**The Budgetary Review and Recommendation Report of the Portfolio Committee on Defence and Military Veterans, dated 21 October 2013**

The Portfolio Committee on Defence and Military Veterans, having considered the performance and submission to National Treasury for the medium term period of the Department, reports as follows:

**1. Introduction**

**1.1. Mandate of Committee**

The Portfolio Committee on Defence and Military Veterans (PCODMV) is mandated to oversee the Department of Defence and Military Veterans (DODMV) to ensure that the Department fulfils its mandate through the monitoring of the implementation of legislation and adherence to policies, such as the Defence Act (No. 42 of 2002), the White Paper on Defence (1996) as well as the Defence Review (1998). It must scrutinise legislation which supports the mission statement of Government; the budget and functioning of DODMV; and the employment of the South African National Defence Force (SANDF).

**1.2 Description of core functions of the Departments**

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

The purpose of the Department of Military Veterans (DMV) is to “oversee and manage the implementation of Government’s framework and programme on military veterans.” Core functions in this regard include the facilitation, management and coordination of support to military veterans; provision of support services to the Department; oversight of the national military veterans’ programme and periodic reporting in this regard.

The DODMV has an oversight role for two Public Entities which fall under Schedule 2 and 3 of the Public Finance Management Act (No. 1 of 1999) namely ARMSCOR and the Castle Control Board (CCB). ARMSCOR receives allocations from the fiscus while the CCB generates its own revenue.

**1.3 Purpose of the Budgetary Review and Recommendation Report**

The Money Bills Procedures and Related Matters Amendment Act (No. 9 of 2009) sets out the process that allows Parliament to make recommendations to the Minister of Finance to amend the budget of a national department. In October of each year, portfolio committees must compile Budgetary Review and Recommendation Reports (BRRR) that assess service delivery performance given available resources; evaluate the effective and efficient use and forward allocation of resources; and may make recommendations on forward use of resources. The comprehensive review and analysis of the previous financial year’s performance, as well as performance to date, form part of this process.

**1.4 Method**

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

**1.5        Dates of oversight visits**

The PCODMV conducted two oversight visits during 2013:

·         Oversight Visits to Air Force Base (AFB) Langebaanweg, AFB Makhado, AFB Durban, AFB Bloemspruit, AFB Hoedspruit and to selected Armscor Research and Development Facilities from 28 January – 1 February 2013.

·         Oversight visits to the School of Tactical Intelligence, 1 Tactical Intelligence Regiment, Army Support Base at Lenz, 21 SAI Battalion in Doornkop, 1 Military Hospital, SA Army Infantry School, SA Naval Gymnasium and the Simon’s Town Armscor Dockyard over the period 29 July to 13 August 2013.

**1.6        Outline of the contents of the Report.**

This Report covers the policy guidelines and performance of the Department of Defence, the Department of Military Veterans and concludes with Armscor and the Castle Control Board.

**2. Overview of the key relevant policy focus areas**

**2.1        State of the Nation Address**

The President of the Republic of South Africa delivered his State of the Nation Address (SONA) on 14 February 2013. The SONA placed significant focus on the National Development Plan (NDP). Although the SONA paid little attention to the DODMV, the following aspects are relevant:

· *South Africa’s involvement in regional stability and peacekeeping*.

· *The role of the SANDF in internal peace and security*.

· *Youth Empowerment and Skills development through the National Youth Service (NYS) and Military Skills Development System (MSDS).*

· *Institution of measures to crime and corruption by the Department*.

**2.2        Development Indicators**

· **Performance Monitoring and Evaluation**

The Ministry for Performance Monitoring and Evaluation in the Presidency publishes an annual edition of Development Indicators and, where applicable, the developmental role of the SANDF is also highlighted. In the 2012 edition of the Development Indicators, this role is largely confined to the SANDF’s role in peacekeeping in Africa and the subsequent contribution to peace, security and stability. The SANDF’s role during natural disasters, electoral support and peacekeeping operations was noted. In reflecting on actual deployments, the Development Indicators noted that during 2012, a maximum number of SANDF personnel deployed for the function of peacekeeping was 2 468, which is slightly more than the Projected target of 2 250.

· **National Development Plan**

The *National Development Plan: A vision for 2030*is in essence a plan which seeks to eliminate poverty and reduce inequality by 2030 in South Africa. Understanding the role of the military in socio-economic and human development is important to put the military’s role regarding the National Development Plan (NDP) in perspective. The most relevant chapter of the National Development Plan to the military is chapter 12 entitled “*Building safer communities*.” Although the chapter mainly emphasises the role of the police in securing a safe environment, the overall role of the military in this regard is evident.

**2.3        Budget review**

National Treasury’s budget reviews for 2012 and 2013 made mention of budgetary aspects related to the DODMV. The following matters have been referred to:

·         2012 Budget Review’s note on border control: To boost border control, an additional R749 million is allocated over the medium term to deploy the SANDF for the function of border control. Expenditure on this initiative increases from R400 million in 2011/12 to R617 million in 2014/15. The number of deployed personnel increases by 1 142, bringing the total to 3 300.

·         2013 Budget Review’s note on the deployment to the Central African Republic: The Department of Defence deployed 400 members to the Central African Republic at a total cost of R415 million in 2013/14 and 2014/15.

**2.4        Medium Term Budget Policy Statement 2012/13**

While the 2012/13 Medium Term Budget Policy Statement states that expenditure on defence, public order and safety will grow at an average annual rate of 6.2 per cent over the MTEF period, from R141.7 billion in 2012/13 to R169.8 billion in 2015/16, little specific mention is made of the defence force. It does refer to the fact that the Department has reprioritised funds towards military veterans' benefits and towards the Maritime Security Strategy, which addresses the fight against piracy in the Indian Ocean and further development of naval facilities in Durban.

**2.5 Policy Priorities for the Minister of Defence and Military Veterans**

The Overarching Strategic Statement for the financial year FY 2012 and beyond has the following eight priorities for the DODMV:

· **Enhancement of the SANDF’s Landward Defence Capabilities**.

In order to undertake all required missions, the enhancement of the Landward Defence Capabilities is essential and this enhancement is considered a priority especially as it relates to technologically advanced Primary Mission Equipment.

· **Maritime Security**.

The defence and security of South Africa is inextricably linked to that of the region and the continent. Maritime security threats off the east coast of Africa, and similar trends emerging along the west coast of Africa, are a major concern.

· **Job Creation**.

In support of the Government’s prioritising of job creation, the DOD will continue to ensure that job creation, within available resourcing, will be effected through approved projects within the Defence industry as well as the MSDS and NYS. A total of 8 955 young South Africans were recruited to the MSDS.

· **Enhancement of the SANDF’s Peacekeeping Capability**.

The role of the SANDF in promoting both regional and continental peace and stability necessitates the enhancement of the SANDF’s peacekeeping capability which includes the SANDF Forward Deployment Capability.

· **National Youth Service (NYS)**.

The Department continues with the execution of the NYS programme through the utilisation of core Defence capabilities to provide initial training to selected youth prior to absorption into respective Government Institutions.

· **Revitalisation of the Reserves**.

As part of the one-force concept, the Reserves will continue to be transformed and revitalised to fulfil the various Defence roles allocated to them in support of the Regular Forces.

· **Restructuring and Support of the Defence Industry**.

The restructuring of the Defence Industry will focus on required Defence capabilities and the sustainability thereof. The Defence Industry Framework and Function are to be fully aligned in order to ensure synchronisation of these with the requirements and mandate of Department.

· **Defence Works Capability**.

The establishment of the DOD Works Formation within Programme 8 (General Support) seeks to achieve an end state where the DOD will have a fully functional and resourced in-house capability that will ultimately assume full responsibility for the repair and maintenance of Defence facilities.

**2.6        Functions and Defence Commitments during 2012/13**

According to the SA Yearbook for 2012/13, the SANDF focussed on a number of its primary functions which were in line with the general delivery agreements. These functions and commitments include, *inter alia*:

·         Peace support operations: The SANDF took part in several peace support operations in Africa, including in Sudan (Darfur), the Democratic Republic of Congo and anti-piracy operations in the Mozambican channel.

·         Border safeguarding: During 2012, the troop deployment led to the confiscation of contraband such as cigarettes and liquor, to the value of R3.1 million. In addition, 763kg of dagga and 315kg of copper was confiscated and 23 stolen vehicles and nine weapons recovered, while   
5 210 undocumented people were apprehended and 212 criminals arrested.

