

BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS ON THE 2021/22 ANNUAL REPORT OF THE DEPARTMENT OF DEFENCE (DOD), DATED 26 OCTOBER 2022.

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 2021/22 financial year, on 12 October 2022, reports as follows:

1. INTRODUCTION

1.1. Description of core functions of the Department

Section 200 of the 1996 Constitution sets out the mandate of the South African National Defence Force (SANDF), while Section 204 establishes a civilian secretariat for the Department. The mandate of the SANDF 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 and the 2015 Defence Review. 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 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.

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), quarterly reports and the relevant annual report, as well as previously published Committee reports.

1.5 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 2021/22 budget hearings, strategic plans and annual performance plans;
- The National Development Plan 2030 (NDP);
- The 2021 Estimates of National Expenditure (ENE);
- The 2021 State of the Nation Address (SONA); and
- The Auditor-General of South Africa (AGSA) Report on the DOD.

1.6 Structure of the Report

This report comprises seven sections:

- An Introduction which sets out the mandate of the Committee, the purpose of this report (BRRR).
- An overview of the key relevant policy focus areas.
- An overview and summary of previous key financial and performance recommendations of Committee (2020/21).
- A broad overview and assessment of financial performance of the DOD for 2021/22.
- An overview of service delivery and performance of the DOD for 2021/22.
- Key Committee Observations.
- Key Committee Recommendations.

2. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS

2.1 State of the Nation Address

President Ramaphosa delivered his State of the Nation Address (SONA) on 11 February 2021. The SONA was dominated by four key aspects, including the ongoing impact of and fight against the Covid-19 pandemic; efforts to accelerate economic recovery; attempts to boost inclusive economic growth; and, strengthening anti-corruption efforts and strengthening the weakened state. Similar to previous years, with these focal points dominating the Address, little opportunity was left for emphasis on matters pertaining to the DOD. However, some aspects noted by the President have an impact on the broader defence sector.

- *Noting the role of soldiers in the fight against Covid-19:* Along with other sectors such as the health services and police, the President noted the important role and determination of soldiers in South Africa's efforts to combat Covid-19.
- *The need to strengthen the health system:* Amid the ongoing Covid-19 pandemic, the President highlighted the clear need for the strengthening of the health system. These efforts also relate to the South African Military Health Services (SAMHS) that provides health services to SANDF members and military veterans.
- *Overcome joblessness:* The President noted the significant impact of the Covid-19 pandemic on employment in the country, currently standing at 30.8%. The Department of Defence (DOD) is not a major contributor to employment, but provides opportunities to young South Africans to join the SANDF through the Military Skills Development System (MSDS).
- *The need for local production and the purchasing of locally made products.* The President placed significant emphasis on economic recovery and efforts to boost economic growth. Specific mention was made of sector master-plans aimed at growing specific sectors of the economy. While no specific mention was made of the domestic defence industry, it is nonetheless an important industry that has the potential to aid economic growth.
- *Internal roles for the SANDF.* With reference to the development of the Border Management Agency, the President referred to efforts to curb illegal immigration and cross-border crime. While the SANDF is not directly involved with the functions of the BMA, it is the primary entity responsible for borderline control (between border posts).

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 expanded on 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 2021/22 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 2021/22	Achievement 2021/22
Priority 7	Total number of Defence Attaché Offices	44 Offices	44 Offices
Priority 6	Number of Reserve Force man days	2 601 519	3 237 118
Priority 7	Percentage compliance with the Southern African Development Community Standby Force Pledge	100%	100%
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	2	1 <i>Covid-19 impacted international exercises</i>
Priority 6	Number of landward subunits deployed on border safeguarding	15	15
Priority 6	Number of hours flown per year (includes an estimated 4 000 hours for Force Employment, approximately 12 100 hours for Force Preparation and 1 000 VVIP hours.)	17 100	15 215 <i>Flying dependent on serviceable aircraft; spares delivery delayed due to Covid</i>
Priority 6	Number of hours at sea per Year (Target reduced from 10 000 hours in 2020/21 to 8 000 in 2021/22)	8 000	7 614
Priority 6	Number of coastal patrols	4	4

3. SUMMARY OF PREVIOUS (2020/21) KEY FINANCIAL AND PERFORMANCE RECOMMENDATIONS OF THE COMMITTEE

3.1 Budgetary Review and Recommendations Report (BRRR) 2021 recommendations

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

Recommendations to the Minister of Finance:

- 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.
- 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:

- 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.
- 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.
- The DOD should update the Committee on a quarterly basis on the progress related to investigations into cases of irregular, fruitless and wasteful expenditure.
- 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.
- 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.
- 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.
- 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.
- 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 the Committee to direct its future oversight to the root causes of non-achievement against set flying- and sea-hour targets.
- 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

downscaling 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.

