

Budgetary Review and Recommendation Report of the Portfolio Committee on Defence and Military Veterans on the 2020/21 Annual Report of the Department of Defence (DOD), Dated 24 November 2021.

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered the financial and service delivery performance of the Department of Defence (DOD) for the 2020/21 financial year, on 17 November 2021, reports as follows:

1. INTRODUCTION

1.1. Description of core functions of the Department

The Constitution of 1996 in Section 200 sets out the mandate of the South African National Defence Force (SANDF), while Section 204 establishes a civilian secretariat for the Department. The mandate is to “*defend and protect the Republic, its territorial integrity and its people in accordance with the Constitution and the principles of international law regulating the use of force*”. In pursuance of this mandate, the Department of Defence (DOD) provides, manages, prepares and employs defence capabilities commensurate with the needs of South Africa, guided by the Constitution, relevant legislation and Executive direction.

1.2 Mandate of the Committee

The Portfolio Committee on Defence and Military Veterans (PCODMV) is mandated to oversee the Department of Defence and Military Veterans (DODMV) to ensure that the Department fulfils its mandate through the monitoring of the implementation of legislation and adherence to policies, such as the Defence Act (No. 42 of 2002), the White Paper on Defence (1996) and the 1998 Defence Review. Recently, the 2015 Defence Review was introduced as a policy directive to guide defence activities for the next 20 to 30 years. These policy guidelines assist the Committee in its oversight activities. The Committee scrutinises legislation that supports the mission statement of Government, the budget and functioning of DODMV, and the employment of the SANDF.

1.3 Purpose of the preliminary BRR Report

Section 5 (2) of the Money Bills Procedures and Related Matters Amendment Act (Act 9 of 2009) allows for each Committee to compile a Budgetary Review and Recommendation Report (BRRR) which must be tabled in the National Assembly. Section 5(3) provides for a BRRR to contain the following:

- a) an assessment of the department’s service delivery performance given available resources;
- b) an assessment on the effectiveness and efficiency of departments use and forward allocation of available resource; and
- c) recommendations on the forward use of resources.

In October of each year, parliamentary portfolio committees compile a BRRR that assess performance given available resources; evaluates the effective and efficient use and forward allocation of resources; and makes recommendations on the forward use of resources. The comprehensive review and analysis of the previous financial year’s performance, as well as performance to date, form part of this process. The BRRRs are also source documents for the Standing/Select Committees on Appropriations/Finance when they make recommendations to the Houses of Parliament on the Medium-Term Budget Policy Statement (MTBPS). The comprehensive review and analysis of the previous financial year’s performance, as well as performance to date, form part of this process. The Financial year 002/21 saw the beginning of the Coronavirus (COVID-19) pandemic, with a hard lockdown declared on 26 March 2020 to contain the spread of the disease. The impact of the pandemic and the necessitated government response, were significant on the DOD, as evidenced by especially the reasons for it not achieving some of its annual performance goals.

1.4 Methodology in compiling the report

The Report is compiled from the various activities of the Committee throughout the financial year. It is inclusive of the Committee’s meetings, oversight visits, reports on budget votes, strategic plans, annual performance plans (APP) and quarterly reports and the relevant annual reports, as well as previously published Committee reports.

1.5 Dates of oversight visits and study tours

The PCODMV conducted the following oversight visits related to the DOD during the FY2020/21:

- 27 November 2020: Visit to 1 Military Hospital and SA Army Main Ordnance Sub-depot.
- 28 November 2020: Air Force Base Waterkloof

- 28 – 29 November 2020: Oversight visit to land borders in Limpopo, Mpumalanga and KwaZulu-Natal.

1.6 Information used to compile the Report

Besides the information emanating from the oversight visit, other information used in the assessment of the service delivery and financial performance include:

- Committee reports on the 2020/21 budget hearings, strategic plans and annual performance plans;
- The National Development Plan 2030 (NDP);
- The 2020 Estimates of National Expenditure (ENE);
- The 2020 State of the Nation Address (SONA); and
- The Auditor-General of South Africa (AGSA) Report on the DOD.

1.7 Structure of the Report

This report comprises seven sections:

- Section 1: An Introduction which sets out the mandate of the Committee, the purpose of this preliminary report (BRRR) and the process to develop this report.
- Section 2: Provides an overview of the key relevant policy focus areas.
- Section 3: Provides an overview and summary of previous key financial and performance recommendations of Committee (2019/20).
- Section 4: Provides a broad overview and assessment of financial performance of the Department for 2020/21.
- Section 5: Overview of service delivery and performance of the DOD for 2020/21.
- Section 6: Key Committee Observations.
- Section 7: Key Committee Recommendations.

2. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS

2.1 State of the Nation Address

The 2020 State of the Nation Address (SONA) was delivered by the President on 13 February 2020. The 2020 SONA made no direct reference to the defence sector. However, several aspects were noted that may relate to the defence sector, including the need to promote peace and security on the continent, the need for economic growth that relates to the defence industry, the need to address youth unemployment of which the DOD can contribute to and concerns around the public wage bill that affects the DOD.

