Budgetary Review and Recommendation Report of the Portfolio Committee on Defence and Military Veterans on the 2019/20 Annual Report of Armscor and the Castle Control Board (CCB), Dated 24 November 2021.

This Report consists of two parts, with Part A dealing with the Armaments Corporation of South Africa (ARMSCOR) and Part B dealing with the Castle Control Board (CCB).

The Portfolio Committee on Defence and Military Veterans (PCODMV), having considered the 2020/21 annual reports of the Armaments Corporation of South Africa (ARMSCOR) and the Castle Control Board (CCB), on 10 and 17 November 2021 respectively, reports as follows:

1. INTRODUCTION

1.1 Mandate of the Committee

The Portfolio Committee on Defence and Military Veterans (PCODMV) is mandated to oversee the Department of Defence and Military Veterans (DODMV) and its entities – namely the Armaments Corporation of South Africa (ARMSCOR) and the Castle Control Board (CCB), to ensure that the entities fulfil their mandates through the monitoring of the implementation of legislation and adherence to policies. These policy guidelines assist the Committee in its oversight activities.

1.2 Purpose of the BRR Report

Section 5 (2) of the Money Bills Procedures and Related Matters Amendment Act (Act 9 of 2009) allows for each Committee to compile a Budgetary Review and Recommendation Report (BRRR) which must be tabled in the National Assembly. Section 5(3) provides for a BRRR to contain the following:

a) an assessment of the department's service delivery performance given available resources;
b) an assessment on the effectiveness and efficiency of departments use and forward allocation of available resource; and
c) recommendations on the forward use of resources.

In October of each year, parliamentary portfolio committees compile a BRRR that assess performance given available resources; evaluates the effective and efficient use and forward allocation of resources; and makes recommendations on the forward use of resources. The BRRRs are also source documents for the Standing/Select Committees on Appropriations/Finance when they make recommendations to the Houses of Parliament on the Medium-Term Budget Policy Statement (MTBPS). The comprehensive review and analysis of the previous financial year's performance, as well as performance to date, form part of this process.

The Financial year 002/21 saw the beginning of the Coronavirus (COVID-19) pandemic, with a hard lockdown declared on 26 March 2020 to contain the spread of the disease. The impact of the pandemic and the necessitated government response, were significant for both Armscor and the CCB, as evidenced by especially the reasons for not achieving some of its annual performance goals.

<u>PART A: THE ARMAMENTS CORPORATION OF SOUTH AFRICA (ARMSCOR)</u>

1. INTRODUCTION

1.1 Description of core functions of Armscor

The Armaments Corporation of South Africa SOC Ltd (Armscor) was established in terms of the Armaments Production and Development Act (No. 57 of 1968) to satisfy the requirements of the South African National Defence Force (SANDF) in respect of Defence Matériel. Armscor differs from other entities in the Defence

Portfolio as it is largely self-funded and profit-driven. Parliamentary oversight of Armscor aims to strike the balance between corporate efficiency/sustainability and effective service delivery to the SANDF.

2. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS

2.1 State of the Nation Addresses (SONA):

The SONA was delivered on 13 February 2020, but made no direct reference to Armscor. However, the SONA did make reference to the need for economic growth and the President noted, for example, that "without growth there will be no jobs, and without jobs there will be no meaningful improvement in the lives of our people." The Defence Industry plays a potential role in such economic growth. Armscor, in turn, forms part of the broader Defence-Industry value chain given its position as acquisitions agent for the SANDF and the various commercial facilities it owns. Other aspects noted in the SONA that have bearing on the broader defence portfolio and Armscor include:

- The promotion of local procurement.
- Youth employment.
- Expansion of internship programmes in government.
- Resourcing of defence mandates.
- Improving implementation of the financial disclosures framework.
- Support the employment of the SANDF.
- Spending of public funds and reducing expenditure.
- Acknowledgement that the African continent remains central to governments' foreign policy engagements.
- Unlocking growth and peacekeeping operations.

2.2 The National Development Plan

The NDP and its related policies provide a national framework that will inform the contribution by national departments and public entities. Aspects of the NDP relevant to Armscor include the following:

- Sharpening South Africa's innovative edge by contributing to global scientific and technological advancement.
- Enhancing investment in Research and Development and by better utilising existing resources.
- Facilitating innovation and enhanced cooperation between public service and technology institutions and the private sector in areas of potential dual use.
- Committing to procurement approaches that stimulate domestic industry and job creation.
- Procuring from and supporting SMMEs, black-owned and black-managed enterprises, and female led-enterprises, the youth and military veterans.

2.3 The Medium Term Strategic Framework (2019 - 2024)

The Governmental MTSF Outcomes, to which the DOD will contribute, is supported by Armscor in the following ways:

- *MTSF Priority 1: A Capable, ethical and developmental state.* Armscor will contribute by ensuring improved governance and accountability through compliance to regulatory frameworks, continuing to fight corruption and fraud through internal control measures, to support other government departments and its people in pursuit of South Africa's developmental agenda.
- *MTSF Priority 2: Economic transformation and job creation.* Armscor will contribute through sustainable acquisition of weapons systems and local procurement of goods and services.
- *MTSF Priority 3: Education skills and health.* Armscor will contribute through the provision of internal and external higher education, skills development opportunities and creating foreign learning opportunities.
- *MTSF Priority 4: Consolidating the social wage through reliable and basic services.* Armscor will contribute by promoting peaceful and inclusive societies for sustainable development and will participate in the work established by Stats SA by providing statistics of the Sustainable Development Goals as and when required.
- *MTSF Priority 5: Spatial Development, Human Settlements and Local Government.* Armscor will contribute through Project Koba Tlala to support women and youth development and economic development in identified rural areas.
- *MTSF Priority 6: Social cohesion and saver communities.* Armscor will contribute through its contribution to border safeguarding, cooperation with the SAPS and support to other Government Departments.
- *MTSF Priority 7: A better Africa and a better world.* Armscor will contribute by supporting the DOD's participation in external operations in support of UN and AU peace missions and other regional peace initiatives.

2.4 Ministerial and Armscor Priorities

Armscor will play a supporting role in contributing to the following Ministerial priorities:

- **Defence Strategic Direction – Implementing the SA Defence Review 2015 "DOD Plan to Arrest the Decline":** This priority relates to ensuring the provision of ministerial strategic direction to the DOD over the short, medium, and long term to direct defence policy intent to stabilise and create a sustainable defence force within an effective, efficient and economically managed department able to deliver against predetermined objectives.
- **Strategic Resourcing Direction – Revenue generation to supplement the insufficient fiscal allocation:** direct a focused effort to identify alternate funding and revenue generation streams that include, among others, maximised reimbursements against agreed upon MOU's and the sweating of departmental assets.
- **Human Resources:** Maintaining the SANDF establishment Force Levels.
- **Organisational renewal:** Ensuring appropriate organisational form and structure.
- **Capability Sustainment Direction:** The serviceability and availability of current main operating systems and Prime Mission Equipment must be maintained at a set level.
- **Ordered defence commitments:** Increased contribution to the National Developmental Agenda.
- **A stable and financially viable Armscor to deliver on its mandate:** Armscor is pursuing strategies to alleviate the funding crisis and make it financially viable.

