

## Chapter 4

# The budgetary framework: The PFMA and the budget process

It is a truism of government finance that there is never enough money to fund what is necessary, yet that a great deal of what is available is squandered – or at least poorly spent. Resources are as central to defence as to any other government function. While people can be conscripted as labourers and forced to fight, only young insurgents can afford the enemy as their quartermaster and only gangsters can live off the land. As Nicole Ball and Len le Roux put it in *Budgeting for the Military Sector in Africa – The Processes and Mechanisms of Control*<sup>1</sup>, “sound financial management of a country’s entire security sector is essential if the country is to have effective, efficient and professional security forces that are capable of protecting the state and its population against internal and external threats. Highly autonomous security forces that are able to act with impunity in the economic and political spheres are invariably professionally weak and bad value for money.”<sup>2</sup>

### **How should governments treat military budgets?**

Ball & Le Roux see little practical or philosophical difference between the military and the rest of government from a policy and budgetary process point-of-view. “This means that the citizens of any country will benefit from a military sector that is subject to the same broad set of rules and procedures that are applied to other sectors. It is therefore essential to give a high priority to principles such as transparency, accountability to elected civil authorities and comprehensiveness of budget coverage.

It is often argued that the military sector is different in that there is the need for confidentiality in national security matters and that the highly politicised nature of expenditure decisions, especially in arms acquisition, mandates a different approach. The authors disagree. Although they agree that some degree of secrecy is needed in defence, they say this should not be used to justify a lower level of oversight or a lack of adherence to internationally recognized standards of public expenditure management. “Different forms of oversight may be necessary for some areas relating to national security. It is also important to be clear about the distinction between confidentiality and the lack of public scrutiny. It is possible to retain a high degree of confidentiality in highly sensitive areas without compromising the principle of democratic accountability,” they say. As for politics, budgeting naturally involves choice and trade-offs. “... if the

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<sup>1</sup> Wuyi Omitogun and Eboe Hutchful (Editors), *Budgeting for the Military Sector in Africa – The Processes and Mechanisms of Control*, Stockholm International Peace Research Institute, Oxford University Press, Oxford, 2006.

<sup>2</sup> Nicole Ball and Len le Roux, *A model for good practice in budgeting for the military sector*, Chapter 2, *Budgeting for the Military Sector in Africa – The Processes and Mechanisms of Control*, Stockholm International Peace Research Institute, Oxford University Press, Oxford, 2006. This chapter will rely heavily on their research. The author thanks them and Sipri for their permission to reproduce relevant extracts here.

political system is open, it is possible to contest the basis on which decisions are made and, in particular, to ensure that the principles of sound financial management are not violated. Thus, the highly political nature of decisions concerning the military sector should not prevent that sector from adhering to the important principles of transparency, oversight and accountability,” they argue.

### **What constitutes good practice in defence budgeting?**

Ball and Le Roux see three considerations worthy of further exploration in answering this question: the relevance of good practice, the principles of sound public expenditure management and the key principles of democratic governance of the security sector.

#### *The relevance of good practice*

Good practice means adhering to the principles of sound public expenditure management. These can be tabulated as:

#### **The 10 principles of public expenditure management**

1. **Comprehensiveness**. The budget must encompass all financial operations of government; off-budget expenditure and revenue are prohibited.
2. **Discipline**. Decision making must be restrained by resource realities over the medium term; the budget should absorb only those resources necessary to implement government policies; and budget allocations should be adhered to.
3. **Legitimacy**. Policy makers who can change policies during implementation must take part in the formulation of the original policy and agree with it.
4. **Flexibility**. Decisions should be made by those with access to all relevant information; this means, operationally, that managers should have authority over managerial decisions and, programmatically, that individual ministers should be given more authority over programme decisions.
5. **Predictability**. There must be stability in general and long-term policy and in the funding of existing policy.
6. **Contestability**. All sectors must compete on an equal footing for funding during budget planning and formulation.
7. **Honesty**. The budget must be derived from unbiased projections of revenue and expenditure.
8. **Information**. A medium-term aggregate expenditure baseline against which the budgetary impact of policy changes can be measured and accurate information on costs, outputs and outcomes should be available.
9. **Transparency**. Decision makers should have all relevant information before them and be aware of all relevant issues when they make decisions; these decisions and their basis should be communicated to the public.
10. **Accountability**. Decision makers are responsible for the exercise of the authority provided to them.

Table 4.1: The 10 principles of public expenditure management. Source: Ball & Le Roux, Poverty Reduction and Economic Management Network, Public Expenditure Management Handbook, World Bank, Washington DC, 1998, [www1.worldbank.org/publicsector/pe/handbooks.htm](http://www1.worldbank.org/publicsector/pe/handbooks.htm)

### *The principles of sound public expenditure management*

The principles of public expenditure management are widely accepted. However, Ball & Le Roux caution it is important to understand that they are the ideals and that no public expenditure system, anywhere in the world, gets top marks on all 10. “The point is to progressively improve adherence to them,” they argue. “The principles most frequently cited in relation to the military sector are transparency and accountability. As the above remarks on confidentiality suggest, transparency is the cornerstone on which an accountable military budgetary process is built. Transparency and accountability are crucial issues in the allocation and management of defence resources for all levels of planning, programming and budgeting. If the allocation and management of defence resources are not transparent, the military sector will never be able to achieve public support or the cooperation and support of broader government. If it is not accountable to government and the people, the military becomes a cause unto itself and will not be aligned with national interests and priorities. It will easily be corrupted and decision making will be easily diverted towards self-interest.”

Ball and Le Roux say civil involvement in and control of overall budget decisions, as well as careful auditing at all levels, can help ensure that resources are actually used to accomplish policy objectives. “These processes must of necessity be aligned with the national financial management framework.”

### *The key principles of democratic governance in the security sector*

The principles of democratic governance, also 10 in number, reflect the mutual obligations that civil authorities and security personnel have towards each other. The security forces have a responsibility to be accountable to the civil authorities; to uphold the rule of law, including the protection of human and civil rights; and to carry out their professional duties to the best of their abilities. Civil authorities have the responsibility to avoid politicising the security bodies; to respect their professional prerogatives; and to provide them with a clear mandate and adequate resources and training to carry out that mandate. As in the case of the principles of public expenditure management, there is no justification for the military sector to violate these principles, Ball and Le Roux say.

#### **Ten principles of democratic governance in the security sector**

1. The security forces should be accountability to elected civil authorities and civil society.
2. The security forces should adhere to international law and domestic constitutional law.
3. There should be transparency in security-related matters.
4. The security sector should adhere to the same principles of public expenditure management as the other

sectors of government.

5. There should be an acceptance of the clear hierarchy of authority between civil authorities and the security forces, and a clear statement of the mutual rights and obligations of civil authorities and security forces.

6. The civil authorities should have adequate capacity to exercise political control and constitutional oversight of the military sector.

7. There should be adequate capacity within civil society to monitor the security sector and to provide constructive input into political debate on security policies.

8. The political environment should be conducive to civil society playing an active role.

9. The security forces should have access to professional training consistent with the requirements of democratic societies.

10. High priority should be accorded to regional and sub-regional peace and security by policy makers.

Table 4.2: Ten principles of democratic governance in the security sector

### **How should defence budgets be best integrated into that of the rest of government?**

Expenditure management requires attention to five interrelated fields, as shown in Table 4.3. They are:

- strategic planning,
- a review of the previous year's performance,
- a determination of what is affordable,
- the allocation of resources both between and within sectors, and
- efficient and effective use of those resources.

“For the budgetary process to be effective, every sector needs to follow good practices internally and to link with the broader, government-wide financial management and oversight process. All of this must occur within the framework of democratic governance and the principles of sound budgeting and financial management,” Ball & Le Roux add.

