THE BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS: 2013/14 AND 2014/15 FIRST QUARTER PERFORMANCE OF THE DEPARTMENT OF DEFENCE & ENTITIES, AND DEPARTMENT OF MILITARY VETERANS, DATED 29 OCTOBER 2014

1. INTRODUCTION

1.1 The Money Bills Amendment Procedure and Related Matters Act (2009) provides for, amongst others, a parliamentary procedure to amend Money Bills. This procedure grants parliamentary committees greater opportunity to influence the allocation of funds to the departments they oversee. Section 5 compels the National Assembly, through its committees to submit annual Budgetary Review and Recommendation (BRR) reports on the financial performance of departments accountable to them. The BRR report must be informed by a Committee's interrogation of, amongst others, national departments' estimates of national expenditure, strategic priorities and measurable objectives, National Treasury-published expenditure reports, the relevant annual reports and financial statements, as well as observations made during all other oversight activities.

1.2 Section 200 of the Constitution (1996) defines the mandate of the South African National Defence Force (SANDF), while the civilian control over the SANDF is confirmed in Section 204, through the establishment of the Department of Defence's (DOD) a civilian secretariat. This mandate is to "*defend and protect the Republic, its territorial integrity and its people in accordance with the Constitution and the principles of international law regulating the use of force*". In line with this mandate the DOD provides, manages, prepares and employs defence capabilities corresponding with the needs of South Africa. The Armaments Corporation of South Africa (Armscor) and the Castle Control Board (CCB) report to the Department of Defence, in line with Schedule 2 and Schedule 3 of the Public Finance Management Act (No.1 of 1999), governing public entities. It is important to note that while Armscor receives funding from transfer payments, the CCB generates its own revenue

1.3 As per the Military Veterans Act (No 18 – 2011), Department of Military Veterans (DMV) must "*oversee and manage the implementation of Government's framework and programme on military veterans*." In line with these responsibilities, the DMV ought to set national policy standards for the provision of benefits and support services to military veterans and their dependents and to ensure that ultimately, assisting military veterans in living a quality lives.

1.4 The Portfolio Committee on Defence and Military Veterans supports the DOD, DMV, Armscor and the Castle Control Board fulfilling their mandates through the monitoring of the implementation of legislation and adherence to policies, such as the Defence Act (No. 42 of 2002), the White Paper on Defence (1996), the Defence Review (1998), as well as the Military Veterans Act (2011). Additionally, it must scrutinise legislation which supports the mission statement of Government; their budget and functioning; as well as the deployment of the South African National Defence Force (SANDF).

1.5 The Committee made use of the following information, in preparing to report on the DOD, DMV, Armscor and Castle Control Board's financial and service delivery performance: previous reports and recommendations relevant to their service delivery and financial performance, the 2013/14 Annual Reports and Financial Statements, National Treasury-published expenditure reports, as well as documents produced by its content and research support team. The committee also made use of the previous Portfolio Committee on Defence and Military Veterans' Legacy Report, that serves as a useful orientation documents. Our interactions on the 2014/15 budgets and annual performance plans proved equally useful, particularly at the time when the Committee is still acquainting itself with the defence portfolio.

PART A: DEPARTMENT OF DEFENCE

1. OVERVIEW OF EXPENDITURE AND FINANCIAL PERFORMANCE

The South African National Defence Force (SANDF) has, during the past five financial years, become increasingly involved in continental peace support operations, and domestically, assumed responsibility for securing South Africa's

landline borders. As a result, the Landward Defence, Air Defence, and General Support programmes have since 2010/11 consumed the largest share of the defence allocations; while Maritime Defence, Force Employment, and Landward Defence programmes' allocations have significantly increased.

1.1 Financial performance for the 2013/14 financial year

1.1.1 For the period under review, the Department received a total budget allocation of R40.24 billion. This allocation was later adjusted by R414. 841 million mainly due to unforeseeable and unavoidable expenses that included the SANDF's deployment in the Democratic Republic of the Congo (DRC) as part of the United Nation's Force Intervention Brigade.

1.1.2 While Landward Defence (34, 3 per cent), Air Defence (15.53 per cent) and General Support (12.04 per cent) continue to consume the largest share of the total budgetary allocation, the Department still spends the largest portion of its budget (51.85 per cent) on compensation of employees and transfer and subsidies (18.28 per cent). This means that only 29.87 percent of the Defence budget is utilised for operational expenses, mainly for property payments (R2.96 billion), contractors (R2.3 billion) and computer services (R889 million).