- 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.

3.2 Response by the Minister of Finance

The following responses to the above recommendations were received from the Minister of Finance:

Recommendation: 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.

Treasury Response: The National Treasury agrees that the department requires both a short- and long-term plan to manage compensation spending pressures. The DOD is allocated R1.8 billion over the medium-term to implement an exit mechanism that includes employee-initiated packages and early retirement without penalising pension benefits.

Recommendation: 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 maritime territorial integrity of South Africa. Additional funding over the medium-term for the midlife upgrades are therefore essential.

Treasury Response: The National Treasury notes the Committee's concern. Given the limited scope to provide additional funding, the National Treasury's recent engagements with the Department have focused on resolving its immediate compensation spending pressures. The reforms described above are expected to generate savings that can be used for other priorities such as the midlife upgrade of the SA Navy vessels.

4. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE FOR 2021/22

The DOD has eight programmes through which it executes its various tasks. The financial performance and performance against set targets of the various programmes and subprogrammes for 2021/22 are contained in the sections to follow.

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	5 571 444	(197 375)	5 374 069	5 367 098	6 971	0.1%

The purpose of this programme is to provide strategic leadership, management and support services to the DOD. The Administration programme's total expenditure for 2021/22 came to R5.367 billion, following virements of R197 million (3.5%) away from the programme. The virements away from the programme largely impacted on:

- Operating leases (R246.8 million)
- Travel and subsistence (R45.3 million)
- Operating payments (R34.3 million)

The subprogrammes most affected by virements include the following:

- Ministry (a reduction of R53.06 million)
- Financial services (a reduction of R48.4 million)
- Human Resources Support Services (R43.9 million)

- Defence Foreign Relations (a reduction of R48.9 million)
- Communication Services (a reduction of R36.8 million)
- Office Accommodation (an increase of R72.1 million)

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

- *Consultants*: A virement of R2.6 million was made to increase the allocation for consultants, resulting in final expenditure of R9.8 million for 2021/22, compared to R9.2 million in the previous year.
- *Food and food supplies*: A virement of R13.2 million was made to increase the allocation for food and food suppliers, resulting in final expenditure of R20.9 million for 2021/22. Although lower than the previous year, this is a major addition and may point to poor planning on this item in the original budgeting.
- *Operating leases*. A virement of R246.8 million was made to decrease payments to operating leases in Programme 1. The details of this significant reduction are unclear.
- *Property payments*. While operating leases decreased, a virement of R200.7 million was made to property payments.
- *Rental and hiring*. While the DOD planned to spend only R50 000 on rental and hiring in Programme 1 in 2021/22, a virement of R4.1 million increased the final expenditure to R4.2 million for the year under review.

4.1.2 Defence Administration performance

The Administration programme set seven (7) targets for 2021/22 of which one is considered classified information. This is a reduction of 2 targets compared to 2020/21, of which one of the previously included targets related to the reduction in number of audit qualifications. Of the remaining six (6) targets, four were achieved, reflecting a 66% success rate.

Administration programme: Selected performance against set targets

Subprogramme	Target description	2021/22 Target	2021/22 Achievement	Comments
Defence strategic direction	% adherence to DOD index for policies	>60% (Target lowered from 80% in 2020/21)	66%	Six DOD Policies promulgated Achieved
	% adherence to DOD index for strategies	5.5%	0%	DOD Defence Ambition strategy was planned to be developed. Only a conceptual framework was determined Not achieved
	% adherence to DOD index for plans	100%	88.6%	39 of 44 Planning Instruments finalised Not achieved
	Number of Reserve Force man days	2 601 591	3 237 118	Additional deployments as part of the national state of disaster Over-Achieved
	Audits completed in terms of the approved Internal Audit Plan	80%	82.5%	33 of 40 internal audits completed Achieved
Defence Capabilities provided	Number of Defence Attaché Offices	44	44	Achieved

4.2 Programme 2: Force Employment

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	%
Force Employment	4 475 118	(358 009)	4 117 109	4 117 109	0	0%

The purpose of this programme is to provide and employ defence capabilities. In 2021/22, following the adjusted appropriation, a further virement of R358.0 million was made away from the programme. The Subprogramme 4 (**Regional Security**) was most affected as it saw its allocation decreased by more than 30% with R518.2 million from an adjusted allocation of R1.4 billion to actual expenditure of R852.6 million. Subprogramme 3 (Special Operations) received an increased allocation of R124.7 million through a virement.