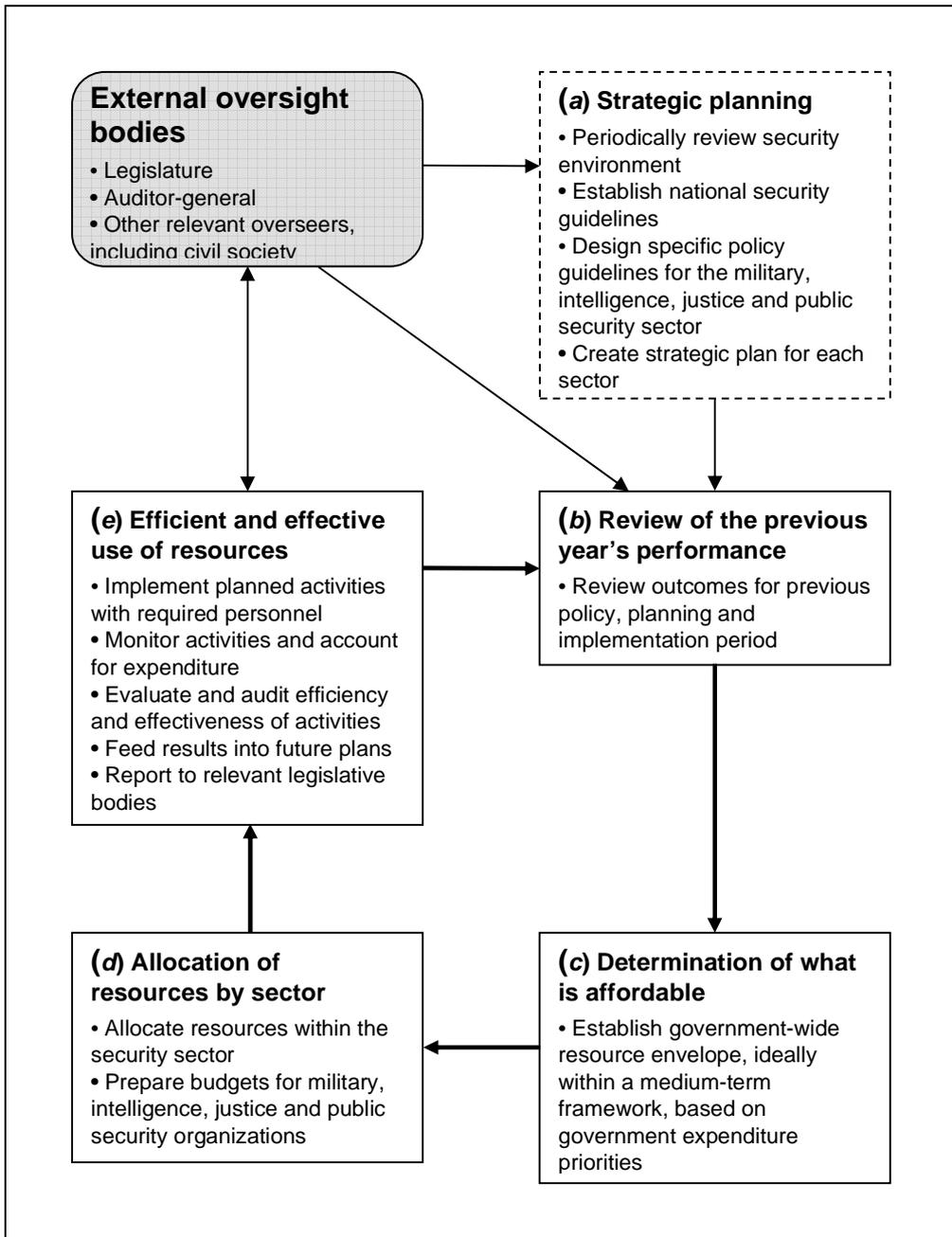


Table 4.3: The interrelationship between strategic planning, the reviewing of the previous year's performance, the determination of what is affordable, the allocation of resources both between and within sectors, and efficient and effective use of those resources. Source: Ball & Le Roux, derived from a British Department for International Development discussion paper on security sector reform and the management of defence expenditure presented in February 2000. [www.dfid.gov.uk/pubs/files/ssrsmes-report.pdf](http://www.dfid.gov.uk/pubs/files/ssrsmes-report.pdf), pp. 41-54.

### *Strategic planning in the security sector*

Sensible budgets depend on a sensible policy framework. There is a “chicken and egg” aspect to this as policy can follow budget as easily as budget can follow policy. The last is, however, more common in time of conflict and the former in peacetime, when resources are especially tight. It is here where national security policy and subordinate policies, such as that for defence enter the equation. Ball & Le Roux are quite right to observe that in “the absence of well-thought-out and clearly articulated policies, it is impossible to manage the finances of the military sector in a rational manner. Budgeting becomes ad hoc. In the absence of a clear statement of which activities undertaken by the armed forces are included in the ‘defence’ function, it is impossible to develop adequate functional breakdowns of expenditure and to understand how much it costs to provide adequate military security. In addition, it is difficult to develop performance benchmarks and thus to assess the efficiency and effectiveness of expenditure in the military sector. In the absence of a strategic plan, countries risk not obtaining a level of military security commensurate with their financial outlays.” They further urge that this planning be realistic. Economic considerations must be taken into account at the start, middle and end of the process. “A defence force costs money. A country will not be secure if it develops a defence policy for which it cannot provide resources in an open, accountable and sustained manner. Thus, part of the guidance for the review process should include the financial framework for the security sector in general and the military sector in particular. Throughout the entire process, the finance minister and other key economic managers need to be informed and consulted,” they advise.

### *Review of the previous year’s performance in the security sector*

Effective and efficient financial management requires the feed back of information on performance into the budgeting process. “While defining and measuring performance for the military sector is more difficult than for many other sectors, a focus on readiness or capability has been shown to be helpful for any discussion of the role, structure, performance and resource needs of the defence forces,” Ball & Le Roux tell us.

### *Determination of what is affordable in the security sector*

Again, we are dealing with the ideal, rather than the real. It is trite to say policy must be affordable and sustainable and that firm discipline, of the type Treasuries are notorious for, is required to keep over-spending in check. Overspending and other forms of misappropriation, including spending funds on programmes other than those budgeted for is often the result of line departments being unable or unwilling to prioritise and live within their means. Under-funding defence is as bad as robbing Peter to pay Paul. “At the other end of the spectrum, without a solid floor to the budget, resources become unpredictable and operational performance suffers. It is therefore extremely important to have in place institutions that can achieve long-term macroeconomic stability, determine the overall resource envelope for public expenditure and enforce government decisions on expenditure priorities and levels,” Ball & Le Roux advise. They caution further that where the full financial implications of arms-acquisition decisions, including debt

incurred for military purposes, are often not reflected in budgets, which may eventually destabilise financial policy. “This sort of behaviour contributes to the widespread problem in Africa of military budgets that cannot fully fund the defence function.”

The duo argues a medium-term expenditure framework (MTEF) is one mechanism that can help improve financial discipline. MTEFs have become popular with the development assistance agencies because they can help:

- improve the linkage between policies and objectives and between inputs and outputs;
- make the budgetary process more transparent, especially by improving monitoring;
- focus on outputs and service delivery; and
- increase ownership by sectoral ministries.

“... something like an MTEF is important because the military sector needs a time frame for planning and budgeting of longer than one year. A specific benefit to the military sector of adopting a medium-term framework is that it encourages full costing of defence programmes, particularly outlays on arms acquisition and major construction projects,” Ball & Le Roux say. “Irrespective of the difficulty in implementing an MTEF, it is still important to have a full costing of the different components of the defence programme. Full costing will help make the case for a particular level of funding. It will also clarify the sustainability of individual programmes and it will help maximise efficiency and effectiveness in those cases where budget cuts become necessary. Full costing is therefore critically necessary for the operational effectiveness of the defence forces.”

#### *Allocation of resources for the military sector*

Once the overall resource envelope is agreed, Ball & Le Roux advise that funding must be allocated according to priorities both within the military and between defence and other sectors. “Sectoral strategies and information on performance (outputs and outcomes) are critical components of the allocation process. It is important that assessments of past performance be fed into planning for the coming year (or years in the case of multi-year budgeting cycles)... The central budget office should assess the appropriateness of the defence ministry’s budget. The armed forces must compete fully with other sectors for funding,” they write.

Ball & Le Roux further believe the legislature must have adequate time to review and comment on the proposed defence budget before the beginning of the financial year. Incorporating public input into the allocation process will further help build public support for the final budget. Our authors also demonstrate the flip side of the coin. While African militaries – other than the SANDF – often enjoy a privileged position in terms of resource allocation, financial constraints have led some governments to fail to provide the armed forces with adequate resources to carry out their assigned missions. “This not only places at risk the safe and secure environment that is necessary for both economic and political development, but also creates frustration and resentment within the armed forces. Participants in a workshop on democratic governance in the security sector held in Dakar in October 2001 argued that adequate transparency in the military sector is critical so that the serious underfunding that afflicts armed forces throughout the region is clear for all to

see. They suggested that there is both disdain for the military among civilians and a belief that military security is a comparatively low priority among those who control their countries' financial resources. In their view, this not only leads to inadequate defence budgets and thus inadequate external security but can also heighten internal insecurity through a threat of coups. For reasons of both financial and political stability, it is important that the military sector competes on an equal footing with other sectors and that the process of allocating resources among sectors takes place in a transparent and accountable manner."

#### *Efficient and effective use of resources in the military sector*

This requires careful monitoring and evaluation of operational performance both within the armed forces and by Treasury. Even in South Africa there are often disparities between the approved budget and actual expenditure, such as the routine raiding of training budgets to pay operational bills.

Ball & Le Roux believe a well-functioning financial management information system (FMIS) is critical if decision makers and public-sector managers are to obtain the financial data they require to control aggregate expenditure, prioritise among and within sectors, and operate in a cost-effective manner. "Additionally, it is extremely important that irregularities identified in the course of monitoring are addressed, lest a climate of non-compliance be created or reinforced," they caution. Particular attention should be given to ensuring the transparency of procurement and acquisition processes and their conformity to good practices (see appendix 4A for a brief description of good procurement and acquisition practices, as per Ball & Le Roux).

Accounting standards in the military sector should not be allowed to deviate from those in other sectors. Ball & Le Roux advise expenditure tracking studies to help determine whether resources are being spent as intended. "Value-for-money audits by the auditor-general or other oversight bodies will help determine if resources are being spent efficiently. As in any other sector, the results of monitoring and evaluation work need to be fed back into strategic planning." Some of the specific issues that need particular attention in terms of strengthening the efficiency of resource use in the military sector are:

