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DEPARTMENT OF DEFENCE: HUMAN RESOURCES ACTION PLAN AND ADDRESSING COMPENSATION OF EMPLOYEES

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1. INTRODUCTION

The Portfolio Committee on Defence and Military Veterans (PCDMV) is tasked with oversight of the DOD budgetary allocation. Through oversight, both the JSCD and the PCDMV found that concerns highlighted in the 2015 Defence Review, specifically around Force Structure, have not been addressed adequately. Of specific concern is the rising expenditure on Compensation of Employees (CoE) that continues despite several Committee recommendations to the Department of Defence (DOD) and National Treasury in recent years.¹

In an effort to address matters related to Force Structure and CoE, the Defence Committees have, in 2020, focused on the continuing imbalances between human resource, capital and operational expenditure. The PCDMV held a workshop with National Treasury and the DOD on Force Structure, CoE, the development of an exit mechanism and force rejuvenation on 26 August 2020. Further thereto, the JSCD held a mini-symposium with external academics on the matter of force design, on 3 September 2020, as well as a Lekgotla with the senior SANDF leadership on 17 October 2020 on similar matters. From these engagements it is clear that further engagement is required in terms of the SANDF's Human Resources component and how it relates to CoE. This should be viewed against the position of National Treasury that states that "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." On 4 November 2020, during a PCDMV meeting on CoE, the DOD requested that the presentation be postponed given that "consultations were still underway between Department of Defence (DOD), Military Command Council, and Plenary Defence Staff Council.

Several years of irregular expenditure on overspending on CoE and continuous reductions to the budget allocation of the DOD, requires urgent oversight. This paper provides a brief summary of the expenditure on CoE, specifically taking into account the Adjusted Budget

¹ See the Budgetary Review and Recommendation Reports of the PCDMV.



delivered by the Minister of Finance on 28 October 2020. The paper also highlights relevant Budgetary Review and Recommendation Report (BRRR) sections. The paper thereafter highlights several discussion points related to Human Resources that the JSCD felt would be better addressed during the PCDMV engagement with the SANDF Chief of Human Resources.

2. BUDGETARY REVIEW AND RECOMMENDATION REPORT (BRRR)

On 2 December 2021, the PCDMV's BRRR was published. The PCDMV noted the following points in relation to CoE that requires follow-up during the meeting on 3 February 2021:

- The DOD should indicate to the Committee in writing the measures it will take to reduce the lengthy periods that SANDF members are suspended with pay and the subsequent cost to the DOD.

Members may follow up on BRRR recommendation and further questions in this regard is noted in Discussion Point 4 of Section 3 of this paper.

- The Minister of Finance should indicate to the Committee its willingness to fund, in addition to the DOD's main allocation, a workable and humane exit mechanism for personnel over the medium-term. This will assist the Committee in its planned engagement with the DOD going forward.

National Treasury has not yet submitted its responses to Parliament and is likely to do so during the upcoming budget speech. However, Members may request the DOD to express its view on a medium-term exit mechanism.

3. COMPENSATION OF EMPLOYEES

Personnel costs in the SANDF has become a major focus point in recent years, with the cost as a percentage of the total DOD budget escalating annually. This will continue to affect the Department in 2020/21. According to the original pre-COVID19 budget, the allocation for spending on Compensation of Employees for the year was set to increase to R31.178 billion (from R29.194 billion in 2019/20). However, an additional allocation of R763.424 million was made for Compensation of Employees during the first adjustments appropriation in response to COVID19, bringing total expenditure on this item to R31.941 billion for 2020/21.

The Budget noted that *over the medium-term, 62.1% of the DOD's total allocation is set to be spent on personnel costs*. However, the second Adjusted Budget presented by the Minister of Finance on 28 October 2020 calls for further cuts on Compensation of Employees. In total, the Compensation of Employees allocation decreased by R956.250 million, thus leaving the DOD with R30.984 billion for this item which is slightly less than its original appropriation of R31.178 billion (See the table below for an overview of shifts during the year). Crucially, **Members may note that it is unlikely that the DOD will be able to stay within the Compensation of Employees ceiling for 2020/21 given their indication that they do not seek to reduce personnel numbers and the fact that they have not implemented the required reforms in recent years**, resulting in irregular expenditure for a number of years. It is also unclear how the latest reduction will affect CoE expenditure over the medium-term, but based on the Minister of Finance's focus on containing expenditure on government's wage bill, it is likely that the DOD's CoE component is likely to remain under pressure.



