*[The following report replaces the report of the Portfolio Committee on Defence and Military Veterans, which was published on page 202 of the Announcements, Tablings and Committee Reports dated 05 June 2020]*

**REPORT OF THE PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS ON BUDGET VOTE 23 DEFENCE AND MILITARY VETERANS DATED 15 MAY 2020**

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered Budget Vote 23: Defence and Military Veterans, the Strategic Plans 2020 – 2025 and the 2020/21 Annual Performance Plans of the Department of Defence (DOD and its entities namely the Castle Control Board (CCB) and the Armaments Corporation of South Africa (Armscor), on 05 and 06 May 2020 reports as follows:

**INTRODUCTION**

**Mandate of the Committee**

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

**Process**

The Portfolio Committee considered the Strategic Plan 2020 – 2025, the Annual Performance Plan 2020/21 and the budget allocations of the DOD on 5 May 2020. The Committee made several observations that led to recommendations to the DOD and the two entities, to enhance their performance for the remainder of 2020/21. This Report is divided into two sections, with Part A dealing with the DOD and Part B with the two entities namely the Castle Control Board (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. The impact of the COVID -19 pandemic on DOD PLANNING

The impact of the Covid-19 pandemic that forced South Africa into lockdown will likely have a significant impact on the DOD’s budgetary and planning cycle for 2020/21. On 28 February 2020, the President ordered 151 members of the South African National Defence Force (SANDF) to assist the Department of International Relations and Cooperation (DIRCO) to repatriate South African citizens from Wuhan, China, at a cost of R25 million. On 25 March 2020, the President submitted a letter to Parliament noting the deployment of 2 820 members of the SANDF to assist the Police in maintaining law and order at a cost of R641.2 million. In addition, on 17 March 2020, the SANDF called up members of the Reserve Force to assist the regular force where required.

While the impact on DOD planning is yet to be quantified and explained, a number of ways in which this may impact includes:

* **DOD Budget.** The deployment of the SANDF is costly and will require significant funding. It is unclear what part of this deployment will be funded from the existing budget of the DOD.
* **DOD Spending and broader economic trends.** The Covid-19 pandemic is expected to have a significantly negative effect on the South African (and global) economy. This will likely require significant structural reforms, key to which is the need to curb South Africa’s public wage bill. The already higher than ideal spending on compensation of employees in the DOD will therefore come under increasing pressure in the short term.
* **DOD training.** Given the requirement for SANDF deployments, it is unlikely that planned training exercises will take place. As such, targets set in the APP are unlikely to be met.
* **Secondary tasks.** The resource requirements of the Covid-19 deployments are likely to detract from secondary tasks, such as maritime patrols, cyber security and participation in multinational exercises.
* **Border safeguarding.** Significant focus has been placed on the need for enhanced border safeguarding as a means of stemming the spread of Covid-19. This may place additional requirements on the SANDF for border deployments where required.
* **Discipline.** While the minority of cases, several videos emerged of mistreatment of the public by SANDF members during the Covid-19 deployment. This may have a severe impact on Civil-Military Relations going forward. It may also impact on the planning of the DOD, its scheduling of Armed Forces Day and the work of the Military Police.

**3. COMMITTEE 2019/20 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 2019/20 Annual Performance Plan of the Department of Defence:

1. In order ensure the SANDF’s rejuvenation, the Committee requests the DOD to urgently develop a feasible exit mechanism that balances the need for force rejuvenation and current national concerns around unemployment and skills shortages. The DOD should provide the Committee with a written report, no later than 15 October 2019, on how it intends on developing this exit mechanism. The report should also include clear milestones with dates for execution that will allow the Committee to track DOD progress in this regard.
2. The Committee urges the DOD and National Treasury to return to negotiations on the funding of the existing force levels in the Department. The Committee requests written reports from both the DOD and National Treasury, no later than 31 August 2019, detailing previous meetings between the two Departments on the compensation of employees ceiling, the outcome of such meetings, reasons for the underfunding of the DOD salary component, and future plans to address this concern.
3. Given current financial constraints, the Committee urges the DOD to reprioritise funds, where possible, to ensure capital acquisition to ensure the maintenance of current defence capabilities.
4. Border safeguarding remains a key function of the SANDF and the Committee acknowledges capacity constraints in this regard. The DOD should provide the Committee with a written report, no later than 15 October 2019, detailing the current status of land, sea and air border safeguarding, 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 for consideration by the Committee in future budget considerations.
5. Following Armscor’s risk-evaluation investigation on Project Hoefyster, both the Armscor and the DOD should provide the Committee with a written report on the status of the project.
6. 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 (training, operational, force employment, etc.) will further assist the PCODMV in its oversight. In addition, 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.
7. 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.
8. The DOD should provide the Committee with an explanation, in writing, for the significant increase in the allocation for Food and Food supplies in Programme 2 (Force employment) and Programme 8 (General Support). The response should be provided before 15 August 2019.
9. The Committee urges the SANDF to urgently address the stated shortage of some uniforms in the organisation.
10. 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.
11. 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.
12. The Committee welcomes the commitment by the DOD to fulfil its Constitutional mandate and urges the Department to continue to seek ways, amid financial constraints, of addressing the critical state of the decline of the organisation.

**4. DEPARTMENT OF DEFENCE STRATEGIC PLAN 2020 – 2025**

The DOD Strategic Plan 2020 – 2025 consists of four main parts namely:

Part A: DOD Mandate

Part B: DOD Strategic Focus

Part C: Measuring DOD Performance

Part D: Technical Indicator Descriptions

**4.1 Part A: DOD Mandate, Policies and Strategies**

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

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

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

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

* Milestone 0 (MS0). The current situation within the DOD commencing 2017.
* Milestone 1 (MS1). Arresting the decline in critical capabilities through immediate and direct interventions.
* Milestone 2 (MS2). Re-balance and re-organise the Defence Force as the foundation for future growth.
* Milestone 3 (MS3). Create a sustainable Defence Force able to meet ordered defence commitments.
* Milestone 4 (MS4). Enhance the capacity of the Defence Force to respond to emerging threats and a wide range of strategic challenges.
* Milestone 5 (MS5). Defence of the Republic against any direct threat.

*(The DOD’s 2020 – 2021 APP similarly covers these aspects in a shorter form in Part A).*

**4.2 Part B: DOD Strategic Focus**

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

(*The DOD’s 2020 – 2021 APP similarly covers these aspects in a shorter form in Part B.*

**Vision**: “Effective defence for a democratic South Africa.”

**Mission**: “To enable, prepare, employ, sustain and renew Defence capabilities in accordance with the needs of South Africa as regulated by the Constitution, National Legislation, Parliamentary and Executive direction”.

**DOD organisational values:** The DOD has committed itself to organisational values that are rooted in individual values, codes of conduct and unit cohesion. In the execution of the defence Mission Statement, the DOD continues to pursue and adhere to the following organisational values:

* Accountability.
* Consultation Rooted in Effective and Efficient Partnership and Collaboration.
* Discipline.
* Ethics.
* Excellence.
* Openness and Transparency.
* People.
* Service Standards.
* Teamwork.

The Individual values include Human Dignity, Integrity, Leadership, Loyalty, Patriotism, and Professionalism.

**4.2.1 Situational analysis**

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

**External environmental analysis**

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

* **Political.** South Africa’s national security is centred on the advancement of its sovereignty, democracy, national values and freedoms, its political and economic independence. There are domestic, regional and continental dimensions to the national security architecture. Domestically, South Africa’s national security focuses on human security, sovereignty and the related priorities of territorial integrity, constitutional order, the well-being, prosperity and upliftment of its people, economic growth and good governance. Regionally, South Africa’s national security hinges on the stability, unity and prosperity of the Southern African Region in particular, and the African continent in general.
* **Economic.** The economic forecast and the current trends in the defence funding allocation, continue to constrain the implementation of the National Policy on Defence (SA Defence Review 2015), with a profound adverse impact on the availability and modernisation of required defence capabilities.
* **Social.** The inability of Government to meet the demand for social services coupled to the lack of employment opportunities may result in increased violent protests, particularly amongst the vulnerable and unemployed youth posing a threat to domestic stability. Protest tipping points could require the employment of the SANDF, in cooperation with the South African Police Service (SAPS), to ensure national security and stability. The responsibility of the SANDF for border safeguarding will increase as cross-border migration intensifies.
* **Technological.** Information Warfare - It is crucial that the State places cyber-security as a central national priority. The DOD will be required to develop, in consultation with identified stakeholders, a cyber-defence capability that will enhance national cyber resilience. Defence Industry. South Africa’s Defence Industry is among the most technologically advanced in the world and recognised by Government as a fully-fledged economic sector and should it be adequately funded, has the potential to significantly contribute to the economy of South Africa. Interventions focused on ensuring the sustainability of sovereign and/or strategic industries that are at risk of implosion and that may disrupt the interdependency within industry, must be deliberately planned for and executed.
* **Legal.** Adherence to International Law. It is anticipated that the SANDF will continue to participate in peacekeeping operations and possible offensive operations, responding to global security threats. The SANDF will ensure that personnel involved in such operations are conversant with International Law regulating the use of force when conducting both offensive and defensive actions in the theatre of operations.
* **Physical (Environmental). -** Climate Change - Natural disasters remain a reality and may have catastrophic effects domestically, regionally and continentally. It is inevitable that the DOD will in the foreseeable future be called upon, through the conducting of both humanitarian and disaster operations, to assist local government authorities and other state departments both internally and in the SADC Region. The recurrent disasters in the SADC Region require the DOD to have the appropriate capacity to timeously respond to such situations
* **Military -** The operational environment of the future will become increasingly complex. South Africa will be required to maintain a credible defence capability and adopt a posture demonstrating resilience irrespective of the nature of potential conflict, thereby ensuring:
* Effective border safeguarding operations.
* Execution of international obligations.
* Co-operation with the SAPS to effect law and order.
* Support to other government departments.
* Humanitarian and disaster relief operations.
* Contribution to national cyber resilience.

**Internal environmental analysis**

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

* **Deployment of the SANDF.** The SANDF continues to be employed to any kind of environment or area, as tasked by Government and may include the following:
* Peace Support Operations.
* Foreign Interests in Africa.
* African Capacity for Immediate Response to Crises (ACIRC).
* Prevention and Resolution of Conflict.
* Provide Humanitarian Assistance and Disaster Relief.
* Support in the Combating of Maritime Piracy along the East Coast of Africa.
* Building Safer Communities.
* **Human Resource Dimension.** In the areas of Human Resource Management and Compensation of Employees (CoE), the transfer of funds to address the CoE allocation challenges will be strengthened through action plans to ensure full compliance with legislation and treasury requirements. The DOD will continue to utilise Reserve Force members in support of the *“one-force concept”*, supplementing the DOD’s capacity to perform crucial functions and operational tasks, thereby ensuring compliance with ordered commitments.
* **Financial dimension.** The DOD has seen significant budget reductions since the 2016/17 MTEF with a department baseline allocation increase below the country’s national inflation rate. Since the 2016/17 MTEF, the baseline of the Department has been reduced by R25.5 billion, mainly on CoE and the Special Defence Account (SDA). During the 2020/21 MTEF, the budget of the CoE and the SDA have been reduced by R3.7 billion and R5 billion respectively. The reduced SDA allocation and total discontinuation thereof in the FY2021/22 will adversely impact on the capability, sustainability and modernisation of defence prime mission equipment and the Defence Industry as a whole.
* **Logistic Dimension.** The logistic support capability of the DOD will remain under pressure within the context of a declining Defence budget allocation. The DOD continues to operate aging legacy systems that have become increasingly more difficult and costly to maintain and repair due to obsolescence. This obsolescence is not only applicable to defence combat systems, but also to support equipment, inclusive of those procured commercially-off-the-shelf.
* **Information Technological Dimension.** The DOD will endeavour to develop departmental ICT systems aligned with both the national and internal requirements through the following:
* Governance of Information Technology. The DOD will strengthen its ICT Policy and Plans by institutionalising the Public Service Governance Framework.
* Information Systems. The current DOD ICT infrastructure must be geared to accommodate the management of information over its life cycle, and must be in compliance with the regulatory framework.

**4.3 Part B: Measuring DOD Performance**

This section deals Performance Information, Measuring the DOD Impact Statement, Measuring of the DOD Outcomes, DOD Contribution to National Imperatives, Departmental Imperatives as well as the DOD’s Enterprise Risk Management. This section focuses on the following selected issues:

**4.3.1 Overview of Policy Focus areas of the DOD**

Three key overarching guidelines provide direction in terms of the DOD’s policy focus areas, namely the National Development Plan 5-year Implementation Plan, the Medium-term Strategic Framework (MTSF) for 2020 -2025 as well as the Ministerial priorities, the priorities of the Defence Secretariat and the priorities of the Chief of the SANDF.

