 68,9 | 73,7 | 4,8 | 1,2 | 6,97% | 1,68% |
| Sub-programme 10: Training Capability | 586,3 | 509,0 | - 77,3 | - 102,5 | -13,18% | -17,48% |
| Sub-programme 11: Technical Support Services | 563,9 | 580,3 | 16,4 | - 12,3 | 2,91% | -2,18% |
| **TOTAL** | **6 650,8** | **6 977,7** | **326,9** | **- 18,0** | **4,9%** | **-0,27%** |

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

**5.6.2 Performance Indicators for Programme 4: Air Defence**

The Air Defence programme has four set performance targets for 2019/20, with the target related to force employment requirements being considered classified. The percentage compliance with DOD training targets for 2019/20 is set for 80% (682 learners). This reflects an ongoing decline from targets set in previous years (for example, in 2014/15 the training targets were as high as 3 662). Finally, the target on flying hours has shown a continuous decline in recent years. A total of 17 200 hours have been planned for 2019/20 compared to a planned 25 000 hours in the preceding year. This will further be reduced to 17 100 in 2020/21.

## **5.7** **Programme 5: Maritime Defence**

**5.7.1 2019/20 Allocations to Programme 5: Maritime Defence**

The overall allocation to the Maritime defence programme has remained relatively constant over the past three financial years and continue to do so in 2019/20. This does, however, mean that inflation impacts negatively on its budget. The general allocation for the programme decreased slightly from R4.699 billion in 2019/20 to R4.518 billion in 2019/20. This, however, translates to a real percentage reduction of 8.61%. Two programmes show major shifts in their allocation. The *Maritime Combat capability* subprogramme received a reduced allocation of R395.5 million, resulting in a 25.32% real reduction as adjusted for inflation. Furthermore, the *Base Support Capability* received a real percentage increase of 12.69%.

In terms of economic classifications, significant increases and decreases from 2018/19 to 2019/20 include the following: The allocation for *Fuel, oil and gas* decreased from R109.2 million to R97.5 million.

* The allocation for *Other supplies* decreased from R126.8 million to R94.0 million.
* The allocation for *Departmental agencies and accounts* decreased from R1.232 billion to R866.6 million.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2019/20** | **Real Increase / Decrease in 2019/20** | **Nominal Percent change in 2019/20** | **Real Percent change in 2019/20** |
| **R million** | **2018/19** | **2019/20** |
| Sub-programme 1: Maritime Direction | 569,3 | 594,9 | 25,6 | - 3,8 | 4,50% | -0,67% |
| Sub-programme 2: Maritime Combat Capability | 1 845,0 | 1 449,5 | - 395,5 | - 467,1 | -21,44% | -25,32% |
| Sub-programme 3: Maritime Logistics support Capability | 1 133,1 | 1 184,3 | 51,2 | - 7,3 | 4,52% | -0,65% |
| Sub-programme 4: Maritime HR and Training Capability | 545,2 | 570,1 | 24,9 | - 3,3 | 4,57% | -0,60% |
| Sub-programme 5: Base Support Capability | 606,6 | 719,1 | 112,5 | 77,0 | 18,55% | 12,69% |
| **TOTAL** | **4 699,4** | **4 517,9** | **- 181,5** | **- 404,8** | **-3,9%** | **-8,61%** |

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

**5.7.2 Performance indicators for Programme 5: Maritime Defence**

Four performance targets were set for this programme for 2019/20, of which the target related to force employment requirements is classified. Similar to 2018/19, 438 learners will attend courses for the year. It does, however, reflect an ongoing decrease in training targets in recent years. The number of sea hours are reduced from 12 000 in 2018/19 to 10 000 in 2019/20. Only one SA Navy unique training exercise is to be conducted in 2019/20.

## **5.8** **Programme 6: Military Health Support**

**5.8.1 2019/20 Allocations to Programme 6: Military Health Support**

The Military health support programme received an additional R661.2 million in 2019/20, bringing its total allocation to R5.375 billion. This reflects an 8.39% increase in real terms. Two sub-programmes were the major beneficiaries of this increase. Firstly, the *Mobile Military Health Support* subprogramme received an 88.16% increase in 2019/20 compared to the previous year. Secondly, the *Military Health Maintenance* subprogramme also saw its allocation increase by 19.71% over this period. Finally, the *Area Military Health Support* subprogramme received an 11.21% increase in real terms.

In terms of economic classifications, three significant increases from 2018/19 to 2019/20 are noted:

* The allocation for *Medical supplies* increased from R109.5 million to R159.4 million.
* The allocation for *Medicine* increased from R194.5 million to R352.1 million.
* The allocation for *Departmental agencies and accounts* increased from R100 000 to   
  R62.7 million.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2019/20** | **Real Increase / Decrease in 2019/20** | **Nominal Percent change in 2019/20** | **Real Percent change in 2019/20** |
| **R million** | **2018/19** | **2019/20** |
| Sub-programme 1: Strategic Direction | 191,7 | 206,7 | 15,0 | 4,8 | 7,82% | 2,49% |
| Sub-programme 2: Mobile Military Health Support | 131,6 | 260,5 | 128,9 | 116,0 | 97,95% | 88,16% |
| Sub-programme 3: Area Military Health Support | 1 672,2 | 1 956,3 | 284,1 | 187,4 | 16,99% | 11,21% |
| Sub-programme 4:Specialist Health Services | 1 876,5 | 2 049,2 | 172,7 | 71,4 | 9,20% | 3,81% |
| Sub-programme 5: Military Health Product Support | 295,0 | 302,5 | 7,5 | - 7,5 | 2,54% | -2,53% |
| Sub-programme 6: Military Health Maintenance | 175,8 | 221,4 | 45,6 | 34,7 | 25,94% | 19,71% |
| Sub-programme 7: Military Health Training Capability | 371,3 | 378,6 | 7,3 | - 11,4 | 1,97% | -3,07% |
| **TOTAL** | **4 714,1** | **5 375,3** | **661,2** | **395,5** | **14,0%** | **8,39%** |

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

**5.8.2 Performance Indicators for Programme 6: Military Health Support**

Six targets were set for the Military Health Support Programme for 2019/20 of which four are classified. The target for the number of healthcare activities for 2019/20 is the same as in the preceding year, at 2 140 550. It should be noted, however, that this target has been overachieved in recent years, thus perhaps warranting the lifting of the target. Furthermore, the target for training for 2019/20 is 648. This is the same as in 2017/18, but lower than achievements in recent years since 2015/16.

## **Programme 7: Defence intelligence**

**5.9.1 2019/20 Allocation to Programme 7: Defence Intelligence**

The allocation for Defence Intelligence in 2019/20 reflects a slight increase resulting in a real percentage increase of 2.07%. The major benefactor is subprogramme 2 (Defence intelligence support Services) that received a real percentage increase of 7.85%. No major shifts are visible in terms of the economic classifications, except for a reduction in the allocation for *Households* from R4.5 million in 2018/19 to R1.7 million in 2019/20.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2019/20** | **Real Increase / Decrease in 2019/20** | **Nominal Percent change in 2019/20** | **Real Percent change in**  **2019/20**  **2018/19** |
| **R million** | **2018/19** | **2019/20** |
| Sub-programme 2: Operations | 529,2 | 542,5 | 13,3 | - 13,5 | 2,51% | -2,55% |
| Sub-programme 3: DI Support Services | 421,2 | 477,9 | 56,7 | 33,1 | 13,46% | 7,85% |
| **TOTAL** | **950,4** | **1 020,5** | **70,1** | **19,7** | **7,4%** | **2,07%** |

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

* + 1. **Performance Indicators for Programme 7: Defence Intelligence**

Only two targets were set for the Defence Intelligence programme for 2019/20. The target for the number of intelligence products is 448, which is lower than actual achievements in recent years. The number of vetting decisions to be taken increases slightly from 7 000 in 2018/19 to 75000 in 2019/20. Significantly, the target related to the Cyber Warfare Strategy that was proposed in the 2018/19 APP was omitted from the 2019/20 APP. Previously, the APP indicated that Phase 1 of the Cyber Warfare Strategy, the establishment of a Cyber Command Centre, was not achieved due to budgetary constraints. This is of concern as the development of the Cyber Warfare Strategy aligns with the aim of the NDP.

**5.10 Programme 8: General Support**

**5.10.1 2019/20 Allocation to Programme 8: General Support**

The General Support programme received an additional allocation of R167.9 for 2019/20 compared to the previous year. However, this translates to a real percentage reduction of 2.36% when inflation is factored in. Allocations per subprogramme remained relatively stable, except for the Joint Logistics Services sub-programmes that saw its allocation remain stable, resulting in a real percentage decrease of 4.73%.

In terms of economic classifications, the following significant increases and decreases from 2018/19 to 2019/20 are noted:

* The allocation for *Food and food supplies* increased from R35.9 million to R68.2 million.
* The allocation for *Departmental agencies and accounts* increased from R416.2 million to R473.1 million.
* The allocation for *Buildings and fixed structures* decreased from R523.9 million to R347.7 million.

It should further be noted that refurbishing and maintenance work by the Defence Works Formation (DWF) are also funded under the General Support programme. Over the MTEF, a total of R2.4 billion is allocated for projects by the DWF.

