**Report of the Portfolio Committee on Defence and Military Veterans on Budget Vote 23 (Department Of Defence), Dated 17 May 2022**

The Portfolio Committee on Defence and Military Veterans (PCDMV), having considered Budget Vote 23: Department of Defence (DOD), the 2023/24 Annual Performance Plans (APP) of the DOD and the budget and APP of the Castle Control Board (CCB) on 3 May 2023, as well as the Corporate Plan and budget of the Armaments Corporation of South Africa (Armscor) on 10 May 2023, reports as follows:

**INTRODUCTION**

**Mandate of the Committee**

Section 55 (2) of the Constitution of the Republic of South Africa (1996) states that “The National Assembly must provide for mechanisms (a) to ensure that all executive organs of state in the national sphere of government are accountable to it and (b) to maintain oversight of (i) the exercise of national executive authority, including the implementation of legislation; and (ii) any organ of state.”

**Process**

The PCDMV considered the 2023/24 budget allocations and APPs of the DOD and the CCB on 3 May 2022 as well as the Corporate Plan and budget of Armscor on 10 May 2023. The Committee made several observations during these engagements, leading to recommendations to the DOD and the two entities to enhance their performance for the remainder of 2023/24. This Report is divided into two sections, with Part A dealing with the DOD and Part B with the two entities, namely the CCB and Armscor.

**PART A: DEPARTMENT OF DEFENCE**

**1. MANDATE OF THE DEPARTMENT OF DEFENCE**

Section 200(2) of the Constitution dictates that the mandate of the DOD is to defend and protect the country, its territorial integrity and its people, in accordance with the Constitution and the principles of international law. This aligns with the mission of the DOD that is to provide, manage, prepare and employ Defence capabilities commensurate with the needs of South Africa as regulated by the Constitution, national legislation, parliamentary and executive direction. The above is provided through the proper management, provision, preparedness and employment of defence capabilities, which are in line with the domestic and global needs of South Africa.

**2. COMMITTEE 2022/23 BUDGET REPORT**

In order to include a holistic review by the Committee, past recommendations are included. The Committee made the following recommendations in terms of the 2022/23 APP of the DOD:

* The DOD and National Treasury should urgently engage around the funding requirements for unplanned SANDF deployments that were not budgeted for in the 2022/23 main allocation. This additional allocation should be clearly reflected in the mid-year adjusted budget.
* While the Committee welcomes the various interventions to bring over-expenditure on CoE under control over the medium-term, it stresses the need for effective implementation. The DOD should, as part of its quarterly reports to Parliament, indicate progress in the implementation of CoE interventions, adherence to the implementation schedule and the estimated savings. The Committee further encourages both the DOD and National Treasury to work together to find means to speed up the process of stabilising the CoE expenditure.
* The lack of Capital expenditure by the DOD remains a concern. While aware of broader fiscal constraints, the Committee encourages renewed engagement between the DOD and National Treasury around the potential funding of key strategic capabilities that require urgent capital intervention for acquisition or maintenance. This refers specifically to cases where strategic capabilities may be lost as a result of non-funding or where a lack of short-term funding may result in significant investment requirements over the long-term. The outcome of such engagements should be reflected by the DOD and National Treasury in the mid-year adjusted budget.
* During its recent oversight visit to Denel and Armscor facilities, the Committee expressed the urgent need for a final decision on Project Hoefyster. In line with the recommendation made by the head of the delegation during the oversight visit, the Committee recommends urgent engagements between Armscor, Denel and the DOD on the future of the project. Armscor should report back to the Committee, in writing, not later than 21 July 2022, on the outcome of such engagements and the way forward for Project Hoefyster.
* The Committee undertakes to have further in-depth discussions with the DOD and the AGSA around Project Thusano and will make subsequent recommendations on the way forward.
* The Committee recommends that the DOD and Armscor jointly develop a plan to speed up plans to generate revenue through the sale of obsolete equipment. The DOD and Armscor should report progress on this plan to the Committee during deliberations on the adjusted budget for 2022, including how projected revenue will be spent.
* The Committee encourages the DOD to optimise its spending and identify areas for potential savings, especially as it relates to expenditure on (1) advertising and (2) operating leases, specifically new and unplanned leases. The DOD should provide the Committee with a detailed breakdown of all leases for 2022/23 by 21 July 2022 for further monitoring.
* The DOD should provide quarterly feedback on progress related to the consolidation of its 73 procurement centres.
* The DOD should provide quarterly feedback on efforts to acquire and implement a new, integrated defence enterprise system.
* The Committee urges the SecDef and Chief SANDF to urgently speed up the investigations of irregular, fruitless and wasteful expenditure and enhance Consequence Management in this regard. The Committee also undertakes to have further engagements with the DOD on these investigations.

**3. DEPARTMENT OF DEFENCE ANNUAL PERFORMANCE PLAN 2023**

**3.1 DOD legislative developments**

The 2023 DOD APP commences with the departmental mandate, organisational values as well as the constitutional and legislative directives of the Department. In legislative developments, the DOD notes that the Draft Military Discipline Bill will be submitted to Parliament before the end of 2023/24. Similarly, the drafting of regulations supporting sections of the Defence Amendment Act (No 6 of 2020) is under way and it is envisaged that the implementation of this Act, through the departmental legal processes, will commence in 2023/24.

**3.1 DOD Policies and Strategies**

The Policies and Strategies include the White Paper on Defence of 1996, the 2015 Defence Review, the DOD Strategy, the Military Strategy as well as the Defence Secretariat Strategy. It explains the 2015 Defence Review further by referring to the three defence strategic policy trajectory options namely:

* Option 1. *“Optimise Defence within constraints”.*
* Option 2. *“Grow Defence independently”.*
* Option 3. *“Develop Defence through strategic partnerships”.*

Defence Strategic Policy Option 2 was selected, approved and endorsed by Cabinet and Parliament respectively. Subsequently, five ‘work packages’ were developed to arrest the decline of the SANDF as follows:

* Work package 1: Critical Organisational and Efficiency Interventions. Required to improve efficiency and effectiveness within the DOD and to establish possible additional funding opportunities.
* Work package 2: Functional Strategic Intents, Strategies and Plans. Developing the strategic intents, strategies and plans that will guide the DOD toward achieving DR2015.
* Work package 3: Capital Interventions for Priority Sustainment System. Enhancing priority sustainment systems in order that present operational force levels can be maintained.
* Work package 4: Capital Interventions for Priority Capabilities. Enhancing particular priority operational capabilities.
* Work package 5: Deliverables to Maintain Comprehensive Defence Capabilities. Maintaining comprehensive defence capabilities to ensure sustainable growth.

The “Plan to Arrest the Decline”, has not been realised. However, not only was the fiscal allocation not realised, the year-on-year reductions have exacerbated the defence decline with the cost-driven interventions not realised, and the non-cost interventions compromised. The SA Defence Review 2015 will not be achieved during the 2019-2024 MTSF. The Minister ordered a review of the 2015 Defence Review to be completed in 2023/24.

**3.2 Summary of the DOD situational analysis for 2023/24**

The departmental situational analysis provides insight into both the evolving external and internal departmental dimensions that impact on the outcomes and outputs of the DOD. The matters identified in the situational analysis are a product of the departmental planning process that has taken also into consideration the 2019-2024 MTSF priorities.

The *external environmental analysis* is informed by a number of aspects, as follows:

* *Political considerations*. South Africa’s national security is centred on the advancement of its sovereignty, democracy, national values and freedoms, and its political and economic independence. There are domestic, regional and continental dimensions to the national security architecture.
* *Economic considerations*. The under-performance of South Africa’s economic sectors has resulted in the delayed implementation of the national developmental initiatives in support of the National Development Plan. The continued disconnect between the government Level of Defence Ambition required from the DOD and the declining defence budget allocation continue to adversely impact on the Department’s ability to execute its constitutional mandate in support of the people of South Africa. The DOD will continue to implement and monitor departmental cost-saving, austerity and other funding generating measures in order to supplement the historic declining defence allocation.
* *Social considerations*. The Government’s challenge to meet the demand for strained social services coupled to the lack of employment opportunities, increase in poverty and in-equality have the potential to result in violent protests, particularly amongst the vulnerable and unemployed youth, posing a threat to domestic stability. Potential protest tipping points could require the employment of the SANDF, in cooperation with the South African Police Service (SAPS), to ensure national security and stability.
* *Technological considerations*. The DOD takes into consideration the changing landscape of Information Warfare and an increase in cybercrimes. The DOD also recognises the important role played by the domestic defence industry and its contribution to technology advancement.
* *Legal considerations*. The SANDF is required to ensure that personnel involved in operations are conversant with International Law regulating the use of force when conducting both offensive and defensive actions in the theatre of operations. In this regard, the DOD will continue to provide all deployed SANDF members with pre-deployment training in the use of force.
* *Military considerations*. The nature of conflict is evolving and the distinction that separates military responses from other containment measures is becoming increasingly blurred. Significant overlaps exist across the traditional understanding of conventional, unconventional and hybrid forms of conflict as all three could manifest simultaneously. South Africa will be required to maintain a credible resourced defence capability and adopt a posture demonstrating resilience, irrespective of the nature of potential conflict, thereby ensuring:
  + Prevention and conflict resolution.
  + Peace support Operations.
  + Support to the Combating of Maritime Piracy along the East Coast of Africa.
  + Border safeguarding
  + Humanitarian assistance and aid relief

The *internal environmental analysis* is informed by a number of aspects that could have an impact internal to the DOD, as follows:

* *Deployment of the SANDF.* The internal employment of the SANDF, as tasked by Government, will be undertaken in building cohesion and safer communities through the conducting of internal operations.
* *The human resources dimension.* Over the 2023/24 MTEF, the DOD will continue with the following initiatives to address the challenges within the departmental HR dimension:
  + Implement HR measures to reduce HR costs.
  + Fill funded vacant PSAP posts according to HR plans.
  + Provide for the training and development of members and employees.
  + Increase levels of administrative compliance and discipline and implement HR policies and HR systems in support of accountable management.
  + Continue to pursue gender main streaming and combatting of GBV where prevalent.
* *The financial dimension. S*tructural and economic challenges had an adverse impact on government which affected the budgets of various institutions. As a result, the DOD budget declined over the past MTEF periods which necessitated the department to adjust its spending in such a manner that it will continue to provide the requisite services at a downscaled level as contemplated in its mandate. However, the Department received an additional budget allocation to an amount of R6.4 billion in the 2023/24 MTEF. The additional budget allocation is mainly for the repair and maintain of navy defence systems, procurement or upgrade of medium air lift capability and the procurement of vehicles and border technology.
* *The Logistical dimension.* For the DOD to ensure that the departmental assists, facilities and the Defence Works Formation programme are effectively managed, the Joint Logistic Services will ensure the sustainment of centralised common matériel management, centralised facilities management, logistics services and movement management and logistics strategic direction to the DOD.
* *Information and communication technology dimension.* The DOD continues to operate aging Information and Communication Technology (ICT) legacy systems that have become increasingly more difficult and costly to maintain and repair due to their obsolescence. In terms of ICT development, the DOD will endeavour to develop departmental ICT systems aligned with both the national and internal requirements.

**3.3 DOD contributions to national imperatives**

This section provides an overview of the DOD contribution to national imperatives of government for 2023/24:

**The National Development Plan 5-year Implementation Plan.**

The implementation of the NDP, “Vision 2030”, through the NDP 5-year Implementation Plan (2019-2024 MTSF) will primarily focus on job creation, poverty reduction and the reduction of inequality. The DOD will contribute both directly and indirectly as addressed in this Plan and endeavour to support the following Government Pillars and Priorities:

* MTSF Pillar 1: *A Strong and Inclusive Economy.*
* MTSF Priority 2: *Economic Transformation and Job Creation.*
* MTSF Pillar 2: *Capabilities of South Africans.*
* MTSF Priority 3: *Education, Skills and Health.*
* MTSF Priority 4: *Consolidating of Social wage through reliable and Basic Services.*
* MTSF Priority 5: *Spatial Development, Human Settlements and Local Government.*
* MTSF Priority 6: *Social Cohesion and Safer Communities*.
* MTSF Pillar 3: *A Capable State*.
* MTSF Priority 1: *A Capable, Ethical and Developmental State*.
* MTSF Priority 7: *A Better Africa and a Better World*.

**The National Growth Path.**

The principle target of the policy is to create five million jobs by the year 2005. The DOD will endeavour to support the NGP through DOD Internships, the National Youth Services and the Defence Industry job creation.

**The Industrial Policy Action Plan (IPAP).**

The DOD will play a role and support the IPAP in Public Private Government Initiative (PPGI) through the promulgated Defence Industry Strategy.