Two indirect implications that may affect the SANDF should be considered. Firstly, President Ramaphosa identified the need to accelerate economic growth in South Africa. The current slow rate of economic growth will continue to impact on military capacity in South Africa. Spending on personnel in the SANDF is significantly higher than the desired norm. While the 2015 Defence Review noted that personnel spending should be brought to 40%, the DOD is spending more than 60% of its budget on personnel. This significantly impacts on the ability of the military to procure new equipment and to appropriately fund operations. It also impacts on the ability of the Force to rejuvenate and adding to youth development and employment. Secondly, President Ramaphosa's commitment to continental peace and security will continue to place operational requirements on the SANDF. Similarly, the strive to achieve sustained internal peace and stability may also bring about an increased internal role for the SANDF. Both these aspects will require careful consideration given the financial constraints under which the Force operates. In order to deploy effectively, be it in terms of international peace missions, border safeguarding or internal deployments with the police, the SANDF needs to be well equipped and trained. This requires sufficient funding levels.

2.2 The National Development Plan 2030

The National Development Plan (NDP) presents a number of Recommendations, Actions and Indicators that relate to the DOD. The following represent some of the key aspects with relevance to the DOD:

- Chapter 7: Positioning South Africa in the World. The NDP proposes the convening of a high-level, high-impact task team to investigate South Africa's foreign relations. The study should outline an implementation programme to reach these objectives, focusing on, *inter alia*, national defence. The DOD contributes to this focus point of the NDP through peacekeeping operations and the presence of defence *attaches* around the world. Chapter 7 of the NDP also recommends that South Africa should extend the current agreement that allows the South African Navy to undertake anti-piracy operations

in Mozambican and Tanzanian waters, to include Kenya. South Africa's anti-piracy operation, which involves the South African Air Force, Special Forces and South African Military Health Services as well as the South African Navy, must be strengthened in order for operations to be sustained.

- Chapter 7 of the NDP also recommends the strengthening of border-enforcement to curb cross-border smuggling of counterfeit goods.
- Chapter 9: Promoting health. The NDP notes the aim of Universal Health Care coverage and that everyone must have access to an equal standard of care, regardless of their income. The DOD provides health services to all members of the SANDF through the SA Military Health Services (SAMHS), as well as assisting mil veterans with medical care.
- Chapter 14: Fighting corruption. The NDP aims for corruption-free society, a high adherence to ethics throughout society and a government that is accountable to its people. The DOD furthers this goal through a number of initiatives, including the national anti-corruption hotline, Corruption and Fraud awareness campaigns as well as implementing and monitoring the DOD Procurement Policy.

The envisaged contributions are further concretised in the Medium-Term Strategic Framework (MTSF).

2.3 The Medium Term Strategic Framework (2019 - 2024)

The 2019-2024 Medium Term Strategic Framework (MTSF) of Government identifies a number of priorities that are based on the electoral mandate. The 2020/21 Annual Reporting period falls under the mentioned MTSF. The MTSF identifies 7 priorities of Government and the DOD plays an important role in Priority 6 (Social cohesion and safer communities) and Priority 7 (A better Africa and world). Contributions to these outcomes are summarised in the table below.

DOD contributions to strategic outputs

MTSF Priority	Performance indicator	Target 2020/21	Achievement 2020/21
Priority 7	Total number of Defence Attaché Offices	44 Offices	44 Offices
Priority 6	Total number of military skills development (MSDS) members in the system	3 604	1 956 <i>MSDS training cancelled due to state of disaster</i>
Priority 6	Number of Reserve Force man days	2 695 963	3 355 353
Priority 7	Percentage compliance with the Southern African Development Community Standby Force Pledge	100%	87.5% <i>Maritime component not available due to maintenance</i>
Priority 7	Percentage compliance with number of ordered commitments (external operations)	100%	100%
Priority 6	Percentage compliance with number of ordered commitments (internal operations)	100%	100%
Priority 6	Number of Joint, Interdepartmental, Interagency and Multinational military exercises conducted	0	0 <i>Covid-related cancellations as per the Adjusted ENE.</i>
Priority 6	Number of landward subunits deployed on border safeguarding	15	15
Priority 6	Number of hours flown per year (<i>includes an estimated 4 000 hours for Force Employment, approximately 12 100 hours for Force Preparation and 1 000 VVIP hours.</i>)	17 100	13 726.4 <i>Flying dependent on serviceable aircraft; spares delivery delayed due to Covid</i>
Priority 6	Number of hours at sea per Year	10 000	6 818.4 <i>Most vessels in maintenance. No Ops Copper deployment in 2020/21</i>

2.4 Strategic priorities of the Minister of Defence

The 2020 Annual Performance Plan of the DOD highlighted the Minister of Defence's six strategic priorities. These priorities relate directly to the 2015 Defence Review, notably Milestone 1 of the Defence Review, and include:

- Defence Strategic Direction
- Strategic Resourcing Direction
- Organisational Renewal
- Human Resources Renewal
- Capability Sustainment Direction
- Ordered Defence Commitments Direction

The outflow of the stagnating defence budget, the compensation of employees ceiling and a lack of organisational renewal impact significantly on the Ministerial priorities. In her letter in the DOD 2019/20 Annual Report, the Minister further noted that "the Defence budget has been cut beyond the bone – the Special Defence Account (SDA), a key instrument to enable Defence to execute its approved defence acquisition projects, is nearing its demise. This means that major acquisition projects for the landward forces and maritime forces are under serious threat from non-completion." This highlights the difficulty in capability sustainment in the SANDF.

