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FOURTH QUARTER EXPENDITURE ANALYSIS FOR THE DEPARTMENT OF DEFENCE FOR 2019/20

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1. INTRODUCTION

The following analysis of the Fourth Quarter Expenditure Report of the Department of Defence (DOD) for 2019/20 provides an overview of aspects that may require further examination by the Portfolio Committee on Defence and Military Veterans (PCDMV). The document is prepared for the PCDMV meeting with the DOD scheduled for 3 June 2020.

2. DEPARTMENT OF DEFENCE: OVERALL EXPENDITURE TRENDS

The DOD received a total main appropriation of R50.513 billion for the 2019/20 financial year. The allocation was adjusted marginally higher during the mid-year adjustment period and increased to R50.888 billion (R375 million increase). During the 2019/20 financial year, the spending pattern per quarter has been as follows:

- At the end of the **First Quarter** (June 2019), the DOD spent R11.713 billion (23.2%) of its main appropriation, which was *slightly higher than projected expenditure*.
- At the end of the **Second Quarter** (September 2019), the DOD spent R24.274 billion (48.1%) of its main appropriation, which was *slightly higher than projected expenditure*.
- At the end of the **Third Quarter** (December 2019), the DOD spent R36.838 billion (72.4%) of its adjusted appropriation, which was *slightly lower than projected expenditure*.
- At the end of the **Fourth Quarter** (March 2020), the DOD spent R50.888 billion (100%) of its adjusted appropriation.

In terms of economic classification, two key aspects should be noted:

- Compensation of employees: R2.609 billion (+8.9%) **overspending**.
- Goods and Services: R2.609 billion (-19.2%) **underspending**.

At year-end, R2.609 billion of the Good and Services allocation was used for the payment of salaries as the DOD did not manage to stay within the Compensation of Employment (CoE) ceiling set by National Treasury. As in previous years, this R2.609 billion over-expenditure on



Compensation of Employees will be regarded as **irregular expenditure**. In 2018/19, the DOD also incurred R2.7 billion in irregular expenditure due to over-spending on CoE.

The Graph below highlights the overall expenditure of the DOD at the end of the Fourth Quarter for 2019/20. The aim of the inclusion of the graph is merely for reference and to demonstrate the 100% expenditure of the various programmes.

| R million | Main Appropriation | Adjusted Appropriation | Available Budget | Year End Actual expenditure | Expenditure as % of Available Budget | Underspending | % Underspending |
|--------------------------------|--------------------|------------------------|------------------|-----------------------------|--------------------------------------|---------------|-----------------|
| Programme | | | | | | | |
| 1 Administration | 6,187.1 | 6,177.1 | 5,992.4 | 5,992.4 | 100.0% | 0.0 | 0.0% |
| 2 Force Employment | 3,620.7 | 3,620.7 | 3,491.3 | 3,491.3 | 100.0% | 0.0 | 0.0% |
| 3 Landward Defence | 16,464.3 | 16,527.0 | 16,763.6 | 16,763.6 | 100.0% | 0.0 | 0.0% |
| 4 Air Defence | 6,977.7 | 6,979.6 | 6,700.9 | 6,700.9 | 100.0% | 0.0 | 0.0% |
| 5 Maritime Defence | 4,517.9 | 4,838.5 | 4,709.4 | 4,709.4 | 100.0% | 0.0 | 0.0% |
| 6 Military Health Support | 5,375.3 | 5,375.3 | 5,370.9 | 5,370.9 | 100.0% | 0.0 | 0.0% |
| 7 Defence Intelligence | 1,020.5 | 1,020.5 | 1,002.2 | 1,002.2 | 100.0% | 0.0 | 0.0% |
| 8 General Support | 6,349.5 | 6,349.5 | 6,857.5 | 6,857.5 | 100.0% | 0.0 | 0.0% |
| Total | 50,513.0 | 50,888.1 | 50,888.1 | 50,888.1 | 100.0% | 0.0 | 0.0% |
| Economic Classification | | | | | | | |
| Current payments | 42,127.9 | 42,126.3 | 42,769.2 | 42,769.2 | 100.0% | 0.0 | 0.0% |
| Compensation of Employees | 29,193.7 | 29,193.7 | 29,193.7 | 31,803.0 | 108.9% | -2,609.3 | -8.9% |
| Goods and services | 12,934.2 | 12,932.6 | 13,575.5 | 10,966.2 | 80.8% | 2,609.3 | 19.2% |
| Interest and Rent on Land | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0% |
| Transfers and subsidies | 7,622.4 | 7,997.5 | 6,674.4 | 6,674.4 | 100.0% | 0.0 | 0.0% |
| Payments for capital assets | 762.8 | 762.8 | 1,417.6 | 1,417.6 | 100.0% | 0.0 | 0.0% |
| Payments for Financial Assets | 0.0 | 1.6 | 27.0 | 27.0 | 100.0% | 0.0 | 0.0% |
| Total | 50,513.0 | 50,888.1 | 50,888.1 | 50,888.1 | 100.0% | 0.0 | 0.0% |

