

# PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS COLLOQUIUM: DEFENCE'S COMPENSATION OF EMPLOYEES BUDGET AND FORCE REJUVENATION

National Treasury | Dr Rendani Randela| 26 August 2020



**national treasury**

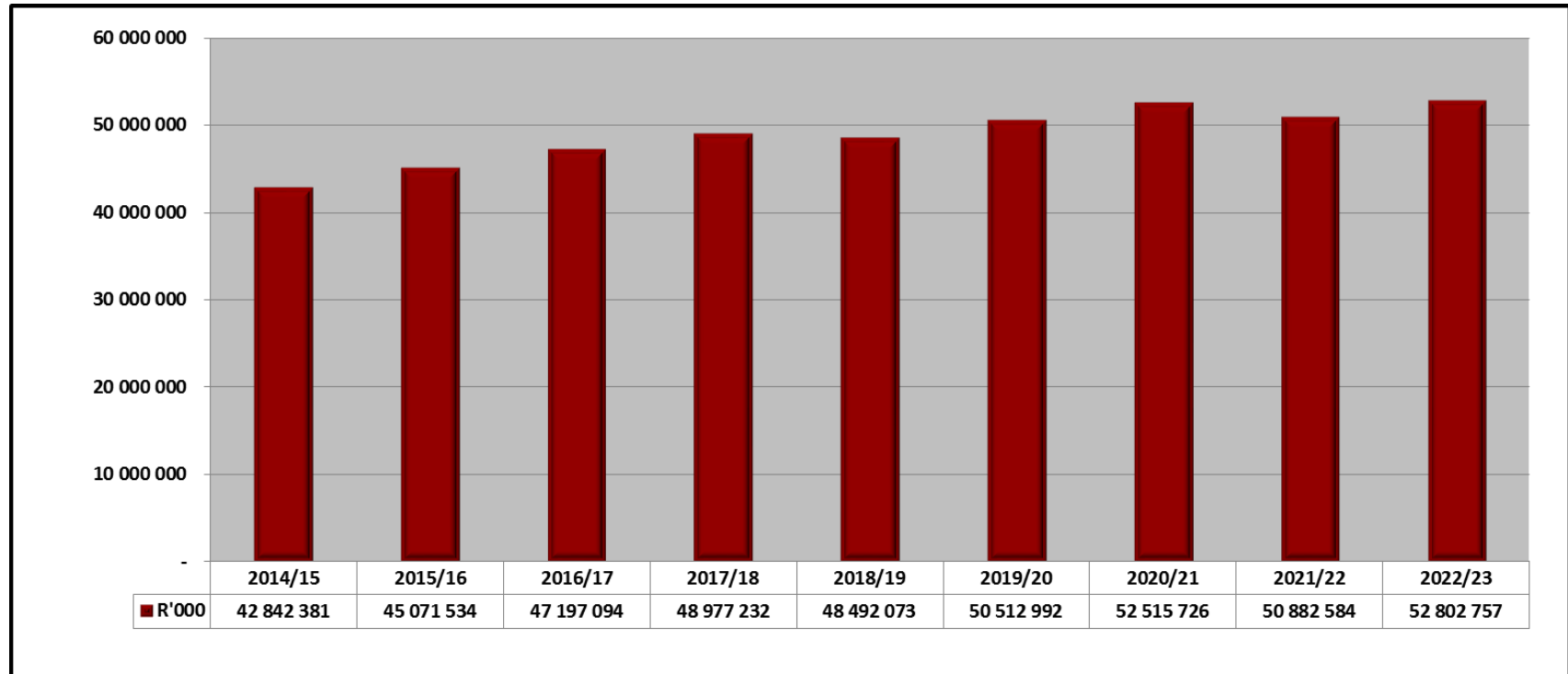
Department:  
National Treasury  
**REPUBLIC OF SOUTH AFRICA**