3. 2019/20 BRRR RECOMMENDATIONS

During the BRRR process, the PCODMV identified the following areas for monitoring by the Committee throughout the 2020/21 financial year with regards to Armscor:

- The Committee congratulates Armscor on achieving a clean audit from the AGSA for 2019/20.
- Armscor should provide the Committee with a full report of the repair and maintenance status of the SA Navy's frigates and submarines and what the long-term impact will be of the current lack of maintenance due to a lack of funding.
- The DOD, Armscor and Denel should jointly re-evaluate the feasibility of Project Hoefyster and present the Committee with a way forward. Key to this outcome should be a focus on SANDF capability as well as fiscal stability. The Minister, subsequent to the Armaments Acquisition Council meeting where a decision will be taken on Project Hoefyster, should provide detailed written feedback to the PCDMV on the outcome and the way forward.
- Armscor should provide the Committee with a comprehensive list of all funds paid to Project Hoefyster thus far, losses incurred, existing litigation related to Project Hoefyster, and potential litigation that may materialise over the MTEF, should delays with Project Hoefyster continue.
- Armscor should provide the Committee with a report on the operational impact of the lack of industrialisation of the A-Darter project on the SA Air Force's capabilities as well as the status of commercialisation of the A-Darter project.
- The underutilisation of defence materiel disposal is of specific concern given the need for revenue generation in the DOD. Armscor and the DOD are urged to speed up delivery in this regard and report back to the Committee on the status of the expedited disposal initiative.
- Armscor should report to the Committee to what extent it is involved in the management and disposal of obsolete and redundant ammunition on behalf of the SANDF. The entity should also elaborate on the status of such ammunition under its control.
- Armscor should provide the Committee with a report on the exact financial impact of the deadlock between the National Conventional Arms Control Committee (NCACC) and Rheinmettal Denel Munitions (RDM) on Alkantpan as well as the plan to resolve this impasse in order for Alkantpan to generate much needed revenue.
- The Committee encourages Armscor to seek commercial opportunities, including the sweating of assets, as a means of raising revenue for all its research and development institutes amid the decreasing DOD acquisition and funding.
- 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.
- Armscor, as part of the Defence Industry, should enhance its transformation efforts to align itself with the Defence Industry Charter.
- It is recommended that Armscor should re-instate the target 'percentage increase in the commercial income from Research and Development facilities' in all its Annual Reports over for MTEF.

- Measures should also be put in place to improve revenue generated from the Business Enablement Business Unit and Armscor should report back to the Committee in this regard
- The Committee encourages renewed engagement between Armscor and Denel to ensure the sustainability of existing and future defence contracts.
- Armscor should ensure that Intellectual Property at Armscor and the broader Defence Industry is protected.
- The Committee urges Armscor to be fiscally responsible and, in the context of current financial constraints, maintain its undertaking that it will not pay bonuses in 2020/21.
- The Committee welcomes the appointment of a new Armscor Board and urges to Board to ensure the sustainability of Armscor, the promotion of the broader defence industry and the provision of quality service to its main client, the DOD.
- The Committee encourages the Minister of Defence to relay to Cabinet the dire consequences of any potential collapse of Denel to Armscor, the broader defence industry and the SANDF's operational capability.

4. OVERVIEW OF THE 2020/21 ARMSCOR PERFORMANCE

In 2020/21, Armscor continued to provide support to the DOD as its primary client. It is, however, operating under increasing financial constraints, as is the broader Defence Industry, due to funding constraints in the defence environment. Of particular concern is the decreased defence allocation, resulting in limited acquisitions for the SANDF and therefore reducing acquisition work for Armscor over the MTEF. This requires Armscor to diversify its income stream to generate additional income.

Based on the noted challenges, the Armscor Board approved several initiatives to ensure the entity's sustainability, most notably the following:

- The Commercialisation Strategy focuses on Armscor as a corporate entity with an intent of conducting business beyond its traditional offerings.
- The Africa Focused Strategy seeks to leverage on the opportunities that are emerging on the continent.
- The Partnership Strategy focuses on developing partnerships in the defence sector, both locally and internationally.
- Implementing voluntary severance packages, streamlining the organisation and refocussing of various departments in order to implement the strategies.

In addition, Armscor and the DOD are under increasing pressure due to the instability at Denel and the inability of Denel to deliver on Defence contracts that were contracted through Armscor. Despite these challenges, Armscor managed to perform relatively well against set targets in its various programmes.

4.1 Acquisitions

The acquisition responsibility of Armscor can be broadly classified into two main categories being, capital acquisition (funded by the DOD's Special Defence Account) and system support and procurement (funded by the General Defence Account). In the 2020/21 financial year, Armscor managed and executed contracts worth R12.409 billion (similar to 2019/20), including the following:

- Maintenance and support contracts worth R4.780 billion (compared to R4.4 billion in 2019/20).
- Capital acquisition contracts managed worth R7.628 billion (compared to R7.7 billion in 2019/20).

Despite the impact of Covid-19 that caused delays in the delivery of some programmes, a number of projects or sub-projects were successfully completed and new capabilities were delivered to, and taken into operation by, the SANDF:

- *40mm Automatic Grenade Launcher Weapons System* – This project was completed with the delivery of the full requirement of the weapons to the Special Forces Brigade on 7 October 2020.
- *Mass Field Feeding System* – The requirements for the 50- and 200 man kitchens were delivered and completed while the first number of the transport trailers were delivered to the SA Army. The remainder of the transport trailers will be delivered early during 2021/22.
- *Mobile Tented Accommodation System* – The project is nearing completion and delivered among others, the full requirement of small, medium and large accommodation and amenities tents, vehicle tents, ablution facilities, and shower facilities to the SA Army. The project will be completed during 2021/22.
- *Mobile Road Construction and Earth Moving System* – This project was completed with the delivery of truck-tractors, low-bed semi-trailers and truck tractor and trailer combinations.

- *Mobile Water Purification and Bottling System* – This project was completed with delivery of the total requirement for mobile water purifiers on 31 March 2021.
- *Aviation Rescue and Fire Fighting Vehicles* – This project was completed with the delivery of medium crash tenders and the official handover of the project will take place during 2021/22.

Armscor further managed acquisition and maintenance programmes for several larger defence systems, of which the following should be noted. (The majority of these acquisition programmes are multi-year acquisitions and projects will span several years. The ongoing monitoring of these projects to ensure on-time delivery and value-for-money is thus essential):

Maritime systems. *A Hydrographic vessel* is being purchased for the SA Navy under Project Hotel. Construction was set to start in 2018 and this was achieved through a steel-cutting ceremony hosted on 30 November 2018. Durban-based Southern African Shipyards (SAS) is the main contractor for Project Hotel to supply the SA Navy with a new hydrographic vessel and ancillary equipment. At the end of 2019/20, construction of the main vessel was 64% complete, and construction of the three small motor boats was 75% complete. By the end of 2020/21 the three small motor boats and Sea Acceptance Tests thereof were completed. The overall delivery schedule however, had to be extended due to *Force Majeure* claims (COVID-19 and strikes). The contract was amended accordingly.

Furthermore, an acquisition process for three new *Inshore Patrol Vessels* (IPVs) is in progress under Project Biro. Previous Annual Reports noted that, by December 2017, the contract was awarded for the construction of the three IPVs. The contract was awarded to Cape-Town Based Damen Shipyards. The 2019/20 Annual Report notes that the IPV contract is progressing according to schedule and that the first vessel is set to launched by the end March 2022. The 2020/21 Annual Report notes that construction of the first vessel has been completed and launched during the reporting period. The vessel is currently being prepared for commissioning and testing in order to be delivered towards the end of this calendar year. The keel of the second vessel has been laid and manufacturing of the ship sections are halfway complete.

Finally, as reported in previous years and observed during the PCODMV oversight visit to Simon's Town in 2019, midlife upgrades on both the SA Navy's frigates and submarines are on hold due to a lack of funds. The fact that these midlife upgrade have been put off for multiple years not only impact the SA Navy's operational capacity, but may well result in more expensive upgrades being required in the long-term.

Airborne systems. The Annual Report notes that the A-Darter Air-to-Air missile was completed at the end of 2019. This marks a significant milestone and offers a unique domestic capability to the SA Air Force. However, the industrialisation and large-scale production of the A-Darter continues to be delayed by difficulties in Denel. The integration of the missile system on the SA Air Force Hawk aircraft has subsequently been deferred as well. A contract was placed with Denel in March 2015 for the industrialisation and subsequent production of A-Darter missiles for the SAAF. Progress on the preparation of the manufacturing processes was slow and manufacturing of subsystems for the first batch of missiles has been delayed by almost two and a half years due to financial challenges experienced by Denel and consequent non-delivery of subsystems by their suppliers and subcontractors. Delivery of the first batch of trainer missiles and initial logistic support capability was scheduled for the first quarter of the 2020 calendar year, but due to the COVID-19 lockdown it is now expected by the middle of 2021. Production and delivery of the operational missiles is currently at risk due to the financial difficulties being experienced by Denel and to a large extent by the loss of critical capabilities in Denel.

