**BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS ON THE 2021/22 ANNUAL REPORT OF ARMSCOR AND THE CASTLE CONTROL BOARD (CCB), DATED 26 OCTOBER 2022.**

***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 2021/22 annual reports of the Armaments Corporation of South Africa (ARMSCOR) and the Castle Control Board (CCB), on 12 and 19 October 2022 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:

1. an assessment of the department’s service delivery performance given available resources;
2. an assessment on the effectiveness and efficiency of departments use and forward allocation of available resource; and
3. 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.

**PART A: THE ARMAMENTS CORPORATION OF SOUTH AFRICA (ARMSCOR)**

1. **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):**

President Ramaphosa delivered his State of the Nation Address (SONA) on 11 February 2021. No direct reference was made to Armscor, but some elements of the 2021 SONA have indirect bearing on the functions of Armscor. Specifically, the need for local production and the purchasing of locally made products given Armscor’s role in the procurement value chain. The President placed significant emphasis on economic recovery and efforts to boost economic growth. Specific mention was made of sector master-plans aimed at growing specific sectors of the economy. While no specific mention was made of the domestic defence industry, it is nonetheless an important industry that has the potential to aid economic growth. Two key approaches are necessary to unlock the potential for the defence industry to contribute to economic growth. First, a clear acquisition plan for the DOD is required that takes into account current fiscal constraints. This will aid the domestic defence industry in its planning. The President also noted the need for procurement from women-owned enterprises, which can be taken into account in the DOD acquisition plan. Second, given domestic fiscal constraints, the defence industry is relying heavily on exports for its survival and, as such, requires state support to maximise export efforts. In this regard, the President also referred to the African Continental Free Trade Area, which came into operation on 1 January 2021 and can potentially offer further export opportunities to the South African defence industry. Finally, the DOD also aims to strengthen local small and medium enterprises.

**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.
* *MTSF Priority 6: Social cohesion and saver communities.* Armscor will contribute through its contribution to border safeguarding, cooperation with the South African Police Service (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.

**3. 2020/21 BRRR RECOMMENDATIONS**

During the BRRR process, the PCODMV identified the following areas for monitoring by the Committee:

* 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.
* 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.
* 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.
* 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.
* 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.
* 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.
* 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.
* 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.
* 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.
* 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.

**4. OVERVIEW OF THE 2021/22 ARMSCOR PERFORMANCE**

In 2021/22, Armscor continued to operate under financial pressure, as is the broader defence industry, due to funding constraints in the defence environment. Of particular concern is the stagnating defence allocation and the misalignment of defence spending towards Compensation of Employees, resulting in limited acquisitions for the SANDF and therefore reducing acquisition work for Armscor over the MTEF.

The situation at Armscor is further complicated by the demise of Denel, since Denel contracts represent approximately 45% of Armscor's total acquisition portfolio for the DOD. As such, Armscor continuously needs to diversify its income stream to generate additional income.

**4.1 Acquisitions**

The acquisition responsibility of Armscor can be broadly classified into two main categories being, capital acquisition (funded by the DOD’s Strategic Defence Account and system support and procurement (funded by the General Defence Account). Capital acquisition entails projects that cater for technology development, directed systems development and the subsequent production of new defence matériel, while system support and procurement involves operating procurement, maintenance and support of existing equipment and systems.

In the 2021/22 financial year, Armscor managed and executed contracts worth R12.409 billion, including the following:

* Maintenance and support contracts worth R3.960 billion (compared to R4.780 billion in 2020/21).
* Capital acquisition contracts managed worth R8.464 billion (compared to R7.628 billion in 2020/21).

The Armscor 2021/22 Annual Report also noted the continued decline of capital projects, impacting on its work. It was noted that “the funding allocation for projects on the Special Defence Account (SDA) (capital budget) has been continually decreasing over the past four years. During the reporting period, there were only 6 Capital projects with a funding allocation for the year (down from 15 during the previous year and 39 in 2019/20), although a total of 24 Capital projects were being executed due to funds being carried over from the previous financial year. Only projects that had already been contracted or partially contracted for execution were funded. As these projects are completed, the number of projects being executed will continue to decline with no additional allocation currently visible from the Special Defence Account. This decrease in the number of funded projects on the Special Defence Account will have a significant impact on Armscor, as it impacts not only on workload of experienced Programme Managers, but also on Armscor's ability to provide exposure and experience to Programme Managers with respect to managing of complex projects.”

A number of projects or sub-projects were successfully completed and new capabilities were delivered to, and taken into operation by, the SANDF:

**Hydrographic vessel procurement (Project Hotel):**

Construction was set to start in 2018 and 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 2021/22, construction of the hull and super structure of the main Survey Vessel was completed and installation of equipment on board had commenced. All Survey Motor Boats (3 in total that complements the main large Survey Vessel) have been completed and the first Boat was handed over to the SA Navy on 31 March 2022 and the preparation for Operational Tests and Evaluation has commenced.

**Inshore Patrol Vessels (IPVs) (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. Due to restrictions caused by the Covid-19 pandemic, the construction phases were delayed by a few months. By the end of 2021/22, the status of the three vessels were as follows:

* The first vessel's commissioning and acceptance trials were completed during the 2021/22 period and the vessel was being prepared for delivery.
* The construction and fitment of the second vessel was approximately 70% complete.
* The keel of the third vessel had been laid and the construction and fitment thereof was approximately 20% complete, with all major ship's equipment already delivered to the shipyard.

**Airborne systems: Short-range air-to-air missiles:**

This project entails the development of the A-Darter short-range air-to-air missile, co-funded by the Brazilian Air Force and the SA Air Force. The development phase of the missile system was completed by Denel. A contract was then placed with Denel in March 2015 for the industrialisation and subsequent production of A-Darter missiles, but this has not been achieved due to constraints at Denel. Armscor is currently evaluating alternative methods of completing the required missiles.