Table 1: Compensation of Employees allocation changes 2020/21

Allocation period	Allocation shifts (R million)	Total allocation 2020/21 (R million)
Main appropriation (Feb 2020)	+ 31 177 687	31 177 687
Adjustments (Jun 2020)	+ 763 424	31 914 111
Virements/ shifts (Oct 2020)	+ 930 000	32 871 111
Other adjustments (Oct 2020)	- 1 886 250	30 984 861

During a briefing on Compensation of Employees to the PCDMV (26 August 2020), the DOD clearly noted that “the Human Resources component will eventually consume all resources required by the DOD to execute its mandate. This is largely due to consistent budget cuts and the capping of the Compensation of Employees ceiling below the existing strength compelling the Department to source additional funding from the operating portion of the budget.” The DOD further noted the following three implications of the current fiscal constraints in terms of resources:

- The DOD may be unable to provide value against its funding from the fiscus.
- Lifting of the Compensation of Employees through additional funding (R3 billion per annum).
- The tempo and pace of rejuvenating the SANDF workforce composition is dependent on the trajectory of Compensation of Employees allocations and if not addressed will result in a continued disparity between budget requirement and allocation.

Note: From the information presented by the DOD and National Treasury, **it appears that there is an impasse** between the two entities regarding the matter of Compensation of Employees. Simply put, National Treasury requires the implementation of the ceiling on Compensation of Employees while the DOD wishes to maintain its current force levels and not implement means to reduce personnel.

Both the PCDMV and JSCD have ascertained that spending on personnel in the SANDF is crowding out spending on capital acquisition. The JSCD Lekgotla made it clear that there are sustained security threats that require a capable and well-functioning SANDF. The DOD claims that for this, it requires a force of no least than 75 000. However, the Committees’ engagement with the DOD and external experts highlighted that there are internal changes that the DOD can implement to save money and have a better functioning Human Resources component.

The section above highlighted the dire situation over the MTEF in terms of personnel expenditure and the impact on capital acquisition. The sections to follow note discussion points of potential internal areas where the DOD can make changes to save money and assist to bring personnel spending under control. Several of these discussion points may also require input from National Treasury. Simply put, the key questions to the DOD should be: **Given current fiscal constraints, what measures (within the control of the DOD), can be implemented to reduce personnel expenditure, and contribute to a capable SANDF and a sustainable Force?**



4. DISCUSSION POINTS: FOLLOW-UP ON THE JSCD LEKGOTLA OUTCOMES

The sections below reflect potential discussion points noted during the JSCD Lekgotla with the DOD on 17 October 2020. During the Lekgotla it was noted that many of these aspects would be best suited as discussion points for interaction between Parliament's Defence Committees and the DOD during its briefing on its Human Resources Action Plan.

The sections below reflect discussion points around Human Resources matters that emerged during engagement between the DOD and Parliament's Defence Committees, as well as during the 2020 JSCD mini-symposium on the DOD Force Structure.

Discussion point 1:

Force rejuvenation - Implementation of early retirement without penalties

Background:

In the 2019 budget review, National Treasury implemented early retirement without penalties across departments, including the DOD. However, the DOD did not implement this policy. Only the Department of Police implemented this policy in 2019/20. In the year, the Police Department received more than 3 000 applications from staff seeking early retirement. This is expected to result in significant savings for the Department with a total of 187 433 posts.²

It is unclear whether further funds will be made available to the DOD to implement early retirement without penalties in the short- to medium-term. However, this could form part of an important force rejuvenation strategy. During oversight visits to 9 SAI Battalion and to Air Force Base Ysterplaat, SANDF members raised concerns around retirement and related benefits. There thus seems to be an "appetite" for retirement benefits. Should early retirement without penalties be a means to achieve force sustainability, it could be of value for the DOD to re-engage National Treasury to ensure funding for such an endeavour.

