

## ANNEXURE A

### LIST OF ABBREVIATIONS/ TERMINOLOGY USED

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\$	Dollars
AAC	Armaments Acquisition Council
AACB	Armament Acquisition Control Board
AASB	Armaments Acquisition Steering Board
ABSA	ABSA Treasury
ADS	African Defence Systems
AFPC	Air Force Project Committee
AFT	Advanced Fighter Trainer
A-G	Auditor-General
Agusta	Agusta Un'Azienda Finmeccanica S.p.A
ALFA	Advanced Light Fighter Aircraft
AoS	Arms of Service
AP	Acquisition Plan
Arm Scor	Armaments Corporation of South Africa Ltd
AS	Acquisition Study
Bae	British Aerospace
Bell	Bell Helicopter Textron
BV	Best value
C <sup>2</sup> I <sup>2</sup>	C <sup>2</sup> I <sup>2</sup> Systems (Pty) Ltd
CACQ	Chief of Acquisitions
CAF	Chief of the Air Force
CDRE	Commodore
CEO	Chief Executive Officer
CFE	Client Furnished Equipment
CPP	Chief of Policy and Planning
COD	Council of Defence
CPT	Client project team
DAPD	Department Acquisition and Procurement Division
DASA	Daimler Benz Aerospace
DCC	Defence Command Council
DIP	Defence Industrial Participation
DNA	Department Naval Acquisitions
DOC	Direct Operating Cost
DoD	Department of Defence
DoF	Department of Finance
DPE	Department of Public Enterprises
DSO	Directorate Special Operations of the National Prosecuting Authority
DTI	Department of Trade and Industry
EBF	Economic Benefit Factor
EC	Eurocopter
ECA Premium	Export Credit Agencies
ESACC	European South African Corvette Consortium
Fin. Cost	Finance Cost
FDSC	Force Design Steering Committee
FMF	Future Medium Fighter
FURS	Functional User Requirement Statement
GEL	Grinaker Electronics Limited

# Strategic Defence Packages

## Joint Report



GFC	German Frigate Consortium
GM	General Manager
GSC	German Submarine Consortium
HPCB	Helicopter Programme Control Board
IA	Intergovernmental Agreement
IFR	Instrument Flight Rules
ILS	Integrated Logistic Support
ILS	Integrated Logistic Statement
ILSM	Integrated Logistics Support Management
IMS	Information Management System
IONT	International Offers Negotiating Team
IP	Industrial Participation
IPCC	Industrial Participation Control Committee
IRR	Internal Rate of Return
IV	Industrial Value
JV	Joint Venture
LCC	Life Cycle Costs
LCCI	Life Cycle Cost Index
LE	Logistics engineering
LIP	Local Industrial Participation
LIFT	Lead in Fighter Trainer
LUH	Light Utility Helicopter
LURS	Logistic User Requirement Statement
MCC	Mediocredito Centrale S.p.A
MCC	Military Command Council
MFOM	Military Figure of Merit
MoD	Ministry of Defence
MOU	Memorandum of understanding
MV	Military Value
MVI	Military Value Index
NDSS	Navigation Distribution Sub-System
NIP	Non-Defence Industrial Participation
NIP	National Industrial Participation
NPV	Net Present Value
OAG	Office of the Auditor-General
OEI	Operational Effectiveness Index
OEM	Original Equipment Manufacturer
PB	Price Breakdown
PCB	Project Control Board
PDI	Previously Disadvantaged Individual
POP W	Project Officer Project Wills
PP	Public Protector
PRAF	Proposal Risk Assessment Factor
PRI	Programme Requirements Index
Prog Cost	Programme Cost
PSR	Project Study Report
R	Rands
R Adm	Rear Admiral
RAM	RAM engineering
RDI	Reutech Defence Industries
RFFO	Request for final offer

# Strategic Defence Packages

## Joint Report



RFI	Request for information
RFO	Request for offer
RFP	Request for proposal
RI	Republic of Italy
RM	Rand Millions
RMP	Risk Management Plan
RSA	Republic of South Africa
SA	South Africa
SAAF	South African Air Force
SAN	South African Navy
SANDF	South African National Defence Force
SCOPA	Standing Committee on Public Accounts
SDP	Strategic Defence Packages
SMME	Small medium and micro enterprises
SMS	System Management System
SOC	Statement of compliance
SOFCOM	Strategic Offers Committee
SPA	Strategic Partnership Agreements
SR	Staff Requirement
SSI	System Supportability Index
SSO	Senior Superintendent Officer
ST	Staff Target
T	Technical
TCG	Tsiki Cohen & Gmeiner
TFI	Technical Functionality Index
TM	Technical manuals, engineering drawings & other data
TOR	Terms of Reference
Tpy	Tons per year
UCC	Ukhozi Control Council
UK	United Kingdom
URS	User Requirement Statement
US	United States
US\$	United States Dollar
US\$m	United States Dollar Millions
USD	US Dollar
USD	United States Dollar
V ADM	Vice Admiral
Wf	Weight factor
ZAR	South African Rand

## TERMINOLOGY/DEFINITIONS

Due Process: means to apply internationally recognised procedures and practices in gathering factual information, studying, analysing and interpreting the factual information before arriving at a factual finding situation. The factual findings are then confirmed with the relevant and affected role players offering them the opportunity to make inputs/comment on the factual correctness of the report before the report is finalised and tabled in Parliament.