**The 2023 State of the Nation Address (SONA).**

The DOD will assist in relation to undertakings from the 2023 SONA by President Ramaphosa, as delivered on 9 February 2023. The DOD’s involvement relates to the delivery of bridges in rural areas under the *Welisizwe Bridge programme*. The DOD will aim to deliver 95 bridges a year from the current 24 in conjunction with the Department of Public Works and Infrastructure.

**3.4 Ministerial and departmental priorities**

The Table below which highlights key focus areas on each priority by the Minister of Defence, the Secretary for Defence, as well as the Chief of the SANDF:

| **PRIORITY** | **MINISTER OF DEFENCE FOCUS AREAS** | **SECDEF FOCUS AREAS** | **CHIEF SANDF FOCUS AREAS** |
| --- | --- | --- | --- |
| **Strategic Direction** | Implementation of 2015 Defence Review (Arresting the Decline in the DOD). | Pursue implementation of the principles and recommendations of the 2015 Defence Review. | Maintain military capabilities required for operations.  Continued investment in research and development. |
| Ensuring appropriate organisational form and structure. | Prepare a policy position, on a stable resourced Future Defence Concept (Level of Defence Ambition) | Rejuvenate the personnel component.  Align force preparation and personnel development.  Develop and implement a “Joint Capstone Concept”.  Enhance military leadership.  Establish a cyber-defence capability.  Reduce and/or combat fraud and mismanagement of resources.  Ensure internal systems of control, ethics, accountability and consequence management. |
| **Departmental Governance, Administration and Accountability** | Ensure departmental governance, administration and accountability at all levels. | Timeous and appropriate accounting to Parliament. | Focus on procurement efficiency, internal controls to minimise fraud, sweating of assets and disposal of redundant equipment. |
| Revenue generation to supplement budget. | Continuously review the budget allocation. | Balance between Regulars, Reserves and Civilians. |
| Maintaining the SANDF establishment force levels (Focus on rejuvenation and the role of the reserves). | Resourced acquisition of a modern off-the-shelf, bespoke, integrated Defence Information Management System. | Ensuring military discipline. |
| Reduce audit qualifications. | Maintain the current operational capability. |
| Reduce irregular, unauthorised and wasteful expenditure and implement consequence management |
| Payment of invoices in 30 days. |
| Technical oversight of DOD Public Entities. |
| Pursue the eradication of gender-based violence, femicide, sexual exploitation. |
| Ensure a Functional DOD Ethics Structure and Capacity |
| **Ordered defence commitments** | Execute Prioritised Ordered Defence Commitments. Focus on   * Availability of current main operating systems. * Better working relationship between DOD and Defence Industry.   SANDF will retain its ability to respond to disasters and regional peace and security. | Ensure that multi-lateral, tri-lateral and bi-lateral instruments are established and managed, that regulate international (external) and domestic (internal) deployments | Ensure the maximised re-imbursement for internal and external operations and focusing on repair and maintenance of equipment. |
| Contribute to external peace missions, search and rescue operations and humanitarian assistance operations, but also focusing on border safeguarding, the Blue Oceans initiative, Project Koba-Tlala and foreign policy objectives. |

**Table 1: Priorities of the Minister, the Secretary for Defence and the Chief of the SANDF**

**4. Overview of the 2022/23 financial year**

Verified information on spending and performance by the DOD is only available up to the end of the Third Quarter of 2022/23. The DOD received a total main appropriation of R49.090 billion for the 2022/23 financial year. By the end of the Second Quarter, the Department had spent R24.239 billion (49.4%) of its main appropriation. This level of expenditure was in line with the projected expenditure that was set for R24.209 by the end of the Second Quarter. In terms of economic classification, Compensation of Employees (CoE) was higher than expected by R912 million, with total expenditure of R16.887 billion against projected expenditure of R15.975 billion. As was the case in recent years, higher than projected CoE expenditure has an impact on expenditure on Goods and Services. By the end of the Second Quarter of 2022/23, spending on Goods and Services was R806.9 million lower than the projected R5.762 billion at R4.956 billion. The lower than projected spending on Goods and Services was also due to an administrative backlog at the Department of International Relations and Cooperation (DIRCO) which resulted in a delay in the submission of payment vouchers for military attaché expenditure and delays in the receipt of invoices from the Department of Public Works and Infrastructure regarding the office accommodation.

**5. 2023/24 DOD budget analysis**

**5.1 Overview of planned expenditure**

The total allocation for the DOD for 2023/24 is R51.124 billion, which is slightly lower than the adjusted appropriation of R51.601 billion for 2022/23. The latest allocation is, however, higher than the original allocation for the previous year of R49.090 billion. This demonstrates the trend in recent years that National Treasury reimburses the DOD for deployments during the mid-year adjustments budget process. Compared to the adjusted budget of 2022/23, the DOD budget decreases by 0.9% in nominal terms and decreases by 5.56% in real terms[[1]](#footnote-1) from 2022/22 to 2023/24.

The defence allocation for 2023/24 represents 2.28% of the country’s total expenditure of R2.243 trillion (2.48% in the 2022/23 main appropriation). However, as a percentage of GDP for 2023/24 (R7.006 trillion), defence expenditure stands at 0.73% (0.76% in 2022/23).

The Table below reflects the nominal and real percentage changes per programme for the DOD’s 2023/24 budget.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2023/24** | **Real Increase / Decrease in 2023/24** | **Nominal Percent change in 2023/24** | **Real Percent change in 2023/24** |
| **R million** | **2022/23** | **2023/24** |
| Programme 1: Administration | 5 828,6 | 5 437,6 | - 391,0 | - 645,0 | -6,71% | -11,07% |
| Programme 2: Force employment | 5 045,8 | 4 509,8 | - 536,0 | - 746,7 | -10,62% | -14,80% |
| Programme 3: Landward Defence | 15 971,6 | 15 740,2 | - 231,4 | - 966,6 | -1,45% | -6,05% |
| Programme 4: Air Defence | 6 637,1 | 7 127,1 | 490,0 | 157,1 | 7,38% | 2,37% |
| Programme 5: Maritime Defence | 4 726,7 | 4 984,6 | 257,9 | 25,1 | 5,46% | 0,53% |
| Programme 5: Military Health Support | 5 632,2 | 5 455,0 | - 177,2 | - 432,0 | -3,15% | -7,67% |
| Programme 7: Defence Intelligence | 1 166,3 | 1 033,3 | - 133,0 | - 181,3 | -11,40% | -15,54% |
| Programme 8: General Support | 6 593,3 | 6 836,8 | 243,5 | - 75,9 | 3,69% | -1,15% |
| **TOTAL** | **51 604,6** | **51 124,4** | **- 480,2** | **- 2 868,3** | **-0,9%** | **-5,56%** |

**Table 2: Increase/decrease per programme from 2022/23 to 2023/24**

**5.2 Key cost drivers for 2022/23**

Key cost drivers and other concerns of the DOD 2023/24 budget include the following (in terms of broad economic classifications):

* **Compensation of employees.** Spending on CoE has been an ongoing concern for the DOD in recent years, resulting in irregular expenditure as the DOD is unable to bring CoE to levels below the ceiling imposed by National Treasury. This will continue to affect the Department in 2023/24, where the allocation for spending on CoE (as per National Treasury) is set to decrease from R31.786 billion in 2022/23 to R30.629 billion in the current financial year. In recent years, the DOD was unable to stay within the CoE ceiling of National Treasury, with significant over-expenditure on this item. In 2022/23, the DOD implemented the following CoE cost-saving measures:
  + Attrition has reached 3 841 SANDF personnel.
  + The Reserve Force utilisation as at 31 January 2023 has exceeded planned utilisation by 671 096 mandays.
  + MSDS intake every alternate year.
  + Discretionary allowances and scarce skills allowances have been capped.
  + 951 civilian and military personnel have separated via either the EISP or MEM.

*Result:* HR reforms, which has realised a R1,8 billion saving, having the effect of reducing the potential CoE deficit from an estimated R4.2 billion in April 2022 to R2.8 billion at the end of February 2023. *However, the DOD projects continued CoE shortfalls over the MTEF* of R2.5 billion in 2023/24, R1.9 billion in 2024/25 and R915 million in 2025/26 respectively.

* **Contractors.** The allocation for spending on contractors continues to increase on previous years from R1.215 billion in 2021/22 to R2.427 billion in 2022/23 and now to R2.731 billion in 2023/24. In 2021/22, the DOD used funds allocated to Contractors to pay salaries and cover the shortfall in the CoE. The DOD notes that “Contractors remain the Department’s main cost driver under Goods and Services, accounting for a total amount of Rb8.5, constituting approximately 20% of the Goods and Services budget over the 2023/24 MTEF. The utilisation of contractors enables the specialised maintenance of defence capabilities such as aircraft, weapons, weapon systems and vessels.”
* **Fuel, oil and gas.** The allocation for fuel, oil and gas increases significantly from R857.6 million in 2022/23 to R1.158 billion in 2023/24. The rising fuel cost may be the reason for this increase, but further clarity should be sought.
* **Employee Social benefits** decreases slightly from R1.193 billion in 2022/23 to R975.1 million in 2023/24. The R800 million allocation from National Treasury to effect the MEM in 2023/24 is likely included in this amount.
* **The Special Defence Account (SDA).** Transfers to the SDA increases from R2.762 billion in 2022/23 to R3.067 billion in 2023/24.
* **Operating leases.** The allocation for operating leases decrease slightly from R1.737 billion in 2022/23 to R1.686 billion in 2023/24.
* **Building and fixed structures** received a relatively low allocation of R380.9 million in 2023/24 compared to its allocation of R428.7 million in the preceding year.
* **Transfer to the Southern African Development Community (SADC) Secretariat** increased from R45.5 million in 2021/22 to R139.3 million in 2022/23 and now further to R146.3 million in 2023/24.

**6. National Treasury feedback to the PCoDMV**

In 2022, following its engagement with the DOD on the 2021/22 Annual Report, the PCDMV made specific recommendations to National Treasury. The responses to these recommendations are essential to consider in the light of the 2023/24 budget:

**Committee recommendation 1:**

The Committee expresses its disappointment with the Department of Defence not correctly spending the allocation of R225 million over the MTEF on border safeguarding technology. The Committee recommends that the Department 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.

**Response from National Treasury 1:**

The National Treasury agrees with this recommendation. The Department of Defence is allocated additional funding of R500 million in 2024/25 and R200 million in 2025/26 to procure equipment and technology to aid the safeguarding of borders. These earmarked funds may not be used for any other purposes. Any changes to these amounts will require the National Treasury’s approval.

**Committee recommendation 2:**

As in the Portfolio Committee on Defence and Military Veterans’ BRRR [budgetary review and recommendation report] recommendations to the 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.

**Response from National Treasury 2:**

Consistent with the Committee’s recommendation, the Department of Defence is allocated additional funding of R500 million in 2023/24, R441 million in 2024/25 and R480 million in 2025/26 for the midlife upgrades of the South African Navy’s frigates and submarines. These earmarked funds may not be used for any other purposes. Any changes to these amounts will require the National Treasury’s approval.

**Committee recommendation 3:**

The Committee is concerned about the ability of the South African Air Force to effectively provide logistical and reinforcement support to the South African National Defence Force 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 South African Air Force.

**Response from National Treasury 3:**

Consistent with the Committee’s recommendation, the Department of Defence is allocated additional funding of R1 billion in 2023/24 to strengthen the country’s airlift transport capability. This earmarked allocation may not be used for any other purposes. Any changes to the allocated amount will require the National Treasury’s approval.

**Committee recommendation 4:**

The Committee is concerned about the stagnation and lack of investment in the SANDF [South African National Defence Force] 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 the National Treasury, the Department of Defence 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. The National Treasury, the Department of Defence 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 Department’s and Armscor’s Annual Performance Plans for 2023/24 and National Treasury should consider a statement to this effect in the 2023/24 Estimates of National Expenditure.

**Response from National Treasury 4:**

The National Treasury notes the Committee’s concerns. To date, government has invested R7.4 billion in Project Hoefyster. This project was supposed to acquire 264 infantry fighting vehicles to partially replace the old Ratel fleet, but these vehicles have yet to be delivered. The National Treasury is open to engagement with the Department of Defence and Armscor on the feasibility of the project.

**Committee recommendation 5:**

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 Department of Defence and the 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 department and the National Treasury should consider a more permanent long-term solution that can effectively aid in ensuring improved border safeguarding.

**Response from National Treasury 5:**

The National Treasury notes the Committee’s recommendation. Over the 2023 MTEF period, the National Treasury has allocated R700 million to procure helicopters, vehicles and technology for border safeguarding. The Department of Defence is responsible for the procurement of vehicles or mobility packages that will improve border safeguarding over the long term.

