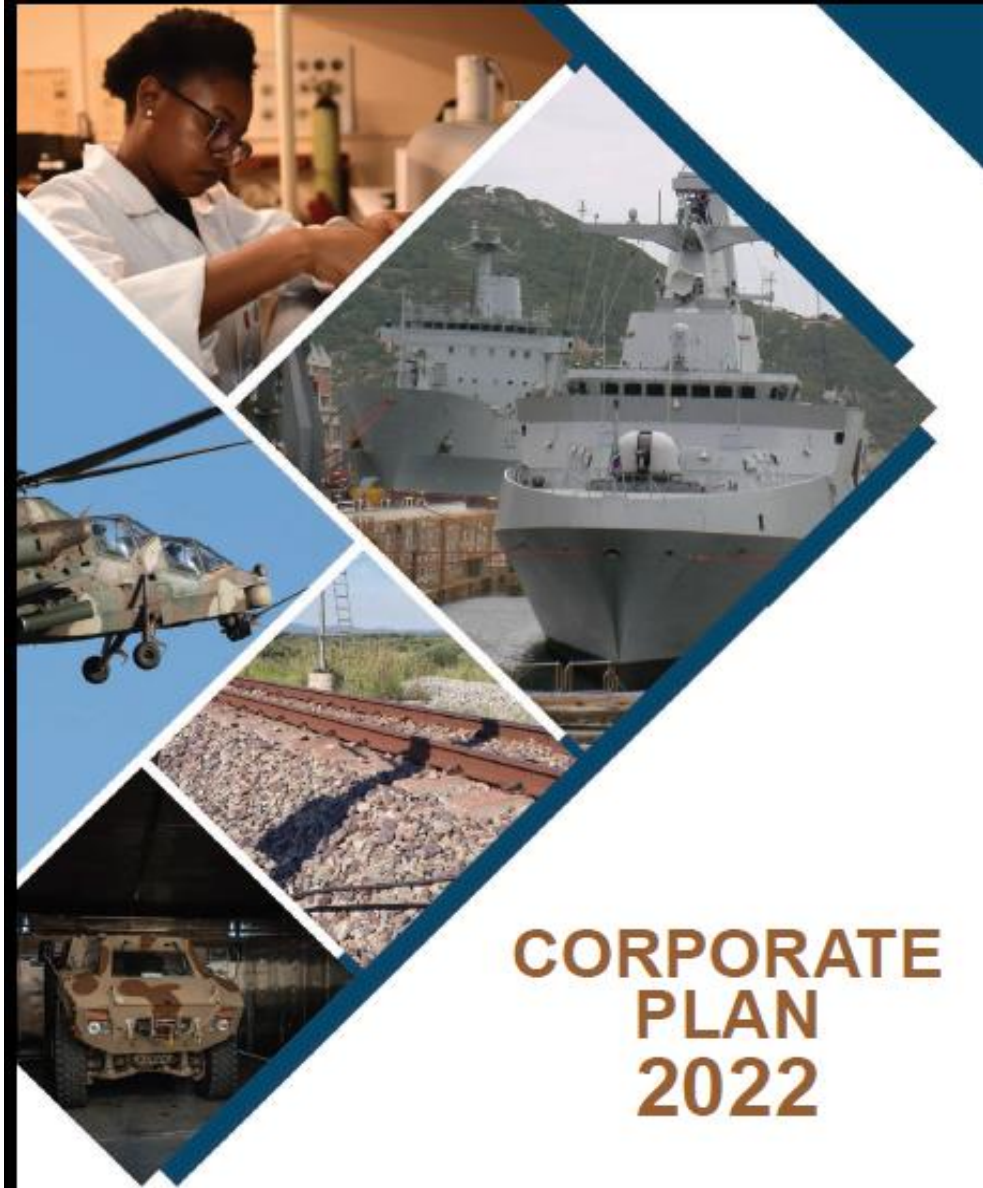


# Presentation to the PCDMV on the CORPORATE PLAN 2022

Presented by:  
Adv. Solomzi Mbada  
CEO

4 May 2022



## CORPORATE PLAN 2022

Gateway to defence solutions



To present the concise corporate overview of Armscor's Corporate Plan 2022 to the Portfolio Committee on Defence and Military Veterans as tabled on 16 March 2022.