·         Defence Acquisition: In 2012/13, defence acquisition focused on acquiring new equipment and upgrading existing equipment. Such developments were recorded in, among others, the Infantry long-range mortar capability, the Ground-based Air Defence System, the Rooivalk attack helicopter, the SA Navy’s submarine capability, sonar technology and precision guided munitions.

·         Military Veterans: The Department had been providing health services to older military veterans since 2010 and about 2 500 military veterans on the Department’s database are to receive health benefits.

·         Defence Reserve Force: At the end of 2011/12, the Reserve Force strength was 26 851, of whom 15 316 reservists were called up during the year. During 2012, various tertiary institutions also implemented the University Reserve Training Programme.

**3. OUTCOME-BASED APPROACH - DELIVERY AGREEMENT TARGETS FOR 2012/13 AND 2013/14.**

**3.1        Delivery agreement**

The Medium Term Strategic Framework (MTSF) of Government identifies a number of priorities and this outcomes-based approach further identifies the 12 desired outcomes of Government. The Minister subsequently sets out the various outputs, indicators and targets to be achieved in its Annual Performance Plan. The following applies directly (See Outcome 11) and indirectly to the DODMV:

·         Outcome 11: Creating a better South Africa and contributing to a better and safer Africa in a better world.

·         Outcome 2: A long and healthy life for all South Africans

·         Outcome 5:  A skilled and capable workforce to support an inclusive growth path.

·         Outcome 12: An efficient, effective and development-oriented public service and an empowered, fair and inclusive citizenship.

**3.2.       Performance Targets and Indicators**

Of the 247 planned targets for 2012/13, 196 or 79% were achieved. The 51 targets not substantially achieved represent 21 per cent of the total planned targets. This is mainly due to budget constraints. Hence, the Department spent 99.5 per cent of its total allocation of R37.888 billion and only achieved the stated targets.

In terms of selected performance indicators, the Department reported on the total of 14 indicators with the actual achievement and the Table below list those overachieved and under achieved. The Department overachieved 6 of the targets representing 43 per cent of the total targets. With regard to achieved targets, the Department managed to record 3 of the targets representing 21 per cent. However, the Department under achieved 5 targets representing 36 per cent. The total success rate for all selected targets is 9, which represent 64 per cent.

**Table 3: Selected Performance Indicators and Targets**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Performance Indicator** | **Programme** | **Baseline 2010/11** | **Actual 2011/12** | **Target 2012/13** | **Actual 2012/13** |
| Compliance with SADC standby force agreements and SA pledge | Administration | 100% | 100% | Subject to resource allocation | Partial Compliance  **Target Under Achieved** |
| Number of external operations per year | Force Employment | 4 | 4 | 4 | 5 **Target Over Achieved** |
| Average number of personnel deployed daily in external operations | Force Employment | 2 041 | 2 280 | 2 250 | 2      176  3 **Target Under Achieved** |
| Number of person days used during internal operations | Force Employment | 524 000 | 580 000 | 620 000 | 825 420 **Target Over Achieved** |
| Number of flying hours in support of operations | Air Defence | 8 279 | 10 902 | 10 500 | 11 696.71 **Target Over Achieved** |
| Number of sea hours per year | Maritime Defence | 8 286 | 9 000 | 35 000 | 7 338.55 **Target Under Achieved** |
| Number of health activities | Military Health Support | 1 138 873 | 2 200 000 | 2 140 550 | 2 450 754 **Target Over Achieved** |
| Number of joint, interdepartmental and multinational exercises | Force Employment | 8 | 6 | 8 | 5 **Target Under Achieved** |
| Number of MSDS members trained each year/ in the system per year | Administration | 8 662 | 11 140 | 6 673 | 8 955 **Target Over Achieved** |
| Total number of active reserves | Administration | 11 083 | 13 816 | 12 400 | 14 285 **Target Over Achieved** |
| Level of DOD morale | Administration |  |  | Satisfactory | Neutral **Target Under Achieved** |

**3.3        Overview of Strategic Plan**

· **Synopsis of the Departmental Strategic Plan**

The Overarching Strategic Statement for the fiscal years 2011/12 to 2015/16 has revealed 10 priorities for the DODMV. These include the execution of the Enhancement of the SANDF’s Landward Defence Capabilities, Maritime Security, Job Creation, the Enhancement of the SANDF’s Peacekeeping Capability, National Youth Service (NYS), the Revitalisation of the Reserves, the Restructuring and Support of the Defence Industry, and the Defence Works Capability.

The strategic focus areas for the Minister of Defence and Military Veterans include the Military Skills Development System (MSDS), the finalisation of the Defence Review, transformation within the SANDF, ensuring that the DOD Grievance Procedure is functional and effective, the Maintenance and Enforcement of Discipline, the DOD Audit, the DOD Planning Instruments and eradicating Corruption and Fraud.

**3.4        Synopsis of the Departmental Annual Performance Plans (APP)**

· **South African National Defence Force**

Stemming from the government’s MTSF priorities, the abovementioned Strategic Plan, and Ministerial priorities, the SANDF has developed a number of Performance indicators and targets for the 2012/13 financial year. While various specific indicators were developed, the table below indicates a number of overarching performance indicators and targets for the financial year 2012/13. These form part of the SANDF’s ‘layered defence’ approach ensuring compliance with regional responsibilities, including peace operations, as well as internal responsibilities.

**Table 4: SANDF Selected Performance Indicators and Targets**

|  |  |  |  |
| --- | --- | --- | --- |
| **Indicator** | **Projections** | | |
| **2012/13** | **2013/14** | **2014/15** |
| Compliance with SADC Standby Force agreements | Subject to or commensurate with resource allocation | | |
| Total number of Defence Attaché offices | 40 | 40 | 40 |
| Number of external operations per year | 4 | 4 (6) | 4 (6) |
| Average number of personnel deployed externally (daily) | 2 250 | 2 250 (100%) | 2 250 (100%) [[1]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131029pcdefencebrrr.htm" \l "_edn1" \o ") |
| Number of force employment hours flown per year | 10 500 | 9 500 (6300) | 9 500 (6 300) |
| Number of hours per sea at year | 35 000 | 35 000 (22 000) | 35 000 (22 000) |
| Number of internal operations per year | 4 | 4 | 4 |
| Number of man days used during internal operations | 620 000 | 850 000 | 850 000 [[2]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131029pcdefencebrrr.htm" \l "_edn2" \o ") |
| Number of joint, interdepartmental or multinational military exercises per year | 8 | 9 | 8 |
| Number of MSDS members in the system per year | 6 673 | 4 159 (4208) | 4 153 (4 420) |
| Number of reserves per year | 12 400 | 12 900 (24 243) | 13 500 (23 491) |
| Number of health care activities per year | 2 140 550 | 2 140 550 | 2 140 550 [[3]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131029pcdefencebrrr.htm" \l "_edn3" \o ") |
| Level of DOD morale | Satisfactory | Satisfactory | Satisfactory [[4]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131029pcdefencebrrr.htm" \l "_edn4" \o ") |

***The figures in brackets indicate the Projections in the 2013/14 Annual Performance Plan******[[5]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131029pcdefencebrrr.htm" \l "_edn5" \o ")if it differs from the 2012/13 projections.***

· **Defence Secretariat**

The Defence Secretariat also developed a number of Strategic Outputs and Programme Performance Indicators. The table below reflects the Strategic Outputs and Targets of the Secretariat.

**Table 5: Defence Secretariat Strategic Outputs and Targets**[[6]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131029pcdefencebrrr.htm" \l "_edn6" \o ")

|  |  |  |  |
| --- | --- | --- | --- |
| **Indicator** | **Projections** | | |
| **2012/13** | **2013/14** | **2014/15** |
| Percentage of PSAP disciplinary cases finalized in 120 days in the DOD | 40% | 40 | 40 |
| Number of NYS participants per year | 2 000 | 2 000 | 2 000 |
| Number of MSDS members in system per year | 6 673 | 4 195 | 4 153 |
| Percentage compliance with AU and UN requirements for peace missions | 100% | 100% | 100% |
| Percentage MOU compliance with agreed force level for deployment of UN missions | 85% | 90% | 95% |
| Percentage compliance with DOD funded HR strength | 90% | 90% | 90% |
| Number of adverse audit findings | 0 | 0 | 0 |
| Approved DOD policy regulating resource unit costing status | Approved policy | Policy implementation | Policy (Monitor Implementation) |
| Percentage achievement of signed and submitted performance agreements by DOD SMS members | 100% | 100% | 100% |
| Number of PSAP attending training programmes | 2 587 | 2 578 | 2 587 |
| Percentage DOD skills audit completion status | 25 % Completed | 75% | 100% |

**3.5        Overview of key developments in the organisational and service delivery        environments of Department for 2012/13 and 2013/14 MTEF cycle**.