Landward acquisitions. The most significant acquisition in the landward defence environment is Project Hoefyster which relates to the purchasing of new Infantry Fighting Vehicles for the SA Army to replace the ageing Ratel fleet which has been in service since 1976. An order for 244 new vehicles was placed with various variants to be delivered to the SANDF. While the first batch of 21 vehicles have been delivered from Finland, local manufacturing by Denel has seen significant delays of several years with the most recent year's reporting by Armscor as follows:

- *2019 Progress*: The 2018/19 Armscor Annual Report noted that the project was already 43 months behind schedule by the end of the 2018/19 financial year. Furthermore, "during December 2018, Denel formally notified Armscor and the DOD that it is unable to deliver against the current contract baseline in terms of technical specifications, delivery schedule and price as contracted. The way forward with the programme is being addressed within Armscor and the DOD, and possible alternative approaches with associated implications to mitigate the financial and capability risk to the DOD is being investigated."
- *2020 Progress:* The industrialisation of vehicle assembly at Denel Vehicle Systems has not shown any significant progress since the previous reporting period, mainly as a result of parts shortages

due to non-payment of suppliers. The delivery of the first Battalion consisting of 88 vehicles was contractually scheduled to be completed by May 2019. This date was however not achieved due to delays in the development and industrialisation process, and the latest indicated delivery date for the first battalion is June 2022, however with a low measure of confidence.

- *2021 Progress:* The development phase of the programme was contractually scheduled to be completed by May 2012 (original date), but has still not been completed. The expected new completion date is December 2023. The delays are mainly attributed to both technical and financial challenges within Denel. During the reporting period, it has also become clearer that Denel is experiencing an increasing lack of capacity and capability, and this has exacerbated the delays on the programme. Armscor and the DOD has been engaging significantly at various management levels regarding the status of the programme and the impact of the significant delays that have been experienced to date.

In addition to Project Hoefyster, Phase 1 of a new *Ground Based Air Defence System* (GBADS) for the SA Army was delivered to the Air Defence Artillery Formation. This focused on refurbishing the radar-guided system 35mm guns of the Air Defence Artillery Formation. A second phase of the GBADS is currently under way and focuses on the inclusion of the missile Short Range Air Defence system capability but is currently not funded. The project has made reasonable progress on the design and development activities towards the establishment of the initial Product Baselines of the new product systems. This is despite being severely impacted by delayed Client Furnished Equipment, limited resources at Denel, and Covid-19.

4.2 Defence Industrial Participation

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. In 2020/21, Armscor managed 14 such agreements, which is lower than the 17 managed in 2019/20. As in previous years, only one of the current DIP agreements are not related to the military (related to a SAPS pistol acquisition project). The value of DIP credits being managed remained similar to the previous financial year and comes to a total of R23.326 billion compared to R23.065 billion in 2019/20. Outstanding DIP obligations are as follows:

- DIP agreements related to the Strategic Defence Packages (1): R0
- DIP agreements related to ongoing defence projects (13): R550 million
- DIP agreements related to the SAPS (1): R24 million

4.3 Defence Materiel disposal

Armscor also manages the disposal of defence equipment for the DOD. Armscor's Defence Disposal Solutions (DDS) mandate provides for the disposal of excess and obsolete defence matériel on behalf of the DOD. Defence matériel to be disposed includes items such as ammunition, aircraft, spares, vessels, and land-and/or air-based equipment. Disposal of the defence matériel is carried out in accordance with the requirements of the DOD and regulatory authorities such as the NCACC and the National Non-Proliferation Council.
The value of disposal orders concluded by Armscor in 2020/21 were not disclosed in the Annual Report. The last time disposal orders were disclosed was in 2018/19 when Armscor concluded orders to the value of R8.5 million. However, Armscor noted that "DDS concluded a partnership agreement with Defence Equipment Sales Authority (DESA) of the UK Ministry of Defence to market and sell its surplus stock on the continent. This opportunity is expected to generate income for both DESA and Armscor while also creating an opportunity for the industry to upgrade, refurbish and/or provide after sale service to the prospective client."

4.4 Research and Development

The bulk of research and development services took place at Research and Development Facilities such as the *Gerotek and Alkantpan* test facilities as well as *Hazmat protective systems.*

Alkantpan is a munitions test range in the Northern Cape Province and attracts a number of local and international clients. Several international and domestic clients perform tests at the facility. Covid-19 had a severe impact on operations at Alkantpan, with test being conducted decreasing from 124 in 2019/20 to 93 in 2020/21. A further challenge for Alkantpan was the lack of support of critical mission equipment by Denel as the Original Equipment Manufacturer due to Denel's financial situation. Alkantpan has been challenged especially by the situation where spares are not readily available from Denel.

Hazmat produces respiratory equipment for military and commercial purposes. The demand for military respiratory products diminished and Hazmat successfully transformed the business from only supplying the DOD with Chemical and Biological Warfare filters to a range of commercial PPE products, which are sold to the safety industry. During 2020/21, sales increased due to an unfortunate outbreak of the Covid-19 pandemic. Hazmat's sales for the financial year (R17 million) exceeded budgeted sales by 10%. A major service on the carbon plant and resulting improvements are planned and budgeted for early in the new financial year as part of continual improvement initiatives.

Other defence science technology institutes that receive the bulk of their funding from the DOD include:

- ***Gerotek****:* Gerotek Test Facilities was established to meet South Africa's needs to test defence-related products and to maintain key facilities, equipment, capabilities and technologies for that purpose. Gerotek was severely affected by the Covid-19 pandemic as international and local clients cancelled events at the facility. The Annual Report notes losses of R11 million due to cancelled events and projects at Gerotek.
- ***Armour Development*****:** Conducts defensive and reactive armour development. Funded by the Research and Development Board. During the reporting period, all significant milestones on armour protection that could be used for current and future armour systems for the DOD were achieved and completed.
- ***Protechnik Laboratories*****:** Focuses on chemical and biological defence. Protechnik's operations in 2020/21 revolved around the Covid-19 pandemic as it designed, tested and evaluated hand sanitiser and surface disinfectant formulations with adherence to guidelines from the World Health Organisation. The pilot manufacturing facility at the Technopark site had to be upgraded and semi-automated, resulting in an 80% increase in production capacity from 960 litres of product per eight (8) hour shift to 5 400 litres, with a revenue of R10.2 million. Further, Protechnik raised R4.2 million by conducting tests to evaluate the effectiveness of particle filtering masks and surgical masks.
- ***Institute for Maritime Technology (IMT)*****:** The institute provides techno-military expertise to support naval decision-making. The IMT is involved in various programmes, including:
  - Establishing a Situational Awareness Centre at Naval Base Durban to provide the SA Navy with a capability to monitor the harbour, ocean and key point facilities in Durban.
  - Developing a Maritime Domain Awareness system that provides the SA Navy with a recognised maritime picture of the South African coastal area (handed over in March 2021).
  - Development of the Ultrasonic Broken Rail Detector, which has significant commercial potential. Previous Annual Reports noted that the system was tested in India, but no further mention has since been regarding any successful international sales.
- ***Ergonomics technologies*****:** Focus on integrating ergonomics into the SANDF.
- ***Defence decision support institute*****:** Provision of decision support to the DOD. This capacity continues to be severely affected by the reduction in the DOD's acquisition funding.
- ***Flamengro:*** During 2020/21, a state-of-the-art test facility for the testing of specialist materials, sensor calibration, blast wave testing, and impact testing for armour was commissioned.