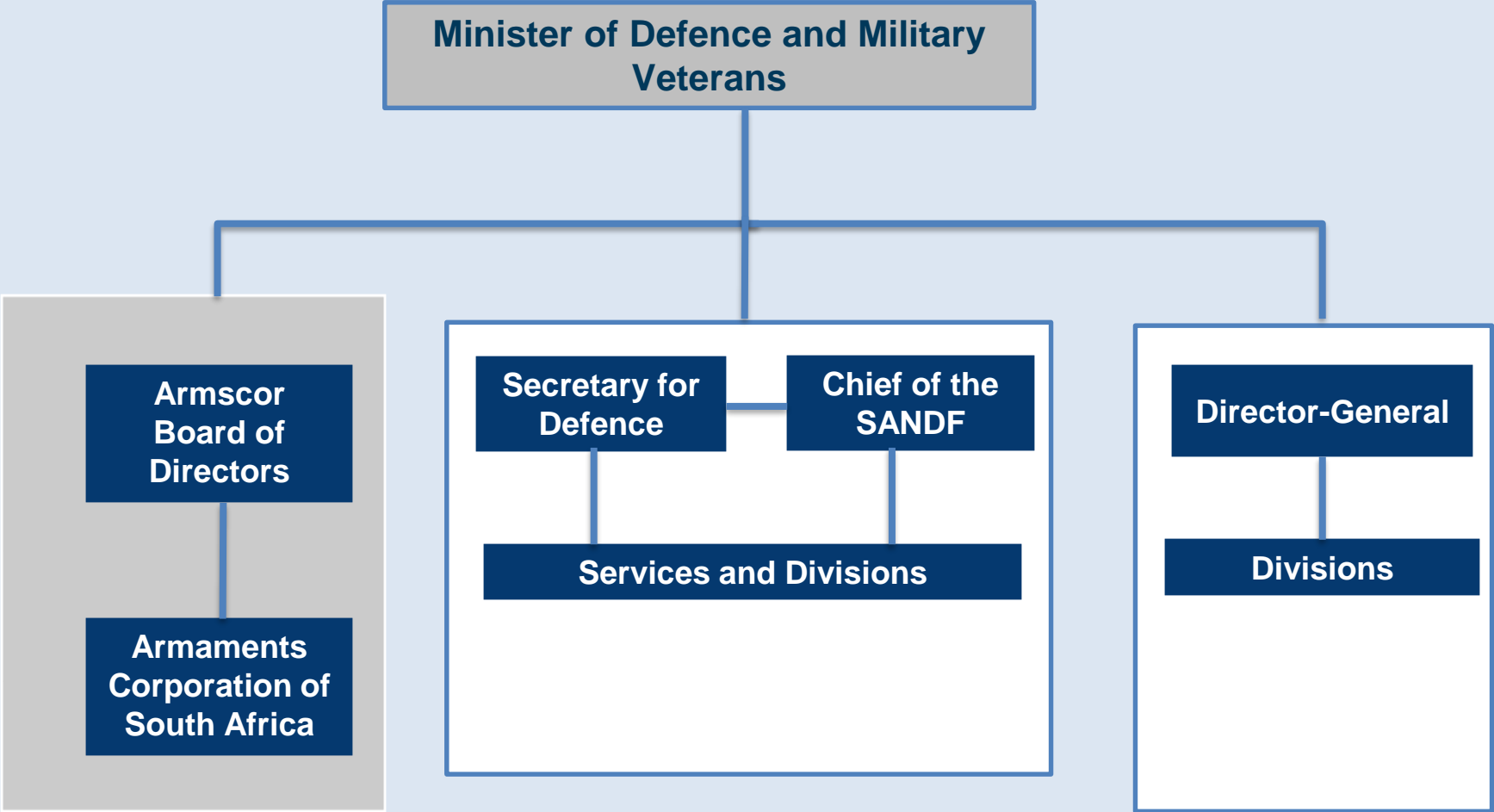
- ❑ This is the eighth year that all Public Entities tabled the Corporate Plan in Parliament.
- ❑ The Department of Planning, Monitoring and Evaluation (DPME) revised the Medium Term Strategic Framework (MTSF) for Strategic Plans and Annual Performance Plans (2019 - 2024).
- ❑ The Armscor Corporate Plan (2022) was aligned to the revised MTSF.