**Project Hoefyster:**

The PCODMV is well aware of the significant delays on Project Hoefyster and has engaged Armscor on this matter several times. While the Annual Report for 2021/22 reports on continued delays during the reporting year, the PCODMV engaged with Armscor on 24 August 2022 to follow up on subsequent developments. During this engagement, there was general agreement between Denel and Armscor on the completion of Phase 1 of Project Hoefyster (the Development Phase). Other conditions were also set which requires follow up by the PCODMV:

* End-User agreement on waiving of non-compliance to identified specifications
* Suppliers willing to supply required subsystems and components.
* Availability of sufficient working capital to continue with the project.
* Denel succeeding with in-sourcing of required personnel

Furthermore, Armscor has requested that the SA Army requirement for the continuation of Phase 2 (industrialisation and production) be reviewed. Armscor noted to the PCODMV on 24 August 2022 that it will prepare a number of options with regards to the continuation of the project, while taking due cognisance of the current availability of funds.

**Ground Based Air Defence System (GBADS):**

The GBADS for the SA Army was delivered to the Air Defence Artillery Formation in 2020/21 and it provided for the refurbishing of the radar-guided system 35mm guns of the Air Defence Artillery Formation. The second phase of the GBADS consist of two steps. Step 1 includes the upgrade of the Gun Fire Control System

of the 35mm Anti-Aircraft guns and was completed in 2021/22. Step 2 includes the inclusion of the Missile Short Range Air Defence system capability but is currently not funded.

**Tactical Communications System:**

This system will make provision for all tactical communication requirements for all Arms of Service and will ensure interoperability between all users. Industrialisation of the four major sub-systems has been completed. Design Test and Evaluation commenced and all the field testing was completed during October 2021. The Operational Test and Evaluation of the complete system is expected to commence during June 2022 with completion scheduled for July 2022.

**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 2021/22, similar to the preceding year, Armscor managed 14 such agreements. 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 R23.332 billion compared to R23.326 billion in 2020/21. Outstanding DIP obligations are as follows:

* DIP agreements related to the Strategic Defence Packages (1): R0
* DIP agreements related to ongoing defence projects (13): R456 million
* DIP agreements related to the SAPS (1): R21 million

*Note:* The main contractor (Denel) for Project Hoefyster experienced financial challenges and as a result, was unable to fully discharge its pending DIP obligation within the specified period. Armscor's Board of Directors subsequently approved that penalties be levied on Denel in terms of the DIP Agreement concluded between the parties.

**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 National Conventional Arms Control Committee (NCACC) and the National Non-Proliferation Council. The value of disposal orders concluded by Armscor in 2021/22 was not disclosed in the Annual Report.

**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. A continuous challenge for Alkantpan is the lack of support of critical mission equipment by Denel as the Original Equipment Manufacturer due to Denel’s financial situation. Alkantpan is also in need of equipment upgrades, such as the requirement to procure a flight follower to increase its capability and to attract more clients.

***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 Personal Protective Equipment products, which are sold to the safety industry. In 2021/22, Hazmat exceeded its budgeted sales with approximately 11% and achieved annual sales of R15.4 million. This is, however, slightly lower than sales of R17 million in 2020/21.

***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. In 2021/22,Gerotek continued to be severely affected by the Covid-19 pandemic as international and local clients cancelled events at the facility. The Annual Report notes losses of R14 million due to cancelled events and projects at Gerotek, in addition to losses of R11 million in the preceding year.

***Protechnik Laboratories*** focuses on chemical and biological defence. Protechnik’s recent operations continue to revolve 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 sanitisers are currently being tested by the South African Bureau of Standards and will soon be available commercially. The 2021/22 Annual report did not indicate specific income levels from sales generated.

***Ergonomics technologies*** focuses on integrating ergonomics into the SANDF. The 2021/22 Annual Report highlights include:

* A usability study on the Virtual Reality equipment and software.
* Establishing a noise laboratory that assist in the selection of SA Air Force pilots.

***Flamengro:*** In 2021/22, Armscor continued investment into Flamengro’s state-of-the-art test facility for the testing of specialist materials, sensor calibration, blast wave testing, and impact testing for armour was commissioned. In addition, continuation of the *ramjet* technology demonstrator on the 76mm calibre projectile, took place. The project aimed at increasing the projectile's range, was successfully designed, developed and tested.

***Armour Development c***onducts defensive and reactive armour development and is 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. In 2021/22 it was also reported that there has been renewed interest in the new generation body armour package developed by Armour Development for use by the SANDF.

***The Institute for Maritime Technology (IMT)*** provides techno-military expertise to support naval decision-making. The IMT is involved in various programmes which continued in 2021/22:

* + 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). In 2021/22, the handing over of the system to the SA Navy continued.
  + 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 made regarding any successful international sales. Transnet Freight Rail is one of the current clients utilising the system.

**4.5 The Armscor Dockyard**

The Armscor Dockyard serves as the primary maintenance supplier to the SA Navy. The Armscor Dockyard’s performance is based on a service level agreement between the SA Navy and Armscor.

In 2021/22, the Dockyard met all its obligations and performances and all projects were delivered within the mutually agreed milestones. During the year, unplanned work tasks allocated to Dockyard increased by more than 35% compared to the previous financial periods.

Updates on the maintenance of specific classes of vessels include:

*Submarines:*

* *SAS Charlotte Maxeke*: Previously it was reported that additional funding to complete the refit of the boat by end of calendar year 2023 has been made available by the SA Navy. Contracting of local industry to supply additional supplementary spares has been completed and was expected to be advertised by the end of May 2022.
* *SAS Manthathisi*: Maintenance of the vessel was scheduled for completion at the end of January 2022, but due to unforeseen challenges the maintenance period was extended to the end of May 2022. The Dockyard notes that: Long lead times for critical spares delivery remains a challenge.

