*Friday, 27 October 2023*]

No 147—2023] FIFTH SESSION, SIXTH PARLIAMENT

# PARLIAMENT

**OF THE**

# REPUBLIC OF SOUTH AFRICA

---

# ANNOUNCEMENTS, TABLINGS AND COMMITTEE REPORTS

---

FRIDAY, 27 OCTOBER 2023

---

## TABLE OF CONTENTS

## ANNOUNCEMENTS

### National Assembly and National Council of Provinces

1. Classification of Bills by JTM ..... 2

### National Assembly

1. Referral to Committees of papers tabled..... 2

## TABLINGS

### National Assembly and National Council of Provinces

1. Minister of Social Development ..... 3
2. Minister of Employment and Labour..... 3

## COMMITTEE REPORTS

## National Assembly

1. Employment and Labour ..... 4
2. Defence and Military Veterans ..... 52
3. Defence and Military Veterans ..... 76
4. Human Settlements ..... 96
5. Water and Sanitation ..... 119

# ANNOUNCEMENTS

## National Assembly and National Council of Provinces

### The Speaker and the Chairperson

### 1. Classification of Bills by Joint Tagging Mechanism (JTM)

(1) The JTM in terms of Joint Rule 160(6) classified the following Bill as a section 75 Bill:

(a) **South African Broadcasting Corporation SOC Ltd Bill** [B32–2023] (National Assembly – sec 75).

## National Assembly

### The Speaker

### 1. Referral to Committees of papers tabled

(1) The following papers are referred to the **Portfolio Committee on Transport** for consideration and report. Report of the Auditor-General on the Financial Statements and Performance information is referred to the **Standing Committee on Public Accounts** for consideration:

(a) Erratum to the Integrated Report of the South African National Roads Agency Limited (SANRAL) SOC Limited for 2022-23 (Volume 1).

(b) Erratum to the Integrated Annual Financial Statements of the South African National Roads Agency Limited (SANRAL) SOC Limited for 2022-23, including the Report of the Auditor-General on the Financial Statements and Performance Information for 2022-23 (Volume 2).

# TABLINGS

## National Assembly and National Council of Provinces

## 1. The Minister of Social Development

(a) Protocol to the African Charter on Human and Peoples' Rights on the Rights of Older Persons in Africa, tabled in terms of section 231(2) of the Constitution of the Republic of South Africa, 1996.

(b) Explanatory Memorandum to the Protocol to the African Charter on Human and Peoples' Rights on the Rights of Older Persons in Africa.

## 2. The Minister of Employment and Labour

(a) Revised Annual Performance Plan of the Department of Employment and Labour for 2023/24.

---

# COMMITTEE REPORTS

## National Assembly

# 1. Budgetary Review and Recommendation Report of the Portfolio Committee on Employment and Labour, dated 25 October 2023

The Portfolio Committee on Employment and Labour, (the Committee) having considered the performance of the Department of Employment and Labour and its entities in meetings held on 18 and 20 October 2023, reports as follows:

## 1. INTRODUCTION

The Budgetary Review and Recommendation Report of the Committee has been compiled in compliance with the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009. This report provides an assessment of the Department of Employment and Labour (DEL) and its entities' service delivery performance given available resources; effectiveness and efficiency of the use and forward allocation of available resources; and recommendations on the forward use of resources.

### 1.1. The mandate of the Committee

All parliamentary committees have a mandate to legislate, conduct oversight over the executive and facilitate public participation. As such, the mandate of the Committee is governed by the strategy of Parliament and the Constitution. The Committee is charged with the responsibility of holding the executive and related entities accountable through oversight of objectives of its programmes; scrutinising its budget and expenditure; and recommending through Parliament, what actions the Department should take to attain its strategic goals and contribute to service delivery.

The National Assembly, through its committees, is required by section 5 of the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009, to annually assess the performance of each national department and submit Budgetary Review and Recommendation Reports (BRRR) for tabling in the National Assembly. These reports should be submitted to the Minister of Finance and the relevant Ministers.

### 1.2. The mandate of the Department of Employment and Labour

The Constitutional mandate of the Department is derived from the following sections of the Constitution:

- Section 9, to ensure equal access to opportunities.
- Section 10, promotion of labour standards and fundamental rights at work.