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

The implementation of the NDP, “Vision 2030”, through the NDP 5-year Implementation Plan (2019-2024 MTSF) will primarily focus on job creation, poverty reduction and the reduction of inequality. The Governmental priorities for the 2019 to 2024 MTSF were developed to which the DOD will contribute both directly and indirectly as addressed in this Plan.18 The DOD will endeavour to support the following Government Pillars and Priorities:

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

**Ministerial priorities, the priorities of the Defence Secretariat and the priorities of the Chief of the SANDF**

To encapsulate both strategic and operational goals, the Departmental priorities are captured in the Table below which highlights key focus areas on each priority by the Minister of Defence, the Secretary for Defence, as well as the Chief of the SANDF:

|  |  |  |  |
| --- | --- | --- | --- |
| **PRIORITY** | **MINISTER OF DEFENCE FOCUS AREAS** | **SECDEF FOCUS AREAS** | **CHIEF SANDF FOCUS AREAS** |
| **Strategic Direction** | Implementation of 2015 Defence Review (Arresting the Decline in the DOD). | Develop DOD Strategy to align with current and future realities. | Identify and implement (1) resource interventions to arrest decline, (2) multi-mission capabilities and (3) research and development. |
| **Strategic Resourcing** | Generating revenue to supplement the insufficient fiscal allocation. | Focus on DOD Funding Model to raise funds through, among others, sweating of assets; re-imbursements; and cost-saving initiatives. | Focus on procurement efficiency, internal controls to minimise fraud, sweating of assets and disposal of redundant equipment. |
| **Human Resources Management** | Maintaining the SANDF establishment force levels (Focus on rejuvenation and the role of the reserves). | Accelerate development of a sustainable Human Resources Plan. | Optimise personnel utilisation, ensure discipline and maintain the current operational capability. |
| **Organisational renewal** | Directing of the Defence Secretariat and organisation of the SANDF to avoid duplication of functions and optimise organisation. | Develop a Defence enterprise Architecture Framework. | Focus on force rejuvenation. Finalise the SANDF force design and structure based on a command and staff approach. Establish cyber defence. |
| **Capability sustainment** | Maintain prime mission equipment at a set level. | Several capabilities required, including ICT systems, research capability, civil-legal capability, etc. | Ensure maintenance of prime mission equipment and ensure maximum re-imbursement for deployments. |
| **Ordered defence commitments** | Increased expectation for SANDF to contribute to National Development Agenda. | Provide an enabling mechanism to support SANDF deployments. | Enhance border safeguarding through adding technology. Contributing to RSA developmental agenda and foreign policy. |

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

**4.3.2 DOD’s Enterprise Risk Management**

The DOD continues to pursue its commitment to the effective management of the DOD Enterprise risks through the continuous adoption of best practices, methodologies and inculcating a culture of risk management across the DOD. The continued budget reductions and decline in the Defence allocation remains a matter of concern with an adverse impact on the ability of the DOD to fully support the national imperatives of Government and implementation of the SA Defence Review 2015. Effective risk management and mitigation efforts in relation to the transversal DOD Enterprise Risks, listed in Table 8 below, remain predominantly cost-driven, increasing the risk exposure of the DOD. The DOD Enterprise Risks, as reflected in Table 8 below, are for public view. Sensitive (not for public view). These risks include issues such as:

* Prevalence of Corruption and Fraud. Weaknesses in key internal controls increase the opportunity for fraud and corruption and may result in losses, including future resources.
* High Prevalence of Litigation. The inability of the DOD to comply with applicable legislation, prescribed policy and

 procedures may result in costly litigation and losses to the DOD.

* Deteriorating DOD Facilities and Infrastructure. Deteriorating DOD facilities and infrastructure may result in issues such as Compromised Defence Readiness; Prevalence in Occupational Health and Safety (OHS) fatalities and costly litigation; Tarnished image of the DOD and Negative effect on morale.
* Forfeited Rights on DOD Property. Current land claims and possible illegal land invasion on DOD facilities, may result in loss of DOD facilities which may impact on readiness and deployment capabilities in support of the Defence mandate.
* Outdated and Non-integration of DOD Information Communication Technology Systems (ICTS). The lack of modernisation and non-integration of DOD ICT Systems may lead to unreliable, unverifiable and loss of DOD financial, non-financial information and possible threat to business continuity.

The Department proposes various Mitigation strategies to address the identified risks such as training, consequence management, the development of policies, whistle-blowing and creating a culture of risk management across the Department.

# 5. Overview of the 2019/20 financial year

Information on spending and performance by the DOD is only available up to the end of the Third Quarter of 2019/20. By the end of the Third Quarter on 31 December 2019, the DOD spent R36.838 billion (72.4%) of its adjusted appropriation, which was *slightly lower than projected expenditure*. At programme level, some variances are noticeable in terms of actual expenditure against projected expenditure for the Third Quarter. The largest variances occurred in the Administration, Air Defence, Maritime Defence and Military Health Services programmes. In terms of economic classification, the overall lower than projected expenditure can be explained in terms of lower than projected spending on goods and services (by R761.5 million).

The main cost driver continues to be **higher than planned spending on compensation of employees**. This has been an ongoing concern in recent years due to the compensation of employees’ ceiling, which does not support the current personnel numbers of the Department. By the end of the Third Quarter, spending on compensation of employees was R174.2 million higher than projected. Payments on capital assets was R131.8 million (22.1%) higher than projected, while spending on Goods and Services was R761.5 million (9.5%) lower than projected.

As noted, the main concern not only during 2019/20, but also in preceding years has been the rising cost of compensation of employees. By the end of the Third Quarter, the DOD had 72 768 filled posts against the Human Resource annual target of 74 900 posts. This figure shows a decrease in the Department’s headcount from 74 053 (First Quarter) and 73 414 (Second Quarter). There is currently higher than projected spending by R174.2 million on Compensation of Employees, due to the compensation of employees ceiling which does not support the current personnel numbers of the Department. However, the ongoing reduction in headcount has significantly improved the situation on personnel expenditure throughout the year. Despite this improvement, and depending on further headcount reductions that may have transpired in the final quarter of 2019/20, the DOD has likely overspent on compensation of employees. ***This will result in irregular expenditure, as has been the case in previous years.*** *Members should note that an accounting officer may not commit a department to any liability for which money has not been appropriated as per section 38 (2) of the Public Finance Management Act, 1999.* Urgent attention to this ongoing problem is required in 2020/21.

# 6. budget analysis

##

## **6.1 Overview of expenditure**

The total allocation for the DOD for 2020/21 is R52.439 billion, which is only slightly higher than the adjusted appropriation of R50.236 billion for 2019/20. The DOD budget therefore increases by 4.39% in nominal terms, but remains static in real terms (decreases by 0.01% in real terms) from 2019/20 to 2020/21. The defence allocation for 2020/21 represents 2.98% of the country’s total expenditure of R1.761 trillion (3.06% in 2019/20). However, as a percentage of GDP for 2020/21 (R5.428 trillion), defence expenditure stands at 0.97% (0.93% in 2019/20). Table 1 reflects the nominal and real percentage changes per programme for the DOD’s 2020/21 budget. The real percentage changes are adjusted for Consumer Price Inflation (CPI) and do not take into account other forms of inflation such as medical or the concept of ‘defence inflation’ which are generally considered higher than CPI. Individual programmes will be discussed in subsequent sections.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | **Nominal Increase / Decrease in 2020/21** | **Real Increase / Decrease in 2020/21** | **Nominal Percent change in 2020/21** | **Real Percent change in 2020/21** |
| **R million** | **2019/20** | **2020/21** |
| Programme 1: Administration |  5 524,6 |  5 731,9 |  207,3 | - 34,3 | 3,75% | -0,62% |
| Programme 2: Force employment |  3 620,7 |  3 671,1 |  50,4 | - 104,3 | 1,39%  | -2,88% |
| Programme 3: Landward Defence |  16 527,0 |  17 421,9 |  894,9 |  160,6 | 5,41%  | 0,97% |
| Programme 4: Air Defence |  6 979,6 |  7 405,3 |  425,7 |  113,6 | 6,10%  | 1,63% |
| Programme 5: Maritime Defence |  4 838,5 |  4 915,6 |  77,1 | - 130,1 | 1,59%  | -2,69% |
| Programme 5: Military Health Support |  5 375,3 |  5 656,0 |  280,7 |  42,3 | 5,22%  | 0,79% |
| Programme 7: Defence Intelligence |  1 020,5 |  1 187,5 |  167,0 |  117,0 | 16,36%  | 11,46% |
| Programme 8: General Support |  6 349,5 |  6 449,3 |  99,8 | - 172,0 | 1,57%  | -2,71% |
| **TOTAL** |  **50 235,6** |  **52 438,6** |  **2 203,0** | **- 7,1** | **4,4%**  | **-0,01 %** |

**Table 2: Increase/decrease per programme from 2019/20 to 2020/21**

## **6.2 Key cost drivers for 2020/21**

**Key cost drivers** and other concerns of the DOD 2020/21 budget include the following (in terms of broad economic classifications):

* **Compensation of employees.** Spending on personnel has been an ongoing concern for the DOD in recent years. This will continue to affect the Department in 2020/21, where the allocation for spending on Compensation of Employees increases to R31.178 billion (from R29.194 billion in 2019/20). Over the medium-term, 62.1% of the DOD’s total allocation is set to be spent on personnel costs. This figure is significantly out of line with the envisaged spending of 40% on personnel as per the 2015 Defence Review. It also leaves little funds available for operations and capital acquisition.
* **Property payments.** The allocation for spending on property payments increases by more than R200 million from R1.607 billion in 2019/20 to R1.809 billion in 2020/21. Over the MTEF, spending on property payments will increase by 7.5%.
* **Contractors.** The allocation for spending on contractors increases from R2.126 billion in 2019/20 to R2.229 billion in 2020/21. Despite this increase, spending on this item is set to decline by 0.3% over the MTEF
* **Capital acquisition.** Similar to 2019/20, only R1.8 million is allocated for spending on specialised military assets in 2020/21. More significantly, transfers to *Departmental Agencies and Accounts* (that largely consist of transfers to the Special Defence Account (SDA) is set to decrease significantly over the MTEF from R5.377 billion in 2020/21 to R1.432 billion in 2022/23. This may have a lasting impact on force modernisation and defence capabilities as well as ongoing acquisition projects.
* **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 National Treasury with the lowest ministerial cost of R4.4 million). This trend is set to continue over the MTEF. For 2020/21, the cost of the Ministry is R132.3 million, which is set to grow by 2.2% over the MTEF to R146.9 million in 2022/23.

While the DOD’s main cost drivers are noted above, National Treasury outlines a number of expenditure focus areas that may be of interest to Members of the PCODMV:

* **Bringing about sustainability in the DOD:**

Over the medium-term, the DOD is expected to make the following savings:

* **R209.8 million** by conducting its own internal maintenance through the Defence Works Formation.
* **R3 billion** through the sale and leasing of redundant assets and equipment.
* **R1.9 billion** through reimbursements from the United Nations.
* **Focus on border safeguarding:**

An additional R225 million will be allocated to the DOD over the MTEF for the introduction of additional technology on the borders to enhance border safeguarding. (Member should note that this is in line with the response from the National Treasury to the PCODMV’s BRR Report of 2019 requesting additional funds to expand the number of sub-units deployed on the borders from 15 to 22).

* **Participating in peacekeeping:**

Over the medium-term, R3.5 billion is allocated to the Force Employment programme to ensure compliance with peacekeeping commitments.

* **Internal operations:**

Over the medium-term, R48.5 million is allocated for the SANDF’s participation in internal operations such as disaster relief, search and rescue and assistance to the SA Police Service (SAPS).

# 7. National Treasury feedback to the PCoDMV

In October 2019, following its engagement with the DOD on the 2018/19 Annual Report, the PCODMV made specific recommendations to National Treasury. The responses to these recommendations are essential to consider in the light of the 2020/21 budget. The following recommendations were responded to:

**Committee recommendation 1:**

The Committee recommends that the National Treasury should not lower the Department of Defence’s baseline budget allocation in nominal terms over the MTEF period. This relates to all outlying years of the MTEF and specifically to 2021/22 where the budget is set to decrease from R52.5 billion in 2020/21 to R50.9 billion in 2021/22.

**Response from National Treasury 1:**

The Department of Defence has an allocation of R52.4 billion in 2020/21, R50.8 billion in 2021/22 and R53 billion in 2022/23. In nominal terms, the 2020 MTEF allocations of the Department are comparable to the 2019 MTEF allocations.

**Committee recommendation 2:**

The Committee urges the National Treasury to provide additional funds specifically for the purpose of border safeguarding. The Committee recommends that the number of sub-units be increased incrementally over the MTEF period with the aim of having 22 sub-units deployed for landward borderline duties by the end of the MTEF period. Additional funds should also include an allocation for the use of technology as a force multiplier for border safeguarding purposes.

**Response from National Treasury 2:**

Border security remains a priority for government. The National Treasury has allocated an additional R225 million to the Department of Defence over the medium term to procure equipment and technology to support military units deployed to safeguard our borders.

**Committee recommendation 3:**

The Committee urges immediate engagement between the Minister of Defence, the Minister of Finance and the Commander in Chief of the South African National Defence Force, to finalise a funding plan that will arrest the current decline of the military. This recommendation is derived from the dire financial and resource situation shared with the Committee by especially the South African Army, the South African Air Force and the South African Navy during its recent oversight engagements. The finalised plan should be presented to the Committee no later than the end of the first quarter of 2020/21.

