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## THIRD QUARTER EXPENDITURE ANALYSIS FOR THE DEPARTMENT OF DEFENCE FOR 2020/21

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### 1. INTRODUCTION

The following analysis of the Third Quarter Expenditure Report of the Department of Defence (DOD) for 2020/21 provides an overview of aspects that may require further examination by the Portfolio Committee on Defence and Military Veterans (PCDMV). Members may note that the Third Quarter overlapped with the DOD's involvement in the state response to the Covid-19 pandemic. The South African National Defence Force's (SANDF) Operation Notlela represented the DOD's primary response to the pandemic. At the end of December 2020, the Department has spent R2.6 billion towards Operation Notlela, largely for procurement of personal protective equipment for the deployed SANDF members and the deployment of additional reserve force members.

The document is prepared for the PCDMV meeting with the DOD scheduled for 3 March 2021.

### 2. DEPARTMENT OF DEFENCE: OVERALL EXPENDITURE TRENDS

The DOD received a total main appropriation of R52.439 billion for the 2020/21 financial year. The allocation was adjusted higher during the mid-year adjustment period and increased to R54.201 billion. During the 2020/21 financial year, the spending patterns per quarter has been as follows:

- At the end of the **First Quarter** (June 2020), the DOD spent R12.182 billion (23.2%) of its main appropriation, which was *slightly higher than projected expenditure*.
- At the end of the **Second Quarter** (September 2020), the DOD spent R25.351 billion (45.8%) of its main appropriation, which was *slightly lower than projected expenditure*.
- At the end of the **Third Quarter** (December 2020), the DOD spent R38.075 billion (70.2%) of its adjusted appropriation, which was *slightly lower than projected expenditure*.



At programme level, some variances can be noted in terms of actual expenditure against projected expenditure for the Third Quarter. The largest variances can be noted in the Administration, Military Health Services and General Support programmes (as discussed in Section 2). The lower than projected spending on goods and services was mainly due to late verification of invoices received from the Department of Public Works and Infrastructure resulting in non-payment. The closure of local and international businesses due to the Covid-19 pandemic also affected the planned procurement activities.

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 R1.277 billion). The main cost driver in the DOD continues to be spending on compensation of employees. However, at the end of the Third Quarter, spending on this item was slightly lower than planned by 0.3%. Overall spending on the main economic classification categories are as follows:

- Compensation of employees: R24.592 billion. 0.3% lower than projected spending.
- Payment on capital assets: R620 million. 29.7% lower than projected spending.
- Goods and Services: R8.036 billion. 13.7% lower than projected spending.

Delays by the Department of International Relations and Cooperation in providing payment vouchers for military attaché expenditure abroad also contributed to underspending on goods and services. The lower than projected spending on payments for capital assets was as a result of a change in procurement plans in terms of capital required for COVID-19 interventions.

### 3. KEY EXPENDITURE TRENDS PER PROGRAMME

Key issues for the PCDMV to note related to spending at the end of the Third Quarter of 2020/21 on the various programmes and subprogrammes are presented below:

<b>Programme 1: Administration</b>	<ul style="list-style-type: none"> <li>• The adjusted appropriation was R5.445 billion of which R3.495 billion (64.2%) was spent by the end of the Third Quarter.</li> <li>• Spending was R407 million (10.4%) lower than projected.</li> <li>• Reason for slow spending: Delay in the submission of invoices for the payment of municipal services as well as the devolved funds from the Department of Public Works. Administrative backlog at the Department of International Relations and Cooperation which resulted in a delay in the submission of payment vouchers for military attaché expenditure. <i>(Members should note that the late submission of invoices is an ongoing delay, which has manifested in 2019/20 as well).</i></li> </ul>
<b>Programme 2: Force Employment</b>	<ul style="list-style-type: none"> <li>• The adjusted appropriation was R4.621 billion of which R3.138 billion (67.9%) was spent by the end of the Third Quarter.</li> <li>• Spending was R30.6 million (1.0%) lower than projected.</li> <li>• Reason for slow spending: Salary freeze on all government employees.</li> </ul>