# ABOUT ARMSCOR

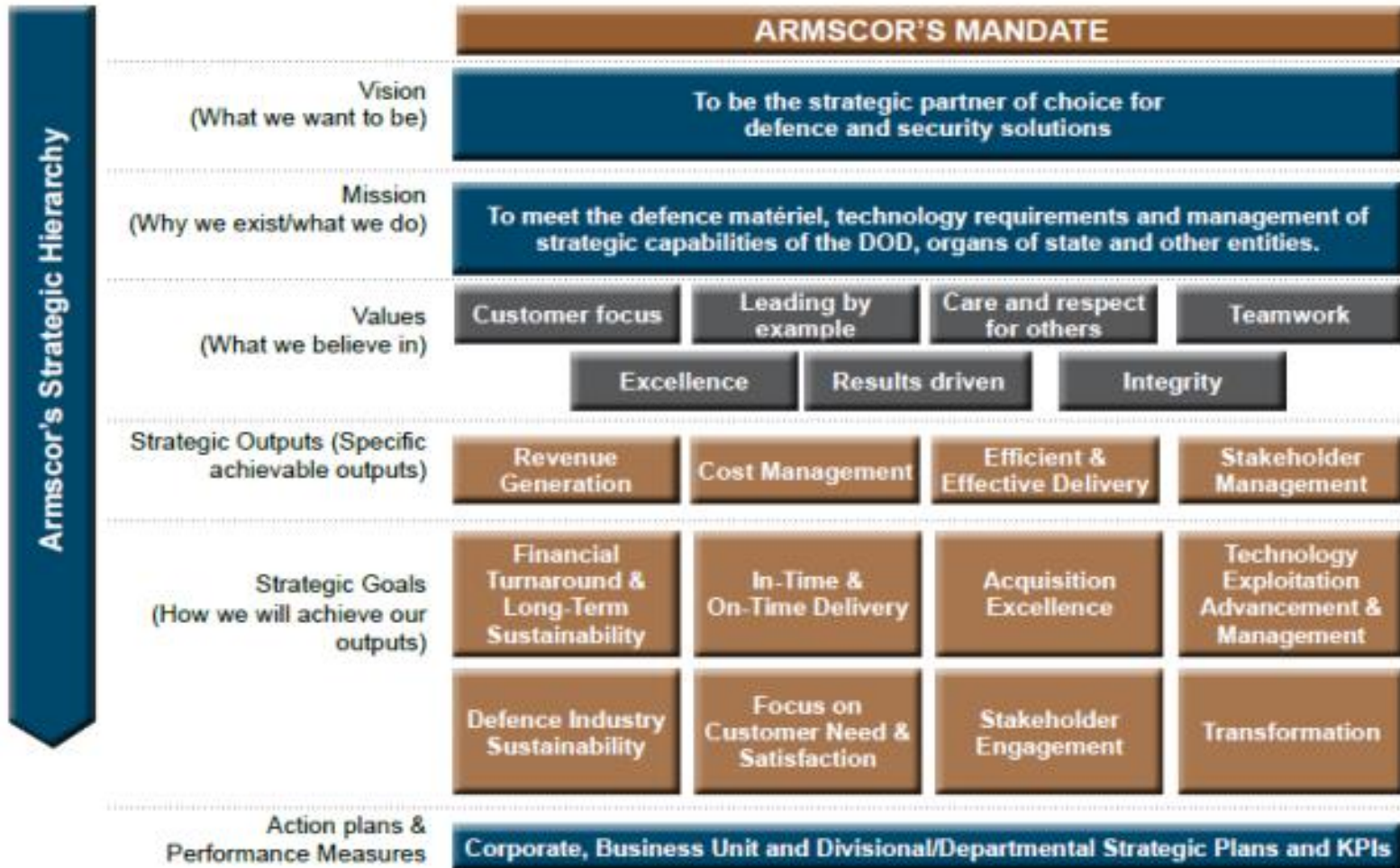


- ❑ Armaments Corporation of South Africa SOC Limited (Armcor) was established in terms of Armaments Corporation of South Africa, Limited Act (Act No. 51 of 2003).
- ❑ State-owned entity as contemplated in the Companies Act, 2008.
- ❑ Listed as a Schedule 2, Public Entity in terms of the PFMA.
- ❑ Further regulated by the regulations issued in terms of the PFMA and the Companies Act.
- ❑ The Minister of Defence and Military Veterans is sole shareholder of Armcor.
- ❑ The Board of Directors is the Accounting Authority of Armcor.
- ❑ **Armcor's mandate** is to meet the following requirements of the Department of Defence (DOD) Effectively, efficiently and economically:
  - Acquire **Defence matériel** on behalf of the DOD
  - Manage the **Armcor Dockyard** as a strategic facility to provide SA Navy's 3<sup>rd</sup> and 4<sup>th</sup> line Maintenance and Refitting
  - Manage the **strategic facilities** on behalf of the DOD
  - Provide **Defence technology, research and development, analysis and test and evaluation** requirements of the DOD
- ❑ Adhere to accepted principles of corporate governance.
- ❑ Armcor may also provide such service to other Departments or Governments on a regulated basis.
- ❑ Armcor may enter into commercial activity, subject to approval of the Minister of Defence and Military Veterans.

# STRUCTURE: IN RELATION TO DOD



# STRATEGIC OVERVIEW



# STRATEGIC OVERVIEW



Armcor aims to deliver a sustainable organisation that generates additional revenue, strengthening its partnerships, containing costs and delivering ground breaking technologies

Revenue  
Generation

Cost  
Management

Efficient and  
Effective  
Delivery

Stakeholder  
Management

Vision, Mission and Mandate

NDP, Vision 2030  
MTSF 2019-2024

6<sup>th</sup> Administration Priorities 2019-2024  
MOD&MV Priorities 2019-2024

# STRATEGIC PLAN OVERVIEW



| Strategic Outputs                | Goals  | Tools  | Results  |
|----------------------------------|--|--|--|
| Revenue Generation               | <p>Generate additional income from existing and new sources</p>  | <ul style="list-style-type: none"> <li>• Leverage Strengths</li> <li>• Sweat Armscor Assets</li> <li>• Commercialise IP</li> <li>• Find a secure market.</li> <li>• Diversify the client base</li> </ul> | <p>Generate additional realisable revenue to ensure Armscor meet its funding needs</p>                               |
| Cost Management                  | <p>Reduce Group costs, including finance, capital and operating costs, to ensure zero financial deficit.</p> <ul style="list-style-type: none"> <li>• Delivery of the identified cost reduction and savings</li> </ul> | <ul style="list-style-type: none"> <li>• Cost containment measures implement</li> <li>• Drastically reduce Vacancies</li> <li>• Review Budget Constraints</li> </ul>                                     | <p>Strategic maintenance and reduction of capital and operating costs. Thereby improving net financial position.</p> |
| Efficient and Effective Delivery | <ul style="list-style-type: none"> <li>• Effective Technology and IP Management</li> <li>• Infrastructure Renewal</li> </ul>   | <ul style="list-style-type: none"> <li>• Implement ERP solution</li> <li>• Reduce turnaround times</li> <li>• Acquisition is focusing on COTS</li> <li>• Change the way Acquisition procures</li> </ul>  | <p>Reducing the turnaround time of core customer-facing and internal processes.</p>                                  |
| Stakeholder Management           | <p>Armscor's relations are solid and strong with our stakeholders: - Parliament, Shareholder, Board of Directors, Labour and our main client, DOD.</p>   | <ul style="list-style-type: none"> <li>• Surveys</li> <li>• Communication engagements</li> <li>• Transformation</li> </ul>   | <p>Developing and maintaining long-lasting, strategic relationships with key stakeholders</p>                        |

# SERVICE LEVEL AGREEMENT WITH DOD



The following performance measurements are agreed to:

| Goal  | Target   |
|---|--|
| Contracts to be placed by Armscor: <ul style="list-style-type: none"> <li>Capital Defence Matériel Acquisition</li> <li>System Support Acquisition and Procurement</li> </ul> | 95% compliance<br>95% compliance   |
| Contractual payments made: <ul style="list-style-type: none"> <li>Capital Defence Matériel Acquisition</li> <li>System Support Acquisition and Procurement</li> </ul>         | 95% compliance<br>95% compliance   |
| Scheduled Order Placement   | 90 days for shortened process COTS items<br>120 days for standard acquisition/ procurement<br>140 days for identified complex programs |
| Management of Defence Industrial Participation (DIP)  | R111,31m   |
| Management and execution of Defence Technology, Research, Test & Evaluation   | 95% compliance   |
| Armscor Dockyard performance against Navy SLA <ul style="list-style-type: none"> <li>Percentage of ancillary services executed</li> </ul>                                     | 90% compliance<br>95% compliance   |



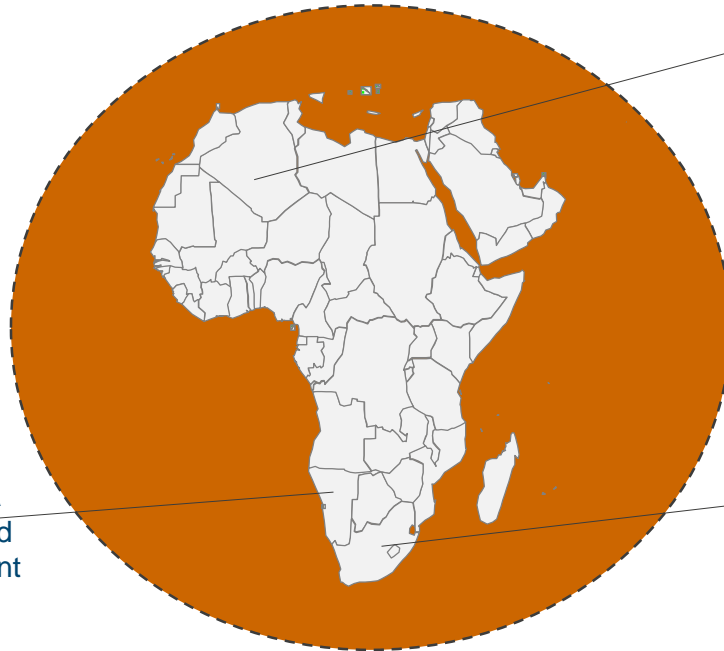
# EXPERTISE IN COMPLEX ACQUISITION



**Acquisition management** is a key enabler in service delivery - same key principles of delivering service within specifications, cost and timescales apply. Armscor has the mandate to provide services to other organs of State. Currently offer Acquisition, R&D and Quality Assurance services to other countries. Armscor presents an opportunity for partnership with other organs of State.