3. SUMMARY OF PREVIOUS (2019/20) KEY FINANCIAL AND PERFORMANCE RECOMMENDATIONS OF THE COMMITTEE

3.1 Budgetary Review and Recommendations Report (BRRR) 2019 recommendations

Based on its analysis and overview of the 2019/20 Annual Report of the Department of Defence, the Committee made the following recommendations:

Recommendations to the Minister of Finance:

- The Committee welcomes the provision of additional funds for the use of technology to augment border safeguarding. However, the Minister of Finance should consider an additional ring-fenced allocation to gradually increase the number of sub-units from the current 15 to at least 22 sub-units for border safeguarding by the SANDF. This increase will assist the SANDF in countering cross-border crime and adhering to its legislated function to effect national border control.
- The Ministers of Finance should consider an additional ring-fenced allocation to fund the midlife upgrades of the SA Navy vessels in need of such upgrades. The upgrade of the SA Navy's Frigate and Submarine fleet is essential to ensure that the Navy maintains its patrol capabilities and thereby fulfil its Constitutional requirement to ensure the territorial integrity of South Africa.
- The Minister of Finance and Minister of Defence are encouraged to find means to salvage the Special Defence Account (SDA). This will be essential to ensure that the DOD can continue to maintain critical capabilities and provide continued indirect support to the Defence Industry.
- 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.

Recommendations to the Minister of Finance and Minister of Defence:

- The Committee urges the immediate engagement between the Minister of Defence, the Minister of Finance and the Commander-in-Chief of the SANDF, 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 SA Army, SA Air Force and SA 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.
- The Committee noted comments by the DOD 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 DOD develop and roll out a rejuvenation plan and National Treasury providing funding for an exit mechanism to speed up rejuvenation. National Treasury should, as soon as possible, release funds to facilitate an interim exit mechanism for the remainder of 2019/20. The DOD should finalise rejuvenation plans for full implementation from 2020/21.

- The Minister of Defence and Minister of Finance should jointly investigate means to ensure the midlife upgrades for SA Navy frigates and submarines are carried out according to schedule. Joint feedback should be provided to the Committee before the end of the 2019/20 financial year.

Recommendations to the Minister of Defence:

- The DOD should report on the spending progress of the R225 million for borderline technology.
- Given that Project Hoefyster is significantly behind schedule, the DOD, Armscor and Denel should jointly re-evaluate the feasibility of Project Hoefyster and present the Committee with a way forward. Key to this outcome should be a focus on SANDF capability as well as fiscal stability. The Minister, through the Armaments Acquisition Council, should provide feedback to the committee on the outcome of engagements between the DOD, Armscor and Denel on the future of Project Hoefyster.
- DOD should ensure that it invoices government departments for services rendered by the DOD and the Department should indicate to the PCODMV if there are cases where such invoices were not paid.
- The DOD should brief the Committee on a quarterly basis on the status of funding for Projects Biro and Hotel, including from which other capital acquisition projects funds are moved from to pay for these projects.
- The DOD is encouraged to ensure that funds earmarked for Research and Development purposes are released.
- The DOD should realign its 2020/21 Annual Report to report on the following two targets that have been classified:
 - Percentage medical stock availability.
 - Reimbursements received from the United Nations for deployments.
- The Committee recommends urgent interventions to ensure improved case finalisation in the Legal Services Division, specifically the finalisation of disciplinary cases in the Department, as it relates directly to Consequence Management.
- The DOD should report to the Committee in writing the status of all outstanding DOD strategies as well as future developmental and implementation dates.
- Measures to return the DOD to a Level 5 Enterprise Risk Management maturity level rating in 2020/21 should be implemented. Progress in this regard should be presented to the Committee on a quarterly basis.
- The Committee remains concerned about the fact that the SA Air Force is not able to meet its flying hour targets. The Committee will continue to monitor this on a quarterly basis and requests the DOD to provide it with these figures quarterly as well as reasons for non-achievement of the target.
- The Committee requests a broad outline from the DOD on its envisaged utilisation and maintenance of the vessels to be delivered to the SA Navy over the MTEF. Clarity should be provided on how this will be funded and the impact that it will have on the Navy's ability to achieve its target on sea hours.
- The DOD should effectively capacitate Defence Intelligence to increase its capacity for vetting decisions.
- Given that the Military Police managed to exceed its targets in 2019/20, the DOD should consider adjusting these targets upwards for the outlying years of the MTEF to ensure enhanced performance.
- 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.
- The DOD should furnish the Committee with a report on the reasons for under-collection of transfers from the UN due to the Memorandum of Understanding not being finalised.
- The DOD should urgently appoint new auctioneers to ensure that revenue can be generated from the sale of approved obsolete assets. While the Committee understands that Project Thusano is ongoing to realise the utilisation of old vehicles, the auctioning of equipment that were already found to be unserviceable should proceed without delay as the Committee was informed that some of these vehicles dated from the 1980's.
- The Committee encourages the Minister of Defence to relay to Cabinet the dire consequences of any potential collapse of Denel to Armscor, the broader defence industry and the SANDF's operational capability.
- The Committee encourages the Minister of Defence to speed up plans to generate revenue for the DOD and quarterly updates on progress in this regard should be provided to the Committee.
- The Committee urges the DOD to ensure that Supply-Chain Management functions are realigned to resort under the control of the CFO and the Risk Management under the accounting officer.

3.2 Response by the Minister of Finance

The following responses to the above recommendations were received from the Minister of Finance:
The committee welcomes the provision of additional funds for the use of technology to augment border safeguarding. However, the Minister of Finance should consider an additional ring-fenced allocation to gradually increase the number of sub-units from 15 to at least 22 sub-units for border safeguarding by the

South African National Defence Force (SANDF). This increase will assist the SANDF in countering cross-border crime and adhering to its legislated function to effect national border control.