1.1.3 Significant shifting of funds between programmes (virement) were also approved for the period under review: R 245,116 million was reallocated from the General Support programme mainly for the compensation of employee – R52 million was allocated to the Air Defence programme; R50 million was allocated to the Maritime Defence programme; and R143, 112 million to the Military Health Support programme. Other approved virements included R 18, 457 million and R 85 million increases in the transfer payment to Armscor, to respectively fund the Institute of Maritime Technology and to fund critical shortfalls within the Armscor Dockyard. In order to pay for municipal services and leases, R68,196 million was transferred from the General Support programme to the Administration Programme.

1.1.4 Compared to the R9.5 million fruitless and wasteful expenditure reported for the 2012/13 financial year, this figure has dramatically increased in 2013/14, to R307,497

million. This staggering increase was reportedly due to a R303 million penalty incurred in the cancellation of a certain contract. Additional expenditure was also recorded for interest charged (R 141 000), 'state funds utilised for private use' (R24 000) forfeited funds (R21 000), storage charges (R13 000) and 'other cases' (R10 000).

1.1.5 Irregular expenditure for the 2013/13 financial year included R 1 073 billion for SANDF members' remuneration which required the Minister's authority, and R210.836 million due to non-compliance to PPPFA for which the Department has still to receive a National Treasury exemption.

1.1.6 The Department reports significant underspending per programme that amounted to R210.663 million and is associated with the procurement of goods and services. The Force Employment programme underspent by R 173, 143 million, which is attributed to an underspending in goods and services, payment for capital assets and transfer payments. Underspending in the Maritime Defence programme is recorded at R26 184 million: spending in the goods and services sub-programme was delayed owing to challenges related to the delivery of spares and component parts required for the repair and maintenance ships and submarines. Military Health Support also underspent due to challenges experienced with the refurbishment and upgrade of (SAMIL) ambulances.

1.1.7 An analysis of expenditure per quarter reveals higher than expected spending patters: spending in the first quarter unusually peaked: R 14, 848 million was paid for financial assets – an amount that was not budgeted for. Between July to August exceeded its projected expenditure (and budget) spending R 120,3 million (and not R115 million) on buildings and other structures, R1.24 million (and not R163 million) on biological assets. A claim against the state not reported to National Treasury meant that between September and December 2013, the Department recorded higher expenditure (R299 million) on financial assets, while underspending on air defence programme.

2. OVERVIEW OF PROGRAMME PERFORMANCE

2.1 Programme 1: Administration

This programme comprises 20 sub-programmes that include policy and planning, financial services, acquisition services, human resource support services, defence international affairs, legal services, inspection services, religious services, Defence Reserves Direction, and Defence Foreign Relations. The purpose of the programme is to develop policy, and manage and administer the Department.

While this programme spent its entire R4.511 million allocation, it had only achieved 70 per cent of its targets: 88 targets were set for the period under review, of which 15 were overachieved, 47 achieved, and 26 under achieved. Performance information contained in tabled documents are inconsistent: in 2012/13 a total number of 106 targets had been reported, while in 2013 only 88 targets were reported on. The Department ought to notify Parliament once information contained in tabled documents are amended or changed.

2.2 Programme 2: Force employment

This programme provides and employs defence capabilities, including an operational capability in order to successfully conduct all operations and joint, interdepartmental and multinational military exercises.

The Department had set 16 targets for this programme: eight was achieved, while six was not achieved. Performance on two targets relating to force design and structure is not known owing to it being classified. Targets not achieved relates to the non-execution of a number of joint and international and multi-national exercises. Despite recording low spending on the Defence capability management (41.7 per cent) and Support to the people (53.0 per cent) sub-programmes, the programme had, by the end of the quarter (December 2013) spent 95.03 per cent (R3.346 billion) of its final allocation.

2.3 Programme 3: Landward Defence

The programme provides prepared and supported landward defence capabilities for the defence and protection of South Africa.

Significant achievements included the internal and external employments as well as the successful international deployment of the reserve forces. Consistent spending throughout the financial year resulted in the programme spending 100 per cent of its budget by the end of the year. In terms of performance targets, a total of four targets were set for this programme of which one was achieved and three were classified.

2.4 Programme 4: Air Defence

The air defence programme provides prepared and supported air defence capabilities for the defence and protection of the Republic of South Africa: it provides four helicopter squadrons, three medium transport squadron, one combat squadron, and a 24 hour air command and control capability.

Spending on this programme was generally slow throughout the period under review. By the end of the third quarter, only 67.8 per cent (R3.907 billion) of the adjusted budget had been spent. The Command Post, Helicopter Capability and Strategic Direction sub-programmes recorded the slowest spending compared to other sub-programmes. The figures stood at 57.1 per cent, 40.2 per cent and 46.2 per cent, respectively. In terms of performance targets, a total of only four targets were set, of which three were classified and one was underachieved. These targets were in line with those presented as part of the Annual Performance Plan. As with the Administration programme, it is noted that the number of set targets for this programme is significantly less than what was provided in the previous financial year and contained in the 2012/13 Annual Report.