One of the issues that need to be clarified with the Department is the change in the Selected Performance Indicators and Targets. For instance, the following changes were made between the 2012/13 and 2013/14 Annual Performance Plans of the SANDF:

·         The number of external operations were changed from 4 to 6 for 2013/14 and 2014/15.

·         The “average number of personnel deployed externally” were changed to the “percentage compliance with number of ordered commitments (external operations).”

·         The number of force employment hours flown per year changed from 9 500 to 6 300 2013/14 and 2014/15.

·         The number of hours per sea per year changed from 35 000 to 22 000 for 2013/14 and 2014/15.

·         Number of MSDS members in the system per year changed from 4 159 to 4 208 for 2013/14 and 4 153 to 4 420 for 2014/15.

·         The Indicator “Level of DOD morale” has been removed.

These reductions were due to a lack of appropriate funding for these operational matters.

**4. Summary of previous key financial and performance recommendations of Committee**

**4.1. 2012/13 Budget Review and Recommendations Report recommendations**

The following recommendations have been made by the PCODMV in the 2011/12 BRR Report:

·         Funding constraints lead to underperformance against set targets by each programme but there is a need for better planning and management of the existing budget.

·         SANDF deployments should not be funded with money intended for, and at the expense of, other programmes or activities.

·         The Committee required a comprehensive briefing on the implementation of Operation Corona.

·         Deteriorating conditions of facilities remain a cause for concern and the arrangements between the DODMV and the Department of Public Works (DPW) should be concluded to ensure that the Defence Works Capability can execute an increasing number of the repair and maintenance priorities.

·         The Department’s efforts to achieve an unqualified audit opinion are commendable but the internal audit unit function should be strengthened and the Department should brief the Committee, on a quarterly basis, regarding progress made with the resolution of matters raised by the Office of the Auditor-General (A-G).

**Evaluation of response by Department and Minister of Finance**

National Treasury replied only to the recommendation on the deployment of the SANDF and its funding. It responded that this is managed in terms of the recently approved White Paper on South African participation in international missions. The White Paper states that each department participating will be required to meet the costs of deployment through the normal budgetary process. Departments will therefore have an opportunity to request funds through the Medium Term Expenditure Committee and Adjusted Budget processes.  This is in accordance the White Paper in clause 7.4.1 which also states that Funding from other statutory frameworks such as the African Renaissance and International Cooperation Fund may also be considered.

Clause 7.4.2 states that “ *South Africa shall be reimbursed for the deployment costs relating to the equipment and personnel deployed in peace missions in terms of the Memorandum of Understanding between the Mandating Authority and South Africa. The reimbursement will be paid into the National Revenue Fund.”*The fact that departments can claim funds spent through the Adjusted Budget processes raise the question whether the full amounts are refunded and the time frame before the funds are actually refunded to the Department.

**4.2. Committee Budget Report**

· **Summary of selected 2013/14 Committee Budget Report recommendations**

The PCODMV observed during its consideration of the 2013/14 DODMV budget, that since 2009, the Committee has persistently cautioned that a shrinking defence budget could weaken the SANDF’s ability to fulfil its mandate. While an increase in the funding for the Department should be considered, maximum efficiency and accountability in the planning and use of limited resources are essential. The resolution of challenges identified by the A-G, particularly challenges relating to the establishment of an internal audit function, asset management, and supply chain management, would improve the efficient management and use of a limited budget.  It also found that:

·         The Defence Review should be finalised as a matter of urgency as this would guide the medium and long term planning of the defence needs (budget and capabilities). The delays in both the finalisation and implementation mean that effective monitoring of defence activities is limited.

·         The status of Denel should be clarified by the Defence Review especially whether it is feasible for the DODMV to again manage this entity which is currently managed by the Department of Public Enterprises.

·         Border safeguarding responsibilities cannot be properly executed with the limited funding available especially with regards to the deployment of an appropriate number of soldiers to the borders.

·         Facilities are a main concern, especially given the poor condition of some of the facilities although there were exceptions such as in the case of 21 SAI in Doornkop. The Committee therefore welcomed the progress made with the establishment of the Defence Works Formation although its finalisation should be speeded up.

The PCODMV recommended that:

·           Greater synergy is required in the manner in which the DOD budget is allocated across programmes and a better alignment of performance targets to strategic objectives should be pursued.

·           The 2013/14 budget should be approved, even though it was viewed as inadequate to meet the needs of the SANDF.

**Overview and assessment of financial performance**

**4.3. Overview of Vote allocation and spending (2009/10 2014/15)**

Table 6 below indicates that over the five year period 2009/10 – 2014/15, the three largest programmes in terms of budgetary allocation are the Landward Defence, Air Defence and General Support. The Landward Defence is mainly responsible for providing prepared and supported landward defence capabilities such as Borderline control and peace support operations. This is in line with the Ministerial priorities and especially the Enhancement of this capability. These three programmes are followed by Administration, Military Health Support, Maritime Defence (additional funds for counter-piracy operations) and Force Employment (peace support operations).

**Table 6: Vote allocation and spending 2009/10 – 2014/15 (R million).**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **2009/10** | **2010/11** | **2011/12** | **2012/13** | | | | | | **2013/14** | **2014/15** |
| Audited | Audited | Audited | Main [[7]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131029pcdefencebrrr.htm" \l "_edn7" \o ") | | Adjusted | | Audited/  Actual | | Main | Estimates |
| **Programme 1: Administration** | 2 914.1 | 3 452.9 | 3 747.1 | 3 730 7 | 3 820.7 | | 3 781.6 | | 4 434.6 | | 4 849. 8 |
| **Programme 2: Force Employment** | 1 886.5 | 2 265.5 | 2 358.5 | 2 670.9 | 2 748.2 | | 2 780.9 | | 3 283.9 | | 3 533. 8 |
| **Programme 3: Landward Defence** | 9 042.2 | 9 295.6 | 10 962.2 | 12 686.7 | 12 313.7 | | 12 367.9 | | 13 853.8 | | 13 795. 8 |
| **Programme 4: Air Defence** | 8 643.8 | 5 489.1 | 6 527.7 | 6 749.6 | 7 118.7 | | 7 074.9 | | 6 250.2 | | 7 236. 3 |
| **Programme 5: Maritime Defence** | 1 997.5 | 2 349.9 | 2 574.7 | 2 551.3 | 2 862.3 | | 2 894.9 | | 3 171.1 | | 3 579.9 |
| **Programme 6: Military Health Support** | 2 608.1 | 3 150.1 | 3 400.1 | 3 316.5 | 3 496.5 | | 3 459.9 | | 3 642.5 | | 3 826. 9 |
| **Programme 7: Defence Intelligence** | 594.7 | 633.9 | 653.1 | 709.6 | 712.1 | | 705.1 | | 762.4 | | 793.7 |
| **Programme  8:General Support** | 3 637.3 | 3 805.4 | 4 107.9 | 5 077.4 | 4 816.4 | | 4 636.9 | | 4 844.8 | | 5 078. 9 |
| **TOTAL** | **31 324.2** | **30 442.4** | **34 331.4** | **37 492.9** | **37 888.5** | | **37 702.2** | | **40 243.3** | | **42 695 464** |
|  |  |  |  |  |  |  |  |  |  |  |  |

**General overview of the 2013/14 budget**

The Defence’s Vote for 2013/14 amounts to 1.17% of South Africa’s gross domestic product (GDP) or 3.55% of total government expenditure. The defence budget allocation of R40.24 billion for 2013/14 constitutes 3.82 per cent of the financial year’s total appropriation of R1.05 trillion. Although the budget allocation has increased by 6.21 per cent in nominal terms, it only increased by 0.58 per cent in real terms in comparison to 2012/13. This signifies a slowdown in the growth of the Department’s budget as a real increase of 3.07 per cent was allocated in the previous financial year.  Matters that have been prioritised for the year 2013/14 include are:

·         Increased deployment of forces for the function of borderline control.

·         Increased deployment in foreign countries (notably the intervention force in the Democratic Republic of Congo).