In terms of economic classifications, the virements away from the Force Employment programme was largely in terms of the following:

- The allocation for Contractors was decreased from its adjusted allocation of R288.5 million to final expenditure of R106.5 million.
- The allocation for fuel, oil and gas was decreased from its adjusted allocation of R172.3 million to final expenditure of R84.3 million.
- The allocation for Operating Payments was decreased from its adjusted allocation of R189.0 million to final expenditure of R7.8 million.
- The allocation for Buildings was decreased from its adjusted allocation of R74.8 million to final expenditure of only R4.7 million.

A total of nine (9) targets were set for the programme of which three were classified. Of the six (6) remaining targets, four (4) were achieved. Of specific concern is the regression in the level of UN reimbursement from 52% in 2020/21 to 47% in 2021/22.

Force employment programme: Selected performance against set targets

Target description	2021/22 Target	2021/22 Achievement	Comments
Number of planned joint, interdepartmental and multinational military exercises	2	1	Exercise Good Hope with the German Navy was cancelled by mutual agreement. Exercise Ndlovu successfully completed at the SA Army Combat Training Centre. Not achieved
Number of landward sub-units deployed for border safeguarding	15	15	Achieved
Percentage compliance with number of external operations	100%	100%	Ops Mistral to the DRC Achieved
Reimbursement from the UN for SANDF deployments	70%	47%	<i>Members may note a decreased achievement from 52% in 2020/21 to 47% in 2021/22.</i> Not achieved
Compliance with SADC Standby Force	100%	100%	Achieved
Compliance with internal operations	100%	100%	Support to SAPS (Ops Prosper), Humanitarian assistance (Ops Chariot), Search and Rescue (Ops Arabella) and Border safeguarding (Ops Corona) Achieved

4.3 Programme 3: Landward defence

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
Landward Defence	15 194 698	1 177 359	16 372 057	16 372 057	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 R1.177 billion was made to the programme. This large virement constitutes 7.75% of the total Landward Defence budget. The subprogrammes most affected by the large virement to the programme include the following:

- Infantry capability (allocation *increased* by R593.6 million)
- Engineering capability (allocation *increased* by R171.3 million)
- General Training capability (allocation *increased* by R185.2 million)
- Signal capability (allocation *increased* by R207.8 million)
- Support capability (allocation *decreased* by R409.9 million)

In terms of economic classifications, the R1.177 billion virement was largely for:

- Contractors (an increase of R528.6 million), but only R44.2 million was spent by year-end.
- Fleet services (an increase of R132.1 million), but only R31.3 million was spent by year-end.
- Fuel, oil and gas (an increase of R112.6 million), but only R172.2 million was spent by year-end.
- Materials and supplies (an increase of R122.3 million), but only R9.1 million was spent by year-end.
- Travel and subsistence (an increase of R247.7 million), of which 100% was spent.
- Operating payments (an increase of R129.0 million). Of which only R32 million was spent by year-end.

Four (4) targets were set for this programme of which two are considered classified. The DOD managed to achieve both non-classified targets. The over-achievement on its training target is specifically noteworthy, with 10 507 training opportunities achieved against a target of 5 039.

4.4 Programme 4: Air defence

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
Air Defence	6 369 608	(488 443)	5 881 165	5 881 165	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 R488.4 million was made away from the programme, mostly affecting the following programmes:

- Helicopter capability (allocation *reduced* by R333.1 million)
- Transport and maritime capability (allocation *reduced* by R280.5 million)
- Air Combat capability (allocation *reduced* by R157.7 million)
- Base support capability (allocation *increased* by R336.9 million)

In terms of economic classifications, there was an over-expenditure on CoE to the value of R321.3 million. This amount was largely recovered from savings on spending on Contractors. Programme 4 planned to spend R1.6 billion on Contractors, but a virement of R475.2 million reduced this amount and further under-spending resulted in only R799.7 million being spent on Consultants.