**Response from National Treasury 3:**

The National Treasury agrees that the funding challenges of the Department of Defence should be discussed. The Department is arranging a meeting with the President, the Minister of Finance, the Minister of Public Service and Administration, and the Minister of Defence and Military Veterans to address the funding challenges.

**Committee recommendation 4:**

The Committee noted comments by the Department of Defence that savings to compensation of employees can be made through a process of force rejuvenation. The Committee therefore recommends a joint approach to force rejuvenation that would see the Department of Defence develop and roll out a rejuvenation plan and the National Treasury provide funding for an exit mechanism to speed up rejuvenation. The National Treasury should, as soon as possible, release funds to facilitate an interim exit mechanism for the remainder of 2019/20. The Department of Defence should finalise rejuvenation plans for full implementation from 2020/21

**Response from National Treasury 4:**

The National Treasury agrees that the Department of Defence should develop a rejuvenation strategy. At a ministerial meeting, it was resolved that the Department would develop and submit a rejuvenation strategy to the National Treasury by May 2019. The Department has not yet submitted the strategy, but is engaging with the National Treasury on a draft. The Department of Defence has yet to implement early retirement without penalties, which was introduced in the 2019 Budget Review as one of the measures to reduce spending on compensation of employees.

# 8. budget and performance analysis per programme

##

## **8.1 Programme 1 (Administration)**

**8.1.1 Programme 1 Budget Analysis**

The Administration programme received a nominal increase of R207.3 million from R5.525 billion in 2019/20 to R5.732 billion in 2020/21. However, this increase translates to a real percentage decrease of 0.62% when adjusted for inflation. The largest decrease in real terms is for Subprogramme 8 (Acquisition Services), with a 17.23% reduction. Subprogramme 1 (Ministry) also received a real percentage decrease of 8.11% in its allocation. All other subprogrammes received marginal real percentage decreases no larger than 2.5%. The only exception in Programme 1 is Subprogramme 14 (Office Accommodation), that received an additional allocation of R139.4 million, translating to a real increase of 1.05%.

In terms of economic classifications, allocations remained fairly static with marginal nominal increases. However, the following aspects can be noted:

* *Advertising.* Although the allocation for advertising increased only marginally from R89.2 million in 2019/20 to R89.9 million in 2020/21, this comes off a major increase from R76.0 million in 2018/19. This need for elevated spending on advertising in light of the DOD’s limited recruitment capacity and financial constraints can be questioned.
* *Operating leases* increases from R1.529 billion in 2019/20 to R1.615 billion in 2020/21.
* *Property payments* increases only marginally from R1.127 billion in 2019/20 to R1.184 billion in 2020/21. However, this comes off a major increase from R976.5 million in 2018/19. It brings into question the DOD’s ability to negotiate favourable annual lease increases and specifically the 2018/19 increase should be questioned.

| **Programme** | **Budget** | **Nominal Increase / Decrease in 2020/21** | **Real Increase / Decrease in 2020/21** | **Nominal Percent change in 2020/21** | **Real Percent change in 2020/21** |
| --- | --- | --- | --- | --- | --- |
| **R million** | **2019/20** | **2020/21** |
| Sub-programme 1: Ministry |  137,8 |  132,2 | - 5,6 | - 11,2 | -4,06% | -8,11% |
| Sub-programme 2: Departmental Direction |  51,9 |  53,4 |  1,5 | - 0,8 | 2,89% | -1,45% |
| Sub-programme 3: Policy and Planning |  123,4 |  127,6 |  4,2 | - 1,2 | 3,40% | -0,95% |
| Sub-programme 4: Financial Services |  435,6 |  447,6 |  12,0 | - 6,9 | 2,75% | -1,58% |
| Sub-programme 5: Human Resources Support Services |  958,8 |  998,8 |  40,0 | - 2,1 | 4,17% | -0,22% |
| Sub-programme 6: Legal Services |  364,2 |  371,6 |  7,4 | - 8,3 | 2,03% | -2,27% |
| Sub-programme 7: Inspection and Audit Services |  154,6 |  158,3 |  3,7 | - 3,0 | 2,39% | -1,92% |
| Sub-programme 8: Acquisition Services |  89,8 |  77,6 | - 12,2 | - 15,5 | -13,59% | -17,23% |
| Sub-programme 9: Communications Services |  129,9 |  132,7 |  2,8 | - 2,8 | 2,16% | -2,15% |
| Sub-programme 10: SANDF Command and Control |  185,8 |  191,6 |  5,8 | - 2,3 | 3,12% | -1,22% |
| Sub-programme 11: Religious Services |  20,1 |  20,8 |  0,7 | - 0,2 | 3,48% | -0,88% |
| Sub-programme 12: Defence Reserve Direction |  35,0 |  36,5 |  1,5 |  0,0 | 4,29% | -0,11% |
| Sub-programme 13: Defence Foreign Relations |  303,3 |  309,0 |  5,7 | - 7,3 | 1,88% | -2,41% |
| Sub-programme 14: Office Accommodation |  2 534,7 |  2 674,1 |  139,4 |  26,7 | 5,50% | 1,05% |
| **TOTAL** |  **5 524,6** |  **5 731,9** |  **207,3** | **- 34,3** | **3,8%** | **-0,62%** |

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

**8.1.2 Programme 1 Performance Planning**

There has been a significant reduction in the number of targets for Programme 1. While historically this programme had in excess of 60 targets, these were reduced to only *eight targets in 2020/21*. The Department should be commended for this as it will simplify oversight. The targets are aligned with envisaged DOD outputs. In order to familiarise Members with the various targets, all eight targets are captured in the table below.

|  |  |  |  |
| --- | --- | --- | --- |
| **DOD Output** | **Indicator** | **2019/20 Target** | **2020/21 Target** |
| Defence Strategic Direction | % Adherence to DOD Master Record Index for Policies | 40% | **80%** |
| % Adherence to DOD Master Record Index for Strategies | 50% | **50%** |
| % Adherence to DOD Master Record Index for Plans | New indicator | **90%** |
| Number of Reserve Force man days | 2 693 048 | **2 695 963** |
| Reduction in number of audit qualifications | 0 | **5** |
| Percentage of audits completed i.t.o approved audit plan | 100% | **100%** |
| Defence Capabilities Prepared | % Compliance with SANDF battle fitness requirement | Classified | **Classified** |
| Defence Capabilities provided | Number of Defence Attaché Offices  | 44 | **44** |

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

## **8.2 Programme 2 (Force Employment)**

**8.2.1 Programme 2 Budget Analysis**

The allocation for the Force Employment programme increased only marginally by R50.4 million, resulting in a real percentage decrease of 2.88%. This can largely be attributed to a decrease in the allocation to Subprogramme 4 (Regional Security) that received a 7.6% reduction in real terms. This is of importance as it relates to the SANDF’s deployment as part of the UN mission in the DRC as well as the SA Navy’s patrols in the Mozambican channel. This signifies an ongoing decrease in allocation since 2016/17. In contrast, the Strategic Direction Subprogramme received an increased allocation of R9.4 million (4.9% in real terms). This Subprogramme refers largely to the administrative and policy management of Programme 2 (Force Employment).

In terms of economic classifications, all changes in terms of expenditure for 2020/21 remained marginal when compared to 2019/20. The only noteworthy increase relates to *Fleet Services* that increases from R46.6 million to R65.7 million (Members may note that this increase comes off a low base as Fleet Services received allocations of less than R27 million in the last four financial years (since 2016/17). The following noteworthy decreases can be noted:

* *Contractors* decreases from R346.6 million in 2019/20 to R286.6 million in 2020/21
* *Travel and subsistence* decreases from R227.8 million in 2019/20 to R169.3 million in 2020/21.

| **Programme** | **Budget** | **Nominal Increase / Decrease in 2020/21** | **Real Increase / Decrease in 2020/21** | **Nominal Percent change in 2020/21** | **Real Percent change in 2020/21** |
| --- | --- | --- | --- | --- | --- |
| **R million** | **2019/20** | **2020/21** |
| Sub-programme 1: Strategic Direction |  191,3 |  209,5 |  18,2 |  9,4 | 9,51% | 4,90% |
| Sub-programme 2: Operational Direction |  378,2 |  400,1 |  21,9 |  5,0 | 5,79% | 1,33% |
| Sub-programme 3: Special Operations |  936,4 |  954,5 |  18,1 | - 22,1 | 1,93% | -2,36% |
| Sub-programme 4: Regional Security |  1 021,2 |  985,1 | - 36,1 | - 77,6 | -3,54% | -7,60% |
| Sub-programme 5: Support to the people |  1 093,6 |  1 122,0 |  28,4 | - 18,9 | 2,60% | -1,73% |
| **TOTAL** |  **3 620,7** |  **3 671,1** |  **50,4** | **- 104,3** | **1,4%** | **-2,88%** |

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

**8.2.2 Programme 2 Performance Planning**

The Force Employment Programme has 11 set targets for 2019/20 of which five are not elaborated on due to the information being classified. The targets for 2020/21 are in line with previous years, except for the addition of a target related to the percentage combat-ready capabilities available to the SANDF (classified). All targets set for 2020/21 are in line with performance in the preceding years. The target set for the number of joint, interdepartmental exercises is five. This target has not been achieved in recent years due to budgetary and other constraints. Given the demands on the DOD with the outbreak of the Covid-19 pandemic, it is unlikely to achieve this target in 2020/21.

The DOD should be commended for de-classifying the target related to the percentage reimbursement received from the UN or AU for external missions. However, the classification of other targets is (in some instances) questionable, specifically where information was previously released and is now deemed ‘classified’. These classified targets for 2020/21 include:

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

## **8.3 Programme 3 (Landward Defence**

**8.3.1 Programme 3 Budget Analysis**

The Landward Defence programme is the largest programme in the DOD and includes the SA Army with a personnel component of 38 547 in 2020/21. For 2020/21, the programme received only a marginal nominal increase of R161 million, resulting in a real percentage decrease of 0.97%.

While most subprogrammes’ allocations remained relatively stable in real terms, three significant increases at subprogramme level can be noted. The *Artillery* allocation received an additional allocation of R154.3 million in 2020/21, resulting in a 16.36% increase in real terms. The *Strategic Direction* subprogramme received an 11.13% increase in real terms when compared to 2019/20. This subprogramme relates to the control component of the SA Army (a largely administrative function). Finally, the *Air Defence Artillery Capability* received a real percentage increase of 7.49% for 2020/21.

In terms of economic classifications, the following increases and decreases from 2019/20 to 2020/21 can be noted:

* The allocation for *Compensation of Employees* increases from R12.572 billion to R13.178 billion. Over the medium-term, this expenditure item is set to increase by 6.2%. The SA Army is the largest personnel component of the SANDF and thus heavily affected by Compensation of Employees.
* The allocation for *Food and Food supplies* increases from R652.2 million to R742.9 million. This item is expected to rise by 15.2% over the medium-term.
* The allocation for *Travel and subsistence* increases from R342 million to R439.1 million, but is expected to again decrease in the outlying years of the MTEF.
* The allocation for *fuel, oil and gas* decreases from R244.2 million to R138.2 million. This item is expected to decrease by 14.8% over the medium-term.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | **Nominal Increase / Decrease in 2020/21** | **Real Increase / Decrease in 2020/21** | **Nominal Percent change in 2020/21** | **Real Percent change in 2020/21** |
| **R million** | **2019/20** | **2020/21** |
| Sub-programme 1: Strategic Direction |  395,1 |  458,4 |  63,3 |  44,0 | 16,02% | 11,13% |
| Sub-programme 2: Infantry Capability |  6 357,4 |  6 739,5 |  382,1 |  98,1 | 6,01% | 1,54% |
| Sub-programme 3: Armour Capability |  497,0 |  511,4 |  14,4 | - 7,2 | 2,90% | -1,44% |
| Sub-programme 4: Artillery Capability |  718,5 |  872,8 |  154,3 |  117,5 | 21,48% | 16,36% |
| Sub-programme 5: Air Defence Artillery Capability |  494,3 |  554,7 |  60,4 |  37,0 | 12,22% | 7,49% |
| Sub-programme 6: Engineering Capability |  814,0 |  858,3 |  44,3 |  8,1 | 5,44% | 1,00% |
| Sub-programme 7: Operational Intelligence |  246,4 |  252,7 |  6,3 | - 4,4 | 2,56% | -1,77% |
| Sub-programme 8: Command and Control Capability |  235,1 |  240,0 |  4,9 | - 5,2 | 2,08% | -2,22% |
| Sub-programme 9: Support Capability |  4 816,4 |  4 921,4 |  105,0 | - 102,4 | 2,18% | -2,13% |
| Sub-programme 10: General Training Capability |  544,6 |  558,5 |  13,9 | - 9,6 | 2,55% | -1,77% |
| Sub-programme 11: Signal Capability |  1 408,1 |  1 454,0 |  45,9 | - 15,4 | 3,26% | -1,09% |
| **TOTAL** |  **16 527,0** |  **17 421,9** |  **894,9** |  **160,6** | **5,4%** | **0,97%** |

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

**8.3.2 Programme 3 Performance Planning**

Four performance targets were set for the Landward Defence Programme for 2020/21. This includes one new indicator related to the percentage combat ready capabilities available to the SANDF. This new indicator, as well as a recurring target related to Joint Force employment requirements, remain classified. Targets set for 2020/21 remain in line with the preceding year. The target “Percentage compliance with DOD Training targets” is 80%. This may be impacted negatively due to the SA Army’s deployment requirements during the Covid-19 pandemic. Similarly, it is uncertain whether the number of training exercises will be completed due to increased operational demands.