**7. budget and performance analysis per programme**

**7.1 Programme 1 (Administration)**

**7.1.1 Programme 1 Budget Analysis**

The Administration programme received a nominal **decrease** of R391.0 million from   
R5.829 billion in 2022/23 to R5.438 billion in 2023/24. This decrease translates to a real percentage decrease of 11.07% when adjusted for inflation. While the allocation to most subprogrammes remained relatively stable, the main reduction in allocation is reflected in the following subprogrammes:

* The *Human Resources Support Services* allocation decreased from R1.043 billion in 2022/23 to R945.7 million in 2023/24.
* The *Defence Foreign Relations* allocation decreased from R273.3 million in 2022/23 to only R20.2 million in 2023/24.

In terms of economic classifications, allocations also remained fairly static. However, the following aspects can be noted:

* *Advertising.* Spending is set to decrease slightly from R78.0 million in 2022/23 to R74.8 million in 2023/24. The need for spending R74.8 million on advertising in a year where there will be no MSDS recruitment can be questioned.
* *Travel and Subsistence* will decreaseslightly from R123.5 million in 2022/23 to R116.3 million in 2023/24.
* *Operating leases* remain fairly stable at R1.635 billion in 2023/24.However, this amount should be viewed against the much lower allocations (less than R40 million annually) to operating leases prior to 2021/22.

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2023/24** | **Real Increase / Decrease in 2023/24** | **Nominal Percent change in 2023/24** | **Real Percent change in 2023/24** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2022/23** | **2023/24** |
| Sub-programme 1: Ministry | 127,2 | 125,4 | - 1,8 | - 7,2 | -1,42% | -6,02% |
| Sub-programme 2: Departmental Direction | 45,8 | 46,4 | 0,6 | - 1,4 | 1,31% | -3,42% |
| Sub-programme 3: Policy and Planning | 125,0 | 119,2 | - 5,8 | - 10,9 | -4,64% | -9,09% |
| Sub-programme 4: Financial Services | 438,3 | 423,9 | - 14,4 | - 32,7 | -3,29% | -7,80% |
| Sub-programme 5: Human Resources Support Services | 1 042,7 | 945,7 | - 97,0 | - 137,7 | -9,30% | -13,54% |
| Sub-programme 6: Legal Services | 379,7 | 368,5 | - 11,2 | - 27,1 | -2,95% | -7,48% |
| Sub-programme 7: Inspection and Audit Services | 151,8 | 144,7 | - 7,1 | - 13,3 | -4,68% | -9,13% |
| Sub-programme 8: Acquisition Services | 77,0 | 71,5 | - 5,5 | - 8,6 | -7,14% | -11,48% |
| Sub-programme 9: Communications Services | 123,6 | 117,7 | - 5,9 | - 11,0 | -4,77% | -9,22% |
| Sub-programme 10: SANDF Command and Control | 188,4 | 181,8 | - 6,6 | - 14,4 | -3,50% | -8,01% |
| Sub-programme 11: Religious Services | 20,8 | 20,2 | - 0,6 | - 1,5 | -2,88% | -7,42% |
| Sub-programme 12: Defence Reserve Direction | 37,8 | 37,1 | - 0,7 | - 2,3 | -1,85% | -6,44% |
| Sub-programme 13: Defence Foreign Relations | 273,3 | 20,2 | - 253,1 | - 254,0 | -92,61% | -92,95% |
| Sub-programme 14: Office Accommodation | 2 797,2 | 2 815,2 | 18,0 | - 103,2 | 0,64% | -4,06% |
| **TOTAL** | **5 828,6** | **5 437,6** | **- 391,0** | **- 625,2** | **-6,7%** | **-11.07%** |

**Table 3: Nominal and real increases/decreases in the Administration Programme**

**7.1.2 Programme 1 Performance Planning**

The Table below captures the seven performance targets set for Programme 1. One target was removed from the programme which related to the “percentage Compliance with SANDF battle fitness requirement.” This was previously deemed a classified target.

| **DOD Output** | **Indicator** | **2021/22 performance** | **2022/23 Estimated performance** | **2023/24**  **Target** |
| --- | --- | --- | --- | --- |
| Defence effectively administered | % Adherence to DOD Master Record Index for Policies | 60% | 60% | **60%** |
| % Adherence to DOD Master Record Index for Plans | 88.6% (39) | 100% (41) | **100% (41)** |
| Number of Reserve Force man days | 3 237 118 | 1 985 307 | **1 989 953** |
| Percentage of audits completed ito approved audit plan | 82.5%  (33 out of 40) | 80% | 80% |
| Percentage payments within 30 days from receipt of legitimate invoices\* | 76.6% | 75% | 75% |

**Table 4: Performance Targets for Programme 1**

**7.2 Programme 2 (Force Employment)**

**7.2.1 Programme 2 Budget Analysis**

The allocation for the Force Employment programme decreased by R536.0 million, resulting in a nominal percentage decrease of 10.6%. This can largely be attributed to a decrease in the allocation to Subprogramme 4 (Regional Security) that received a 15.9% reduction in nominal terms and Subprogramme 5 (Support to the People) that received a 16.7% reduction in nominal terms. The reduction in the allocation to Subprogramme 4 should be viewed against the ongoing participation of the SANDF in external missions in the DRC and Mozambique and the impact of a lower allocation should be explained, or whether it is expected that National Treasury will again reimburse the DOD in the mid-year adjustments.

In terms of economic classifications, most reductions are aligned with a reduced deployment need. However, the following changes in spending in terms of economic classifications should be noted.

* *Contractors.* Despite the overall reduction in the allocation to Programme 2, the allocation to Contractors increases from R177.3 million in 2022/23 to R218.2 million in 2023/24.
* *Travel and subsistence* increases from R259.5 million in 2022/23 to R316.7 million in 2023/24, despite the overall reduction in the allocation to the programme.
* The largest reduction is in terms of the *Special Defence Account* (SDA) that decreases from R572 million in 2022/23 to R168.7 million in 2023/24.

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2023/24** | **Real Increase / Decrease in 2023/24** | **Nominal Percent change in 2023/24** | **Real Percent change in 2023/24** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2022/23** | **2023/24** |
| Sub-programme 1: Strategic Direction | 215,6 | 204,6 | - 11,0 | - 20,6 | -5,10% | -9,53% |
| Sub-programme 2: Operational Direction | 398,3 | 413,9 | 15,6 | - 3,7 | 3,92% | -0,94% |
| Sub-programme 3: Special Operations | 982,7 | 1 002,7 | 20,0 | - 26,8 | 2,04% | -2,73% |
| Sub-programme 4: Regional Security | 2 017,1 | 1 695,5 | - 321,6 | - 400,8 | -15,94% | -19,87% |
| Sub-programme 5: Support to the people | 1 432,2 | 1 193,1 | - 239,1 | - 294,8 | -16,69% | -20,59% |
| **TOTAL** | **5 045,8** | **4 509,8** | **- 536,0** | **- 746,7** | **-10,6%** | **-14,80%** |

**Table 5: Nominal and real increases/decreases in the Force Employment Programme**

**7.2.2 Programme 2 Performance Planning**

The Force Employment Programme has 12 set targets for 2023/24 of which five are not elaborated on due to the information being classified. All targets set for 2023/24 are in line with performance in the preceding years. Targets for 2023/24 include:

* One planned joint, interdepartmental, interagency and multinational military exercise to be held, compared to four (4) such events in 2022/23.
* 15 landward sub-units deployed for border safeguarding.
* 100% compliance with external operations.
* An expected 70% reimbursement by the UN/AU for deployments
* Four maritime coastal patrols planned for the year.
* 100% compliance with the SADC Standby Force requirements.
* Four maritime coastal patrols to be conducted in the year.

**7.3 Programme 3 (Landward Defence)**

**7.3.1 Programme 3 Budget Analysis**

The Landward Defence programme is the largest programme in the DOD and includes the SA Army that constitutes the bulk of the SANDF personnel. For 2023/24, the programme received a small nominal decrease of R231.4 million (1.4%). When adjusted for inflation, this results in a real percentage decrease of 6.07%.

The allocation to most subprogrammes in the Landward Defence programme remains relatively stable for 2023/24 when compared to the previous financial year. The exception are major shifts in the following two subprogrammes:

* The allocation for the *Strategic Direction* subprogramme decrease from R842.4 million in 2022/23 to R590.8 million in 2023/24. This bring it back in line with previous expenditure trends prior to 2022/23.
* The allocation to the *Air Defence Artillery* increases from R393.2 million in 2022/23 to R540.7 million (37% increase) in 2023/24. This may likely be to the implementation of the Ground Based Air Defence system, but further clarity on the increase is required.
* The allocation for the *General Training* subprogramme increases by 18% from   
  R511.4 million in 2022/23 to R603.5 million in 2023/24.

In terms of economic classifications, the allocations remained fairly stable from 2022/23 to 2023/24. As noted earlier, the overall allocation to CoE decreases in 20234/24 and, given that the Landward Defence programme houses the most personnel, it follows that the CoE allocation decreases from R13.118 billion in 2022/23 to R12.686 billion in 2023/24. Furthermore, the allocation for *contractors* in the Landward Defence programme decreases from R600 million in 2022/23 to R451.6 million in 2023/24, which is still significantly higher than what was spent on contractors prior to 2022/23. The allocation for *fuel, oil and gas* increases rapidly from R241.4 million in 2022/23 to R631.7 million in 2023/24 and will see a 45.1% growth over the MTEF. A total of R277.9 million will be transferred to the *Special Defence Account*.

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2023/24** | **Real Increase / Decrease in 2023/24** | **Nominal Percent change in 2023/24** | **Real Percent change in 2023/24** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2022/23** | **2023/24** |
| Sub-programme 1: Strategic Direction | 842,4 | 590,8 | - 251,6 | - 279,2 | -29,87% | -33,14% |
| Sub-programme 2: Infantry Capability | 5 998,0 | 5 815,8 | - 182,2 | - 453,9 | -3,04% | -7,57% |
| Sub-programme 3: Armour Capability | 534,9 | 552,3 | 17,4 | - 8,4 | 3,25% | -1,57% |
| Sub-programme 4: Artillery Capability | 588,9 | 553,3 | - 35,6 | - 61,4 | -6,05% | -10,43% |
| Sub-programme 5: Air Defence Artillery Capability | 393,2 | 540,7 | 147,5 | 122,2 | 37,51% | 31,09% |
| Sub-programme 6: Engineering Capability | 886,8 | 932,8 | 46,0 | 2,4 | 5,19% | 0,27% |
| Sub-programme 7: Operational Intelligence | 239,4 | 254,6 | 15,2 | 3,3 | 6,35% | 1,38% |
| Sub-programme 8: Command and Control Capability | 228,5 | 229,5 | 1,0 | - 9,7 | 0,44% | -4,25% |
| Sub-programme 9: Support Capability | 4 279,2 | 4 202,5 | - 76,7 | - 273,0 | -1,79% | -6,38% |
| Sub-programme 10: General Training Capability | 511,4 | 603,5 | 92,1 | 63,9 | 18,01% | 12,50% |
| Sub-programme 11: Signal Capability | 1 468,8 | 1 464,6 | - 4,2 | - 72,6 | -0,29% | -4,94% |
| **TOTAL** | **15 971,6** | **15 740,2** | **- 231,4** | **- 966,6** | **-1,4%** | **-6,05%** |

**Table 6: Nominal and real increases/decreases in the Landward Defence Programme**

**7.3.2 Programme 3 Performance Planning**

Four performance targets were set for the Landward Defence Programme for 2023/24. The target related to the percentage combat ready capabilities available to the SANDF as well as the target related to Joint Force employment requirements remain classified.

The two other targets set for 2023/24 remain in line with the preceding year. The SA Army will conduct four unique Landward Defence training exercises, which is more than the three (3) planned for 2022/23. The target “Percentage compliance with DOD Training targets” is 80% (3 738 learning opportunities). This target is set to fluctuate between 2 406 and 3 738 learning opportunities over the MTEF.

**7.4 Programme 4 (Air Defence)**

**7.4.1 Programme 4 Budget Analysis**

The Air Defence programme has taken significant strain in recent years in terms of its budget allocation. In 2023/24, however, there is a sizeable injection in the programme, largely related to the refurbishment of the SA Air Force transport aircraft (C-130) fleet. Overall, the allocation to the programme increases from R6.637 billion in 2022/23 to R7.127 billion in 2023/24, which reflects a 7.4% increase in nominal terms and a 2.4% increase when adjusted for inflation. Subprogramme 3 (Helicopter Capability) received a major reduction in its allocation from R1.108 billion in 2022/23 to R758.1 million in 2023/24. However, in previous years, the helicopter subprogramme was generally further funded during the mid-year adjustments when reimbursements from the UN were considered.

* Subprogramme 4 (Transport and maritime Capability) received a major increase in its allocation from R1.054 billion in 2022/23 to R1.744 billion in 2023/24. However, the allocation is again set to decrease over the medium-term to around R800 million per year.
* Subprogramme 11 (Technical Support Services) received only a marginal increase from R614 million in 2022/23 to R630.3 million in 2023/24.