Other noteworthy economic classifications where virements had a significant impact included the following:

- Food and food supplies (allocation increased by R111.9 million)
- Fuel, oil and gas (allocation reduced by R75.9 million)
- Materials and supplies (allocation reduced by R35.1 million). This reduction is more than the total adjusted allocation, which means that Programme 4 did not spend any money on materials and supplies in 2021/22.
- Operating payments (allocation reduced by R37.3 million)
- Machinery and equipment (allocation increased by R54.8 million).

Five (5) targets were set of which two are deemed classified (compliance with Joint Force Employment requirements and combat-ready capabilities available). Programme 4 did not achieve its flying hours' target, nor the target for SA Air Force training in 2021/22.

Air Defence programme: Selected performance against targets

Target description	2021/22 Target	2021/22 Achievement	Comments
Air Defence Training targets	80% (687)	48.3% (415)	Training impacted by Covid-19 and courses were still ongoing by the end of 2021/22 Not achieved
Number of Air Defence unique force training exercises conducted	1	1	Ex Winter Solstice Achieved
Number of flying hours per year	17 000	15 215	10 986 hours for force preparation 3 411 hours for force employment 819 VVIP hours Not achieved

4.5 Programme 4: Maritime defence

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
Maritime Defence	4 492 826	(359 426)	4 133 400	4 133 400	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 R4.133 billion by the end of 2021/22. Following the mid-year adjustments, the allocation for the programme was further reduced through a virement of R359.4 million.

The Maritime Combat capability's allocation was reduced by R232.5 million through the virement, while the Maritime Logistics Support Capability was the subprogramme most affected by the virement with its allocation being reduced by R250.1 million. In terms of economic classifications, the Programme over-spent on CoE by R195.9 million. This was largely recovered through under-spending on Contractors (by R90.7 million), Fuel, oil and gas (by R95 million) and other inventory supplies (by R10.3 million)

Other noteworthy economic classifications where virements had a significant impact included the following:

- Food and food supplies (allocation reduced by R39.5 million).
- Materials and supplies (allocation reduced by R71.9 million).
- Property payments (allocation reduced by R33.9 million) and final expenditure of only R1.8 million.

For the period under review, the Maritime Defence Programme had six (6) targets of which two were deemed classified (compliance with Joint Force Employment requirements and combat-ready capabilities). The only target not achieved relates to the total number of sea hours, with an achievement of 7 614 against a target of 8 000.

4.6 Programme 6: Military Health Support

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	%
Military Health Support	5 474 287	52 289	5 526 576	5 525 749	827 000	0%

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 underspent its budget marginally by R827 000 for 2021/22. Underspensing was recorded in the Strategic direction subprogramme.

In terms of subprogramme expenditure, virements can be noted in all subprogrammes, most notably in the following:

- Strategic Direction (an addition of R33.8 million)
- Area Military Health Services (a reduction of R42.6 million)
- Military Health Product Support (a reduction of R168.3 million)
- Military Health Maintenance Capability (no initial budget allocation for this subprogramme, but an addition of R105.1 million through a virement).

In terms of economic classifications, Programme 6 overspent by R365.9 million on CoE. This was recovered by underspending on Contractors (R328.9 million) and fuel, oil and gas (R34.8 million). Of further interest in terms of the Military Health Support programme's economic classifications are several virements made resulting in expenditure not aligned with planned expenditure as per the Adjusted Appropriation, including:

- Only R2.7 million was spent on minor assets against planned expenditure of R46.6 million.
- R542.4 million was spent on outsourced services against planned expenditure of R708.2 million. This is in line with the 2020/21 outsourced spending of R504.8 million.
- Only R63.0 million was spent on Medical Supplies against planned expenditure of R127.4 million.
- A virement of R11.3 million was made away from the allocation for Medicine.
- A virement of R39.4 million was made to the allocation for Travel and Subsistence, resulting in final expenditure of R52.7 million against planned spending of R13.3 million. Final spending is, however, aligned to the spending patterns of 2020/21.
- Only R19.6 million was spent on Machinery and Equipment during 2021/22 compared to R71.9 million in 2020/21. Given the high cost of medical equipment, this level of expenditure seems particularly low for the year under review.

The programme had four targets of which three were classified. The programme did not achieve the one declassified target around Military Health Training, achieving only 270 of the planned 648 training activities.