*Frigates:*

* *SAS Amatola:* The vessel is undergoing repairs and maintenance that was scheduled to be completed by 20 September 2022. The risk identified on the project is mainly the availability of spares.

*Hydrographic vessel:*

* *SAS Protea:* by the end of 2021/22, the Dockyard was busy with refurbishing of hull, underwater valve repairs, and tank surveys. Repair work was expected to be completed as required.

**5. HUMAN CAPITAL MANAGEMENT**

At the end of 2021/22, Armscor, including the Armscor Dockyard, had a staff complement of 1 375, which is significantly lower than the staff complement of 1 477 by the end of 2020/21 (a 7% reduction in staff). The decrease in staff total is mostly due to employees taking up the offer for Voluntary Severance Packages and employees reaching retirement age. A total of 110 staff members made use of Voluntary Severance Packages.

In terms of Employment Equity, 87.05% of the Armscor Human Resources contingent is African, Coloured and Indian, which is an increase from 83.48% in 2020/21. The 2020/21 Annual Report further indicates that 40.0% of employees are female, which also represents an increase from the 39.20% in the preceding year. Armscor’s Employment Equity Plan’s target for “black representation” has accordingly been achieved.

In terms of the Human Resources turnover rate, Armscor had 36 staff terminations (resignations and dismissals) in 2021/22. This was mostly in the ‘middle management’ (15) and ‘skilled’ (11) sectors of employees. This may raise a concern about skills retention within the organisation. However, Armscor has a scare-skills mentor-mentee programme which had 62 mentees under ‘training’ in 2021/22.

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 29 students with bursaries to study at different institutions, of which the majority were in engineering and science. This is slightly lower than in 2020/21, when 34 bursaries were awarded.
* Defence Engineering and Science University Programme (DESUP). The number of DESUP students for 2021/22 was not clearly indicated in the Annual Report.
* Talent Development Programme. For 2021/22, 31 candidates participated in this programme, which is lower than the 42 who participated in the preceding year.

**6. PERFORMANCE OVERVIEW**

Armscor has two categories of performance measurement namely:

* *Performance against the Service Level Agreement Outputs*. (12 of 14 targets set for 2021/22 achieved [85.7% targets achieved]).
* *Performance against Group Strategic Outputs.* (14 of 19 targets set for 2021/22 achieved [73.7% targets achieved], while one target presented no opportunity for achievement in 2021/22).

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

**Selected Key Performance Indicators not achieved/partially achieved by Armscor in 2021/22**

| **Objective** | **KPI** | **Goal** | **Achievement** | **Comments** |
| --- | --- | --- | --- | --- |
| *Performance against the Service Level Agreement Outputs* | | | | |
| **Dockyard** | |  | | --- | | Percentage of contractual milestones executed | | 90% | 82% | **Target not achieved**  Major contributing factors were,  acceptance and/or approval delay,  awaiting other repair organisations and insufficient spares. |
| **Dockyard** | Percentage of compliance to project finance. | 90% | 50% | **Target not achieved**  An invoice amounting to R3,9m could not be claimed from the Financial Authority due to the closure of the payment system from the DOD. |
| *Performance against Group Strategic Outputs* | | | | |
| **Infrastructure renewal** | Appoint an Enterprise Resource Planning Service Provider | 31 May 2021 | - | **Target not achieved**  Request for Bid completed and Board approved on 1 December 2021, subject to 30% subcontracting issue to be clarified with National Treasury. Armscor considering legal opinion. |
| **Infrastructure renewal** | Implementation of the approved application system renewal plan. | 80% | 0% | **Target not achieved**  Only the payroll solution was  implemented.  (Target was also not achieved in 2019/20, nor 2020/21) |
| **Infrastructure renewal** | Implement IT infrastructure  Renewal | |  | | --- | | 31 March 2022 | | 17 March 2022 | | 17 March 2022 | **Target partially achieved**  The submission for order placement for the United Communication System (UCS) was approved by the Board on 17 March 2022. |
| **Infrastructure renewal** | Improve Information Security: 80% Implementation of the  approved security architecture plan. | 30 June 2021 | 1 December 2021 | **Target achieved late**  Cybersecurity Assessment, Senior  Management positions have been  filled, Cybersecurity Governance  documents have been improved. |
| **Transformation of corporation** | Total number of employees with disabilities | 28 | 23 | **Target not achieved** |

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

The total comprehensive income of the Group continued to decrease in recent years, as follows:

* 2019/20: A surplus of R179.5 million
* 2020/21: A surplus of R124.3 million
* 2021/22: A surplus of R12.5 million.

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** | **2021/22** |
| Sale of goods and services | R389.6 million | R301.8 million | R274.4 million |
| Government grants | R1.176 billion | R1.113 billion | R1.257 billion |
| Interest | R104.7 million | R89.1 million | R86.2 million |
| Rental | R68 million | R71.4 million | R52.7 million |
| Other income | R22 million | R15.1 million | R23.7 million |

The following additional financial matters should also be noted:

* The amount “Paid to Suppliers for materials and services” increased from R227.7 million in 2020/21 to R354.0 million in 2021/22.
* Employee-related costs increased from R1.123 billion in 2020/21 to R1.2 billion in 2021/22. This constitutes 89% of Armscor’s expenditure, up from 82% in the preceding year.
* The detailed financial statements note that the gain on disposal of assets and liabilities increased from R1.2 million in 2020/21 to R6.6 million in 2021/22.
* The cost of sales increased from R114.4 million in 2020/21 to R127.1 million in 2021/22. The cost of sales increased, despite the sale of goods and services being lower than in the previous year.

