



1 March 2021

THE ARMSCOR DOCKYARD MAINTENANCE CAPABILITY

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1. INTRODUCTION

The Armscor Dockyard serves as the primary maintenance supplier to the SA Navy. It has come under increasing strain in recent years due to financial concerns and this has impacted on the Dockyard's ability to provide all required services to the SA Navy. As such, a Renewal Strategy was developed to eliminate the institution's financial deficit and increase efficiency. The Renewal Strategy will be implemented over three years, with the first phase focusing on eliminating the financial deficit. The 2019/20 draft Annual Report notes that progress to date yielded the desired results and the implementation is ongoing.

The Armscor 2019/20 Annual Report further states that the Dockyard has embarked on another initiative to **re-establish its Internal Combustion Engine (ICE) maintenance capability**, to provide a cost effective maintenance and repair capability with reduced dependence on outsourced Original Engine Manufacturer (OEM) services.¹ The Dockyard and the Fleet Maintenance Unit will co-exist in this facility. This is the first of a few of these capability areas to be re-established in the Dockyard and SA Navy.

This paper is prepared for the PCDMV meeting of 3 March 2021 and focuses on a general overview of the latest information on the Dockyard as well as key aspects related to the re-establishment of the entity's maintenance capability.

2. LATEST INFORMATION ON THE ARMSCOR DOCKYARD

The Armscor Dockyard's performance is based on a service level agreement between the SA Navy and Armscor. This is reviewed annually, and signed off against the mutually agreed milestones at the end of the reporting period. In this regard, the Dockyard met all its obligations and performances. For 2019/20, all projects were delivered within the mutually agreed milestones. The Annual Report further highlights the specific and *ad hoc* repair and maintenance conducted on specific SA Navy vessels.

¹ Armscor 2020 Annual Report, p. 14.



The Dockyard is also engaged in the process of re-establishing its internal combustion engine maintenance capability. This capability was in the Armscor Dockyard but deteriorated over time as most of the maintenance work on the Navy's diesel engines was outsourced.

Amid current financial constraints, Dockyard embarked on an initiative to generate income and augment the shortfall in funding received from the SA Navy through commercial activities. This is done by engaging local marine and manufacturing commerce to utilise idle capacity to generate income. This is currently being done through several ship repair agents that are bringing their commercial work to be done in the Armscor Dockyard.

3. WHY IS THE MAINTENANCE CAPABILITY IMPORTANT

The availability of a maintenance capability at the Armscor Dockyard is crucial to the sustainability of the SA Navy. For SA Navy vessels to be readily maintained and mission-ready, the Dockyard is an essential service provider. To provide these services, the Dockyard consist of, among others, the following services:²

- The Drydock (The Dockyard is significant in that it houses one of only five dry-docks in the country)
- The Syncrolift (A syncrolift is a mechanical system which lifts a vessel out of the water and onto a rolling track on land to move the vessel to a suitable repair area). The Dockyard is significant in that it houses two of only three Syncrolifts in the country (one each in Durban and Simons Town).
- An electricity generating station
- A pump station
- Cranage
- Several work stations for technicians working on technical repairs to vessels
- Two laboratories ensuring structural integrity of vessel parts and fuel and water quality are also present.

In addition to the general maintenance of SA Navy vessels, there are three key reasons why the maintenance capability of the Dockyard is crucial over the medium-term. It is also important to note factors that may inhibit the efficiency of the Dockyard over this period:

- **SA Navy vessels midlife upgrade.** During its 2019 oversight visit to Simons Town Naval Base, Members of the PCDMV were reminded of the urgent need to facilitate the midlife upgrades of the SA Navy's Frigates and submarines. It is unclear whether the Dockyard will be able to facilitate all the necessary upgrades without external assistance from the original manufacturers, but the Dockyard is likely to play a role in this regard.
 - **Detracting from midlife upgrades.** Financial constraints are likely to impact on the midlife upgrades of the naval vessels, and any contribution that the Dockyard will make in this regard. In the PCDMV's 2020 BRRR, it recommended that, "The Minister of Finance should consider an additional ring-fenced allocation to fund the midlife upgrades of the South African Navy