## **8.4 Programme 4 (Air Defence)**

**8.4.1 Programme 4 Budget Analysis**

The Air Defence programme has taken significant strain in recent years in terms of its budget allocation. However, the 2020/21 allocation sees its allocation increased again to levels in line with 2015/16 allocations. The R7.405 million allocated for 2020/21 represents an increase of R425.6 million in nominal terms, which translates to an increase of 1.63% when adjusted for inflation. A number of major increases/decreases can be observed in terms of the subprogrammes when comparing 2020/19 to the preceding year:

* Subprogramme 7 (Command and Control Capability) received a decreased allocation by R247 million, resulting in a real percentage decrease of 31.26%.
* Subprogramme 2 (Operational Direction) relates to the SA Air Force Command and received a real percentage reduction of 24.18%.
* Subprogramme 8 (Base Support Capability) received an additional R474.4 million, resulting in an increased allocation of 21.55% in real terms.
* Subprogramme 5 (Air Combat Capability) received an additional R144.6 million, resulting in an increased allocation of 14.84% in real terms.
* Subprogramme 3 (Helicopter Capability) received an additional R117 million, resulting in an increased allocation of 11.74% in real terms.

*From the above programme restructuring, it would seem that the SA Air Force is restructuring its expenditure in such a way that funds are flowing to its core capabilities and away from administrative capabilities. This fact should be interrogated by the PCODMV and, if found to be the case, the DOD can be commended for such a shift.*

In terms of economic classifications, the following increases and decreases from 2019/20 to 2020/21 can be noted:

* The allocation for *Contractors* increases from R1.047 billion to R1.251 billion.
* The allocation for *Food and food supplies* increases from R15.9 million to R100.1 million.
* The allocation for *Fuel, oil and gas* increases from R208.6 million to R272.9 million.
* The allocation for *Departmental agencies and accounts* decreases from R1.257 billion to R1.049 billion.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | **Nominal Increase / Decrease in 2020/21** | **Real Increase / Decrease in 2020/21** | **Nominal Percent change in 2020/21** | **Real Percent change in 2020/21** |
| **R million** | **2019/20** | **2020/21** |
| Sub-programme 1: Strategic Direction |  32,0 |  31,8 | - 0,2 | - 1,5 | -0,62% | -4,81% |
| Sub-programme 2: Operational Direction |  189,0 |  149,6 | - 39,4 | - 45,7 | -20,85% | -24,18% |
| Sub-programme 3: Helicopter Capability |  702,3 |  819,3 |  117,0 |  82,5 | 16,66% | 11,74% |
| Sub-programme 4: Transport and Maritime Capability |  1 156,0 |  1 071,4 | - 84,6 | - 129,8 | -7,32% | -11,22% |
| Sub-programme 5: Air Combat Capability |  726,7 |  871,3 |  144,6 |  107,9 | 19,90% | 14,84% |
| Sub-programme 6: Operational Support and Intelligence Capability |  370,1 |  418,0 |  47,9 |  30,3 | 12,94% | 8,18% |
| Sub-programme 7: Command and Control Capability |  876,6 |  629,1 | - 247,5 | - 274,0 | -28,23% | -31,26% |
| Sub-programme 8: Base Support Capability |  1 763,8 |  2 238,2 |  474,4 |  380,1 | 26,90% | 21,55% |
| Sub-programme 9: Command Post |  73,7 |  74,6 |  0,9 | - 2,2 | 1,22% | -3,04% |
| Sub-programme 10: Training Capability |  509,1 |  522,7 |  13,6 | - 8,4 | 2,67% | -1,66% |
| Sub-programme 11: Technical Support Services |  580,3 |  579,2 | - 1,1 | - 25,5 | -0,19% | -4,40% |
| **TOTAL** |  **6 979,6** |  **7 405,2** |  **425,6** |  **113,5** | **6,1%** | **1,63%** |

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

**8.4.2 Programme 4 Performance Planning**

The number of targets for this programme increased from four to five. The new target in line similar with the Landward Defence Programme, is ‘the percentage combat-ready capabilities available to the SANDF’. The target is classified. Similarly, the target related to force employment requirements remains classified. The percentage compliance with DOD training targets for 2020/21 (80%) remains the same as in previous years. The number of training opportunities for the year is 687. It should be noted, however, that this reflects a continuous decline in targets from 2014/15 when training targets were as high as 3 662. Finally, the target on flying hours for the year is set for 17 100. This may, however, be impacted by the additional flight requirements as part of the SANDF’s participation in deployments to curb the Covid-19 pandemic.

## **8.5 Programme 5 (Maritime Defence)**

**8.5.1 Programme 5 Budget Analysis**

Since 2016/17, the overall allocation to the Maritime Defence programme has remained relatively constant. However, the allocation for 2020/21 only increased by R77 million, resulting in a real percentage decrease of 2.68% when adjusted for inflation. Only the Maritime Human Resources and Training Capability as well as the Maritime Direction subprogrammes received increases, with the latter receiving an 11.23% increase in real terms. The Base Support Capability subprogramme received the largest reduction of 9.62% in real terms while the Maritime Combat Capability subprogramme received a real percentage reduction of 5.97%.

In terms of economic classifications, the following increases and decreases from 2019/20 to 2020/21 can be noted:

* The allocation for *Fuel, oil and gas* decreases from R97.5 million to R45.4 million. However, in 2021/22, it is set to increase exponentially to R214.2 million.
* The allocation for *Other supplies* increases from R94 million to R196.4 million.
* The allocation for *Operating payments* increases from R51.6 million to R81.2 million.
* The allocation for *Departmental agencies and accounts* decreases from R1.187 billion to R979.9 million.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | **Nominal Increase / Decrease in 2020/21** | **Real Increase / Decrease in 2020/21** | **Nominal Percent change in 2020/21** | **Real Percent change in 2020/21** |
| **R million** | **2019/20** | **2020/21** |
| Sub-programme 1: Maritime Direction |  594,9 |  690,8 |  95,9 |  66,8 | 16,12% | 11,23% |
| Sub-programme 2: Maritime Combat Capability |  1 770,2 |  1 737,7 | - 32,5 | - 105,7 | -1,84% | -5,97% |
| Sub-programme 3: Maritime Logistics support Capability |  1 184,2 |  1 198,5 |  14,3 | - 36,2 | 1,21% | -3,06% |
| Sub-programme 4: Maritime HR and Training Capability |  570,1 |  610,2 |  40,1 |  14,4 | 7,03% | 2,52% |
| Sub-programme 5: Base Support Capability |  719,1 |  678,5 | - 40,6 | - 69,2 | -5,65% | -9,62% |
| **TOTAL** |  **4 838,5** |  **4 915,8** |  **77,3** | **- 129,9** | **1,6 %** | **-2,68%** |

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

**8.5.2 Programme 5 Performance Planning**

Two new performance indicators were introduced for the medium-term. First, in line with other programmes, a target was included related to the ‘percentage combat-ready capabilities available to the SANDF’. This target is classified. Second, a target was introduced related to the ‘number of maritime coastal patrols conducted per year’. Four coastal patrols are planned for 2020/21. The remaining targets relate to the number of training exercises, unique maritime exercises and the number of sea hours. The latter remain at 10 000 for 2020/21, although no more than 8 131 have been achieved annually since 2016/17.

## **8.6 Programme 6 (Military Health Support)**

**8.6.1 Programme 6 Budget Analysis**

The Military Health Support programme received an additional R280.7 million in 2020/21, bringing its total allocation to R5.656 billion. This reflects a marginal increase of 0.79% in real terms. Two subprogrammes were the major beneficiaries of this increase. Firstly, the *Specialist Health Services* subprogramme received a 9.12% increase in real terms in 2020/21 compared to the previous year. Secondly, the *Strategic Direction* subprogramme also saw its allocation increase by 6.17% in real terms over this period. In contrast, the *Military Health Maintenance* subprogramme received a 24.33% decrease in real terms.

In terms of economic classifications, several changes from 2019/20 to 2020/21 can be noted:

* The allocation for *Agency and support/outsourced services* decreases from R428.2 million to R261.7 million. This is set to rise again to about R400 million per year in the outlying MTEF years.
* The allocation for *Food and Food supplies* increases from R65.6 million to R122.2 million before decreasing again in the outlying MTEF years.
* *Travel and subsistence* increases from R91.3 million to R107.6 million.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | **Nominal Increase / Decrease in 2020/21** | **Real Increase / Decrease in 2020/21** | **Nominal Percent change in 2020/21** | **Real Percent change in 2020/21** |
| **R million** | **2019/20** | **2020/21** |
| Sub-programme 1: Strategic Direction |  206,7 |  229,1 |  22,4 |  12,7 | 10,84% | 6,17% |
| Sub-programme 2: Mobile Military Health Support |  260,5 |  270,3 |  9,8 | - 1,6 | 3,76% | -0,61% |
| Sub-programme 3: Area Military Health Support |  1 956,1 |  1 941,4 | - 14,7 | - 96,5 | -0,75% | -4,93% |
| Sub-programme 4:Specialist Health Services |  2 049,4 |  2 334,8 |  285,4 |  187,0 | 13,93% | 9,12% |
| Sub-programme 5: Military Health Product Support |  302,5 |  320,5 |  18,0 |  4,5 | 5,95% | 1,49% |
| Sub-programme 6: Military Health Maintenance |  221,4 |  174,9 | - 46,5 | - 53,9 | -21,00% | -24,33% |
| Sub-programme 7: Military Health Training Capability |  378,7 |  384,9 |  6,2 | - 10,0 | 1,64% | -2,65% |
| **TOTAL** |  **5 375,3** |  **5 656,0** |  **280,7** |  **42,3** | **5,2%** | **0,79%** |

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

**8.6.2 Programme 6 Performance Planning**

Only four targets were set for Programme 6, which is a reduction from the six targets set in, for example, 2018/19. Of specific concern is the fact that three of the four targets indicated in the medium term are considered classified. Only the target related to training is not classified (80% compliance with the set target for 2020/21). Classified targets include:

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

The classification of the latter target was highlighted as a major point of concern by MPs in the Fifth Parliament. If information is available, this is something that can be tracked by Parliament, thus preventing concerns when urgent need arises (as is evident when the medical system comes under pressure such as with the Covid-19 pandemic).

## **8.7 Programme 7 (Defence Intelligence)**

**8.7.1 Programme 7 Budget Analysis**

The allocation for Defence Intelligence in 2020/21 reflects a significant increase given its relatively small size as a programme. An additional R167 million was allocated to the programme, resulting in a real percentage increase of 11.46%. The major beneficiary is subprogramme 1 (Operations) that received a real percentage increase of 15.67%. In terms of the economic classifications, *Fleet Services* shows an increase from a historically low base of only R400 000 to R6 million in 2020/21. It is set to remain at this level over the MTEF. Property payments also increase from R900 000 in 2019/20 to R3.9 million in 2020/21.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | **Nominal Increase / Decrease in 2020/21** | **Real Increase / Decrease in 2020/21** | **Nominal Percent change in 2020/21** | **Real Percent change in** **2020/21** |
| **R million** | **2019/20** | **2020/21** |
| Sub-programme 1: Operations |  542,5 |  655,1 |  112,6 |  85,0 | 20,76% | 15,67% |
| Sub-programme 2: DI Support Services |  477,9 |  532,4 |  54,5 |  32,1 | 11,40% | 6,71% |
| **TOTAL** |  **1 020,5** |  **1 187,5** |  **167,0** |  **117,0** | **16,4%** | **11,46%** |

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

**8.7.2 Programme 7 Performance Planning**

In line with the previous year, only two performance targets are indicated for Programme 7, as follows:

* Number of vetting decisions taken (4 500 for 2020/21)
* Number of Defence Intelligence Products (448 for 2020/21)

## **8.8 Programme 8 (General Support)**

**8.8.1 Programme 8 Budget Analysis**

The General Support programme received a limited additional allocation of R99.8 million for 2020/21 compared to the previous year. This translates to a real percentage reduction of 2.71% when inflation is factored in. This reduction follows a similar real percentage reduction of 2.36% during the 2019/20 allocations. All subprogrammes received marginal reduction in allocation in real terms, except for the Technology Development subprogramme that saw its allocation reduced by 8.22% in real terms.

In terms of economic classifications, the following increases and decreases from 2019/20 to 2020/21 can be noted:

* The allocation for *Minor assets* increases from R50 million to R96.8 million.
* The allocation for *Property payments* increases from R252 million to R341.7 million.
* The allocation for *Software and intangible assets* decreases from R146.1 million to R42.6 million. This decreases further to only R400 000 per year for the two outlying MTEF years.