2.5 Programme 5: Maritime Defence

The programme provides prepared and supported maritime defence capabilities for the defence and protection of South Africa.

As was the case with the Air Defence Programme, slow spending was also recorded for the Maritime Defence Programme throughout the year. By the end of the third quarter, for example, only 67.7 per cent (R2.137 billion) of the adjusted budget was spent. In terms of performance targets, only four targets were set of which three were classified and one was underachieved. These targets were in line with those presented as part of the APP. The number of set targets for this programme had also significantly decreased compared to information contained in the 2012/13 Annual Report.

2.6 Programme 6: Military Health Support

The purpose of this programmes is to provide prepared and supported health capabilities and services for the defence and protection of South Africa. Six targets were set of which three were classified and three were overachieved. There were significantly less performance indicators measured in the 2013/14 Annual Report than in the 2012/13.

2.7 Programme 8: General Support

The programme spent 100 per cent (R5.637 billion) of its final budget. Quarterly spending trends show that spending for this programme was generally on track throughout the year. In terms of performance targets, a total of 17 targets were set for this programme, which is significantly less than the 38 provided for in the 2012/13 Annual Report. Targets reported on were in line with those presented in the APP.

3. PERFORMANCE FOR THE FIRST QUARTER (1 APRIL – 30 JUNE 2014) OF THE 2014/15 FINANCIAL YEAR

This section summarises the DOD's performance in the first quarter of the 2014/15 financial year. It should be read along with the Committee's report on the Department of Defence's 2014/15 budget (Vote 22).

3.1 Summary of financial and programme performance

By the end of the first quarter 2014/15 the DOD had spent 19.4 per cent of its R42.831 billion budget. This is 1.3 per cent lower than what was projected (20.7 percent), and is also 0.9 per cent lower expenditure than spent in the first quarter of the previous financial year. Expenditure on almost programmes was below target. The biggest variance between the projected and actual spending was reported in relation to the Air Defence programme which spent only 14.2 percent of its allocated budget against a projected 17 per cent. Spending was within the 8 per cent limit set by National Treasury.

The Department also spent little on compensation for the first quarter, spending only 24,2 per cent of the total allocated budget of R21.98 billion. Such slow spending is a cause of concern particularly given the vacancy rate in critical positions such for air crew, combat (Navy), engineering and technical services, and require urgent attention.

Low spending on the Special Defence account was also recorded, particularly sub-programmes air combat capability, artillery capability, mobile military health support, operational intelligence, special operations, strategic direction, as well as transport and maritime capability.

3.1.1 Programme 1: Administration

The programme spent 2.3 per cent less than the targeted 22.8 per cent of its R4.86 billion allocation. The Department's Management and Office accommodation sub-programmes recorded the lowest spending, only spending 5.2 and 4.1 per cent of their respective allocations. Spending for the Communication Services sub-programme was recorded at 24.5 per cent and Defence Foreign Relations sub-programmes at 11. 4 per cent while Defence Reserve subprogramme recorded an overspending of 30 per cent High spending on the following items (economic classifications) were also recorded: non-profit institutions (25 per cent), Household (6.8 per cent), and provinces and municipalities (4.8 per cent). Less than expected expenditure was recorded for software and intangible assets (7.5 per cent) and goods and services (4.1 percent).

3.1.2 Programme 2: Force Employment

This programme spent 19.8 per cent of its allocated R3.437 billion allocation – 0.3 per cent which is lower than the projected 20.1 per cent. Despite it could spend 10.9 per cent of its budget on buildings and other fixed structures, the Department had not recorded any

expenditure by 30 June 2014. Low spending on machinery ad equipment (5.1 per cent), and specialised military assets (4.7 per cent) were recorded. Defence capability management and operational direction sub-programmes recorded the lowest spending – it spent 15.3 per cent and 20.9 per cent against the respective projection of 18.6 and 24.2 per cent.

3.1.3 Programme 3: Landward Defence

A slightly lower expenditure of 21.3 percent of the total R13 845 billion was recorded. In the armour capability sub-programme only 22.3 per cent of the allocation was spent and not the projected 24.5 per cent. The programme also recorded an underspending on machinery and equipment as well as specialised military assets.

3.1.4 Programme 4: Air Defence

The programme only spent 14.2 per cent of its R7.167 billion - 2.8 per cent lower than the projected expenditure. Significantly low spending was recorded for the helicopter capability sub-programme (one percent against projected 20 per cent), the transport and maritime capability sub programme (2 per cent against projected 7.4 per cent) and air capability sub -programme which spent only 10 per cent of a planned 12.9 per cent allocation.