- **Sustainability:** Defence plans and programmes that are not sustainable over time, lead to capabilities that cannot be maintained and that becomes ineffective: picture the proverbial stripped-down tractor on blocks. "Sustainability will only be achieved if government commits itself to the approved defence plan, all planning is done on the basis of a full life-cycle costing and the defence budget is spent in the most efficient manner possible. Care must also be taken in planning to accurately evaluate the effect of currency fluctuations on the life-cycle cost of capital equipment," Ball & Le Roux say.
- **Funding of operations:** The two authors believe it is not possible nor desirable to budget for the execution of military operations other than routine operations that can be foreseen and accurately planned well ahead of time. "Most military operations

come at short notice and during a financial year for which the budget has been developed and approved many months previously. Examples of short-notice operations are peace support missions, major disaster relief missions and even limited war. Trying to budget for the unforeseeable will result in a misappropriation of funds. The only way to handle this problem is through a central contingency fund managed by the finance ministry. For large-scale contingencies that exceed the capacity of such a contingency fund, the government will have to revise the total budget with regard to both departmental allocations and income.” That is fine theory. The problem arises when the military is forced to meet the initial costs itself, as is routinely the case with the SANDF. Helmoed-Römer Heitman eloquently describes the consequences: “That money cannot be taken out of salaries, nor can equipment contracts be cancelled, so money is taken from training, from maintenance or from the already inadequate research and development budget. Each time that happens, it creates a hole that is never filled. Even the partial reimbursement from the United Nations – the African Union cannot afford to reimburse – is just that, a reimbursement: first there is a hole to fill, then at some time in the future, a portion of that money is reimbursed and may find its way to the armed forces – if the Treasury does not squirrel it away in its notorious B7 account, never to be seen again. The result has been that for the better part of a decade, the SANDF has been unable to train properly, to maintain its equipment properly, or to maintain its infrastructure. The army, for instance, last ran a full brigade level exercise a decade or so ago, while the air force and the navy lack the flying hours and sea days to be truly proficient in even their primary roles; and at the level of individuals there never seems to be quite enough money to present promotion courses for all those who need to attend them. Another major problem is that the SANDF does not have the personnel strength<sup>3</sup> to be able to meet the demands of its current operational commitments without difficulty. It has been forced to deploy some of its personnel for six months in 18, and a few particularly unlucky ones for six months in 12. That does nothing for family life; it means they cannot attend courses and therefore cannot be promoted; and means that proper unit training is almost impossible, causing operational capability to decline. The result is, inevitably, that some members attempt to dodge deployments and others begin to look for other employment, causing the SANDF to lose critical expertise and experience that it cannot replace quickly... The bill for that will be presented in some future operation, when the lack of experience, will make itself felt in an inopportune moment<sup>4</sup>,” Heitman said. He might have added it will be paid in blood. Perhaps the solution lies in the middle... a Treasury-supervised operational contingency fund within the DoD budget.

- Tooth-to-tail ratios: The price of freedom is eternal vigilance. Coincidentally, that is also the price for optimal tooth-to-tail ratios. It is an eternal battle to increase the proportion of deployable troops and reduce the number undertaking staff work. Supporting structures and headquarters are often bloated at the cost of operational capabilities, especially in peace time and usually with the excuse that the number of

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<sup>3</sup> Deployable strength, that is, versus total strength, which includes over-age, ill and otherwise non-deployable staff.

<sup>4</sup> Helmoed-Römer Heitman, Shooting our forces in the foot, The Star, August 31, 2005, p15.

Reserves or some future eventuality required this. “Determination of the size and capacity of support structures can only be done once the force design has been determined. Modern 'business process re-engineering' techniques can assist in the solution of this problem but will only be effective if top management is committed to this cause and ruthless in its application,” Ball & Le Roux said.

- Direct client-supplier relationships: In many militaries certain structures, units and agencies exist for reasons of history only. “The client (e.g., a combat service) is forced by organizational culture or other interests to make use of the services of such an organization and is not allowed to shop around. This is bad practice and entrenches inefficiency. Accordingly, clients for services should be allowed freedom of choice and freedom to establish direct client-supplier relationships,” Ball & Le Roux said.

Other potential solutions for the improvement of efficiency are:

- outsourcing and public-private partnerships,
- improved coordination between services,
- improved management information through the use of better information technology,
- use of reserves,
- the better use of civilians in defence ministries, and
- improved management and leadership through education, training and development.

### **What are common causes for disparities between budgeted and actual spending?**

The World Bank’s Toolkit for Assessing Public Expenditure Institutional Arrangements have identified a number of causes. Some of the more common are:<sup>5</sup>

- deviations in aggregate expenditure;
- reallocation of funds during the financial year;
- policy changes during the year;
- an inability to implement policies, programmes and projects, for a variety of reasons;
- donor funds not being available on time, or at all; and
- a lack of financial discipline.

### **What is the link between a defence budget and strategic defence planning?**

The link is simple: No meaningful programming or budgeting is possible without a guiding long-term defence plan, just as no meaningful plan can be crafted in the absence of a guiding policy.

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<sup>5</sup> World Bank, Toolkit for assessing public expenditure institutional arrangements, [www1.worldbank.org/publicsector/toolkitspe.htm](http://www1.worldbank.org/publicsector/toolkitspe.htm), sheet ‘L2 Performance’, heading 2.6; Ball & Le Roux

### What would a typical budget cycle look like?

Time period	Activity
Ongoing	Strategic planning and development of the defence plan (negotiations between the defence minister on behalf of the government and the permanent secretary, supported by strategic planners)
Month 1	Development of defence programmes (negotiations between the permanent secretary and programme managers and the drawing up of draft top-level performance agreements as well as direct client–supplier negotiations between programme managers for the determination of service agreements)
Months 2 to 4	Preparation of business plans (development of draft lower-level performance and service agreements through negotiation and the full costing from zero of all activities)
Month 5	Submission of draft business plans to programme managers for checking, evaluation and consolidation into a single budget for each programme; necessary amendments negotiated and agreed
Months 6 and 7	Consolidated budgets for each programme submitted to the ministerial budgeting committee (chaired by the ministry’s permanent secretary) for evaluation, approval and consolidation of a single ministerial budget; necessary amendments identified, negotiated and agreed; on completion, the budget, signed by the minister and the permanent secretary, submitted to the finance ministry
Month 8	The government’s medium-term expenditure committee evaluates ministerial budgets against government guidelines, priorities and available funds; required amendments are identified against governmental priorities
Month 9	The finance ministry provides final guidelines on the expected allocation to the defence ministry; the defence ministry amends plan, programmes and budget and prepares the defence minister’s submission of the defence budget vote to parliament; the performance and service agreements finalized
Month 10	The finance minister submits the national budget to parliament; parliament approves budget.
Ongoing	Expenditure according to budget; regular expenditure control exercised by the permanent secretary

Table 4.4: A typical budget cycle. Source: Ball & Le Roux.

## **Describe the South African national financial framework within which the defence budget is determined**

The process that led to the current Constitutional dispensation has left South Africa with a logical legal system, in terms of hierarchy, not necessarily content, that has, so far, endured. As behoves a document as detailed as the one under discussion, the Constitution provides guidelines on state finances. Chapter 13 creates a National Treasury, a National Revenue Fund and an independent (of executive government) Reserve Bank. Chapter 9 creates a Public Protector (a type of ombudsman) and an Auditor-General, both described “state institutions supporting constitutional democracy”, accountable to Parliament but otherwise independent, and subject only to the Constitution and the law. They are required to “be impartial and must exercise their powers and perform their functions without fear, favour or prejudice”<sup>6</sup>.

### **National Revenue Fund**

213. (1) There is a National Revenue Fund into which all money received by the national government must be paid, except money reasonably excluded by an Act of Parliament.

(2) Money may be withdrawn from the National Revenue Fund only

- a. in terms of an appropriation by an Act of Parliament; or
- b. as a direct charge against the National Revenue Fund, when it is provided for in the Constitution or an Act of Parliament.

(3) ...

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### **National, provincial and municipal budgets**

215. (1) National, provincial and municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector.

(2) National legislation must prescribe

- a. the form of national, provincial and municipal budgets;
- b. when national and provincial budgets must be tabled; and
- c. that budgets in each sphere of government must show the sources of revenue and the way in which proposed expenditure will comply with national legislation.

(3) Budgets in each sphere of government must contain

- a. estimates of revenue and expenditure, differentiating between capital and current expenditure;
- b. proposals for financing any anticipated deficit for the period to which they apply; and
- c. an indication of intentions regarding borrowing and other forms of public liability that will increase public debt during the ensuing year.

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<sup>6</sup> S181 (2) and (5).

### **Treasury control**

216. (1) National legislation must establish a national treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing

- a. generally recognised accounting practice;
- b. uniform expenditure classifications; and
- c. uniform treasury norms and standards.

(2) The national treasury, with the concurrence of the Cabinet member responsible for national financial matters, may stop the transfer of funds to an organ of state only for serious or persistent material breach of the measures established in terms of subsection (1).

(3) A decision to stop the transfer of funds to a province may be taken only in terms of subsection (2), and

- a. may not stop the transfer of funds for more than 120 days; and
- b. may be enforced immediately, but will lapse retrospectively unless Parliament approves it following a process substantially the same as that established in terms of section 76(1) and prescribed by the joint rules and orders of Parliament. This process must be completed within 30 days of the decision by the national treasury.

(4) Parliament may renew a decision to stop the transfer of funds for no more than 120 days at a time, following the process established in terms of subsection (3).

(5) Before Parliament may approve or renew a decision to stop the transfer of funds to a province

- a. the Auditor-General must report to Parliament; and
- b. the province must be given an opportunity to answer the allegations against it, and to state its case, before a committee.

### **Procurement**

217. (1) When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.

(2) Subsection (1) does not prevent the organs of state or institutions referred to in that subsection from implementing a procurement policy providing for

- a. categories of preference in the allocation of contracts; and
- b. the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.

(3) National legislation must prescribe a framework within which the policy referred to in subsection (2) may be implemented.

Table 4.5: Pertinent extracts from Chapter 13 of the PFMA

### **Functions of Public Protector**

182. (1) The Public Protector has the power, as regulated by national legislation

- a. to investigate any conduct in state affairs, or in the public administration in any sphere of government, that is alleged or suspected to be improper or to result in any impropriety or prejudice;
- b. to report on that conduct; and
- c. to take appropriate remedial action.

(2) The Public Protector has the additional powers and functions prescribed by national legislation.

(3) The Public Protector may not investigate court decisions.

(4) The Public Protector must be accessible to all persons and communities.

(5) Any report issued by the Public Protector must be open to the public unless exceptional circumstances, to be determined in terms of national legislation, require that a report be kept confidential.

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### **Functions of Auditor-General**

188. (1) The Auditor-General must audit and report on the accounts, financial statements and financial management of

- a. all national and provincial state departments and administrations;
- b. all municipalities; and
- c. any other institution or accounting entity required by national or provincial legislation to be audited by the Auditor-General.

(2) In addition to the duties prescribed in subsection (1), and subject to any legislation, the Auditor-General may audit and report on the accounts, financial statements and financial management of

- a. any institution funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or
- b. any institution that is authorised in terms of any law to receive money for a public purpose.