In terms of economic classifications, the following increases and decreases from 2022/23 to 2023/24 can be noted:

* The allocation for *Contractors* decreases from R1.124 billion to R1.044 billion in 2023/24.
* The allocation for ‘*Inventory: other supplies*’ increases from R19.8 million in 2022/23 to R75.5 million in 2023/24.
* The allocation for *Travel and subsistence* decreases significantly from R175.5 million in 2022/23 to R59.6 million in 2023/24.
* R1.378 billion is allocated from the Air Defence programme to the SDA in 2023/24, largely related to the C-130 refurbishment programme.

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2023/24** | **Real Increase / Decrease in 2023/24** | **Nominal Percent change in 2023/24** | **Real Percent change in 2023/24** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2022/23** | **2023/24** |
| Sub-programme 1: Strategic Direction | 26,0 | 24,8 | - 1,2 | - 2,4 | -4,62% | -9,07% |
| Sub-programme 2: Operational Direction | 158,4 | 154,7 | - 3,7 | - 10,9 | -2,34% | -6,90% |
| Sub-programme 3: Helicopter Capability | 1 108,1 | 758,1 | - 350,0 | - 385,4 | -31,59% | -34,78% |
| Sub-programme 4: Transport and Maritime Capability | 1 054,1 | 1 744,0 | 689,9 | 608,4 | 65,45% | 57,72% |
| Sub-programme 5: Air Combat Capability | 306,4 | 458,9 | 152,5 | 131,1 | 49,77% | 42,78% |
| Sub-programme 6: Operational Support and Intelligence Capability | 355,3 | 352,9 | - 2,4 | - 18,9 | -0,68% | -5,32% |
| Sub-programme 7: Command and Control Capability | 349,0 | 390,6 | 41,6 | 23,4 | 11,92% | 6,69% |
| Sub-programme 8: Base Support Capability | 2 139,9 | 2 097,0 | - 42,9 | - 140,9 | -2,00% | -6,58% |
| Sub-programme 9: Command Post | 66,2 | 72,7 | 6,5 | 3,1 | 9,82% | 4,69% |
| Sub-programme 10: Training Capability | 459,8 | 443,4 | - 16,4 | - 37,1 | -3,57% | -8,07% |
| Sub-programme 11: Technical Support Services | 614,0 | 630,3 | 16,3 | - 13,1 | 2,65% | -2,14% |
| **TOTAL** | **6 637,1** | **7 127,1** | **490,0** | **157,1** | **7,4%** | **2,37%** |

**Table 7: Nominal and real increases/decreases in the Air Defence Programme**

**7.4.2 Programme 4 Performance Planning**

Five targets have been set for the Air Defence Programme of which two remain classified (‘percentage combat-ready capabilities available to the SANDF’ and ‘percentage compliance with Joint Force Employment requirements’).

The percentage compliance with DOD training targets for 2023/24 remains at 80%, but with a reduced number of 537 learning opportunities provided. The Air Defence programme, reduced the training targets from 2022/23 to 2023/24 by 100 learners (number of military development training by 50 learners to accommodate an increase of number of learners on advanced training and technical engineers training for the 2023/24 and reduction in the number of MSDS by 50 members).

The target on flying hours for the year is set for 12 000, which is the same as the estimated 12 000 hours flown in 2022/23. The 12 000 planned hours for 2022/23 is set to include force preparation (7 000 hours), force employment (4 000 hours) and (1 000 VVIP hours), as follows:

* 2019/20: 16 232 flying hours
* 2020/21: 13 726 flying hours
* 2021/22: 15 215 flying hours

**7.5 Programme 5 (Maritime Defence)**

**7.5.1 Programme 5 Budget Analysis**

The overall allocation to the Maritime Defence programme has remained fairly stable in recent years. However, in 2023/24 and over the MTEF it shows a fair increase. This is largely due to the 13.3% MTEF growth for the Maritime Logistics Support Capability subprogramme, which is likely related to the increased funding for SA Navy Frigates and Submarine repairs (See the 2022 BRRR recommendations and responses). For 2023/24, the Maritime Logistics Support Capability subprogramme received a nominal increase of 37.7%, increasing its allocation from R1.191 billion in 2022/23 to R1.640 billion in 2023/24. In contrast, the Maritime Combat Capability saw its allocation decrease by 14.2% percent from R1.693 billion in 2022/23 to R1.452 billion in 2023/24.

In terms of economic classifications, the following increases and decreases from 2022/23 to 2023/24 can be noted:

* The allocation for *Contractors* increases from R376.6 million to R826.4 million. Over the MTEF, the allocation to contractors is set to rise by 38.2%.
* *Operating payments* increases from R40.3 million to R55.9 million.
* *Machinery and equipment* increases substantially from R6.4 million in 2022/23 to R103.8 million in 2023/24.

The allocation to the SDA decreases from R738.2 million in 2022/23 to R622.5 million in 2023/24, which is likely related to Project Biro having one vessel delivered already.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2023/24** | **Real Increase / Decrease in 2023/24** | **Nominal Percent change in 2023/24** | **Real Percent change in 2023/24** |
| **R million** | **2022/23** | **2023/24** |
| Sub-programme 1: Maritime Direction | 788,1 | 798,4 | 10,3 | - 27,0 | 1,31% | -3,43% |
| Sub-programme 2: Maritime Combat Capability | 1 692,6 | 1 451,9 | - 240,7 | - 308,5 | -14,22% | -18,23% |
| Sub-programme 3: Maritime Logistics support Capability | 1 190,7 | 1 639,5 | 448,8 | 372,2 | 37,69% | 31,26% |
| Sub-programme 4: Maritime HR and Training Capability | 526,3 | 522,8 | - 3,5 | - 27,9 | -0,67% | -5,31% |
| Sub-programme 5: Base Support Capability | 529,0 | 572,0 | 43,0 | 16,3 | 8,13% | 3,08% |
| **TOTAL** | **4 726,7** | **4 984,6** | **257,9** | **25,1** | **5,5%** | **0,53%** |

**Table 8: Nominal and real increases/decreases in the Maritime Defence Programme**

**7.5.2 Programme 5 Performance Planning**

Five targets were set for the programme of which two are classified (‘percentage combat-ready capabilities available to the SANDF’ and ‘percentage compliance with Joint Force Employment requirements’).

The percentage compliance with maritime defence training targets remain at 80%, but in actual terms the number of learning opportunities for 2023/24 decreases to 190. This is the lowest number of learning opportunities over the past five financial years. The target for the number of sea hours was reduced from 10 000 for 2020/21 to 8 000 in 2021/22 and remains at this level since, including for 2023/24. It includes 2 144 hours for Force Preparation and 5 856 hours for Force Employment. However, the SA Navy has not been able to meet its target for the past five financial years, with actual sea hours as follows in audited years:

* 2019/20: 6 612 sea hours
* 2020/21: 6 818 sea hours
* 2021/22: 7 614 sea hours

**7.6 Programme 6 (Military Health Support)**

**7.6.1 Programme 6 Budget Analysis**

The Military Health Support programme’s allocation was decreased by R177.2 million (3.1%) in 2023/24, bringing its total allocation to R5.455 billion. When adjusted for inflation, this reflects a real percentage reduction of 7.671%. The most significant reductions are visible in the *Military Health Training Capability* that sees an 8.2% reduction from R371.6 million in 2022/23 to R362.6 million in 2023/24. The Specialist Health Services subprogramme sees a reduction of 6.1% from R2.267 billion to R2.128 billion over the same period.

In terms of economic classifications, several changes from 2022/23 to 2023/24 can be noted:

* The allocation for *Inventory (Medical supplies)* decreases from R127.2 million to R102.9 million. This may impact directly on service delivery to SANDF members and military veterans if there are insufficient medical supplies.
* *Travel and subsistence increases from R49.7 million to R58 million.*
* *Machinery and equipment* increases from R8.9 million to R82.5 million. This allocation grows by 119.3% over the MTEF.
* No funds are allocated to the Special Defence Account.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2023/24** | **Real Increase / Decrease in 2023/24** | **Nominal Percent change in 2023/24** | **Real Percent change in 2023/24** |
| **R million** | **2022/23** | **2023/24** |
| Sub-programme 1: Strategic Direction | 324,0 | 297,5 | - 26,5 | - 40,4 | -8,18% | -12,47% |
| Sub-programme 2: Mobile Military Health Support | 187,0 | 206,4 | 19,4 | 9,8 | 10,37% | 5,22% |
| Sub-programme 3: Area Military Health Support | 2 088,8 | 2 057,2 | - 31,6 | - 127,7 | -1,51% | -6,11% |
| Sub-programme 4: Specialist Health Services | 2 266,9 | 2 127,9 | - 139,0 | - 238,4 | -6,13% | -10,52% |
| Sub-programme 5: Military Health Product Support | 393,9 | 403,4 | 9,5 | - 9,3 | 2,41% | -2,37% |
| Sub-programme 6: Military Health Maintenance | 371,6 | 362,6 | - 9,0 | - 25,9 | -2,42% | -6,98% |
| Sub-programme 7: Military Health Training Capability | 324,0 | 297,5 | - 26,5 | - 40,4 | -8,18% | -12,47% |
| **TOTAL** | **5 632,2** | **5 455,0** | **- 177,2** | **- 432,0** | **-3,1%** | **-7,67 per cent** |

**Table 9: Nominal and real increases/decreases in the Military Health Support**

**7.6.2 Programme 6 Performance Planning**

Only four targets were set for Programme 6 of which three are considered classified. Only the target related to training is not classified (80% compliance for 2023/24 which includes 528 learning opportunities). Classified targets include:

* Percentage compliance with Joint Force Employment requirements as resourced.
* Percentage combat-ready capabilities available to the SANDF.
* Percentage compliance with availability of medical stock.

**7.7 Programme 7 (Defence Intelligence)**

**7.7.1 Programme 7 Budget Analysis**

The allocation for Defence Intelligence in 2022/24 reflects a decrease from R1.166 billion in 2022/23 to R1.033 billion in 2023/24. The main decrease is in terms of the *Operations* subprogramme which sees its allocation decrease by 48.8% from R584 million in 2022/23 to R299 million in 2023/24.

In terms of economic classifications, Defence Intelligence sees a significantly higher increase in CoE that other programmes, increasing from R463.6 million in 2022/23 to R598.4 million in 2023/24. The Estimates of National Expenditure notes that the personnel establishment of Defence Intelligence will increase from 840 in 2022/23 to 1 156 in 2023/24. The transfer to the SDA decreases from R584 million in 202/23 to R299 million in 2023/24. The SDA contribution sees an 18.4% decline over the MTEF.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2023/24** | **Real Increase / Decrease in 2023/24** | **Nominal Percent change in 2023/24** | **Real Percent change in**  **2023/24** |
| **R million** | **2022/23** | **2023/24** |
| Sub-programme 1: Operations | 584,0 | 299,0 | - 285,0 | - 299,0 | -48,80% | -51,19% |
| Sub-programme 2: DI Support Services | 582,3 | 734,3 | 152,0 | 117,7 | 26,10% | 20,21% |
| **TOTAL** | **1 166,3** | **1 033,3** | **- 133,0** | **- 181,3** | **-11,4%** | **-15,54%** |

**Table 10: Nominal and real increases/decreases in the Defence Intelligence Programme**

**7.7.2 Programme 7 Performance Planning**

Two performance target was included for 2023/24 as follows:

* The number of vetting decisions taken (6 000 for 2023/24, compared to 6 308 achieved in 2021/22 and an estimated performance of 5 500 in 2022/23).
* The total number of Defence Attache offices remain at 44, as in previous years.

It must be noted that the target related to the number of intelligence products produced was removed from the 2022 APP.