- Border security remains a government priority. Over the 2021 MTEF period, R3.2 billion is earmarked to safeguard borders. As noted earlier, there is little scope to provide additional funding at this time and fiscal constraints require departments to identify opportunities for reprioritisation.

The Minister of Finance should consider an additional ring-fenced allocation to fund the midlife upgrades of the South African Navy vessels in need of such upgrades. The upgrade of the South African Navy's frigate and submarine fleet is essential to ensure that the Navy maintains its patrol capabilities and thereby fulfil its constitutional requirement to ensure the territorial integrity of South Africa.

- As noted at the beginning of this section, there is little scope for additional funding and departments are advised to identify areas of reprioritisation, including by improving their internal efficiency.

The Minister of Finance and the Minister of Defence and Military Veterans are encouraged to find means to salvage the Special Defence Account. This will be essential to ensure that the Department of Defence can continue to maintain critical capabilities and provide continued indirect support to the defence industry.

- As noted at the beginning of this section, there is little scope to provide additional funding at this time.

The Minister of Finance should indicate to the committee his willingness to fund, in addition to the Department of Defence'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 department going forward.

- The National Treasury agrees that the department requires a long-term plan to manage compensation spending pressures. In the 2019 Budget, the National Treasury provided funding to implement early retirement without penalties, as part of an effort to reduce the growth of public-service compensation. Unlike other departments, the Department of Defence chose not to participate in this initiative. As noted at the beginning of this section, there is little scope to provide additional funding at this time.

4. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE FOR 2020/21

The DOD set itself a total of 53 targets over its eight programmes for 2020/21. Of the total targets, 15 were deemed to contain classified information and were not made available for public scrutiny. The DOD reported on 21 targets achieved and 15 under-achieved. Non-performance was particularly noticeable in Programme 1 (Administration). The level of performance should be viewed against expenditure of R54.086 billion (98.8%) of a final appropriation of R54.201 billion.

4.1 Programme 1: Defence Administration

4.1.1 Defence Administration financial shifts and expenditure

Programme	Adjusted Appropriation	Virement R'000	Final Appropriation	Actual Expenditure	Variance	
					R'000	%
Administration	5 445 083	(117 730)	5 327 353	5 325 033	2 320	0.1%

The Administration programme's total expenditure for 2020/21 came to R5.325 billion, following virements of R117 million away from the programme. The virements away from the programme largely impacted on Compensation of employees (R45.693 million) and Goods and Services (R84.762 million).

The subprogrammes most affected by virements include the following:

- Financial Services (a reduction of R40.845 million)
- Legal Services (a reduction of R32.040 million)
- Defence Foreign Relations (a reduction of R49.316 million)
- Reserve Force Direction (a reduction of R6.110 million)
- Office Accommodation (an increase of R71.961 million)

In terms of expenditure per economic classifications, the following may also be noted:

- *Advertising:* A virement of R16.735 million was made to advertising, increasing the final appropriation to R55.391 million of which 100% was spent. This amount seems high for 2020/21 that was characterised by countrywide lockdowns, the cancellation of recruitment initiatives and the lack of an Armed Forces Day (In 2019/20, R70.704 million was spent on advertising).
- *External audit:* The DOD spent R1.960 million on external audit, compared to R2.634 million in 2019/20.

4.1.2 Defence Administration performance

The Administration programme set nine (9) targets for 2020/21 of which one is considered classified information. Of the remaining eight (8) targets, three were achieved, reflecting a 37.5% success rate against set targets for Programme 1.

Administration programme: Selected non-performance on set targets

Subprogramme	Target description	2020/21 Target	2020/21 Achievement	Comments
<i>Defence strategic direction</i>	% adherence to DOD index for policies	>80%	66.2%	No Policy Board meetings took place during lockdown. Six policies are in the departmental approval phase. Not achieved
	% adherence to DOD index for strategies	50%	0%	The absence of higher order corporate strategies, hampered the development of subordinate functional strategies. Not achieved
	% adherence to DOD index for plans	90%	84.2%	Department complied with the Parliamentary requirement to re-table five 2020 Planning Instruments. Not achieved
	Number of Reserve Force man days	2 695 963	3 355 353	Additional deployments as part of Op Nothlela. Achieved
	Reduction in number of audit qualifications	5	2	Audit qualifications in terms of 'Goods and Services and Investments' as well as 'Irregular Expenditure' Not achieved
	Audits completed in terms of the approved Internal Audit Plan	100%	83.3%	Some audit projects were impacted by COVID-19 regulations. Not achieved
<i>Defence Capabilities provided</i>	Number of Defence Attaché Offices	44	44	Achieved
	Capabilities required to support national efforts in mitigating and combating the spread of COVID-19	100%	100%	Achieved

4.2 Programme 2: Force Employment

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	%
Force Employment	4 620 476	40 263	4 660 937	4 660 937	0	0%

The purpose of this programme is to provide and employ defence capabilities. In 2020/21, following the adjusted appropriation, a further virement of R40.263 was made to the programme. While all subprogrammes had its allocation reduced through virements, the Special Operations subprogramme had its allocation increased through a virement of R475.009 million. The largest virements away from subprogrammes were for Regional security (allocation reduced by R203.572 million) and Support to the People (allocation reduced by R195.180 million).

In terms of economic classifications, the virements away from the Force Employment programme was largely in terms of Compensation of Employees (R87.296 million) and Goods and services (R301.976 million).

Virements to the programme was largely in terms of Departmental agencies and Accounts (R309.3 million) and Transport Equipment (R110.603 million).