The over-expenditure on CoE has been an ongoing concern in recent years and resulted in the Auditor-General flagging this as irregular expenditure. The current force strength does not support the lowered CoE ceiling set by National Treasury. There is thus an urgent need for Parliament to bring the DOD and National Treasury together in discussions on a way forward.

To demonstrate the fact CoE will remain a concern over the Medium-Term Expenditure Framework, two recent varying statements by National Treasury and the DOD can be considered:

National Treasury, as per the Estimates of National Expenditure¹ 2020: In its effort to remain within the expenditure ceiling for CoE over this period [MTEF], the DOD will review the composition of its personnel and military capabilities in its aim to strike the most appropriate balance between its regular force, reserve force and civilian components.

DOD statement to the PCDMV on 27 May 2020: The strategic intent of the DoD is to maintain the current force levels (75,000) whilst at the same time ensuring the continued rejuvenation of the force. This model does not propose any savings in the first MTSF period.

Based on the above statement by the DOD, irregular expenditure will continue over the medium-term if (1) the CoE ceiling by National Treasury is not lifted, (2) rejuvenation and force restructuring not implemented to lower CoE, or (3) a combination of the two means not implemented to bring CoE alignment with budgetary constraints.

¹ National Treasury (2020) *Estimates of National Expenditure*. p 348.



3. ADDITIONAL EXPENDITURE NOTES

National Treasury approved the following two virements during the adjustment period:

1. A shift of R2.3 million within *Programme 1: Administration*, under Goods and Services to accommodate a shortfall under Current transfers and subsidies (Departmental agencies and accounts) to facilitate transfer to the Safety and Security Sector Education and Training Authority (SASSETA).
2. An increase in transfer payment to public corporations and private enterprises (claims against the state) of R1.2 million, and transfer payment to households (claims against the state) of R46 million.

Given the focus of the PCDMV and the Joint Standing Committee on Defence (JSCD) on matters related to the Special Defence Account (SDA) in recent months, it is prudent to also reflect on final expenditure on the SDA. The table below highlights SDA spending per programme, including the main appropriation, adjusted appropriation available budget and actual expenditure. The table reveals that the initial planning was for an appropriation of R5.261 billion to the SDA in the beginning of 2019/20. By mid-2019/20 this was adjusted upwards to R5.676 billion. However, by the end of the year, a total of only R4.328 billion was transferred to the SDA.

SDA spending per programme (2019/20)

| Programme (R million) | Main appropriation | Adjusted appropriation | Available budget | Actual expenditure (Fourth Quarter) |
|--------------------------------|--------------------|---------------------------|------------------|--|
| Force Employment | 241.7 | 241.7 | 241.7 | 241.7 |
| Landward Defence | 1 873 | 1 935.7 | 1 318.0 | 1 318.0 |
| Air Defence | 1 255.1 | 1 256.9 | 630.6 | 630.6 |
| Maritime Defence | 866.6 | 1 187.2 | 1 187.2 | 1 187.2 |
| Military Health Services | 62.7 | 62.7 | 40.8 | 40.8 |
| Defence Intelligence | 518.7 | 518.7 | 518.7 | 518.7 |
| General Support | 473.1 | 473.1 | 390.7 | 390.7 |
| Total | 5 261 | 5 676 | 4 327.7 | 4 327.7 |

Members may pose the following questions in relation to expenditure:

- Despite major concerns around CoE, the DOD can be lauded for managing to achieve a 100% expenditure in 2018/19. However, the funds that were shifted from other items to offset the over-expenditure on CoE at year-end should not impede other functions.
- Why does the DOD need to pay the Safety and Security Sector Education and Training Authority (SASSETA) if it has its own security checks and standards in



place? Is this payment required annually and what was the total spent on this item in 2019/20?