Key discussion points:

- What was the outcome of the latest discussions between the DOD and National Treasury regarding early retirement without penalties in the short- to medium-term?
- What is the expected uptake (number) of early retirement without penalties in the DOD should it be implemented immediately?
- Should this be seen as a viable means to reduce the force numbers and assist in building a sustainable force structure, the Committees may consider playing a facilitating role between National Treasury and the DOD in implementing early retirement without penalties.
- What will be the effect of early retirement without penalties on maintaining continuity and succession planning in the DOD? *Members may note that succession planning, specifically at senior level, has been a concern in the DOD. Most recently, the Chief of the SA Air Force, Lt General Msimang, was set to retire on 30 September 2020 and no replacement has been announced by 29 September 2020.*

² For more information on the Police budget, see: Vote 28 – Police 2020/21 Budget, p. 412.



Discussion point 2:

Force rejuvenation: Addressing supernumeraries in the SANDF structure

Background:

During the JSCD mini-symposium, Dr Khanyile indicated that one of the means of correcting the force structure and reducing force numbers is by limiting supernumerary personnel to below 2%. This figure aligns with the envisaged percentage of supernumeraries in the 2015 Defence Review. The problem of supernumeraries in the SANDF is not a new concern. Already in 1990, under Project Harriet, it was noted that supernumerary positions should be eliminated to achieve force rationalisation. The integration period placed further pressure on the SANDF in terms of the number of supernumeraries and the problem has remained since.³ Esterhuyse also states that “It is a widely known fact that the SANDF has problems in retiring personnel who are supernumerary because of the protection of these people by the very rigid South African labour laws.”⁴

In August 2020, in response to a parliamentary question from Hon J Maake (MP), The Minister of Defence indicated that there are 7 200 supernumerary personnel in the SANDF. This included 2 962 MSDS personnel, 13 auxiliary personnel and 120 members in the process of separating from the DOD. Of specific concern, however, is the 4 105 personnel that are supernumerary due to “structural amendments or functional shift between internal entities.”

Key discussion points:

- A discussion around the meaning of the 4 105 personnel that are supernumerary due to “structural amendments or functional shift between internal entities” can shed more light on concerns.
- What are the labour laws that prevent supernumeraries from being exited from the system?
- What steps can be implemented to limit the number of supernumeraries to below 2%?

Discussion point 3:

Force rejuvenation - Implementation of a mobility exit mechanism (MEM) without affecting force requirements and losing scarce skills

Background:

During the 6th Parliament, the Defence Committees have made several suggestions regarding the need for an exit mechanism, including a Budgetary Review and Recommendations Report (BRRR) recommendation around the need for urgent deliberations between the DOD and National Treasury on the development of an exit mechanism. The JSCD’s Human Resources Workshop of 26 August 2020 resulted in a similar recommendation. However, the DOD has indicated to the Defence Committees that it is reluctant to implement an exit mechanism as it may have ‘unintended consequences’. The DOD also indicated that MEM was placed on hold, pending an investigation to ensure a lucrative exit mechanism beyond that of the current MEM and that an appreciation of an appropriate exit mechanism is under consideration. As such, the MEM system has no official status in the DOD. Despite this statement, the DOD also indicated that “an appreciation of an appropriate exit mechanism is under consideration.”

Key discussion points:

- What are the main reasons for the reluctance of the DOD to implement an exit mechanism?
- The DOD indicated that “an appreciation of an appropriate exit mechanism is under consideration.” What is the status of this process?

³ Ferreira (2017).

⁴ Esterhuyse (2006).



- The DOD, in its presentation to the PCDMV, noted that MEM is currently on hold and that an appropriate exit mechanism is under consideration. This process should be finalised urgently, in consultation with National Treasury, to ensure speedy force rejuvenation.

*The Committees can play a facilitating role between National Treasury and the DOD in bringing the parties together to evaluate whether a **short-term MEM** cannot be put in place to bring about immediate savings for the DOD. This should be done in such a way that the DOD does not lose critical skills.*

Discussion point 4:

Reducing long-term suspensions with pay

Background:

During the JSCD mini-symposium, Dr Khanyile stated that the DOD has a very high number of people on long-term suspension with pay, costing the Department millions. He noted, for example, that in 2018/19 at least 30 people were suspended for an average of 338 days, costing the DOD at least 10.7 million. Similar concerns existed in previous years. In 2017/18, at least 20 people were suspended for an average of 365 days at a cost of R4.865 million while in 2016/17, 15 people were suspended for an average of 352 days at a cost of R6.206 million. This is of particular concern given that the SANDF has its own internal disciplinary and court systems and it is therefore unclear why these processes cannot be finalised sooner and at less cost to the Department.