**7.8 Programme 8 (General Support)**

**7.8.1 Programme 8 Budget Analysis**

The General Support programme’s allocation was increased marginally by 3.7% from R6.593 billion in 2022/23 to R6.837 billion in 2023/24. The R75.9 million increase translates to a 1.15% reduction in real terms when adjusted for inflation. The allocation to most programmes remained stable, but one programme (Technology Development) received a significant increase from R133.5 million in 2022/23 to R315.9 million in 2023/24. The Technology Development Programme’s allocation will grow by 40.2% over the MTEF

In terms of economic classifications, the following increases and decreases from 2022/23 to 2023/24 can be noted:

* The allocation for *Minor Assets* increases from R69.5 million to R103.7 million.
* *Contractors* increases from R80.8 million to R102.9 million, with a growth of 16.5% over the MTEF.
* *Food and food supplies* increases from R26.2 million to R77.4 million.
* The allocation for *Machinery and equipment* decreases from R118.8 million to R81.5 million.
* R319.6 million will be transferred from the programme to the SDA in 2023/24.

| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2023/24** | **Real Increase / Decrease in 2023/24** | **Nominal Percent change in 2023/24** | **Real Percent change in**  **2023/24** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2022/23** | **2023/24** |
| Sub-programme 1: Joint Logistics Services | 3 418,6 | 3 450,7 | 32,1 | - 129,1 | 0,94% | -3,78% |
| Sub-programme 2: Command and Maintenance Information Systems | 1 046,1 | 1 063,6 | 17,5 | - 32,2 | 1,67% | -3,08% |
| Sub-programme 3: Military Police | 736,8 | 742,9 | 6,1 | - 28,6 | 0,83% | -3,88% |
| Sub-programme 4: Technology Development | 133,5 | 315,9 | 182,4 | 167,6 | 136,63% | 125,58% |
| Sub-programme 5: Departmental Support | 1 258,3 | 1 263,6 | 5,3 | - 53,7 | 0,42% | -4,27% |
| **TOTAL** | **6 593,3** | **6 836,8** | **243,5** | **- 75,9** | **3,7%** | **-1,15%** |

**Table 11: Nominal and real increases/decreases in the General Support Programme**

**7.8.2 Programme 8 Performance Planning**

The number of performance indicators used to track performance in Programme 8 remain at six for 2023/24. Targets set for 2022/23 include the following:

| **Performance Indicator** | **Audited Outcome** | **Estimated Performance** | **Target** |
| --- | --- | --- | --- |
| **2021/22** | **2022/23** | **2023/24** |
| Percentage procurement requests fully completed within 90 days from registration | 97.5% | 95% | 95% |
| Percentage expenditure in accordance with facilities plan | 102.65% | 100% | 100% |
| Percentage compliance with DOD ICT Plan | 45.77% | 90% | 90% |
| Number of crime prevention operations | 118 | 124 | 124 |
| Percentage criminal cases investigated (backlog) | 73.97% | 50% | 50% |
| Percentage criminal cases investigated (in-year) | 53.61% | 30% | 30% |

**Table 12: Performance Indicators for Programme 8**

**9. COMMITTEE OBSERVATIONS**

During deliberations with the DOD on 3 May 2023, Members of the PCDMV made several observations related to the budget allocation, the performance indicators and the targets set in the Strategic Plan and the APP. The following were noted:

1. The Committee noted that the ability of the DOD to achieve its targets for 2023/24 as set in the APP, is highly dependent on the availability of military platforms and hardware. However, these platforms currently have low levels of serviceability and therefore put at risk the ability of the DOD to achieve its targets. For example, a large number of SA Air Force and SA Navy platforms are known to be unserviceable, which will result in these divisions not achieving the targets for sea and flying hours. The DOD conceded that the status of prime mission equipment in the SANDF is of major concern and will require additional funding to be addressed. The 2023/24 additional allocation from National Treasury will start the process of addressing these challenges, but it will take at least 18 months to see the impacts of these funds on improved vessel and aircraft availability. Nonetheless, in the SA Navy, progress is made on the repair of one frigate, one submarine and the SAS Drakensberg for use in 2023/24.
2. In line with the observation above, the Committee requested regular updates on the status of the production the SA Navy’s new inshore patrol vessels under Project Biro.
3. The Committee expressed concern around the fact that the position of Secretary for Defence and the DOD Chief Financial Officer (CFO) remain vacant. The Department indicated that both posts were advertised in April 2023.
4. The Committee questioned indications by the DOD that R3 billion remains in the Special Defence Account (SDA), given that the Committee was previously informed that this account would be phased out. The Committee was informed that the account remains in use for the repair and maintenance of prime mission equipment from the ring fenced funding allocated by National Treasury.
5. The Committee noted the DOD’s assertion that the implementation of the 2015 Defence Review has regressed from Milestone 1 to Milestone 0. This points to the non-implementable nature of the Defence Review in its current form. The Committee welcomed the Minister of Defence’s statement in the APP to call for a review of the 2015 Defence Review, but expressed the need for this process to be brought forward. To this extent, the Committee noted the indication by the DOD that it is 44% underfunded, but Members highlighted that the current APP does not address the fiscal realities and it proposes no plans to ensure the maintenance of capabilities within current fiscal constraints. The DOD indicated that the APP submitted reflects a resourced plan and therefore is achievable. However, the DOD also indicated that the implementation of the 2015 Defence Review is dependent on additional funding.
6. The Committee welcomed the reduction of Compensation of Employees (CoE) as a segment of the DOD budget for 2023/24, but urged ongoing action in this regard. Specifically, Members noted the high rate of Reserve Force utilisation which will limit the DOD’s capacity to reduce CoE expenditure according to its set plans. The DOD noted that, with all thing being equal, they should meet the target for Reserve Force mandays, but that the historic trend has been that additional deployments are often required, which will impact on the Reserve Force utilisation.
7. Related to high spending on CoE, the Committee also expressed concern around the high number of personnel on suspension for long periods of time without the conditions of their suspension being finalised. The DOD noted that they can submit plans to deal with suspended personnel in this regard to the Committee.
8. The increasing planned expenditure on ‘contractors’ in 2023/24 was noted as a concern by Members.
9. The Committee expressed concern around the need for the DOD to make payments to the Southern African Development Community for the mission in Mozambique and that this results in a larger portion of the SANDF’s deployment in this area having to be funded from within the existing defence budget. The DOD confirmed that they are underfunded for the SANDF deployment in Mozambique and has to use internal reprioritisation of its budget to fund the shortfall.
10. Members expressed concern around the ongoing non-serviceability of environmentally controlled warehouses in the SANDF, despite previous recommendations by the Committee in this regard.
11. The Committee requested clarity on the status of SA Air Force platforms for the United Nations (UN) Mission in the Democratic Republic of the Congo (DRC) and the current status of reimbursements for these platforms. The DOD indicated that the matter is currently before the Military Command Council for deliberation.
12. The Committee noted the intention of the DOD to table the Military Discipline Bill in 2023/24 and stated that this Bill will not be able to be processed in the current parliamentary term.
13. The Committee expressed concern that the APP made inadequate reference to the use of technology as a force multiplier for SANDF missions.

**10. RECOMMENDATIONS**

The PCDMV identified the following areas that will be subject to monitoring by the Committee throughout the 2023/24 financial year:

1. The Committee noted the statement by the DOD that there is misalignment between the requirements set in the Estimates of National Expenditure and more realistic requirements posted in the APP. The Committee encourages the DOD to ensure that it achieves the targets it set for itself in the APP, which it claims is an achievable plan within the current fiscal context. The Committee will track performance in this regard on a quarterly basis.
2. The DOD is encouraged to urgently ensure permanent appointments in the positions of Secretary for Defence and the DOD Chief Financial Officer.
3. The Committee welcomes the commitment from the Minister of Defence for a review of the 2015 Defence Review to be completed in 2023/24 and the DOD should report on progress to the Committee on a quarterly basis.
4. The Committee notes that, historically, additional deployment requirements have meant an increased use of Reserve Force mandays and that this is likely to repeat itself in 2023/24, impacting on the DOD’s ability to cut down on mandays as planned. The Committee will engage National Treasury on this matter and to find funding solutions to ad hoc deployments.
5. The Committee will engage National Treasury on the shortfall in funding of the SANDF’s deployment in Mozambique which the DOD indicated must be partly funded through internal reprioritisation.
6. The Committee notes efforts by the DOD to reprioritise funds in-year, but it maintains that further scope to cut unnecessary costs remain, for example in relation to the use of Contractors and high expenditure on Travel and Subsistence. The DOD should revisit some of these expenditure items to ensure that funds are rather reprioritised for key military functions such as prime-mission equipment maintenance.
7. The Committee expresses its concern to Cabinet around the inadequate budgetary allocation of the DOD and, specifically, the impact of its previous decisions on the implementation of a CoE ceiling. The ceiling remains largely un-implementable, contributes to irregular expenditure and impacts heavily on the country’s defence capabilities. Of specific concern is that this ceiling limits the ability of the SANDF to recruit annually for both the Regular and Reserve Force. Consideration should be given to re-evaluate the ceiling, along with internal DOD interventions such as the development and implementation of a Human Resources Rejuvenation Strategy.
8. The DOD should prioritise the development and implementation of its Human Resources Rejuvenation Strategy, separate to that of an exit mechanism strategy, to ensure an overall younger and deployable Force. This may require a system that allows for soldiers to be exited at different levels and a revision of the concept of ‘soldier for life’.
9. The Committee instructs the DOD and National Treasury to meet on finding a feasible way forward in dealing with the matter of CoE expenditure, continued irregular expenditure in this regard and the non-sustainability of the CoE ceilings imposed by National Treasury as a result of Cabinet decisions. The Committee will call the DOD and National Treasury to report back on its engagement in in the third quarter of 2023.
10. The DOD should give consideration to the potential areas for expenditure optimisation identified by National Treasury and report back to Parliament on the feasibility of implementing these measures.

The PCDMV requires the following feedback to be presented to the Committee in the third quarter based on the recommendations above:

1. Members expressed concern around the ongoing non-serviceability of environmentally controlled warehouses in the SANDF, despite previous recommendations by the Committee. The DOD should provide feedback as to the status of these warehouses, the status of contracts for the maintenance of environmental control systems and dates for the finalisation of contracts to ensure these facilities remain operational.
2. The Committee also expressed concern around the high number of personnel on suspension for long periods of time without the conditions of their suspension being finalised. The DOD should submit plans to deal with suspended personnel to the Committee, including clear timelines.
3. The Military Command Council is encouraged to urgently deliberate on the status of Sa Air Force platforms in the DRC. The DOD should then report back to the Committee on any decisions taken as well as the financial implications in terms of expenditure and reimbursement.
4. In future, when the DOD presents to the Joint Standing Committee on Defence (JSCD), its deployment plans in line with Presidential letters of employment, the Department should indicate to the Committee the impact of such a deployment on the utilisation of Reserve Force mandays and broader efforts to curb CoE expenditure.
5. The DOD should consider the development of a Cost Recovery Framework/Model for consideration to Cabinet and report back to the Committee on the feasibility of such a model/framework.

**PART B: DEFENCE ENTITIES**

The Portfolio Committee on Defence and Military Veterans (PCDMV), having considered the 2023/24 Annual Performance Plan of the Castle Control Board (CCB) on 3 May 2023 and the 2023 Corporate Plan and budgetary allocation of the Armaments Corporation of South Africa (Armscor) on 10 May 2023 respectively, reports as follows:

**THE CASTLE CONTROL BOARD (CCB)**

**1. Introduction**

The Castle Management Act, 1993 (No. 207 of 1993) provides for a CCB to govern and manage the Castle of Good Hope (CGH) – South Africa’s oldest architectural structure - on behalf of the Minister of Defence and Military Veterans. The National Heritage Resources Act (No. 25 of 1999) provides for the management of the Castle as a national heritage site. The Castle’s objectives are set out in the Castle Management Act as follows:

* To preserve and protect the military and cultural heritage of the Castle;
* To optimise the tourist potential of the Castle; and
* To maximise accessibility to the public.

The Castle Control Board (CCB) submitted its Annual Performance Plan (APP) for 2023/24 to Parliament on 17 March 2023. In the APP, the CCB is proposing to amend the Castle Management Act and the Defence Endowment Property and Account Act. As with the previous APP, it is stated that the “Board has identified that the current founding legislation is dated and submitted a review document to the Ministry of Defence and Military Veterans.

**2. THE CCB PRIORITIES FOR 2023/24**

The Board Chairperson, Lt Gen JS Mbuli, highlights a number of strategic risks that will occupy the CCB in 2023/24, including the following:

* Overcome the economic devastation caused by the COVID-19 pandemic related to the CCB's going concern status.
* Aggressive marketing and promotion of the Castle.
* Health, safety and security concerns (securing the perimeter fence has become imperative for positioning itself for UNESCO World Heritage status).
* Cost-effectively maintain, enhance, and promote the Castle of Good Hope's built and intangible heritage.
* Provide visitors with a life-changing educational and conscientization *[sic]* experience
* Achieve another clean audit outcome.
* Promoting the interests of women, youth and persons living with disabilities.