- Section 18, freedom of association.
- Section 23, to ensure sound labour relations.
- Section 24, to ensure an environment that is not harmful to the health and wellbeing of those in the workplace.
- Section 27, to provide adequate social security nets to protect vulnerable workers.
- Section 28, to ensure that children are protected from exploitative labour practices and not required or permitted to perform work or services that are inappropriate for a person of that child's age or their well-being, education, physical or mental health or spiritual, moral or social development is placed at risk.
- Section 34, access to courts and access to fair and speedy labour justice.

The policy mandate of the Department is to regulate the labour market through policies and programmes developed in consultation with social partners, which are aimed at:

- Improving economic efficiency and productivity.
- Creation of decent employment.
- Promoting labour standards and fundamental rights at work.
- Providing adequate social security nets to protect vulnerable workers.
- Promoting sound labour relations.
- Eliminating inequality and discrimination in the workplace.
- Enhancing occupational health and safety awareness and compliance in the workplace.
- Giving value to social dialogue in the formulation of sound and responsive legislation and policies to attain labour market flexibility for competitiveness of enterprises which is balanced with the promotion of decent employment.

### 1.3. Purpose of the BRRR

The Money Bills Amendment Procedure and Related Matters Act sets out the process that allows Parliament to make recommendations to the Minister of Finance to amend the budget of a national department. In October/November of each year, portfolio committees must compile BRR Reports that assess service delivery performance given available resources; evaluate the effective and efficient use and forward allocation of resources; and may make recommendations of forward use of resources. The reports are also source documents for Standing/ Select Committees on Appropriations/ Finance when they make recommendations to the House of Parliament on the Medium-Term Budget Policy Statements (MTBPS). The

comprehensive review and analysis of the previous financial year's performance, as well as performance to date, form part of this process.

### 1.4. Method

In reviewing the work of the labour portfolio (Department and its entities) for the 2022/23 financial year, the Committee placed emphasis on the following:

- Overall performance in lieu of allocated budget as reflected in the annual reports of the portfolio.
- Presentations by the labour portfolio to the Committee on their annual reports.
- Report of the Auditor-General on the labour portfolio.
- Presentation by the Auditor-General to the Committee.
- Responses of the Department to the BRR report of 2022.

The source documents used by the Committee are presentations by the labour portfolio during the year, and annual reports of the Department and entities.

### 1.5. Outline of the contents of the Report

The content of the Report is as follows:

- Overview of the key relevant policy focus areas.
- Summary of previous key financial and performance recommendations of the Committee.
- Overview and assessment of financial performance of the Department of Labour.
- Report of the Auditor-General.
- Overview of financial performance of DEL in Q1 of 2023/24.
- Overview and assessment of service delivery performance for 2022/23 financial year.
- Overview of Performance of Entities of the Department of Labour.
- Committee Observations.
- Committee Recommendations.
- Appreciation.

The sections below expatiate on the content outlined above.

## 2. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS

According to the **Quarterly Employment Survey (QES)**, total employment in the formal non-agricultural sector decreased by 21000 in quarter one of 2023, bringing the level of employment

to approximately 10 million. The year-on-year statistics reflected that 97 000 jobs were lost between March 2022 and March 2023.

The quarter-to-quarter decrease of 21 000 was observed across various sectors, while some experienced gains. The trade industry and business sector lost 36 000 and 32 000 jobs respectively. The transport and construction industries both lost 2 000 jobs in quarter one. The community service, mining, manufacturing and electricity industry gained 41 000, 5 000, 4 000 and 1 000 jobs respectively.

Five out of eight industries (Business services, construction, transport, trade and electricity) were reported to have not returned to pre-COVID employment levels.

The official unemployment rate was 32.9% in quarter one of 2023, according to the **Quarterly Labour Force Survey (QLFS)**. The number of employed persons increased by 258 000 to 16.2 million in quarter one of 2023 compared to quarter four of 2022, while the number of unemployed persons increased by 179 000 to 7.9 million. The above changes resulted in the official unemployment rate increasing by 0.2% from 32.7% in the fourth quarter of 2022 to 32.9% in the first quarter of 2023. The unemployment rate according to the expanded definition decreased by 0.2% to 42.4% in the first quarter of 2023 compared to the fourth quarter of 2022.