·         Anti-piracy operations off the east African coast.

·         The implementation of the maritime security strategy.

·         The allocation of benefits to military veterans.

**Table 7: Percentage of budget allocated to programmes for 2012/13 and 2013/14**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **R thousand** | **2012/13 (R million)** | **% of total budget per programme** | **2013/14**  **(R million)** | **% of total budget per programme** |
| **Programme 1: Administration** | 3 820.7 | 10.08% | 4 434.6 | 11.02% |
| **Programme 2: Force Employment** | 2 748.2 | 7.25% | 3 283.9 | 8.16% |
| **Programme 3: Landward Defence** | 12 313.7 | 32.50% | 13 853.8 | 34.43% |
| **Programme 4: Air Defence** | 7 118.7 | 18.79% | 6 250.2 | 15.53% |
| **Programme 5: Maritime Defence** | 2 862.3 | 7.55% | 3 171.1 | 7.88% |
| **Programme 6: Military Health Support** | 3 496.5 | 9.23% | 3 642.5 | 9.05% |
| **Programme 7: Defence Intelligence** | 712.1 | 1.88% | 762.4 | 1.89% |
| **Programme  8:General Support** | 4 816.4 | 12.71% | 4 844.8 | 12.04% |
| **TOTAL** | **37 888.5** |  | **40 243.3** |  |

Table 7 indicates the percentage of the Department’s budget that was allocated to each programme in 2012/13 and 2013/14 respectively. The spending trends are in line with the ministerial priorities discussed earlier. The respective increases in the various programmes are also in line with the spending over the MTEF period which will focus *inter alia*on border control and anti-piracy measures. Additional funds have been allocated to accommodate the number of foreign deployments.  The increase in funds to Programme 1 is largely related to “increases in spending on office accommodation, allocations to military veterans and the establishment of operational law structures.”

**4.4. Financial performance 2012/13**

· **Quarterly spending trends.**

Quarterly expenditure trends are important as the continuous monitoring of expenditure is necessary to ensure that allocated resources are utilised for their intended purposes and in so doing, ensuring accountability. The analysis of quarterly expenditure becomes necessary to prevent unauthorised, irregular, fruitless and wasteful expenditure and it is of paramount importance that the Department must account for expenditure at the end of every quarter.

Although the DODMV overall spending was on track throughout the year, several instances of high and low spending against the set targets can be identified during the First and Second Quarters. During the third quarter, spending trends were similar to that of the first two quarters. The additional virements that were made during this and the final quarter of the year brought about favourable results in terms of percentage spending for the Department. However, the size and timing of some of these virements may point to a lack of planning and consistent high/low spending on certain programmes and economic classifications.

Of particular concern were instances where funds were shifted to/away from a programme or economic classification and, would this not have been done, it would have resulted in severe under/over spending at the end of the fourth quarter. For instance, have certain amounts not been adjusted downwards, the Department would not have spent 100% of the original appropriations. Although a number of these instances exist, those with the most significant financial implications include virements to Programme 8 (General Support), the Economic Classification (Departmental Agencies and Accounts), Programme 1 (Sub-programme Policy and Planning), Programme 3 (Sub-programme Support Capability), Programme 6 (Sub-programme Mobile Military Health Support), Economic classification (Goods and Services), Economic classification (Buildings and other fixed structures) and Economic classification (Machinery and equipment). Given the lack of

planning that these imply, the questioning of these virements is essential.

· **Adjustments for 2012/13.**

The Department received an increased allocation during the adjustment period for the 2012/13 of R395.599 million. This comprised, inter alia, of R190.488 million for higher than anticipated personnel remuneration and R63 million for anti-piracy measures in the Mozambican Channel. This increased the main appropriation to R37.889 billion.  A total of an additional R63 million was received for unforeseeable/unavoidable expenditure which was recorded in Programme 2 (Force Employment). This total formed part of the Sub-programme Regional Security. Of this total, R8.427 million was allocated to the Compensation of Employees and R54.573 to Goods and Services.

The mid-year adjustments brought about major reductions to the budgets of Programme 3 (Landward Defence) and Programme 8 (General Support) with large increases to Programme 4 (Air Defence) and Programme 5 (Maritime Defence). Similarly, in terms of economic classification, large reduction in funds for ‘departmental agencies and accounts’ as well as ‘payments for financial assets’ can be observed. Major increases were allocated for ‘goods and services’ and ‘compensation of employees’. Two large virements should also be noted, including 5.2 per cent vired from Programme 3 (Landward Defence) to other programmes and 9.0 per cent vired from Programme 8 (General Support) to other programmes. This requires the approval by Parliament, as the Public Finance Management Act (No. 1 of 1999 as amended) states in Section 43(2) that the vired amount appropriated should not exceed 8% of the amount appropriated under that main division.

· **Auditor-General Report.**

During the 2011/12 financial year the DOD received a departure from National Treasury to exclude Specialised Military Assets, Transport Assets and Immovable Assets from the Annual Financial Statements. This played a significant role in the Department receiving an unqualified audit opinion for 2011/12.

For the year 2012/13 the Department received a qualified audit opinion on the basis of the moveable tangible capital assets and intangible capital assets. Specifically, the Auditor-General states that with Moveable tangible capital assets that the Department did not disclose all these assets in accordance with the Reporting framework of National Treasury, and these assets were consequently understated by approximately R818 million. With regards to Intangible capital assets, it states that it was unable to obtain sufficient appropriate audit evidence that all intangible assets were disclosed in terms of the requirements by National Treasury. It was also unable to perform alternative audit procedures due to non-compliance with the framework and the lack of internal controls.  The Committee will request a briefing by the A-G to clarify these issues especially as it relates to their methodology and specifically the accuracy and relevance of their findings for the 2012/13 financial year.

**Unauthorised, fruitless and wasteful, and irregular expenditure**

The Annual Report indicates that an amount of R60.918 million unauthorised expenditure has been incurred for 2011/12. No unauthorised expenditure has been incurred for 2012/13. Fruitless and wasteful expenditure of R20 000 was carried from 2011/12. [[8]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131029pcdefencebrrr.htm" \l "_edn8" \o ")The irregular expenditure for 2012/13 amounted to R316.963 million compared with R350.364 million in 2011/12 (R8.354 million). Subsequently, this brings the total irregular expenditure awaiting condonement to R1.015 billion (R718 806 million in 2011/12).

· **Summary of key issues contained in report(s) of Finance Committees.**

**Payment of invoices within 30 days**

The Department appeared before the Standing Committee on Appropriations (SCOA) on 17 September 2013 regarding the Payment of invoices within 30 days, as it was one of five departments showing little improvement in this regard.  Section 38 (1) (f) of the PFMA together with the Treasury Regulation 8.2.3 mandates national and provincial departments to settle payments to creditors within 30 days of receipt of an invoice.

**Table 8: DODMV 30 days invoice**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Vote** | **Department** | **Invoices paid after 30 days** | | **Invoices older than 30 days not paid** | |
| **22** | **DODMV** | **Average rand value 2012** | **Average number 2012** | **Average rand value 2012** | **Average number 2012** |
|  |  | *70 989, 154* | *11,266* | *1 517 968* | *344* |

Although the Department made a presentation to the SCOPA and various issues were raised afterwards, the Department was not requested to respond. The SCOPA indicated that it will follow up on the various action plans the Department presented to determine progress in this regard.  This is an issue the PCODMV is advised to follow up on a continuous bases, especially since such late payments endanger the viability of especially small and medium businesses to survive.

**Auditor-General’s report on utilisation of Consultants**

The *January 2013 Report of the Auditor-General of South Africa on the performance audit of the use of consultants*at selected national departments, has revealed some important findings. Amongst the 8 departments audited, the DODMV was found to constitute the largest percentage of the total expenditure on consultants from 2008/09 to 2010/11. The total expenditure on consultants for all departments was found to be R24,6 billion, of which R10,4 billion (about 31% of the total expenditure) was spent by the DODMV. The total number of contracts audited was 124, of which 12 were from the Department. These contracts included supplementing skills in the South African Air Force; the clearance of unexploded ordinance; the demilitarisation of redundant ammunition; the use of consultants to clear audit qualifications; the provision of general and skilled labourers; the maintenance of the Limpopo border fence; maintenance services at 3 Military Hospital; the cleaning services at 1 Military Hospital; and the use of session doctors in Thaba Nchu and Botshabelo.