PART B: DEPARTMENT OF MILITARY VETERANS

1. OVERVIEW OF EXPENDITURE AND FINANCIAL PERFORMANCE

The Department of Military Veterans had not submitted its annual report for the period under review, by 30 September 2014, and is only expected to table it by the end of October 2014. Owing to this, a comprehensive review of the DMV's budget management and performance is therefore not possible and is only limited to evaluating the following information at the committee's disposal: the progress made with recommendations made by the Committee in 2013, the 2014 Annual Performance Plan, submitted quarterly expenditure and performance reports as well as written responses to questions posed by the Committee in previous interactions and briefings.

As earlier mentioned, the Department of Military Veterans derives its mandate from the Military Veterans Act (No. 18 of 2011), which requires it to provide national policy and standards on socio-economic support to military veterans and to their dependants, including benefits and entitlements to help realise a dignified, unified, empowered and self-sufficient military veterans' community.

Since 2011, the Department has been in the process of establishing itself administratively and building capacity to perform all functions as required by the Act. As part of the process of establishing and expanding the Department, the allocation of funds has increased significantly since 2010/11. Greater scrutiny of how funds are utilised against the targets set in the strategic plans and annual performance plans going forward, is thus imperative.

1.1 Financial performance for the 2013/14 financial year

1.1.1 For the period under review, the Department's budget was not separate from that of the Department of Defence and had been included as a sub-programme ('Military Veterans Management') under the Administration programme. It has been allocated, according to the Estimates of National Expenditure (ENE) an amount of R 351,431million for the 2013/14 financial year.

1.1.2 During this time, the Committee had regular interactions with the Department regarding the progress made with establishing its administration and building its capacity to perform its functions and provide support to military veterans as envisaged the Military Veterans Act (No. 18 of 2011).

1.1.3 As the DMV strengthens its capacity to ensure the delivery of services and benefits to military veterans, greater spending in the programmes Socio Economic Support and Empowerment Stakeholder Management is expected to occur. The effective management of the Administration programme is therefore critical since it provides management and strategic administrative support to the Ministry, and overall management of the Department. In 2013/14 it received R152, 8 million and challenges requiring urgent resolution remain the filling of critical vacancies, the

development and implementation of appropriate information technology systems (IT), the establishment of an effective internal audit function, the acquisition and upgrading of provincial satellite offices, and the reduction of expenditure and reliance on consultants.

1.1.4 Expected increases in the spending by the Socio-economic Support Programme will be aimed at the delivery of decent housing to military veterans, as well as the provision of bursaries and health care services. In 2013/14 it received an allocation of R122,2 million which had increased to R168,1 million in 2014/15.

1.1.5 The planned increase in Empowerment and Stakeholder Management programme will be for the training and skills development, to form partnership with private sector companies and other organs of state, in order to encourage employment creation for military veterans.

However, while the allocation for the 2013/14 financial year amounted to R176.5 million, this amount had decreased to R157.9 million in 2014/15.

1.1.6 Compared to the 2013/14 financial year, compensation of employees increased from R80.6 million to R92.2 million in 2014/15. Goods and services increased from R260.8 million in 2013/14 to R404.1 million in 2014/15: the most significant contributors to the increased allocation for Goods and services are consultants (R62 million for 2014/15) and housing (which increases from R60 million in 2013/14 to R103 million in 2014/15). There is also a significant increase in the allocation for travel and subsistence, which increased from R21.9 million in 2014/15 to R52.2 million in 2014/15. This is of particular concern given the DMV's small staff complement. Training and development will increase from R23.6 million in 2013/14 to R79 million in 2014/15 while machinery and equipment decreased from R10 million to R7.9 million.

1.1.7 Key areas of concern relating to the 2013/14 budgetary allocation that require clarity include: the drastic increase in funds allocated for travel and subsistence; the specific use of the funds allocated to housing, and how this will be funded beyond the MTEF period; whether a cost-benefit analysis had been completed to determine if the outsourcing of various services such as cleaning and security services is the most cost-effective operational model; and the timeframes for the filling of all vacant positions. The Committee is concerned that for the period under review, only 29

positions were filled and 53 additional personnel was appointed. Moreover, while the size of the DMV personnel was small, it had spent R13.3 million allocated to travel and subsistence in 2012/13.

2. PERFORMANCE FOR THE FIRST QUARTER (1 APRIL – 30 JUNE 2014) OF THE 2014/15 FINANCIAL YEAR

This section, summarises the DMV's performance in the first quarter of the 2014/15 financial year and should be read along with the Committee's report on the Department of Defence's 2014/15 budget (Vote 22) published in July 2014.