<b>Programme 3: Landward Defence</b>	<ul style="list-style-type: none"> <li>• The adjusted appropriation was R16.617 billion of which R13.204 billion (79.5%) was spent by the end of the Third Quarter.</li> <li>• Spending was R164.7 million (1.2%) lower than projected.</li> <li>• Reason for slow spending: Salary freeze on all government employees and delays in the procurement processes for machinery and equipment.</li> </ul>
<b>Programme 4: Air Defence</b>	<ul style="list-style-type: none"> <li>• The adjusted appropriation was R7.536 billion of which R4.785 billion (63.52%) was spent by the end of the Third Quarter.</li> <li>• Spending was R123 million (2.5%) lower than projected.</li> <li>• Reason for slow spending: Prolonged procurement process for a helicopter and maritime capabilities aircraft systems. Salary freeze on all government employees. Lockdown impacted on payment to suppliers.</li> </ul>
<b>Programme 5: Maritime Defence</b>	<ul style="list-style-type: none"> <li>• The adjusted appropriation was R4.959 billion of which R3.135 billion (63.2%) was spent by the end of the Third Quarter.</li> <li>• Spending was R97.6 million (3.0%) lower than projected.</li> <li>• Reason for slow spending: Lockdown impacted on payment to suppliers.</li> </ul>
<b>Programme 6: Military Health Support</b>	<ul style="list-style-type: none"> <li>• The adjusted appropriation was R6.077 billion of which R4.046 billion (66.6%) was spent by the end of the Third Quarter.</li> <li>• Spending was R356.1 million (8.1%) lower than projected.</li> <li>• Reason for slow spending: Prolonged procurement processes in terms of purchasing essential medical equipment and the salary freeze on all government employees.</li> </ul>
<b>Programme 7: Defence Intelligence</b>	<ul style="list-style-type: none"> <li>• The adjusted appropriation was R1.148 billion of which R845 million (73.6%) was spent by the end of the Third Quarter.</li> <li>• Spending was R6.7 million (0.8%) lower than projected.</li> <li>• Reason for slow spending: Salary freeze on all government employees.</li> </ul>
<b>Programme 8: General Support</b>	<ul style="list-style-type: none"> <li>• The adjusted appropriation was R7.798 billion of which R5.426 billion (69.6%) was spent by the end of the Third Quarter.</li> <li>• Spending was R406.5 million (7.0%) lower than projected.</li> <li>• Reason for slow spending: Salary freeze on all government employees. delays in the procurement of personal protective equipment which affected payments to perspective suppliers.</li> </ul>

#### 4. ADDITIONAL INFORMATION

In addition to the spending trends noted above, Members should take note of the following aspects related to personnel and spending by the DOD by the end of the Third Quarter:

- **Personnel/Vacancies.** By the end of the Third Quarter, the DOD had 72 950 filled posts against the Human Resource annual target of 75 000 posts. This figure shows a decrease in the Department's headcount from 73 240 in the second quarter. Members may note that the Estimates of National Expenditure tabled by the Minister of Finance on 24 February 2021 noted that DOD will decrease its total personnel component to



73 158 by 2023/24. As such, the current personnel figures (as at the end of the Third Quarter of 2020/21) is already within the lowered personnel contingent of the DOD.

- **Spending on Compensation of Employees (CoE).** The lower than projected spending on compensation of employees was mainly due to the lifting of the 2020/21 compensation of employees ceiling as a result of the extended deployment of the SANDF members (from 27 June 2020 to 30 September 2020). By the end of Third Quarter, the DOD has spent R24.592 billion on CoE, which is expected to rise to R30.984 billion by the end of the Fourth Quarter. However, as per the latest Estimates of National Expenditure, the DOD has an allocation of R29.347 billion for CoE in 2021/22.

## 5. QUESTIONS ON EXPENDITURE TRENDS FOR THE THIRD QUARTER

### Questions on expenditure trends by the end of the First Quarter:

- The aim of quarterly reports to Parliament is to track in-year expenditure trends. However, the information presented in the DOD's 2020/21 Third Quarter Report raises questions for in-year tracking of 2020/21 which the Committee may consider for urgent consideration, specifically around CoE:
  - By the end of the Third Quarter, the DOD had 72 950 personnel. By the end of the Fourth Quarter, the DOD is set to spend R30.984 billion on CoE. According to the latest national budget, the DOD is set to spend R29.347 billion on CoE in 2021/22. *How will the DOD lower its CoE expenditure further by R1.637 billion in 2021?*
  - What is the expected personnel figure for the DOD going into 2021/22, specifically given that there was no Military Skills Development System (MSDS) intake for the year?
  - In the ongoing reduction of personnel, how does the Department ensure that critical skills are not lost?
- The reason for slow spending in Programme 1 (Administration) is due to a delay in the submission of invoices for the payment of municipal services as well as the devolved funds from the DPW. What is being done to address this concern with the Department?
- Has the administrative backlog at the Department of International Relations and Cooperation, which resulted in a delay in the submission of payment vouchers for military attaché expenditure, been resolved?
- Lower than anticipated spending in Programme 6 (Military Health Services) was due to prolonged procurement processes in terms of purchasing essential medical equipment. Members may ask for clarity and reasons for such low spending.