4.7 Programme 7: Defence Intelligence

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
Defence Intelligence	776 301	1 993	778 294	778 294	0	0%

The purpose of Defence Intelligence programme is to provide a defence intelligence and counter-intelligence capability. For 2021/22, the programme spent 100% of its final allocation. Its allocation was marginally increased after the mid-year adjustments through a virement of R2.0 million. This virement was largely for the Defence Intelligence Support Services subprogramme.

In terms of economic classifications, funds were shifted around to accommodate higher than planned CoE expenditure through a virement of R22.9 million. This was largely accommodated through reduction in the allocation to Travel and subsistence (R19.2 million reduction). Furthermore, it appears that funds were shifted through virements from Operating Leases to Building and fixed structures to the value of R48.4 million.

The programme achieved both targets reported on in the Annual Report related to the number of vetting decisions and the number of Defence Intelligence Products.

4.8 Programme 8: General Support

Programme	Adjusted Appropriation	Virement	Final Appropriation	Actual Expenditure	Variance	
					R'000	% (Per Programme)
General Support	6 442 139	171 612	6 613 751	6 601 042	12 709	0.2%

The purpose of the General Support programme is to provide support capabilities and services to the Department. The programme spent 99.8% of its final appropriation of R6.6 billion by the end of the financial year. After the mid-year adjustments, an additional R171.6 million was allocated to the programme through a virement.

Major shifts in the programme included the increase in the Joint Logistical Services allocation (by R222.7 million) through a virement. The Military Police subprogramme's allocation was also increased (by R48.3

million) through a virement while the Command and Management Information Services' allocation was reduced by R88.5 million).

In terms of economic classifications, the General Support programme overspent on CoE by R162.7 million. This was largely recovered from underspending on Computer Services (by R59.9 million), Consultants (by R71.1 million), Property payments (by R31.6 million) and Payment for financial assets (by R12.5 million). In terms of performance, a total of six (6) targets were set for 2021/22 and four (4) were achieved, as depicted in the Table below.

Programme 8: General Support achievements against targets for 2021/22

Target description	2021/22 Target	2021/22 Achievement	Comments
Percentage procurement requests fully completed within 90 days from day of registration	95%	97.5%	Achieved
Payment of leases, Accommodation charges and municipal services – Payment according to facilities plan	100%	102.65%	Additional amount paid for projects finished ahead of schedule. Achieved
Compliance with ICT Capabilities Plan	90.4%	45.7%	Under-expenditure of planned funds. Not achieved
Number of Crime Prevention operations conducted	124	118	Resource constraints. Not achieved
Criminal cases investigated (backlog)	40%	73.9%	The Department investigated 1 307 criminal cases from the backlog of 1 767 criminal cases. Achieved
Criminal cases investigated (in-year)	25%	53.6%	1 177 new cases were received of which 631 cases were investigated. Achieved

5. ORGANISATIONAL STRUCTURE AND HUMAN RESOURCE SUPPORT

The Human Resources (HR) Management chapter of the 2021/22 Annual Report deals with various issues related to personnel. Among others, the following key aspects can be considered:

- **Personnel spending (Compensation of Employees):** The DOD received a main appropriation for Compensation of Employees at the start of 2021/22 to the value of R29.347 billion which was adjusted upwards during the mid-year adjustments to R31.014 billion. The adjustment was made by National Treasury for Operations Prosper and Vikela (R354 million) and annual salary adjustments (R1.3 billion). At the end of 2021/22, the DOD spent R33.722 billion on Compensation of Employees which is **69.14% of the Department's total expenditure**. The DOD overspent on Compensation of Employees by R2.708 billion in 2021/22. CoE over-expenditure was largely recouped from cutting spending on contractors (by R1.8 billion), Fuel, oil and Gas (by R317.6 million, Materials and supplies (by R119.3 million) and Operating Payments (by R108.6 million).
- **Increase in the number of posts approved on the establishment.** By 31 March 2021, the DOD Annual Report noted that there were 89 500 posts on the approved establishment. One year later, by 31 March 2022, the number of posts approved on the establishment increased by 557 to 90 057. This increase in establishment posts mostly relate to the General Support and Defence Intelligence programmes. The increase in posts should be seen against the number of filled posts which stood at 72 175 by the end of 2021/22.
- **Increase in the number of General Support personnel.** While most programmes reflect a staff reduction, the number of filled posts in the General Support programme increased from 5 620 at the end of 2020/21 to 6 536 at the end of 2021/22.