2.1 Summary of financial and programme performance

Leadership instability (the absence of the Director-General and Chief Financial Officer) negatively impacted on the first quarter spending and performance, thus resulting in performance targets not being achieved. Such leadership instability has now been resolved and the Department will mitigate its impact on performance through the implementation of action plans aimed at ensuring that any backlog in targets are erased.

Of the 22 targeted performance areas, the Department had achieved 15. This constitutes a 68 per cent overall achievement rate. The Department during this period had spent 8% per cent of its budget amounting to R40 million - R125 million less than projected.

2.1.1 Programme 1: Administration

As per the 2014 Annual Performance Plan, it reflects an expansion of the sub-programmes from four in 2013/14 financial year, to six sub- programmes to include Strategic Management, policy development and monitoring and evaluation sub-programme, as well as the corporate services sub-programme. It also reduced its performance indicators from 18 to 14, and those removed include Military Veterans Regulations prepared for approval, the approved DMV service delivery and improvement plan, percentage deviation from approved cash flow, and the percentage compliance with budget transfer prescripts. The Department achieved ten of the twelve targets thus recording an 83 per cent achievement rate. Spending

was slower than expected – it had spent R15 million which is R29.8 million less than expected.

2.1.2 Programme 2: Socio-Economic Support

For this programme, the Department had achieved two of the four targets set. While 50 per cent achievement rate was recorded, targets could not be measured in accordance with acceptable performance standards. The programme spent 6.23 per cent of its budget, which constitutes a R42 million variance. The programme also previously had four sub-programmes but these been reduced to only three for the 2014/15 financial year: the Research and Policy Development sub-programme was removed. It should be noted that this programme's total number of performance indicators have also been reduced to 5 only. Removed indicators are the number of military veterans with access to counselling and treatment; the number of distressed and vulnerable military veterans and dependents provided with immediate services; the number of military veterans receiving anticipated military veterans pensions; compensation of military veterans physically and mentally injured in action; approved military healthcare policy and the number of provincial health-care and wellbeing centres established.

2.1.3 Programme 3: Empowerment and Stakeholder Relations

The programme had six targets planned for implementation during the period under review and only three were achieved. The programme spent 9,8% of its budget which constitutes R15,4 million with a variance of R24 million by 30 June 2014. The 18 indicators presented in the 2013 annual performance plan was reduced to only six and the following 12 were removed: the establishment of a liberation war memorial; erection of the tomb of the unknown soldier; the number of programmes promoting the heritage of military veterans; the number of graves established an restored; military veterans company database; the number of military veterans with the relevant SAQA approved certificates; the number of events honouring military veterans; military veterans training and skills development policy document; the number of formal agreements with institutes of higher learning; the number of military veterans receiving burial support per year; the number of programmes promoting the heritage of military veterans; and the number of programmes promoting the affairs of military veterans approved by Cabinet.

PART C: DEFENCE ENTITIES

1. ARMAMENTS CORPORATION OF SOUTH AFRICA

The Armaments Corporation of South Africa Ltd (Armscor) is the arms procurement agency of the Department of Defence. Initially established through the Armaments Production and Development Act (No. 57 of 1968) , the Armscor Act (No. 51 of 2003) it provided for its continued existence, including its functions, accountability and finances. Its strategic direction is encapsulated in its three-year corporate plan which is also aligned to the Government's Medium-Term Strategic Framework (MTSF) and the DOD Outcomes derived from the MTSF. In short, Armscor ought to play a supporting role in terms of contributing to MTSF Outcome 3: ("All people in South Africa are and feel safe").

The Corporation has identified the following elements (policy, economic, social, technological, physical legal and military) that may impact on its core functions: owing to competing Government priorities the defence budget and allocation to Armscor in terms of the exiting funding model was unlikely to increase; the quality of corporate governance and accountability will be prioritised; South Africa is likely to play an increasingly prominent role in continental peace keeping operations and lending support to other government departments; the slow growth in the international defence industry required greater collaboration and consolidation within the industry; and defence capability will increasingly rely on investment in and protection of defence technology.

Defence Industrial Participation (DIP) relates to the obligation of a foreign supplier to reciprocate defence related business in South Africa as a result of a Defence acquisition. No new DIP agreements were entered into during the period under review, and Armscor continued to manage 16 agreements. The DIP agreement with MBDA (A European based missile developer and manufacturer), which relates to the Strategic Defence Package (SDP) had not been met: the 2011/12 Annual Report indicated that MBDA had an outstanding obligation of R946 million, while the 2012/13 Annual Report indicates an outstanding obligation of R933 million.