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2019/20** | **Real Increase / Decrease in 2019/20** | **Nominal Percent change in 2019/20** | **Real Percent change in**  **2019/20** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2018/19** | **2019/20** |
| Sub-programme 1: Joint Logistics Services | 2 898,9 | 2 905,5 | 6,6 | - 137,0 | 0,23% | -4,73% |
| Sub-programme 2: Command and Maintenance Information Systems | 978,2 | 1 048,0 | 69,8 | 18,0 | 7,14% | 1,84% |
| Sub-programme 3: Military Police | 671,6 | 704,5 | 32,9 | - 1,9 | 4,90% | -0,29% |
| Sub-programme 4: Technology Development | 466,0 | 487,7 | 21,7 | - 2,4 | 4,66% | -0,52% |
| Sub-programme 5: Departmental Support | 1 167,0 | 1 203,8 | 36,8 | - 22,7 | 3,15% | -1,95% |
| **TOTAL** | **6 181,6** | **6 349,5** | **167,9** | **- 146,0** | **2,7%** | **-2,36%** |

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

**5.10.2 Performance Indicators for Programme 8: General Support**

The number of performance targets for the General Support programme were reduced from seven in 2018/19 to six in 2019/20. The seven targets for the General Support Programme included in the 2019/20 are reflected in the table below.

| **Performance Indicator** | **Audited Outcome** | **Estimated Performance** | **Estimated Performance** |
| --- | --- | --- | --- |
| **2017/18** | **2018/19** | **2019/20** |
| Percentage procurement requests fully completed within 90 days from registration | 87.54% | 95% | 95% |
| Percentage utilisation of endowment property in the DOD | 93% | 90% | 90% |
| Percentage DOD ICT Integrated Prime Systems Capabilities | 72.92% | 98.87% | 91.62% |
| Number of crime prevention operations | 184 | 124 | 124 |
| Percentage criminal cases investigated (backlog) | 56.14% | 40% | 40% |
| Percentage criminal cases investigated (in-year) | 22.73% | 25% | 25% |

**Table 12: Selected performance targets for Programme 8**

**6. COMMITTEE OBSERVATIONS**

During deliberations with the DOD on 3 July 2019, Members of the PCODMV made several observations related to the budgetary allocation, the performance indicators and the targets set in the APP. The following were noted:

1. The Committee expressed its concern regarding the current financial constraints within the defence domain and that this may impact negatively on the ability of the SANDF to fulfil its constitutional mandate. Most significantly, the Committee noted the fact that, for the past three financial years, insufficient funds were available to cover expenditure related to compensation of employees and that the expenditure ceiling in this regard were breached. The Committee noted the observation made by the DOD that it aims to explore additional sources of revenue, such as the sweating of assets (notably land).
2. Related to the first observation, the Committee noted with concern the decreasing ability of the DOD to address capital acquisition due to limited funding and the potential negative effect this may have on the replacement of ageing defence equipment. The Committee also noted the observation by the DOD that such reductions may, in turn, result in the loss of defence capabilities that will be very costly to restore.
3. Members of the Committee noted the difficulties expressed by the DOD in terms of force rejuvenation and concerns regarding the increasing age of military personnel, notably at lower rank levels. The Committee acknowledges the observation by the DOD that the absence of a feasible exit mechanism contributes significantly to challenges related to force rejuvenation.
4. Border safeguarding by the SANDF emerged as a key focus area for the Committee. The Committee noted concerns around the following:

* That the current deployment of 15 SANDF sub-units along South Africa’s borders are insufficient and that at least 22 sub-units are required.
* The need for technological force multipliers to assist deployed forces along the land borders.
* Shortages of suitable air assets at the SA Air Force’s 35 Squadron as well as 28 Squadron to effect border patrols.

1. Members observed challenges with the SANDF’s Logistical support to operational equipment. Specifically, the need for aircraft spares were raised. As a related aspect, Members noted the urgent need for the SA Air Force to replace the current C-130 transport aircraft capability.
2. The Committee welcomed the importance placed on cyber security by the DOD, but noted concerns around funding to further develop this capability.
3. Members expressed concern around ongoing delays to Project Hoefyster that relates to the replacement of the ageing SA Army’s Infantry Fighting Vehicles with a modern fleet.
4. Members expressed dissatisfaction with the reduced training targets across the various programmes of the DOD.
5. The Committee highlighted the reduction in flying hours for the SA Air Force and sea hours for the SA Navy as a significant on-going concern that impact negatively on operational deployment.
6. Members noted the DOD’s concern about outdated ICT systems, notably the Finance, Human Resources and Logistics systems.
7. The Committee welcomed an explanation form the DOD on its current involvement in various development and upliftment projects, such as its involvement in the Vaal river restoration project and assistance to Mozambique during flooding. The Committee further highlighted the need to effectively communicate these involvements to the public.
8. Members of the Committee raised concerns regarding the status of the Special Defence Account (SDA) and whether sufficient funds remain to ensure capital acquisition for the DOD. The Committee also noted the need to maintain the necessary security of information regarding acquisition plans within the SDA.
9. Members of the Committee questioned the increases in the allocations for Food and Food supplies in Programme 2 (Force employment) and Programme 8 (General Support).
10. The Committee welcomed the DOD statement that it remains involved in disaster aid and relief where ordered to do.
11. The Committee expressed its concern regarding the shortage of some uniforms, especially camouflage uniforms, in the SANDF.
12. The Committee welcomed the statement by the DOD that Projects Biro and Hotel remain on course as these will add valuable Inshore Patrol Vessels and Hydrographic capabilities to the SA Navy. The Committee expressed the need that funding constraints should be addressed to ensure the timely delivery of these vessels.

Members highlighted the potential that the exploiting of Intellectual Property within the DOD holds and encouraged progress in this regard.

**9. RECOMMENDATIONS**

The Committee expresses serious concern regarding funding constraints within the DOD and notes that this will increasingly diminish the ability of the SANDF to fulfil its constitutional duties. These funding constraints should be seen within the context of a stagnating defence allocation and decreasing defence spending as a percentage of GDP. Therefore, as an overarching recommendation, the Committee recommends an urgent trilateral engagement between the PCODMV, the DOD and National Treasury regarding the funding of the DOD and, specifically, the implementation of Milestone 1 of the 2015 Defence Review that aims to arrest the decline in the defence sector.

In addition to the overarching recommendation, the PCODMV identified the areas below that will be subject to monitoring by the Committee throughout the 2019/20 financial year. The DOD is requested to prepare responses to all recommendations for discussion during quarterly reports to the PCODMV.

1. In order ensure the SANDF’s rejuvenation, the Committee requests the DOD to urgently redevelop its exit mechanism to balance the need for force rejuvenation and current national concerns around unemployment and skills shortages. The DOD should provide the Committee with information on how it intends on redeveloping this exit mechanism, including clear milestones with dates for execution that will allow the Committee to track DOD progress in this regard.
2. The Committee strongly recommends that there must not be any reduction in personnel and that the current personnel contingent should be funded appropriately. Discussions around personnel strength and compensation of employees will be central to the trilateral engagement between the PCODMV, the DOD and National Treasury. This issue will be further followed during the annual Budgetary Review and Recommendations Reporting (BRRR) process.
3. The Committee recommends that Parliament’s Joint Standing Committee on Intelligence meet with the DOD as soon as possible to discuss the standing of the SDA and the impact thereof on capital acquisition. This is to ensure that the Department accounts properly and appropriately to parliament on this sensitive issue.
4. Border safeguarding remains a key function of the SANDF and the Committee acknowledges capacity constraints in this regard. As a means to assist with addressing capacity constraints, the Committee recommends the increasing use of technology as a force multiplier for border safeguarding. The DOD should further provide the Committee with details of current land, sea and air border safeguarding efforts, including recent successes and challenges. A cost outline for the increase of the number of sub-units along the land borders should also be provided
5. The reduction in flying and sea hours remain a particular concern. The Committee recommends that the DOD reports, on a quarterly basis, progress in the attainment of the 17 200 flying hours. A further breakdown of the total number of flying hours (for training, operational, force employment, and VIP purposes) will further assist the PCODMV in its oversight. Information on the number of flying hours chartered by the DOD, as well as the cost of such chartered flights, should also be provided. Similarly, the PCODMV recommends that the DOD reports, on a quarterly basis, on the progress being made to attain the 10 000 planned sea hours for the SA Navy.
6. The Committee recommends that the DOD increase its efforts to communicate its successes in international peace missions, disaster relief and domestic development and upliftment initiatives with the public.
7. The DOD should provide the Committee with an explanation for the significant increase in the allocation for Food and Food supplies in Programme 2 (Force Employment) and Programme 8 (General Support).
8. The Committee urges the SANDF to urgently address the stated shortage of some uniforms in the organisation.
9. Outdated ICT systems, notably the Finance, Human Resources and Logistics systems is of concern to the Committee. The DOD should therefore report to the PCODMV, as part of its quarterly reports, on plans and progress in addressing these ageing systems.
10. The Committee urges the DOD to continue to establish and develop its cyber-warfare capability and to make use of existing pockets of knowledge, such as expertise at the South African Military Academy, to develop this capability.

**PART B: DEPARTMENT OF MILITARY VETERANS**

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered the 2019/20 Budgetary allocation and Annual Performance Plans (APP) of the Department of Military Veterans (DMV), on 3 July 2019, reports as follows:

1. **1. INTRODUCTION** 
   1. **Mandate of the Department of Military Veterans**

The DMV derives its legislative mandate from the Military Veterans Act (No. 18 of 2011), which requires it to provide national policy and standards on socio-economic support to military veterans and their dependants, including benefits and entitlements to help realise a dignified, unified, empowered and self-sufficient community of military veterans.

* 1. **Main Objective of the Department of Military Veterans**

The main objective of the Department of Military Veterans is to provide national policy and standards on socio-economic support to Military veterans and their dependants, as well as policies and standards on heritage and empowerment programmes including those that contribute to nation-building and reconciliation.

1. **DMV CONTRIBUTION TO THE NATIONAL DEVELOPMENT PLAN; MEDIUM TERM STRATEGIC FRAMEWORK OUTCOMES; AND THE EXECUTIVE AUTHORITY PRIORITIES**

The 2019 APP lists the contributions that the DMV will make to the National Development Plan (NDP), the Medium Term Strategic Framework Outcomes and the Executive Authority Priorities in a tabular format, for 2019/20, as follows:

| **NATIONAL DEVELOPMENT PLAN** | **MEDIUM TERM STRATEGIC FRAMEWORK OUTCOMES** | **EXECUTIVE AUTHORITY** |
| --- | --- | --- |
| **Chapter 13:** Building a capable and  developmental state  • Strengthen delegation, accountability and oversight | **Outcome 12** - An efficient, effective and  development oriented public service | **Priority 1:** Ensuring a fully functional  Department of Military Veterans with  an independent vote, systems and  processes |
| **Chapter 13:** Building a capable and  developmental state  • Strengthen delegation, accountability and oversight  **Chapter 14:** Promoting accountability  and fighting corruption | **Outcome 12** - An efficient, effective and  development oriented public service | **Priority 2:** Strengthening governance  and oversight protocols to give effect to  the provisions of the Act. |
| **Chapter 9:** Improving education, training and innovation | **Outcome 1** - Quality basic education | **Priority 4:** To provide comprehensive  support services to Military Veterans and where applicable, to their dependants:  • Education, training and skills development |
| **Chapter 10:** Promoting health | **Outcome 2** – Long and healthy life for  all South Africans | **Priority 4:** To provide comprehensive  support services to Military Veterans  and where applicable, to their dependants:  • Acquiring a Healthcare and Wellness  Centre.  • Access to health support. |
| **Chapter 3:** Economy and employment | **Outcome 4** – Decent employment  through inclusive growth  **Outcome 5** – Skilled and capable  workforce to support inclusive growth | **Priority 4:** To provide comprehensive  support services to Military Veterans  and where applicable, to their dependants:  • Education, training and skills development  • Facilitation of employment placement  • Facilitation of or advice on business  opportunities |
| **Chapter 6:** Integrated and inclusive  rural economies: human capital,  social security, food security and basic  services | **Outcome 8** – Transforming human  settlements and the national space  economy | Subsidisation or provision of:  • Housing |
| **Chapter 15:** Transforming society and  uniting the country:  • Promoting social cohesion across  society and righting the wrongs of  the past | **Outcome 2 –** Long and healthy life for  all South Africans | Subsidisation or provision of  • Access to healthcare services  • Compensation |
| **Chapter 15:** Transforming society and  uniting the country:  • Promoting social cohesion across  society and righting the wrongs of  the past | **Outcome 4** – Decent employment  through inclusive growth  **Outcome 5** – Skilled and capable  workforce to support inclusive growth | **Priority 5:** Promote empowerment programmes for and of Military  Veterans |
| **Chapter 15:** Transforming society and  uniting the country:  • Promoting social cohesion across society & righting the wrongs of the past | **Outcome 14** – Nation building and  social cohesion | Empowerment of Military Veterans  to enhance their contribution to  reconciliation and Nation Building |
| **Chapter 15:** Transforming society and  uniting the country:  • Promoting social cohesion across society & righting the wrongs of the past | **Outcome 14** – Nation building and  social cohesion | **Priority 6:** Promotion of Military  Veterans’ heritage as well as memorialisation and honouring |
| **Chapter 15:** Transforming society and  uniting the country:  • Promoting social cohesion across society and righting the wrongs of the past | **Outcome 9** - Responsive, accountable,  effective and efficient developmental  local government system | **Priority 7:** Maintain the credibility and  security of the national military veteran  database |
| **Outcome 12** - Efficient, effective and  development oriented public service | **Priority 8**: Implementation of a high  impact communication and marketing  strategy and plan |