A total of 12 targets were set for the programme of which five were classified and one (interdepartmental exercises) had no target for 2020/21 due to the Covid pandemic. Of the six (6) remaining targets, four (4) were achieved. The targets not achieved relates to only 52% of the UN reimbursement for SANDF deployments being realised and 87% compliance with the SADC Standby Force against a target of 100%.

4.3 Programme 3: Landward defence

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
Landward Defence	16 617 184	569 462	17 186 646	17 186 646	0	0.0%

The purpose of this programme is to provide prepared and supported landward defence capabilities for the defence and protection of South Africa. In terms of spending, all subprogrammes spent 100% of their final appropriation. Following the adjusted appropriation, further virements to the value of R569.462 million was made to the programme. Only two subprogrammes had their allocation reduced through virements, including the Support Capability (R23.466 million) and the Command and Control Capability (R506 000). The virements increased the appropriation of several subprogrammes significantly, most notably:

- Strategic Direction (allocation increased by R44.934 million)
- Armour capability (allocation increased by R84.108 million)
- Artillery capability (allocation increased by R56.297 million)
- Air Defence capability (allocation increased by R49.901 million)
- Engineering capability (allocation increased by R169.3 million)
- Signal capability (allocation increased by R107.250 million)

In terms of economic classifications, the virements were largely for:

- Compensation of employees (an increase of R127.953 million)
- Contractors (an increase of R147.676 million)
- Computer services (an increase of R52.231 million)
- Machinery and equipment (an increase of R61.539 million)
- Travel and subsistence (an increase of R37.899 million)

Five (5) targets were set for this programme of which two are considered classified and one (number of unique force training exercises) had no targets due to the Covid pandemic. The programme did not achieve the target on its training targets (69%) against a target of 80%.

4.4 Programme 4: Air defence

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
Air Defence	7 536 152	148 644	7 684 796	7 684 796	0	0%

The purpose of the Air Defence programme is to provide prepared and supported air defence capabilities for the defence and protection of South Africa. In terms of spending, all subprogrammes spent 100% of their final appropriation by the end of the financial year. Virement of R148.644 million was made to the programme. Following the adjusted appropriations, subsequent virements resulted in large increases for the Helicopter Capability (R237.247 million), the Base Support Capability (R121.746 million) and the Technical Support

Services (R92.579 million). The largest virement away from a subprogramme was from the Air Combat Capability (R148.897 million).

In terms of economic classifications, the additional virements largely benefitted Departmental Agencies and Accounts (R257.941 million) and public corporations/private enterprises (R330 million). Virements reduced the allocation for Contractors from R1.420 billion to R1.142 billion. Virements also resulted in a reduction of the final allocation for Fuel, Oil and Gas from an adjusted appropriation of R358.159 million to R253.525 million of which only 48.7% was spent.

Six (6) targets were set of which two are deemed classified (compliance with Joint Force Employment requirements and combat-ready capabilities available). The programme did not achieve its targets related to training (63% against a target of 80%). The SA Air Force also did not achieve the number of flying hours with only 13 726 hours flown against a target of 17 000.

Crucially, in terms of flying hours, it should be noted that the target for the Performance Indicator "number of hours flown per year" was reduced from 25 000 to 17 200 hours per year in 2019/20 and further to 17 100 in 2020/21 due to the reduction in the budget allocation to the Air Defence Programme.

4.5 Programme 4: Maritime defence

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
Maritime Defence	4 958 731	(221 230)	4 737 501	4 737 501	0	0%

The purpose of the programme is to provide prepared and supported maritime defence capabilities for the defence and protection of South Africa. The Maritime Defence programme spent 100% of its final allocation of R4.738 billion by the end of 2020/21. Following the mid-year adjustments, the allocation for the programme was further reduced through a virement of R221.230 million. The Maritime Logistics Support Capability was the subprogramme most affected by the virement with its allocation being reduced by R159.028 million.

In terms of economic classifications, the virement reduced the allocation of Goods and Services by R480.505 million, while Departmental Agencies and Account received an additional R229.499 million. Of further interest to operational capacity of the SA Navy is the reduction in the allocation for Fuel, Oil and Gas from an adjusted appropriation of R107.727 million to a final appropriation of R53.063 million of which only 63.9% was used. Thus, in 2020/21, only R33.881 million was spent on Fuel, Oil and Gas, compared to R119.516 million in the preceding year. This may speak to the limited operations of the SA Navy and raises real concerns around its training capacity and operational capacity.

For the period under review, the Maritime Defence Programme had seven (7) targets of which two were deemed classified (compliance with Joint Force Employment requirements and combat-ready capabilities). The programme did not achieve its targets for the number of coastal patrols per year (conducting three patrols against a target of four). The SA Navy also failed to achieve its target of 10 000 sea hours for the year and managed to achieve only 6 818.

4.6 Programme 6: Military Health Support

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	%
Military Health Support	6 077 410	(478 294)	5 599 116	5 487 140	111 967	2%

The purpose of the Military Health Support Programme is to provide prepared and supported health capabilities and services for the defence and protection of South Africa. The programme spent 98% of its final appropriation of R5.599 billion by the end of 2020/21. Underspensing of R111.761 million was recorded in the Military Health Product Support Capability subprogramme. In this subprogramme, over-expenditure of R94.575 million was recorded in terms of Compensation of Employees, but underspensing of R105.541 million was recorded in terms of Goods and Services as well as a R100.795 million underspensing in terms of machinery and equipment.