Payment to the executive directors:

* Payment to the executive director positions (CEO and CFO) *decreased* from R8.285 million in 2020/21 to R8.255 million in 2021/22.
* The main contributor to the decreased payment to executive directors relates to a reduced payment for ‘other benefits’ from R1.489 million in 2020/21 to R1.387 million in 2021/22. *Note: ‘Other benefits’ include bonus (13th cheque), performance related payments and leave capitalisation.’*

Payment to non-executive directors:

* Fees and Committee remuneration to non-executive directors increased significantly from R2.706 million in 2020/21 to R4.231 million in 2021/22.

Payment to executive committee members:

* Payment to executive committee members decreased from R20.2 million in 2020/21 to R17.6 million in 2021/22.

**Fruitless, wasteful and irregular expenditure**

In 2021/21, fruitless and wasteful expenditure amounting to R125 000 was incurred, which is much higher than the R6000 incurred in 2020/21. The expenditure was as a result of penalties charged (R7 000) and expenditure with no corresponding benefit to the organisation (R118 000).

Additionally, expenditure of R929 000 (R1.937 million in 2019/20) related to previous years, was written off after completion of its 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* R6.516 million was noted during 2021/22 (R5.582 million in 2020/21). Main contributors to irregular expenditure included:

* Single source without the required approval from National Treasury
* Procurement that occurred without following the competitive bidding process.
* Services that were provided by a non-tax complaint service provider.

In terms of *Consequence Management*, Armscor notes the following: “Consequence management was taken regarding responsible officials in line with internal processes and some of the matters disclosed above are still under investigation which are at an advanced stage of completion.”

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

As in the previous year, Armscor obtained an **unqualified audit** from the Auditor-General of South Africa (AGSA) for 2021/22.

The AGSA made four notes in Armscor audit that may require improvement on the side of the entity in future:

* The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework.
* Effective and appropriate steps were not taken to prevent irregular expenditure of R11.5 million.
* Senior management did not exercise sufficient oversight responsibility of 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.
* The South African Police Service is investigating allegations of procurement irregularities at the Dockyard. These investigations were still in progress by the time the Annual Report was submitted to Parliament.

**8. COMMITTEE OBSERVATIONS: ARMSCOR**

The Committee made the following general observations on the 2021/22 Armscor Annual Report:

1. The Committee expressed concern around the decline in commercial services revenue at Armscor.
2. The Committee requested further information on the revenue from individual commercial activities at the various Armscor facilities, such as Hazmat, Alkantpan, Protechnik and IMT.
3. Members request information on the latest developments in relation to the midlife upgrades of the SA Navy frigates and submarines. Armscor noted that there are two acquisition projects for midlife upgrades, but that they were stopped due to lack of funds. Some progress has since been made and there is a plan going forward for the Navy to prioritise some upgrades from exiting funding.
4. Members noted the poor performance of the SA Air Force in terms of flying hours in 2021/22 and that this was largely due to maintenance constraints. This observation should be read together with the presentation to the Joint Standing Committee on defence of 24 February 2022 where Armscor indicated to Parliament that only 45 of the SA Air Force’s 215 aircraft were serviceable. During the Annual Report engagements, Armscor stated that while this was the case in 2021/22, all maintenance contracts have since been put in place for all aircraft, except for the Hawks which were in the process of being finalised. Armscor also noted that contracts with Denel are in place for the maintenance of the C-130 transport aircraft and the Rooivalk and Oryx helicopter fleets.
5. Members expressed their satisfaction with the progress in Projects Biro and Hotel, but noted slight delays in the finalisation of Project Hotel due to external factors affecting the supplier in Durban.
6. The Committee expressed concern around the provision of the A-Darter missile to the SA Air Force by Denel Dynamics. Armscor noted that many key skilled personnel left Denel. To revive the programme, these personnel and their current employers will have to be approached. The Strategy going forward envisages the involvement of the local defence industry.
7. The Committee again expressed the need for progress and decision-making on Project Hoefyster. Armscor noted that a way forward has been agreed upon by all stakeholders and this will limit financial losses. The future of Phase 1 of the Project will depend on the DOD Project Control Board (to be convened in Nov 2022) that must accede to relaxation of some conditions.
8. The Committee welcomed Armscor’s unqualified audit opinion.
9. Members noted that Armscor remains largely reliant on government funding and observed the need for the entity to engage other institutions to increase revenue. Armscor indicated that there are Memoranda of Understanding in place with a number of government departments and state-owned companies.
10. Members expressed concern around the sustainability of second-tier defence suppliers and how they are affected by the situation at Denel. Armscor confirmed this view and noted that Denel subcontracts to a number of smaller companies, including for Project Hoefyster which had more than 200 suppliers.
11. The Committee expressed the need for Consequence Management to be implemented in cases of fruitless, wasteful and irregular expenditure.

**9. COMMITTEE Recommendations**

Based on its analysis and overview of the 2021/22 Armscor Annual Report, the Committee makes the following recommendations:

**Recommendations to the Minister of Defence and Armscor Board:**

1. Armscor is urged to intensify its commercialisation strategy as a means to limit the impact of decreasing defence funding allocations. Similarly, better cooperation with other government departments are encouraged to ensure that the services of Armscor are more widely recognised and used.
2. The Committee recommends ongoing engagement between Armscor, the DOD and National Treasury on the funding of the midlife upgrades of the SA Navy frigates and submarines (also refer to the PCODMV recommendation to the Minister of Finance).
3. The DOD, Armscor, Denel and National Treasury are urged to address the need for improved landward defence technology, notably in the SA Army Infantry Formation. A way forward on Phase 2 of Project Hoefyster is required or, in lieu thereof, a way forward on the upgrading of the current Ratel fleet is required (also refer to the PCODMV recommendation to the Minister of Finance).
4. The Committee welcomes the fact that maintenance contracts have been put in place for all SA Air Force Aircraft platforms. The Minister of Defence and Armscor Board should, in future, ensure that such contracts are negotiated and renewed well in advance of its expiry dates.
5. The Committee recommends the development of an urgent plan of action around the A-Darter missile system, its further production and delivery to the SA Air Force. This is of particular concern, given the statement that the current missiles in use by the SA Air Force is nearing the end of its operational life. A similar recommendation was made in the 2021 PCODMV BRRR, yet little progress has been made.
6. The Minister and Armscor Board should ensure that adequate consequence management is in place. The Committee recommends that Consequence Management should be implemented on the most recent cases of irregular, unauthorised, and fruitless and wasteful expenditure and then they should work backwards to older cases. This will ensure that members are held to account before leaving the entity and serve as a deterrent against further such cases.
7. Armscor and the DOD are encouraged to work together to ensure that funding is availed for the upgrading of Armscor technologies required for the entity to remain globally competitive.

**Reporting requirements:**

1. Armscor should report on progress made in relation to Phase 1 of Project Hoefyster and decisions taken by the DOD Project Control Board on the future of the Project by 1 February 2023.
2. Armscor should report the revenue from individual commercial activities at the various Armscor facilities to the PCODMV by 1 February 2023. These figures should also be included in subsequent Annual Reports.
3. Armscor should report an action plan around the further development of the A-Darter missile system in the 2023/24 Annual Performance Plan. Should a feasible plan not be in place, Armscor should indicate contingency plans to address the ageing SA Air Force fighter missile stockpile.
4. Armscor should provide bi-annual reports on the implementation of Consequence Management in relation to irregular, fruitless and wasteful expenditure in the entity. The first such report should be submitted to the PCODMV no later than 1 May 2023.
5. The Committee notes that Armscor managed maintenance and support contracts worth R3.960 billion in 2021/22. Armscor should provide a high-level breakdown of spending on these contracts as it relates to operational equipment of the SANDF before 15 December 2022.
6. Armscor should inform the Committee on the status of the maintenance contracts for the Rooivalk, Oryx and C-130 fleets of the SA Air Force by 15 December 2022.
7. Armscor should provide the Committee with bi-annual updates of the maintenance status of the SA Navy frigates and submarines. The first such report should be submitted to the Committee no later than 1 May 2023.

**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 2021/22 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 2021/22 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.

1. **STRATEGIC PRIORITIES OF GOVERNMENT AND THE CCB.**

**2.1 State of the Nation Address** **2021**

President Cyril Ramaphosa, during his SONA on 11 February 2021, made the following remarks that can be related to the mandate and activities of the CCB:

* “Work is under way with the relevant departments to reform our visa and immigration regime to attract skills and grow the tourism sector. As international travel starts to recover in the wake of COVID-19, we will undertake a full roll-out of eVisas to visitors from China, India, Nigeria, Kenya and 10 other countries in the world.” This was an important announcement, given that the CCB is very reliant on tourists to generate income.
* “And, finally – and not leaving many other things aside – we must fight corruption and strengthen

the state that has been weakened.” As in previous years, the President noted the fight against corruption and in this regard, the CCB’s “fully-fledged” Fraud Prevention Policy that addresses criminality, is noteworthy.

* “It is our priority for this year to regain lost time and improve educational outcomes, from the early years through to high school and post-school education and training.” The CCB annually has a number of student leaderships being offered and for the year under review, had 7 interns out of a target of 12.
* “Furthermore, the departments of Small Business Development, and of Trade, Industry and Competition are supporting SMMEs to access larger domestic and international markets.” The CCB’s strive to support local businesses and adhere to the guideline to pay SMME’s within 30 days.

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

For the last two years, the CCB’s annual reports did not make any reference to the NDP and the only reference to the MTSF is by the Auditor General, in the previous financial year. The Annual Report for 2021/22 refers to the MTSF and states that “One of the most significant impacts of the virus was the climate of uncertainty it created. Although most of the COVID 19 restrictions were lifted in June 2022, the MTEF and the MTSF cycles will have to be adjusted to provide for the aftereffects of this unprecedented, global event.”

**3. Summary of previous recommendations of the Committee**

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

1. 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.
2. 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
3. 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.
4. 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.
5. 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.
6. 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.

**4. STRATEGIC OVERVIEW: HIGHLIGHTS AND CHALLENGES**

**4.1 Strategic Outcome oriented goals**

The 2021/22 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 former Minister presided over the opening of the launch of the online Camissa museum and African centre for restorative memory in April 2021.
* A clean audit opinion from the AGSA.
* The CCB managed to self-generate R3.3 million.
* Almost all corporate governance, heritage maintenance, tourism, and public access targets were met.
* Visitor numbers were on the mend but at 33 452, it is still way off the 120 000-benchmark.
* Participation on national heritage platforms continued with participation and publication in the South African Museum Association conferences and publications.
* Full-time deployment of the Regional Works Unit of Defence (the Defence Works Formation), the CCB's small maintenance team, and the DOD-funded maintenance and gardening team have improved the architectural and heritage integrity and transformed the aesthetics of this 356-year-old building, thereby staving off negative attention from mostly local polemicists.
* Media coverage on CCB was favourable and reached a worldwide audience of 604.24 million people, translating into an advertising value equivalent of R82 million.