# PRESENTATION OUTLINE

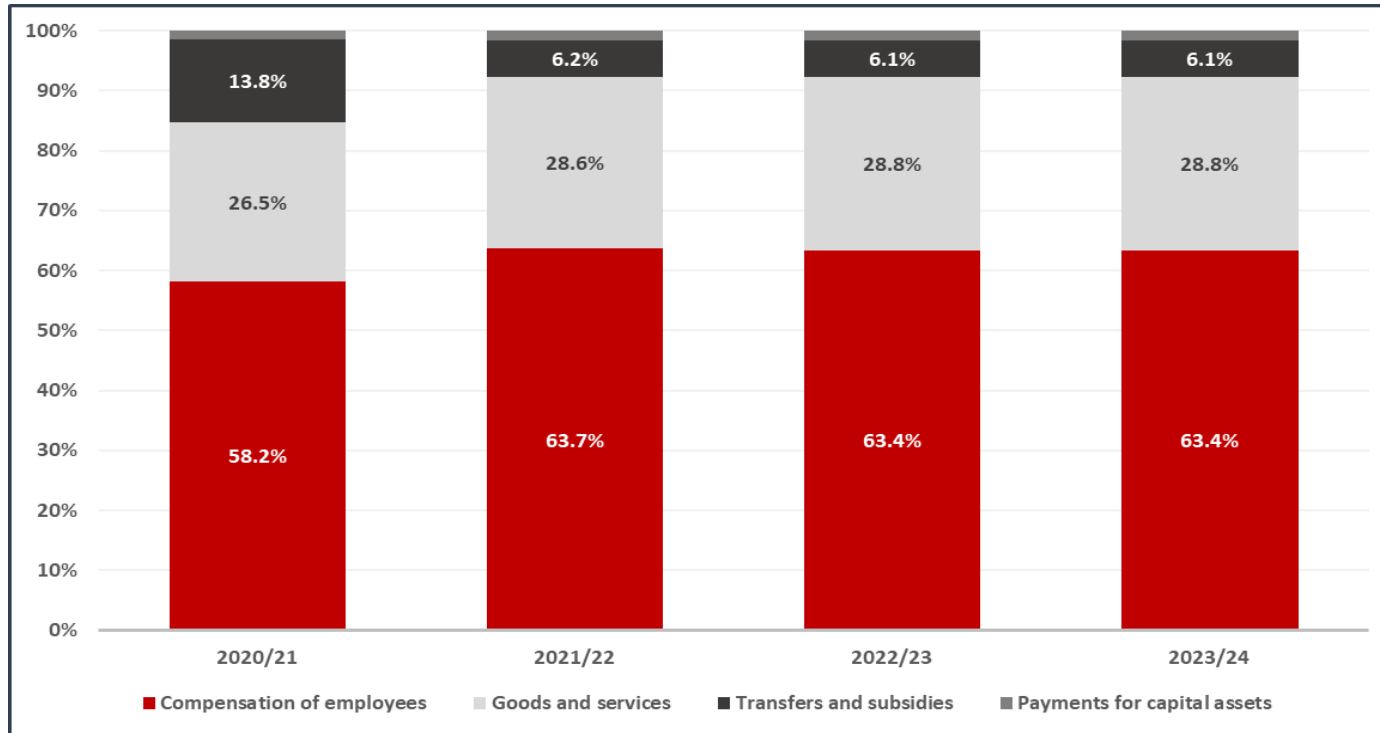
1. Defence Baseline Growth
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# DEFENCE BASELINE GROWTH