Armscor is also responsible for the management of the Simon's Town Naval Dockyard. The dockyard carries out planned preventative maintenance, corrective maintenance, reconstruction and repairs, and upgrades all of the naval ships and submarines. It however faces several challenges in meeting the requirements of the SA Navy to keep its fleet operational. Some of the projects undertaken that experienced challenges during 2013/14 include the SAS Mendi that was docked on 27 June 2013 owing to essential defects. These challenges were exasperated by the difficulties experienced with the procurement of appropriate spares and material. The SAS Queen Modjadji also underwent maintenance from 7 October 2013 and the availability of spares was also a challenge which impacted on the completion deadline. In addition to the above challenges, the Dockyard continues to suffer critical skills shortages, including the exit of trained submarine personnel.

2. OVERVIEW OF EXPENDITURE AND FINANCIAL PERFORMANCE

2.1 Summary of expenditure for the 2013/14 financial year

2.1.1 The net value of the Group increased from R1.804 billion in 2012/13 to R1.908 billion for the period under review owing to the net surplus recorded for annual operations. Notwithstanding the above, the Group's total comprehensive income significantly decreased from R1,193 billion in 2012/13, to R103,3 million in 2013/14. As compared to 2012/13, this major decrease is due to property revaluation which contributed R1,08 billion of last year's profit. The total profit for 2013/14 was influenced by the inclusion of the results of the Armscor Medical Benefit Fund.

2.1.2 Other significant financial information include the recorded decrease in the revenue of the corporation from R9,2 million in 2012/13 to R6,8 million in 2013/14; R393 892 fruitless and wasteful expenditure was incurred, significantly more than recorded for the previous financial year. This also included interest paid on late payments (R202), penalties on late deliveries (R393 455) and fines (R235). Irregular expenditure to the total value of contracts placed (R68.5 million) was reported and this related to the application of a 25 per cent Black equity selection criterion as requirement, which is not in line with the Preferential Procurement Policy Framework Act (PPPFA) of 2000. Armscor's application for an exemption from National Treasury is still outstanding.

2.2. Summary of programme performance

2.2.1 Armscor's Three-year Corporate Plan sets out two groups of performance indicators: one deals with performance against Armscor's functions as defined by the service level agreement (SLA) with the Department of Defence, while the second measures performance against the set strategic objective. Although only 13 Key Performance Indicators (KPIs) were listed in Armscor's 2013/15 - 2015/16 Corporate Plan, a total of 42 KPIs were reported in the 2013/14 Annual Report: 29 of the KPIs have been achieved, while 3 of the KPIs (31 per cent) have not been achieved.

2.3 Report of the Auditor-General

2.3.1 Similar to the previous reporting period, Armscor received an unqualified audit opinion from AGSA for the financial year 2013/14. Nonetheless, AGSA noted owing to irregular expenditure recorded, the expenditure was not adequately managed and that annual financial statements submitted for auditing were not fully prepared in accordance with the prescribed financial reporting framework. Moreover leadership was not effectively exercised since internal controls were not effectively enforced which resulted in incidents of non-compliance.

PART D: CASTLE CONTROL BOARD

1.1 The Castle Management Act, 1993 (No. 207 of 1993) provides for a Castle Control Board (CCB) to govern and manage the Castle on behalf of the Minister of Defence and Military Veterans. The National Heritage Resources Act (No. 25 of 1999) provides for the management of the Castle as a national heritage site.

1.2 The 2013/14 Annual Performance Plan (APP) of the CCB identifies the strategic objectives as the preservation and protection of military and cultural heritage of the Castle of Good Hope; to optimise the tourism potential of the Castle; and to optimise accessibility to the Castle by the public. For the same period, the CCB aimed to

achieve **s**elf-sustainability of the Control Board and the Castle; manage and maintain the Castle as a Defence endowment property; effectively manage its assets and comply with legislation; improve its maintenance and facilities management; adhere to sound acquisition and procurement principles; human resources development; sound financial management; and the enhancement of educational programmes.

2. OVERVIEW OF FINANCIAL PERFORMANCE

2.1 The Castle Control Board (CCB) does not receive transfer payments from the DOD and is struggling to be self-sustainable. The Castle noted an increase in both revenue and expenditure during the financial year 2013/14. This resulted in a decrease of its annual surplus from R883 000 (2012/13) to R41 000 (2013/14).

2.2 Notable variations between the current and preceding financial year were also found. This related to a surplus of R41 000 for 2013/14 as compared to R883 000 for 2012/13. This represents a decrease of 95.36 percent from the past financial year, partly due to the appointment of the CEO which increased the expenditure on Staff Costs to a total of R1.775 million in 2013/14, as compared to R864 000 in 2012/13. The CEO's remuneration is R695 000, which led to an increase of 680 percent on this specific item. Additionally, bonuses have increased by more than 60 percent. Other notable increases include operating expenses on Military Tattoo (229 percent) and Advertising (98 percent). There is also a recorded spending on CCB Special Days (R144 000), which was not recorded in the 2011/12 and 2012/13 Annual Reports.