4.5 The Armscor Dockyard

The Armscor Dockyard serves as the primary maintenance supplier to the SA Navy. As in previous years, the Dockyard continues to face strain due to financial concerns and the impact thereof 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 is to be implemented over three years, with the first phase focusing on eliminating the financial deficit. The 2019/20 Annual Report noted that progress to date yielded the desired results and the implementation is ongoing. However, the 2020/21 Annual Report did not note further progress with the Renewal Strategy.

The Armscor Dockyard's performance is based on a service level agreement between the SA Navy and Armscor. Updates on the maintenance of specific classes of vessels include:
Submarines:

- SAS Manthathisi: The maintenance activities took place and the boat was successfully undocked. The boat is operational and will be undergoing further scheduled maintenance and repairs in the second half of the year 2021.
- SAS Charlotte Maxeke: Additional funding to complete the refit of the boat by end of calendar year 2023 has been made available by the SA Navy.

Frigates:

- SAS Mendi: After eight years of being under a maintenance period, the vessel managed to conduct its first test and trail on the diesel generators that were installed by Dockyard. Sea trials are now in progress to get the vessel operational.

- SAS Spioenkop: Systems interface and integration testing is ongoing. The vessel is operational.

Two other factors regarding the Dockyard may be noted. First, the Annual Report noted that the age of the equipment at the Dockyard is concerning. As a result, a preventative maintenance programme has been implemented, focusing on maintenance of critical areas with a secondary drive to manage obsolescence. Second, in previous years it was indicated that 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. No specific updates on commercial Dockyard activities were provided in the 2020/21 Annual Report.

5. HUMAN CAPITAL MANAGEMENT

The 2020/21 Annual Report indicates that Armscor, including the Armscor Dockyard, has a staff complement of 1 477, which is lower than the staff complement of 1 556 in 2019/20. In terms of Employment Equity, 83.48% of the Armscor Human Resources contingent are black. This is a further increase from 2019/20 when the percentage stood 82.97%. The 2020/21 Annual Report further indicates that 39.20% of employees are female, which also represents an increase from the 38.43% in the preceding year.
Armscor should also be lauded for its focus on capability retention and succession planning in recent years. The 2020/21 Annual Report, however, states that the "succession planning strategy required a shift in thinking from "succession planning", which implied an event, to "succession readiness" which required leaders to start thinking in terms of ongoing development, capacity and capability building and the identification of high potential employees." Crucially, Armscor also notes that "with the downturn in active projects in the immediate future, the Acquisition Department intends to retain a portfolio of capabilities and expertise in identified strategic technology domains – to ensure that the capability will exist to capably execute anticipated future requirements of the DOD, and to remain relevant."
A positive initiative from Armscor that has been in place for several years is that it continues to provide skills development through a number of programmes, the following of which are noteworthy:

- *Bursaries*. Armscor sponsored 34 students with bursaries to study at different institutions, of which the majority were in engineering and science. Seven (7) of these completed their studies while 21 others remain on the programme. One (1) student dropped out and five were suspended due to poor performance.
- Defence Engineering and Science University Programme. In 2020/21, 67 students were funded for the academic year. This is lower than the 104 noted in the previous year. A total of 43 students were postgraduates and 24 were undergraduate students.
- Talent Development Programme. For 2020/21, 42 candidates participated in this programme. The students were placed in different business units across the entire Corporation.

6. PERFORMANCE OVERVIEW

Armscor has two categories of performance measurement as follows:

- *Performance against the Service Level Agreement Outputs*. (13 of 14 targets set for 2020/21 achieved [92.9% targets achieved]).
- *Performance against Group Strategic Outputs.* (12 of 17 targets set for 2020/21 achieved [70.6% targets achieved]).

The table below highlights the targets *not* achieved or only partially achieved.

Selected Key Performance Indicators not achieved/partially achieved by Armscor in 2020/21

Objective	KPI	Goal	Achievement	Comments
Performance against the Service Level Agreement Outputs				
Procurement	Average time taken to convert DOD requirements into orders including: 145 days for SDA acquisition programmes.	145 days	147.47 days	**Target not achieved**

Objective	KPI	Goal	Achievement	Comments
Performance against the Service Level Agreement Outputs				
Performance against Group Strategic Outputs				
Revenue Generation	Revenue generated from the Business Enablement Business Unit.	R33.7 million	R16.9 million	**Target not achieved** (Target also not achieved in 2019/20)
Infrastructure renewal	Implementation of the approved application system renewal plan.	80%	60%	**Target not achieved** (Target also not achieved in 2019/20)
Stakeholder management	Conduct integrated employee engagement survey and determine new baseline.	% Improvement to be determined	% Improvement remained unchanged	**Target not achieved** The New Baseline 2020/21: High Engagement state: 14% Moderately engaged: 68% Disengaged: 18%
Transformation of corporation	Improving female representation (overall).	40%	39.20%	**Target not achieved** (Target also not achieved in 2019/20)
Transformation of corporation	Total number of employees with disabilities	28	25	**Target not achieved**

7. FINANCIAL STATEMENTS AND KEY NOTES FROM THE AUDITOR-GENERAL

The total comprehensive income of the Group decreased from a surplus of R179.5 million in 2020/21 to a surplus of R124.3 million in 2020/21. In line with the challenges faced due to Covid-19 in 2020/21, revenue generated by Armscor decreased from R1.760 billion in 2019/20 to R1.591 billion in 2020/21. Revenue generated is largely dependent on a state grant, but comprises the following categories in the table below. The table reflects the decrease in income from the sale of goods and services as well as a decreased income on interest and other income.

Revenue category	2019/20	2020/21
Sale of goods and services	R389.6 million	R301.8 million
Government grants	R1.176 billion	R1.113 billion
Interest	R104.7 million	R89.1 million
Rental	R68 million	R71.4 million
Other income	R22 million	R15.1 million

The following additional financial matters should also be noted:

- Employee-related costs increased from R1.118 billion in 2019/20 to R1.123 billion in 2020/21. This constitutes 82% of Armscor's expenditure.
- The detailed financial statements note that the gain on disposal of assets and liabilities decreased from R18.114 million in 2019/20 to R1.202 million in 2020/21.
- No surplus was made from any joint ventures (compared to R2.4 million in 2019/20).

Payment to the executive directors:

- Payment to the executive director positions *decreased* from R8.796 million in 2019/20 to R8.285 million in 2020/21.
- The main contributor to the decreased payment to executive directors relates to a reduced payment for 'allowance' from R631 000 in 2019/20 to R339 000 in 2020/21.

- Inter-year comparison of executive salaries is difficult given that there were two CEO's in the previous year (2019/20). However, a review of the basic salary of the CFO indicates only a marginal increase from R2.398 million in 2019/20 to R2.425 million in 2020/21.

Payment to non-executive directors:
- Fees and Committee remuneration to non-executive directors decreased significantly from R6.168 million in 2019/20 to R2.706 million in 2020/21.

Payment to executive committee members:
- Payment to executive committee members remained stable between 2019/20 and 2020/21. However, payment to Mr JS Mkwanazi increased from R3.636 million in 2019/20 to R4.819 million in 2020/21. Mr Mkwanazi retired from Armscor effective 31 March 2021, so the payment may relate to retirement benefits, but clarity on this payment should be provided.

Fruitless, wasteful and irregular expenditure

In 2020/21, expenditure amounting to R6 000 (R395 000 in 2019/20) was recorded and deemed to be fruitless and wasteful. The expenditure was as a result of penalties charged. An investigation was performed and found no person could be held liable as delays were directly linked to the lockdown. Additionally, expenditure of R929 000 (R1.937 million in 2019/20) related to previous years was written off after completion of investigation.
Further fruitless expenditure amounting to R4.571 million were incurred on behalf of the DOD as a result of penalties charged. Investigations are ongoing and yet to be concluded.