(3) The Auditor-General must submit audit reports to any legislature that has a direct interest in the audit, and to any other authority prescribed by national legislation. All reports must be made public.

(4) The Auditor-General has the additional powers and functions prescribed by national legislation.

### **Tenure**

189. The Auditor-General must be appointed for a fixed, non-renewable term of between five and ten years.

Table 4.6: Pertinent extracts from Chapter 9 of the PFMA. The Auditor-General currently serves a seven year period.

Given these constitutional provisions, financial management in the South African Government has been substantially transformed since 1996, Le Roux<sup>7</sup> observes. “The changes in financial management include budget management and, thus, also budgeting. The new approach to financial management culminated in the 1999 Public Finance Management Act and related regulations and instructions, which came into operation on April 1, 2000. The Public Finance Management Act represents a fundamental change in the government’s approach to the handling of public finances, as it moves the emphasis away from a highly centralised system of expenditure control by the treasury. It holds the heads of departments (and parastatals) accountable for the use of resources to deliver services to communities. The act emphasizes: (a) regular financial reporting; (b) independent audit and supervision of internal control systems; (c) improved accounting standards; (d) greater emphasis on output and performance; and (e) increasing accountability at all levels. The act represents a fundamental break with the past regime of opaqueness, hierarchical management and weak accountability. The key objectives of the act are to modernize the system of financial management; to enable public sector managers to manage but at the same time be more accountable for the services delivered to the public; to ensure the timely provision of reliable information; and to eliminate waste and corruption in the use of public assets,” Le Roux explains.

He further observes that the act empowers the National Treasury to develop the overall macroeconomic and financial framework, coordinate financial relations and the budget preparation process, manage the implementation of a budget, and promote and enforce revenue, asset and liability management. The act empowers the National Treasury to issue regulations and instructions that are binding on other state institutions, including the DoD. It also requires the appointment and specifies the composition of audit committees. It defines financial misconduct and deals with the procedure for disciplining public officials guilty of such an offence, providing for criminal prosecution in extreme cases, Le Roux says. “The act confers responsibilities on accounting officers to report on a monthly and annual basis, including the submission of annual financial statements two months after the end of a financial year and to publish annual reports in the prescribed format, which includes reporting on output performance. It requires Parliament to vote by programme (the main division of government spending), rather than by department. This requires further information on outputs per programme and limits the powers of departmental accounting officers to move funds between programmes. Such movement is restricted to eight percent of the total allocation for a programme without the authorisation of the National Treasury.”

A necessary outcome of these reforms and new policies was the implementation of medium-term planning and budgeting. “Medium-term (three year) spending plans of national departments are prepared annually within the context of the government’s macroeconomic and financial framework as set out in the previous year’s budget. This framework, the medium-term expenditure framework (MTEF), sets the limits within which national departments have to compile their business and spending plans. The

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<sup>7</sup> Len le Roux, South Africa, **Chapter 10, \_\_\_?** Stockholm International Peace Research Institute, Stockholm, Sweden, 2005.

medium-term expenditure allocation (MTEA) is an indication of the expenditure that can be afforded within the MTEF and that will be voted for a department for the following three financial years. It also gives an indication of how expenditure is to be allocated within the department,” Le Roux informs.

“The introduction of the MTEF has brought greater transparency, certainty and stability to the budgetary process, and has strengthened the links between policy priorities and the government’s long-term (five years and more into the future) spending plans. It is intended to provide a tool with which to assess priorities and to confront any trade-offs that must be made between affordability and the constitutional requirement for equitable division of revenue between the spheres of government,” he explains. “The MTEA represents an important political choice. The budgetary process is therefore designed to empower government to make informed choices about spending priorities and to assess the trade-off between spending options. At the same time, the process aims to give national departments a degree of certainty about their future allocations, so that they can plan more securely on ways to deliver the maximum possible output at the lowest cost. In compiling their Budget Planning Submissions (also referred to as an estimate of expenditure), national departments are obliged to plan their programmes, objectives and activities within their MTEA, and policy proposals must always be measured in terms of what can be afforded. Changed policies, circumstances and priorities are to be accommodated within the MTEA.”

“Since the MTEAs are based on affordability, it is realised that there is a risk that objectives will not be reached on schedule or that service provision will be inadequate. To enable government to make informed choices about allocation of funds and to cover risks, departments are allowed to submit options to indicate how a change in the proposed allocation of funds may minimize or avoid risk to service provision. The options chosen by departments must be linked to the budget priorities and other policy considerations approved by Cabinet.

“Annually, the National Treasury issues guidelines to all departments for the preparation of their budgets for the next MTEF cycle. These guidelines detail the process, timescales and format that departments are to follow when preparing their budgets and include information on budget reform and best practice to enhance the management of public finances. These treasury instructions and guidelines drive departmental budgetary processes.

The budgetary process for FY2003/04 (1 April 2003–31 March 2004) is illustrated in Table 4.7 and is explained as follows:

- Prioritising: The Ministers’ Committee on the Budget (MinComBud), the Budget Council and the Cabinet gave consideration to policy priorities for the new MTEF period. This approach ensures political oversight by forcing the elected executive to manage those tensions that arise between competing policy priorities and financial realities.

- Preparation of new MTEF submissions: Departments reviewed their strategic plans for 2002–04 and prepared new MTEF submissions accordingly. A proper submission included the departmental accounting officer's covering letter, details of any reprioritization (within existing resources), policy options, departmental receipts and expenditure schedules.
- Macroeconomic and financial framework and division of revenue: A review of the macroeconomic and financial framework and the division of revenue took place in the National Treasury, the MinComBud, the Budget Council and the Budget Forum for final decision by the extended Cabinet, leading to the preparation of the medium-term budget policy statement.
- MTEA recommendation stage: During this first stage of the medium-term allocation process, discussions between departments and the Treasury took place in hearings of the Medium-Term Expenditure Committee (MTEC). These discussions were guided by the outcomes of the prioritisation stage, the review of the macroeconomic and financial framework, and the division of revenue, Le Roux's research showed.

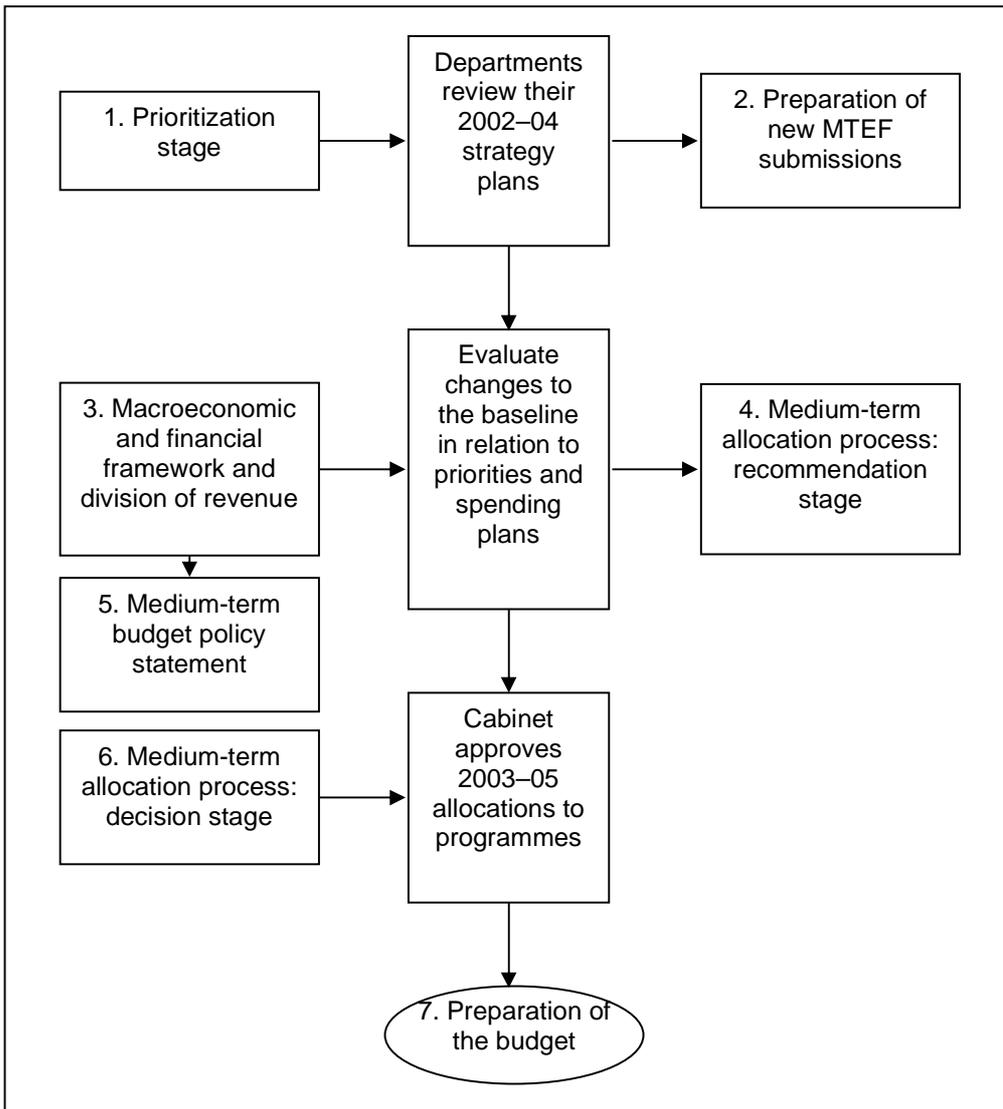


Table 4.7: The South African budgetary process for FY2003/04. Source: Le Roux

### What does the military budget cycle look like?

The DoD's annual strategic plan forms the basis of its budgetary process. In its final stages the plan is costed and passed on to the National Treasury who publishes it as the Defence Vote.