2.3 The 2013/14 Annual Report indicates that the financial statements of the Castle received an unqualified audit opinion from the Auditor-General. The audit report reveals a marked improvement in the management of the Castle, while no instances of fruitless or wasteful expenditure were recorded. However, the audit opinion identified challenges relating to predetermined objectives (specifically p*rogramme 2: Preservation, interpretation and showcasing of the history of the Castle* and programme 3: *Increased public profile and position perception across all sectors of the community*.), as well as issues relating to the establishment of an effective internal audit function and sound internal controls.

3. PROGRAMME PERFORMANCE

In terms of the guidelines of the Castle Management Act and the performance indicators, the CCB identified four programmes against which to measure performance. Of the nine performance indicators, two were not achieved.

3.1. Programme 1: Administration through good Corporate Governance

The CCB appointed a CEO in April 2013 and corporate governance was further addressed through the appointment of a *part-time* Chief CFO in March 2014. In terms of performance indicators, two targets were set. These included the number of CCB meetings, and the number of Audit and Risk Committee meetings. One target, the number of CCB meetings, which was set to four, was over-achieved as the CCB had seven meetings.

3.2 Programme 2: Preservation, interpretation and showcasing of the Castle

The 2013/14 Annual Report notes improvements in the showcasing of the Castle through numerous exhibitions and, specifically, in terms of the number of learners visiting the Castle. The Castle increased the number of learners visiting the establishment to 29 391, significantly exceeding the set target of 25 200. This is in line with Outcome 1 of the Government's MTSF (Improved quality basic education). With regards to Repairs and Maintenance, the reasons provided for underspending include savings in respect of Department of Public Works and DOD preventative maintenance on site, anticipation of the major renovation of the Castle as well as budgeting challenges experienced at the start of the financial year.

3.3 Programme 3: Maximising the tourism potential of the Castle

The expected number of visitors to the Castle according to the 2013/14 APP, is sole performance indicator for this programme. For 2011/12 the number of visitors was 137 639 indicating an increase of 7 639 compared to the estimated 130 000 for the financial year. In terms of the 2013/14 Annual Report, a total of 141 084 was recorded as the number of visitors to the Castle. This translates to 2.7 percent less

than the estimated visitors of 145 000. Such underperformance was ascribed to the closing of the Castle on 15 December 2013, and the activities on the Grand Parade around the passing of the former President Nelson Mandela.

3.4 Programme 4: Increased public profile and positive perception across all sectors of the community

The Castle exceeded the target for projected income from events, film and fashion shoots by R309 575. It should be noted that the target for 2013/14 was set at R275 625, with the actual achievement for the previous financial year (2012/13) having been R426 950. This illustrates that the target was set very low from the onset, hence the huge achievement. In terms of Printing, Publication and Marketing of the establishment, underspending was recorded at R69

011 as compared to the planned R104 000. The reason provided include the appointment of the CEO experienced in marketing.

PART E: RECOMMENDATIONS

1. Department of Defence

1.1 The Department of Defence should be adequately resourced in order for it to resolve all operational challenges and in order for the SANDF to fulfil its core responsibilities. During the recent interrogation of its annual report, the Department illustrated the impact budgetary constraints has had on its capacity to fulfil responsibilities: currently, the SANDF cannot afford to deploy the required number of troops who are sufficiently equipped, to secure South Africa's borderline. Furthermore, the successful implementation of the updated defence policy (South African Defence Review 2014) will require that future Defence budgetary allocations support efforts to restore our Defence Force's capabilities in order for it to defend and protect all South Africans. Notwithstanding this, the Committee urges that care should be taken to ensure that all expenditure adheres to the principles and guidelines that govern the use of public funds.

1.2 The Department is expected to reduce the size of its personnel from the current 78 707 to 74 000 people. In this context the existence of an effective Mobility Exit Mechanism (MEM) is of critical importance to ensure that, while it reduces its staff component, the Department and SANDF retain core skills and competencies, and that any negative impact of such downsizing is contained.

1.3 Maintenance and repair of defence facilities are critical to ensure that the morale and commitment of soldiers remain at a high level. The Defence Works Formation should be properly funded and the appropriately skilled personnel should be appointed to ensure that this formation succeeds in improving the conditions of defence facilities and in order for the Department to become less reliant on the Department of Public Works (DPW). Furthermore, both the Department of Defence and the Department of Public Works should urgently resolve enduring challenges relating to their working relationship in order to prevent further delays in restoring defence facilities' conditions.