### 1. STAFF TARGET

1.1 The Staff Target is defined in the Acquisition Glossary as,

*"A short summary of the operational requirements with particular reference to the function of the equipment, together with an indication of the shortcomings of the existing equipment which is to be ruled out by the new requirement."*

#### *Clarification*

*A staff target is the predecessor of the staff requirement.*

*A staff target indicates broadly what is envisaged."*

1.2 The Staff Target is essentially a needs-assessment of the equipment required (in this instance by the air force). It is a formal document in which the technical requirements are determined according to the following categories:

- Desired capability
- Role requirement
- Training and deployment
- Shortcomings of the current system

- Required quantities
- Finances
- Support policy
- Infrastructure
- Manpower requirements
- Design requirements
- Project administration
- Operations
- Approval

## 2. STAFF REQUIREMENT

2.1 The Staff Requirement is defined in the Acquisition Glossary as:

*"A detailed description of the user requirements of an envisaged equipment/weapons system as proposed in the staff objective.*

*Clarification: The staff requirement includes the user requirement statement (URS)"*

## 3. VALUE SYSTEM

3.1 A value system is defined in the Acquisition Glossary as,

*"A collection of interdependent elements, including goals, limitations, evaluation factors and criteria for decisionmaking, which provides a basis for rational decisionmaking.*

*Clarification: The basic elements of decision-making are prediction and value determination. It is always essential to determine the (relative) value of a certain goal, solution or alternative. In order to acknowledge and consider these decision alternatives, goals and a criterion for decision-making (generally multi-dimensional) are developed, against which alternatives can be measured."*

#### 4. PROJECT STUDY REPORT

4.1 The project study report is defined in the Acquisition Glossary as,

*“A document that concludes and records the concept phase of an acquisition project and constitutes the beginning of the definition phase of the product system level.*

##### *Clarification*

*The project study report is basically a summary of the results of the project study as compiled by Armscor. The report motivates the manufacture/buy decision by means of the advantages and disadvantages of all options that were considered against the requirements stated in the confirmed requirements as contained in the staff target. On the basis of this evaluation, the choice of preferred options is motivated.”*

#### 5. LIFE CYCLE COSTS

5.1 The costs of a weapon system, which entail all direct marginal relevant costs to the user of the entire system, as stipulated in the relevant system specification in its intended environment, during its entire planned life up to and including the phasing out of the system.

*Clarification: The LCCs of weapon systems are determined by means of the weapon system's agreed life and mission profile on which the user's statement of requirements is based, without the cost of warfare outside the agreed life profile being taken into account.*

5.2 Direct costs are those costs directly traceable to the system, i.e. excluding overhead costs, which, without the system, would have existed in any case.

- 5.3 Marginal costs are costs involved in one additional unit of the system, *viz.*
- (a) Fixed costs, i.e. costs, including development costs, that have to be incurred before the first unit can be manufactured, and
  - (b) Variable costs i.e. the additional costs of subsequent manufactured units.
  - (c) The life profile of a weapon system describes the use of the system and deals with the usable life of the system, i.e. from commissioning onwards but prior to phasing out.
  - (d) The life cycle of a system is the entire life course of a system, from acquisition up to and including phasing out.
- 5.4 The two elements added in the equation are initial unit acquisition cost and direct operating cost (DOC) over 15 years. The LCCI is the LCC normalised so that the lowest cost is equal to one.

## 6. INITIAL ACQUISITION COST

The sum total of the quoted prices for the LUH system acquisition elements plus the sum total of the quoted prices for the LUH role equipment cost options gave the initial acquisition cost for each proposed system. If an item was not quoted, the LCC was adjusted by using the highest figure for that particular item in the other two proposals, plus ten per cent.

## 7. OPERATING COST

The only element of operating cost that could be used with success for comparison was the direct operating cost (DOC) per flight hour. The DOC is a standard measure and includes fuel, lubricants and all maintenance. The total

DOC over 15 years would be higher if 20 versus a discounted cash flow multiplied the annual DOC. However, it was believed that although the LCC was overstated, it was the better approach.

## 8. PROCUREMENT COST

The total cost of the procurement comprises a number of elements including the tender (contract) price, statutory and freight costs, project management costs, ECA premium and escalation.

## 9. PROGRAMME COST

According to a special meeting relating to value determination of the strategic programmes held on 10 June 1998, programme cost was defined as follows:

- 9.1 For purposes of determining the financing cost index for the top level value system model, programme costs shall include all costs, i.e. quoted costs, statutory costs, contingencies, freight, insurance, clearing costs, and exclude programme management costs.
- 9.2 The final programme cost indicated per programme shall be calculated as above, but will include programme management costs.
- 9.3 Programme cost indicated shall not include life-cycle costs (helicopter programmes to be handled as a special case).

## 10. FINANCING COSTS

The value of the total financing costs payable over the financing period, i.e. interest, management fees, export credit fees, etc. expressed in million US\$.

### 11. CASH FLOW

Total programme cost and financing cost.

### 12. FINANCING COST %

Financing cost expressed as a percentage of programme cost.

### 13. NPV

Net present value of the discounted cash flows.

### 14. IRR

The internal rate of return calculates the expected cost of capital. Drawdowns requested by contractors are seen as positive inflows, while all payments due under the financing scheme are seen as outflows.