Since Le Roux not only thoroughly researched the system currently in use, but in his final years in uniform was intimately involved in establishing it, we again rely on his good offices to explain the process followed, using the DoD's strategic plan for FY2002/03–2004/05 as example. This defined the core objectives of the DOD for that period as the preparation of the SANDF to enable it to respond to contingencies; the command and control of SANDF elements during deployments; and administration and support.

Programme	2003/04		2004/05		2005/06	
	m. rand	\$ m.	m. rand	\$ m.	m. rand	\$ m.
Defence administration	660.3	82.8	688.5	86.3	723.3	90.7
Landward defence	3 188.4	399.8	3 300.7	413.9	3 548.0	444.9
Air defence	2 138.0	268.1	2 204.6	276.5	2 303.9	288.9
Maritime defence	1 050.9	131.8	1 084.1	135.9	1 091.6	136.9
Military Health Service	1 254.2	157.3	1 304.4	163.6	1 376.9	172.7
Defence intelligence	153.5	19.2	165.1	20.7	176.2	22.1
Joint support	2 039.2	255.7	2 089.1	262.0	2 203.5	276.3
Command and control	722.0	90.5	716.9	89.9	722.4	90.6
Special Defence Account	8 843.7	1 109.0	8 935.8	1 120.6	10 386.6	1 302.5
<b>Total</b>	<b>20 050.1</b>	<b>2 514.3</b>	<b>20 489.3</b>	<b>2 569.4</b>	<b>22 532.4</b>	<b>2 825.6</b>

Table 4.8: Estimated South African military expenditure by programme for the medium-term expenditure framework period of financial years 2003/04–2005/06. The dollar values were obtained from the rand values using a February 2003 intraday exchange rate of R1 = \$0.12540. Figures have been rounded; this may cause discrepancies in the totals. Source: National Treasury, Vote 22: Defence, Estimates of National Expenditure, 2003, [www.finance.gov.za/documents/budget/](http://www.finance.gov.za/documents/budget/), pp. 488–518; Le Roux.

The Defence Vote, through which the DOD pursued these objectives, provided for nine programmes:

- defence administration (‘To conduct the overall management of the Department by formulating policy, providing strategic direction and organising the department in terms of its force design and structure’),
- landward defence (the SA Army),
- air defence (the SA Air Force),
- maritime defence (the SA Navy),
- the Military Health Service,
- defence intelligence,
- joint support,
- command and control, and
- the Special Defence Account (‘for financing special defence activities and purchases’).

Expenditure item	2003/04		2004/05		2005/06	
	m. rand	\$ m.	m. rand	\$ m.	m. rand	\$ m.
Personnel	7 093.4	889.5	7 251.9	909.4	7 556.8	947.6
Administrative	576.2	72.3	618.5	77.6	627.3	78.7
Inventories	959.4	120.3	985.0	123.5	1 041.0	130.5
Equipment	407.8	51.1	435.7	54.6	489.9	61.4
Land and buildings	12.3	1.5	11.2	1.4	11.7	1.5
Professional and special services	1 915.1	240.2	2 003.9	251.3	2 161.6	271.1

Transfer payments	9 075.3	1 138.0	9 172.7	1 150.3	10 633.6	1 333.5
Miscellaneous	10.5	1.3	10.5	1.3	10.5	1.3
Total	20 050.1	2 514.3	20 489.3	2 569.4	22 532.4	2 825.6

Table 4.9: Estimated South African military expenditure by standard expenditure item for the medium-term expenditure framework period of financial years 2003/04-2005/06. The dollar values were obtained from the rand values using a February 2003 intraday exchange rate of R1 = \$0.12540. Figures have been rounded; this may cause discrepancies in the totals. Source: National Treasury, Vote 22: Defence, Estimates of National Expenditure, 2003, [www.finance.gov.za/documents/budget/](http://www.finance.gov.za/documents/budget/), pp. 488-518; Le Roux.

The Defence Vote provides detailed financial figures for all programmes as well as the required outputs, performance indicators and targets. To illustrate the process, the expenditure estimates for the MTEF period 2003/04–2005/06 for each programme are presented in table 4.8. More current tables are available at [www.info.gov.za](http://www.info.gov.za) and [www.finance.gov.za](http://www.finance.gov.za). Table 4.9 presents the estimates for the same period in terms of standard items of expenditure.

“The programme and item structures of the budget and the extensive amount of detail provided in the Defence Vote show that the South African DOD budget is both comprehensive and transparent,” Le Roux argues. “Nearly all expenditure on the military is reflected in the budget; the only exception is expenditure on rent and maintenance of state property used by the military, which is instead detailed in the budget of the Department of Public Works (DPW).” This is the result of a decision inherited from the previous dispensation that the DPW is custodian of all state property, including that owned or leased on behalf of the DoD.

The South African military is largely funded through the national budget. However, during recent years the SANDF has received foreign financial aid for the rescue work done in Mozambique during the floods of 2000 and 2001, the deployment of protection forces in Burundi, an AIDS awareness programme, the destruction of small arms, the retraining of soldiers for demobilization and peacekeeping exercises. Foreign aid has also been received in the form of direct donations of medical equipment and aircraft, DoD chief financial officer Jack Gründling told Le Roux in an interview in June 2002. Clear procedures for the receipt of such aid exist. Any offer of aid from a donor country must be made to the Secretary for Defence, who is the regarded as head of department and accounting officer in terms of the PFMA. Once the secretary has accepted such an offer in principle, an agreement is drafted and the National Treasury is consulted. Once the agreement is signed, the donor deposits the funds in the Reconstruction and Development Programme Fund in the South African Reserve Bank. The DoD requests the funds when required and deposits them in its Paymaster-General Account. The funds then appear in the Financial Management System, permitting the relevant agency to spend the funds for the purpose for which they were intended. Income and expenditure statements are prepared for all foreign aid received and are forwarded to the particular donor. Donations are also disclosed in annual financial statements and annual reports of the DOD as prescribed by the treasury.

The DOD has also benefited from other non-financial contributions from donors, such as the US International Military Education and Training (IMET) programme and the Ashridge courses on defence management given in the UK. The DOD is not charged for these courses and they do not appear in financial statements. South Africa has also been supporting United Nations (UN) peace-support operations since the late 1990s. For this, it has been partially reimbursed. Other departmental receipts include the sale of old and surplus equipment (other than major armaments managed through the Special Defence Account, as described below), the rental of state quarters to married personnel, and the board and lodging of single personnel. The DOD does not, however, retain this income, as it is paid over to the National Revenue Fund.

The DOD does not hold any contingency funds in its budget; instead a contingency fund is managed by the National Treasury, Le Roux advises. Should an unforeseen deployment arise, the SANDF can make representations for extra funds. “This money is transferred to the DOD budget at the end of the financial year, but only if the DOD has been unable to fund other approved activities as a consequence of the extra expense” – bringing us to the exact concern raised by Heitman above.

The SANDF has been deployed in support of the South African Police Service for the maintenance of internal law and order for some years. Such deployments consist principally of infantry companies on border patrols and in direct support of other police operations; air support in the form of surveillance and tactical transport by light aircraft and helicopters; and maritime anti-crime coastal patrols. Although such support to the police uses forces from the SANDF, the marginal cost is around 2 per cent of the annual military budget.<sup>8</sup> This is the principal element of military expenditure that is not for military purposes. Examples of smaller and less regular military expenditure for non-military purposes are support to civil authorities in emergency situations, the maintenance of essential services and search-and-rescue operations. Where possible, such expenses are reimbursed to the DOD, but often they are funded from the military budget.

### The budgetary process

The military budgetary process is governed by DOD Instruction FIN/00011/2000, Budgeting policy within the Department of Defence, jointly promulgated by the secretary for defence and the chief of the SANDF in 2000. “This new policy is based on the 1999 Public Finance Management Act, treasury regulations and treasury guidelines on preparing budget submissions,” Le Roux says. “The DOD budgeting policy aims to ensure that the procedures, principles and techniques prescribed by government are properly followed and applied within the department in order to ensure an effective, efficient, transparent and affordable military budget.” The principles underpinning this policy strive to ensure that:

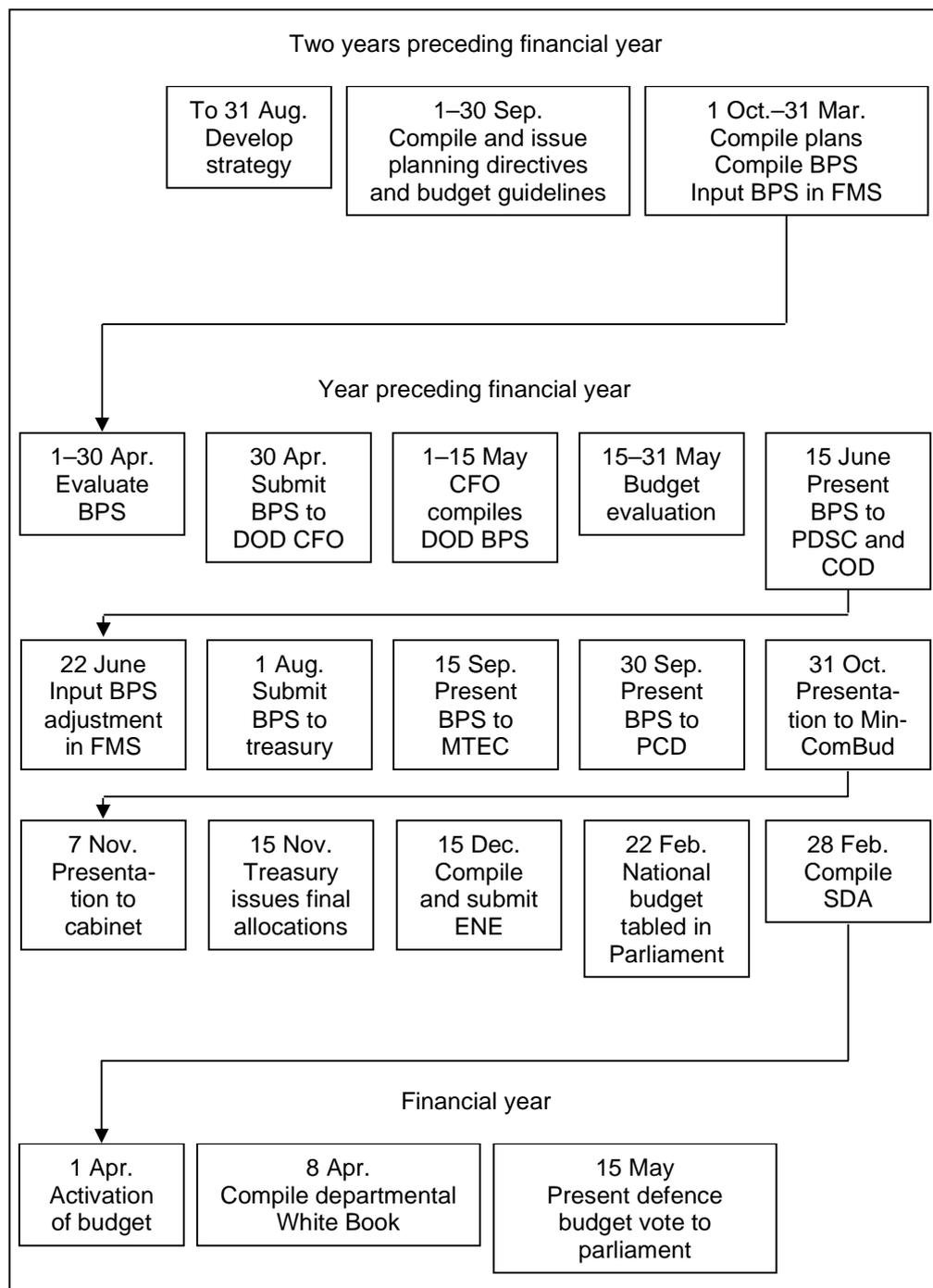
- the budget is based on a strategic plan which specifies objectives, activities, outputs and measurable performance indicators for each objective;
- the budget is based on output rather than input;

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<sup>8</sup> Rear Admiral Rolf Hauter, chief director of strategy and planning, interview with Le Roux, SANDF Headquarters, DOD, Pretoria, June 18, 2002.

- the budget is based on the activities to be executed;
- the budget is based on the costing and prioritization of activities that need to be executed; the budget is within the bounds of affordability; and
- there is a consistent link between the budget, the strategic plan, the output to be delivered and the outcome to be achieved.

The different phases in the process which transforms the departmental strategy into an approved and implemented military budget are discussed below. Table 4.10 gives a schematic representation of this process.



**Table 4.10:** The South African Department of Defence budgetary process for a financial year (1 April–31 March) BPS = Budget Planning Submissions; CFO = Chief financial officer; COD = Council on Defence; DOD = Department of Defence; ENE = Estimate of National Expenditure; FMS = Financial Management System; MinComBud = Ministers’ Committee on the Budget; MTEC = Medium-Term Expenditure Committee; PCD = (National Assembly’s) Portfolio Committee on Defence; PDSC = Plenary Defence Staff Council; SDA = Spec. Def. Account.

### *The strategic phase*

The strategic phase is a continuous process in which departmental and military policies and strategies are developed, formalized and approved by the Military Command Council, chaired by the chief of the SANDF, and the Plenary Defence Staff Council (PDSC), chaired by the Secretary for Defence. During this phase future opportunities and threats are identified and evaluated, and internal strengths and weaknesses are assessed in order to define defence strategies and requirements as well as implementation plans. To ensure that planning is realistic, account is taken of the MTEA. "One of the major results of this phase is a clear indication of the future size and shape of the DOD, as this defines force development and force preparation activities," Le Roux opines. "During this phase the strategic profile of the department (its vision, mission and main functions), departmental policy and strategy, defence objectives and outputs, and the service delivery improvement programme for the next three years are formulated and approved by the Minister of Defence. This is published as the DOD strategic plan, which is printed and distributed internally and externally."

The annual DOD planning and budgetary process commences in September of every year with the distribution of planning directives and budget guidelines. The details are refined when the treasury guidelines on the preparing of budget submissions are issued in May of the following year. The process started in September 2002 therefore developed the plan, programmes and budget for MTEF period 2004/05–2006/07; that is, for the period that commenced 19 months in the then future. The process continues with a planning conference at which the minister and the Secretary for Defence provide guidelines and identify priorities. The Joint Operations Division briefs the budget writers on anticipated requirements for joint force preparation and employment within the period. After this conference, planning directives and budgeting guidelines are compiled and issued to the top-level budget holders (TLBHs). These TLBHs are the chiefs of the four services and certain chiefs of staff, such as the chiefs of the Policy and Planning, Joint Operations, Joint Support, Defence Intelligence, and Acquisition & Procurement. TLBHs and their subordinate budget holders undertake planning for about six months. Budget holders at all organizational levels compile their respective operational and business plans and submit these to their next higher authority for evaluation and approval.

### *The formulation phase*

During the formulation phase (which overlaps with the strategic phase) all budget holders compile budget planning submissions (BPS) according to the prescribed format. All activities (outputs) and items (inputs) which can be afforded are costed and balanced according to the chosen strategy, policies, priorities, guidelines and the MTEA. The risks arising from activities that cannot be executed owing to an insufficient MTEA are clearly indicated. The BPS are included in the Financial Management System by the end of March of the following year. Each budget manager coordinates the opening and closing of the applicable budget cycle on the Financial Management System for his or her area of responsibility. During April TLBHs evaluate the budget planning submissions of their lower-level budget holders and approve the submissions, adapt them or refer them back for revision. Top-level budget holders decide on the formats and dates of evaluations

within their own areas of responsibility. At the end of April TLBHs submit their consolidated BPS to the chief financial officer of the DoD according to a prescribed format.

The Chief Financial Officer compiles a departmental BPS for the DoD based on the submissions of the TLBHs, the information captured on the Financial Management System and the operational plans of the TLBH. This is normally completed by the middle of May. From the middle to the end of May the submissions of the TLBHs are evaluated by the Departmental Planning and Budgeting Evaluation Committee (DPBEC). This committee is co-chaired by the Chief Financial Officer and the Chief of Corporate Staff and consists of members from the policy and planning, strategy, budgeting, joint operations, personnel planning and logistical planning environments. The chairs may co-opt others to serve on the DPBEC for a specific purpose or period from the National Treasury or the National Assembly's Portfolio Committee on Defence. Plans are interrogated, risks determined and options developed. Based on its evaluation, the committee prepares recommendations for the approval or adjustment of the BPS.

The next phase in the process is the departmental approval phase, which involves the formal approval of the draft budget by the Secretary for Defence and the minister. This phase runs from May to the end of June. The evaluation of the submissions and the recommendations on the budget by the DPBEC are presented to the PDSC and the Council on Defence, chaired by the Minister of Defence. This presentation includes the recommended allocation to each TLBH, risks that need to be managed because of insufficient funds, unfunded mandates and any other recommendations that the committee feels it needs to make. Based on the recommendations from the evaluation committee and the instructions of the PDSC and the Council on Defence, final adjustments are made to the Budget Planning Submission on the Financial Management System and the system is closed.

Finally, the DoD presents its submission to the National Treasury's defence programme officer in the prescribed format by the beginning of August. The prescribed format includes a comparison of expenditure during the previous three financial years, projected expenditure during the current financial year and the estimates for the following three financial years for each programme and sub-programme.

The last stage within the executive arm of government is governmental approval, which is an interdepartmental process of revision followed by formal approval of the budget by Cabinet. During September the accounting officer (i.e., the Secretary for Defence) and the Chief Financial Officer present the DoD BPS to the MTEF Committee for detailed discussion. The submission is also presented to the Portfolio Committee on Defence for approval and to give it the opportunity to formulate resolutions for presentation to MinComBud or the Cabinet. By the end of October the recommendations of the MTEC are presented to MinComBud, which then formulates its own recommendations and submits them to the Cabinet during November. The Cabinet then approves the MTEA. Final adjustments are then made on the Financial Management System, based on the approved main programmes, sub-programmes and main items. These data are input in the

form in which they will be presented to Parliament and are then submitted to the National Treasury.

#### *The approval phase*

After approval by the Cabinet, the Minister of Finance tables the national budget before the National Assembly in February. Cabinet ministers also present their respective budget votes for approval by Parliament. Parliament, in addition to approving the respective budgets, also has the opportunity to compare the budget objectives with the policies and priorities of government. The Portfolio Committee on Defence undertakes parliamentary oversight of the military budget. The portfolio committee is currently the only parliamentary committee on defence and is responsible for:

- evaluating and confirming the programmes and sub-programmes of the department; evaluating and confirming the policy choices and priorities of the department;
- evaluating the department's chapter in the estimate of national expenditure;
- confirming the explanatory memorandum of the department; and
- making resolutions on the military budget allocation for submission to MinComBud or the Cabinet.

Once Parliament has approved the budget, it is ready for implementation by the various ministries and departments.

#### *The implementation phase*

One of the first actions of the implementation phase is the compilation of the Special Defence Account for submission to the ministers of defence and finance for approval. On April 1 of each financial year the director of budgeting in conjunction with a representative of the State Information Technology Agency activates the budget as contained in the Financial Management System. The departmental estimate of expenditure, the departmental 'White Book', is then printed and issued to all TLBHs. Finally, the minister of defence presents the military budget vote to Parliament in May. The approved budget serves as a plan of action by which expenditure can be controlled.