Of further interest in terms of the Military Health Support programme's economic classifications is that the programme only spent 71.5% (R274.649 million) of its adjusted appropriation of R469.923 million on Medicine. The programme had five targets of which three were deemed classified. The programme achieved 100% of its target related to support for national efforts in mitigating and combating the spread of Covid-19. The training

target was not reached with 412 less learners than planned successfully completed training programmes. The non-achievement of learning programmes and learners was exacerbated by Covid-19 restrictions. Lastly, it should be noted that, in the past, the programme reported on the number of healthcare activities per year. However, as per the 2020 APP, this was not included in the 2020/21 Annual Report. This is of concern given that in 2019/20 the programme failed to reach its target in terms of healthcare activities and there is no means of assessing recovery or further regression in the 2020/21 Annual Report.

4.7 Programme 7: Defence Intelligence

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
Defence Intelligence	1 147 862	(16 931)	1 130 931	1 130 931	0	0%

The purpose of Defence Intelligence programme is to provide a defence intelligence and counter-intelligence capability. For 2020/21, the programme spent 100% of its final allocation, but its allocation was reduced after the mid-year adjustments through a virement of R16.931 million. This virement largely affected the Defence Intelligence Support Services subprogramme in a reduction to Travel and Subsistence (R10.9 million), Fuel (R3.27 million) and Food supplies (R2.878 million).

The programme had two targets reported on in the Annual Report related to the number of vetting decisions and the number of Defence Intelligence Products. It over-achieved on both targets with 1 114 Defence Intelligence Products produced (against a target of 448) and 6 520 vetting decisions taken (against a target of 4 500).

4.8 Programme 8: General Support

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
General Support	7 798 191	75 816	7 874 007	7 873 206	801	0%

The purpose of the General Support programme is to provide support capabilities and services to the Department. The programme spent 99.9% of its final appropriation of R7.874 billion by the end of the financial year. After the mid-year adjustments, an additional R75.816 million was allocated to the programme through a virement. Major shifts in the programme included the reduction of the Command and Management Information Systems subprogramme allocation by R102.424 million and an increase to the Technology Development subprogramme by R214.265 million.

In terms of economic classifications, the General Support programme overspent on compensation of Employees by R266.517 million. This was recovered from spending on Goods and Services where underspending of R266.517 was recorded.

In terms of performance, a total of seven (7) targets were set for 2020/21 of which six (6) were achieved, as depicted below:

Programme 8: General Support achievements against targets for 2020/21

Target description	2020/21 Target	2020/21 Achievement	Comments
Number of landward sub-units deployed on border safeguarding	15	15	Achieved
Percentage procurement requests fully completed within 90 days from day of Registration	95%	99.87%	Achieved
Payment of leases, Accommodation charges and municipal services – Payment according to facilities plan	100%	101.3%	Over expenditure of R35 450 180.00 is due to leases paid and annual escalations. Achieved

Target description	2020/21 Target	2020/21 Achievement	Comments
Compliance with ICT Capabilities Plan	90.4%	91.73%	Achieved
Number of Crime Prevention operations conducted	124	114	Impact of Ops Nottlela Not achieved
Criminal cases investigated (backlog)	40%	56%	The Department investigated 1 473 criminal cases from the backlog of 2 604 criminal cases. Achieved
Criminal cases investigated (in-year)	25%	44%	1099 new cases were received of which 490 cases were investigated. Achieved

5. ORGANISATIONAL STRUCTURE AND HUMAN RESOURCE SUPPORT

The Human Resources (HR) Management chapter of the 2020/21 Annual Report deals with various issues related to personnel. The following key aspects should be considered by the PCODMV:

- Personnel spending (Compensation of Employees): The DOD received a main appropriation for Compensation of Employees at the start of 2020/21 to the value of R31.178 billion which was adjusted downwards during the mid-year adjustments to R30.985 billion. At the end of 2020/21, the DOD spent R32.760 billion on Compensation of Employees which is 61% of the Department's total expenditure. *The DOD overspent on Compensation of Employees by R1.775 billion in 2020/21.*
- Reduction in Navy Personnel: The SA Navy, the smallest component of the SANDF, has seen its personnel figures continue to decrease in recent years. It decreased from 7 076 members by the end of 2016/17 to 6 992 by the end of 2017/18. It further reduced to 6 816 in 2018/19, 6 647 in 2019/20 and 6 389 in 2020/21.
- Critical occupation vacancy rates: In terms of critical occupations, several areas with high vacancy rates should be noted. These vacancy rates are against the approved established structure of the DOD (with a total of 89 000 personnel; compared to the current actual strength of 72 322). However, the vacancy rate does provide a sense of requirement in the SANDF for specialists:
 - Airspace Control has a vacancy rate of 13% (15% in 2019/20). No new appointments in 2020/21.
 - Aircrew has a vacancy rate of 22% (18% in 2019/20). No new appointments in 2020/21.
 - Engineers has a vacancy rate of 53% (47% in 2019/20). No new appointments in 2020/21.
 - Nursing has a vacancy rate of 16% (12% in 2019/20). Only 3 new appointments in 2020/21.
 - Technical has a vacancy rate of 23% (22% in 2019/20).
- Non-signing of performance agreements by Senior Management: Of the total of 251 Senior Management Members, only 236 signed their performance agreements in time. This has been a recurring area of underperformance for the DOD. The main reasons for the late submission of Performance Agreements were administrative challenges (i.e. Incomplete Performance Agreements) and Non-Completion due to expiry of term as Defence Attaché. There were no disciplinary measures taken against the members who did not comply.
- Performance rewards: The total cost of performance rewards paid out increased from R197.045 million in 2018/19 to R219.591 million in 2019/20. However, in 2020/21, no performance awards were paid by the DOD.
- Sick leave cost: The total cost of sick leave has fluctuated significantly in recent years. In 2016/17, the estimated cost for sick leave utilisation was R330.731 million. For 2017/18, this decreased slightly to R320.405 million, with a further reduction to R296.754 million in 2018/19. However, in 2019/20, the total cost of sick leave increased drastically to R400.189 million and again decreased significantly to R258.955 million in 2020/21. The average number of days' sick leave per employee decreased from 8 in 2019/20 to 7 in 2020/21.
- Rejuvenation and exit mechanism. The 2019/20 Annual Report contained the following statement: "the DOD appreciated the rejuvenation of its regular force HR composition. In addition, it has also appreciated the realignment of an exit mechanism as directed by the Minister of Defence and Military Veterans. The remaining HR funding impasse is grounded on the fact that the DOD is required to maintain a HR capacity, not commensurate with the funding allocation." However, the 2020/21 Annual Report made no follow-up in this regard.
- Cost of suspension with pay: During the JSCD mini-symposium on Force Structure, it was pointed out to the Committee that the cost of SANDF members being suspended on full pay for lengthy periods poses a financial constraint to the Department. In 2018/19, at least 30 uniformed members were