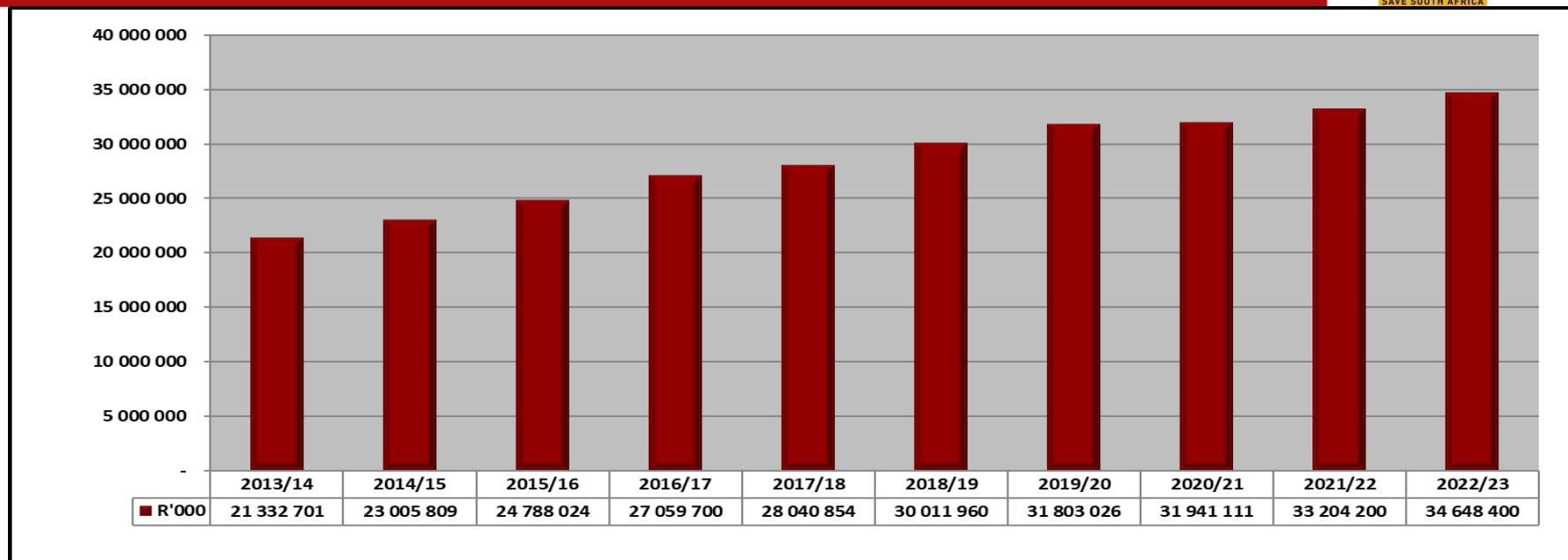
- The department's baseline grows from R50.5 billion in 2019/20 to R52.8 billion in 2022/23.

# COMPOSITION OF THE DEFENCE BUDGET



- The share of compensation of employees expenditure to total Defence expenditure has grown from 39.3% in 2001/02 to 58.2% in 2020/21 (Defence Review 2015 target is 40:30:30 for CoE, goods & services and capital).
- Compensation of employees is projected to be the largest expenditure item over the 2021 MTEF, accounting for 63% of expenditure.
- The current macro-composition of the Defence budget is unsustainable given limited funds for other discretionary spending items to modernise the SANDF.