**Military acquisition** is the management and procurement process dealing with a nation's investments in the technologies, programs, and product support necessary to achieve its national security strategy and support its armed forces. Its objective is to **acquire products that satisfy specified needs and provide measurable improvement** to mission capability effectively, efficiently and economically.

Complexity of products and acquisition process unparalleled



**ALGERIA**  
Centralised procurement

**NAMIBIA**  
Centralised procurement

**SOUTH AFRICA**  
Armscor:  
Acquisition agent  
of the  
SANDF/DOD



# STRATEGIC FACILITIES: RESEARCH & DEVELOPMENT



## (Strategic Facilities in the Technopark, Centurion)

**PROTECHNIK:** specialises in defence chemical and biological research. Capability to detect trace amounts of hazardous chemicals or biological agents.

**ERGOTECH:** Is a strategic institute that provides ergonomics solutions to optimise human performance, reduce work related risks, and improve overall safety and productivity. The ergonomics solutions offered by ERGOTECH include:

- Ergonomics research databases,
- Ergonomics Design and Specifications,
- Ergonomics Testing and Evaluation, and
- Occupational Hygiene Services

**HAZMAT:** Manufactures & supplies Respiratory Filtering masks for protection against majority of respiratory health hazards



## (R&D Strategic Facility in Pretoria West)

### **GEROTEK TEST FACILITY:**

Vehicle Testing Facility

- Mobility
  - Endurance & reliability
  - Performance
  - Homologation
- and also provides:**
- Advanced driver training
  - Corporate events services

### **PAARDEFONTEIN**

Antennae Testing Range



## (R&D Strategic Facility in Northern Cape)

### **ALKANTPAN TEST RANGE:**

Is an Artillery Testing Range

- Ballistic test for medium to large calibre weapons & ammunition

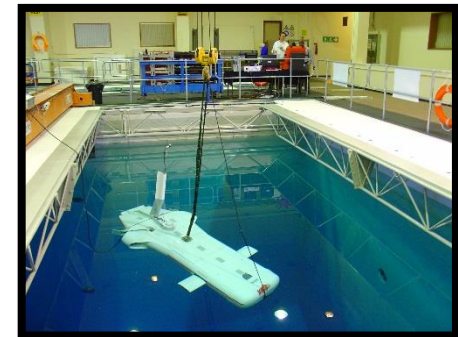


## (R&D Strategic Facility in Western Cape)

### **Institute for Maritime Technology (IMT)**

specialises in defence research, development, testing and evaluation of maritime systems

- Techno-military support
- Development and testing of sensors – under and above water
- Surveillance products and services
- Commercialisation of products & services



Armcor manages strategic divisions that offer the following Research & Development services:

*(Strategic Divisions in the Armcor building)*

## **IPMAD core services**

- General Intellectual Property Management
- Intellectual Property Exploitation
- New Venture Management
- Contractual management of Intellectual Property

## **TEMANI core services**

Performs an independent centralised coordination and management role for:

- Technology acquisition, (including management and analysis) and,
- Technology commercialisation

**Defence Decision Support Institute** delivers decision support to the DOD.

**Flamengro** provide computer based simulation and failure analysis support

## **Armour Development**

Is responsible for the research and development of passive and reactive armour systems for the South African National Defence Force. These systems are intended for use on vehicles, ships and personnel protection

# STRATEGIC FACILITIES - DOCKYARD

To provide capability support services as the SA Navy's 3<sup>rd</sup> and 4<sup>th</sup> line Maintenance and Refitting:

- Planned preventative maintenance
- Corrective maintenance
- Reconstruction and repairs
- Upgrades and modernisation of ships & submarines



- ❑ The Dockyard Renewal plan was approved by the Armscor Board and SAN.
  - Renewal of people, equipment, facilities, training, processes and several lost capabilities are in progress and output to the SAN increased.
  - Maintenance of ageing equipment prioritised.
  - The revival and establishment of new capabilities such as the internal combustion engine capability, tank cleaning capability, computer aided engineering and 3D printing capability are a few examples where the advantage of such projects will be utilized to the benefit to the SAN and job creation.
- ❑ Pursue local commercial projects with local industry.

# MODERNISATION

## ❑ Equipment Renewal

- Spray booth
- Additive manufacturing - 3D printing
- Gasket manufacturing
- CAD capability
- ICE workshop
- CNC lathes and Milling machines
- Foundry
- Vertical balancing machine
- Frequency converters

- ## ❑ Capability re-establishment (Small boats, workshops, tank cleaning, etc.)



# REVENUE GENERATION



## Revenue Generation Strengths / Capabilities

### Acquisition & SCM

Acquisition & Procurement.  
Project Management  
Contract Management  
Advisory Services

### Research & Development

Test & Evaluation Services  
Operational & Scientific Research Services

### Quality Assurance

3rd Party Quality Assurance Services

### Other

AB Logistics Services

Market and sell to identified targeted markets; locally & abroad



# SWEATING OF ASSETS

- ❑ Armscor to sweat a number of its property assets.
- ❑ The intention is to develop further business activities (to be vetted) adjacent to the existing operating facilities with minimum disturbance.