### **4.3 Challenges**

* Dealing with the challenges and opportunities a post-COVID-19 world offers all to support the objectives of Project Koba-Tlala.
* Engaging the Minister to formalise the legal agreement between the Executive Authority and the Board.
* Seriously addressing the Going Concern challenge and sustainability challenges once and for all.
* Although it will take time and resources, the CCB undertake to start processes to get evaluated and registered in terms of its B-BBBEE status in compliance with the B-BBBEE Act.
* Pursuing the review of and possible scrapping to the Castle Management Act.
* Tackling the safety and security risks at the main entrance and around the Castle.
* Pursuing the Castle's UNESCO World Heritage Site listing along with the prescripts of the Castle's Integrated Conservation Management Plan.
* Roll-out of the subsequent phases of CCB's Responsible Commercialisation strategy to drive sustainability through aggressive marketing of the Castle as a premier, one-stop cultural tourism and events destination.
* Maintain and strengthen institutional, corporate, and administrative management processes at the CCB.
* Securing the perimeter fence has become imperative if the CCB want to position itself for UNESCO World Heritage status.

**5. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE**

## **5.1 Financial Performance for the 2020/21 Financial Year**

The under-expenditure of R2.7 million for 2021/22 may appear as a saving, but it has to be viewed against the background of the R5.5 million financial support from the DOD. In fact, given that this is more than half the amount given by the DOD, it can be questioned whether the financial assistance should not be decreased. This against the over-expenditure of R658 000 for 2020/21 which was also mainly due to the over-expenditure of   
R696 000 in the Administration Programme and R82 000 in the Conservation Programme.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2019/20** | | **2020/21** | | **2021/22** | | |
| **R’000 (***R thousand)* | | | | | | |
| Budget | Actual Expenditure | Budget | Actual Expenditure | Budget | Actual Expenditure | (Over)/Under  Expenditure |
| Administration | 8 031 | 5 299 | 4 711 | 5 407 | ***8 450*** | ***6 203*** | ***2 247*** |
| Conservation | 662 | 428 | 304 | 386 | ***660*** | ***483*** | ***177*** |
| Tourism Promotion | 15 | 9 | 0 0 0 | 0 0 0 | ***85*** | ***5*** | ***80*** |
| Public Access | 250 | 109 | 150 | 30 | ***243*** | ***65*** | ***178*** |
| **Total** | **8 958** | **5 845** | **5 165** | **5 823** | ***9 438*** | ***6 756*** | ***2 682*** |

**Budget for 2019/20 to 2021/22**

The under expenditure of R2.68 million might be indicative of the need to reduce the R5.5 million financial support to the CCB. It is also surprising that given the focus on maintenance, R177 000 was not spent in the Conservation programme. The Budget of R85 000 for Tourism promotion saw only R5 000 being utilised, against the background that no budget was allocated for the previous year to this programme. In the year preceding, only R9 000 was spent from the allocated R15 000. While these amounts may appear to be miniscule, it raises the question of whether proper planning has been done in this regard. A similar argument can be had with Public access, where only R65 000 of the allocated R243 000 was utilised.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Source of**  **revenue** | **2019/20** | | **2020/21** | | | **2021/22** | | |
| **Estimate** | **Amount collected** | **Estimate** | **Amount collected** | **(Over)/under collection** | **Estimate** | **Amount collected** | **(Over)/under collection** |
| **R’000 (***R thousand)* | | | | | | | |
| **Sales** | 5 870 | 3 921 | 1 100 | 475 | 625 | ***2 586*** | ***1 075*** | ***1 511*** |
| **Rental income** | 2 456 | 1 496 | 1 056 | 255,4 | 800,6 | ***1 100*** | ***2 100*** | ***(1 000)*** |
| **Other income** | 622 | 394 | 9 | 555,2 | (546,2) | ***102*** | ***46*** | ***56*** |
| **Interest income** | 10 | 0 | 0 | 34,4 | (34,4) | ***150*** | ***107*** | ***43*** |
| Grant |  |  | 3 000 (4 900) | 4 900 | (1 900) | ***5 500*** | ***5 500*** | ***0*** |
| **TOTAL** | **8 958** | **5 811** | **5 165** | **6 220** | **(1 055)** | ***9 438*** | ***8 828*** | ***610*** |

**Revenue 2019/20 - 2021/22**

While cognisant of the impact of the Covid-19 pandemic, it is concerning that sales for the past three years have not met the set targets, while rental income saw an over collection of R1 million for the first time in three years. It is however encouraging that interest income has steadily increase over the three years. The fact that an over collection of R1.055 million for the last financial year has been followed by an under collection of R610 000, should be engaged with and reasons therefor should be provided. It should be enquired whether the Responsible Revenue Generation Plan was mainly responsible to generate at least R3.328 million of the CCB’s income.

## **5.2 Financial statements**

**Irregular expenditure, Unauthorised Expenditure and Fruitless and Wasteful Expenditure**

The Annual Report states that “*The irregular expenditure identified in the previous year (R 939 746) was fully condoned. These were noncash flow items that had been omitted from the entity’s formally approved expenditure budget and comprised depreciation and amortization charges on fixed assets (furniture, IT equipment and software) and a provision for employee leave benefits*.”

Disclosed as Irregular Expenditure arising during the current year are the following amounts:

* R 38 236 for cleaning services contracts that were extended without informing National Treasury.
* R 13 964 paid in July 2021 for a technical review of the prior year’s annual financial statements (a service that had hitherto been provided by internal audit) where owing to the urgency three quotations had not been obtained.
* R 23 600 on legal services paid to a service provider who was not registered on National Treasury’s Central Supplier Database – this had enabled the CCB to depose in a replying affidavit to thwart litigation regarding the custody of museum artefacts that had been threatened against the CCB, the Minister of Defence & Military Veterans and the Chief of the SANDF.
* A further R301 relates to the purchasing of personal protective equipment (PPE) at prices that were higher than as recommended by National Treasury.

The total amount for Irregular Expenditure for the period under review is R76 121.00. While the amount of R937 746 was denoted as trivial in a total budget of R 5 175 000 for the previous financial year, the amount of R76 121 is a big improvement.