² Information obtained during a research visit to the Armscor Dockyard in 2016.



vessels in need of such upgrades. The upgrade of the South African Navy's frigate and submarine fleet is essential to ensure that the Navy maintains its patrol capabilities and thereby fulfil its constitutional requirement to ensure the territorial integrity of South Africa." The Minister responded as follows:

As noted at the beginning of this section, there is little scope for additional funding and departments are advised to identify areas of reprioritisation, including by improving their internal efficiency.³

- **Launching of Project Biro and Project Hotel vessels.** The SA Navy commissioned four new vessels for inshore patrol and hydrographic services. Several of these vessels are being finalised and will enter service over the medium-term. The upkeep and maintenance of these vessels will likely be done by the Dockyard. Their maintenance and serviceability is crucial to inshore maritime patrol capabilities and, as such, maintaining South Africa's territorial integrity and contributing to Operation Phakisa, South Africa's maritime development of the oceans economy.
- **The need for commercialisation.** Amid financial constraints in the Department of Defence, the need for commercialisation of Armscor facilities is pressing. The Dockyard has, in its 2019/20 Annual Report, noted the need for commercialisation at the Dockyard as a secondary priority. It further noted that "The Armscor Dockyard embarked on an initiative to generate income and augment the shortfall in funding received from the SA Navy through commercial activities." This is done by engaging local marine and manufacturing commerce to utilise idle capacity to generate income. This is currently being done through several ship repair agents that are bringing their commercial work to be done in the Armscor Dockyard.
 - **Detracting from commercialisation.** Commercialisation at the Dockyard requires funding and this may be of concern over the medium-term. The 2020/21 budget tabled on 24 February 2021 noted, for example, that the DOD transfer to Armscor will decrease by R405.1 million over the MTEF.

4. PREVIOUS ENGAGEMENTS BY THE PCDMV

The following input by the PCDMV in relation to the Dockyard can be considered:

5th Parliament PCDMV Legacy Report:

- Key area for future work: Current capacity and funding of Armscor Dockyard.

2019 BRRR:

- The Committee expressed concern about delays in the maintenance and repairs of SA Navy vessels at the Armscor Dockyard, although budgetary constraints are the main factor impacting on the refit of vessels.
- The Committee welcomed the proposal by the Dockyard to engage in commercial activities as a means of further revenue generation, but noted that this should not be at the expense of the SA Navy's maintenance and repair schedule.

³ Information obtained from National Treasury 2021 Budget Review, p. 108.



- Armscor should provide the PCDMV with a written report on the status of the Armscor Dockyard before 30 November 2019.
- The efforts to commercialise some parts of Armscor work as a means of diversifying its income streams should be welcomed and Armscor should be encouraged to continue to expand this capability while prioritising SA Navy projects.

2020 BRRR:

- The Committee welcomes efforts to re-establish an internal combustion engine maintenance capability at the Armscor Dockyard. Armscor should provide the Committee with quarterly updates on progress in this regard.

5. KEY QUESTIONS

Members may consider requesting clarification on the following matters:

- What will be the impact on the Dockyard of the R405 million reduction in the transfer from the DOD to Armscor over the medium-term?
- How far has the re-establishment of Armscor's Internal Combustion Engine (ICE) maintenance capability progressed?
- Will the ICE maintenance capability be of any value to the midlife upgrade requirements for the SA Navy frigates and submarines?
- Will the ICE maintenance capability be of any value to commercialisation efforts?
- How much funds were generated from commercial activities in 2020/21?
- Are additional funds required to expand the commercialisation of the Dockyard? If so, what are the projections in this regard?
- What will be the involvement of the Dockyard in the maintenance of Project Biro and Project Hotel vessels?
- Will the Dockyard reach or maintain financial self-sustainability over the medium-term?