**3. ANNUAL PERFORMANCE PLAN 2023/24**

**3.1 CCB Situational analysis**

The Updated 2023 Situational Analysis starts off with a reference to the COVID-19 pandemic, and the impact thereof on the Castle. The CCB notes the generous provision of R3 million relief funding by the Department of Defence to the CCB on 20 May 2020. However, the CCB notes that, besides this once-off relief funding, the CCB desperately requires a similar, annual operational subsidy to fulfil its constitutional mandate over the MTEF. The Situation analysis includes the following other factors:

* *Political environment analysis.* Given the Castle of Good Hope's historical association with armed colonial conquest, land dispossession, imperialism, apartheid and oppression, its strategic operations cannot be divorced from a dynamic and sometimes explosive international but also domestic political environment. The political dimension plays itself out in numerous ways: at the level of heritage management, there is the perpetual contestation between social groups who view it as a "bastion of white civilization in darkest Africa", as to those who perceive it as a symbol of armed colonial conquest".
* *Economic environment analysis.* The Castle Control Board is almost entirely reliant (98%) on self-generated income from tourism, events, and rentals to fund its heritage and educational programmes. Given that the organisation primarily relies on domestic tourism, the South African economy set to grow at a meagre 1.2% over the next MTSF poses a significant threat to this small but vibrant heritage-enterprise entity
* *Social environment analysis.* The 4th Industrial Revolution will have a profound impact on the social construct. This revolution will revolutionize education to provide the skills for sustainable employment. Automation, robotics, and artificial intelligence will reduce the demand for unskilled labour, consequently placing additional social services pressure.
* *Technological environment analysis.* In 2018, individual members gained access to emails and other electronic information and smeared the Board's name. The State and the Castle Control Board must place cybersecurity as a strategic priority.
* *Internal environment analysis.* One of CCB's most significant threats is its going concern linked to financial sustainability. The Castle needs to be operationally managed solely by the CCB, and all other entities present on or connected to the site – military and non-military - must adhere to the policies and procedures of the CCB.

**3.2 Measuring CCB Performance**

The 2023/24 APP states that the CCB will, over the 2019-2024 MTSF period, support the government's priorities and ultimately, the National Development Plan (NDP), Vision 2030 as well as the NDP 5-year Implementation Plan. The detailed performance Outcomes for 2023/24 is provided in the table below. These are the high level, measurable, impactful outcomes.

| **Output indicator** | **Performance 2020/21** | **Performance 2021/22 (estimated)** | **Target 2023/24** |
| --- | --- | --- | --- |
| Percentage payments within 30 days from receipt of legitimate invoices | New indicator | New indicator | 95% |
| Number of preventative and regulation maintenance projects completed | 8 | 8 | 8 |
| Number of non-commercial, cultural events hosted annually at the Castle of Good Hope | 10 | 10 | 15 |
| The annual number of visitors and tourists attracted | 33 452 | 120 000 | 125 000 |
| Gross revenue generated | R9.438 million | R10.005 million | R10.455 million |
| Number of tourism infrastructure upgrades completed | 1 | 1 | 1 |
| The annual number of potential visitors reached through the media | 80 000 | 90 000 | 100 000 |
| Number of student interns | 8 | 12 | 12 |
| Number of heritage educational programmes organized for women, unemployed youth, disabled and traditional communities | 12 | 15 | 18 |
| Number of heritage programmes organised for Military Veterans | 6 | 6 | 6 |

***Table 1: CCB Outcome indicators***

**4. CASTLE CONTROL BOARD PROGRAMMES FOR 2023/24**

**4.1 Programme 1: Administration**

The purpose of the Administration programme is to ensure clean, sound administration and good corporate governance.

| **Output indicators** | **Annual Target** | **Quarterly targets** | | | |
| --- | --- | --- | --- | --- | --- |
| **Q1** | **Q2** | **Q3** | **Q4** |
| Number of corporate governance policies approved per annum | 3 |  | 1 | 1 | 1 |
| Percentage reduction in the number of audit findings within the CCB | 85% | - | - | - | 85% |
| CCB Annual Performance Plan timeously submitted to the Executive Authority | 100%  (1) | - | - | - | 100% |
| CCB Annual Report timeously submitted to the Executive Authority | 100%  (1) | - | - | - | 100% (1) |
| CCB Quarterly Performance Reports timeously submitted to the Executive Authority | 100%  [4] | 100%  (1) | 100% (1) | 100% (1) | 100% (1) |
| CCB Quarterly Financial Reports timeously submitted to the Executive Authority and National Treasury | 100%  [4] | 100%  (1) | 100% (1) | 100% (1) | 100% (1) |
| CCB CEO Performance Agreement timeously submitted to the Executive Authority and National Treasury | 100% (1) | 100% (1) | - | - | - |
| CCB CEO performance agreements submitted to the Board for approval | *100% (1)* | *100% (1)* | *-* | *-* | *-* |
| CCB SMS’ performance agreements to the CEO for approval | *100% (3)* | *100% (3)* | - | - | - |
| CCB SMS’s Financial Disclosures submitted for approval | *100%* | *100%* | - | - | - |
| Submission of all reports and attendance of committee meetings in support of parliamentary activities | *100%* | *100%* | *100%* | *100%* | *100%* |
| Percentage reduction of the number of irregular expenditure within the CCB | *75%* |  |  |  | *75%* |
| Percentage reduction in the number of fruitless and wasteful expenditures within the CCB | 100% | - | - | - | 100% |
| Percentage payments within 30 days from receipt of legitimate invoices | 95% |  |  |  | 95% |

***Table 2: Programme Annual and quarterly targets***

**4.2** **Programme 2: Maintenance and Conservation at the CGH**

This programme aims to ensure the maintenance, preservation, interpretation and showcasing of the history of the CGH.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Output indicators** | **Annual Target** | **Quarterly targets with sources of verification noted** | | | |
| **Q1** | **Q2** | **Q3** | **Q4** |
| Number of preventative and regulation maintenance projects completed | 8 | 2 | 2 | 2 | 2 |
| An annual increase in number of tangible heritage projects implemented at the CGH | 4 | 1 | 1 | 1 | 1 |
| Number of non-commercial, cultural events hosted at the CGH | 15 | 4 | 4 | 4 | 3 |
| Number of exhibitions hosted annually at the CGH | 3 | - | - | 1 | 2 |

***Table 3: Programme 2 Annual and quarterly targets***

**4.3** **Programme 3: Maximising the Castle’s Tourism Potential**

The purpose of this programme is to optimise the tourism potential of the CGH.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Output indicators** | **Annual Target** | **Quarterly targets with sources of verification noted** | | | |
| **Q1** | **Q2** | **Q3** | **Q4** |
| The annual number of visitors and tourists attracted to the CGH | 125 000 | 20 000 | 20 000 | 35 000 | 45 000 |
| Gross revenue generated through tourism and Events | R10 455 000 | R 1 150 000 | R 2 900 000 | R3 175 000 | R3 230 000 |
| Number of commercial events hosted annually at the CGH | 25 | 5 | 5 | 5 | 5 |
| Film and fashion shoots  accommodated at the CGH | 15 | 4 | 4 | 4 | 3 |
| Number of tourism infrastructure upgrades Completed | 1 | - | - | - | - |
| Number of Joint Marketing Initiatives undertaken per year | 2 | - | 1 | - | 1 |

***Table 4: Programme 3 Annual and quarterly targets***

**4.4** **Programme 4: Increase public access to the CGH**

This programme aims to optimise public access and increase the CGH’s public profile and positive perception across all community sectors.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Output indicators** | **Annual Target** | **Quarterly targets with sources of verification noted** | | | |
| **Q1** | **Q2** | **Q3** | **Q4** |
| The annual number of potential visitors  reached through the media | 100 million | 25 million | 25 million | 25 million | 25 million |
| Student interns hosted at the CGH per annum | 12 | 6 | 2 | 2 | 2 |
| Number of heritage-educational programmes  organised for women, unemployed youth,  disabled and traditional communities | 18 | 4 | 4 | 5 | 5 |
| Heritage programmes organised for Military Veterans | 6 | 2 | 1 | 1 | 2 |

***Table 5: Programme 4 Annual and quarterly targets***

**5. RESOURCE CONSIDERATIONS**

This section provides a high-level overview of the CCB’s programme resource allocations for 2023/24. The projected expenditure for 2023/24 is R10.455 million, an increase of R450 000 from the previous year. The Administration Programme remains the largest programme with expected expenditure of R9.360 million for 2023/24 (89.5% of the total allocation). The Administration Programme is the most significant spending programme given that within this programme employment cost is the primary expenditure driver with 19 people according to the 2023 Estimates of National Expenditure.[[2]](#footnote-2) The overall expenditure trends remain fairly stable from 2022/23 to 2023/24, with a 4.5% nominal increase.

It should also be noted that 2023/24 will be the last year the CCB is allocated the Covid relief grant (R4.5 million). The operation grant is necessary to cushion the CCB from the impact that the pandemic has had on tourism. Through the SANDF’s Chief of Logistics, the DOD has ring-fenced an amount of R4.5 million to assist with the day-to-day maintenance of the Castle of Good Hope.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | | **Nominal Increase / Decrease in 2023/24** | **Real Increase / Decrease in 2023/24** | **Nominal Percent change in 2023/24** | **Real Percent change in 2023/24** |
| **R million** | **2022/23** | **2023/24** |
| Administration | 8 957,0 | 9 360,0 | 403,0 | - 0,1 | 4,50% | 0,00% |
| Conservation Management | 700,0 | 732,0 | 32,0 | 0,5 | 4,57% | 0,07% |
| Tourism Management | 90,0 | 94,0 | 4,0 | 0,0 | 4,44% | -0,05% |
| Public Access | 258,0 | 269,0 | 11,0 | - 0,6 | 4,26% | -0,23% |
| **TOTAL** | **10 005,0** | **10 455,0** | **450,0** | **- 0,2** | **4,5%** | **0,00%** |

***Table 6: CCB Programme resource allocations***

**6. CASTLE CONTROL BOARD ENTERPRISE RISK MANAGEMENT**

The identified CCB Enterprise Risks of the CCB is listed in the APP and differs with those in the previous APP.

|  |  |  |
| --- | --- | --- |
| **Outcome** | **Key risks** | **Risk mitigation** |
| A well-conserved maintained and  protected Castle of Good Hope | The inability of the CCB to remain a going concern in the aftermath of the most devastating event (COVID-19) because it cannot generate revenue  from its tourism and events portfolios. | Aggressive marketing and a compact  with government departments to use  the Castle facilities for their smaller meetings and conferences. |
| A well-conserved maintained and  protected Castle of Good Hope | We are experiencing a decline in financial resources inhibiting us from executing our primary mandate to conserve and promote CGH as a Heritage Site. | See through the legal and compliance processes to apply to Treasury for the retention of historic surpluses. |
| Accountable and effective governance of the CCB | We have insufficient Human Resources capacity hampering our endeavours to fulfil our core mandates. | Retrain and redeploy existing staff and recruit key staff, e.g., financial manager, in an HRD Plan. |
| A well-conserved maintained and  protected Castle of Good Hope | Blurred and overlapping responsibilities regarding the overall management of the CGH precinct negatively affecting our ability to coordinate and optimize the resource base. | Executive Director engages with Reserve Force Units, SAPS and City Improvement District to address this serious issue. |
| A well-conserved maintained and  protected Castle of Good Hope | Compromised security in and around the CGH undermining the work of the CCB. | Compromised security in and around the CGH undermining the work of the CCB. |
| Accountable and effective governance of the CCB | Lack of adherence to a Manual of Policies and Procedures to regulate control and compliance environment undermines our ability to build win-win partnerships with the private and public sectors. | Newly appointed Executive Director  and Chief Financial Officer are leading the initiative to ensure complete compliance |
| A well-conserved maintained and  protected Castle of Good Hope | The compromising of the image of the Castle either through malice or abuse of its spaces and amenities | The Executive Director shall actively engage stakeholders and the media. |

***Table 6: Enterprise risk and Risk Mitigation***

**7. COMMITTEE OBSERVATIONS**

During deliberations with the CCB on 3 May 2023, Members of the PCDMV made observations related to the budgetary allocation, the performance indicators and the targets set in the APP of the CCB. The following were noted:

1. The Committee expressed concern with regards to illegal occupation of the land outside the Castle, which has resulted in the erection of temporary structures on the perimeter fence of the Castle. The Committee noted the negative effect this could have on the Castle as a tourist attraction. The CCB informed the Committee that the matter is being deal with through the courts, as well as through negotiation with the illegal occupants.
2. The Committee questioned whether the Castle would be in a position to attain the increased target of the number of visitors to 125 000. The Committee was assured that, with the upsurge within the tourism industry, the Castle will be able to attract the targeted number of visitors.
3. The Committee further questioned whether, in the near future, the CCB could be in a position to be self-sustainable.
4. The Committee expressed concern with the vacancies in key management positions, including the Heritage, Culture and Education Manager; the Tourism Marketing Manager and the Events Manager. The Committee urged the CCB to expedite the filling of key management positions.

**10. RECOMMENDATIONS**

The PCDMV identified the following areas that will be subject to monitoring by the Committee throughout the 2023/24 financial year and beyond:

1. The Committee wishes to reiterate the need to finalise the matter of illegal occupation of the land outside the Castle, which has been raised as a major concern by the Committee in the last Budget Report as well. The Committee takes note that the matter is currently before the court and has been postponed to the end of October. Nonetheless, the Committee encourages the CCB to continue efforts to resolve impasse as soon as possible.
2. The Committee urges the CCB to expedite the filling of key vacant management positions.