**Table 1: DMV contributions to the NDP, MTSF and Executive authority Priorities**

**3. MANAGEMENT PERFORMANCE ASSESSMENT TOOL (MPAT) AND FORUM FOR SOUTH AFRICAN DIRECTORS-GENERAL (FOSAD), ACTION PLAN 2014/15 – 2019/20**

For 2019/20, the Department plans to improve its performance and service delivery by annually assessing its many practices and improving its main areas of concern which are among others:

| **MANAGEMENT PERFORMANCE ASSESSMENT TOOL (MPAT)** | **FORUM FPR SOUTH AFRICAN DIRECTORS-GENERAL (FOSAD), ACTION PLAN 2014/15 – 2019/20** |
| --- | --- |
| For 2019/20 financial year the Department will be in an attempt to improve its performance and service delivery to the military veterans and their dependants, by annually  assessing its management practices and in improving its main areas of concern which are, amongst other things:  • Critical importance of management and leadership;  • Importance of accountability and consequences;  • Inability to implement Corporate Governance of  Information, Communication, Technology  • Poor management of diversity;  • Inability to manage and finalise disciplinary cases on time; and  • Non-payment of suppliers within 30 days as prescribed by PFMA and Treasury Regulation. | During the 2019/20 financial year, the Department will continuously be committed to focus on the achievement of targets as set by FOSAD.  The following priorities as set out by FOSAD will be implemented and monitored by the Department:  • Ensure that the Performance Agreement (PA) of the Accounting Officer is signed by the Executive Authority and submitted to the Office of the Public Service Commission (OPSC);  • Develop, approve, effectively implement and monitor the Service Delivery Improvement Plan for the Department and submit it to the DPSA on time;  • Reduction in the Time it takes to fill a vacancy;  • Ensure that feedback is provided on all cases from the National Anti- Corruption Hotline and all cases are concluded within the stipulated period determined by OPSC;  • Ensure the status of obtaining unqualified audit outcome with no matters;  • Ensure that all financial disclosures of senior managers are concluded and copies are filed with OPSC;  • Timely submission of Annual Reports to Parliament;  • Ensure that cases from the Presidential Hotline are resolved; and  • Submit the exception reports on 30-day payment to suppliers to National Treasury according to the Instruction Note issued in November 2011. |

**Table 2: DMV MPAT and FOSAD action plans**

**4. DMV OVERVIEW OF THE 2019/20 BUDGET AND MEDIUM TERM EXPENDITURE FRAMEWORK ESTIMATES**

The DMV Annual Performance Plan gives effect to its mandate that translates into the following outcomes:

Programme 1 (Administration): The main purpose of the programme is to provide management and strategic administration support to the Ministry, and overall management of the department. The Administration programme is divided into six sub-programmes; Management; Corporate Services; Internal Audit; Strategic Planning, Policy Development, Monitoring and Evaluation; and Office Accommodation.

Programme 2 (Socio-Economic Support): The main purpose of the programme is to develop and monitor the implementation of legislation, policy frameworks and service delivery cooperation agreements on compensation for injury in military service, counselling, education, healthcare, public transport, pension and housing benefits to Military veterans eligible for such support. The programme consists of three sub-programmes, namely: Database and Benefits Management; Healthcare and Well-being Support; and Socio-Economic Support Management.

Programme 3 (Empowerment and Stakeholder Management): The main purpose of this programme is to manage and facilitate the implementation of military veteran empowerment and stakeholder management programmes. The programme consists of three sub-programmes, namely: Provincial Offices and Stakeholder Relations; Empowerment and Skills Development; and Heritage, Memorials, Burials and Honours.

**4.1 DMV Expenditure Estimates for 2019/20**

The Department of Military Veterans received, for 2019/20, a total allocation of R662.6 million, which is higher than the R627.1 million allocated in 2018/19. This signifies a 5.7% increase in nominal terms and a 0.44% increase in real terms (adjusted for inflation as per the Consumer Price Inflation (CPI) index). Table 1 reflects the nominal and real percentage changes per programme for the DMV’s 2019/20 budget. Individual programmes will be discussed in subsequent sections. The bulk of the budget is allocated to Programme 2 (Socioeconomic support) that includes the most significant service delivery programmes of the DMV, including the provision of services such as housing and medical care to deserving military veterans.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase/ Decrease in 2019/20** | **Real Increase/ Decrease in 2019/20** | **Nominal Percent change in 2019/20** | **Real Percent change in 2019/20** |
| **R million** | **2018/19** | **2019/20** |
| Programme 1: Administration | 133,6 | 136,1 | 2,5 | - 4,2 | 1,87% | -3,16% |
| Programme 2: Socioeconomic support | 336,8 | 356,8 | 20,0 | 2,4 | 5,94% | 0,70% |
| Programme 3: Empowerment and Stakeholder Management | 156,8 | 169,7 | 12,9 | 4,5 | 8,23% | 2,88% |
| **TOTAL** | **627,1** | **662,6** | **35,5** | **2,7** | **5,7%** | **0,44%** |

**Table 3: Increase/decrease per programme from 2018/19 to 2019/20**

**4.2 Programme 1: Administration**

The allocation for the Administration programme increased slightly from R133.6 million in 2018/19 to R136.1 million in 2019/20. While reflecting a marginal increase in nominal terms, it translates to a reduction of 3.16% in real terms (taking inflation into account). This reduction can largely be attributed to the reduced allocation for the Management sub-programme that saw its allocation decrease from R12.9 million in 2018/19 to R7.1 million in 2019/20. The allocation for all other programmes remained stable with increases lower than the CPI inflation. This overall allocation can be viewed as positive as it allows for funds to rather be allocated to the DMV’s other programmes focusing on service delivery.

In terms of economic classicisation, there is a positive reduction in the allocation to Consultants from R9.5 million in 2018/19 to R3.1 million in 2019/20. However, the allocation for Operating Leases increased from R6 million to R18 million. The allocation for Communication decreased from R7.3 million to R2.4 million over this period. Finally, an allocation for R6.5 million for ‘External Auditing’ was noted for 2019/20.

| **Programme** | **Budget (Adjusted appropriation)** | | **Nominal Increase/ Decrease in 2019/20** | **Real Increase/ Decrease in 2019/20** | **Nominal Percent change in 2019/20** | **Real Percent change in 2019/20** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2018/19** | **2019/20** |
| Sub-programme 1: Management | 12,9 | 7,1 | - 5,8 | - 6,2 | -44,96% | -47,68% |
| Sub-programme 2: Corporate Services | 54,6 | 58,8 | 4,2 | 1,3 | 7,69% | 2,37% |
| Sub-programme 3: Financial Administration | 16,7 | 17,2 | 0,5 | - 0,4 | 2,99% | -2,10% |
| Sub-programme 4: Internal audit | 10,1 | 10,9 | 0,8 | 0,3 | 7,92% | 2,59% |
| Sub-programme 5: Strategic Planning, Policy Development, Monitoring and Evaluation | 19,4 | 20,6 | 1,2 | 0,2 | 6,19% | 0,94% |
| Sub-programme 6: Office Accommodation | 20,0 | 21,6 | 1,6 | 0,5 | 8,00% | 2,66% |
| **TOTAL** | **133,6** | **136,1** | **2,5** | **- 4,2** | **1,9%** | **-3,16%** |

**Table 4: Nominal and real increases/decreases in the Administration Programme**

Programme 1 includes 7 set targets for 2019/20. Most of the targets remain the same expect the DMV’s aim to increase integrated benefits with external entities in the process of developing a fully integrated Database Management system. The MPAT target has been omitted as DPME as will no longer “monitor compliance to policy requirements but will integrate and consolidate performance information into a holistic profile of national and provincial departments. The profile will include amongst others the annual report information including the Auditor-General’s findings, quarterly performance reporting, frontline service delivery monitoring.”

| **Performance Indicator** | **Audited Outcome** | | **Estimated Performance** | **Medium term target** |
| --- | --- | --- | --- | --- |
| **2016/17** | **2017/18** | **2018/19** | **2019/20** |
| Percentage women at SMS level | New target | 48% | 50% | 50% |
| Percentage of Communication Strategy activities implemented | 50% | 60% | 100% | 100% |
| Percentage cases from the Presidential Hotline resolved | 100% | 90% | 100% | 100% |
| Develop a fully integrated Database management system (DBMS) | New target | User requirements & application service specifications developed | Solution Construction and Implementation | Integration of benefits and external entities |
| Percentage of legitimate invoices paid in 30 days | 67% | 76% | 90% | 90% |
| Number of liberation struggle history research outputs | New indicator | 5 | 5 | 5 |
| Percentage representation of Persons with disabilities | 2% | 2% | 2% | 2% |

**Table 5: Programme 1 - Performance indicator and annual targets**

**4.3 Programme 2: Socio-Economic Support**

The allocation for Programme 2 increased with R20 million to R356.8 million in 2019/20. This equates to a real percentage increase of 0.7%. Significantly, the allocation for subprogramme 1 (Database and Benefits Management) decreases by R900 000. This is of concern as the finalisation of the military veterans’ database has been a continuous area of concern in the DMV. The allocation to the two other sub-programmes remain largely in line with previous allocations.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase/ Decrease in 2019/20** | **Real Increase/ Decrease in 2019/20** | **Nominal Percent change in 2019/20** | **Real Percent change in 2019/20** |
| **R million** | **2018/19** | **2019/20** |
| Sub-programme 1: Database and Benefits Management | 15,6 | 14,7 | - 0,9 | - 1,6 | -5,77% | -10,43% |
| Sub-programme 2: Health Care and Wellbeing Support | 80,9 | 87,5 | 6,6 | 2,3 | 8,16% | 2,81% |
| Sub-programme 3: Socio economic Support Management | 240,3 | 254,6 | 14,3 | 1,7 | 5,95% | 0,71% |
| **TOTAL** | **336,8** | **356,8** | **20,0** | **2,4** | **5,9%** | **0,70%** |

**Table 6: Nominal & real increases/decreases in the Socio Economic Support Programme**

In terms of economic classifications, the allocation for Consultants increased from R600 000 in 2018/19 to R1.1 million in 2019/20. The allocation for Households increased from R230.1 million to R243 million over the same period. No allocation for Training and Development was made while R2.4 million was allocated for Machinery and Equipment in 2019/20.