suspended with full pay for an average of 338 days, costing the Department R10.728 million. In 2019/20, at least 56 uniformed members were suspended for an average of 251 days at a cost of R14.116 million to the Department. This increased further in 2020/21 to 57 uniformed members suspended for more than 30 days at a cost of R16.978 million to the DOD. In addition, the DOD has 11 Public Service personnel suspended for more than 30 days at a cost of R2.719 million to the DOD.

6. BROAD FINANCIAL CONCERNS AND THE AUDITOR-GENERAL'S REPORT

6.1 Unauthorised, fruitless and wasteful, and irregular expenditure

Irregular expenditure, according to the DOD, amounted to R2.182 billion for 2020/21, which is lower than the R2.832 billion irregular expenditure incurred in 2019/20. According to the DOD, major contributors to irregular expenditure include:

- R1.775 billion was for expenditure above the Compensation of Employees allocation; this was due to a reduction imposed by Treasury through budget reduction on actual employees in the services of the DOD.
- R105 million was paid for the asset verification project contract which was awarded through an unfair bidding process. This contract will be concluded in 2021/22.
- R39 million for an Information Communication Technology contract awarded in the FY2019/20. This contract will be concluded in 2022/23.
- R37 million was incurred for COVID-19 Personal Protective Equipment procurement, when the Department deviated from National Treasury's instruction.
- R37 million was incurred when the Department followed an unfair bidding process in awarding the fuel contract for the North-West and Gauteng provinces.
- R33 million was incurred when the Department did not comply with the South African Health Products Regulatory Authority, approval was not obtained prior to the importation of an immune booster medicine.
- R102 million was incurred for 11 different procurement deviations within the Sensitive Projects environment.

Fruitless and wasteful expenditure decreased from R20 million in 2019/20 to R4 million in 2020/21. The main contributor relates to an incident of interest and foreign currency fluctuation for a late payment. Decisions on the way forward will be determined and appropriate action taken.

6.2 Findings by the Auditor-General of South Africa

As in the past two financial years, the DOD received a **qualified audit opinion** from the Auditor-General for 2020/21. The basis for the qualified audit opinion rests on the following:

- *Goods and services and investments.* Similar to previous years, the AG was unable to obtain sufficient appropriate audit evidence for sensitive projects (in relation to the Special Defence Account (SDA)).
- *Irregular expenditure.* The department did not fully record irregular expenditure in the notes to the financial statements.

The AG also raised the following emphasis of matters:

- **Payables not recognised.** payables of R114,42 million exceed the payment term of 30 days as required by treasury regulation 8.2.3. This amount, in turn, exceeded the R5,88 million of voted funds to be surrendered by R108,55 million as per the statement of financial performance. The amount of R108,55 million would therefore have constituted unauthorised expenditure had the amounts due been paid on time.
- **Uncertainty of future outcomes of litigation.** The Department is the defendant in various lawsuits. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Additional concerns raised by the AG that Members of the PCODMV may wish to seek clarity on include the following:

- Expenditure management

- Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. Some of the quotations were accepted from prospective suppliers who did not submit a declaration on whether they are employed by the state. The majority of the irregular expenditure disclosed in the financial statements was caused by compensation of employees' budget being exceeded without National Treasury approval, in contravention of treasury regulation 6.3.1(a).
- Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R18,87 million as disclosed in note 25 to the annual financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The majority of the fruitless and wasteful expenditure was caused by payments made in terms of an operating lease for unutilised property.
- The department did not use its resources economically, as required by section 45(b) of the PFMA.
- Some of the goods and services of a transaction value above R500 000 were procured without inviting competitive bids and deviations, as required by treasury regulations 16A6.1. and 16A6.4. Similar non-compliance was also reported in the prior year.
- Some of the prices of emergency goods or services procured through quotations in response to the National State of Disaster declared on 15 March 2020 were above prices negotiated by National Treasury in terms of paragraph 3.7.6(ii) of the National Treasury Instruction Note no. 8 of 2019-20.