The PCDMV requires the following written feedback from the CCB based on the recommendations above:

1. The CCB should provide the Committee with quarterly written feedback on its efforts and the status of the court case regarding the matter of illegal occupation of the land outside the Castle.
2. The CCB should provide the Committee with quarterly written feedback on (1) the number of tourist attracted in that specific quarter and (2) funds raised through commercial activities at the Castle in that quarter. This will enable the Committee to better track and oversee the CCB’s performance in-year.

**ARMAMENTS CORPORATION OF SOUTH AFRICA (ARMSCOR)**

The PCDMV, having considered the 2023 Corporate Plan of Armscor on 10 May 2023, reports as follows:

1. **1. Introduction**

Armscor was established in terms of the Armaments Production and Development Act (No. 57 of 1968) to satisfy the requirements of the South African National Defence Force (SANDF) in respect of Defence Matériel.

The objectives and mandate of Armscor are defined in the Armaments Corporation of South Africa Limited Act of 2003 and includes the objective of meeting the defence matériel requirements of the Department of Defence (DOD) effectively, efficiently, and economically. Furthermore, Armscor are to meet the defence technology, research, development, analysis, and test and evaluation requirements of the DOD effectively, efficiently, and economically.

1. **strategic focus areas**

* 1. **Notes from the introductory statement**

A key observation by the Armscor Board Chairperson revolved around the status of the Simons Town Naval Dockyard. He noted that Armscor has successfully turned around the Simon’s Town Naval Dockyard. The facility is being considered as a resource that is capable of doing more than refurbishing and maintaining vessels. Building capacity to manufacture vessels is now a realisable prospect.

The Armscor CEO noted a number of key focus areas for Armscor going forward as it aims to optimise operations amid significant fiscal constraints in the defence environment:

* Armscor needs to continue to improve efficiencies as the gap between the operational costs and income is getting higher.
* Over and above serving its primary client, the DOD, Armscor is also empowered to support other government departments. This is demonstrated in the Service Level Agreement signed with the South African Police Service.
* The Board has approved the commercialisation strategyfor implementation.
* The establishment of the cyber defence unit is progressing well.

**2.2 Environmental scan**

The Corporate Plan further contains a detailed situational awareness which maps the external and internal environments that affect the Corporation. The consideration of these factors are essential as it shapes the constraints and conditions under which Armscor will have to operate in the medium-term. These factors remain constant, are similar to those reported on in the 2022 APP and will likely persist throughout the medium-term.

**External environment**

* *Political*: The domestic focus of national security is on Human Security and the growth of South Africa is dependent on peace, stability and economic development on the continent. The focus on human security was encapsulated in 2020 with the deployment of the military to assist in the country’s efforts to prevent the spread of the Covid-19 pandemic.
* *Economic*: There is increasing fear of economic downturn, with GDP growth continuously revised downwards. This downturn was exacerbated by the Covid-19 pandemic, negatively impacting the implementation of the National Development Plan (NDP). The defence allocation is expected to further decline over the medium-term.
* *Social:* Four aspects will shape future economic and political conditions, namely increased life expectancy; population growth and the youth bulge; migration; and, urbanisation. In addition, the social sphere will be impacted by the Fourth Industrial Revolution and cyber connectivity.
* *Technology:* The SANDF will be required to improve its Information Warfare capability while the Defence industry requires funding and planning to maximise its economic contribution.
* *Legal:* The DOD, especially the SANDF commanders could face various new international legal challenges during external operations. The SANDF must ensure that it operates within International Law.
* *Physical:* The SANDF could increasingly be required to become involved in humanitarian operations, specifically as a result of climate change. Furthermore, as demonstrated during the Covid-19 pandemic, SANDF involvement may be required to deal with humanitarian operations related to pandemic outbreaks.
* *Military:* The military will have to prepare for a deployment environment where the distinction between military and other containment measures become increasingly blurred. Of particular importance will be the SANDF’s role in border safeguarding as well as the need for technological means of securing the country’s borders.

**Internal environment**

* *Economic recession:* Slow economic growth will hamper the creation of job opportunities, industrial strikes and possibly contribute to conflict from the unemployed youth demographic.
* *Defence budget allocation:* The Defence Force is Armscor’s largest client and its budget allocation will remain constrained over the medium-term. DOD’s Human Resources expenditure is foreseen to continue rising, slightly above the inflation rate, effectively reducing the operating and capital budgets. This introduces an era where the ability of the SANDF to conduct operations is substantially curtailed, possibly negatively influencing the demand for Armscor capacity related to the contracting of maintenance, repair and overhaul (MRO) services. The impact of this, on the Strategic Capital Acquisition Master Plan (SCAMP) is severe.

The initiatives to position Armscor as the primary procurement agency for the security cluster; sweating its own assets; sourcing contracts from foreign governments and IP exploitation is taking longer than expected.

* *Corporate governance accountability:* Armscor will continue to operate and function under good governance principles as per the King IV Report and other guiding documents.
* *National cost containing measures:* Armscor will continue to implement cost containment measures as per National Treasury directives.
* *Service delivery improvement:* The Acquisition process and contracting process at Armscor will be improved to better serve the DOD needs.

**2.3 Identified weaknesses and threats**

Armscor identified the following weaknesses and threats in its SWOT analysis for 2023, and the PCDMV may wish to engage the entity on how these matters will be addressed.

*Weaknesses:*

* Limited commercialisation and business development capabilities.
* Slow conversion rate of business opportunities.
* Acquisition turnaround times.

*Threats*

* Denel’s sustainability and current performance on defence contracts.
* Industry performance and sustainability.
* Inadequate information and communication technologies in South Africa.
* Reliance on insufficient DOD transfer payment.
* Reduction in the DOD budget.
* Insufficient funding to sustain facilities.
* Pandemics.

**2.4 Armscor contribution to national government planning**

Armscor will seek to contribute to several Government outcomes as per the NDP and the Medium-Term Strategic Framework (MTSF) (2019-2024).

Armscor contributions to the *NDP*:

* Sharpening South Africa’s innovative edge by contributing to global scientific and technological advancement;
* Investing in Research and Development;
* Facilitating cooperation between public service and technology institutions;
* Committing to procurement approaches that stimulate domestic industry and job creation;
* Procuring from and supporting SMMEs, black-owned and black managed enterprises and female-led enterprises, the youth and military veterans.

Armscor contributions to the 2019-2024 *MTSF:*

* *Priority 1:* Capable, ethical and developmental state. Armscor will contribute to improved corporate governance and continue to fight corruption. The institution will also follow a zero tolerance approach to sexual abuse toward women, the youth and people with disabilities.
* *Priority 2:* Economic transformation and job creation. Armscor will focus on domestic procurement of goods and services. Over 146 bursaries will be awarded for science and engineering. Military veterans support programmes were created to ensure access for this select group to the defence industry.
* *Priority 3:* Education skills and health. Armscor’s focus will be on the provision of domestic and foreign learning opportunities in the fields of science and technology.
* *Priority 5:* Spatial development, human settlements and local government. Armscor will support women, the youth and economic development in rural areas through Project Koba Tlala.
* *Priority 6:* Social cohesion and safer communities. Armscor will contribute to this priority through its contribution to the SANDF’s border safeguarding operations and the provision/acquisition of technology and equipment for the SANDF.
* *Priority 7:* A better Africa and a better world. Through supporting the DOD’s external operations in Africa, Armscor will contribute to regional and continental peace, security and stability.

1. **Budget Analysis**

**3.1 Overview of 2022/23 income and expenditure**

The projected revenue for the Armscor Group in 2023/24 (R1.811 billion) is higher than that which was projected for 2022/23 (R1.616 billion). After the inclusion of depreciation, Armscor is expected to have a net surplus of R24.3 million for 2023/24, which is an improvement on the expected R16.1 million deficit projected for the end of 2022/23.

The main cost drivers for Armscor in the 2023/24 financial year include the following:

* Direct personnel cost increases from R1.059 billion in 2022/23 to R1.168 billion in 2023/24.
* Depreciation decreases from R111.3 million in 2022/23 to R108.6 million in 2023/24.
* Cost of sales increases from R90.9 million in 2022/23 to R130.2 million in 2023/24.
* Group Capital Expenditure increases from R276.9 million on 2022/23 to R350.1 million in 2023/24, of which the following can be noted:
  + Computer equipment increases from R16.98 million to R32.23 million.
  + Computer software increases from R79.65 million to R118.44 million.
  + Buildings and infrastructure decreases from R125.9 million to R109.4 million.
  + Capital assets increases from R7.08 million to R35.73 million.
  + Machinery and equipment increases from R35.6 million to R35.5 million.
  + Motor vehicles increases from R2.8 million to R4.9 million.
  + Capital assets increases from R7.1 million to R35.7 million.

**3.2 Armscor’s funding?**

Armscor is largely funded from state finances through a transfer payment. The reduced defence allocation is pressuring Armscor to supplement this income with other commercial projects. In order to lessen the pressure on the fiscus, these projects require expansion, as per Armscor’s APP, to increase commercial activities in order to increase Armscor’s economic viability. For 2023/24, Armscor planned funding comprises the following:

* Transfer payment: R1.251 billion (R1.242 billion in 2022/23)
* Sale of goods: R13.1 million (R15.1 million in 2022/23)
* Rendering of services: R367.4 million (R198.8 million in 2022/23)
* Rental income: R65.9 million (R63.1 million in 2022/23)
* Other income: R29.0 million (R28.2 million in 2022/23)

**3.3 Additional financial information:**

Armscor has shown progress in returning most of its subsidiaries to profitability in recent years. However, for 2023/24, the Research and Development Division shows a projected shortfall of R27.3 million while the Armscor Dockyard is likely to have a shortfall of R2.7 million. Projected profit/losses for the 2023/24 financial year per component includes (compared to the projected profits and losses for 2022/23):

* Armscor Corporate: Surplus of R54.3 million (R107.3 million shortfall was   
   projected for 2022/23)
* Research and Development: Shortfall of R27.3 million (R130.0 million surplus was   
   projected for 2022/23)
* Armscor Dockyard: Shortfall of R2.7 million (R6.6 million shortfall was   
   projected for 2022/23)
* **Armscor Group: Surplus of R24.3 million**

**3.4 An alternative view on Armscor’s finances**

When reviewing the Armscor expenditure per activity, as presented by National Treasury, overall expenditure is set to increase from R1.989 billion in 2022/23 to R2.209 billion in 2023/24.[[3]](#footnote-3) This translates to a nominal increase in expenditure of 2.4%. A significant increase in expenditure is expected in terms of the Armscor Dockyard which increases by R93.3 million to R513.7 million in 2023/24. This aligns with the statement of the Board Chairperson which focused on the turnaround of the Dockyard. The Management of strategic facilities (Research and Development) will see expenditure increase by R86.2 million to R468.0 million in 2023/24. The Administration capacity will see its allocation increase only marginally by R21.0 million to R855.3 million in 2023/24. This results in a 2.27% reduction in expenditure when adjusted for inflation.

| **Programme/objective/**  **activity** | **Budget** | | **Nominal Increase / Decrease in 2023/24** | **Real Increase / Decrease in 2023/24** | **Nominal Percent change in 2023/24** | **Real Percent change in 2023/24** |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **2022/23** | **2023/24** |
| Administration | 834,3 | 855,3 | 21,0 | - 19,0 | 2,52% | -2,27% |
| Quality Assurance | 119,0 | 124,9 | 5,9 | 0,1 | 4,96% | 0,06% |
| Management of Defence Matériel Acquisition | 208,4 | 219,2 | 10,8 | 0,6 | 5,18% | 0,27% |
| Logistics Support | 24,9 | 27,8 | 2,9 | 1,6 | 11,65% | 6,43% |
| Management of strategic facilities: Armscor Dockyard | 420,4 | 513,7 | 93,3 | 69,3 | 22,19% | 16,49% |
| Management of strategic facilities: Research and Development | 381,8 | 468,0 | 86,2 | 64,3 | 22,58% | 16,85% |
| **TOTAL** | **1 988,8** | **2 208,9** | **220,1** | **116,9** | **11,1%** | **5,88%** |

**Table 1: Armscor expenditure trends**

1. **THE SWEATING OF ASSETS**

Neither the 2022/23 nor the 2023/24 APP notes any significant progress related to the sweating of these assets and it remains unclear whether the necessary approval was obtained. Armscor did, previously, note that it established the Property Management and Leveraging Division for the purposes of sweating property assets.”[[4]](#footnote-4)

1. **Personnel information**

Armscor’s personnel component has seen a significant reduction in recent years. The total personnel strength for 2023/24 is reflected in the table below and comes to 1 348, which is lower than the projection of 1 348 for 2022/23. This figure includes 56 Contract Employees as well as 56 personnel in the Talent Development Programme.