**4.5. Financial performance 2013/14**

**First quarter expenditure (FY 2013/14)**

By the end of the First Quarter on 30 June 2013 of the financial year 2013/14, a total of R8.469 billion of the Department’s approved budget of R40.243 billion had been spent, representing 21 per cent of the total budget. The largest variation was with Programme 2, which spent 24.3 per cent of its allocated budget against a projected expenditure of 19.9 per cent. In terms of economic classification, the Department spent 21.9 per cent (R7.052 billion) of the amount allocated for current payments (R32.207 billion). The Department incurred expenditure on payments for financial assets (R14.848 million) although no amount had been budgeted for this item.  Expenditure on foreign deployments for the first quarter of 2013/14 financial year was at 31.6 per cent of the available budget of R1.387 billion. Expenditure on Operation VIMBEZELA in the Central African Republic (CAR) had already reached 93.2 per cent of its allocated budget of R153.9 million. The expenditure for Operation COPPER was low at 13.4 per cent (R19.273 million) of the allocated budget of R143.939 million.

By the end of the First Quarter on 30 June 2013 of the financial year 2013/14, a total of R8.469 billion of the Department’s approved budget of R40.243 billion had been spent, representing 21 per cent of the total budget. This figure is slightly higher than the 20.3 per cent projected expenditure.

**Special Defence Account**

Overall, expenditure on the Special Defence Account (SDA) recorded 13.1 per cent which was very low. However, spending on training capability was relatively high at 32.4 per cent. This expenditure needs to be monitored to avoid over expenditure by the end of the 2013/14 financial year. Simultaneously, low spending was recorded for Transport and maritime capability (0.5 per cent), Command and control capability (2.9 per cent), and Air combat capability (7.0 per cent). Additionally, lack of spending was recorded for Mobile military health support, Operational intelligence, Strategic direction and Technical support services.

**Reported spending pressures**

The DOD further states that it is experiencing the following funding pressures which will necessitate reprioritisation and requests for additional funding from Treasury:

·         Landward Defence capabilities: Funds for ammunition, tactical Radio’s and Operational Vehicles

·         DOD Facilities, including the ARMSCOR Dockyard

·         Internal DOD maintenance and repair capability

·         DOD Military messes and rations

·         Air Defence capabilities: Funds for additional flying hours and aircraft Maintenance backlog

·         Ship Maintenance and Refits

·         Provisioning of comprehensive health care: Funds for the Renewal of healthcare technology, Deployable healthcare capabilities and Trauma units

·         Computer Systems/Accountability: Funds for IT System Modernisation, Codification, Software, Disaster Recovery, Asset Verification and E-Procure

·         Fuel.

**4.6. 2014/15 MTEF financial allocations**

Summary of funding submissions to National Treasury for the 2014/15 MTEF.

**Table 9: 2014/15 Funding submissions**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2012/13 (R million)** | **2013/14 (R million)** | **2014/15 (R million)** |
| **Programme 1: Administration** | 3 820.7 | 4 434.6 | 4 849 801 |
| **Programme 2: Force Employment** | 2 748.2 | 3 283.9 | 3 533 893 |
| **Programme 3: Landward Defence** | 12 313.7 | 13 853.8 | 13 795 852 |
| **Programme 4: Air Defence** | 7 118.7 | 6 250.2 | 7 236 353 |
| **Programme 5: Maritime Defence** | 2 862.3 | 3 171.1 | 3 579 924 |
| **Programme 6: Military Health Support** | 3 496.5 | 3 642.5 | 3 826 915 |
| **Programme 7: Defence Intelligence** | 712.1 | 762.4 | 793 743 |
| **Programme  8:General Support** | 4 816.4 | 4 844.8 | 5 078 983 |
| **TOTAL** | **37 888.5** | **40 243.3** | **42 695 464** |

The Department states that it continues to face an ever-increasing output requirement whilst confronted with a non-commensurate budget allocation necessitating internal Departmental budget reprioritisation and the implementation of austerity measures resulting in the adverse impact on the achievement of the defence mandate.  Reductions proposed by National Treasury to the Department include:

**Table 10: National Treasury reprioritisation**

|  |  |  |  |
| --- | --- | --- | --- |
| **Purpose** | **Amount (R’000)** | | |
| **2013/14** | **2014/15** | **2015/16** |
| Compensation of employees | - R205 645 | - R675 006 | -R 1 038 900 |
| Travel and subsistence | -R 96 100 | -R 96 100 | -R 96 100 |
| Special Defence Account | -R 583 255 | -R 263 894 | 0 |
| Contractors | -R 250 000 | -R 300 000 | - R 350 000 |
| **Total** | **- R 1 135 000** | **-R 1 335 000** | **-R 1 485 000** |

**5. Overview and assessment of service delivery performance**

**5.1. Service delivery performance for 2012/13**

**Table 12: Strategic Outputs and Annual Targets for MTSF in Summary**

In terms of strategic outputs and annual targets for the MTSF outcomes, the Department has achieved most of the targets as indicated in Table 12.  In summary, of the 247 planned targets for 2012/13, 196 or 79% were achieved. The 51 targets not substantially achieved represent 21 per cent of the total planned targets while 99.5% of the budget has been spent. Notwithstanding the virements which took place in the fourth quarter, the Department did well in terms of value for money and expending the funds allocated on the priorities identified.

· **Programme Performance.**

This section will only deal with some of the main programmes and its performance in relation to the targets set.

**Programme 2: Force employment**: The aim of this programme is to provide and employ defence capabilities, including an operational capability, to successfully conduct all operations and joint, interdepartmental and multinational military exercises. This programme expended 99.1% of its budget, achieved 5 of the six targets set, indicating a high performance in this programme. This programme was however singled out by the A-G regarding the reliability of information as a result of inadequate internal control and record keeping.

**Programme 3: Landward Defence:**The aim of this programme is to provide prepared and supported landward defence capabilities for the defence and protection of South Africa. Significant achievements included internal and external deployments. This programme expended 100% of its budget, achieved 19 of the 23 targets set, indicating a success rate of 83%. Although this programme has been targeted the modernisation of its capabilities, this became stagnant as it awaits the finalisation of the Defence Review.

**Programme 4: Air Defence:**The aim of this programme is to provide prepared and supported air defence capabilities for the defence and protection of South Africa. The programme expended 100% of its budget, achieved 13 of the 14 targets with a success rate of 93% indicating a very high performance. With the increase in foreign deployments such as in the DRC, keeping and maintaining this capability up to standard, is crucial.

**Programme 5: Maritime Defence:**The aim of this programme is to provide prepared and supported maritime defence capabilities for the defence and protection of South Africa.  It expended 100% of its budget, achieved 10 of the 14 targets with a success rate of 71% indicating relatively high performance. This programme has also been the recipient of an additional amount of R63 million for anti-piracy measures in the Mozambican Channel.

**Programme 8: General Support:**The aim of this programme is to provide general support capabilities and services to the Department. The programme expended 96.7% of its budget, achieved 28 of the 36 targets which indicates a success rate of 78% indicating relatively high performance. This programme hosts the Defence Works Formation and the slow progress in this regard is concerning.

· **Key reported achievements.**

Given the limited financial resources allocated to the Department and the ordered commitments, the Department has overall succeeded to consistently execute its ordered responsibilities as witnessed with the successful execution of operations.

· **Key reported challenges.**

The continued declining budgetary allocation may adversely impact on defence capabilities such as:

o    Combat readiness capabilities

o    Strategic reserves

o    Upgrading and renewal of prime mission equipment of especially the Landward Programme

o    The ability to rejuvenate the Regulars and Reserves

o    Upgrading and maintenance of facilities.

· **Non-financial Audit outcomes and steps taken to address adverse audit findings.**

Action plans have been drafted to address the audit findings and these include:

o    Expediting the finalisation of asset policies

o    Tagging of all assets to enable the unique identification and inclusion in the asset register

o    Update and review Moveable Tangible Assets Register

o    Benchmarking nationally and internationally to obtain and implement best practices

o    Internal Audit to evaluate Moveable Tangible Assets to ensure compliance

o    Establish a nodal point to facilitate audit enquiries within the Department.

**5.2. Service delivery performance for 2013/14**

**Oversight visit reports - summary of key service delivery issues.**

Some of the salient issues raised during the 2013 oversight visits include:

·         The poor condition of the infrastructure, equipment and facilities. While some blame can be apportioned to the poor relationship between the Department and inability of the DPW, the continuous delay to properly authorise and capacitate the Defence Works Capability, the DOD is also to blame.