Programme 2 has eight Performance Indicators and annual targets that are key to service delivery to military veterans are reflected in the table below. Of specific concern is the targets related to housing and the finalisation of the database, as past performances in this regard has been significantly lower than the set targets.

| **Performance Indicator** | **Audited Outcome** | **Estimated Performance** | **Estimated Performance** | **Medium Term target** |
| --- | --- | --- | --- | --- |
| **2016/17** | **2017/18** | **2018/19** | **2019/20** |
| Number of military veterans with access to healthcare | 15 740 | 16 673 | 17 000 | 18 000 |
| Number of military veterans with newly built houses per year | 168 | 270 | 1 000 | 400 |
| Number of military veterans verified and captured on the database | New indicator | 40% | 95% | 30 000 |
| Number of bursaries provided to veterans and their dependents | 7 146 | 7 702 | 10 700 | 7 466 |
| Number of military veterans provided with compensation payment | New indicator | New indicator | New indicator | 1 000 |
| Number of military veterans and their dependents provided with counselling and treatment | New indicator | New indicator | New indicator | 1 000 |
| Approved policy on military veterans’ pension benefit | New indicator | New indicator | New indicator | Approved policy on military veterans’ pension benefit |
| Approved policy on military veterans’ transport benefit | New indicator | New indicator | New indicator | Approved policy on military veterans’ transport benefit |

**Table 7: Programme 2 - Performance Indicator and targets**

**4.4 Programme 3: Empowerment and Stakeholder Management**

The 2019/20 allocation for the Empowerment and Stakeholder Management Programme increased with R12.9 million when compared to 2018/19, thus reflecting a 2.88% increase in real terms. The increase can largely be attributed to a 25.28% real increase in the allocation to subprogramme 3 (Heritage, Memorials, Burials and Honours). Subprogramme 2 (Empowerment and skills development) saw a marginal increase in its allocation, resulting in an actual real reduction in allocation of 1.27%.

In terms of economic classifications, the allocation for Catering (Departmental activities) decreased from R3.7 million in 2018/19 to R1.8 million in 2019/20. ‘Outsourced services’ increased from R100 000 to R5.2 million over the same period. Travel and subsistence also increased substantially from R38.2 million to R45.2 million. Training and development decreased form R55.1 million to R47.6 million.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase/ Decrease in 2019/20** | **Real Increase/ Decrease in 2019/20** | **Nominal Percent change in 2019/20** | **Real Percent change in 2019/20** |
| **R million** | **2018/19** | **2019/20** |
| Sub-programme 1: Provincial offices and stakeholder relations | 59,6 | 63,4 | 3,8 | 0,7 | 6,38% | 1,12% |
| Sub-programme 2: Empowerment and skills development | 77,7 | 80,7 | 3,0 | - 1,0 | 3,86% | -1,27% |
| Sub-programme 3: Heritage, Memorials, Burials and Honours | 19,5 | 25,7 | 6,2 | 4,9 | 31,79% | 25,28% |
| **TOTAL** | **156,8** | **169,7** | **12,9** | **4,5** | **8,2%** | **2,88%** |

**Table 8: Programme 3: Nominal & real increases/decreases**

Programme 3 has five Performance Indicators and annual performance targets. Targets set for 2019/20 remain in line with those set in 2018/19, except for 1 500 more military veterans and their dependents to be provided with skills development and one more memorial site to be erected.

| **Performance Indicator** | **Audited Outcome** | **Estimated Performance** | **Estimated Performance** | **Medium Term target** |
| --- | --- | --- | --- | --- |
| **2016/17** | **2017/18** | **2018/19** | **2019/20** |
| Number of private sector companies and organs of state in agreements with the DMV | 0 | 0 | 4 | 4 |
| Number of veterans with approved funding for skills development programmes | 1 908 | 952 | 4 000 | 5 500 |
| Number of veteran’s businesses provided with access to empowerment opportunities | 179 | 154 | 110 | 110 |
| Percentage of approved burial claims paid within 30 days | New target | 64% | 100% | 100% |
| Number of memorial sites erected per year | 2 | 0 | 2 | 3 |

**Table 9: Programme 3 - Annual Performance indicators and annual targets**

**5. ADDITIONAL MATTERS**

**5.1** **Proposed Amendments to the Military Veterans Act and Regulations**

The Department has once again stated that they intend to amend the Military Veterans Act (No. 18 of 2011) as well as the Military Veterans Benefits Regulations (MVBR) of 2014. “The process had commenced but it is not yet finalised. The amendment of the Act is necessary as it will play an important role in shaping the future of military veterans.”

**5.2 Performance targets**

**Compensation benefit**

The DMV has for the first time started to roll out the Compensation benefit to military veterans. It is described as follows: “Compensation to military veterans who sustained disabling injuries or severe psychological and neuro-psychiatric trauma or who suffer from terminal diseases resulting from their participation in military activities” It has set an annual target of 300 for 2019/20 and further states that the benefit has been accelerated with the assistance of the South African Military Health Service Medical practitioners in the last financial year. It managed to conduct medical assessments to more than 126 applicants in line with the allocated budget of R5.2M.

**Pension benefit**

Another improvement is the movement of pensions, where the DMV has now set an annual target to have this policy approved within 2019/20, and in the two following years, it will attempt to deliver pension pay-outs to 300 and 400 military veterans respectively.

**Transport benefit**

Similar to the pension benefit which has not shown any progress for years, the transport benefit is now included in the annual performance target, albeit only to have an approved policy on military veteran’s transport benefit for 2019/20. For the two subsequent years, it has targets of 500 and 1 000 military veterans accessing subsided transport per annum.

**5.3 Personnel**

Over the years, the Portfolio Committee has raised concerns regarding the personnel situation at the Department. These concerns ranged from leadership instability due to vacancies to the exact number of employees at the Department. Of concern, however, is that the bulk of employees namely 120 (79 number of posts filled + 41 number of employees additional to establishment) remain placed in the Administration programme while, for example, 80 (48+32) employees are allocated to the core service delivery programme (socioeconomic development). Furthermore, the number of employees in the top salary bands (13-16) increased from 21 in 2017/18 to 29 in 2019/20.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Programme** | **No of posts on establishment** | **No of posts filled** | **Vacancy rate** | **No of employees additional to establishment** |
| **Administration** | 103 | 79 | 23% | 41 |
| **Socio-economic support** | 20 | 16 | 20% | 25 |
| **Empowerment & Stakeholder Management** | 46 | 32 | 30% | 7 |
| **Total** | 169 | 127 | 25% | 73 |

**Table 10: Employment and vacancies by programme as at 31 March 2018**

**5.4 Spending on contractors and consultants**

The total expenditure on consultants decreased from R10.094 million in 2018/19 to R4.180 in 2019/20. Similarly, the total expenditure on contractors decreased from R58.544 million to R57.652 million over the same period. Despite these reductions, consultants and contractors still reflect a large percentage of the DMVs total expenditure. This is set to be exacerbated over the medium term. For example, expenditure on consultants is set to increase from R4.180 in 2019/20 to R10.684 in 2021/22. Contractors refer to a person appointed to provide services which are of a non-specialised nature, that are not core business of the institution. It is normally not cost effective to maintain these skills within the institution. Contracting involves an activity of a short-term assignment on a specific project. Expenditure related to contractors is also set to increase over the medium term from R57.652 million in 2019/20 to R69.412 million by 2021/22. Over the medium-term, consultants and contractors will absorb 25.8% of the DMVs total expenditure.

**6. COMMITTEE OBSERVATIONS**

The Committee made the following observations in terms of the 2019/20 APP and 2019/20 Budget allocation to the DMV:

1. The Committee raised its concerns regarding who qualifies to be a military veteran as it was, *inter* *alia,* noted that some military veterans appear to be eighteen or nineteen-year old; that former Military Skills Development System (MSDS) are also applying for the benefits; and that there are numerous SANDF members on the database. The DMV explained that the first step to qualify as a military veteran is in terms of Section 1 of the Military Veterans Act (No. 18 of 2011) and secondly, to be registered on its National Database. Questions were also asked around the eligibility and justifiability of former Transkei, Bophuthatswana, Venda and Ciskei (TBVC) states’ members, Self Defence Units (SDUs), and especially former South African Defence Force (SADF) members. The Minister explained the context in which the Act was drafted and expressed the hope that amendments to the Act will be able to address some of these issues.
2. Given that the Military Veterans Benefit Regulations determine the means tests for the different benefits, the Committee raised the need for the Regulations to be reviewed. It further inquired about the role of the means test regarding the eligibility of military veterans to benefits.
3. Members expressed their concern regarding the slow roll-out of the housing benefit and especially that the annual target has been decreased from 1 000 to 400 for 2019/20 and onwards. Questions were also asked around the distribution of housing between rural and urban based military veterans. The Department explained that it is not the implementation agency and do annual transfers to the Department of Human Settlement based on certain agreements and gave the assurance that where serviced sites are available, housing is provided in rural areas.
4. A concern was raised around the slow progress made with provincial offices as DMV only has three functional provincial offices and that this restrict the access of military veterans to the department. It was explained that the procurement of offices is done through the Department of Public Works and that this is part of the reason for the slow progress to establish provincial offices.
5. The Department has an annual target “Percentage of approved burial claims paid within 30 days” and the Committee expressed its concern around this performance target and held the view that this period should be shorten to assist the bereaved families sooner.
6. Concern was expressed regarding the accessibility to health services for military veterans as many are staying far from such facilities. The Department indicated that the delivery of these services are sensitive and complex due to various reasons such as a limited budget, the accessibility of military health facilities where they depend on the SA Military Health Services (SAMHS), and the fact that the Department of Health cannot give preference to military veterans.
7. The Committee pointed out that many municipalities are not aware of the Department and the role it plays in alleviating the plight of military veterans, and wanted to know how the department plans to integrate itself with this level of government that is the closest to the people. The Department responded that their cooperation with municipalities vary as with provinces where some are working with the department while others are not too keen to do so.
8. Noting the increase in the utilisation of consultants and contractors over the medium-term, the Committee enquired around their role and cost implications of this item. The DMV indicated that part of the increase relates to outsource services to address the 30-day payment of invoices. While acknowledging the need for contracted services like skills development, repairs and maintenance, the Committee noted that this is still a substantive amount.
9. The Committee raised its concerns regarding the slow progress to verify and finalise the National Database for military veterans, especially given that it is the entry point for military veterans and their dependents. A verified and finalised database will allow the department to improve their planning and outline their financial projections more accurately.
10. The Committee questioned whether the DMV is actually serving its purpose especially once the military veteran has passed on and her/his relatives are left behind. The Minister explained that this is one of the main challenges for the Department as statutorily, dependents are only entitled to certain benefits, which can leave them destitute once the military veteran has passed on.
11. The Department was asked whether it is sufficiently integrated with civil society and whether it was sufficiently transformed. These aspects could assist the Department to improve awareness of its services and especially improve the delivery of benefits to deserving military veterans and their dependents. The Department indicated that it is fairly representative of the broader society but that it can improve its relationship with civil society.
12. The Committee noted the demand for health services for military veterans and stressed all avenues should be explored to address this much needed benefit for deserving military veterans. The late or non-payment of service providers was also noted against the background that these service providers refuse to deliver services until they are paid, leaving the military veterans destitute.
13. Note was taken by the Committee of the restricted budget and what can be realistically achieved with the allocated budget. The Committee requested the Department to indicate how they prioritise certain benefits. The Department explained that there will always be competing priorities and if they were fully funded, they could have delivered more benefits. Cost pressures include housing, health and bursaries. The Department is deliberately prioritising social benefits over other benefits, given its impact to alleviate the plight of military veterans and their dependents.

**9. RECOMMENDATIONS**

The Portfolio Committee makes the following recommendations cognisant of the limited budgetary allocation to the Department of Military Veterans. The Committee expects the DMV to present a progress report during the next quarterly report and annual report briefings on the following recommendations regarding the 2019/20 APP and 2019/20 Budget allocation to the DMV:

1. The Committee recommended that the DMV submit the Amendment Bill as soon as possible in order to, *inter alia,* address the definition of a military veteran and who should be given preference in the allocation of benefits.
2. The Military Veterans Benefit Regulations need to be changed in order to adjust the values to allow it to keep track of inflation. The Committee recommended that the Department should finalise the changes to the Regulations as soon as possible, and provide an updated report to the Committee on the eligibility requirements for each of the benefits.
3. The Committee recommended that the Department should strengthened its partnerships with the respective implementation agencies at national, provincial and local government levels to fast track the delivery of housing to deserving military veterans and to address the skewed urban/rural split. It should specifically review the service delivery model to identify the challenges and remedy these accordingly in cooperation with the relevant stakeholders. The Committee also noted the renovation of dilapidated houses belonging to military veterans and requested the department to keep it abreast of the number of houses renovated as well as the cost implications.
4. The Department was encouraged to enhance its efforts with the Department of Public Works to establish provincial offices, as this will not only facilitate easier access for military veterans but also increase awareness of the department and its function around the country. However, the Committee recommends that the DMV keep financial constraints in mind and that the DMV should seek affordable offices and cooperate with other departments for office space where available. The Committee further recommends that the DMV investigate the possibility of being accommodated at military bases around the country given the SANDF’s national footprint, and the financial constraints of the DMV.
5. The Committee recommended that the Department should improve its turn-around time of the payment of burial support. The Department should align its processes through, *inter alia,* improving awareness, educating military veterans and their dependents as well as establishing provincial offices to enhance access to the Department. The Committee further felt strongly that these payments should be done within 48 hours.
6. The accessibility of health services for military veterans is a very important benefit given that the majority of military veterans are ageing and the Department was encouraged to further investigate this issue to address the challenges around it.
7. Given that not all municipalities prioritise military veterans, the Committee recommended that the Department should further enhance its cooperation with the South African Local Government Agency (SALGA) and related structures to ensure the required cooperation with municipalities across the country. The engagement with municipalities and SALGA should, however, be conducted within the Intergovernmental Framework as espoused in Chapter 3 of the Constitution. The Committee further recommends that the Department report back to it on this issue and its outreach programmes on a continuous basis, starting with the 2019 quarterly and annual reporting sessions.
8. The Department was encouraged to reduce its reliance on consultants and contractors and to ensure that one of the requirements to appoint them, should be that they impart some of the related skills to employees of the Department. The Committee further urges the DMV to ensure that contractors and consultants are not utilised unnecessarily where a service could be provided from within the DMV and if possible, by the DOD.
9. The DMV should submit a report to the Committee, no later than 15 September 2019, of all consultants and contractors utilised by the Department in 2018/19 and thus far in 2019/20, the value of such contracts and a brief description of the service rendered.
10. The Department admitted that the Database is one of their serious challenges and the Committee recommended that it should further enhance the integration of the database with institutions other than the Department of Home Affairs, such as the South African Revenue Services and the South African Police Service.
11. The Committee recommended that the Department should investigate how dependents can be assisted once the military veteran has passed on and should consider including this as part of the amendments to the primary Act.
12. The Committee recommended that the Department should improve its relationship with society in general and not only focus narrowly on military veterans and their dependents. This will assist the overall transformation and integration agenda of the government.
13. The Committee agreed that the Department of Health and the SA Medical Health Services should enter into discussions to see how they can better assist military veterans and their dependents with regard to medical services. It is further recommended that the Department should ensure that late and non-payment of service providers are eliminated to ensure the continuous provision of health services to military veterans. The DMV is also encouraged to strengthen its relationship with provincial hospitals to cater for the medical needs of military veterans, and should report to the Committee on this issue on a continuous basis.
14. The DMV should supply the Committee with a copy of the means test utilised to determine whether a military veteran qualifies for a specific benefit, at the next quarterly report briefing.
15. The Committee noted the Department’s prioritising of social benefits and emphasised that given the reliance on other government departments, the Committee should play a stronger oversight role in this regard. The Department is further encouraged to investigate whether it can work closer with the Department of Social Development to improve its services and benefits to military veterans and their dependents.

**PART C: DEFENCE ENTITIES**

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered the 2019/20 Budgetary allocation and Annual Performance Plans (APP) of the Castle Control Board (CCB) and the Armaments Corporation of South Africa (Armscor) on 3 July 2019, reports as follows:

**THE CASTLE CONTROL BOARD (CCB)**

**1. Introduction**

The Castle Management Act, 1993 (No. 207 of 1993) provides for a Castle Control Board (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. CCB’S CONTRIBUTION TO THE NATIONAL GOVERNMENT IMPERATIVES**

**2.1 The National Development Plan (NDP)**

The NDP provides a national framework that will inform the contribution by national departments and public entities. Aspects relevant to the CCB and their envisaged contribution are as follows:

**Tourism:** The NDP is clear on the strategic role of tourism as a driver for economic growth and job creation. At a national level, the National Tourism Sector Strategy will be aligned to meet up with the 2030 targets set out in the NDP. The CGH, as a premier heritage tourism destination, is part of these important debates and regularly engages with the tourism industry, government departments, donors and partners to contribute toward the NDP outcomes and targets. CCB Programme 3 deals with Tourism Management and the organisational output aligned to the NDP is “to maximize the tourism potential of the CGH”*.*

**Envisaged Reduction in Youth Unemployment:** The CCB is running a programme for youth job shadowing and internship. This initiative will be strengthened and refined over the MTEF. In this regard the CCB is working with the Culture, Arts, Tourism, Hospitality and Sports Sector Education and Training Authority to access some of their resources. Some of the tourism initiatives (such as the restaurant, events section and filming) are already offering eight permanent job opportunities. The CCB’s output objective in Programme 4, which is aligned to the NDP, is “delivering a range of public programs with SA schools, cultural groups and special community groups.”

**Strengthening the National Research and Development Capacity:** The CCB is very mindful of the historical significance of the CGH and its collections. These offer significant opportunities in the areas of education and research. The organisation has a small resource centre that it plans to expand. The CCB will establish a CCB Strategic Research capability, particularly to record, monitor and share the lessons of the multi-million rand renovations project. In this regard, the South African National Defence Force’s (SANDF) Regional Works Regiment has been approached to support. The link with the NDP is CCB Programme 2 that aims to “ensure the maintenance, preservation, interpretation and showcasing the history of the CGH”.

**Fraud and Corruption:** The CCB will intensify its campaign in fighting fraud and corruption. CCB Programme 1 refers to “Ensure clean, sound administration and good governance”. The organisation is involved in a process to review its legislation and has strengthened most of its critical internal controls to ensure a sound, corruption and crime-free organisation.

**2.2 The Medium Term Strategic Framework (MTSF) (2014 - 2019)**

The MTSF Outcomes to which CCB will contribute by virtue of its legislative mandate and inherent capabilities are as follows:

**MTSF Outcome 3 “All people in South Africa are and feel safe.”** Since the CGH is associated with safety and security, the CCB has used this outcome to drive its operational plans to ensure the safety of staff and tourists to the Castle. “In fact, the Portfolio Committee on Defence and Militarily Veterans reminded and commended the efforts of the CCB to manage the crime and grime around the Castle entrance. Work will continue in this strategic area and all stakeholders are kept abreast of developments in this regard.”

**MTSF Outcomes 4 and 5:** “**A skilled and capable workforce to support an inclusive growth path**” and “**Decent employment through inclusive economic growth**” are linked to the CCB Programme “To maximise the tourism potential of the CGH” with the following outcomes set out in the CCB Strategy Map:

* Deliver a complete offering of visitor services and experience;
* Human resource development and adequate staffing levels;
* Implement a revenue generation plan; and
* Responsible commercialisation drive.

**MTSF Outcome 12:** “An efficient, effective and development orientated public service and an empowered, fair and inclusive citizenship” is linked to CCB programmes 1 and 2, namely “Ensure clean, sound administration and good corporate governance” and “Ensure the maintenance, preservation, interpretation and showcasing of the history of the Castle.” These are linked to the following Strategic Map outcomes:

* Effective and efficient systems of internal control;
* Sound financial control;
* Research and international benchmarking; and
* Integrated resource management.