- The adjusted appropriation for the SDA exceeds final expenditure at the end of 2019/20 by more than R1 billion. Why were less funds transferred to the SDA than originally planned and what were the excess funds used for?
- What SDA projects remained unfunded in 2019/20?

4. ADDITIONAL ASPECTS TO CONSIDER

Members may note the following additional aspects to follow up on:

Recommendations from the 2019 Budgetary Review and Recommendations Report (BRRR). The following aspects were raised in the October 2019 BRRR for follow-up on a quarterly basis and Members may request the Accounting Officer to supply these responses as requested:

- The DOD should, as part of its quarterly performance reports to Parliament, include an update on the number of investigations underway related to irregular expenditure and fruitless and wasteful expenditure. This should include information on the number of cases referred to the Military Police and/or the SAPS, the number of cases under investigation and the outcome of such investigations. This information is essential to ensure improved Consequence Management in the Department of Defence.
- The Committee urges Armscor, the DOD and the AG to finalise a plan to correctly capture tangible assets in order to avoid future misstatements and subsequent adverse findings by the AG. The DOD should report to the Committee on progress in this regard on a quarterly basis.
- The DOD should provide quarterly updates on the attainment of sea hours and flying hours by the SA Navy and SA Air Force, respectively. Furthermore, spending on key military functions such as the Maritime Combat Capability and Air Combat Capability must be reported to ensure that healthy spending patterns are maintained. The Department should also report on all virements and shifts in terms of these capabilities on a quarterly basis to prevent a situation where these movements take place at the end of the financial year, signalling poor planning.
- The DOD to take urgent steps to ensure the midlife upgrades for SA Navy frigates and submarines are carried out according to schedule. Feedback should be provided to the Committee before the end of the 2019/20 financial year.

Reimbursements from the United Nations. In its 2019 BRRR, the PCDMV noted the following recommendations: Although the situation around reimbursements from the United Nations for SANDF troop and equipment contributions has improved, the Committee noted ongoing concerns related to these reimbursements. This relates largely to the unserviceability of the Prime Mission Equipment in the mission areas. The latest information from the Minister of Defence indicated that reimbursements to the value of R54.667 million was forfeited. The Committee therefore strongly recommends that the DOD institute further measures to improve on the reimbursement levels from the UN. Quarterly updates on UN reimbursement levels should be provided to the Committee.



Media reports of engagements between the DOD and United Nations in May 2020 point to potential changes to the structure of the Force Intervention Brigade (FIB), of which South African forces form part, in the Democratic Republic of the Congo. The engagements allegedly indicated that the United Nations wishes to change the FIB composition to a multi-sourced composite battalion. Furthermore, it was indicated that the cost of South Africa's Rooivalk attack helicopters will not be carried by the United Nations.² This will likely have a significant impact on the level of reimbursements received by DOD.

Members may consider the following follow-up questions:

Follow-up on the 2019 BRRR recommendations:

- Provide an update on the number of investigations underway related to irregular expenditure and fruitless and wasteful expenditure in 2019/20.
- What progress was made by the DOD and the Auditor-General to correctly capture tangible assets in 2019/20?
- What are the main reasons for the SA Air Force failing to achieve its planned flying hours for 2019/20?
- What are the reasons for the SA Navy failing to achieve its planned sea hours for 2019/20?
- What is the status of the midlife upgrades for SA Navy frigates and submarines and how much was spent on this function in 2019/20?

Follow-up on UN reimbursements:

- What was the total expected reimbursement from the UN in 2019/20?
- What was the total received by the DOD through reimbursements for 2019/20?
- How will the potential non-funding of the Rooivalk contingent in the DRC affect DOD reimbursements?

² DefenceWeb (2020) *UN offers one symbolic dollar for Rooivalk expertise* [Internet], Available from: <<https://www.defenceweb.co.za/featured/un-offers-one-symbolic-dollar-for-rooivalk-expertise/>> [Accessed on 1 June 2020].