Key discussion points:

- What are the reasons for the lengthy period of DOD employees being suspended with pay?
- What measures can be put in place to speed up the process?

The Committee may consider making it a quarterly requirement for the DOD to report on the progress with regards to suspensions with pay.

Discussion point 5:

Allocating each service/division a prescribed Human Resources ceiling and holding senior commanders accountable

Background:

In the JSCD mini-symposium, Dr Khanyile proposed that each Service and Division be allocated a prescribed Human Resources ceiling. It was also proposed that in the performance agreements of every senior divisional manager, a performance indicator should be included to rebalance the budget and personnel expenditure. As such, senior leaders will be held accountable for the capacity under their control.

Key discussion points:

- The proposal to allocate each service/division a prescribed Human Resources ceiling seems to devolve the responsibility to a lower level. Will this assist in having a more workable solution to the DOD's Human Resources problems?
- If Human Resources management will not be devolved to a service/division level, Committees may seek to insist on more stringent performance management of the Minister on Defence, Secretary for Defence and Chief of the SANDF to address the problem and ensure accountability.



Discussion point 6: Methods to shed over-age personnel

Background:

In a recent response to a parliamentary question, the Minister of Defence noted that the average age of the full-time force infantry soldier was 38.⁵ This is of major concern and was also highlighted by academics during the JSCD mini-symposium. Of specific concern is the high number of over-age junior ranks. The result of over-age personnel, specifically in the Infantry Division, is that the SANDF does not have a truly fit-for-purpose force and it has significant redundancy. There are also higher direct and indirect costs involved in maintaining older personnel.

Key to resolving the problem of over-age personnel is the development of a sustainable, humane exit mechanism. However, further means of addressing the problem in the short- to medium-term can also be explored.

Key discussion points:

- What methods are the DOD considering in the short-to medium-term to address the ageing workforce?
- Has the DOD engaged other government departments to consider the migration of over-age personnel to other departments where suitable positions exist?
- Why has the Military Skills Development System (MSDS) been unable to address the ageing SANDF profile? *Members may note that MSDS intakes have been reduced in recent years.*

Discussion point 7: Addressing rank inflation

Background:

During the JSCD mini-symposium, Mr Heitman indicated that rank inflation poses a major risk to a sustainable DOD in terms of personnel strengths and costs. He states that rank inflation, in part dating from the previous South African Defence Force and in part a result of the integration process after 1994.

Rank inflation continued after 1994 with a marked increase in the number of senior positions while junior positions declined. Other general examples noted by Mr Heitman during his presentation to the JSCD is that the SA Army's directors have gone from colonel posts with a small staff to brigadier-generals with several colonels and many other officers on their staff at the very time the corps have become smaller. Several such Brigadier-Generals are for instance in command of only a military school or training institution and one or two units other than reserve units (often defunct) under their control. He noted similar examples in the SA Air Force that went from one brigadier handling personnel matters to one brigadier-general in each of the Air Office and Air Command, and this despite a centralised Human Resources Division. The SA Navy also have many senior admirals for a relatively small navy with limited vessels.

In a 2019 article, Mr Heitman also noted that the SANDF has roughly 406 generals, admirals and civilian officials in equivalent ranks, although some may be specialists paid at that level without holding the actual rank. This figure translates into one general, admiral or equivalent official for every 184 members of the SANDF and DOD, which does seem a little over the top. Worse, **only 80 are in the three combat services**, with another 17 at Defence Intelligence.⁶ The 2018/19 Annual Report notes a total of 275 senior and top management level employees in comparison to a total DOD personnel strength of 74

⁵ DefenceWeb (2020).

⁶ Heitman (2019).