No **fruitless and wasteful expenditure was incurred.** Even though it has decreased significantly, as such a small entity should be able to steer clear of all Irregular Expenditure. The comment “*this had enabled the CCB to depose in a replying affidavit to thwart litigation regarding the custody of museum artefacts that had been threatened against the CCB*” is concerning.

**5.3 Findings of the Auditor-General of South Africa**

The CCB received a second consecutive clean audit for 2021/22, which means that they received a financially unqualified audit opinion with no material findings on compliance and performance reporting. This should be read with the comment by the Audit and Risk Committee that the AGSA has undertaken a limited assurance engagement on reported performance information for *Programme 2: Maintenance and conservation* at the Castle of Good Hope. Performance information in the annual performance report was properly presented and accepted as useful and reliable.

### **5.3.1 Going Concern**

The Annual Report states regarding the “Going Concern” challenge, that “*Support from the SA National Defence Force with the full backing of the Minister of Defence & Military Veterans has enabled the Castle Control Board to fulfil its functions and responsibilities during the periods of pandemic and lockdown, while the Board and its management team have been diligent and effective in seeking out and facilitating opportunities to generate additional revenues and cash flows through the CCB’s own efforts*.”

That the CCB is concerned about its Going Concern challenge is evident in the numerous reference to this challenge, from the section listing the Challenges facing the CCB, to its acknowledgement that it is dependent on financial support of the DOD to sustain its operations. Although it is admitted that the CCB's revenue generating capacity has been negatively affected by the COVID-19 lockdown regulations; its reliance on the DOD to ensure that it continues to operate as a Going Concern, should be addressed.

# 5.3.2. Responsible Revenue Generation Plan

Aligned to the challenges regarding the CCB as a Going Concern, is the Revenue Optimisation Strategy

and/or Responsible Revenue Generation Plan, as they initially called it. The Annual Report, for instance, states that “*Rudely interrupted by the pandemic, we have resumed the rolling out of Phase 2 of our Revenue Generation Strategy. We have a small, operational Gift Shop run by a disabled staff member. We started to promote the state-of-art Conference Centre to generate income. The contract of Five Star Restaurant has ended, offering us an internal opportunity (with Het Bakhuys) to look at delivering an excellent service to our clients who can then spend in other areas. The focus is on high-yield commercial events for the site, thereby supporting the objectives of Project Koba-Tlala*.” The much vaunted Revenue Generation Plan, its phases and amended projections following the Covid pandemic, were not clearly explained.

**6. OVERVIEW AND ASSESSMENT OF PROGRAMME PERFORMANCE**

## **6.1 Non-financial performance**

The 2021/22 Annual Report had 20 targets. Only three were not met and these were two from Programme 3 and one from Programme 4. Those not met were listed as:

* Total number of visitors per annum had a target of 120 000 while the achievement was 33 452. They explained that although their tourism numbers doubled yearly, they did not meet their recovery rate estimates. The target was also not met in the previous year.
* The target for Total gross revenue generated per annum, was R9.438 milloin and the actual achievement was R8 829 million, but this was inclusive of the R5.5 million grant from the DOD.
* The Number of student leaderships offered per annum had a target of 12 while 7 was achieved with the reason being that “*After a directive from the Authorities, Cape University withdrew its interns from the program*” – similar to the previous year.

The Annual Report for the previous year (2020/21) indicated that 19 of the 21 key performance indicators were achieved, while the year under review saw 17 of the 20 targets being met. The 85% success rate was thus met with an expenditure of R6.756 million of the allocated budget of R9.438 million, but this need to be viewed against financial support of R5.5 million from the DOD. It stresses the point that without the latter, the CCB would have struggled to achieve 85% of its targets with utilisation of 73% of the budget.

## 

## **6.2 Programme 1: Administration and Good Corporate Governance**

For the financial year under review, all six APP targets were met, against an under spending of 73%. The previous financial year overspent by 115% and all seven targets were met. This programme deals with areas of administration, corporate governance, financial management, human resource management and stakeholder communication.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FY2021/22** | **FY 2020/21** | **FY2019/20** | **FY2018/19** |
| **Programme 1: Targets** | 6 | 7 | 8 | 4 |
| **Targets achieved** | 6 | 7 | 7/8 | 4/4 |
| **Targets not achieved** | 0 | 0 | 1/8 | 0/4 |
| **Success rate** | 100% | 100% | 87.5%% | 100% |
| **Programme Budget Spent (%)** | 73% | 115% | 66% | 92.3% |

The CCB performed well in achieving all of Programme One’s six annual targets for the financial year under review, although the underspending of the budget by 27% is noted. One target was included in previous financial years was omitted for the last two financial years 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

## **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 73% of the budget, with a similar achievement of 100% of the targets in the previous year

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FY2021/22** | **FY 2020/21** | **FY2019/20** | **FY2018/19** |
| **Programme 2: Targets** | 4 | 4 | 3 | 4 |
| **Targets achieved** | 4 | 4 | 3/3 | ¾ |
| **Targets not achieved** | 0 | 0 | 0/3 | ¼ |
| **Success rate** | 100% | 100% | 100% | 75% |
| **Programme Budget Spent (%)** | 73% | 113% | 64.5% | 43.8% |

The CCB should be applauded for the performance of this Programme, especially as it relates to the   
preservation and showing of the Castle. The underspending overspending 27% in this programme is noted and reasons for this should be sourced from the CCB.