Irregular expenditure R6.927 million was noted during 2020/21 (R12.449 million in 2019/20), including the following:
- R5.321 million relates to security cost which is deemed to be irregular. The cost was incorrectly approved as sole source during the previous financial year and a new procurement process was followed where a new supplier is now in place since October 2020.
- R337 000 related to contract extensions above the National Treasury threshold and not following competitive bidding process.
- R24 000 relates to services that were provided by a non-tax complaint service provider. Consequence management was implemented in line with internal processes.

Finally, ongoing litigation against Armscor should also be considered:

- € 192 million against Armscor for services allegedly rendered by Plaintiff's (Beverly Securities Ltd and Beverly Securities Inc.) in establishing a clandestine Portuguese channel during the 1980's for transportation of 50 Oryx helicopters. The case is only awaiting expert witness submissions and a court date is awaited.
- € 17.62 million and R258 168 against Armscor and Denel by Patria Land Systems (this relates to Project Hoefyster). The Plaintiff (Patria) claims that Denel and/or Armscor did not accept work delivered in accordance with an agreement entered into between Denel and the Plaintiff and furthermore demand payment of a number of invoices issued to Denel. The Plaintiff further claim that Armscor and Denel have entered into a *stipulatio alteri* for the benefit of Patria in terms of which Armscor would be liable for the invoices issued by Patria to Denel. The Plaintiff has not approached the Court for a trial date and has submitted a settlement proposal wherein it is required that Armscor make payment in respect of the additional claim in respect of the goods packages. Armscor did not accept the proposal as Armscor does not have a contractual relationship with the Plaintiff.

In terms of the audit findings for 2020/21, Armscor obtained an **unqualified audit** from the Auditor-General of South Africa (AGSA) for 2020/21.

The AGSA made one specific note for relevance to the Committee include related to internal control deficiencies. The AGSA notes that "senior management did not exercise sufficient oversight responsibility over financial reporting. This was mainly a result of insufficient reviews by management, combined with system-imposed limitations linked to the legacy systems used to compile the financial statements, which resulted in material adjustments impacting non-compliance."

Furthermore, in its presentation to the PCDMV on 10 August 2021, the AGSA noted that 'Armscor submitted financial statements that contained material errors and this resulted in non-compliance with legislation.'

8. COMMITTEE OBSERVATIONS: ARMSCOR

The Committee made the following general observations on the 2020/21 Annual Report:

a. The Committee required clarity on whether bonuses were paid during 2020/21 to the CEO, CFO and Board Members of Armscor, specifically in the light of the fiscal constraints under which the entity functions.
b. Given the need for Armscor to diversify its revenue generation, Members emphasised the need for the Business Unit to function optimally and explore means to generate revenue.
c. Members requested clarity on the potential for midlife upgrades for the SA Navy's frigates and submarines from Armscor's perspective. Armscor indicated that no funding is available for these projects. For the Frigates, no mid-life upgrade will take place to sustain frigates capability until 2033 as per the Staff Requirement while no mid-life upgrade will take place for Submarines until 2035 as per the Staff Requirement. Armscor proposed the adoption of Spiral Acquisition approach through various funding sources in case of limited or no funding.
d. Members requested an update on the commercial work from the Dockyard and was informed that the Dockyard could not do much commercial work due to the amount of decommissioned vessels consuming space in the Dockyard. They are up for disposal but the process to dispose of these systems is taking longer than anticipated.
e. Members expressed concern around allegations of break-ins at the Armscor Dockyard and requested Armscor to respond to these allegations. Armscor noted that there were two night-time break-ins during the year where some brass and copper were stolen. During the third incident, which occurred in daytime, the perpetrators were caught. The Military Police were notified and they opened a case of theft with the police. The Dockyard management initiated a disciplinary process thereafter the two employees were eventually dismissed.
f. Members inquired whether any fraud procurement investigations were under way at the Armscor Dockyard. Armscor noted that there was an investigation done at the Dockyard due to alleged procurement irregularities. Some officials were put on precautionary suspension and four people were charged and the disciplinary processes are in progress. There was also an allegation of falsified medical certificates being used and this matter was brought to management's attention on the 9th November 2021. The employee has since been suspended and the disciplinary hearing will sit shortly.
g. The Committee welcomed the good progress with the delivery of the Project Biro vessels to the SA Navy, but requested further clarity on final delivery dates and any potential delays. Armscor indicated that the next two vessels to be delivered will likely be delivered ahead of schedule. However, Armscor also highlighted the financial risk to the project noting that there is insufficient funding available to complete the project as no allocation for CPI and Rate of Exchange increases have been made since 2017. There is an estimated shortage of R184 million. The DOD is aware that sufficient funding needs to be allocated to cover the contractual commitments.
h. The Committee noted with concern the situation at Denel Dynamics and its inability to make progress with the commercialisation of the A-Darter missile system. Members also raised the potential negative impact on the operational capacity of the SA Air Force.
i. The Committee expressed extreme concern around the continued, decade-long, delay in Project Hoefyster and therefore questioned the continued viability of the project. These concerns were previously raised by the Committee as well. The Committee therefore required clarity on the project from the Armament Acquisition Council and Armscor. Members also questioned whether the technology developed for Project Hoefyster has not become obsolete or dated and whether another locally manufactured product should not rather be sourced. Armscor noted that the project phase 1 is late by more than 9 years and Denel does not have money to complete the project. Denel has also lost resources and they owe suppliers. It was also noted that a decision on the Armament Acquisition Council is still pending. Armscor further admits that some technology that was originally part of Project Hoefyster, has become obsolete.
j. Members questioned Armscor on whether it sold any Personal Protective Equipment (PPE) to the DOD in 2020/21 and was informed that Armscor sold sanitizers to the value of R1.49 million to the DOD.
k. Members requested Armscor to report on progress with regards to demolition of obsolete ammunition at its various facilities for 2020/21, especially the De Aar and Jan Kempdorp ammunition depots. Armscor indicated that the demolition of obsolete ammunition is the responsibility of the SANDF.
l. Members requested Armscor to provide a breakdown of its Human Resources component in terms of race, gender and age-group in future reports. Armscor indicated that 10.55% of its workforce is aged between 20 and 30, 29.74% between 31 and 40, 30.48% between 41 and 50 and 23.29% between 51 and 60.

m. The Committee noted that for 2020/21, there were only 15 projects with a funding allocation for the year compared to 39 in 2019/20 and requested clarity on the financial impact thereof. Armscor indicated that this relates to the reduced DOD budget allocation. Since 2018/19, no new projects were initiated, and only projects that had already been contracted were funded within the capital budget. The number of funded projects are reducing on an annual basis, as projects are completed and no new projects are initiated.

9. COMMITTEE RECOMMENDATIONS

Based on its analysis and overview of the 2020/21 Annual Report, the Committee makes the following recommendations:

a. The Committee questions the payment of increases and bonuses to the CEO and CFO. On 8 June 2020, Armscor made a presentation to the Committee in which it notes that, as a means to reduce the impact of the Covid-19 pandemic, it is considering not to pay salary increases and performance remuneration which was expected to result in R89 million savings. The Armscor Board should therefore provide the Committee with written feedback, before the end of January 2022, as to the reasons for the payment of salary increases and bonuses amid significant fiscal constraints in 2020/21.
b. Armscor previously indicated to the Committee that Armscor DDS concluded a partnership agreement with Defence Equipment Sales Authority (DESA) of the UK Ministry of Defence to market and sell its surplus stock on the continent. Armscor should provide the Committee with an update, before the end of January 2022, on progress in this regard and whether this has resulted in any revenue generation for the entity.
c. The Committee congratulates the Armscor Business Unit in generating R16.9 million additional revenues for the entity amid Covid-19 constraints. The various successes in engagements with international clients is particularly commendable. Given that international travel has largely recommenced, more business opportunities are likely to be explored and the Committee wishes to see a sustained increased in funds generated by the Business Unit.
d. While the midlife upgrades of SA Navy platforms are not in Armscor’s control, the Committee expresses its concern around the fact that all funding for the projects have been surrendered, implying that no mid-life upgrade will take place. To this extent, the Committee again recommends that National Treasury reprioritise funds to provide a ring-fenced allocation to upgrade the SA Navy’s Frigate and Submarine fleet in the coming years.
e. The Committee welcomes the consequence management implemented by the Dockyard with several employees being suspended or charged with cases related to fraud and theft. Armscor should provide the Committee with a written follow-up letter on the outcome of the disciplinary action taken against four people charged in relation to fraud procurement.
f. Given the urgent need for revenue generation by Armscor, the delays in the disposal of decommissioned vessels is a concern to the Committee. Armscor should, before the end of January 2022, provide the Committee with a written update on plans to speed up the process and what the additional revenue-generation plans for the Dockyard are in 2022/23.
g. The Department of Defence and Armscor should, before the end of January 2022, jointly provide the Committee with a written response as to how the current shortfall of R184 million for Project Biro will be funded.
h. Armscor is encouraged to speed up the multiparty negotiations to revive the commercialisation of the A-Darter missiles and present the way forward in its 2022/23 Performance Plan.
i. It is evident that the continued delay and Project Hoefyster has now come to a point where any future viability of the project is placed in significant doubt, especially since Denel will not be able to deliver and that some of the technology has become obsolete. The fact that the Armament Acquisition Council has not published a decision on the matter since 2019, following a recommendation from Armscor, is of further concern. The Committee requests that, before the end of January 2022, the Minister of Defence and the Armament Acquisition Council submit in writing to the Committee the reasons for the delay in a decision on the future of Project Hoefyster, by when a decision can be expected and what the likely way forward is.
j. The Committee recommends that Armscor provides a breakdown of its Human Resources component in terms of race, gender and age-group in future Annual Reports.

PART B: CASTLE CONTROL BOARD (CCB)

1. DESCRIPTION OF CORE FUNCTIONS OF THE CASTLE CONTROL BOARD

The mandate of the Castle Control Board (CCB) is derived from the Castle Management Act, 1993 (No. 207 of 1993) which requires it to preserve and protect the military and cultural heritage of the Castle of Good Hope (CGH), South Africa's oldest architectural structure - on behalf of the Minister of Defence and Military Veterans. Both the National Heritage Resources Act (No. 25 of 1999) and the Defence Endowment Property and Account Act (No. 33 of 19922) also cover certain aspects of the mandate. This Report will focus on the:

- Strategic Overview for the 2020/21 Financial Year with specific reference to Strategic Priorities of Government and Strategic Priorities of the CCB.
- Overview and Assessment of Financial Performance with specific reference to the Appropriation statement for the 2020/21 financial year; Financial statements; and Findings of the Auditor General of South Africa.
- Overview and Assessment of Programme Performance focusing on the four Programmes.
- Governance and Human Resources.

2. STRATEGIC PRIORITIES OF GOVERNMENT AND THE CCB.

2.1 State of the Nation Address 2020

President Cyril Ramaphosa, during his SONA on 13 February 2020, made the following remarks that can be related to the mandate and activities of the CCB:

- "We resolved to cure our country of the corrosive effects of corruption and to restore the integrity of our institutions." The CCB has a fully-fledged Fraud Prevention Policy that also addresses criminality. It aims to make losses due to fraud and corruption intolerable and will institute training covering these aspects.
- "Secondly, our history demands that we should improve the education system and develop the skills that we need now and into the future." The CCB annually has a number of student leaderships being offered and for the year under review, had 4 interns.
- "Given the key role that small businesses play in stimulating economic activity and employment – and in advancing broad-based empowerment – we are focusing this year on significantly expanding our small business incubation programme." The CCB assists small businesses by *inter alia* ensuring it procure locally as well as paying their invoices within the stipulated 30 days.
- "To support the growth of the tourism industry, the SAPS will increase visibility at identified tourist attraction sites," and "We are launching a Tourism Equity Fund this year to stimulate transformation in tourism." Given the CCB's heavy reliance on tourism, the views of the President were welcomed to the extent that the tourism industry was being promoted and assisted, which will have a positive effect on the CCB.

2.2 National Development Plan and the Medium Term Strategic Framework (2020 - 2025) Priorities

As opposed to previous years, the CCB's Annual Reports for FY2019/20, and FY 2020/21 do not make any reference to the NDP and the only reference to the MTSF is by the Auditor General.

3. SUMMARY OF PREVIOUS RECOMMENDATIONS OF THE COMMITTEE

3.1. 2020 BRRR Recommendations for the CCB

The Portfolio Committee, after considering the Draft 2019/20 Annual Report of the CCB, makes the following recommendations:

a. The Committee recommends that the CCB should update it on the steps it has taken to address the matters raised by the AGSA.
b. The CCB is requested to update the Committee on the implementation of the Integrated Conservation Management Plan on a regular basis to ensure that any challenges in this regard is timeously identified and addressed.

c. The Committee recommends that all efforts should be made to address the Going concern challenges as identified by the AGSA and that the CCB should appraise the Committee on progress in this regard on a regular basis.
d. The Committee encouraged the CCB to enhance its efforts to the UNESCO World Heritage Site listing and wants it to brief the Committee on progress in this regard as well as indicating when it expects to achieve this objective.
e. The Committee recommends that the CCB put measures in place to retain personnel as the loss of 10 staff members over the last two years is not conducive for productivity and its sustainability.
f. The Committee recommends that the explanation for the missed target on the payment of invoices within 30 days should be addressed as it is unacceptable that the Finance Section did not have all controls in place to pay invoices on time.

4. STRATEGIC OVERVIEW: HIGHLIGHTS AND CHALLENGES

4.1 Strategic Outcome oriented goals

The 2020/21 Annual Report of the CCB referred to its Strategic Outcome oriented goals as:

- To ensure effective administrative management in terms of corporate governance and professional competent corporate image.
- To develop the museum and interpretative components of the Castle and its related themes through continuous research and development.
- To ensure promotion of the Castle as a must-see and vibrant tourist destination accessible to all the citizens of South Africa and the world.
- To ensure the accessibility of the Castle as an attractive and user-friendly centre of cultural significance by all sectors of the community.

4.2 Highlights

The Chairperson and Chief Executive Officer of the CCB referred to some of the following:

- The President and Minister visited the Castle in February for the S.S. Mendi commemoration and Armed Forces Day 2021.
- A clean audit opinion from the AGSA.
- CCB managed to self-generate R1 026 073.
- Except for four targets, the CCB met or exceeded all the corporate governance, heritage maintenance, tourism, and public access targets
- Participation on national heritage platforms with participation and publication on the South African Museum Association conferences and publications.
- The DOD-funded maintenance and gardening team transformed the aesthetics ofthe Castle staving off negative attention from mostly local polemicists.
- Media coverage on the Castle and CCB was favourable and reached a worldwide audience of 554.6 million people.

The CCB did well to achieve a clean audit opinion after it received unqualified audit outcomes for the previous two financial years. Given the impact of the Covid 19 pandemic, it is also encouraging that the CCB managed to self-generate R 1 026 073.

4.3 Challenges

Challenges faced during 2020/21included the following:

- Dealing with the challenges and opportunities a post-COVID-19 world offers all of us in particular to support the objectives of Project Koba-Tlala;
- Formalising the legal agreement between the Executive Authority and the Board;
- Seriously addressing the going concern and sustainability challenges once and for all;
- Pursuing the review of and possible amendments to the Castle Management Act; and
- Tackling the safety and security risks at the main entrance and around the Castle.
- Securing the perimeter fence has become imperative if the CCB want to position itself for UNESCO World Heritage status.

It was noted that it was not apparent what exactly was hindering the formalisation of the legal agreement between the Executive Authority and the Board and this issue was to be followed up. Although the CCB is reliant on the DOD to process the amendment of the Castle Management Act, it was still concerning that for the umpteenth time the CCB reports no progress in this regard. Similarly, it appears that little progress has been made to effectively deal with the safety and security concerns of staff and visitors at the entrance and around the Castle.