It should further be noted that refurbishing and maintenance work by the Defence Works Formation (DWF) are also funded under the General Support programme. Given the statement by the National Treasury that expected savings of R209.8 million are expected over the medium term due to the work of the DWF, further clarity should be sought as to how this process will be managed.

| **Programme** | **Budget** | **Nominal Increase / Decrease in 2020/21** | **Real Increase / Decrease in 2020/21** | **Nominal Percent change in 2020/21** | **Real Percent change in** **2020/21** |
| --- | --- | --- | --- | --- | --- |
| **R million** | **2019/20** | **2020/21** |
| Sub-programme 1: Joint Logistics Services |  2 905,5 |  2 954,8 |  49,3 | - 75,2 | 1,70% | -2,59% |
| Sub-programme 2: Command and Maintenance Information Systems |  1 048,0 |  1 053,1 |  5,1 | - 39,3 | 0,49% | -3,75% |
| Sub-programme 3: Military Police |  704,6 |  728,2 |  23,6 | - 7,1 | 3,35% | -1,01% |
| Sub-programme 4: Technology Development |  487,7 |  467,3 | - 20,4 | - 40,1 | -4,18% | -8,22% |
|  Sub-programme 5: Departmental Support |  1 203,7 |  1 245,9 |  42,2 | - 10,3 | 3,51% | -0,86% |
| **TOTAL** |  **6 349,5** |  **6 449,3** |  **99,8** | **- 172,0** | **1,6%** | **-2,71%** |

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

**8.8.2 Programme 8 Performance Planning**

The number of performance indicators used to track performance in Programme 8 remain at six for 2020/21. One new target was introduced, relating to the ‘percentage compliance to the DOD ICT Capability Plan’ (this replaced a target related to the utilisation of DOD endowment property). Targets set for 2020/21, include the following:

| **Performance Indicator** | **Audited Outcome** | **Estimated Performance** | **Estimated Performance** |
| --- | --- | --- | --- |
| **2018/19** | **2019/20** | **2020/21** |
| Percentage procurement requests fully completed within 90 days from registration | 99.75% | 95% | 95% |
| Percentage expenditure in accordance with facilities plan | 94.31% | 100% | 100% |
| Percentage compliance with DOD ICT Plan | New | New | 100% |
| Number of crime prevention operations | 178 | 124 | 124 |
| Percentage criminal cases investigated (backlog) | 87% | 40% | 40% |
| Percentage criminal cases investigated (in-year) | 30.8% | 25% | 25% |

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

**9. COMMITTEE OBSERVATIONS**

During deliberations with the DOD on 5 May 2020, Members of the PCODMV made several observations related to the budgetary allocation, the performance indicators and the targets set in the Strategic Plan and the APP. The following were noted:

* Members expressed their gratitude for the ongoing SANDF efforts to combat the spread of Covid-19 pandemic in South Africa. It urged senior commanders to ensure that soldiers remain well protected in the execution of their tasks.
* Members expressed the need to consider the long-term performance of the DOD, specifically given that many concerns raised by institutions like the Defence Force Service Commission remain.
* Members reiterated the need for the DOD to ensure that it maximises its reimbursement from the United Nations for its participation in peacekeeping operations in the Democratic Republic of the Congo. Similarly, the Committee highlighted the need for the SANDF to be reimbursed by other state departments where services are rendered.
* The Committee welcomed the announcement that additional funds have been allocated to boost technological means for border security. However, the Committee remains concerned about the ongoing challenges to optimally safeguard our borders.
* The Committee is concerned about statements that Projects Hoefyster and Biro are likely to run into funding difficulties in the medium-term.
* Members raised concerns around the plausibility of fully implementing Milestone 1 of the 2015 Defence Review over the medium term given ongoing financial and related constraints.
* The Committee welcomed the ongoing initiative by the DOD to utilise the Defence Works Formation as a generator for cost-savings.
* Members also welcomed the ministerial initiative to sweat assets as a means of raising additional funds for the SANDF. It noted that this process will be headed by the Chief of Logistics, but cautioned that this should be done in a responsible manner to ensure maximum benefit for the SANDF.
* Members expressed serious concern over the potential for irregular expenditure related to the inability of the DOD to bring personnel expenditure within the Compensation of Employees ceiling, as directed by National Treasury.
* The Committee expressed concern around the high cost of the Ministry sub-programme, which was found to be the highest amongst Ministries with R137.7 million in 2019/20.
* Members raised concern around the continuous funding difficulties and the impact this will have on the midlife upgrades of essential equipment including primary SA Navy and SA Aircraft platforms.
* The Committee noted that one of the Executive Authority’s Focus areas, is to “maintain prime mission equipment at a set level” and enquired what exactly this entails.
* The Department is experiencing continuous funding difficulties and the Committee wanted to know whether the DOD has any austerity measures to assist to address these challenges.

**10. RECOMMENDATIONS**

The PCODMV identified the following areas that will be subject to monitoring by the Committee throughout the 2020/21 financial year:

* The Committee urges the DOD to ensure that all SANDF personnel deployed to assist other state departments in the fight against Covid-19 be well prepared and issued with the relevant protective gear. The DOD is further urged to ensure that regular screening and testing of its members occur to prevent the spread of Covid-19 pandemic within the Armed Forces itself.
* The Committee will engage the Defence Force Service Commission on its recurring findings on conditions of service of soldiers and the DOD on progress with the implementation of outstanding recommendations.
* The DOD is urged to ensure that it maximises its reimbursement from the United Nations for participation in peacekeeping regarding the availability and serviceability of especially Prime Mission Equipment. The Departments should, henceforth, include in their quarterly report the percentage of reimbursement received from the UN relevant to expected reimbursement.
* The DOD should include, in its Annual Report, a list of areas in which it assisted other government departments, what the expenditure was in this regard and whether reimbursement for such assistance was received.
* The Committee requests the DOD to update it on a quarterly basis on progress regarding the implementation of technological means to boost border safeguarding. Quarterly progress on the spending of the R225 million allocated by National Treasury for this purpose should also be provided.
* The Committee undertook to continuously engage the DOD on progress regarding Projects Hoefyster, Biro and Hotel.
* The Committee recommends that the DOD should on a regular basis share with it progress made with the implementation of Milestone 1 of the 2015 Defence Review and the challenges in this regard.
* The DOD is encouraged to fast-track the utilisation of the Defence Works Formation as a cost saving mechanism. The Committee recommends that the DOD should provide feedback on the devolution of certain responsibilities from the Department of Public Works to the DOD. Projects and related savings should be reported in the DOD Annual Report.
* The Committee also encourages the Department to fast-track the sweating of assets to ensure maximum benefit for the SANDF. In this regard, the DOD should share with the Committee its detailed plans, once completed, for the sweating of assets.
* The Committee once again urges the DOD to engage National Treasury to find ways to avoid the irregular expenditure on Compensation of Employees, against the background of the rejuvenation plan that the DOD is expected to share with National Treasury. The Department should report on progress in this regard on a quarterly basis.
* The Committee noted reasons for the higher cost of the Ministry sub-programme such as aircraft chartering for the Executive Authority and the Presidential Medical Unit. Notwithstanding the need for such services, the Committee urges the DOD to find ways of reducing the overall cost of the Ministry during the 2020/21 financial year and over the medium term. The Committee will monitor expenditure in this regard on a quarterly basis.
* Despite challenging financial conditions, the Committee urges the DOD to reassess expenditure patterns to potentially shift funds to ensure the continuation of midlife upgrades for key naval and air platforms.
* The Committee requests the DOD to explain, in its next quarterly report to Parliament, what the maintenance of prime mission equipment at a set levels means and whether they have been able to maintain this set level.
* The Department should indicate to the Committee, in its next quarterly report to Parliament, whether it has any austerity measures, whether these have been implemented and if these are successful to address the persistent funding challenges of the Department.

**PART B: DEFENCE ENTITIES**

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered the Strategic Plan 2020 – 2025 and the 2020/21 Annual Performance Plan of the Castle Control Board and the Corporate Plan 2020 – 2021 and budgetary allocation for FY 2020/21 of the Armaments Corporation of South Africa (Armscor) 6 May 2020, 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. THE CCB AND THE COVID 19 PANDEMIC**

The Castle of Good Hope (GCH) is one of the prime visitor’ attractions in South Africa due to it being one of the oldest surviving buildings in South Africa. It therefore attracts visitors from all over the world and given the manner in which the Corona Virus Diseases 2019 (Covid-19) is spread, such visitors may pose a risk of spreading the disease. The South African Government, like nearly all governments across the world, is currently seized with fighting the Covid-19 pandemic. The impact of the pandemic is enormous and traveling has been severely restricted, impacting on the potential visitors to the CGH. As the “*Annual number of tourists/visitors attracted to the Castle*” has a major influence on the revenue generating capability of the CCB, this is a concern especially given the challenges around the *Going concern* status which is closely linked to the financial viability of the CCB.

**3. STRATEGIC PLAN 2020 – 2025**

The Castle Control Board’s Strategic Plan 2020 – 2025 consists of four main parts namely:

Part A: CCB Mandate

Part B: CCB Strategic Focus

Part C: Measuring CCB Performance

Part D: Technical Indicator Descriptions

It also has four annexures dealing with Strategic Technical Indicator Descriptions for the period 2020 – 2025; the CCB’s contribution to the National Development Plan 5 Year implementation Plan (direct); the CCB’s contribution to the NDP 5 Year implementation Plan (indirect); and the DOD Result-based plan.

**3.1. PART A: CCB MANDATE**

This section lists the Constitutional mandate as derived from section 238. The legislative mandate is derived from the Castle Management Act (No. 207 of 1993); the Defence Endowment Property and Account Act (No. 33 of 1922); and the National Heritage Resources Act (No. 25 of 1999). It also refers to various sections of the Public Finance Management Act (No 1 of 1999). The CCB is proposing to amend the Castle Management Act (CMA) (No. 207 of 1993); and the Defence Endowment Property and Account Act (No. 33 of 1922).

The Policy Mandates are derived from the following:

* The Integrated Conservation Management Plan (2019)
* White Paper on Defence 1996
* South African Defence Review 2015
* The National Tourism Act (No. 3 of 2012)
* National Heritage and Cultural Tourism Strategy 2012
* National Development Plan Vision 2030 (2011).

It should be noted that the CCB is involved with two court cases with “*Kamers vol Geskenke*” and one with the Castle Military Museum Foundation.

The Annual Performance Plan (APP) similarly refers to the Mandate of the CCB and lists the various relevant constitutional and legislative mandates as well as the Updates on relevant Court rulings in Part A of the 2020 APP.

**3.2 PART B: CCB STRATEGIC FOCUS**

This Part deals with the CCB’s vision, mission, organisational values, situational analysis, external environment analysis, and internal environment analysis. The CCB’s 2020 – 2021 APP similarly covers these aspects in a shorter form in Part B.

**VISION:** The Castle of Good Hope shall be a globally significant, truly accessible centre of excellence that showcases South Africa’s shared heritage.

**MISSION:** The CCB is a service-orientated public entity, striving to create an environment where national pride serves to:

* Build an internationally known and recognised cultural and heritage brand for Ubuntu, dialogue, nation-building and human rights recognition;
* Guarantee the development of a smooth functioning, self-sustaining, “must-see” iconic visitor and learner destination;
* Optimises its tourism potential and accessibility to the public; and
* Preserve and protect its cultural and military heritage by elevating it to the United Nations Educational, Scientific and Cultural Organisation (UNESCO) World Heritage status.

**Organisational Values:** The CCB lists the following ***core values***:

• Service quality and excellence;

• Operate with honesty, integrity and dignity;

• Respect for the diversity in military, cultural and social history;

• Genuine partnerships and collaborative relationships;

• Community engagement and inclusivity; and

• Fiscal responsibility, accountability, transparency and sustainability.

The ***individual values*** are listed as Self-respect, Passion, Professionalism, Compassion for the plight of others, Serving with humility, Respect for cultural diversity, and Confidence.

**3.2.1 Situational analysis**

Provision is made in this part for the evolving external and internal environments that impact on the outcomes of the Castle Control Board. According to them, matters identified are a product of the organisational planning process that has also taken into consideration the MTSF 2020-2025 and other relevant policy documents. The direct engagement between them and the DOD’s Strategic Planning Directorate will ensure alignment, complementarity and unity of purpose.

**3.2.1.1 External Environment Analysis**

Consideration was taken of *inter alia* the economic slowdown, increased unemployment, deepening global and local inequalities, rising fuel prices, rapid climate change, the so-called 4th Industrial Revolution (4IR) and the increased terrorist-activities, the Corona-virus pandemic; all which assist to frame the medium-term strategic thinking and interventions.