508. This equates to one senior manager for every 269 people in the DOD. This concern about the DOD being top heavy was also raised by the DFSC in the past. During the workshop on Human Resources between the JSCD and DOD, the Department also admitted that it is somewhat top-heavy. *There is thus an urgent need to right-size and restructure the military.*

Key discussion points:

- The DOD admitted to the JSCD that it was somewhat top-heavy. In the opinion of senior military leaders, what gave rise to the rank inflation in the DOD?
- What is an optimal General-to-troop ratio in the SANDF?
- How does this compare to international best practices in this regard?
- Why are generals in the combat services so limited, and is there a need for so many generals in the support services?
- Is there scope to re-evaluate the ranks attributed to certain posts, specifically where duplication exist?

**Discussion point 8:
Reducing administrative overhead structures**

Background:

As noted in Outcome 3.2, only 80 generals, admirals and civilian officials in equivalent ranks, are in the three combat services, with another 17 at Defence Intelligence. This result in a very high number of high-ranking administrative posts. The logic of such a top-heavy administrative force structure in a relatively small SANDF can therefore be questioned. This raises the question whether many personnel and logistic functions should not perhaps be decentralised back to the combat services, scaling down the centralised structures?

Key discussion points:

- In line with the discussion at Outcome 3.2, the re-evaluation of senior posts, specifically those outside the combat services, may be required.
- Should personnel and logistic functions not perhaps be decentralised back to the combat services, scaling down the centralised structures?
- What medium-term changes can be made to administrative structures that will save costs, but also ensure that combat efficiency and logistical capabilities are maintained?

**Discussion point 9:
Development of a sustainable, humane exit mechanism to ensure continued force rejuvenation**

Background:

The development of a humane exit mechanism to ensure force rejuvenation and limit the DOD's personnel expenditure has received significant attention in recent years, but implementation by the Department remains lacking. It lies at the core of effective career management. During the 6th Parliament, the Defence Committees have made several suggestions regarding the need for an exit mechanism, including a BRR recommendation around the need for urgent deliberations between the DOD and National Treasury on the development of an exit mechanism. The JSCD's Human Resources Workshop of 26 August 2020 resulted in a similar recommendation. However, the DOD has indicated to the Defence Committees that it is reluctant to implement an exit mechanism as it may have 'unintended consequences'.



The DOD also indicated that the MEM was placed on hold pending an investigation to ensure a lucrative exit mechanism beyond that of the current MEM and that an appreciation of an appropriate exit mechanism is under consideration. As such, the MEM system has no official status in the DOD. While MEM is not in place, **National Treasury also noted that the DOD's current rejuvenation plans will not resolve the challenges faced by the Department.** As such, there is a lack of clarity around the development of an exit mechanism, as it is clearly required to ensure force rejuvenation. However, it appears that the DOD remains unwilling to implement such a strategy and National Treasury is saying that current efforts at rejuvenation remain inefficient.

Academics as well as the Defence Force Service Commission (DFSC) also highlighted the urgent need for an exit mechanism to the Defence Committees. The DFSC clearly stated that “at the current rate/trajectory, [an ageing defence force] won't change unless exit mechanisms are implemented because members stay on until they reach retirement age.” During the JSCD mini-symposium, Mr Heitman made several suggestions of how an effective exit mechanism can function. These include linking initial military training to vocational training, allowing those who are forced to leave the SANDF after a few years to enter the labour market. This links to observations by the PCDMV at 9 SAI Battalion, where rank and file members of the SANDF told the Committee that there was no opportunity for reskilling and an honourable and dignified exit from the SANDF. The development of an exit mechanism is also relevant to concerns raised by SANDF personnel around promotions. Promotions emerged as a key theme during the JSCD visits to military bases around Cape Town in 2019. In lieu of a dignified and effective exit mechanism, promotions will remain a contested space within the SANDF. However, given the hierarchical nature of the SANDF, it is not possible for all soldiers to be promoted to higher ranks, thus making the need for an exit mechanism apparent.

Key discussion points:

- What previous research has been done by the DOD on the development of an exit mechanism and why were these not implemented?
- National Treasury noted that the DOD's current plans at rejuvenation will not have the desired effect. Has the DOD engaged National Treasury to propose a new exit mechanism that will assist in force restructuring and rejuvenation?

The Committees should set clear target dates for the DOD to develop a humane and workable exit mechanism that will ensure sustainable force rejuvenation. Performance against this target should be reviewed on a quarterly basis. The Committee should further engage National Treasury to ascertain the levels of funding available for the implementation of a sustainable exit mechanism.



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