# SPENDING ON COMPENSATION OF EMPLOYEES



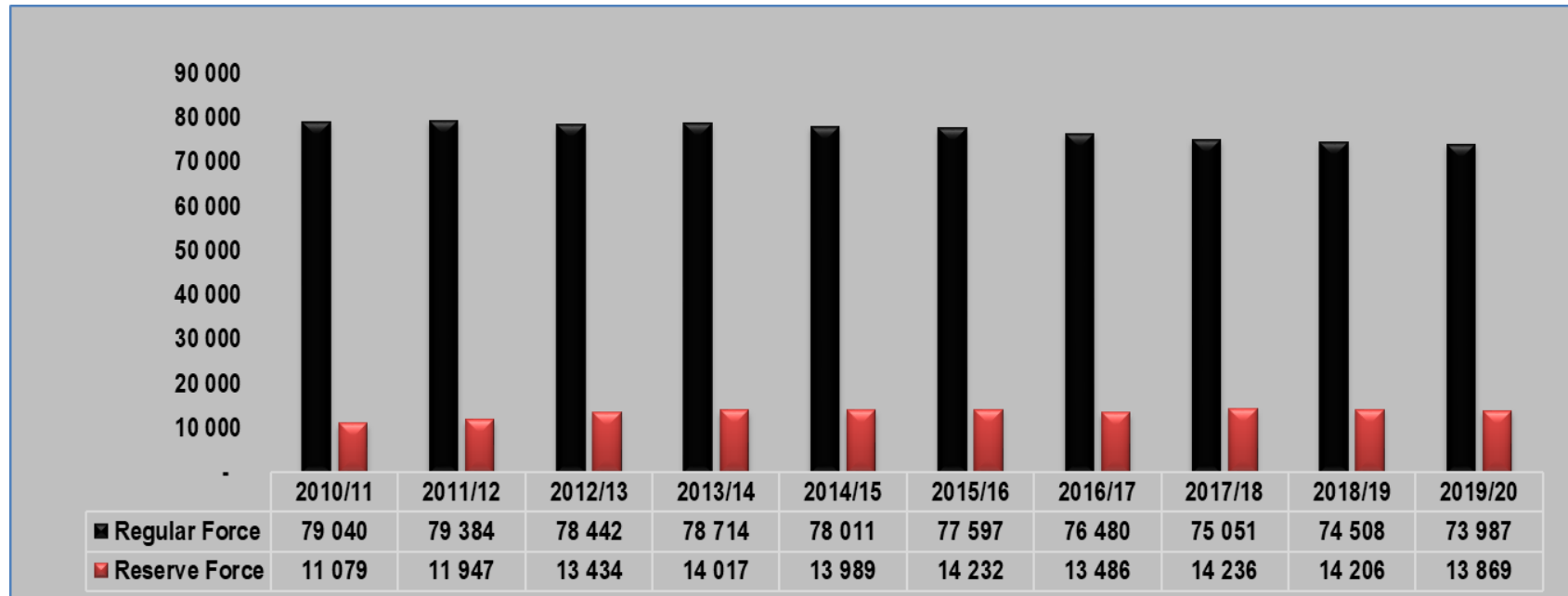
- During the 2016 MTEF, Cabinet approved CoE budget reductions of R1.9 billion in 2017/18 and R2.9 billion in 2018/19 as part of the aggregate expenditure ceiling. These reductions had a carry-through effects.
- Departments were given 2016/17 to prepare themselves about the compensation ceiling going forward hence National Treasury approved the in year-shifting of funds to augment CoE.
- Defence needed to take measures or implement reforms within its Human Resources as part of its attempt to stay within the CoE ceiling going forward. To date, no significant reforms or attempts by the department to stay within the compensation of employees' budget.
- Instead, the department will maintain its personnel headcount at 75 500 and Reserve Force utilisation at about 2 695 963 mandays or 14 000 members per year (full time equivalent) .

# EXPENDITURE OUTCOME ON COMPENSATION OF EMPLOYEES

R'000	2016/17	2017/18	2018/19	2019/20	Projected Outcome 2020/21
Appropriated Budget	27 084 547	27 897 971	27 084 136	29 193 710	31 941 111
Virements to CoE	210 000	1 450 000	-	-	-
CoE Expenditure	27 059 700	28 040 854	30 011 960	31 803 026	34 958 424
<b>(Over)/Under Expenditure</b>	<b>24 847</b>	<b>(142 883)</b>	<b>(2 927 824)</b>	<b>(2 609 316)</b>	<b>(3 017 313)</b>