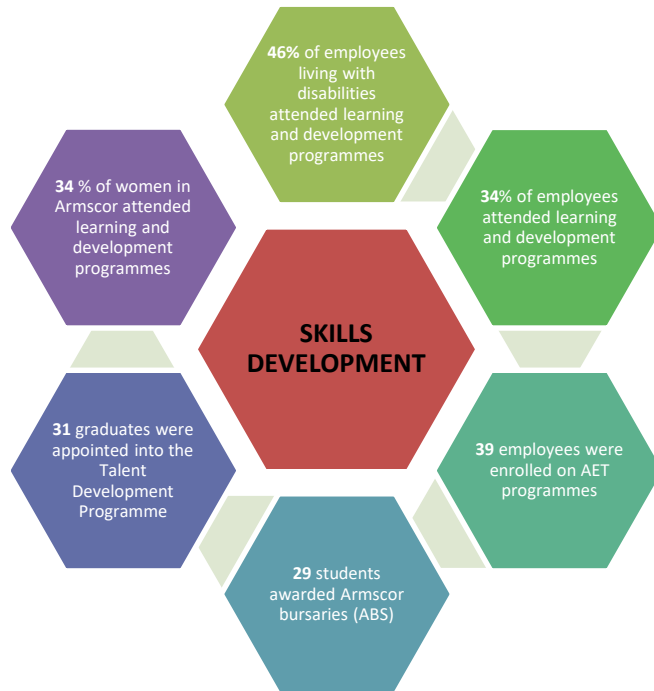
# ARMSCOR PROPERTIES



The properties earmarked for development are as indicated below:

| Re | Description of Property  | Current Zoning   | Land Size (hectares)   | Potential Use         |
|----|--|--|------------------------|-----------------------|
| 1  | <b>ERASMUSKLOOF</b><br>Sports Grounds - Erf 610.                       | <b>Zone 21</b> for Private Open Space.                         | 50 389.00<br>(5.04 ha) | Multipurpose/ mix use |
| 2  | <b>ERASMUSKLOOF</b><br>Vacant Land - Erf 684 Extension 4.              | <b>Zone 2:</b> Residential 2 &<br><b>Zone 17:</b> Agricultural | 72 935.00<br>(7.29 ha) | Multipurpose/ mix use |
| 4  | <b>GEROTEK: Portion 171</b> of the farm Elandsfontein 352 JR           | Vehicle test facility  | (550 ha)               | Multipurpose/ mix use |
| 5  | <b>ALKANTPAN;</b> Section A- Lodge & Section B- Residential Dwellings. | Residential  | N/A                    | Residential           |

- ❑ Transformation goal of 83% was set. However, Armscor exceeded the target by achieving 87,05%.
- ❑ Employee engagement results: New Baseline 2020/2021
  - High Engagement state: 14%
  - Moderately engaged: 68%
  - Disengaged: 18%
- ❑ New Baseline 2021/2022
  - Interventions identified to be implemented to address lowest ranked areas.
- ❑ Succession planning: Number of key positions 62, Number of successors 82



## Development of people living with disability

11 employees living with disability attended learning and development programmes  
330 employees attended learning and development programmes

## Women empowerment

181 attended learning and development programmes

## Adult Education and Training Programmes

39 employees were enrolled on Adult learning programmes (AET)

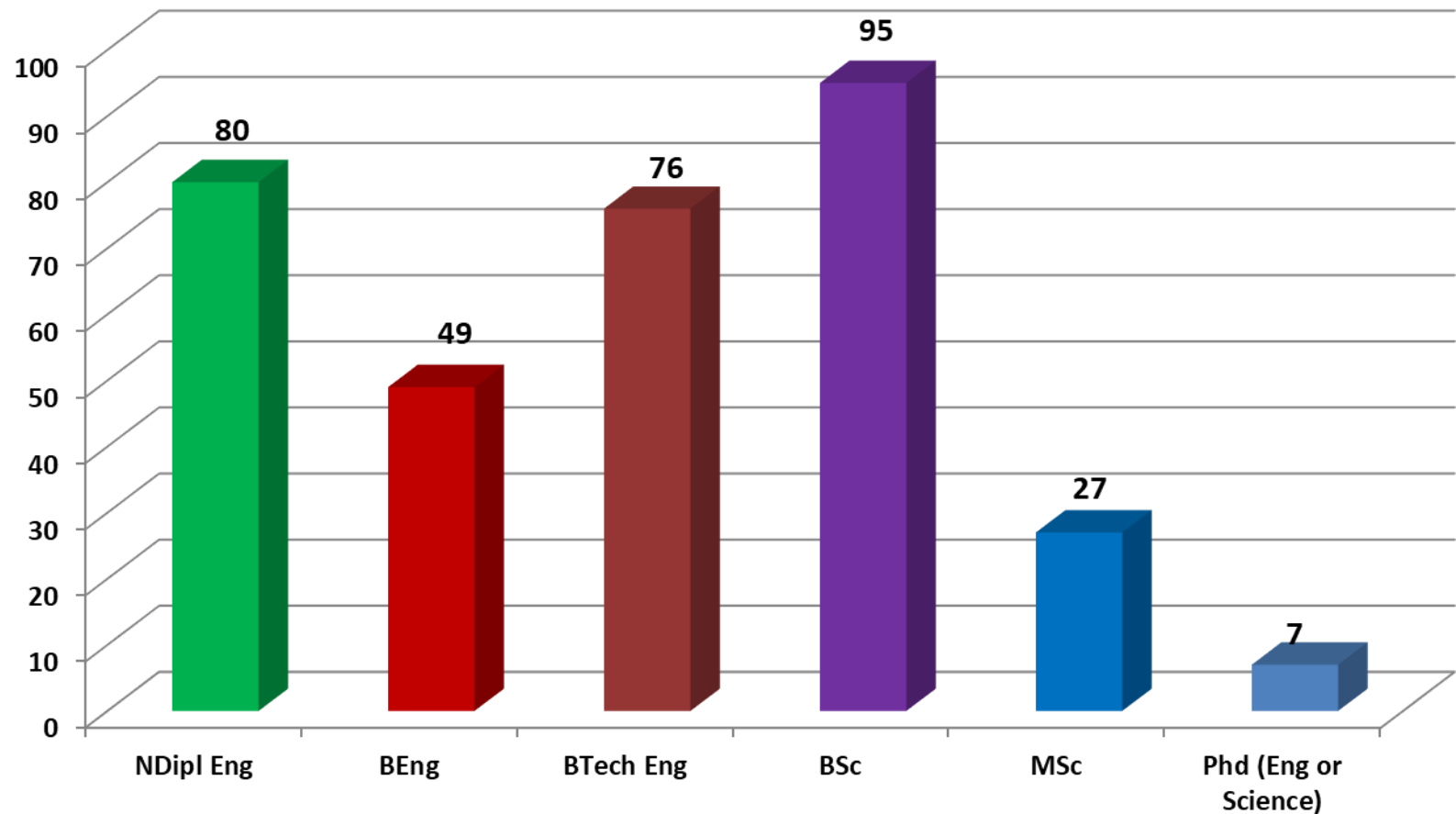
## Armscor Talent development programme

29 students awarded Armscor bursaries (ABS)  
31 graduates were appointed into the Talent Development Programme