***The following dimensions are covered:***

* **Political:** This dimension plays itself out in numerous ways: at the level of heritage management there is the perpetual contestation between social groups who view it as a “*bastion of white civilisation in darkest Africa*”, as to those who perceive it as a “symbol of armed colonial conquest”. These opposing worldviews manifest itself in negative social media, attacks on the organisation and reputational damage. A powerful, unified communications strategy is viewed as an anecdote to deal with this political threat.
* **Economic:** The CCB is almost entirely reliant (98%) on self-generated income from tourism, events and rentals to fund its heritage and educational programmes. Given that the organisation is mostly relying on domestic tourism, the fact that the South African economy set to grow at a meagre 1.2% over the next MTSF, is posing a significant threat to the financial sustainability of this small but vibrant entity.
* **Social:** Referenceis made to aspects such as world population growth and four demographic trends. They also point out the role of the 4th Industrial Revolution; Cyber connectivity and the concept of a global village; trans-national crime syndicates, etc. They state that right amid these social ills the CCB must work out a means to deal with them in a decisive but humane manner.
* **Technological:** Reference is made to the rising international trend of targeting political institutions and processes; the Cyber adversaries and information security professionals and that in 2018, individual members of the organisation gained access to emails and other electronic information and used it to smear the Board’s right name. The State and the Castle Control Board must place cybersecurity as a strategic priority.
* **Legal:** Experiences over the past few years have demonstrated that the Castle Control Board needs to be legal-wise. Although the presence of two legal professionals on the Audit Committee assisted greatly, the frequency of litigation renders the organisation vulnerable.
* **Physical:** The CCBpoints out that extreme weather conditions may occur more often as climate change takes place. Resource scarcity, population growth and climate change may increase the potential for conflict over disputed land and water. The recent drought in the Western Cape demonstrated the impact of climate change on a strategic economic sector such as tourism.

**3.2.1.2 Internal Environment Analysis**

The Strategic Plan as well as the APP refer to one of CCB’s most significant threats being a **going concern** linked to financial sustainability. It complains that it receives no direct financial subsidy from the national fiscus to date (despite legislation permitting the organisation), and that the CCB has been restricted to operate as a relatively small, heritage management agency of the MOD&MV. According to them, any investment would lead to an exponential growth in output in the CCB’s strategic and conventional operations.

* **Human Resources Dimension:** They believe that the organisation has a well-structured, fully functional Board, Audit and Risk Committee and independent Internal Audit function, and states that it now has a fully-fledged civilian staff complement.
* **Human Resources Dimension:** They believe that the organisation has a well-structured, fully functional Board, Audit and Risk Committee and independent Internal Audit function, and states that it now has a fully-fledged civilian staff complement.
* **Financial Dimension:** It claims that the Board does not expect any immediate support from the MOD&MV to its budget allocation. This should be considered against *inter alia* the pressure on government to provide free education, the social grants, national health insurance, and the priorities of the Medium Term Strategic Framework focussing on socio-economic development of the country.
* **Logistical Dimension:** According to them, the management of acquisition and procurement must take place within international and national regulatory framework, including the adherence and compliance with the government Broad-Based Black Economic Empowerment (BBBEE) requirements.
* **Information Technological Dimension:** The Strategic Plan states that in terms of Information, Communication and Technology (ICT) development, the CCB will continue to develop its ICT systems to be aligned to the national requirement. This will be done through the strengthen its ICT policy and plans; and through a MOA and SLA with SITA.

**3.3 PART C: MEASURING CCB PERFORMANCE**

Two note-worthy subsections in this section are the Performance Information and Enterprise Risk Management.

* + 1. **Performance Information**
			1. **Measuring of the CCB Impact Statement**

The Strategic Plan states that over the 2020-2025 MTSF period, the CCB will continue to support the Government’s priorities, the NDP Vision 2030 as well as the NDP 5-year Implementation Plan. They shall ensure that CCB strategies align with the National, Provincial and Local Government Planning Cycle. The NDP mainly focuses on job creation, poverty reduction and the reduction of inequality and the **NDP 5-year Implementation Plan** and government priorities for the 2019 to 2024 MTSF were developed, and the CCB will contribute both directly and indirectly to these.

**3.3.1.2 Measuring of the CCB Outcomes**

The detailed performance Outcomes over the MTSF is provided in the table below. These are the high level, measurable, impactful outcomes. The five Annual Performance Plans (APPs) to be developed over the MTSF shall contain other, secondary outcomes and outcome indicators.

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

**3.3.1.3 CCB Outcomes**

The CCB developed a transversal, administrative objective that is linked to the DOD’s compliance directives, i.e. submission of planning documents, quarterly reports, budgets and annual reports.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Annual Targets** | **Target****FY2020/21** | **Target****FY2021/22** | **Target****FY2022/23** | **Target****FY2023/24** | **Target FY2024/25** | **Desired Outcome** |
| Percentage of CCB accountabilityDocuments submitted i.t.o National Prescripts | **97%** | **98%** | **98%** | **100%** | **100%** | **All commitments met 100%** |
| Status of improved audit opinions | Clean/ Unqualified AuditOpinion  | Clean AuditOpinion | Clean AuditOpinion | Clean AuditOpinion | Clean AuditOpinion | Clean audit status |
| Number of heritage maintenance projects completed | **8** | **8** | **8** | **8** | **8** | **100% projects completed** |
| Annual number of tourists/visitorsattracted to the Castle | **185 000** | **190 000** | **196 000** | **203 000** | **207 000** | **Average annual increase of 5000 visitors** |
| Gross revenue generated throughtourism and events  | **R4.8 million** | **R5 million** | **R5.2 million** | **R5.3 million** | **R5.5 million** | **Average annual increase of 4.2% (R200K)** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **PERFORMANCE INDICATOR**  | **2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** | **2020/21** |
| **Number of tourists attracted per annum** | **154 067** | **155 000**  | **160 000**  | **165 000** | **165 000** | **175 000**  |

***Table 2: CCB Outcome 1***

**3.3.4 CCB Planned Performance over 2020 – 2025 MTSF Period**

In line with the 5 year targets as set out above, the CCB will ***directly contribute*** to the NDP Vision Plan 2030 and the NDP Implementation Plan to the following MTSF Priorities:

* MTSF Priority 1: *“Economic Transformation and Job Creation”*, through sustainable acquisition, local procurement of good and services, events and tourism opportunities.
* MTSF Priority 2: *“Education, Skills and Health”* through the provision of internal and external higher education and skills development opportunities for destitute constituencies (military veterans, women, unemployed youth, rural dwellers, etc.)
* MTSF Priority 4: *“Spatial Integration, Human Settlements and Local Government”*, support women and youth development and economic development in and around the Castle.

***Indirectly*** it will contribute to the following MTSF Priorities:

* MTSF Priority 6: *“A Capable, Ethical and Developmental State”* by ensuring compliance to regulatory frameworks, continuing to fight corruption and fraud through internal control measures, to support other Government departments and its people in the pursuit of South Africa’s developmental agenda.
* MTSF Priority 5: *“Social Cohesion and Safe Communities”*, through its contribution towards alleviating the plight of the military veterans, homeless, Khoisan, transgender and other destitute constituencies in and around the Castle.
* MTSF Priority 7: *“A Better Africa and World”* through Castle Control Board’ participation and hosting of pan-African events at and around the Castle it contributes towards the Southern Africa Development Regional Indicative Strategic Development Plan (RISDP).

**3.3.5** **Castle Control Board Enterprise Risk Management**

The identified CCB Enterprise Risks continue to be subjected to regular monitoring and scrutiny by relevant departmental management forums, oversight and governance structures that include amongst others, the CCB of Directors, Audit and Risk Committee, Internal Audit Unit, Castle Management and the Portfolio Committee of Defence and Military Veterans. Interestingly, the CBB notes that the transversal CCB Enterprise Risks listed may harm the realisation of the departmental outputs of the associated budget programmes during the FY2020/21 MTEF and will be attended to through the application of the noted organisational risk responses. *This is an issue that the Committee will have to monitor over the MTEF.*

|  |  |  |  |
| --- | --- | --- | --- |
| **S/No** | **Outcome** | **Enterprise Risk** | **Risk Mitigation** |
| 1 | Percentage of CCB accountabilitydocuments submitted following National Prescripts. | Non-compliance will severely disrupt the CCB’s internal and external planning processes leading to lack of service delivery, coordination and damage to the entity’s reputation.  | Ensure that compliance and accountability is drilled into the organisational DNA and culture. |
| 2 | Status of improved audit opinions. | Compromised audit opinions can lead to public distrust, partners abandoning the CCB and general loss of morale | By adopting “Operation Clean Audit”, the CCB has taken a non-tolerance towards unfavourable audit outcomes. Slipping from three, uninterrupted consecutive Clean Audit Opinions to an Unqualified one during 2018/19, led to lots of umbrage from the Board.  |
| 3 | Number of all preventative and scheduled heritage maintenance projects completed as per the ICMP  | A dilapidated, unkempt, unsafe, dirty and inaccessible castle is not only a national embarrassment but could also directly lead to adownturn in visitor numbers and revenue.  | The CLog-division has ring-fenced a maintenance fund for the Castle; gardening service provider has been appointed, and the CCB is endeavouring to get an external fence to deal with the security challenges.  |
| 4 | Number of all preventative and scheduled heritage maintenance projects completed as per the ICMP | A dilapidated, unkempt, unsafe, dirty and inaccessible castle is not only a national embarrassment but could also directly lead to a downturn in visitor numbers and revenue.  | Increased marketing and promotional activities, partnerships and imaginativeevents will mitigate this risk.  |
| 5 | Gross revenue generated through tourism and events  | A decline in visitor numbers, events, functions and filming will negatively impact the revenue generation capacity of the CCB. This will directly compromise the financial viability and pose a going concern threat.  | Increased marketing and promotional activities, partnerships and imaginativeevents will mitigate this risk.  |

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

**4. ANNUAL PERFORMANCE PLAN: CCB PROGRAMMES FOR FY2020/21**

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

**4.1 Programme 1: Administration**

|  |  |  |
| --- | --- | --- |
| Output indicators | Annual Target | Quarterly targets with sources of verification noted |
| Q1 | Q2 | Q3 | Q4 |
| Number of corporate governance policies approved per annum | 4 | 1 | 1 | 1 | 1 |
| Percentage of significant prior-year audit findings resolved | 100% | - | - | - | 100% |
| CCB Annual Performance Plan timeously submitted to the Executive Authority | 100% (1) | - | - | - | 100% |
| CCB Annual Report timeously submitted to the Executive Authority | 100% (1) | - | 100% (1) | - | - |
| CCB Quarterly Reports timeously submitted to the Executive Authority and National Treasury | 100% | 100% (1) | 100% (1) | 100% (1) | 100% (1) |
| CCB CEO Performance Agreement timeously submitted to the Executive Authority and National Treasury | 100% (1) | - | 100% (1) | - | - |
| CCB Strategic Plan 2020 – 2025 timeously submitted to the Executive Authority and National Treasury | - | - | - | - | - |

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

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

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

***Table 5: Programme 2 Annual and quarterly targets***

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

|  |  |  |
| --- | --- | --- |
| Output indicators | Annual Target | Quarterly targets with sources of verification noted |
| Q1 | Q2 | Q3 | Q4 |
| The annual number of visitors and touristsattracted to the Castle | 175 000 | 40 000 | 40 000 | 45 000 | 50 000 |
| Gross revenue generated through tourism andEvents | R8.903 m | R 1 500 000 | R 1 750 000 | R 2 700 000 | R 2 953 000 |
| Number of commercial events hosted annuallyat the CGH | 30 | 8 | 7 | 7 | 8 |
| Number of film and fashion shootsaccommodated at the CGH per annum | 15 | 3 | 4 | 4 | 4 |
| Number of tourism infrastructure upgradesCompleted | 2 | - | 1 | - | 1 |
| Number of Joint Marketing Initiativesundertaken per year | 2 | - | 1 | - | 1 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **PERFORMANCE INDICATOR**  | **2016/17** |  | **2018/19** | **2019/20** | **2020/21** |
| ***Gross revenue generated per annum*** | ***R8.2m*** | **2017/18** | ***R7.850m*** | ***R8.359m*** | ***R8.903m*** |

***Table 6: Programme 3 Annual and quarterly targets***

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

|  |  |  |
| --- | --- | --- |
| Output indicators | Annual Target | Quarterly targets with sources of verification noted |
| Q1 | Q2 | Q3 | Q4 |
| The annual number of potential visitorsreached through the media | 60m | 20m | 10m | 10m | 20m |
| Number of student interns hosted at the CGHper annum | 12  | 6 | 2 | 2 | 2 |
| Number of heritage-educational programmesorganised for women, unemployed youth,disabled and traditional communities | 12 | 3 | 3 | 3 | 3 |
| Number of heritage programmes organized forMilitary Veterans | 6 | 2 | 1 | 1 | 2 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **PERFORMANCE INDICATOR**  | **2016/17** | **2017/18** | **2018/19** | **2019/20** | **2020/21** |
| ***Number of student interns hosted per annum*** | ***30****)* | ***30***  | ***15*** | ***30*** | ***20*** |