Managing expenditure in order to deliver the planned and approved results is the responsibility of everyone, from unit commanders and commodity managers to programme managers, the Chief Financial Officer and the accounting officer. "In this process, the programme managers, the chief financial officer and the accounting officer have to exercise control and supervision in order to evaluate the effectiveness and efficiency with which objectives are being met. The DPBEC and the PDSC play important roles in the control of expenditure according to the plans. Internal auditing of the military budget and expenditure is undertaken by internal auditors who report to the inspector-general of the Defence Inspectorate, who in turn reports to the secretary for defence. In order to increase objectivity and impartiality, in March 2000 the secretary for defence appointed an independent audit committee, consisting mostly of people from outside the DOD, which is empowered to direct the work of the internal auditors," Le Roux observes.

The South African DOD makes a distinction between ‘procurement’ and ‘acquisition’ processes. The procurement process is the means by which commercial goods and services are obtained using the General Defence Account and involves contracting for a requirement on the basis of an existing commercial specification.<sup>9</sup> Procurement of goods and services is done through the State Tender Board and by delegation of duties from the board to departments. “This process is sufficiently transparent,” Le Roux says.

The acquisition process is the means by which major armaments are obtained using funds from the Special Defence Account, described more fully below. This process may involve requirement planning, operational research, technology acquisition, design and development, operational qualification, quality assurance, industrialization, production, commissioning, maintenance and disposal. “The budgetary process for armament acquisition, although subject to different authorization levels and bodies, is not an independent activity. It is executed within the same framework, process and timescales as the DoD operating budget. Budgeting for capital projects begins with force development planning that is controlled by the director of planning. The primary input for the budgeting cycle is the SANDF capital acquisition master plan.” The spending of money from the Special Defence Account is done according to a schedule (spending plan) recommended by the Secretary for Defence and approved on an annual basis by the ministers of defence and finance. These requirements must be in accordance with the DoD strategic plan and the military budget as voted in Parliament.

### *The Special Defence Account*

The largest programme in the military budget is the Special Defence Account. This was created by the 1974 Defence Special Account Act to cover costs incurred for any special defence activities approved by the ministers of defence and finance.<sup>10</sup> The programme is intended to provide for the acquisition of military equipment and strategic armaments, the maintenance of required military capabilities and the financing of sensitive military activities. The act recognizes that the DOD has certain responsibilities that need to be dealt with in a special way. The law is not unique: similar legislation exist for the police and intelligence services<sup>11</sup>. Parliament appropriates funds for the Special Defence Account during the debate on the Defence Vote on the recommendation of the ministers of defence and finance. An additional source of income for the account is proceeds from the sale of armaments which were purchased with funds from the account and are no longer required.

The Special Defence Account is divided into four sub-programmes: procurement services, strategic defence procurement, operating and intelligence-related. In FY 2003/04, 91 per cent of the funds in the Special Defence Account went to the procurement services and strategic defence procurement sub-programmes, which are for the procurement of

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<sup>9</sup> The General Defence Account is used for defraying expenditure needed for operating purposes limited to a single financial year. Flexibility in its use is provided by the ability to pre-commit 50% of current budget allocation to the 3 following financial years.

<sup>10</sup> Defence Special Account Act, 6/1974, S1.

<sup>11</sup> Auditor-General Act, 12/1995, S4.

military equipment over the long term.<sup>12</sup> The operating sub-programme covers the maintenance of equipment. No outputs or targets are indicated for the intelligence-related sub-programme, which amounts to about 0.6 per cent of the Special Defence Account or 0.3 per cent of the military budget. The second of these sub-programmes accounts for the Strategic Defence Procurement Package, which was approved by the South African Government in 1998 and initiated in 1999 after much publicity and debate. This package involves the acquisition of 3 submarines and 4 corvettes from Germany, 30 light utility helicopters from Italy, 28 fighter aircraft from Sweden and 24 fighter-trainer aircraft from the UK. These systems were acquired to replace obsolete SANDF equipment and they have all been provided for in the Defence Review. It also aims to increase industrial participation by South African companies in the military and other sectors. The total value of the package amounted to \$4.8 billion in 1999 (30.3 billion rand at the time), to be paid over a period of 12 years. The scale of this procurement programme means that it is overseen by a ministerial committee consisting of the ministers of defence, finance, and trade and industry. The ministerial committee in turn reports to the Cabinet.

#### *The auditing phase*

External auditing of the Department of Defence is done by the Auditor-General who reports to the National Assembly's Standing Committee on Public Accounts (SCOPA). Government auditing involves the investigation and evaluation of financial management practices, financial statements, performance and compliance with requirements by government and related institutions. The aim of an audit is to form an opinion on whether the institution under review has fairly presented its operations in the financial statements and whether it has complied with all relevant laws and regulations. The audit also investigates the control mechanisms of the institution in order to ensure that public funds and assets are safeguarded, accounting systems function properly and public funds are spent effectively.

#### **What has been spent by the present and previous governments on defence the last 17 years?**

Calendar Year	\$ m.	m. rand	as a % of GDP	as a % of govt spend
1990	4 177	10 982	3.8	
1991	3 528	10 699	3.2	
1992	3 105	10 724	2.9	
1993	2 827	10 713	2.5	
1994	2 992	12 352	2.6	
1995	2 662	11 942	2.2	
1996	2 314	11 143	1.8	
1997	2 128	11 131	1.6	
1998	1 917	10 716	1.5	
1999	1 816	10 678	1.3	

<sup>12</sup> Department of Defence, Annual Report 2003/2004, p. 173.

2000	2 120	13 128	1.5
2001	2 371	15 516	1.6
2002	2 538	18 138	1.6
2003	2 596	19 638	1.6
2004	2 645	20 169	
2005			
2006			
2007			

Table 4.11: Source: SIPRI military expenditure database. The figures compares favourably with the R43 billion road accidents cost the nation every year according to a figure released by the national Department of Transport in January 2007. A military commander that lost the about 14,000 lives annually taken on South Africa's roads can at the very least expect strong censure.

### **What are the strengths and weaknesses of the South African budget system?**

Le Roux discusses the system's strengths in some detail. He finds that the South African national and military budgetary processes are formalised and structured. "The major strengths of the military budgetary process are the legislative framework, which governs all national departments; the degree of political control and oversight; and the high degree of transparency. The formal departmental processes, structures and procedures are also positive characteristics of the process... The adherence to rules and the willingness of the political authorities to permit the system to function as designed ensures the institutionalization of the processes and, ultimately, the realization of policy goals through efficient application of allocated resources. The willingness of the executive to apply the necessary control mechanisms in order to check abuse is an important factor in the development of the process. The robust oversight of the process by the legislature is also a strength of the process. Cooperation between the government and the legislature through regular consultations in the budget formulation process ensures the early participation of Parliament in the budgetary process and thus facilitates scrutiny when a detailed budget is later submitted to Parliament. The subsequent parliamentary oversight is extensive, as the Portfolio Committee on Defence consists of capable people who are well informed about military issues in general and the military budget in particular. In spite of the fact that the majority of the committee members come from the ruling ANC, they still scrutinize the budget with the utmost seriousness and objectivity." Le Roux also finds a high level of transparency in legislative activities. "Parliamentary sittings are open to the public and, since the establishment of the new Parliament in 1994, a number of steps have been taken to make it more accessible. The aim has been to make the institution more accountable, as well as to motivate and facilitate public participation in the legislative processes. Two such steps were the establishment of an Internet site which encourages comments and feedback from the public and a parliamentary television channel. "There is substantial transparency in the South African DOD policy, planning and budgeting processes. This has been assured primarily by the clear constitutional commitment to transparency, by the national financial legislative framework and by the unequivocal role that was played by the parliamentary defence committees during the development of military policy after 1994. Transparency in military and financial

management is demonstrated by the manner in which the 1996 Defence Review and the accompanying White Paper on defence were developed and approved,” Le Roux adds. “The positive factors of political oversight, control measures and transparency as well as strict internal control mean that the military budget and expenditure data can be assessed as being valid and reliable.”

Tables 4.12 and 4.13 provide figures for budgeted and actual military expenditure for FY 2003/04 by programme and by standard expenditure item. “These tables indicate that, although there is some significant deviation from the budget, in particular under the ‘administrative’ expenditure item, deviation within the main programmes is negligible. This gives a good indication of the large degree to which military funds are in fact spent on the outputs and objectives approved in the budget vote,” Le Roux opines.

Programme	Revised allocation		Actual expenditure		Under- or overspend (%)
	m. rand	\$ m.	m. rand	\$ m.	
Defence administration	658.1	104.1	658.1	104.1	–
Landward defence	3 111.9	492.3	3 111.9	492.3	–
Air defence	2 151.2	340.3	2 151.2	340.3	–
Maritime defence	1 013.6	160.4	1 013.6	160.4	–
Military Health Service	1 337.6	211.6	1 337.6	211.6	–
Defence intelligence	134.3	21.3	132.9	21.0	<i>-1.05</i>
Joint support	2 105.9	333.2	2 091.6	330.9	<i>-0.68</i>
Command and control	1 246.4	197.2	1 288.1	203.8	<i>3.35</i>
Special Defence Account	8 015.8	1 268.1	8 015.8	1 268.1	–
Special functions	25.1	4.0	25.2	4.0	–
Total	19 800.0	3 132.4	19 826.0	3 136.5	<i>0.13</i>

Table 4.12: Budgeted and actual South African military expenditure by programme for financial year 2003/04. The dollar values were obtained from the rand values using the March 31, 2004, exchange rate of R1 = \$0.15820. Figures have been rounded; this may cause discrepancies in the totals. Source: Department of Defence, Annual Report 2003/2004, p. 155.