- **Positive improvement in hiring of engineers.** The number of engineers in the DOD increased from 85 at the end of 2020/21 to 104 at the end of 2021/22. The vacancy rate for engineers was reduced from 53% to 37%. However, further recruitment will be required to continue to lower the vacancy rate, specifically if the DOD wants to expand the Defence Works Formation.
- **Critical occupation vacancy rates:** In terms of critical occupations, other areas with high vacancy rates should be noted:
 - Airspace Control has a vacancy rate of 11.5%
 - Aircrew has a vacancy rate of 25%.
 - Nursing has a vacancy rate of 16.6%.
 - Technical has a vacancy rate of 23.3%.
- **Employees with salaries higher than those determined by job evaluation:** The DOD has one senior manager (the CFO) who earns a salary which is higher than that determined by the Job Evaluation.
- **Promotions by salary band to higher salary notches.** In 2021/22, 10 724 DOD members (14.7% of the work force) received promotions to a higher salary level. This percentage of employees receiving salary level increases is higher than in 2020/21 (8.3%), 2019/20 (8.0%), 2018/19 (7.0%) and 2017/18 (9.03%).
- **Future employment equity concerns.** While the DOD has made significant progress in addressing employment equity, current recruitment patterns reflect poorly on employment equity and may bring about equity misalignment in future. In 2021/22, 2007 MSDS members were recruited to the SANDF. Of these, 224 (11.2%) were coloured, 55 (2.7%) Indian; and only 64 (3.2%) were white, while there were 1 664 (82.9%) Africans. It is evident that efforts should be enhanced to attract young South Africans of *all* races to serve in the SANDF.
- **Non-signing of performance agreements by Senior Management:** Eight (8) of the total of 279 senior managers did not sign their performance agreements. Four of these exited the DOD.
- **Sick leave cost:** The total cost of sick leave has fluctuated significantly in recent years. However, in 2019/20, the total cost of sick leave increased drastically to R400.2 million and again decreased significantly to R259.0 million in 2020/21. In 2021/22, the cost of sick leave increased to R314.5 million and the average number of sick days remained at 7 per employee. The average number of days' sick leave per employee decreased from 8 in 2019/20 to 7 in 2020/21.

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 R3.153 billion for 2021/22, which is higher than the R2.182 billion irregular expenditure incurred in 2020/21. According to the DOD, major contributors to irregular expenditure include:

- R2.7 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.
- R187 million was incurred from irregular foreign imports (*most likely related to Project Thusano*).
- R94 million was incurred when goods and services with a procurement value above R1 million were purchased without competitive bids.
- R25 million was incurred when the Department followed an unfair bidding process in awarding fuel contracts for the North-West and Gauteng provinces.
- R20 million for an Information Communication Technology contract awarded in 2019/20. This contract will be concluded in 2022/23.

Fruitless and wasteful expenditure decreased from R4 million in 2020/21 to R3.332 million in 2021/22, based on 11 incidents which are under investigation. 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 2021/22. 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 as required by the PFMA.
- *Movable tangible assets.* The AG was unable to obtain sufficient appropriate audit evidence for movable tangible capital assets as the Department could not indicate where these assets are located or provide other information relating to the existence of these assets. The AG was therefore unable to determine whether any adjustments were necessary to movable tangible capital assets stated at R64,72 billion.
- *Employee benefits.* The Department did not establish adequate internal controls to monitor leave processing. As a result, not all leave transactions were captured.

The AG also raised the following emphasis of matters:

- *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.
- *Payables not recognised:* Payables of R105.7 million exceed the payment term of 30 days as required by Treasury Regulation 8.2.3.