4.4 Focus during the new Financial Year: Challenges and Opportunities in 2020/21:

Similar to the previous financial year's annual report, the CCB reported the following

a. Dealing with the challenges and opportunities a post-COVID-19 world;
b. Formalising the legal agreement between the Executive Authority and the Board;
c. Seriously addressing the going concern and sustainability challenges once and for all;
d. Pursuing the review of and possible amendments to the Castle Management Act;
e. Tackling the safety and security risks at the main entrance and around the Castle;
f. Pursuing the Castle's UNESCO World Heritage Site listing;
g. Roll-out of the CCB's Responsible Commercialisation strategy to drive sustainability; and
h. Maintain and strengthening institutional, corporate, and administrative management processes at the CCB.

5. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE

5.1 Financial Performance for the 2020/21 Financial Year

The over-expenditure for the CCB for the FY2020/21 was R658 000 versus underspending of R3m in FY 2019/20. The former is mainly due to the over-expenditure of R696 000 in the Administration Programme and R82 000 in the Conservation Programme, while no money was allocated nor spend in the Tourism Promotion Programme and only R30 000 of the R150 000 allocation for the Public Access Programme was utilised.

	2018/19		**2019/20**		**2020/21**		
	R'000 (*R thousand)*						
	Budget	Actual Expenditu e	Budget	Actual Expenditure	Budget	Actual Expenditure	(Over)/Under Expenditure
Administration	7 061	6534	8 031	5 299	4 711	5 407	(696)
Conservation	525	230	662	428	304	386	(82)
Tourism Promotion	60	3	15	9	0 0 0	0 0 0	0 0 0
Public Access	204	294	250	109	150	30	120
Total	**7 850**	**7 061**	**8 958**	**5 845**	**5 165**	**5 823**	**(658)**

Table 1: Budget for FY2018/19 to FY2020/21`

The CCB has utilised R3 million of the R4.9 million allocated from the Department of Defence. This has significantly improved the income for the CCB, to such an extent that it could post over-expenditure of R658 000 for the past financial year. Similar to the FY 2018/19 and 2019/20 comments, the CCB states that "Sales income is in line with our estimates for the year. However, the provision made to compensate for the access to our historic surplus funds, skews this estimate thus painting a picture of under-performance."

Source of revenue	**2018/19**		**2019/20**			**2020/21**		
	Estima	**Amount collected**	**Estimate**	**Amount collected**	**(Over)/unde collection**	**Estimate**	**Amount collectec**	**(Over)/unde collection**
	R'000 (*R thousand)*							
Sales	5 000	4 383	5 870	3 921	1 949	1 100	475	625
Rental income	2 220	1 322	2 456	1 496	960	1 056	255,4	800,6
Other income	575	3 243	622	394	228	9	555,2	(546,2)
Interest income	55	14	10	0	10	0	34,4	(34,4)
Grant						3 000 (4 900	4 900	(1 900)
TOTAL	**7 850**	**9 062**	**8 958**	**5 811**	**3 147**	**5 165**	**6 220**	**(1 055)**

Table 2: Revenue FY 2018/19 - 2020/21

5.2 Financial statements

5.2.1 Irregular expenditure

The CCB's Annual Report states the following "

> **"***Management and the Board can be commended to ensure that there was no irregular or unauthorized expenditure of a problematic kind and no fruitless and wasteful expenditure. Supply chain management policies and prescripts have been strictly observed, and actual expenditure has been closely monitored. The items disclosed in the notes to the financial statements as irregular or unauthorised relate to trivial deviations regarding specific contracts and contract extensions. At the same time, the depreciation charge for I.T. and conference equipment had not been included in the entity's pre-approved expenditure budget."*

The amount stated as Irregular Expenditure for 2020/2021 is R939 746, with R749 343 listed as current and R190 403 from prior period. Although it explains the Irregular expenditure further in the Annual Report on p.94, the fact remains this is for the second year running that such Irregular Expenditure has been incurred:

- The R 657 968 of the current year's irregular expenditure is due to the CCB overspending on its adjustments budget. Non-cash items such as depreciation, bad debts written off and an increase in leave pay are the contributing items to the over-expenditure of the final budget. This is due to a very challenging trading environment for the CCB. The going concern of the CCB has been affirmed through a regular grant from the DoD. This will ease the financial pressures on the CCB and lead to better budgeting.
- The entity extended contracts without informing the National Treasury where the value of extended contracts exceeded 15% of the initial contract value and the irregular expenditure incurred amounted to R 51 009 (2019/20: R 23 500). Although its states that it asserts that in extending these contracts there was value for money, no losses were incurred and the process was free of fraudulent, corrupt or criminal conduct, the PCODMV should request more information in this regard from both the CCB and the A-G.
- For contracts entered into that did not meet the minimum requirements stated in the National Treasury's General Conditions of Contract, the irregular expenditure amounted to R 30 643 (2019/20: R 174 675).

The above should be considered against the background that no Irregular expenditure has been listed for the FY 2018/19. Whether an amount of R937 746 can be denoted as ***trivial*** in a total budget of R 5 175 000, remains questionable. As stated before by the PCODMV, the CCB is a small entity with a small budget and it should not have such major governance challenges.

5.2.2 Unauthorised Expenditure and Fruitless and Wasteful Expenditure

The Annual Report states that the Board is satisfied that no fruitless and wasteful expenditure was incurred during the year under review, nor in the previous financial year. This is for the fourth year running, that no unauthorised expenditure nor Fruitless and Wasteful Expenditure were incurred.

5.3 Findings of the Auditor-General of South Africa (AGSA)

The CCB received a clean audit for the FY2020/21, which means that they received a financially unqualified audit opinion with no material findings on compliance and performance reporting. This is an improvement on the previous year's unqualified audit opinion.

5.3.1 Going Concern

The CCB states that one of the focus areas for the next financial year is "Seriously addressing the going concern and sustainability challenges once and for all." The Financial statements further point to the following "*Taking all these factors into account the CCB has access to financial resources to allow it to continue its operations into the foreseeable future. Thus, the annual financial statements have been prepared on the going concern basis*." The Auditor-General has also raised concerns about the 'going concern status' when it stated that "*Material uncertainty relating to going concern*" as and where it dealt with subsequent events and specifically the possible effects of the future implications of Covid-19 on the entity's future prospects, performance and cash flows. It however appears that the Going concern challenges have been put to rest, as it is reported that "the DoD will make annual grants to the CCB from the 2021/22 financial period. This will ensure that the CCB is able to continue as a going concern for the foreseeable future."

The Going Concern challenges should be viewed against the background of the Covid 19 pandemic, and the halt to tourism etc, but the Committee may want to clarify how well the Revenue Optimisation Strategy is performing, as well as whether increased media exposure actually translate to more visitors and business for the CCB. The repeated acknowledgement that its *Going status* will be reliant on the assistance of the DOD confirms the contention that the CCB has challenges with this issue, and that without such assistance the CCB will be hard pushed to remain a going concern.

5.3.2 Usefulness and reliability of the reported performance information

The AGSA evaluated the usefulness and reliability of the reported performance information in Programme 2: maintenance and conservation at the CGH and concluded that it did not identify any material findings on the usefulness and reliability of the reported performance information for this programme.

6. OVERVIEW AND ASSESSMENT OF PROGRAMME PERFORMANCE

6.1 Non-financial performance

While the Annual Report 2020/21 indicates that four annual targets were not achieved, the tables in pages 22 to 36 list three targets that have not been achieved, namely:

- Total number of visitors per annum had a target of 45 000 while the achievement was 14 522 and the reason offered was that "The tourism industry took a massive knock during Covid-19 restrictions."
- Number of commercial events hosted annually at the CGH had a target of 15 while the achievement was 6 with the reason provided that "Besides the optimistic state overstatement of this target, no one could have predicted the impact of the pandemic on the Events Industry.
- Number of student leaderships offered per annum with a target of 8 while 4 was achieved with the reason being that "After a directive from the Authorities, Cape University withdrew its interns from the programme"

Similar as the Annual Report of FY2019/20, the Annual Report FY2020/21 indicates that 19 of the 21 key performance indicators were achieved. The 90.5% success rate was thus met with overspending of R658 000 of the allocated budget of R5 165 000. This compared with the previous year's 90.5% success rate with spending of 65.24% of the planned budget.