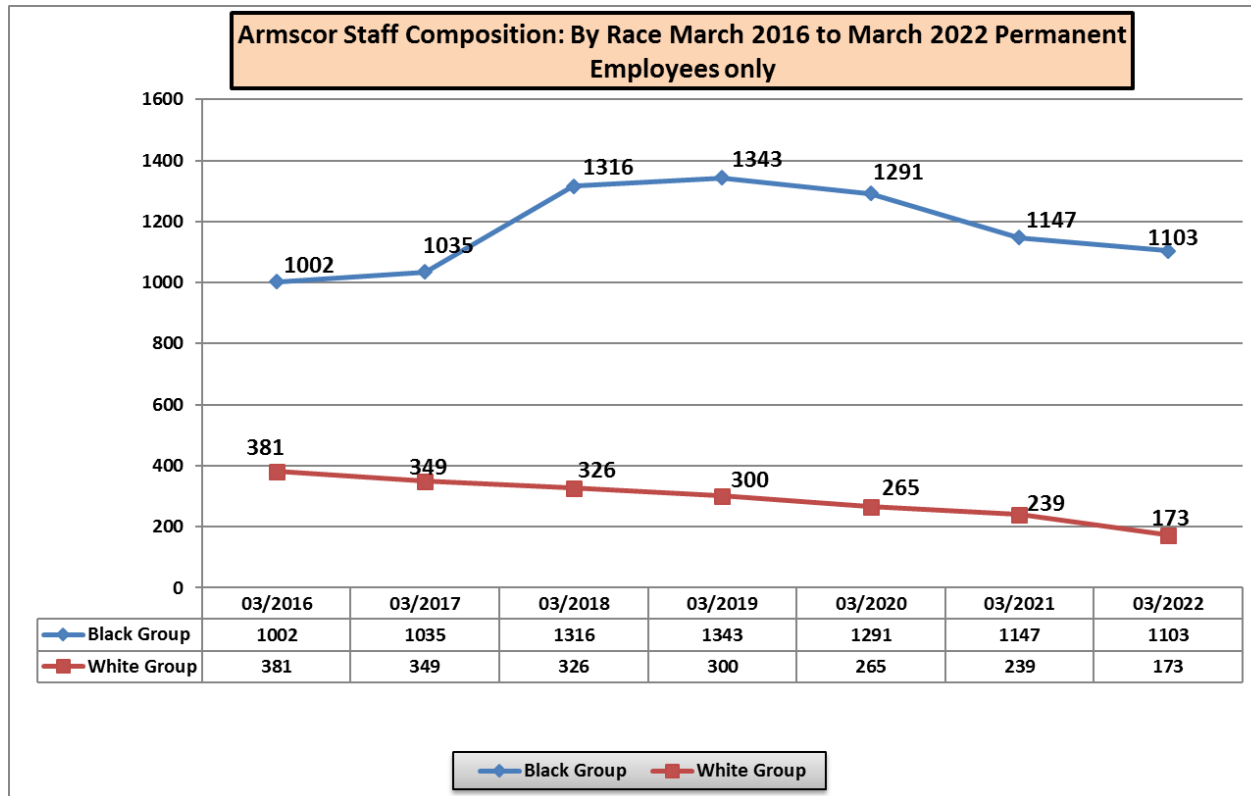
# ARMSCOR EMPLOYMENT FIGURES (Cont.)



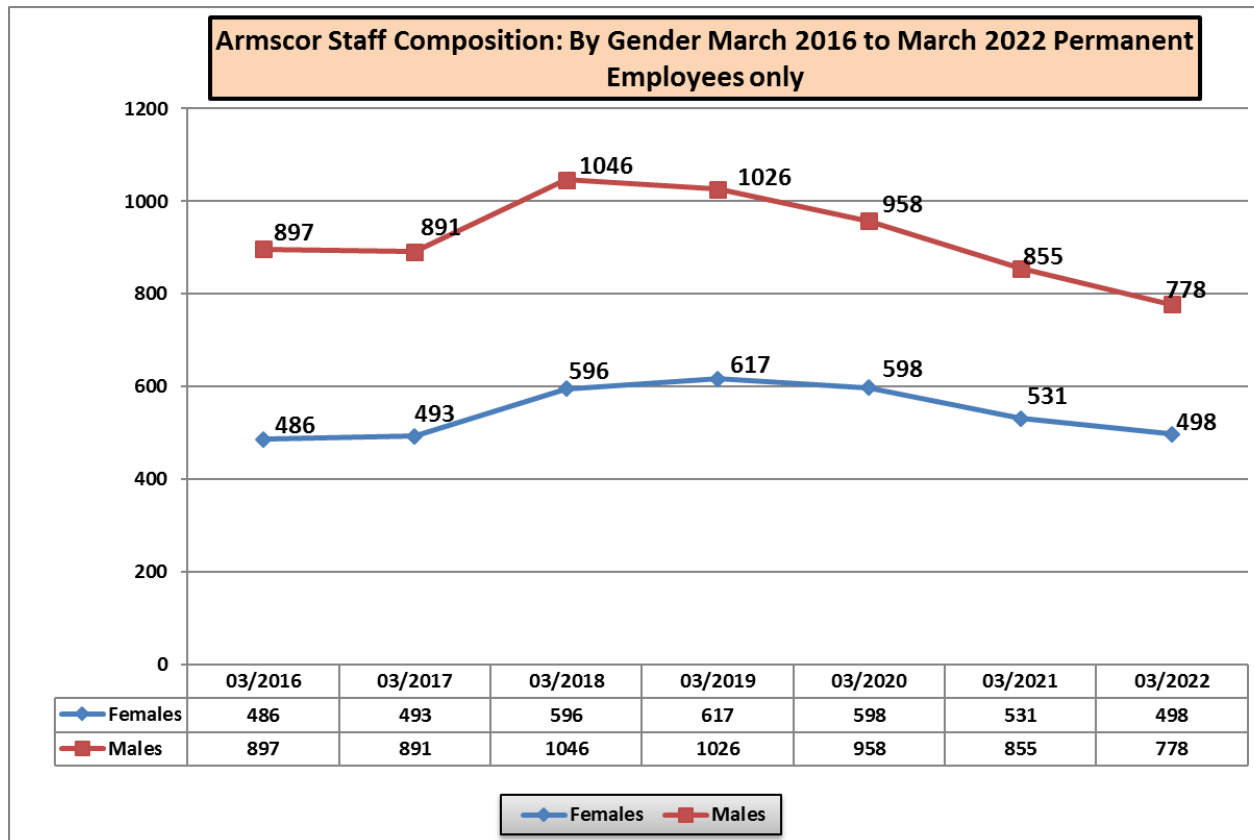
Number of Employees – National Diploma Engineering, BEng, BTech Engineering, BSc, MSc and PHD Engineering or Science - 31 March 2022