7. COMMITTEE OBSERVATIONS: DEPARTMENT OF DEFENCE

The Committee made the following general observations on the 2021/22 Annual Report:

- a. The Committee expressed concern around the lack of cooperation by the DOD with the AGSA in its auditing of Project Thusano and the value for money that the project offers. The DOD acknowledged that it provided the relevant information to the AGSA at a later stage and that the Department takes responsibility for this lapse in cooperation. The DOD also noted that the reconsideration of current contracts related to Project Thusano is under way.
- b. The Committee expressed its frustration at the DOD for not correctly utilising the R225 million allocated by the National Treasury for the purpose of acquiring border safeguarding technology. Members noted that this allocation from National Treasury was based on a recommendation by the PCODMV and that it was unacceptable for the funds to be used for other purposes when the Estimates of National Expenditure explicitly stated the purpose of the allocation. The DOD indicated that it utilised R65 million of the funds in 2020/21 in the fight against Covid-19 and R75 million in 2021/22 for improvement of facilities in borderline operational areas. The DOD then indicated that the outstanding R85 million is being used to acquire technology systems in 2022/23. Members again highlighted that additional funds were allocated to the DOD for the fight against Covid-19 in 2021/22 and the shifting of funds was therefore unnecessary.
- c. Members highlighted their concern with the DOD for not achieving its targets for sea hours for the SA Navy and flying hours for the SA Air Force. Members further expressed concern around value for money in this regard as Programme 4 (Air Defence) and Programme 5 (Maritime Defence) spent 100% of their budgets, but missed their set targets. The DOD explained that aircraft and vessel availability due to maintenance constraints continue to impact these targets.
- d. Based on the observation on the non-achievement of sea hours of the SA Navy, the Committee again recognised the need for the midlife upgrades of the SA Navy frigates and submarines to ensure they remain operational and are more readily available.
- e. Members welcomed the fact that Projects Biro and Hotel are on track and remain fully funded as these acquisitions will greatly assist the SA Navy to increase its patrolling capacity and improve its hydrographic services.

- f. The Committee questioned the DOD on whether there were any plans to upgrade the strategic airlift fleet of the SA Air Force, specifically the upgrading of the C-130 fleet. Members expressed the need for this to be addressed in the context of current SANDF deployments.
- g. Members noted the need for improved Facilities Management in the DOD. Examples noted include the SA Air Force Headquarters, where maintenance of the air conditioning system has been problematic, as well as the non-renewal of contracts for the environmentally controlled SA Army warehouses.
- h. The Committee questioned the progress made by the DOD in terms of the implementation of the 2015 Defence Review and whether a new Review should not be considered. The DOD noted that Milestone 1 of the Review aimed at 'arresting the decline' and that this has not been achieved. The Department further noted that there are work-sessions in progress to determine new levels of defence ambition. Once these are finalised, it will be taken to Cabinet for consideration as it has to be weighed against the Cabinet-approved 2015 Defence Review.
- i. Members questioned the DOD on their view of Project Hoefyster, notably the funding for the remainder of Phase 1 of the Project. The DOD noted that the financial reality has changed, and that Armscor has been tasked to do its own due diligence. Partners in the local defence industry will be required to ensure the successful move into Phase 2 of the Project.
- j. Given the various findings of the AGSA, the Committee expressed the need for improved capacity in the Internal Audit Division and for appropriate steps to be taken to ensure the implementation of the DOD's audit action plans.

8. COMMITTEE RECOMMENDATIONS

Based on its analysis and overview of the 2021/22 Annual Report, the Committee makes the following recommendations:

Recommendations to the Minister of Finance:

- a. The Committee expresses its disappointment with the DOD not correctly spending the allocation of R225 million over the MTEF on border safeguarding technology. The Committee recommends that the DOD reprioritises R140 million from its allocation for 2023/24 for the purpose of border safeguarding technology as force multipliers. Subject to this reprioritisation being carried out and spent successfully, the Committee then recommends further ring-fenced allocations for border safeguarding technology by National Treasury for the outer-years of the 2023 MTEF.
- b. As in the PCODMV's BRRR recommendations to National Treasury in 2019, 2020 and 2021, the Committee again recommends a ring-fenced allocation for the midlife upgrades of the SA Navy frigates and submarines. The Committee is suggesting a staggered approach in this regard to limit the fiscal impact, but one that would ensure the midlife upgrades of all frigates and submarines over, for example, the next 7 to 10 years, starting in 2023/24. This will allow the SA Navy to appropriately plan vessel availability, adjust its sea-hour targets accordingly and report more accurately to Parliament. It would also add significant capacity in terms of maritime security which is currently characterised by very limited naval patrols.
- c. The Committee is concerned about the ability of the SA Air Force to effectively provide logistical and reinforcement support to SANDF members deployed outside South Africa due to limited strategic airlift capacity. The Committee therefore recommends an urgent ring-fenced allocation to address the strategic airlift shortcomings in the SA Air Force.
- d. The Committee is concerned about the stagnation and lack of investment in the SANDF landward defence capability, notably the SA Army's Infantry capability. This factor has been worsened by the non-finalisation of Project Hoefyster. The Committee therefore recommends engagement between National Treasury, the DOD and Armscor to consider further funding for Phase 2 of Project Hoefyster or, should this not be feasible, the upgrading of the current Ratel fleet to extend its serviceability. National Treasury, the DOD and Armscor should jointly report back to this Committee on the envisaged plan to address the Infantry capability constraints. These plans should be included in the DOD and Armscor Annual Performance Plans for 2023/24 and National Treasury should consider a statement to this effect in the 2023/24 Estimates of National Expenditure.
- e. The Committee wishes to note to National Treasury that the SANDF's Mobility Packages being utilised for border safeguarding have been in use since 2017 and may soon reach the end of their lifespan. Given the ongoing role of the SANDF in border safeguarding, the Committee highlights the need for the DOD and National Treasury to jointly plan for upcoming expenses in this regard towards the end