***Table 7: Programme 4 Annual and quarterly targets***

**5. PROGRAMME RESOURCE CONSIDERATIONS**

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



***Table 8: CCB’s expenditure estimates for FY2020//21 to FY2022/23.***

As can be noted in Table 8, the spending focus over the medium term is to capitalise on the investments of the past MTEF, to maintain the upgraded building, do preventative facilities management, optimise the heritage-tourism potential and increase the accessibility of the CGH to the broader public.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | **Nominal Increase / Decrease in 2020/21** | **Real Increase / Decrease in 2020/21** | **Nominal Percent change in 2020/21** | **Real Percent change in 2020/21** |
| **R million** | **2019/20** | **2020/21** |
| Programme 1: Administration | 7 485.0 | 7 971.0 | 486.0 | 150.1 | 6.49 per cent | 2.00 per cent |
| Programme 2: Conservation Management | 584.0 | 623.0 | 39.0 | 12.7 | 6.68 per cent | 2.18 per cent |
| Programme 3: Tourism Management | 75.0 | 80.0 | 5.0 | 1.6 | 6.67 per cent | 2.17 per cent |
| Programme 4: Public Access | 215.0 | 229.0 | 14.0 | 4.3 | 6.51 per cent | 2.02 per cent |
| **TOTAL** | **8 359.0** | **8 903.0** | **544.0** | **168.8** | **6.5 per cent** | **2.02 per cent** |

***Table 9: Programmes’ nominal and real increases 2019/10 - 2020/21***

Table 9 shows that the overall budget increase of the CCB is 2.02% in real terms, and all four programmes show real increases, which is welcomed. Programme 1 shows the biggest increase with R150 000 in real terms followed by Programme 2 with R39 000 in real terms.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Programme | Budget | Percent of total budget per programme | Budget | Percent of total budget per programme | Change in percent allocation |
| **R million** | 2019/20 | 2020/21 |  |
| Programme 1: Administration | 7 485.0 | 89.54 per cent | 7 971.0 | 89.53 per cent | -0.01 per cent |
| Programme 2: Conservation Management | 584.0 | 6.99 per cent | 623.0 | 7.00 per cent | 0.01 per cent |
| Programme 3: Tourism Management | 75.0 | 0.90 per cent | 80.0 | 0.90 per cent | 0.00 per cent |
| Programme 4: Public Access | 215.0 | 2.57 per cent | 229.0 | 2.57 per cent | 0.00 per cent |
| **TOTAL** | **8 359.0** | **100.00 per cent** | **8 903.0** | **100.00 per cent** | **0.00 per cent** |

***Table 10: Percentages of programmes vs total budget 2019/10 - 2020/21***

Programme 1 remains the largest, comprising 89.54% of the total budget in 2019/20 with a slight decrease to 89.53% in 2021. The other three programmes similarly retain their percentages of the budget over the two years.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2016** | **2017** | **2018** | **2019** |
| **CEO: Remuneration** | 825 869 | 903 476 | 985 920 | 1 040 146 |
| **CEO:**  Performance Bonus | 165 174 | 90 347 | 98 592 | (0) |
| **CFO: Remuneration** | 644 636 | 705 246 | 794 127 | 841 775 |
| **CFO:**  Performance Bonus | 128 927 | 70 524 | 79 413 | (0) |

***Table 11: Remuneration of key management***

**5.1 Programme 1 – Administration.**

This programme has been allocated R7.971 million for 2020/21. The CCB states that it will continue to deliver a comprehensive range of visitor services. All their activities, programmes and strategic interventions will be linked to Outcome 12 namely *“An efficient, effective and development-oriented public service and empowered fair and inclusive citizenship”.*

It states that this is the most significant spending programme and that within this programme, employment cost is the most significant expenditure driver, as there are 18 people employed by the CCB. It is to make provision for a full-time facilities and logistics manager, a facilities management contract and a limited number of full-time maintenance personnel. Without this, the **420-roomed Castle** will fall in disrepair sooner than later. These have been included in the estimates for FY2020/21.

**5.2 Programme 2 – Conservation Management.**

The second biggest expenditure item is the Preservation, Interpretation and Showcasing Programme of the CGH’s Heritage which amounts to R0.623 million for the FY2020/21. Some of their initiatives include an active marketing drive to get more South African learners and locals to visit the CGH, heritage programs and cultural workshops for all South Africa’s cultural and ethnic groups, skills training workshops for **Military Veterans**, interactive heritage displays, expansion of museum displays and the development of the CGH Chapel as a place of worship and reflection.

They are working on their bid to get the CGH listed as a World Heritage Site with the United Nations Educational, Scientific and Cultural Organisation **(UNESCO)**. 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 *“A skilled and capable workforce to support an inclusive growth path”.*

**Programme 3 - Tourism Management**

The expenditure items total R80 000 for FY2020/21, but is crucial to the CCB’s mandate. They 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 organisation’s revenue generation capacity but cut cost and increase productivity. The most significant advantage is the fact that it will limit damage to the renovated spaces caused by the reckless movement of equipment through fragile venues.*

**Programme 4 - Public Access**

For FY2020/21 an allocation of R229 000 has been made for this programme. Most of the expenditure goes to public events such as community workshops, outreach programmes to schools, hosting of special needs groups (such as AIDS orphans, pensioners, abused women and children, etc.), internships and youth programmes.

**6. REVENUE GENERATOIN**

This item has been a contentious one, as it relates to the financial sustainability of the CCB and the resultant questions around its status as a Going Concern. These issues have been raised by both the PCODMV and the Auditor-General, as well as by the CCB themselves. The CCB bemoans the fact that unlike most government departments and agencies, they are not merely a cost centre but a significant revenue generation centre. The Board has completed a Revenue Optimisation Plan and the implementation of the findings thereof will lead to an increase in revenue in the initial phase (2018) by at least R2.5 million per annum. They believe that Revenue Optimisation Plan will assist in realising the full capacity of the site.

It should be noted that these claims were also made in the CCB’s 2018 Annual Performance Plan, and yet little progress has been made, although it has to be acknowledge that they still await the 2019/20 Annual Report.

The Direct Revenue (R5.719 million in 2019) is primarily generated from ticket sales from visitors to the CGH, renting out of venues in the CGH and fees from hosting special events, with no direct financial assistance from the state. This revenue amount excludes the R3.342 million from the donation of assets by the Department of Military Veterans.

According to the CCB, the stagnation in the tourism industry has adversely affected revenue growth and has seen a 6% decrease in revenue from R6.093 million in 2017/18 to R5.719 million in 2018/19. They state that they are highly committed to optimising the income potential of the CGH without compromising its historical and cultural integrity. In this regard, the Board, with the support of the Executive Authority, must implement a few radical interventions in respect of the renting out of space, the CGH attracting a variety of events, the rate card and the pricing of access tickets.

Among the strategies adopted by the Board to increase more revenue is the increase in fees for hosting events at the Castle of Good Hope. The Board considered that the venue rental fees have been unchanged for more than 20 years. The increase will be affected from 2020/21 without causing significant disruptions in the tourism industry. Entrance fees have not been increased.

**7. UPDATED KEY RISKS**

Similar to the Strategic Plan’s Enterprise Risk Management, which list certain enterprise risks and the Mitigation factors, the APP outlines an Updated Key Risks and its mitigation, in conclusion of this section.

***Table 11: Key risks and mitigation strategies***

**8. COMMITTEE OBSERVATIONS**

During deliberations with the CCB on 6 May 2020, Members of the PCODMV made several observations related to the budgetary allocation, the performance indicators and the targets set in the Strategic Plan and the APP of the CCB. The following were noted:

* The Committee took note of the CCB’s view that it is currently a situation “Business Extraordinary-Unusual!” because of the Covid-19 pandemic and even went so far as to state that it has become a “matter of life and death.” The Committee therefore asked the CCB to explain some of the measures it has taken to take the CCB forward.
* Members enquired around the assistance that the CCB is giving to qualifying employees to access the Unemployment Insurance Fund (UIF).
* The Committee enquired about the plans of the CCB if National Treasury does not approve the R1.6 million funding that the CCB has applied for. The Committee also expressed concern whether this amount will be sufficient should the Covid-19 pandemic impact on operations over a longer period.
* Members enquired around the ‘Going concern’ status of the CCB given that the entity was struggling with this issue before the advent of the Covid-19 pandemic.
* The Committee observed that one of the objectives of Programme 4: Public access is the outreach programmes to schools and wanted to know whether especially rural schools are also targeted.

**9. RECOMMENDATIONS**

The PCODMV identified the following areas that will be subject to monitoring by the Committee throughout the 2020/21 financial year:

* The Committee noted the extraordinary circumstances under which the CCB is operating and expressed its appreciation for their efforts to manage a very difficult situation. Some of the measures taken by the CCB include senior management not being paid for April 2020 and that they applied for a R1.6 m relief support package through the DOD from National Treasury. However, given that the request was submitted before the lockdown and the projection was until till August 2020, the Committee believes that an additional R1,7m would be required.
* The Committee appreciated that the CCB could pay employees their full salaries in March 2020. Their lower-end employees received 70% of their salaries in April 2020 and they assisted them to access the Unemployment Insurance Fund (UIF) for the remaining 30% and the maximum amount going forward.To this extent, the CCB completed a Memorandum of Agreement with the UIF regarding claims by their employees from April 2020 onwards.
* The Committee agreed that it will engage the Minister on especially the R1.6m relief support package and future financial assistance to the CCB.
* CCB informed the Committee that it has seized operations in mid-March 2020 and that subsequently all revenue has stopped given that they are reliant on visitors and businesses to utilise their facilities. While noting the CCB’s response that it can only generate revenue and sweat assets once the Castle is open to visitors and businesses, the Committee encouraged the CCB to explore other avenues to generate income to prevent having to lay off employees.
* The Committee recommends that the CCB should enhance its outreach programmes to especially semi-urban and in particular rural based schools to ensure that these outreach programmes are as representative and inclusive as possible.

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

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered the 2020/21 Corporate Plan of the Armaments Corporation of South Africa (Armscor) on 6 May 2020, reports as follows:

1. **1. Introduction**

**1.1 Mandate of** Armaments Corporation of South Africa (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 is to meet the defence technology, research, development, analysis, and test and evaluation requirements of the DOD effectively, efficiently, and economically.

1. **THE impact of the covid-19 pandemic on armscor**

The impact of the Covid-19 pandemic that forced South Africa into lockdown will likely have a significant impact on all State-owned Enterprises (SOE). Armscor is dependent on its revenue from a Government allocation as well as the sale of products and services to international clients. All these revenue streams are likely to come under increased pressure. Armscor is thus likely to face similar problems to many international defence-related companies following Covid-19. Some international analysts have noted that “the effects on the defense industry because of the spread of Covid-19 and related actions to curtail the contagion can the condensed into five major impact points:”

* Production/manufacturing facilities and supply chains could be affected.
* Business development efforts could be affected – some will lose, some may win.
* Demand for defence equipment and related services could go down.
* Companies may have to make tough choices that could impact finances and competencies.
* Stock price declines will bring secondary effects.

With these broad guidelines in mind for the global defence industry, the following specific aspects could impact on Armscor in the aftermath of Covid-19.

* The SANDF is Armscor’sprimary client and is likely to come under increasing financial strain. It is unlikely that large capital acquisition projects will be forthcoming for the SANDF, thus impacting on Armscor’s primary role.
* Revenue generation from products and services to international clients are likely to come under pressure as these clients reprioritise amid financial and other pressures due to Covid-19.
* Revenue gained from Armscor’s state allocation can possibly be affected due to financial constraints to the state as a result of Covid-19 related financial reprioritisation.
1. **strategic focus areas**

**3.1 Environmental scan**

The Armscor 2020 Corporate Plan contains a detailed situational awareness which maps the external and internal environments that affect the corporation. The consideration of these factors are essential to Members of Parliament as it shapes the constraints and conditions under which Armscor will have to operate in the medium-term. Key aspects of this situational awareness that can affect Armscor and its service to the SANDF include the following:

**External environment**

* *Political*: The domestic focus of national security is on Human Security and the growth of South Africa is dependent on peace, stability and economic development on the continent.
* *Economic*: There is increasing fear of economic downturn, with GDP growth continuously revised downwards. This has resulted in delays in the implementation of the National Development Plan (NDP). GDP growth is expected to recover in 2021.
* *Social:* Four aspects will shape future economic and political conditions, namely increased life expectancy; population growth and the youth bulge; migration; and, urbanisation. In addition, the social sphere will be impacted by the Fourth Industrial Revolution and cyber connectivity.
* *Technology:* The SANDF will be required to improve its Information Warfare capability while the Defence industry requires funding and planning to maximise its economic contribution.
* *Physical:* The SANDF could increasingly be required to become involved in humanitarian operations, specifically as a result of climate change.
* *Military:* The military will have to prepare for a deployment environment where the distinction between military and other containment measures become increasingly blurred. Of particular importance in South Africa will be the SANDF’s role in border safeguarding as well as the need for technological means of securing the country’s borders.

**Internal environment**

* *Economic recession:* Slow economic growth will hamper the creation of job opportunities and possibly contribute to conflict from the unemployed youth demographic.
* *Defence budget allocation:* The Defence Force is Armscor’s largest client and its budget allocation is likely to remain constrained. Armscor is assisting the DOD in developing a new Defence Funding Model.
* *Corporate governance accountability:*Armscor will continue to operate and function under good governance principles as per the King IV Report.
* *National cost containing measures:*Armscor will continue to implement cost containment measures as per National Treasury directives.
* *Service delivery improvement:* The Acquisition process and contracting process at Armscor will be improved to better serve the DOD needs.