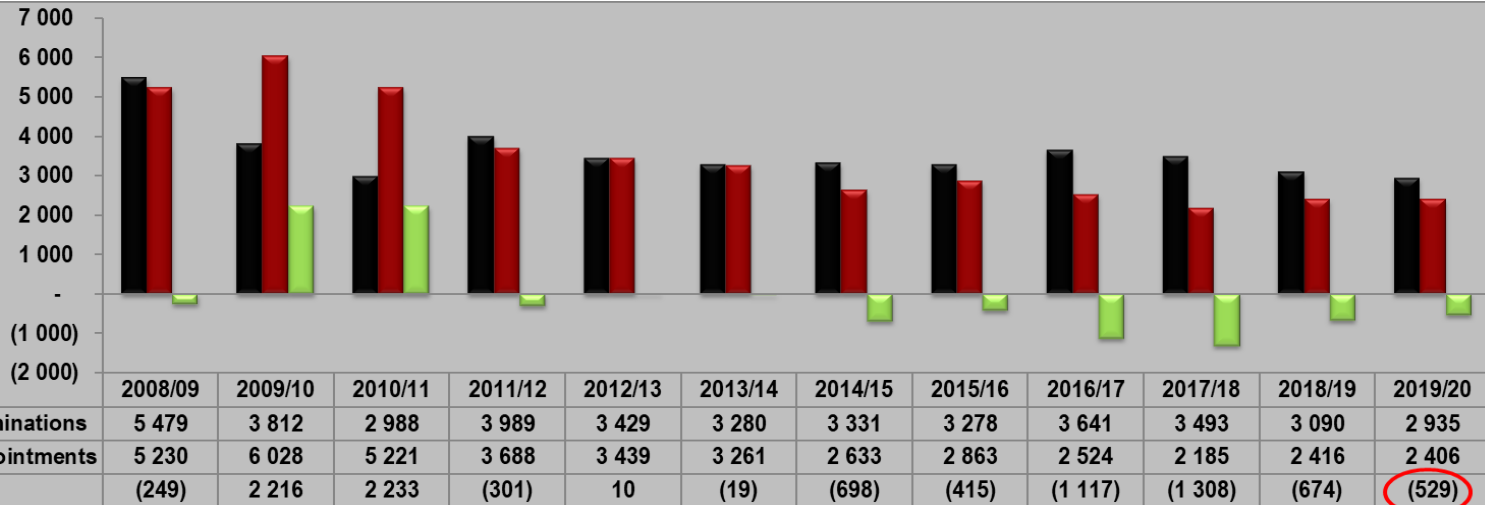
- Since 2017/18, Defence has overspent its CoE budget resulting in irregular expenditure since CoE is specifically and exclusively appropriated.
- Defence projects to overspend the 2020/21 CoE budget by R3 billion and this will increase significantly increase the accumulated irregular expenditure.
- The upward adjustment of the CoE budget in Defence through virement/in-year reprioritisation of funds from SDA and goods and services is unsustainable hence the National Treasury has not recommended in-year shifting of funds towards CoE since 2018/19 .

# REGULAR FORCE AND RESERVE FORCE



- Annually, the SANDF utilises about 14 000 Reserve Force members at a cost of R2 billion.

# TERMINATIONS VS APPOINTMENTS



Termination Type	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Average
Death	600	726	585	637	550	512	476	448	427	397	395	396	512
Resignations	1 392	904	417	453	451	612	1 119	1 154	1 136	1 085	1 078	1 045	904
Contract Expiry	1 630	575	993	1 748	1 493	1 127	581	486	886	911	420	348	933
Transfers	521	352	73	255	73	105	60	53	32	15	26	20	132
Dismissal – Ops Requireme	4	1	1	3	1	1	-	-	-	-	1	-	1
Discharge – Ill Health	36	40	102	72	52	55	41	72	90	95	121	60	70
Dismissal – Misconduct	228	299	156	194	198	212	201	170	176	131	172	151	191
Discharge – Incapacity	-	9	3	1	8	3	1	62	11	1	-	-	8
Retirement	384	481	470	521	562	646	839	794	854	800	833	914	675
MEM/EISP/VSP	684	425	188	105	41	7	13	39	29	58	44	1	136
<b>Total Number of Employee:</b>	<b>5 479</b>	<b>3 812</b>	<b>2 988</b>	<b>3 989</b>	<b>3 429</b>	<b>3 280</b>	<b>3 331</b>	<b>3 278</b>	<b>3 641</b>	<b>3 493</b>	<b>3 090</b>	<b>2 935</b>	<b>3 562</b>

- The DoD should consider natural attrition as part of dealing with compensation pressure.