·         Transformation in terms of race, gender and the utility in the rank structure is still work in progress. Although the various units have made significant improvement in terms of transformation, it emerged that the desired end state is still at a distant future.

·         The retention of scarce skills in especially the SAAF and SAN is concerning and the Department is encouraged to dedicate more attention to this aspect.

·         In certain units the grievance system does not operate optimally for various reasons.

·         The review of defence policy and especially the policy framework for the restructuring of the South African defence related industry should be clarified and finalised as a matter of urgency.

·         Accommodation for students, single and married members is a challenge in most of the units and were found to be either inadequate or in a poor condition.

·         The state of the vehicles in various units is unsatisfactory. Some of the vehicles are unserviceable and waiting for disposal through auctions.

**5.3. Concluding comments on service delivery performance**

Given that the Department is experiencing severe funding pressures as indicated throughout this Report (especially section 5.3), and the fact that current funding allocation is not commensurate ordered commitments, the Department had to resort to austerity measures and reprioritisation in order to execute its mandate. The allocations in especially the 2013/14 budget reflect the Landward Defence Programme correctly as the largest programme followed by the Maritime defence and Force Employment Programmes. These spending trends are in line with the ministerial priorities discussed earlier. The respective increases in the various programmes are also in line with the spending over the MTEF period which will focus on border control and anti-piracy measures. Additional funds have been allocated to accommodate the number of foreign deployments.

**6. key findings OF THE COMMITTEE**

**6.1        Governance and operational issues**

·         Concerns have been raised regarding audit findings as well as the incompatibility of the various IT systems in the Department and the slow progress to address this.

·         The A-G’s note on Financial misconduct and the fact that no or late investigations have been conducted into these matters, that are concerning.

·         The fact that not 100% of senior management has signed their “Conflict of interest” declaration is concerning, as the Annual Report only states that compliance is high and not that all senior managers signed the declaration.

·         The finding by the A-G that Leadership is a challenge in the Department as it did not exercise sufficient oversight responsibility regarding financial reporting is a further cause for concern.

·         The Committee has on various occasions request information in writing and in several instances the Department has failed to submit the relevant information.

**6.2        Service delivery performance**

The Department has delivered on various Policy focus areas and these include:

·         The Department has been involved in rural development through constructing bridges above overflowing rivers.

·         Peace keeping missions have been instrumental in ensuring regional and continental stability to enhance diplomatic relations and economic stability to assist with fighting poverty and underdevelopment.

·         Issues raised in the SONA such as regional stability and peacekeeping, assisting with internal peace and security with borderline control and preventing rhinoceros poaching, and assisting to address youth unemployment through the MSDS and NYS initiatives.

·         Delivering on the Ministerial priorities such as Maritime Security, job creation through the MSDS and NYS, enhancing the peacekeeping capability and revitalising the Reserves.

·         A total of 8955 young South Africans were recruited to the MSDS.

·         A total of 2 891 members completed National Youth Service training, of which 903 were at SAS Saldanha, and 1 988 at 3 South African Infantry Battalion.

·         A total of 14 285 Defence Reserve members were called up.

·         It is, however, concerning that the Landward capability has not been further enhanced since “Modernisation of the Landward System has remained stagnant, pending the finalisation of the Defence Review which will inform the required future Landward Defence Capabilities of the SANDF.”

**6.3        Financial performance including funding proposals**

The PCODMV noted with concern the cuts effected over the MTEF (2013/14 to 2015/16), as indicated in Table 10, to the Department’s allocation in spite of its motivated submission to Treasury on the consequences of such cuts and the measures already taken over to reprioritise the budget and to deliver against its mandates. However, the following financial issues require more attention:

·         The effective management of funds allocated to the Special Defence Account.

·         The number and amount of virements in the fourth quarter of the financial year.

·         The payment of invoices within 30 days.

·         The understatement of assets to the value of R818 million.

·         Unauthorised, fruitless and wasteful as well as irregular spending amounts.

**7. Recommendations**

**Financial performance**

·         The Department’s operational budget is underfunded and given that its budget for 2013/14 has increased with only 0.58% in real terms in comparison with 2012/13, it had to resort to austerity measures and reprioritisation. It is therefore recommended that maximum efficiency and accountability in the planning and use of limited resources should be prioritised especially against the background of virements in last quarter of the financial year, insufficient oversight by the leadership and lack of investigations into financial misconduct.

·         It is crucial that the Department track its quarterly expenditure to avoid significant virements in the 4th quarter of the financial year. For instance the overspending on Training capability and the underspending on Transport and Maritime Capability in the SDA, should be closely monitored to avoid over expenditure by the end of the financial year. Quarterly briefings by the Department to the PCODMV should therefore focus on these and similar issues.

·         The challenges faced by the Department in its interaction with National Treasury, to increase its budgetary allocation, is a concern, especially against the background that National Treasury itself questions whether the Department is actually underfunded. This is due to allocations to the SDA of R4.6 billion in 2012/13 and R5.8 billion for 2013/14, which brings the total amount in the SDA to R10.4 billion. This issue needs to be clarified to the PCODMV by both National Treasury and the Department.

·         The Department should include information on its payment of invoices within 30 days in each quarterly report it presents to the PCODMV in order to avoid non-compliance.

·         The utilisation of funds allocated for the CAR deployment, which has been subsequently been cancelled, should be explained to the Committee.

·         The Department, particularly the Minister and the Secretary for Defence, should ensure that investigations are conducted into financial misconduct matters as stipulated by Treasury Regulations. [[9]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131029pcdefencebrrr.htm" \l "_edn9" \o ")

**Performance related recommendations**

·           The changes in the Selected Performance Indicators and Targets from year to year as well as targets and indicators having to adhere to the SMART principles as set out by National Treasury Regulations should be addressed.

·           The Department should improve its internal controls and record keeping in general and specifically as it pertains to the Force Employment Programme as indicated by the A-G. The A-G will be invited to elaborate on its methodology and specifically the accuracy and relevance of their audit findings for the 2012/13 financial year.

·           The Department is in the process of establishing and filling the posts of the Internal Audit function and this process should be speeded up as it is central to pro-active measures to improve the performance of the Department, especially as it pertains to issues raised in the   
A-G’s qualified audit opinion. This will also assist in executing the action plans drafted to address the audit findings.

·           The current Defence Review should be finalised as a matter of urgency especially against the background that it will help to resolve most of the challenges faced by the Department. For instance, progress with the modernisation of the Landward defence capability remained stagnant, although it has been identified as a priority for the last five years, because the Defence Review has not been finalised.

·           The lack and poor condition of Facilities are a main concern and the Committee recommends that the establishment of the Defence Works Capability should be finalised as soon as possible and that the negotiations with DPW for the repair and maintenance responsibilities to be moved to the DODMV be prioritised.

**DEPARTMENT OF MILITARY VETERANS**

The Department of Military Veterans (DMV) was established through the Military Veterans Act (No. 18 of 2011). The Department’s aim is to formulate policies and standards to provide a comprehensive delivery system to deserving military veterans and their dependants.

**Strategic Plan**

The DMV tabled its first 5 year strategic plan to Parliament in April 2012. A top priority over the medium term planning cycle was the establishment of a functional department with a separate budget vote to put into effect Government’s policy on military veterans.

**Annual Performance Plan (APP)**

The DMV has tabled its first Annual Performance Plan (APP) to Parliament in compliance with the relevant DMV guidelines as directed by National Treasury. One of the main challenges for the DMV in realising its objectives is the gap between current funding and the resources dictated by the costing of the Act. This gap can, potentially, frustrate efforts to service the mandate and needs to be closely monitored and supported. For the 2012/13 financial year, the DMV’s allocation was accounted for under the Department in Programme 1: Administration and the DMV is in the process of obtaining its own separate vote as approved by National Treasury on 30 September 2011.

**DMV Annual Report 2012/13**

Issues that were specifically raised about the DMV Annual Report included:

•       There is an urgent need to provide visible rewards and due recognition to military veterans.

•       The DMV started to operate independently from the DOD as from 1 April 2013.

•       Coordination and collaboration with government departments and private sector led to the signing of service level agreements to accelerate service delivery to military veterans.

•       DMV faced major financial constraints to fund posts which were to be filled for it to function effectively.

•       Three honouring functions were held and education bursaries, burial support and health care and wellness services were provided to deserving military veterans, despite no allocation having been made for these to the DMV.