**2.3 New Growth Path (NGP)**

The CCB will endeavour to support the NGP through:

* Creating jobs by providing more opportunities to entry level personnel by strengthening the internship intake. (Programme 2: “Ensure the maintenance, preservation, interpretation and showcasing the history of the CGH”).
* In the medium term, it is foreseen that job opportunities within the CGH will be created in the areas of craft industries, tour guiding, events management, conferences and the broader heritage and hospitality industry. The CCB completed a Revenue Optimization Plan in 2014/15 that is clearly demarcating the areas at the CGH lending itself to employment and income generating opportunities. (Programme 3: “To maximize the tourism potential of the CGH”)

**2.4 Forum for SA Directors-General (FOSAD) Action Plan**

The CCB has identified and will support the following FOSAD deliverables:

* Service Delivery Improvement Plan.
* Reduction of time to fill vacancies.
* The entity is small and most of the service providers are paid within 30 days as per set targets. (However, the entity’s financial position has necessitated negotiations with certain suppliers to extend payment terms beyond the set targets. The entity will fully comply when the financial position improves.)
* Finalisation of Disciplinary Cases.
* Reduction of Audit Findings.
* Timely submission of Strategic Plans, APPs and Annual Reports to Parliament and Chapter 9 & 10 institutions, especially referring to the submission of SMS Agreements and SMS Financial disclosures as required by legislation.

**2.5 Sustainable Development Goals**

The 17 SDGs and 169 targets which form the SDGs demonstrate the scale and ambition of this new universal Agenda. These SDGs seek to build on the Millennium Development Goals and complete what they did not achieve. These SDG and targets will stimulate action over the next 15 years in areas of critical importance for humanity and the planet. The CCB directly supports SDG numbers 4 and 8 as furthermore directed through the current 2015 – 2020 MTSF. This is achieved by CCB via the following mechanisms:

* Internship programme;
* Staff development programme; and
* Entrepreneurship opportunities for small businesses at the Castle Gift Shop, Restaurant and events.

**2.6 African Union Agenda 2063**

The AU agenda 2063, is seen as a strategic framework for the socio-economic transformation of the African continent over the next 50 years. The agenda seeks to accelerate the implementation of past and existing continental initiatives for growth and sustainable development. The guiding vision for Agenda 2063 is the AU vision of “An integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in the international agenda”, which are supported by the seven African Aspirations.

The CCB plans to be at the forefront of these imperatives through promotion of the Castle of Good Hope to the rest of the continent as a primary site for tourism and heritage education / preservation and promoting collaboration with similar establishments in the continent. The CCB hosted the Swahili Language Board launch on Heritage Day in 2017 and regularly host Africa Unite Events speaking to relevant topics such as xenophobia and anti-human trafficking. There are plans to expand on these initiatives during 2019/20.

1. **COMMITTEE 2018/19 BUDGET REPORT**

The PCODMV identified the following areas where subject to monitoring by the Committee throughout the 2018/19 financial year:

1. The Committee recommended that the CCB should provide exact information around their financial sustainability as the information provided indicated that without the assistance of the DOD, it is unlikely to be financially sustainable.
2. Clarity should be provided to the Committee on financially related issues such as the increasing costs of compensating employees, the granting of a R4.5 million annual subsidy from the DOD, the near-depletion of the historical reserves, and the failure so far of the Revenue Optimisation Strategy.
3. The Committee recommended that the CCB should avoid misrepresenting information such as the R4.5 m not being a subsidy, the role it is trying to write for itself in the amendment of the Castle Management Act, the R1 million from Iziko, and the accuracy of the performance figures.
4. The Committee recommends that the CCB should provide it with a written report on the contractual relationship between the CCB and the Department of Military Veterans regarding the Center for Memory, Healing and Learning. The report should also include information on the employment of military veterans at the CCB given some of the concerns around conditions of employment, safety and accommodation.
5. The Committee wants a written report on exactly how the security and safety of assets and personnel at the Castle, is being addressed. This should include information on the reported ill-discipline of guards at the Castle given the damage it causes to the image of the SANDF, the DOD, and the CCB.
6. The Committee recommended that the CCB should speed up the process to amend the Castle Management Act to facilitate its sole ownership/management of the Castle.
7. The Committee advised the CCB that the issue of *Het Bakhuys* and other officers, messes need to be clarified with the DOD and their views should be accommodated in addressing this issue.

**4. CCB OVERVIEW OF THE 2019/20 BUDGET AND MEDIUM TERM EXPENDITURE FRAMEWORK ESTIMATES**

**4.1 CCB programmes**

The CCB 2019/20 Annual Performance Plan and the Strategic Plan (2015 - 2020) give effect to the mandate of the CCB which translates into the following:

**Programme 1: Administration** (R7.485 million):The organisation will continue to deliver a comprehensive range of visitor services such as tourist literature, maps, guide books, an upgraded information centre, upgraded website, better and clearer signage, an improved security system, an outside restaurant/kiosk as well as more diverse tour options to attract more international tourists as well as local visitors. All organisational activities, programmes and strategic interventions will be linked to Outcome 12 of the MTSF namely “An efficient, effective and development-oriented public service and empowered, fair and inclusive citizenship.”

**Programme 2: Conservation Management**: The second biggest expenditure item is the Preservation, Interpretation and Showcasing Programme of the CGH’s Heritage which amounts to R584 000 for 2019/20. The organisation plans to deliver a series of innovative public events over the medium term. These initiatives will promote an understanding of the CGH as a global heritage icon to maximise its public profile and positive perception across all sectors of the community in support of Outcome 5 of the MTSF namely “A skilled and capable workforce to support an inclusive growth path.”

**Programme 3:Tourism Management***:* Although relatively low expenditure items (totalling R75 000 and R215 000 for 2019/20), the other two programmes (Maximising tourist potential and Increased public access) are key to the CCB’s mandate. The Tourism portfolio will be improved with the expansion of tour options, tourism products and experiences aimed at kids, better signage, display of cultural tourism products and aggressive marketing programmes.

“One of the critical elements, is a big enough indoors venue. In this regard, the CCB is engaging the DOD’s Log Division for the procurement of a 2500-seater marquee. This will be available for Ministerial, governmental and other corporate functions and will save the state millions in the long run. This will not only increase the organization’s revenue generation capacity but cut cost and increase productivity. But the biggest advantage is the fact that it will limit damage to the renovated spaces caused by the reckless movement of equipment through the fragile venues.”The Committee would do well to enquire about this issue given that it appears that the procurement will be done through and at the costs of the Log Division for the use of the CCB to supplement their revenue. This information has not been shared with the Committee before and it is especially the acknowledgement of the damage caused “by the reckless movement of equipment” that raises further concerns.

**Programme 4: Public Access*:***Most of the expenditure goes into public events such as community workshops, outreach programmes to schools, hosting of special needs groups (such as orphans, pensioners, abused women and children, etc.), internships and youth programmes.

**4.2 CCB’s Expenditure Estimates from 2015/16 to 2020/21**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Programme**  ***R thousand*** | **Expenditure Outcome** | | **Audited**  **2017/18** | **Adjusted appropriation**  **2018/19** | **Medium-term expenditure estimate** | | |
| **2015/16** | **2016/17** | **2019/20** | **2019/2020** | **2020/21** |
| **Administration** | 5 412 | 8 029 | 7 565 | 7 061 | 7 485 | 7 971 | 8 259 |
| **Conservation** | 541 | 238 | 570 | 525 | 584 | 623 | 640 |
| **Tourism Promotion** | 131 | 30 | 39 | 60 | 75 | 80 | 100 |
| **Public Access** | 1 354 | 1 642 | 279 | 204 | 215 | 229 | 244 |
| **Total** | 7 438 | 9 939 | 8 453 | 7 850 | 8 359 | 8 903 | 9 243 |
| **Compensation of employees (CoE)** | 3 317 | 5 393 | 5 794 | 5 734 | 6 078 | 6 473 | 6 653 |

**Table 1: CCB Expenditure estimates**

Overall, there are increases in the amounts allocated to the various programmes with a concomitant increase in the Compensation of employees. It should be noted that the budget was amended in October 2017 due to (1) the effect of the R4.5m Castle maintenance allocation from the Chief of Logistics (SANDF), (2) the 50% increase in ticket prices implemented in mid-2017, (3) the articulation of the revenue budget (R6m per annum) and (4) the alignment of the CCB’s expenditure budget.

**4.3 Selected Performance Indicators annual targets for 2019/20 to 2021/22**

The CCB has selected the following performance indicators for 2019/20 to 2021/22. Performance indicators will assist to inform the final inputs to the CCB’s Estimate of National Expenditure (ENE).

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **PERFORMANCE**  **INDICATOR** | **Audited Performance** | | **Audited**  **2017/18** | **Estimated**  **performance**  **2018/19** | **2019/20** | **2020/21** | **2021/22** |
| **2015/16** | **2016/17** |
| ***Gross revenue generated per annum*** | R4.9m | R4.0m | R5.823m | R7.850m | R8.359m | R8.903m | R9.438m |
| ***Number of tourists attracted***  ***per annum*** | 154 067 | 155 000 | 160 000 | 165 000 | 170 000 | 175 000 | 180 000 |
| ***Number of student interns***  ***hosted per annum*** | 26 | 30 | 30 | 15 | 12 | 12 | 12 |
| APP submitted to Executive Authority | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Annual Report submitted to Executive Authority | 98% | 100% | 95% | 95% | 100% | 100% | 100% |

**Table 2: CCB Selected performance indicators**

The Gross revenue generated per annum is of specific concern given that for the past two financial years, the CCB has underperformed on this performance target. See table 3 below of the CCB’s performance since 2015/16.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Source of**  **revenue** | **2015/16** | | **2016/17** | | **2017/18** | | |
| **Estimate** | **Amount collected** | **Estimate** | **Amount collected** | **Estimate** | **Amount**  **collected** | **(Over)/under collection** |
| ***R’000*** | | | | | | |
| **Sales** | 3 730 | 2 942 | 4 000 | 2 295 | 4 500 | 4 124 | 376 |
| **Rental income** | 3 156 | 1 277 | 3 410 | 1 139 | 3 465 | 1 132 | 2 333 |
| **Other income** | 15 | 41 | 204 | 163 | 324 | 450 | (126) |
| **Interest income** | 600 | 646 | 600 | 397 | 249 | 117 | 132 |
| **TOTAL** | **7 501** | **4 905** | **8 214** | **3 994** | **8 538** | **5 823** | **2 715** |

**Table 3: Revenue 2017/18**

The previous and current APP refer to the CCB not being only a cost centre but a significant revenue generation centre. It has completed its Revenue Optimisation Plan and its implementation will lead to an increase in revenue in the initial phase (2018) by at least R2.5 million per annum. Further, direct revenue is expected to be around R8.5 million in 2018 primarily generated from ticket sales, renting out of venues, and fees from hosting special events. Table 3 indicates the under performance of the CCB with regards to revenue collection over the 2015/16 to 2017/18 period. The Committee is encouraged to monitor the CCB on its 2018/19 target (R7.850m) and the targets for the subsequent years, especially during the annual report processes at the end of the year.