# ANNUAL MSDS INTAKE

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Average
Total MSDS in the system	4 516	3 931	3 947	3 947	3 477	3 501	3 761	3 869
%Growth		-13%	0%	0%	-12%	1%	7%	
Annual MSDS intakes	2 042	2 112	1 971	1 812	1 792	1 936	1 933	1 926

- The department uses the Military Skills Development System (MSDS) as part of its rejuvenation strategy.
- The department's MSDS intake has averaged around 1 926 over the period 2013/14 to 2019/20.
- The rejuvenation of the SANDF can still happen but given the constrained fiscal outlook a balance must be struck.

# REJUVENATION STRATEGY

- The development of the rejuvenation strategy by Defence was in response to a recommendation by the Ministers of Defence & Military Veterans, Finance and Public Service and Administration in March 2019 as well as Parliament through the Budgetary Review and Recommendation Reports.
- In summary, the strategy aims to change the human resource profile of the SANDF without compromising the capacity requirements to plan, prepare and conduct military operations.
- The department plans to maintain its personnel numbers at 75 500 going forward despite the compensation of employee's budget remaining insufficient to accommodate this number.
- The proposal to transfer SANDF members to other departments requires Defence to consult the affected departments.
- The current force design and structure of the SANDF is unsustainable and this leads to significant funding requirements for compensation of employees whilst eroding the department's capital and operating budget.
- Therefore, the rejuvenation plan in its current form will not resolve the challenges faced by the department.
- There will be further engagement between Defence, National Treasury and DPSA officials on Defence's rejuvenation strategy and to map the way forward.

# CURRENT REALITIES AND CHALLENGES

- Constrained fiscal environment and departmental baseline reductions
- Dealing with pressure on compensation of employees: Personnel reduction vs rejuvenation
- Impact of long and open ended peace keeping missions on the budget
- Increasing ordered commitments within a tight fiscal space
- Conditions of service – retirement at the age of 60 while no longer deployable
- Realignment of the Defence budget to achieve the 40:30:30 ratio between personnel, operations and capital.
- Boots on the ground vs modernisation? (Numbers vs effective Defence Force?)
- In dealing with personnel related challenges, what should be career pathways for soldiers to ensure rejuvenation of the Defence Force?

# CONCLUSION

- There is no space for additional funding from the fiscus given the constrained fiscal environment and the need to contain the public-sector wage bill.
- The department is likely to incur unauthorized expenditure in 2021/22 unless it deals with the CoE pressure given that the SDA cut of R5 billion will take effect and there may be further baseline reductions over the 2021 MTEF given the constrained fiscal outlook.
- In its current form, the proposed rejuvenation strategy will not resolve CoE challenges effectively.
- Defence has discretion on the utilisation of reserves, implementation of natural attrition and MSDS intakes. These mechanism should be considered in dealing with CoE pressure.
- Defence should strike a balance regarding the utilisation of Reserves and the maintenance of the Regular Force given the constrained fiscal environment
- Perhaps consider reducing the Regular Force and Civilian Component that is augmented by a higher share of reserves to have a Defence Force that is less costly and sustainable.
- Defence should consider implementing the Early Retirement Without Penalisation of Pension Benefits in line with section 16 (6) of the Public Service Act (extended to other legislations) to reduce pressure on CoE given that there are SANDF members with a higher age profile and many years in rank.
- Any proposed plan that does not deal decisively with the department's personnel headcount, force design and the conditions of service of the SANDF members is unlikely to succeed in assisting the department to operate within the compensation of employees' ceiling.
- National Treasury reiterates that the objective is to have an effective but affordable Defence Force.

# THE END