# ARMSCOR EMPLOYMENT FIGURES (Cont.)



# ARMSCOR EMPLOYMENT FIGURES (Cont.)



# CORPORATE SOCIAL INVESTMENT PROJECTS



This national footprint is based on the projects implemented in the 2021/22 financial year. In total 30 projects were funded. The projects are grouped into three categories: Social Relief, Human Capital Development and Socio-Economic Upliftment.







- ❑ Financing of Armscor is mainly through income appropriated by Parliament and received via the Defence budget which consist of an allocation and payment for services rendered to the Department of Defence (82%). The funding is not sufficient to sustain the capability required and is supplemented by income from commercial services rendered (8%), investment income (4%) and other income (6%).
- ❑ The main expenditure as a service organisation remains personnel related expenditure (71%).
- ❑ The 2022/2023 group figures reflect a marginal deficit of R16,1 m. The group continues to operate within strict cost containment measures to manage operational expenditure.
- ❑ Commercial revenue generated by the group remains under pressure due to impact of Covid 19 on the operating activities of major customers.
- ❑ Armscor group is looking at ways to improve the financial position of the Dockyard within the constraints of the funding experienced by the DOD.
- ❑ Armscor is actively engaged with improving the net financial position for future sustainability of the group. This includes new revenue streams from the sweating of properties and providing services to other governments.