Expenditure item	Revised allocation		Actual expenditure		Under- or overspend (%)
	m. rand	\$ m.	m. rand	\$ m.	
Personnel	7 209.3	1 140.5	7 209.3	1 140.5	–
Administrative	764.3	120.9	804.6	127.3	<i>5.27</i>
Inventories	983.1	155.5	983.1	155.5	–
Equipment	413.9	65.5	413.9	65.5	–
Land and buildings	11.9	1.9	11.9	1.9	–
Professional and special services	2 112.5	334.2	2 098.6	332.0	<i>-0.66</i>
Transfer payments	8 277.4	1 309.5	8 277.0	1 309.4	<i>-0.00</i>
Miscellaneous	2.3	0.4	2.3	0.4	–
Special functions	25.1	4.0	25.1	4.0	–

<b>Total</b>	<b>19 800.0</b>	<b>3 132.4</b>	<b>19 826.0</b>	<b>3 136.5</b>	<b>0.13</b>
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Table 4.13: Budgeted and actual South African military expenditure by standard expenditure item for financial year 2003/04 *Notes:* The dollar values were obtained from the rand values using the 31 Mar. 2004 exchange rate of R1 = \$0.15820. Figures have been rounded; this may cause discrepancies in the totals.

*Source:* Department of Defence, *Annual Report 2003/2004* (Department of Defence: Pretoria, 2004), URL <<http://www.mil.za/Articles&Papers/Frame/Frame.htm>>, p. 156.

The system, however also has significant weaknesses, many of which undermine the successes Le Roux holds forth. These can be grouped, firstly, into chinks in the South African Constitutional system that harms the budget process and, secondly, faults in the DoD budget process itself.

It is generally not understood how executive-minded the South African system is. While the system adequately separates the powers of the legislature and executive, Cabinet is more than just the “executive committee of Parliament” it is supposed to be. For one thing, the President is not a MP. For another, while the government often conforms in form to legal prescriptions and Parliamentary practice, it seldom does so in substance. Briefings to Parliamentary portfolio committees are often paragons of blandness. Add to this the control parties have over their members and a real fear about the willingness of members of the legislature to oversee members of the executive, especially in the case of the ruling party. In the case of the ruling African National Congress, which enjoys a two-thirds majority in the National Assembly, the party president is also the Head of State and Government. As party president he and a handful of appointees decide who will be nominated on the party’s election lists, thereby effectively deciding who will be an MP. Underperformers, as much as overachievers, can find themselves dropped from the list or moved to a provincial legislature, or worse, as a reward. The party president also controls the party disciplinary mechanism. Constitutionally, any MP expelled by any party also loses his/her seat. Taken in combination, and adding that the current defence minister is also party chairman, it will take a brave MP to be a hero when it comes to oversight. As a result, Parliament is often supine in its core function. Le Roux concedes the point, saying: “Since any ANC legislator who bucks the party line may be expelled from the party, there is reason to suspect the extent of Parliament’s independence in matters that are of importance to both the executive and the party.”<sup>13</sup>

In addition, one must disagree with the assumption that MPs are well briefed on their portfolios. This is almost, without exception, not the case. Turnover is too high, meaning institutional knowledge is lost. This is particularly the case with those who helped formulate current policy as encapsulated in the Defence White Paper and Defence Review. Most MPs have not served in the military, or served years ago under different conditions. Even if they are familiar with one part of the SANDF, they may not be with the rest. This is not a uniquely South African problem. But unlike the US Congress, where representatives and senators have large staffs and large budgets, South African MPs mostly have to soldier on by themselves. If knowledge is power, the absence thereof

<sup>13</sup> RW Johnson, *South Africa: The First Man, The Last Nation*, Weidenfeld and Nicolson: London, 2004.

must often leave MPs, of all parties, befuddled while being bemused with clever PowerPoint presentations.

This executive contempt for the legislature co-incidentally surfaced again as this chapter was being written in September 2005. Around the middle of that month Safety and Security Minister Charles Nqakula announced he would no longer provide answers to Parliamentary questions that, in his belief, threatened the operations and security of the SA Police Service. "I am no longer going to provide answers that will impact negatively on our operational deployments of human and material resources, or with respect to any area of our operational strategy and tactics," he said in a written reply to a question posed by the Official Opposition.. The question - by Democratic Alliance (DA) safety and security spokesman Roy Jankielsohn - called on Nqakula to say whether former deputy president Jacob Zuma had received any VIP protection services since his removal from office, and for details of such service, News24, the Internet news provider reported<sup>14</sup>.

Jankielsohn said it was not the first time the minister had refused to answer parliamentary questions. "He has now refused to answer two further questions, one on the issue of VIP security for Mr Jacob Zuma, and another on the recent stand-off between the Scorpions and Mr Zuma's VIP protection services unit. There are a further 21 outstanding DA questions to the minister on the order paper, and there is every chance the minister will refuse to answer these questions as well." Nqakula's argument that he could not answer the questions because they were of an operational nature was ridiculous, given he had no problem previously in answering exactly the same questions for other provinces, the report said. "The minister's attitude appears to be part of a broader belief of the executive that parliament is simply a nuisance that they do not have to account to." Jankielsohn said he had written to the speaker of parliament asking her to intervene in the matter. "And I will now, as a matter of urgency, ask the chair of the portfolio committee on safety and security to ask the minister to brief the committee on where he believes parliamentary oversight begins and ends. "If these efforts fail, I will be forced to approach the minister directly," he said.

Another chink, not restricted to South Africa, is the phenomenon of political executives refusing to make decisions in the pursuit of keeping their options open. It is here where dishonesty creeps into the system. Politicians famously lie when their lips move and steal candy from babies, when they are not kissing them to gain mommy's vote. Without descending too much further into the cynical, this is indeed a problem in any political system and in the South African, ministers have been caught making terminological inexactitudes in their pronouncements. To this woe can be added that of politicians who do not want unpalatable news and spineless officials who ensure they get just that.

It is this type of sunshine governance that by 2005 allowed "some misalignment", in Le Roux's words, to arise between the approved force design and funds made available in the MTEF. "This leads to difficulties in prioritizing military activities and in long-term planning. This problem is being addressed by a strategy that is being debated by the

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<sup>14</sup> Richard Davies, Nqakula says no to cop queries, News24, [http://www.news24.com/News24/South\\_Africa/Politics/0,,2-7-12\\_1769207,00.html](http://www.news24.com/News24/South_Africa/Politics/0,,2-7-12_1769207,00.html)

Portfolio Committee on Defence and the Cabinet,” Le Roux said. Debate, of course, is a politician’s substitute for action. “The other major weakness is the extent of oversight of the Special Defence Account, as allegations of irregularities and corruption has dogged the Strategic Defence Procurement Package. First, in 2000 the auditor-general revealed that, because of hidden costs, the programme was going to cost much more than the amount approved by Parliament, which shows that the legislators did not consider the overall cost (including the likely effect of inflation) of the programme to the country.<sup>15</sup> Second, corruption charges have been levelled against high-ranking officials of the state involved in the negotiation of the arms deals. One official has been found guilty of accepting bribes.”<sup>16</sup> Schabir Shaik, the former self-styled financial advisor to axed Deputy President Jacob Zuma has also been convicted on fraud and corruption charges arising from his connection with a French arms firm between 1995 and 2002.<sup>17</sup> “However, a government investigation team, consisting of the auditor-general, the public protector and the national director of public prosecutions, looked into the allegations surrounding the Strategic Defence Procurement Package. The investigation team reported to Parliament in November 2001 that, although there had been irregularities and improprieties in the conduct of certain officials in government departments, they had found no evidence of improper or unlawful conduct by the government itself.<sup>18</sup>

Le Roux suggests four ways the military budgetary process can be improved:

- The South African DOD, in conjunction with the Portfolio Committee on Defence, should revisit the assumptions on which the force design described in the Defence Review is based. The main assumptions that need to be reconsidered are the internal role of the SANDF, the future role of the SANDF in peace missions and the sustainable level of the military budget. This will assist in aligning military planning and the MTEF.
- Expenditure on the rent and maintenance of state property used by the military, but currently appearing in the budget of the Department of Public Works, should appear in the military budget. This would ensure the full visibility of military expenditure and the full costing of all military activities.
- The process for reimbursing the DOD for non-military expenditure, such as support for the South African Police Service in maintaining internal law and order, should be streamlined in order to ensure that these expenses are clearly identifiable.

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<sup>15</sup> Leon Engelbrecht, South African MPs left cold by arms deal, Defence Systems Daily, Oct 16, 2000, [www.defence-data.com](http://www.defence-data.com) or [www.armsdeal-vpo.co.za/articles00/mps\\_left\\_cold.html](http://www.armsdeal-vpo.co.za/articles00/mps_left_cold.html).

<sup>16</sup> Tony Yengeni, chairman of the parliamentary defence committee during the negotiation of the Strategic Defence Procurement Package, was sentenced to four years imprisonment in May 2003 in a plea-bargain for receiving a bribe—a substantial discount on a luxury Mercedes-Benz car—from one of the companies involved. At the time of writing he was still awaiting an appeal hearing and had yet to serve a day of that sentence.

<sup>17</sup> Shaik has also taken his conviction and sentence on appeal. At the time of the arms deal negotiations his brother, Shamin, aka Chippy, was Chief Director Acquisitions and Procurement within the defence secretariat. Judge Hilary Squires found it likely that the brothers exchanged confidential information on the negotiations.

<sup>18</sup> Selby Baqwa, Shauket A Fakie and Bulelani T Ngcuka, Joint investigation report into the Strategic Defence Procurement Packages, Cape Town, Nov 15, 2001, [www.info.gov.za/projects/procurement](http://www.info.gov.za/projects/procurement) and Leon Engelbrecht, Arms report clears South African government, Defence Systems Daily, Sep 16, 2001, [www.defence-data.com](http://www.defence-data.com), and [www.armsdeal-vpo.co.za/articles02/clear\\_government.html](http://www.armsdeal-vpo.co.za/articles02/clear_government.html)

- The DOD should continue to develop its relationship with civil society through direct interaction and develop its Internet site in order to further enhance transparency and increase public understanding of the role of the military.