•       There are 56 505 military veterans registered on the database which had undergone a first and second phases to update personal information, although concerns remain about the reliability, accuracy and completeness of the database. A database clean-up programme remains under way, but it remains unclear when this will be finalised

**DMV Budget 2012/13**

The breakdown of the budget allocated and the related expenditure are indicated in table below. Note that the DMV received additional funding during the year, thus raising their appropriation to R101.403 million.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Item** | **Original allocation 2012/13 FY** | **Adjusted appropriation (R’000) 2012/13 FY** | **Expenditure (R’000) 2012/13 FY** | **Available balance (R’000) 2012/13 FY** | **Planned spending (as per the APP)** |
| ***Compensation of employees*** | 16 451 | 26 857 | 26 857 | 0 | 13 500 |
| ***Goods and Services*** | 33 031 | 71 864 | 68 634 | 3 230 | 30 400 |
| ***Transfers and Subsidies*** | 0 | 182 | 182 | 0 | N/A |
| ***Payments of Capital Assets*** | 1725 | 2 500 | 1 303 | 1 197 | N/A |
| **TOTAL** | **51 207** | **101 403** | **96 976** | **4 427** | **-** |

The following financial aspects should also be noted, as per the Accounting Officer’s Report:

·         The main utilisation of the appropriation was for i) the funding of allocated posts; ii) the development of an IT system; iii) the procurement of an office building; iv) and, policies and procedures.

·         In addition to the abovementioned, funds were also spent on honouring functions, education bursaries and health and wellness support.

·         The R3.2 million not spent in terms of Goods and Services relate to services received in 2012/13, but where the invoices from the suppliers were delayed.

·         The R1.2 million underspending in terms of Capital Assets relate to funds budgeted for office equipment which could not be purchased due to delays in the acquiring of office space.

·         The Department’s performance could not be accurately measured against the APP largely due to a lack of proper reporting on performance targets by the Accounting Officer.

·         The expenditure per programme was not provided and could thus not be evaluated.

**DMV Budget 2013/14**

The DMV Strategic Plan for 2012 to 2016 lays the foundation for the structuring of programmes within the Department, the allocation of funds and the construct of the subsequent APP for 2013/14. [[10]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131029pcdefencebrrr.htm" \l "_edn10" \o ")Since the enactment of the Military Veterans Act (No. 18 of 2011), the DMV has largely been involved in capacity building. For the 2013/14 financial year, Programme 1 (Administration) is reflected as the largest programme. This changes, over the MTEF period as focus shifts to other programmes. There is also a significant decrease in funds allocated to Programme 3 (Empowerment and Stakeholder Management) between 2012/13 and 2013/14. This is balanced over the MTEF period as a substantial increase for this programme is planned for 2014/15 (from R101 million in 2012/13 to R157 million in 2014/15).  The table below indicates the percentage of the budget allocated to the different programmes.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2012/13**  **(R million)** | **Per cent of total budget per programme** | **2013/14**  **(R million)** | **Per cent of total budget per programme** | **2014/15 (R million)** | **% of total budget per programme** |
| **Programme 1: Administration** | 30.7 | 30.27% | 139.5 | 39.70% | 163.7 | 32.47% |
| **Programme 2: Socio Economic Support Services** | 21.1 | 20.81% | 135.5 | 38.56% | 182.5 | 36.20% |
| **Programme 3: Empowerment and Stakeholder Management** | 49.6 | 48.92% | 76.5 | 21.77% | 157.9 | 31.32% |
| **TOTAL** | **101.4** |  | **351.4** |  | **504.2** |  |

Issues raised regarding the 2013/14 budgetary allocation includes:

•       An explanation for the drastic increase in funds allocated for travel and subsistence, how this amount will be utilised and whether this increase can be justified *vis-a-vis*the number of personnel in the department.

•       The specific purpose of the funds allocated to housing and how funding for housing is envisaged beyond the MTEF period.

•       Whether a cost-benefit analysis has been completed to determine if the outsourcing of various services, such as cleaning and security services is the most cost-effective operational model.

•       The provision of a timeline for the filling of all vacant posts.

•       Given that only 29 posts have been filled and 53 additional personnel have been appointed, does such a small staff contingent justify the R13.3 million allocated to travel and subsistence in 2012/13? This amounts to R162 195 per employee for travel and subsistence for the financial year in question.

•       Similarly, a question can be raised for future financial years, such as 2015/16 where the staff contingent ought to reach 169 while the travel and subsistence allocation increases to R93.8 million. [[11]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131029pcdefencebrrr.htm" \l "_edn11" \o ")

**Quarterly spending trends**

Since the DMV’s budget resorted under Programme 1: Administration as a sub-programme, the quarterly spending is mostly covered in the DOD’s quarterly spending trends for the 2012/13 financial year. However, detailed spending on the various sub-programmes of the DMV is not provided for.

The following are however noted:

• **Third quarter spending**

The spending on sub-programme Military Veterans indicated that at the end of the third quarter, only 34% of the budget was spent against a projected expenditure of 74.8%. This should be read against the huge increase to 95.4% in the fourth quarter and especially the additional virements.

• **Fourth quarter spending**

Of concern in terms of Fourth Quarter spending was that this Sub-programme spent only 95.4 per cent of its allocated budget, although it saw additional virements and significant spending in the last quarter, which should be noted. Despite this low spending, an additional virement must then have been made to Military Veterans as their allocated budget by the Fourth Quarter increased to R106.657 million. By the end of the Fourth Quarter, a total of R101.745 million was spent. As such, R67.297 million, or 66.37 per cent of the originally allocated budget, was spent during the last quarter.

**Budgetary Review and Recommendation Report 2012.**

Since the DMV was a newly established department and still in the process of being set up, little mention was made of the Department in the 2012 BRR Report by the PCODMV. Those issues referred to, included the following:

•       The Defence budget vote represented an increase of 12.66% of the previous year (R30.4 billion in 2010/11). The overall increase in allocation was *inter alia*due to the establishment of the Department of Military Veterans.

•       The DOD’s Annual Report for 2011/12 indicated that the DMV developed Regulations which are to be approved by Parliament in an effort to regularise the benefits to military veterans. These Regulations are important not only for the means tests but the Draft Regulations were only referred to the PCODMV for consideration on 20 June 2013.

**Recommendations**

·         One of the main concerns is the management of the data base and it is recommended that the Department gives the PCODMV a detailed briefing regarding the challenges, progress and status of the latest database.

·         The allocation of benefits to deserving military veterans is welcomed but the DMV should as a matter of urgency inform the Committee on the methodology on how it determines which military veterans should receive benefits.

·         More details should be provided on the Service Level Agreements and Memoranda of Understanding it has concluded, or are in the process of concluding, with other government departments and the private sector to deliver benefits to military veterans.

·         The Department should brief the Committee on the challenges it faces in its interaction with National Treasury regarding the funding for the delivering of benefits to military veterans.

·         Quarterly spending reports by the Department should be prioritised in order to avoid significant spending in especially the last quarter of the financial year.

·         Detailed Annual Reports submitted to the PCODMV are also essential. These should measure the DMV’s performance against performance-targets set as well as clear and detailed financial statements, including financial spending per programme and sub-programme.

·         Quarterly financial spending report should also be submitted to the PCODMV  to allow the Committee to evaluate the spending trends within the DMV.

**ARMSCOR**

The Armaments Corporation of South Africa Ltd (Armscor) was established in terms of the Armaments Corporation of South Africa Limited Act (No. 51 of 2003) to satisfy the requirements of the SANDF in respect of Defence Matériel. Armscor is a critical stakeholder in so far as the SANDF operational effectiveness is concerned.

**Armscor Corporate Plan 2012/13 – 2014/15**

Armscor aligns its strategic priorities with the Government’s Medium-Term Strategic Framework (MTSF) and the DOD Outcomes derived from the MTSF. It states that it plays a supporting role in terms of contributing to Outcome 3: “All people in South Africa are and feel safe”.

**Performance Overview: Selected Achievements and Challenges**

The Service Level Agreement between Armscor and the DOD specifies targets to be reached (brackets indicate the achievement for the FY 2012/13):

·                            Acquisition activities [Goals 1 – 3]: Contracts to be placed by Armscor (Achieved            goals except for System Support: Acquisition and Procurement).

·             Management of Defence Industrial Participation (DIP) [Goal 4] (Objective not       achieved).