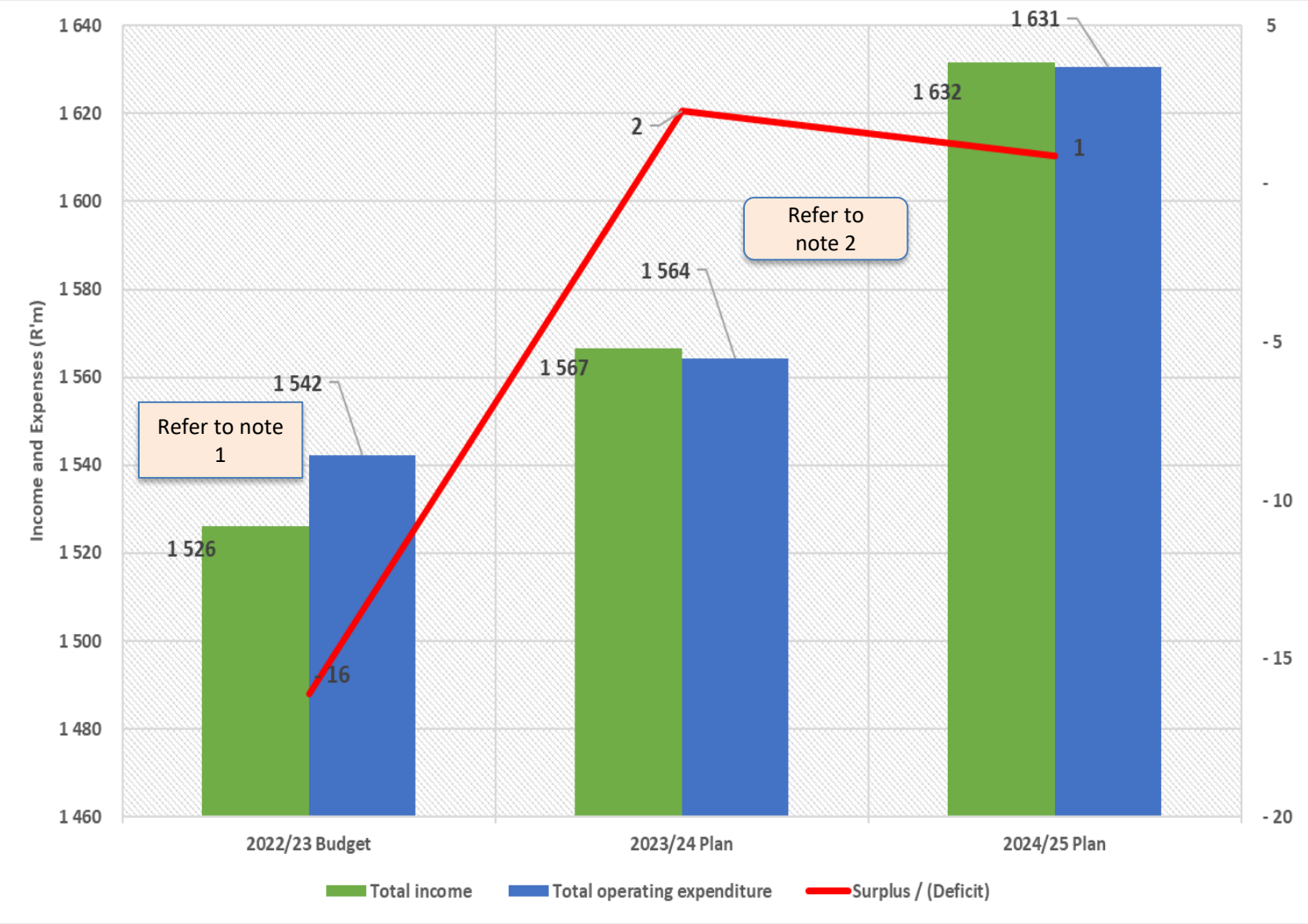
## REQUIREMENT OF THE GROUP FOR THE FINANCIAL YEAR 2022/2023

|  | Rm               |                        |                 |                | Rm                 |
|--|------------------|------------------------|-----------------|----------------|--------------------|
|  | Armcor Corporate | Research & Development | Armcor Dockyard | Armcor Group   | Armcor Group Total |
| <b>INCOME</b>                            | <b>1 012,7</b>   | <b>232,4</b>           | <b>281,1</b>    | <b>1 526,2</b> | <b>100%</b>        |
| Transfer Payment                         | 847,9            | 125,2                  | 278,8           | 1 251,9        | 82%                |
| SLA ( Internal service charges)          | 20,9             | ( 16,8)                | ( 4,0)          | 0,1            | -                  |
| Gross Contribution from Sales            | 12,8             | 107,2                  | 4,1             | 124,1          | 8%                 |
| Other Income                             | 83,2             | 9,3                    | 0,2             | 92,7           | 6%                 |
| Interest income                          | 47,9             | 7,5                    | 2,0             | 57,4           | 4%                 |
| <b>LESS: OPERATING EXPENSES</b>          | <b>905,4</b>     | <b>362,4</b>           | <b>274,5</b>    | <b>1 542,3</b> | <b>100%</b>        |
| Personnel Cost                           | 607,6            | 243,5                  | 242,9           | 1 094,0        | 71%                |
| Subsistence and Travel                   | 16,0             | 6,3                    | 2,1             | 24,4           | 2%                 |
| Maintenance                              | 2,7              | 9,1                    | 8,4             | 20,2           | 1%                 |
| External Services                        | 93,0             | 24,7                   | 2,8             | 120,5          | 8%                 |
| Advertising, computer and other expenses | 126,1            | 39,1                   | 6,6             | 171,8          | 11%                |
| Depreciation                             | 60,0             | 39,7                   | 11,7            | 111,4          | 7%                 |
| <b>SURPLUS /(DEFICIT) FOR THE GROUP</b>  | <b>107,3</b>     | <b>( 130,0)</b>        | <b>6,6</b>      | <b>( 16,1)</b> |                    |

## Challenges:

- ❑ Generation of new revenue streams is slower than anticipated and projections have been reduced.
- ❑ Funding received through appropriation from Parliament not sufficient to maintain strategic facilities managed by Research and Development. Commercial revenue generated by the strategic facilities to supplement allocation continues to be under pressure due to lower operating activities of major customers and the wider impact of Covid 19.
- ❑ The main expenditure as a service organisation remains personnel related expenditure that increases at a higher rate than revenue. The group was able to reduce personnel costs by 6% compared to the prior year, through the process of voluntary early retirement.
- ❑ A significant shortfall is experienced in the post retirement medical liability for Dockyard employees belonging mainly to GEMS (+/- R90m).

# 2022/2023 GROUP BUDGET AND 2 YR PLAN



- Notes:
1. Deficit budget of R16m for the 2022/23 financial year, with mitigating actions to be taken in future years to achieve an almost break even
  2. The plan for the 2023/24 and 2024/25 financial years assumes certain mitigating actions will be undertaken to reverse the negative performance and get Armscor back to positive financial position. The Board approved the 2022/23 budget with mitigating actions to be considered.

# AG's STATUS OF RECORDS REVIEW

## Progress made



### ❑ Key matters for attention

#### ➤ Financial management

- ✓ Year-end plan distributed to various financial divisions to ensure that sufficient time for review of final information of information prepared as ERP system implementation not yet in place
- ✓ Previous year findings action plans implemented

#### ➤ Performance measurement

- ✓ Standard operating procedure to document roles and responsibilities finalised

#### ➤ Procurement and contract management

- ✓ Execution of procurement plans monitored by EXCO
- ✓ Delegated official authorizing amendments to procurement plans and contracts registers are being updated and corrected with required information
- ✓ Sourcing of supplier to evaluate SCM still underway

#### ➤ Compliance management

- ✓ Training on application of single source vs sole source suppliers to prevent irregular expenditure
- ✓ Updating of management documents (policies and procedures) are being monitored by EXCO and the Audit and Risk Committee

# AG's STATUS OF RECORDS REVIEW

## Progress made (continued)



### ➤ IT management

- ✓ Filling of Cyber Division positions nearly completed
- ✓ Cyber Security policies drafted and in process of approval
- ✓ Contract for procurement of UCS (unified computing systems) placed

### ➤ Oversight and monitoring

- ✓ Funding allocated for additional resources of Internal Audit Division
- ✓ Internal Audit outsourced some audits to assist with execution of audit plan

### ➤ Financial health

- ✓ VSP process finalized – did result in outflow of cash but also with savings in the financial year as well as future periods

### ➤ Fraud risk indicators

- ✓ Dockyard investigation completed and corrective actions taken
- ✓ All other investigations completed / ongoing and corrective actions implemented (where necessary)

### ➤ Audit related matters

- Co-ordinators appointed to assist with timeous supply of requested information

# SUMMARY



The declining budgets and transfer payments to Armscor from Government remains a huge risk towards the future sustainability of Armscor. Armscor, however, made optimal use of its allocation throughout the year under review. The allocation does not cover the personnel costs. The strategic facilities managed are also underfunded.

The way forward, Armscor will position itself as a reliable service provider to its clients by reviewing how Armscor engages the client – provide advisory role and influence decision making.

Armscor is continuing to develop strategic partnerships with countries in the region and beyond to meet common requirements and standardisation. These include State Agencies, National Government departments, Defence Industry and Foreign Governments.

# THANK YOU



**ARMSCOR**  
Armaments Corporation of South Africa SOC Ltd



Towards a Sustainable Future