1.4 The Department has made great strides in eliminating audit queries. However much work is still required to ensure effective management of assets. In particular, the Department should focus on ensuring the development of appropriate information technology systems that will support its asset management responsibilities. Moreover, the Department should priortise the strengthening of its internal audit function as this function is essential to ensure that any risks and compliance challenges are identified and detected prior to annual audits.

2. Department of Military Veterans

2.1 The implementation of the Military Veterans Act, particularly the maintenance of a reliable military veterans' database, the fair application of a means-test, and the efficient delivery of benefits and support services to military veterans are essential to ensure that military veterans' quality of life is enhanced and that military veterans receive the necessary support and acknowledgement for their selfless service to society.

2.2 The Committee has consistently raised concerns about the delays in the finalisation and implementation of memoranda of understanding (MOUs), and Service Level Agreements (SLAs) between departments and other state agencies relevant in the provision of support to military veterans. According to written responses provided to the Committee, the Department has entered into partnership with three Departments: the Department of Rural Development and Land Reform, the Department of Agriculture, Forestry and Fisheries, as well as the Department of Water and Sanitation. While these MOUs are aimed at job creation and skills development, the Committee urges that such job creation initiatives should be sustainable and should assist military veterans in improving their quality of life and achieve self-sufficiency. Every effort must be made to ensure that all departments that have entered into agreements and partnership with the Department of Military Veterans honour their commitments and obligations.

2.3 The Committee is concerned that despite an existing MOU between the Department of Military Veterans and the Department of Human Settlements, military veterans have to date not accessed housing benefits. The Department had, in a previous interaction indicated that housing benefits were not delivered to military veterans due to it only receiving an allocation for the roll-out of such benefits in the 2013/14 financial year, while service level agreements had only been signed with six provinces by the end of March 2013. This meant that provinces and municipalities had only begun the initial processes for including houses for military veterans as part of their housing projects. We urge the two Departments to finalise the required processes as urgently as possible.

2.4 Military Veterans as well as their dependents require access to reliable health care services and the Committee has requested the Department to provide clarity on its medical care policy. We welcome the admission that the Military Veterans Act, particularly the section relevant to medical care, require amendment to ensure that both military veterans and their dependents can access medical care.

2.5 The Committee urges the Department of Military Veterans to fill existing vacant positions with not only suitably qualified personnel, but also with individuals who are sufficiently committed and appropriately skilled to assist both with identifying the needs of military veterans as well as accessing benefits and services

2.6 Information on benefits and services and how this should be applied for should not be overly bureaucratic and should be easily available. This means that the Department should develop a more effective communication and marketing strategy to raise greater awareness regarding its work

3. Armscor

3.1 The endless delays in the appointment of a chief executive officer is a cause of concern and the Committee urges that the leadership instability at Armscor be resolved as soon as possible.

3.2 It is essential that Armscor, as part of the domestic defence industry, supports the needs of the SANDF and that the necessary precautions and remedial action is taken to ensure that Armscor intervenes to properly manage the delays and cost overruns of certain armaments acquisition projects. Related to this, Armscor is also urged to prioritise the transformation and rejuvenation of the Dockyard to ensure that it provides repair and maintenance services to the SA Navy, as required.

3.3 Armscor is urged to prioritise the training and development of historically disadvantaged personnel, and should ensure that scarce skill vacancies and BBBEE targets are aggressively pursued.

4. Castle Control Board

4.1 The Committee commends the CCB for their efforts to improve the management of the Castle. We are nonetheless still concerned over enduring weaknesses in supply chain management and internal controls. The shortcomings of the Supply Chain Management (SCM) policy should be addressed as soon as possible and the relevant CCB as well as

Castle staff should be trained to ensure 100 per cent compliance with National Treasury guidelines. This will assist in ensuring a decrease in irregular spending. The CCB should also provide the Committee with a clear action plan on how it will deal with the leadership concerns raised by the A-G.

4.2 Greater effort must be made to increase public awareness of the historical significance of the Castle. While the Committee has a role to play in this regard,

particularly through its oversight activities and other parliamentary responsibilities, the CCB should aggressively market this historical monument as a tourist attraction to ensure an increase in both visitors and revenue. Growth in visitors and revenue will assist the CCB in realising their objective to become self-sustainable.

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

4.4 Since repair and maintenance is one of the major issues in the preservation of the Castle, the CCB should inform the Committee on a regular basis on the progress made with this matter, especially as it relates to the involvement and contribution of the Department of Public Works.

PART F: ACKNOWLEDGEMENT

The Committee expresses its appreciation to the Department of Defence, Department of Military Veterans as well as Armscor and the Castle Control Board for their cooperation as they endeavour to improve the performance and service delivery.

Report to be considered.