·                 Management and execution of defence technology, research, test and evaluation            requirements by the DOD [Goal 5] (Objective achieved)

·             Management and performance against Dockyard mandate (Objective achieved).

Armscor’s Three-year Corporate Plan includes two groups of performance indicators. The first relate to performance against Armscor’s functions as defined by the Service Level Agreement with the Department and the second measures performance against the set strategic objectives of the group. A total of 32 Key Performance Indicators (KPI) were identified for 2012/13 and adherence to these KPI’s are as follows:

• 23 of the 32 KPI’s have been achieved.

• 9 of the KPI’s (28 per cent) have not been achieved.

Of the 9 KPI’s not achieved, which mainly related to issues of leadership, only one (KPI 3.1) was in close proximity to the goal set to be achieved.

Armscor lists the following as highlights of the 2012/13 financial year:

·         Clean audit

·         Achieved level 3 BBBEE rating from level 7

·         Dockyard obtained ISO 9001: 2008 accreditation

·         Achieved a surplus of R84.6m (2012/13) against R70.2m in 2011/12

·         CSI Flagship programme – “Learner Enhancement Programme” in support of Maths and Science in schools resulted to an average of 51% improvement in these subjects.

·         LUH - All 30 Helicopters have been delivered to SAAF and updated with latest production standards.

·         Rooivalk – Rooivalk fleet was upgraded to the MK1 deployment baseline.

·         New Local Warning Segments of the Ground Based Air Defence System has been completed.

·         90 young engineers and scientists were identified for succession planning.

The following main challenges are faced by the Corporation:

·         Insufficient  and sustainable funding

·         Resourcing of the organisation

·         Operational inefficiencies and effectiveness

·         Local industry support

·         Capacity rejuvenation at the Dockyard

·         Current capacity at the Dockyard insufficient.

**Financial Overview**

Armscor’s operating expenses are largely funded by a transfer payment from the Department. In 2012/13 it was R1.318 billion and for 2013/14 it amounts to R1.96 bn.  This amounts to a nominal change of 48.73 per cent and a real change of 40.85 per cent. In monetary terms it amounts to R642 million in nominal terms and R538 m in real terms respectively. Armscor’s net asset value increased by 187% to R1 7292m due to revaluation of land and buildings. The profits increased from R70.2 in 2012 to R 84.6m in 2013. The total revenue increased by 1% to R308.2 million while the personnel costs remained the main contributor at 74.4% of total operating cost.

**Concerns**

The following selected concerns regarding Armscor are noted:

·         The delay with the appointment of a new Chief Executive Officer as the former CEO’s contract was terminated with effect from 7 January 2010. Mr JS Mkwanazi, General Manager Acquisition, has been appointed as acting CEO and has been acting up to the time this report was drafted.

·         The need for a review of the relationship between the DOD and Armscor has been an issue over time especially as it impacts on the efficiency and economy of the entity.

·         The active participation of black female-owned enterprises in Armscor programmes is a challenge that needs to be addressed in the Broad-based Black Economic Empowerment (BBBEE) context.

·         The Simon’s Town Dockyard is experiencing challenges resulting from insufficient capacity and capability to execute its mandate.

·         How and to what extent will the current Defence Review impact on Armscor Corporate Plan? Attention will have to be paid to the implications of Defence Industry chapter dealing with the Defence Industry and Policy.

·         The Defence Industrial Participation objective has not been achieved and no new DIP agreements were entered into during the period under review as the DIP policy was revised in 2012.

**Recommendations**

·         The permanent appointment of a CEO should be concluded as soon as possible.

·         Training, especially of historically disadvantaged personnel, should be prioritised to fill scarce skill vacancies and BBBEE targets should be aggressively pursued.

·         The status and position of Armscor regarding the corporation and the Defence Industry in the Defence Review Committee should be clarified.

·         Capacity rejuvenation, the current capacity as well as the funding of the Dockyard, should be addressed as a matter of urgency.

·         Armscor should inform the PCODMV on a regular basis on the progress of implementing the new DIP policy, challenges in this regard as well as whether the policy is conducive or not to attracting new business.

·         The Department should take the necessary action to ensure that Armscor intervenes to properly manage the delays  and cost overturns of certain armaments acquisition projects.

**CASTLE CONTROL BOARD**

The Castle Management Act, 1993 (No. 207 of 1993) provides for a Castle Control Board (CCB) to govern and manage the Castle 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.

**Financial performance**

The Castle Control Board (CCB) does not receive transfer payments from the DODMV and is struggling to be self-sustainable. As can be noted from the table below, the Castle will be vulnerable if the support of the Department should be withdrawn as the amount in terms of wages and salaries and related funding amounts to R2.5 million (R2.3 million for FY 2011/12).

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2011/12** | **2012/13** | **Percentage difference** |
| Revenue | R3 182 000 | 3 417 000 | +7.39% |
| Expenditure | R2 369 000 | R2 534 000 | +6.96% |
| Surplus | R813 000 | R883 000 | +8.61% |
| **Total** | **R13 272 000** | **R14 155 000** | **+6.65%** |

The table above outlines the main financial performance aspects over the last two years. It should be noted that no fruitless and wasteful expenditure was reported but an amount R524 000 was due to irregular expenditure. The opening balance for 2012/13 also show an amount of   
R 1 185 000 brought forward from the previous financial year for irregular expenditure, and this was mainly due to instances where the CCB found it impractical to comply with the stringent Treasury Regulations.

Considering that the CCB receives no government grants it continued to generate income through two thirds of gate revenue (one third goes to Iziko Museums) and venue hire, which amounted to   
R 3 417 000 for the year under review. There has been a constant increase in the number of visitors to the Castle in recent years.

**Findings of the Auditor-General**

The Castle received an unqualified audit opinion from the Auditor-General. The A-G found no matters to be reported in terms of the financial health and human resources of the entity and was largely positive about the improvements made on previous recommendations. However, the audit opinion identified problems in the following areas:

·               Internal Audit. No internal audit function for some part of the year.

·               Supply chain management. The SCM was again identified as a problem as the    CCB did            not fully comply with the rules regarding the procurement of goods and    services for       entities.

·               Performance against predetermined objectives. A vast improvement was noted by the     AG, but a need to develop a properly-designed performance management           methodology was noted.

•           Compliance. The AG suggested the use of a compliance checklist to monitor      outstanding responsibilities and approvals.

•           Retention of a surplus. The CCB did not             apply to National Treasury to     accumulate a     surplus in previous years but submitted a request to retain its surplus           in 2012/13. The result of this request is not yet certain and, as such, the AG noted again that the CCB            retained a surplus without National Treasury approval.

•           Leadership. The AG noted concerns in terms of the leadership by the accounting             authority.          The accounting authority failed to effectively communicate policies and         procedures to   ensure effective internal control.

**Performance**

* Highly successful Military Tattoo (4000 spectators).
* Jive Slave marathon with 5000 runners through the Castle.
* Anglo-Boer War Philatelic Exhibition attracted 3000 visitors.
* Annual paying tourist figures increased by 3519.
* Month of Photography (October) attracted more than 3000.
* Annual trading surplus of R883 000 was achieved.
* Heritage Day 2012 (free access) numbers exploded from 1975 to 3265.

**Recommendations**

·         The internal audit function and the appointment of the CFO should be sorted out as a matter of urgency.

·         The position of *Het Bakhuys*and its contribution to the revenue of Castle should be prioritised. If the operation of Het Bakhuys is transferred to a private enterprise, this shift should be concluded in a prompt and transparent manner to maintain the image of the Castle as an exemplary tourist destination. The PCODMV should also be updated in this regard.

·         The shortcomings of the SCM Policy should be addressed as soon as possible and the relevant CCB as well as Castle staff should be trained to ensure 100 per cent compliance with National Treasury guidelines. This will assist in ensuring a decrease in irregular spending.

·         Adequately measureable targets should be set as per the Auditor-General’s guidelines.

·         Since repair and maintenance is one of the major issues in the preservation of the Castle, the CCB should inform the PCODMV on a regular basis on this issue, especially as it relates to the involvement and contribution of the Department of Public Works.

·         The retention of a surplus without the approval of Treasury should be prevented in future.

·         The CCB should give a clear action plan of how it will deal with the leadership concerns raised by the A-G.

**Appreciation**

The Committee expresses its appreciation to the Department of Defence, Department of Military Veterans as well as Armscor and the Castle Control Board for its cooperation and endeavours to improve the performance of their respective organisations.