of the 2023 MTEF and beyond. The Committee also wishes to reiterate that the current Mobility Packages were considered an interim solution and any future joint planning by the DOD and Treasury should consider a more permanent long-term solution that can effectively aid in ensuring improved border safeguarding.

Recommendations to the Minister of Defence:

- f. As noted in the recommendations to the Minister of Finance, the Committee recommends that the DOD reprioritises R140 million from its allocation for 2023/24 for the purpose of border safeguarding technology as force multipliers.
- g. The Committee urges the Minister to prioritise Consequence Management in the DOD through instructions to both the Secretary for Defence and the Chief of the SANDF. The Committee recommends that Consequence Management should be implemented on the most recent cases of irregular, unauthorised, and fruitless and wasteful expenditure and then they should work backwards to older cases. This will ensure that members are held to account before leaving the Department and serve as a deterrent against further such cases.
- h. With most aircraft maintenance programmes now in place, the Committee urges the SA Air Force to improve its achievement against planned flying hours going forward.
- i. The Minister is encouraged to engage National Treasury and ensure that sufficient ring-fenced funding is in place for the newly negotiated aircraft maintenance programmes over the MTEF.
- j. The DOD and DPWI should jointly, as a matter of urgency, address the air conditioning at the SA Air Force headquarters. It is further recommended that the environmentally controlled SA Army warehouses be reactivated.
- k. It is recommended that the Minister should address matters related to procurement processes in the DOD, with much of the procurement aspects currently located in the ambit of the SANDF's Chief of Logistics and not with the Chief Financial Officer. A workable long-term solution to ensure stability in the procurement environment should be prioritised.
- l. The DOD is encouraged to fully staff and prioritise its Internal Audit Division to ensure that audit action plans are implemented.
- m. The DOD should ensure timely cooperation with the Office of the AGSA whenever audit requests are submitted.

Reporting requirements:

- 1. The Minister of Defence should report to the Committee, in writing, on the outcome of the reconsideration of the current contracts related to Project Thusano by 1 February 2023. Against the view that the AGSA currently considers contracts under Project Thusano as irregular, the Ministerial response should include the planned way forward with the Project from 2023/24 onwards.
- 2. The Department should submit quarterly progress reports on the implementation of its Audit Action Plan. This should accompany the quarterly reports of the DOD to Parliament.
- 3. The DOD should provide bi-annual reports on the implementation of Consequence Management in relation to material irregularities, irregular, fruitless and wasteful expenditure in the Department. The first such report should be submitted to the PCODMV no later than 1 May 2023.
- 4. The Committee noted that virements in Programmes 3, 4 and 5 largely resulted in much reduced spending on Contractors. The DOD should provide the Committee with a written response on the planned Contractor spending that were not realised in 2021/22, specifically as it relates to maintenance of operational equipment. This information should be provided to the Committee by 15 December 2022.
- 5. In the 2021/22 Estimates of National Expenditure, the DOD planned to transfer R1.005 billion to the Special Defence Account. The DOD should provide information in writing to the Committee on the actual transfers to the SDA for 2021/22 as well as the total expenditure from the SDA for 2021/22. The DOD should further indicate how much of this spending was on (1) Capital acquisition, (2) maintenance projects, and (3) how much of the planned SDA expenditure was shifted and used for Compensation of Employees. This information should be provided to the Committee by 15 December 2022.

Report to be considered.