The Committee will further monitor the realisation of the following revenue generation scenarios: “The CCB Board has rescinded the basis of agreement with IZIKO (sharing a thirdof its entry fees with Iziko)and this will lead to an additional R1 million per annum for the CGH. It is also expecting an average annual rate increase in revenue of 10 per cent over the medium term. Further, it has also increased the ticket prices to R50 for adults and R25 for students from R30 and R15 respectively.

**4.4 Performance delivery environment: Challenges and opportunities**

The CCB’s APP 2019/20 indicates the following challenges and opportunities:

* The CGH need to be operationally managed solely by the CCB and all other entities present on or connected to the site – military and non-military - must adhere to the policies and procedures of the CCB.
* The CCB experience ongoing challenges with elements of the deployed SANDF reserve force units at the CGH serving as guards. Some frontline SANDF staff are not disciplined and the image they portray is detrimental for our Defence Force and country. The Ministry of Defence must deploy elite units or replace them with private security officers to avoid ongoing embarrassment. The SANDF’s Chief of Logistics is very aware of the situation and is regularly reporting to the Chief of the SANDF on this matter.
* The CCB’s income generation capacity and drive towards sustainability is often undermined by other organizations operating on site. The transfer of *Het Bakhuys* to the CCB and the overall role of IZIKO and the Officers Messes at the CGH must be resolved during 2019/20;
* The additional resources required has been calculated at R4.5 million per annum and should be ring-fenced as an operational subsidy based on a tightly managed Memorandum of Understanding (MOU); and
* In the light of the recent cost containment measures, all state entities and Departments must be strongly encouraged to use the CGH’s Conference and Events facilities for government functions.

**4.5 Additional funds allocated for 2019/20 to 2021/22**

The APP indicates the additional allocation of R4.5 million for financial years 2019/20 to 2021/22. Given the conditions attached to the utilisation of the additional R4.5m from the DOD, the Committee plans monitor this issue. Although the CCB complains that the R4.5 m should not be viewed as a “subsidy,” its they themselves who introduced this term.

| **Additional funding  requirement description** | **Fin Year for which Additional Funding is allocated** | **Allocations  (R’000)** | **Output /Activity Deliverables Linked to the Additional Funding** |
| --- | --- | --- | --- |
| With the strengthening of the CCB’s delivery capacity, the commercialisation drive of the CGH and the ambitious goal to obtain UNESCO World  Heritage Status for the CGH, additional surplus funding is required | 2019/20 | **4 500** | Heritage maintenance, preventative facilities management, implementation of Conservation Management Plan, development of new heritage tourism products |
| 2020/21 | **4 500** | Heritage maintenance, preventative facilities management, development of conference and wedding facilities,  refurbishing and outsourcing, completion of Military  Museum exhibitions |
| 2021/22 | **4 500** | Heritage maintenance, preventative facilities management acquisition of heritage artefacts, development of Centre  for African Colonial Studies |

**Table 4: Additional funds allocated for 2019/20 to 2021/22**

**5. PROPOSED AMENDMENTS TO THE CASTLE MANAGEMENT ACT**

The 2018 APP and the current APP list the proposed amendments to the Castle Management Act in Annexure B. It was in support of the amendments in the Defence Laws Repeal and Amendment Act (No. 17 of 2015) namely the removal of the age restriction and repeal of the Defence Endowment Property and Account Amendment Act (No. 17 of 1929). It suggests further changes regarding some of the names, definitions, the appointment of the Chairperson of the CCB, and the clarification of the CCB’s scope and objects. It also proposes the deletion of provisions relating to the “purchase of the Castle.” The Board was requested to ensure that it has considered all relevant legislation applicable to it to ensure that proposed changes deal with it in a holistic manner to avoid haphazardness in this regard. Note was taken of the intention to delete sections pertaining to the “purchase of the Castle by the Board.” The new section’s wording: “to provide for the Board rendering assistance in the management and control of **any** defence endowment or heritage property.” should be reconsidered or an explanation should be given of “**any** defence endowment or heritage property.”

**6. COMMITTEE OBSERVATIONS**

During deliberations with the Castle Control Board (CCB) on 3 July 2019, Members of the PCODMV made several observations related to the budgetary allocation and the targets set in the APP. The following are noted:

1. The Chief Executive Officer (CEO) informed the Committee that “bogus”/counterfeit tickets to enter the Castle of Good Hope (CGH) are being sold in nearby areas. This fraudulent activity impacts on the revenue that can be collected by the CCB and needs to be addressed.
2. The safety and security of staff, visitors and assets of the CGH has consecutively been raised as a risk that can lead to immense reputational damage to the CGH.
3. The loss of the tourism, heritage and events managers is concerning especially given that these managers have not been in the employment of the CCB for a long time.
4. The current management structures at the CCB complicate the attainment of a United Nations Educational, Scientific and Cultural Organisation (UNESCO) World Heritage Status for the CGH, as it is one of the requirements that it should have one management structure.
5. The Committee complemented the CCB on its third attainment of a clean audit opinion from the Auditor-General.
6. Questions were asked around the CCB resorting under the Department of Defence rather than the Department of Arts and Culture. It was explained that it is a statutorily-defined defence endowment property that should be exclusively used for defence-related activities. The Committee noted with appreciation the heritage, cultural and specialcommunity groupactivities being conducted at the Castle.

**8. COMMITTEE RECOMMENDATIONS**

The following recommendations are being made to the Castle Control Board (CCB) based on information provided in their 2019/20 budget and APP:

1. The Committee recommends that the CCB should take the issue of “bogus”/counterfeit tickets very seriously and should liaise with the South African Police Service (SAPS) and Metro Police to address this criminal behaviour.
2. The safety and security of staff and especially visitors to the Castle of Good Hope (CGH) should be prioritised and efforts should be stepped up to deal with this issue decisively.
3. The CCB is encouraged to interrogate its retention strategies given the loss of the three managers and to update the Committee on its vacancies every six months.
4. The Committee recommends that the CCB should enhance its efforts to have a single management structure in place to attain the much sought after UNESCO tourism status, given that this has been on ongoing issue for years.
5. The Committee encouraged the CCB to continue to strive for a clean audit opinion in future, as it will not only enhance its status but also improve its chances of attaining the UNESCO status.
6. The Committee recommends that the CCB enhance its relations with the Department of Arts and Culture regarding cultural issues, as well as tourism, to ensure maximum coverage of these issues and tourism aspects at the CGH. It should also ensure that proper attention is paid to people and especially the youth from the rural areas to accommodate them at the CGH. In addition, Members encouraged the CCB to improve its awareness campaigns to improve and encourage participation in the heritage, cultural, specialcommunity groupsactivities being conducted at the Castle.
7. In view of the questions around the financial sustainability of the CCB which relates to concerns around its status as a “Going concern,” as well as the historical under performance regarding revenue collection, the Committee recommends that the CCB pays specific attention to these issues and inform it on developments in this regard, as soon as possible.
8. The Committee urges the CCB to work towards the removal of obstacles in the Castle being recognised as a United Nations Educational, Scientific and Cultural Organisation (UNESCO) World Heritage Site. Updates in this regard should be provided in all future CCB Annual Report, including that of 2018/19.

**ARMAMENTS CORPORATION OF SOUTH AFRICA (ARMSCOR)**

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered the 2019/20 Corporate Plan of the Armaments Corporation of South Africa (Armscor), reports as follows:

1. **1. Introduction**

**1.1 Mandate of Armscor**

The Armaments Corporation of South Africa SOC Ltd (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.

**2. ARMSCOR CONTRIBUTION TO NATIONAL DEVELOPMENT PLAN**

The 2019 Corporate Plan lists a number of contributions from Armscor to the National Development Plan (NDP), including the following:

* Sharpening South Africa’s innovative edge by continuing its contribution to global scientific and technological advancement;
* Implementing greater investment in research and development and better use of existing resources;
* Facilitating innovation and enhanced co-operation between public service, technology institutions and the private sector in areas of potential dual use (military and civilian application);
* Committing to procurement approaches that stimulate domestic industry and job creation; and
* Procuring from and supporting SMMEs, black-owned and black-managed enterprises, and female-led enterprises, the youth, and military veterans.

**3. THE MEDIUM TERM STRATEGIC FRAMEWORK (2015/16 - 2019/20)**

Armscor’s contribution to the Medium-term Strategic Framework (MTSF) goals are twofold. Firstly, Armscor support the DOD which, in turn, contributes to the following MTSF two goals:

* **Outcome 3:** “All people in South Africa are and feel safe”
  + South Africa’s borders effectively defended, protected, secured and well-managed: Armscor supports this outcome with regard to providing technology and equipment to the DOD in support of the overarching strategy to defend, protect, secure, and ensure well-managed borders by securing the land, airspace and maritime borders.
  + Secure cyber space: Armscor provides support for capacitating a Cyber-Security Institution by the establishment of the Cyber Command Centre Headquarters.
  + Corruption in the public and private sectors is reduced: Armscor will prevent corruption where prevalent and in the execution of Armscor’s mandate.
* **Outcome 11:** “Creating a better South Africa and contributing to a better and safer Africa in a better world”
  + Political cohesion in Southern Africa to ensure a peaceful, secure and stable Southern African region: Armscor supports the DOD by supplying the necessary security equipment.

Secondly, Armscor also indirectly supports the following MTSF outcomes:

* **MTSF Outcome 2:** “A long and healthy life for all South Africans”,
* **MTSF Outcome 4:** “Decent employment through inclusive economic growth”,
* **MTSF Outcome 5:** “A skilled and capable workforce to support an inclusive growth path”, and
* **MTSF Outcome 12:** “An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship”.