## **6.4 Programme 3: Maximising the Tourist Potential**

Programme 3 saw a performance where 4 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. The success rate remained the same with same two targets being missed. The fact that only 6% of the budget was spent against none the previous financial year, is concerning.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FY2021/22** | **FY 2020/21** | **FY2019/20** | **FY2018/19** |
| **Programme 3: Targets** | 6 | 6 | 6 | 6 |
| **Targets achieved** | 4 | 4 | 5/6 | 5/6 |
| **Targets not achieved** | 2 | 2 | 1/6 | 1/6 |
| **Success rate** | 67% | 67% | 83.33% | 83.33% |
| **Programme Budget Spent (%)** | 6% | 0/0 | 60% | 5% |

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

The success rate of this programme remained the same as the previous year as 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.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FY2021/22** | **FY 2020/21** | **FY2019/20** | **FY2018/19** |
| **Programme 4: Targets** | 4 | 4 | 4 | 4 |
| **Targets achieved** | 3 | 3 | 4/4 | 4/4 |
| **Targets not achieved** | 1 | 1 | 0/4 | 0/4 |
| **Success rate** | 75% | 75% | 100% | 100% |
| **Programme Budget Spent (%)** | 27% | 20% | 43.6% | 144% |

The CCB should be asked to explain the background to the statement that “*After a directive from the Authorities, Cape University withdrew its interns from the program.*” It is concerning that this target around the usage of interns has been lowered against the background of the challenges of youth unemployment in the country. The CCB should be encouraged to maximise the learning opportunities for the youth at the CGH through the number of student leadership offers per annum at the CCB, especially given that it is indicated that the DOD is willing to fund such initiatives.

**7. GOVERNANCE**

The Annual Report refers to various issues under this section, *inter alia,* its four engagements with the Portfolio Committee but only one date is mentioned namely 10 November 2021. They point out that due to various circumstances, the Minister delegated her CCB’s oversight role to Deputy Minister Makwetla in December 2019 and that they had four engagements with the Deputy Minister. The CGH 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 Risk Register forms the basis for regular risk assessments to determine the effectiveness of the CCB’s risk management strategy and to identify new and emerging risks. While the 2017/18 Annual Report listed the various Strategic Risks, this was not done for the subsequent three years, including 2021/22. 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. Similar to 2018/19 and 2019/20 the CCB does not list the actions plans to address the Strategic Risks, as opposed to this being done by the Department of Defence and the Department of the Military Veterans.

## **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

As in the previous Annual Report, the CCB states that its 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.*” It states further that the CCB has now successfully resolved this matter but has been put on the backfoot with the departure of three managers and two other staff members.

The Annual Report indicates that no *performance rewards* have been paid to its personnel in 2021/22. The CCB Management team comprised 13 full-time CCB remunerated staff members at the end of 2021/22. Short-term contract staff, interns (7), and additional casual staff employed to assist during the peak tourism season and the eight (8) members of the DOD-funded gardening maintenance team increased the extended Castle HR base to 28. They carried the maintenance team members as "casual labour" for March, but after a Board resolution, they have subsequently been listed as employees since year-end. One of the concerns is that the Total Expenditure for the entity was R 6 756 000 versus a Personnel Expenditure of R4 742 000, indicating that 70.2% of its total budget is being spent on personnel. Although its acknowledge that the CCB is a labour-intensive service providing entity, the 70% being spent on personnel is concerning.

1. **COMMITTEE OBSERVATIONS: castle control board**

The Portfolio Committee made the following Observations on the 2021/22 Annual Report of the CCB:

1. The Committee commended the CCB on achieving a consecutive clean audit outcome from the AGSA; that they are improving their performance after the impact of the Covid pandemic and also thanked the DOD for the relief fund and availability of artisans from the Regional Works Regiment.
2. It was observed that the pristine condition of the Castle of Good Hope is appreciated through the continued repair and maintenance to preserve this 367-year-old building.
3. While noting that eight contract workers from a cleaning company have been appointed on contract at the CCB, the Committee expressed the hope that the entity will continue to secure employment for these workers. Similar sentiments were expressed regarding the utilisation of the seven interns.
4. Questions were asked around the working relationship and communication with the DOD, and whether any challenges are being experienced in this regard. The CCB indicated that, as with the Regional Works Regiment, the Army Support Base as well as the relevant Reserve units are all very helpful and their support allows for the effective functioning of the CCB.
5. The Committee raised its concerns around the number of vacancies and especially the reasons why managers left the employment of the CCB. It wanted to know whether there were certain environmental factors why these managers left, and if yes, how they plan to address these in order to retain personnel.
6. A question was raised on the visitor numbers which were on the mend but, at 33 452, it is still way off the 120 000-benchmark, and how the CCB foresee they will address this. The response was that this item is high on their agenda and that they are looking at increasing spending in this regard from only R5 000 to R100 000.
7. It was noted that the CCB has previously stated its intention to deal with its Going Concern challenges and that the AGSA has previously stated that, due to the financial assistance of the DOD, the entity could prepare its financial statements on the Going Concern basis.

**10. COMMITTEE Recommendations: castle control board**

The Portfolio Committee, after considering the 2021/22 Annual Report of the CCB, makes the following recommendations:

1. The Committee expressed it expectation that the CCB should continue to receive a clean audit opinion and reiterated its stance that it expects such a small entity to perform well during its auditing processes.
2. The Committee recommends that the DOD continue to second Regional Works Regiment artisans to the CCB, as they are making a substantial contribution to the maintenance and repair work at this 367-year-old building.
3. The Committee encourages the CCB to continue to create employment opportunities for both the contract workers and interns to assist with addressing the huge challenge of unemployment in the country.
4. The Committee commended all DOD role-players for its support to the CCB and encourages them to continue to support the CCB.
5. The Committee recommends that the CCB provides it with the reasons why some managers left, whether it was due to environmental factors and whether it has a retention strategy to ensure the continued employment of its personnel.
6. The Committee recommends that the CCB enhances efforts to increase the number of visitors to pre-Covid levels, and agreed that the increased spending on this item should assist in this regard.
7. 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.

***Report to be considered.***