Clarity should be sought on the difference between personnel figures in the Armscor Corporate Plan (as per the table below) and those provided by National Treasury (which states a total personnel component for 2023/24 of 1 512). Furthermore, clarity should be obtained on the personnel figures. The projected figures per division in the 2022 and 2023 APPs are exactly the same and it is unlikely that such consistency remained between the two years.

|  |  |  |
| --- | --- | --- |
| **Armscor Group** | **Total Permanent employees projected in the 2022/23 Corporate Plan** | **Total Permanent employees provided for 2023/24** |
| Armscor (excluding R&D) | 629 | 629 |
| Research & Development | 347 | 347 |
| Armscor Dockyard | 372 | 372 |
| **TOTAL** | **1 348** | **1 348** |

**Table 2: Armscor personnel figures**

**6. SELECTED PERFORMANCE INDICATORS**

**6.1 Service delivery indicators**

The table below highlights a number of service delivery performance targets across Armscor’s six goals include the following:

* Goal 1: Defence Materiel Acquisition.
* Goal 2: System Support Acquisition
* Goal 3: Schedule placement
* Goal 4: Management of Defence Industrial Participation (DIP)
* Goal 5: Defence technology research, test and evaluation; Intellectual Property management
* Goal 6: Performance against Dockyard Mandate

| **Goal** | **Performance indicator** | **2021/22**  **Achievement** | **2022/23**  **Target** | **2023/24**  **Target** |
| --- | --- | --- | --- | --- |
| **1**  (Defence Materiel acquisition) | Percentage of DOD capital requirements converted into orders placed | 100% | 95% | 95% |
| Execution of contracts measured through cash flow on DOD orders placed | 107.42% | 95% | 95% |
| **2**  (System Support Acquisition) | Percentage of DOD system support and procurement requirements converted into orders placed | 96.0% | 95% | 95% |
| Execution of contracts measured through cash flow on DOD orders placed | 103.2% | 95% | 95% |
| **3**  (Schedule placement) | Average time from receipt of requirement to placement of contract | 78 days for shortened process items  74 days for standard acquisition  128 days for SDA programmes | 90 days for shortened process items  120 days for standard acquisition  140 days for SDA programmes | 90 days for shortened process items  120 days for standard acquisition  140 days for SDA programmes |
| **4**  (DIP Management) | Value of Defence Industrial Participation (DIP) credits granted | R260.4 million | R111.3 million | R50.3 million |
| **5**  (Defence Technology and Research) | Percentage of execution of technology requirements | 97.86% | 95% | 95% |
| **6**  (Dockyard Management) | Adherence to contractual project tasking and job cards executed | 82.0% | 90% | 90% |
| Percentage compliance to project finance | 50% | 90% | 90% |
| Provision of Ancillary Services to the SA Navy | 100% | 95% | 95% |
| Ensure training is provided in accordance with the requirements of the SA Navy | 100% | 100% | 100% |
| Percentage compliance with quarterly report timelines | 100% | 100% | 100% |

**Table 3: Selected performance indicators per Armscor goal**

Key Performance Indicators (KPI) contained in departmental and entity APPs are essential tools in ensuring departmental accountability and are therefore central to parliamentary oversight. KPI’s should be designed according to the SMART principle in that it should be Specific, Measurable, Attainable, Relevant, and Time-Bound. Armscor’s targets noted above conform very well to the SMART principles required. It also offers a broad overview of the entity’s strategic outputs when additional targets are considered.

Armscor states in its APP that it “aspires to settle all payable invoices within 30 days upon receipt thereof.”[[5]](#footnote-5) There is, however, no KPI in this regard that will allow the PCDMV to track compliance with National Treasury regulations on payments within 30 days.

**6.2 Armscor strategic outputs**

In addition to the service delivery performance indicators, Armscor also set itself a number of targets in terms of its strategic output. These are summarised in the table below:

| **Outcome** | **Output** | **2021/22**  **Achievement** | **2022/23**  **Target** | **2023/24**  **Target** |
| --- | --- | --- | --- | --- |
| **Revenue generation** | Group revenue | R1.429 billion | R1.401 billion | R1.430 billion |
| Revenue from Armscor R&D | R328.3 million | R206.5 million | R371.3 million |
| Revenue from Business Enablement Unit | R17.6 million | R31.4 million | R31.5 million |
| **Cost Management** | Improve net financial position | R12.5 million surplus | R16.1 million deficit | R24.3 million surplus |
| **Efficient and effective deliver** | Percentage compliance with work in accordance with DOD-Armscor SLA | 99.7% | 90% | 90% |
| Completion of Intellectual Property requests | 100% | 80% | 90% |
| Commercialise one IP Technology | 21 April 2021 | 31 March 2023 | 31 March 2024 |
| Maintain a comprehensive IP register | 21 April 2021 | 31 March 2023 | 31 March 2024 |
| Appoint an Enterprise Resource Planning Service Provider | New indicator | 31 May 2023 | - |
| Implementation of approved HR and payroll finance Digitisation plan | 0% | 80% | 30 Sep 2023  31 Mar 2024 |
| Implementation of IT infrastructure Renewal for the Business Continuity Plan | 17 Mar 2022 | 31 Mar 2023 | 30 Sep 2023 |
| Improve Cybersecurity Capability   |  | | --- | | (80% Implementation of the annually approved Cybersecurity Capability) | | 31 March 2022 | 31 March 2023 | 80% |
| **Stakeholder management** | Stakeholder satisfaction improvement survey | NA | 1% improvement | NA |
| Employee engagement survey to determine baseline | improvement on 2020/21 baseline | 60% | 90% |
| Improve female representation | 40% female employees | 40% | 40% |
| Controllable staff turnover | 2.03% | <4% | <4% |
| Provision of bursaries for full-time students | 29 | 23 | 23 |
| Contracting and development of graduates as interns | 31 | 30 | 30 |
| Succession Planning Development (Percentage compliance with succession plan) | 83.0% | 80% | 80% |
| Number of people with disabilities | 23 | 28 | 28 |
|  | Preferential procurement from Military Veterans entities | New indicator | New indicator | 2% |

**Table 4: Selected Armscor’s strategic outputs**

**7. COMMITTEE OBSERVATIONS**

During deliberations with Armscor on 10 May 2023, Members of the PCDMV made several observations related to Armscor’s Corporate Plan:

1. The Committee noted that it is sympathetic to Armscor given that it is hamstrung by the limited acquisition budget of the DOD. Yet, Members expressed the need for the DOD to derive value for money from Armscor services.
2. The Committee noted a R21 million increase in the administration cost of Armscor for 2023/24 when compared to the previous year, and requested clarity on the significant increase. Armscor indicated that this does not include major sponsorships, except for a small marketing budget, and that the Administrative programme is managed diligently.
3. The Committee noted the projected increase in Armscor’s revenue and requested clarity on whether this is attainable.
4. The Committee expressed concern, and required clarity on some of the projected increases in expenditure items. Armscor’s personnel costs are also expected to rise significantly in 2023/24 and the Committee required clarity on whether this will include the payment of bonuses. Similarly, capital expenditure and motor vehicle acquisitions are set to increase and Members queried the need for these acquisition. Armscor indicated that it did factor in a 6% increase for personnel, and that no bonuses are included. Bonuses are based on Board decisions at the end of the financial year if revenue allows. Capital expenditure is largely for the maintenance of the Armscor building that has not seen effective upgrades in recent years and is in need of attention.
5. The Committee expressed the importance of the Armscor Dockyard and noted a projected shortfall for the entity in 2023/24.
6. The Committee expressed concern around the lack of information around the sweating of assets, specifically whether Armscor is involved in the sweating of assets for the DOD.
7. Project Hoefyster remains a concern to the Committee as it has focused on this delayed process and made several related recommendations in the past. Members requested an update on the matter, as well as other major strategic acquisition projects, such as Project Biro and the acquisition of Unmanned Aerial Vehicles for the SANDF. Armscor noted that in terms of Project Hoefyster, a Project Control Board was convened in April 2023 and it was put forward that Phase 1 of the Project be completed and thereafter Phase 2. However, this still needs to be confirmed by other SANDF structures. Project Biro’s second vessel is near completion and the project is running on schedule. An Unmanned Aerial Vehicles Strategy is being developed by Armscor and other role-players/partners.
8. The Committee requested an update on the revenue generations of Armscor’s Alkantpan and Gerotek facilities as this managed to raise significant revenue in the past. Armscor indicated that there is a decrease in the revenue and this is due to some industry role-players such as Denel not doing tests. However, Armscor indicted that post-Covid, it has seen a return of some international clients and Alkantpan manages to fund itself through commercial activities. Armscor maintains Gerotek as a strategic facility, but there is currently little activity at the facility.
9. In terms of Armscor’s personnel numbers, the Corporate Plan for 2023/24 notes similar figures to that of the 2022/23 Corporate Plan.
10. The Committee expressed concern that many of the DOD’s contracts with Denel, as managed by Armscor, reflects a model where the DOD is paying for Denel’s operating costs. Armscor indicated that this is a common model in the broader defence industry due to the level of skills required.
11. The Committee required clarity on the effectiveness of the Armscor Board given the vacancies on the Board.
12. The Committee expressed concern around statements by Armscor that it has an ‘audit backlog’. Armscor noted that this backlog only refers to ad hoc audit requests which is not part of the internal audit plan.
13. The Committee expressed concern that limited information is provided around AB Logistics in the Corporate Plan of Armscor.
14. The Committee again raised concern around the contracts for SA Air Force aircraft maintenance, including the Falcon 50 aircraft and the Presidential aircraft. Similarly, concerns were expressed on the low level of serviceability of the SA Aircraft Oryx and Rooivalk helicopters. Armscor indicated that there is one operational Falcon 50, but that others will become serviceable in the following months. A new contract for the Presidential plane will also be placed. Currently the maintenance contracts for the Oryx and Rooivalk are underfunded, but the contract will be amended throughout as funds become available. Armscor also confirmed that a maintenance contract has been concluded for the Gripen aircraft, but that funding constraints remain a concern.

**8. RECOMMENDATIONS**

The PCDMV identified the following areas and proposes the following recommendation that will be subject to monitoring by the Committee throughout the 2023/24 financial year:

1. Armscor is encouraged, amid fiscal constraints, to keep its administrative costs as low as possible and focus funds on revenue-generating activities.
2. Armscor should aim to bring the Armscor Dockyard to profitability as soon as possible, while ensuring value for money to the SA Navy. The Committee undertakes to visit the Armscor Dockyard to oversee its capacity, activities and strategies to service the SA Navy.
3. Armscor should prioritise the speedy development of the Unmanned Aerial Vehicles Strategy and ensure thorough participation by all relevant industry role-players while also focusing on building this key strategic capacity in South Africa.
4. The Committee welcomes the fact that the Project Hoefyster Project Control Board was convened in April 2023, but stresses that a final decision (by all relevant structures) is required. The current pace of developments is not aligned to previous PCDMV recommendations on the finalisation of a decision on the way forward for Project Hoefyster.
5. Armscor’s internal audit division should prioritise and finalise all outstanding ad hoc audit queries as a matter of urgency.
6. Armscor and the relevant role-players should make every effort to ensure that all SA Air Force maintenance contracts are in place and funded for the maximum operational readiness of all aircraft.

The PCDMV requires the following from Armscor during the third quarter and will call Armscor to report on the following:

1. Armscor should provide further information on the financial contributions, costs and operating activities of AB Logistics.
2. The Committee expressed concern around the skills gap in the Armscor Board due to a recent increase in vacancies. The Minister of Defence should advise the Committee on steps taken to address these vacancies including envisaged timelines.
3. Following the Project Hoefyster Project Control Board meeting of April 2023, Armscor should provide quarterly updates on the status of the Project and a final decision on the future thereof.
4. Armscor should provide the Committee with a list of all SA Air Force maintenance contracts per aircraft, the status of this contract and what portion of the contract is funded per year over the MTEF. Feedback should also highlight any problems with maintenance contracts where such contracts may be in place but are not executed effectively.
5. Armscor should provide the Committee with a list of all SA Army and SA Navy maintenance and refit contracts, the status of each contract and what portion of the contract is funded per year over the MTEF.

***Report adopted on 17 May 2023.***

1. Real percentage takes into account Consumer-Price Inflation. [↑](#footnote-ref-1)
2. National Treasury (2023) p. 428 [↑](#footnote-ref-2)
3. These figures are based on a revised estimate as presented by National Treasury in the 2022 ENE. [↑](#footnote-ref-3)
4. Armscor (2022) p. 35. [↑](#footnote-ref-4)
5. Armscor (2022) p. 31. [↑](#footnote-ref-5)