**4. MEDIUM-TERM STRATEGIC FOCUS AREAS**

In order to achieve the Armscor Strategy, the Armscor Board identified four strategic focus areas. These strategic focus areas lean towards a combination of service delivery and rigid financial management. Each focus area has specific goals for the 2019/20 financial year as per the table below:

| **STRATEGIC FOCUS AREAS** | | |
| --- | --- | --- |
| **Strategic initiative** | **Measurement of success** | **2019/20 target** |
| **Revenue Generation** | Group Revenue | R1.338 billion  (down from R1.384 billion in 2018/19) |
| Increase income from existing Armscor research and development facilities | R385 million  (new target) |
| Revenue generated from the Business Enablement Unit | R85.2 million  (down from R110.2 million in 2018/19) |
| **Cost Management** | Improve net financial position | Break even  (2017/18 loss of R25.5 million; Target for 2018/19 was break even) |
| **Efficient and effective delivery** | Effective Technology and IP  Management | • Participate and execute the Technology  Development Master Plan, conduct research to sustain and grow defence technology base, and maintain and sustain strategic test capabilities  • Effective management of IP-related technologies  (Above by 31 March 2020) |
| Infrastructure renewal | • Renew application systems to improve  effectiveness and efficiency  • Investigate and implement e-procurement  • Improve Information Security  (Above by 31 March 2020) |
| **Stakeholder engagement** | Implement approved Stakeholder  Engagement Strategy | 31 March 2020 |
| Achievement of approved Equity  Plan that is directed towards increasing black representation | 78%  (72% in 2018/19) |
| Achievement of approved Equity  Plan that is directed towards improving female representation | 40%  (37% in 2018/19) |
| Controllable staff turnover in technical  positions, excluding retirements (less than or equal to 4,5%) | <4.5%  (<4.5% in 2018/19) |
| Provision of bursaries for full-time  studies (number) | 33  (33 in 2018/19) |
| Appointment and development of  employees’ Talent Development  Programme | 40  (40 in 2018/19) |
| Succession Planning Development:  Percentage compliance with  Succession Planning Development | 80%  (80% in 2018/19) |
| Total number of people with  disabilities | 25  (22 in 2018/19) |

**Table 5: Strategic focus areas and objectives of the Armscor Board**

**5. OVERVIEW OF THE ARMSCOR BUDGET FOR 2018/19**

**5.1 Broad budgetary overview**

The Armscor Group indicates a projected income of R1.520 billion for 2019/20 that is slightly lower than the R1.636 billion for 2018/19. However, operating expenses for the Armscor Group will also decrease somewhat, resulting in a projected net surplus of R200 000 for the Group. The main cost drivers for the Group relates to (1) direct Personnel Cost that decreases from R1.251 billion in 2018/19 to R1.162 billion in 2019/20 and (2) External Services that also decreases from R128.5 million in 2018/19 to R103.7 million in 2019/20.

**5.2 Additional financial information**

Compared to 2018/19, two significant changes in projected income and expenditure should be noted. First, while the Armscor Dockyard has been historically a loss-making division of the Group, the Dockyard is projected to break even in 2019/20. However, Armscor’s Research and Development division has historically been profitable, but is expected to have a shortfall of R25.1 million in 2019/20.

Projected profit/losses for the 2018/19 financial year per components includes:

* Armscor Corporate: Surplus of R25.3 million
* Research and Development: Shortfall of R25.1 million
* Armscor Dockyard: Break-even
* **Armscor Group: Surplus of R200 000**

In terms of the Group Capital Expenditure for 2019/20, a number of requirements are put forth in the Corporate Plan. A total of R163.859 million is required for such expenditure, which is an increase from the R135.238 million requirement in 2018/19. Key capital expenditure for the year includes the following:

* Office Equipment: R3.517 million
* Computer Equipment: R35.579 million
* Office furniture: R1.395 million
* Computer software: R35.246 million
* Machinery and Equipment: R54.705 million
* Motor Vehicles: R14.164 million
* Capital assets: R19.250 million

**5.3 Armscor expected expenditure trends**

When reviewing the Armscor expenditure per activity, as presented by National Treasury, overall expenditure is set to increase from R2.081 billion in 2018/19 to R2.092 billion in 2019/20. The largest and only increase increase in expenditure is expected to relate to Armscor’s Administration allocation that increases from R504.3 million in 2018/19 to R832.3 million in 2019/20. All other programmes/objectives is projected to receive a decreased allocation. The largest decrease is observed in terms of the allocation for Management of Strategic Facilities: Research and Development, where the allocation decreases by 34.55% in nominal terms. The table below provides an overview of broad expenditure trends.

| **Programme/objective/**  **activity** | **Budget** | | **Nominal Increase / Decrease in 2018/19** | **Real Increase / Decrease in 2018/19** | **Nominal Percent change in 2018/19** | **Real Percent change in 2018/19** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2018/19** | **2019/20** |
| Administration | 504,3 | 832,3 | 328,0 | 286,9 | 65,04% | 56,88% |
| Quality Assurance | 122,5 | 110,3 | - 12,2 | - 17,7 | -9,96% | -14,41% |
| Management of Defence Matériel Acquisition | 405,8 | 324,5 | - 81,3 | - 97,3 | -20,03% | -23,99% |
| Logistics Support | 276,3 | 218,5 | - 57,8 | - 68,6 | -20,92% | -24,83% |
| Management of strategic facilities: Armscor Dockyard | 302,2 | 299,0 | - 3,2 | - 18,0 | -1,06% | -5,95% |
| Management of strategic facilities: Research and Development | 470,0 | 307,6 | - 162,4 | - 177,6 | -34,55% | -37,79% |
| **TOTAL** | **2 081,1** | **2 092,1** | **11,0** | **- 92,4** | **0,5%** | **-4,44%** |

**Table 6: Armscor expenditure trends from 2018/19 to 2019/20**

**6. ARMSCOR PERSONNEL INFORMATION**

The total personnel strength is reflected in the table below and comes to 1 667, which is lower than the projection of 1 691 for 2018/19. Included in this figure are Contracted Employees (137) and Talent Development Programme Employees (45). There is relative stability in the projected personnel figures between 2018/19 and 2019/20.

|  |  |  |
| --- | --- | --- |
| **Armscor Group** | **Total Permanent employees projected in the 2018/19 corporate Plan** | **Total Permanent employees provided for 2019/20** |
| Armscor (including R&D) | 1 138 | 1 139 |
| Armscor Dockyard | 553 | 528 |
| **TOTAL** | **1 691** | **1 667** |

**Table 7: Armscor Personnel figure comparison**

**7. SELECTED PERFORMANCE INDICATORS**

For 2019/20, Armscor noted a number of performance indicators related to acquisition, payments, Defence industrial Participation (DIP) management technology and research as well as the management to the Dockyard. These targets are largely in line with targets set in preceding years. Selected performance targets are included in the table below.

| **Goal** | **Performance indicator** | **2017/18**  **Achievement** | **2018/19**  **Target** | **2019/20**  **Target** |
| --- | --- | --- | --- | --- |
| **1**  (Defence Materiel acquisition) | Execution of contracts as measured through actual cash flow on DOD orders placed | 99.5% | 95% | 95% |
| **2**  (System Support Acquisition) | Percentage of DOD system support and procurement requirements converted into orders placed | 99.49% | 95% | 95% |
| **3**  (Schedule placement) | Average time from receipt of requirement to placement of contract | 114 days for shortened process items  101 days for standard acquisition  128 days for SDA programmes | 60 days for shortened process items  90 days for standard acquisition  200 days for SDA programmes | 100 days for shortened process items  130 days for standard acquisition  150 days for SDA programmes |
| **4**  (DIP Management) | Value of Defence Industrial Participation (DIP) credits granted | R157 million | R51.739 million | R107.4 million |
| **5**  (Defence Technology and Research) | Research and Development to achieve contractual milestones/deliveries as per agreed Memoranda | 97.17% | 95% | 95% |
| **6**  (Dockyard Management) | Adherence to contractual project milestones | 93.6% | 90% | 90% |
| % compliance to project finance | 94.84% | 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% | 90% |

**Table 8: Selected performance indicators per Armscor goal**

**8. COMMITTEE OBSERVATIONS**

The Committee made the following observations in terms of the 2019/20 Corporate Plan of Armscor:

1. Members raised questions regarding the status of the Naval Dockyard. Given that initial plans to relocate the Dockyard to Denel did not take place, it remains unclear what subsequent decisions on the future of the Dockyard were taken.
2. The Committee expressed concern about the status of Project Hoefyster aimed at replacing the SA Army’s Infantry Fighting Vehicles. Specifically, Members expressed frustration with ongoing delays in the project and the inability of Denel to deliver services according to set timelines.
3. The Committee noted the need for the exploitation of defence-related Intellectual Property and questioned where the custodianship of such property resides.
4. The Committee expressed its desire to see Armscor appoint a permanent CEO as soon as possible and therefore welcomed the announcement that the advertisement for a new CEO will be placed before the end of July 2019.
5. Members welcomed the progress with Projects Hotel and Biro that seek to replace the current SA Navy’s hydrographic and inshore patrol capabilities. Members did, however, express concern regarding potential future funding shortfalls.
6. The Committee expressed the need for Armscor to focus on local acquisition from South African companies where possible. The Committee noted that Armscor’s statement that Denel’s share of its acquisition portfolio declined in recent years due to challenges at the entity.
7. Members noted the statement by Armscor that it will endeavour to supplement its revenue through, *inter alia,* the sweating assets, notably land and buildings.
8. The Committee requested further information on Armscor’s competitive advantage in Africa and subsequently urged the organisation to further seek commercial and other opportunities on the continent.

**9. RECOMMENDATIONS**

The Portfolio Committee made the recommendations below regarding the 2019/20 Corporate Plan of Armscor. Armscor is requested to respond to these recommendations during quarterly and annual report briefings to the PCODMV:

1. The Committee recommends that Armscor should remain focused on its primary mandate as an acquisition agency and balance this with its specialised need for research and development to strengthen its commercial viability and revenue generation.
2. Armscor should provide further information on the status of the Dockyard and future plans for the location following the termination of plans to shift it to Denel.
3. Following Armscor’s risk-evaluation investigation on Project Hoefyster, Armscor should provide the Committee with detailed information on the status of the project.
4. The Armscor Board is advised to conclude the appointment of a permanent CEO as soon as possible.
5. Armscor should provide the Committee with information on the status of Projects Biro and Hotel, including progress on construction, financials and challenges encountered.
6. The Committee welcomes Armscor’s commitment to local procurement and encourages the corporation to continue to support local development in this regard.
7. The Committee notes concerns around Denel raised by Armscor. The Committee recommends an urgent meeting between Denel, the Department of Trade and Industry, the DOD and Armscor to address concerns related to existing and future projects that impact on the DOD. Feedback on this meeting should be provided to the PCODMV following the conclusion of engagements.
8. The Committee encourages Armscor to engage responsibly in the sweating of assets as a means of generating additional income. Details of this should be provided in quarterly reports as well as all future Annual Reports, including in the 2018/19 Annual Report to be submitted to Parliament.
9. The Committee urges Armscor to continue to seek commercial opportunities in Africa given the unique services it provides and its positioning on the continent.

***Report to be considered***