7. COMMITTEE OBSERVATIONS: DEPARTMENT OF DEFENCE

The Committee made the following general observations on the 2020/21 Annual Report:

- A. Members expressed concern around the sizeable virements made across programmes following the adjustments period in 2020/21. While Members agreed that these virements did not require parliamentary approval as it fell under the 7% threshold prescribed by the PFMA, the need for large virements does reflect poorly on the levels of financial planning.
- B. The Committee, as in previous years, expressed significant concern around the matter of over-spending on Compensation of Employees. This has been a major contributor to irregular expenditure, as highlighted by the AGSA.
- C. Members raised the need for the DOD to focus on addressing the matters for qualification as noted by the AGSA.
- D. Members highlighted the need for the DOD to focus on consequence management within the Department, specifically due to the need for the SANDF to be managed as a disciplined military force.
- E. Members questioned the non-achievement of training targets within several programmes during 2020/21, but expressed understanding that Covid-19 impacted on the achievement of such targets.
- F. The low level of reimbursement from the United Nations for SANDF deployments was raised a matter of concern as this impacted on the already constrained finances of the DOD. It further reflects negatively on the SANDF's operational readiness in the mission areas, given that the United Nations reimburses South Africa's contribution based on the levels of force and equipment readiness.
- G. Members expressed disappointment that, as in previous years, the targets for flying- and sea-hours were not achieved by the SA Air Force and SA Navy, and questioned the impact that this has on operational capacity and force preparation.
- H. The Committee again noted the need for the urgent midlife upgrades to the SA Navy platforms to avoid operational capacity loss over time.
- I. Members questioned the continued need for 44 Defence Attaché Offices given the financial constraints under which the Department currently functions.
- J. The Committee raised questions around the need for additional funds through a virement for advertising in Programme 1, especially given the protracted lockdowns in 2020.
- K. Members noted that the reasons provided for the DOD's qualifications related to irregular expenditure on Personal Protective Equipment (PPE) was not satisfactory.
- L. Members noted the need for a more comprehensive collaboration between the DOD and the Defence Industry.

8. COMMITTEE RECOMMENDATIONS

Based on its analysis and overview of the 2020/21 Annual Report, the Committee makes the following recommendations:

Recommendations to the Minister of Finance:

- a. The Committee notes with concern the DOD's continuous overspending on Compensation of Employees against the ceiling set by National Treasury that again resulted in irregular expenditure in 2020/21. This concern requires short-term and long-term solutions. National Treasury should reconsider assisting the DOD with its plans to cut Compensation of Employees by providing additional

funding for an Exit Mechanism and indicate to the Committee whether it is willing to start funding such a mechanism should the DOD show success in the implementation of its plans to curtail Compensation of Employees expenditure.

- b. The Committee is aware of fiscal constraints and noted National Treasury's previous response to the BRRR that no funds were available for a ring-fenced allocation to fund the midlife upgrades of the SA Navy vessels. However, the Committee again recommends that National Treasury reprioritise funds to provide a ring-fenced allocation to upgrade the SA Navy's Frigate and Submarine fleet in the coming years. The non-availability of naval platforms due to maintenance requirements results in the SA Navy not achieving its targets for coastal patrols and sea hours, thus affecting its constitutional mandate to ensure the territorial integrity of South Africa. Additional funding over the medium-term for the midlife upgraders are therefore essential.

Recommendations to the Minister of Defence:

- c. Following consultation with National Treasury, the DOD should indicate to the Committee, before the end of January 2022, how the projected shortfall in Compensation of Employees for 2021/22 will be funded. If the DOD is required to fund the shortfall from within its existing 2021/22 allocation, a detailed breakdown of shifts and virements should be provided. The report should also provide an overview of expected savings due to interventions to contain cost pressures related to Compensation of Employees over the medium-term and when a break-even point is expected to be reached.
- d. The DOD should update the Committee on a quarterly basis on the progress related to the implementation of interventions to contain cost pressures related to Compensation of Employees.
- e. The DOD should update the Committee on a quarterly basis on the progress related to investigations into cases of irregular, fruitless and wasteful expenditure.
- f. The Committee recommends that the DOD's Internal Audit capacity with the concurrence of the Audit Committee, put in place measures to prevent a recurrence of the matters for qualification as noted by the AGSA.
- g. The Committee encourages the Minister to ensure that consequence management is visibly implemented within the Department. The Committee will, as part of its 2022 oversight programme follow-up in this regard, specifically as it relates to the matter of the PPE acquisition noted by the AGSA.
- h. While the Committee expressed understanding that the Covid-19 pandemic impacted on the DOD's training programme, the Department should ensure that training targets in various programmes are met going forward. The DOD should provide updates on performance against set training targets as part of its quarterly reporting to Parliament going forward for the remainder of the 2021/22 reporting period.
- i. The DOD should update the Committee as part of its quarterly reports on progress related to reimbursements from the United Nations. The Minister is further encouraged to resolve this as a matter of urgency by implementing measures to ensure higher levels of compliance with United Nations equipment inspections.
- j. In its next quarterly report to the Committee, the DOD should indicate progress related to flying- and sea-hours for 2021/22 and provide a list of factors contributing to the non-achievement of these targets. This list will enable to Committee to direct its future oversight to the root causes of non-achievement against set flying- and sea-hour targets.
- k. The Committee encourages the Minister to re-evaluate the need for 44 Defence Attaché offices, especially given the current financial constraints faced by the Department, and that DIRCO is down-scaling in this regard. Feedback on this process should be provided to the Committee as part of the quarterly reporting for 2021/22 and a way forward should be contained in the 2022 APP.
- l. The Committee encourages the Minister to build a closer relationship between the local Defence Industry and the SANDF to ensure the continued viability of the industry and appropriate local support to the SANDF's operational capacity.

Report to be considered