**3.2 Armscor contribution to national government planning**

With the environmental scan of Section 3.1 in mind, Armscor will seek to contribute to the several Government outcomes as per the NDP and the Medium-Term Strategic Framework (MTSF) (2019-2024).

Armscor contributions to the **NDP**:

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

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

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

**4.1 Overview of 2020/21 income and expenditure**

The following section will compare the 2019 and 2020 Armscor Corporate Plans in terms of projected budgetary aspects.

The projected income for the Armscor Group in 2020/21 (R1.581 billion) is slightly higher than that which was projected for 2019/20 (R1.521 billion). Given the projected increase in income, Armscor is expected to accumulate a net surplus of R700 000. This is in line with the expected financial position at the end of the 2019/20 year which projected a surplus of R200 000 for the Armscor Group. The main increase in cost driver for 2020/21 is (1) Direct Personnel Cost that increases from R1.161 billion in 2019/20 to R1.227 billion in 2020/21 and (2) External Services that increases from R99.0 million to R105.1 million over the same period.

**How is Armscor funded?**

Armscor is largely funded from state finances. In addition, it supplements this income with other commercial projects. In order to lessen the pressure on the fiscus, these projects require expansion to increase Armscor’s economic viability. For 2020/21, Armscor’s planned funding comprises the following:

* Transfer payment: R1.240 billion (R1.187 billion in 2019/20)
* Net sales: R259.1 million (R222 million in 2019/20)
* Other income: R58.7 million (R91.2 million in 2019/20)
* Recoveries: R22.3 million (R20.8 million in 2019/20)

**Additional financial information:**

Armscor has shown progress in returning most of its subsidiaries to profitability in recent years. For 2020/21, it is projected that both Armscor Corporate and the Armscor Dockyard will show a surplus, but that the Research and Development division will show a marginal loss. Projected profit/losses for the 2020/21 financial year per component includes:

* Armscor Corporate: Surplus of R2.4 million
* Research and Development: Loss of R1.9 million
* Armscor Dockyard: Surplus of R0.3 million
* **Armscor Group: Surplus of R700 000**

In terms of the Group Capital Expenditure for 2020/21, a number of requirements are identified in the Corporate Plan. A total of R246.4 million is required for such expenditure in 2020/21, which is a significant increase from the projected expenditure of R163.8 million in 2019/20. The increased expenditure is almost exclusively related to computer software, buildings and capital assets. Key capital expenditure for the year includes the following:

* Office Equipment: R2.510 million (R3.518 million in 2019/20)
* Computer Equipment: R18.964 million (R35.580 million in 2019/20)
* Office furniture: R1.169 million (R1.395 million in 2019/20)
* Computer software: R84.130 million (R35.246 million in 2019/20)
* Buildings and infrastructure: R14.350 million (R4.950 million in 2019/20)
* Machinery and Equipment: R30.967 million (R54.706 million in 2019/20)
* Motor Vehicles: R7.503 million (R14.165 million in 2019/20)
* Capital assets: R86.481 million (R14.3 million in 2019/20)

When reviewing the Armscor expenditure per activity, as presented by National Treasury, overall expenditure increases from R2.029 billion in 2019/20 to R2.122 billion in 2020/21. This translates to a real percentage increase in expenditure of 0.16%. The largest increase in expenditure is expected to relate to Armscor’s Logistical Support (as has been the case in recent years). Logistical support expenditure will increase from R218.5 million in 2019/20 to R247.0 million in 2020/21 which translates to a real percentage increase of 8.28%. All other expenditure is kept relatively stable when inflation is taking into account. The increase in expenditure on Logistical Support is largely offset by a 9.65% real reduction in the expenditure on Administration. This shift should be welcomed and indicates that Armscor is keeping in line with Treasury guidelines on cost cutting.

| **Programme/objective/****Activity** | **Budget** | **Nominal Increase / Decrease in 2020/21** | **Real Increase / Decrease in 2020/21** | **Nominal Percent change in 2020/21** | **Real Percent change in 2020/21** |
| --- | --- | --- | --- | --- | --- |
| **R million** | **2019/20** | **2020/21** |
| Administration |  832,3 |  785,1 | - 47,2 | - 80,3 | -5,67% | -9,65% |
| Quality Assurance |  110,3 |  115,1 |  4,8 | - 0,1 | 4,35% | -0,05% |
| Management of Defence Matériel Acquisition |  325,5 |  339,7 |  14,2 | - 0,1 | 4,36% | -0,04% |
| Logistics Support |  218,5 |  247,0 |  28,5 |  18,1 | 13,04% | 8,28% |
| Management of strategic facilities: Armscor Dockyard |  299,0 |  313,4 |  14,4 |  1,2 | 4,82% | 0,40% |
| Management of strategic facilities: Research and Development |  307,6 |  321,5 |  13,9 |  0,4 | 4,52% | 0,11% |
| **TOTAL** |  **2 029,1** |  **2 121,7** |  **92,6** |  **3,2** | **4,6%** | **0,16%** |

**Table 1: Armscor expenditure trends from 2019/20 to 2020/21**

**4.2 The sweating of assets**

As a means of raising income for Armscor, the sweating of assets has previously been considered. In the 2018/19 Annual Report, it is noted that “Armscor identified four of its properties to sweat; two at Erasmuskloof, one at Pretoria West and one at Northern Cape. The latter two are at Armscor’s facilities – Gerotek and Alkantpan. The Corporation issued a request for bids, inviting potential developers and investors to submit bids for the development of these land parcels. While the response received was positive, internal process is underway and the necessary approval will have to be obtained.” In addition, the National Treasury states in the ENE that there is a need for the SANDF become more sustainable in terms of its expenditure. Several means are proposed to achieve such financial sustainability. One means include “the disposal and leasing of redundant assets and military equipment [that is] expected to generate R3 billion” over the MTEF.

1. **Personnel information**

The total personnel strength for 2020/21 is reflected in the table below and comes to 1 599, which is lower than the projection of 1 667 for 2019/20. This figure includes 115 Contract Employees as well as 33 personnel in the Talent Development Programme. The reduction in personnel from 2019/20 to 2020/21 is largely due to a reduction in personnel at the Armscor Dockyard. Personnel figures in this division decreases from 528 to 458. The number of personnel on the Talent Development Programme also decreases from 45 in 2019/20 to 33 in 2020/21.

|  |  |  |
| --- | --- | --- |
| **Armscor Group** | **Total Permanent employees projected in the 2019/20 corporate Plan** | **Total Permanent employees provided for 2020/21** |
| Armscor (including R&D) | 1 139 | 1 141 |
| Armscor Dockyard | 528 | 458 |
| **TOTAL** | **1667** | **1599** |

**Table 2: Personnel figure comparison**

**6. SELECTED PERFORMANCE INDICATORS**

**6.1 Service delivery indicators**

Table 3 below highlights a number of service delivery performance targets across Armscor’s six goals that Members should consider and track throughout the year. Goals include the following:

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

| **Goal** | **Performance indicator** | **2018/19** **Achievement** | **2019/20** **Target** | **2020/21** **Target** |
| --- | --- | --- | --- | --- |
| **1**(Defence Materiel acquisition) | Contracts to be placed by Armscor: Commitment of funds against formally planned value of commitments | 100%  | 95% | 95% |
| Execution of contracts measured through cash flow on DOD orders placed | 96.96% | 95% | 95% |
| **2**(System Support Acquisition) | Contracts to be placed by Armscor: Commitment of funds against formally planned value of commitments | 99.79% | 95% | 95% |
| Execution of contracts measured through cash flow on DOD orders placed | 96.75% | 95% | 95% |
| **3**(Schedule placement) | Average time from receipt of requirement to placement of contract | 73 days for shortened process items111.05 days for standard acquisition133.8 days for SDA programmes | 100 days for shortened process items130 days for standard acquisition150 days for SDA programmes | 95 days for shortened process items125 days for standard acquisition145 days for SDA programmes |
| **4**(DIP Management) | Value of Defence Industrial Participation (DIP) credits granted | R53 million | R107.04 million | R41.78 million |
| **5**(Defence Technology and Research) | Research and Development to achieve contractual milestones/deliveries as per agreed Memoranda | 100.03% | 95% | 95% |
| **6**(Dockyard Management) | Adherence to contractual project milestones | 91.8% | 90% | 90% |
| Percentage compliance to project finance | 87.3% | 90% | 90% |
| Provision of Ancillary Services to the SA Navy | 95% | 95% | 95% |
| Ensure training is provided in accordance with the requirements of the SA Navy | 100% | 90% | 90% |
| Percentage compliance with quarterly report timelines | 100% | 90% | 90% |

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

**6.2 Armscor strategic outputs**

In addition to the service delivery performance indicators, Armscor also set itself a number of targets in terms of its strategic output. These are summarised in Table 4 below:

| **Outcome** | **Output** | **2018/19** **Achievement** | **2019/20** **Target** | **2020/21** **Target** |
| --- | --- | --- | --- | --- |
| **Revenue generation** | Group revenue | R1.337 billion | R1.384 billion | R1.379 billion |
| Revenue from Armscor R&D | - | R385.1 million | R403.1 million |
| Revenue from Business Enablement Unit | R23 million | R85.2 million | R48.7 million |
| **Cost Management** | Improve net financial position | R235.3 million deficit | Break even | R0.7 million surplus |
| **Efficient and effective deliver** | Percentage compliance with Technology Development Master Plan, in accordance with DOD-Armscor SLA | 99.6% | 90% | 90% |
| Completion of Intellectual Property requests | 85.7% | 80% | 90% |
| Maintain a comprehensive IP register | 31 March 2019 | 31 March 2020 | 31 March 2021 |
| Implementation of approved application system renewal plan | - | 80% | 80% |
| **Stakeholder management** | Stakeholder satisfaction improvement survey | 31 March 2019 | - | 31 March 2021 |
| Employee engagement survey to determine baseline | 0.01% improvement | New baseline | % improvement to be determined |
| Increase black representation | 81.7% black employees | 82% | 82% |
| Improve female representation | 38% female employees | 40% | 40% |
| Controllable staff turnover | 2.28% | <4.5% | <4.5% |
| Provision of bursaries for full-time students | 35 | 33 | 33 |
| Contracting and development of graduates as interns  | 45 | 40 | 40 |
| Succession Planning Development (Percentage compliance with succession plan) | 91.48% | 80% | 80% |
| Number of people with disabilities | 22 | 28 | 28 |

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

**7. COMMITTEE OBSERVATIONS**

During deliberations with the DOD on 6 May 2020, Members of the PCODMV made several observations related to the budgetary allocation, the performance indicators and the targets set in the Corporate Plan. The following were noted:

* The Committee noted the important role of Armscor in terms of its Research and Development Capability and assisting South Africa during the Covid-19 pandemic. This includes Armscor’s involvement in the domestic development and manufacturing of ventilators, testing of protective equipment by Protechnik Laboratories and the conducting of Covid-19 tests.
* Members expressed concern around ongoing delays to Project Hoefyster. Similar concern was raised as to potential delays that may emerge in Project Biro due to limited funding availability.
* Members expressed concern around possible duplication of functions between Armscor and the CSIR, but were satisfied with the explanation that defence-related Research and development were directed by the Department on Defence Board on Research and development which prevents duplication.
* The Committee welcomed Armscor’s outreach programmes to schools nationwide, but requested that this be extended to more rural schools.
* The Committee noted that given the difficult financial times that lie ahead, continued austerity measures should be put in place.
* The Armscor Dockyard has been a challenge to the ArmscorGroup. The Committee noted that its turnaround strategy appears to be effective and enquired about the latest in this regard.

**8. RECOMMENDATIONS**

The PCODMV identified the following areas that will be subject to monitoring by the Committee throughout the 2020/21 financial year:

* The Committee welcomes Armscor’s support to the state’s efforts to curb Covid-19 and urges the entity to continue to support such endeavours.
* Armscor is encouraged to provide its services to other state departments during the Covid-19 pandemic, with the potential to translate this into long-term support in a post-Covid-19 landscape.
* The Committee remains concerned around the status of Projects Hoefyster, Biro and potentially Hotel. Armscor is requested to provide the Committee with a breakdown of milestones in each of these projects, which milestone were achieved, which milestones are set to be achieved in the medium- to long-term (including projected achievement dates), and the funds required for each milestone. It should also be indicated whether these funds have been earmarked from within the Special Defence Account or whether it is still to be appropriated. This information should be provided to the Committee before 15 June 2020 and will inform further engagement between the PCODMV, Armscor and the DOD.
* The Committee encourages Armscor to expand the number of rural schools to which it conducts outreach programmes and to report on these in the 2020/21 Annual Report.
* Given expected economic constraints over the medium-term, the Committee encourages Armscor to maintain austerity measures and to find additional means of (1) cost saving and (2) increasing revenue generation. The Committee also encourages the Board to take into account the difficult financial climate when considering performance bonuses and similar expenses. The long-term viability of Armscor amid challenging economic circumstances should be foremost in future planning.
* The Committee recommends that Armscor inform it on the status, activities, operations and progress of the turnaround strategy of the Simon’s Town Dockyard in its support to the SA Navy on a regular basis.

**Report to be considered.**