6.2 Programme 1: Administration and Good Corporate Governance

For the financial year under review, all seven APP targets were met against spending of 115% (overspending). In the previous financial year, it had a budget of R5 299 000 and a spending of 87.5% while seven of the eight targets were met. This programme deals with areas of administration, corporate governance, financial management, human resource management and stakeholder communication.

	FY 2020/21	FY2019/20	FY2018/19
Programme 1: Targets	7	8	4
Targets achieved	7	7/8	4
Targets not achieved	0	1/8	0/4
Success rate	100%	87.5%	100%
Programme budget spent (%)	115%	66%	92.3%)

Table 3: Programme 1- Targets and achievements

The CCB performed well in achieving all of the seven annual targets of Programme 1 for the financial year under review, although this was done by overspending on the programme. It is concerning that one of the targets included in the previous financial year, was omitted for the financial year under review, namely the payment of invoices within 30 days. Given the importance of such an annual target, the CCB should be encouraged to re-instate this annual target. It is important that invoices are paid on time, especially for SMME's given their heavy reliance on on-time payments to ensure the continued existence of their businesses, especially in these times of the Covid-19 pandemic.

6.3 Programme 2: Preservation, Interpretation and Showcasing of the History of the Castle

All four targets of Programme 2 have been achieved against a spending of 113% of the budget, with a similar achievement of 100% of the targets in the previous year. The CCB did well on this Programme, especially as it relates to the preservation and showing of the Castle.

	FY 2020/21	FY2019/20	FY2018/19

Programme 2: Targets	4	3	4
Targets achieved	4	3	3
Targets not achieved	0	0	1
Success rate	100%	100%	75%
Programme budget spent (%)	113%	64.5%	43.8%

Table 4: Programme 2- Targets and achievements

6.4 Programme 3: Maximising the Tourist Potential

Programme 3 saw a performance where four of the six targets were met in the financial year under review. The two missed target relate visitors per annum and commercial events, both issues that suffered because of the Covid-19 pandemic. This brought the success rate down from the two previous years' 83.33% to 67%.

	FY 2020/21	FY2019/20	FY2018/19
Programme 3: Targets	6	6	6
Targets achieved	4	5	5
Targets not achieved	2	1	1
Success rate	67%	83.33%	83.33%
Programme budget spent (%)	0/0	60%	5%

Table 5: Programme 3 - Targets and achievements

6.5 Programme 4: Increased Public Profile and Positive Perception Across all Sectors of the Community

The success rate of this programme dropped from the two previous years' 100% to 75% because one of the targets was not met, namely the number of learnerships. This against the background that only R30 000 of the allocated R150 000 of this programme was spent.

	FY 2020/21	FY2019/20	FY2018/19
Programme 4: Targets	4	4	4
Targets achieved	3	4	4
Targets not achieved	1	0	0
Success rate	75%	100%	100%
Programme budget spent (%)	20%	43.6%	144%

Table 6: Programme 4- Targets and achievements

7. GOVERNANCE

The Annual Report refers to various issues under this section, *inter alia* its four engagements with the Portfolio Committee, that it operates as a Schedule 3A Public Entity, and states that a Risk Register has been developed to determine the effectiveness of its risk management strategy and to identify new and emerging risks.

7.1 Risk Management

The Annual Report indicates that the CCB has developed a Risk Register, which forms the basis for regular risk assessments to determine the effectiveness of its risk management strategy and to identify new and emerging risks. While the Annual Report for FY2017/18 listed the various Strategic Risks, this was not done for the subsequent three years, including 2020/21. This is contrast of how this is being done by the Department of Defence and the Department of the Military Veterans. These risks included the shortcomings in the Castle Control Board's founding Act; the safety and security concerns of staff and visitors to the Castle; and finalising the space-allocation, utilisation and sustainability of the Castle Control Board.

In the past the Annual Report listed space allocation - which deals with how and by whom the various facilities at the CGH are being managed - as a challenge but the last two annual reports do not refer to this issue. Given that the entity has pointed out that this relates to their income generation capacity and its drive towards sustainability, this risk needs to be highlighted.

7.2 Fraud and corruption

The CCB has a fully-fledged Fraud Prevention Policy that also addresses criminality. It aims to make losses due to fraud and corruption intolerable and will institute training covering these aspects. It further states that in the case of significant corporate functions at the Castle, that they source additional private security that is paid for by the client. The upgrading of the CCTV camera system will further enhance their capability to manage safety and security.

8. HUMAN RESOURCES

The CCB's Human Resources issue need to be viewed against the background that "*Traditionally the Human Resources component of the CCB has been both its Achilles heel and strength. On the one hand, its historical reliance on DOD-remunerated staff assigned to the Castle has led to significant savings …but on the other hand, it attracted the ire of N.T. and the AGSA and delayed any decisiveness as to the ultimate civilian management structure of the CCB.*" Although it states that now successfully resolved this matter, it has been put on the backfoot with the departure of three managers and two other staff members.

8.1 Performance bonus reversal

The Annual Report indicates that no performance rewards have been paid to its personnel in the FY2020/21. It however refers to a "Performance bonus reversal to the amount of R386 553 for the FY2019/20."

9. COMMITTEE OBSERVATIONS: CASTLE CONTROL BOARD

The Portfolio Committee made the following Observations on the 2020/21 Annual Report of the CCB:

a. The Committee commended the CCB on achieving a clean audit outcome from the AGSA after it has regressed over the previous two financial years.
b. The CCB was commended on its ability to self-generate R1.026 million during the financial year under review despite the devastating impact of Covid-19 on the tourism industry.
c. It was noted that the CCB has previously stated its intention to deal with its Going Concern challenges and that the AGSA stated that due to the financial assistance of the DOD, the entity could prepare its financial statements on the Going Concern basis.
d. Questions were raised around the possibility of online exhibitions by the CCB, especially given the Covid-19 restrictions and the ability of online exhibitions to reach rural areas and especially rural schools.
e. It was observed that the CCB denoted as trivial an amount of R937 746 in Irregular Expenditure in a total budget of R 5 175 000.
f. The CCB's attempts to achieve a UNESCO World Heritage Site listing was welcomed by the Committee as it would not only be beneficial to the CCB, but also give assurances that the site adheres to international standards.

10. COMMITTEE RECOMMENDATIONS: CASTLE CONTROL BOARD

The Portfolio Committee, after considering the 2020/21 Annual Report of the CCB, makes the following recommendations:

a. The Committee commended the CCB on its clean audit opinion and reiterated its stance that it expects such a small entity to perform well during its auditing processes.
b. The CCB was encouraged to further enhance its self-generating capability to ensure that it is less reliant on the Department of Defence, and that it should prioritise its much vaunted Revenue Generating Strategy to assist to increase the CCB's revenue
c. Noting the Going Concern challenges have been exacerbated by the pandemic, the Committee recommends that the CCB should, *inter alia*, explore the full utilisation of all facilities at the Castle to enhance its sustainability and revenue generating abilities. Progress in this regard should be reported at the next meeting with the Committee.
d. The Committee welcomed the CCB's initiative to utilise an e-brochure but was encouraged to develop online exhibitions to increase its coverage, especially to rural schools, while noting that such a project would be funding-dependent.
e. The Committee raised its serious concern that an amount of R937 746 could be incurred as Irregular Expenditure and viewed as *trivial* and reiterated its stance that such a small entity with a small budget, should not incur such Irregular Expenditure.
f. The Committee encouraged the CCB to enhance its efforts to obtain a UNESCO World Heritage Site listing and wants it to brief the Committee on progress in this regard as well as indicating when it expects to achieve this objective.

Report to be considered