The QLFS reported the official unemployment rate decreased by 0.3% from 32.9% in the first quarter to 32.6% in the second quarter of 2023. The unemployment rate according to the expanded definition decreased by 0.3% from 42.4% in the first quarter to 42.1% in the second quarter of 2023.

The formal sector employment increased by 143 000 in the second quarter and the informal sector employment decreased by 33 000 over the same period. The following industries recorded the largest employment gains:

- Construction (104 000)
- Trade (92 000)
- Community and Social Services (63 000)

Employment losses were recorded in the following industries:

- Manufacturing (96 000)
- Finance (68 000)
- Transport (7 000)
- Utilities (6 000)

The total number of unemployed youth decreased by 131 000 to 4.7 million, while there was an increase of 105 000 in the number of the employed youth to 5.7 million during the same period. This resulted in a decrease in youth unemployment rate by 1.1% to 45.3% in the second quarter of 2023.

The **Quarterly Employment Survey (QES)** showed that total employment increased by 39000 or 0.4% quarter-to-quarter, from 10 039 000 in March 2023 to 10 078 000 in June 2023. This was largely due to increases in the following industries:

- Community services (40 000 or 1.4%)
- Business services (12 000 or 0.5%)
- Mining (2 000 or 0.4%)
- Electricity (1 000 or 1.7%)

However, there were losses in employment in the following industries:

- Manufacturing (-10 000 or -0.8%)
- Transport (-3 000 or -0.7%)
- Trade (-2 000 or –0.1%)
- Construction (-1 000 or -0.2%)

Total employment increased by 104 000 or 1% year-on-year between June 2022 and June 2023.

Full-time employment decreased by 25 000 or -0.3% quarter-on-quarter, from 8 816 000 in March 2023 to 8 791 000 in June 2023. Full-time employment decreased by 46 000 or -0.5%, year on year between June 2022 and June 2023.

Part-time employment increased by 64 000 or 5.2% quarter-on-quarter, from 1 223 000 in March 2023 to 1 287 000 in June 2023. Part-time employment increased by 150 000 or 13.2% year-on-year between June 2022 and June 2023.

## 3. SUMMARY OF PREVIOUS KEY FINANCIAL AND PERFORMANCE RECOMMENDATIONS OF THE COMMITTEE

### 3.1. Committee Report on Budget Vote

In the Budget Vote of 2023, the Committee recommended that the Minister considers the following:

3.1.1. Department of Employment and Labour, including SEE.

- Ensuring that the initiatives of the Department are aligned to its expanded mandate of employment.
- The Department must work with National Treasury to ensure that the SEE receive preferential procurement status from government departments.
- That people with disabilities that work for SEE are provided with transport to and from work.
- The Public Employment Services branch of the Department is restructured and repurposed for job creation, including interdepartmental and private sector activities.

3.1.2. Productivity SA

- Ensuring that the Productivity SA single source funding model is finalised so that the mandate of PSA is funded through section 12 of the Act read together with section 40(a) of the Act.
- Ensuring that the Productivity SA receives its budget timeously.
- Productivity SA must develop the National Productivity Strategy to improve productivity levels in the country, engaging with social partners at Nedlac.

3.1.3. CCMA

- Ensuring that additional funding is made available to enable the entity to fully execute its statutory as well as legislative mandate.
- Ensuring that the services of the entity are decentralised to Labour Centres.

3.1.4. Nedlac

- The Government Task Team finalise its work of ensuring that Nedlac structure is fit-for-purpose and table its report before the Committee.
- Nedlac must consider amendments to legislation to encourage working from home so as to ensure that gains made as a result of COVID-19 are not lost.

3.1.5. Compensation Fund

- The Department of Employment and Labour (DEL) needs to appear before the Committee with Compensation Fund (CF) led by both administrative and political leadership and explain the real situation of the CF, as well as the impact that their interventions are yielding for an efficient and effective running of CF.
- CF needs to table to Parliament all the outstanding policy documents, for accountability, transparency, and openness among others.

3.1.6. Unemployment Insurance Fund

- Unemployment Insurance Fund (UIF) with DEL led by both administrative and political leadership to brief the Committee on the current state of affairs of UIF and commit on dates as to when to expect improvements on the entity.
- UIF needs to give commitment to the Committee as to when all outstanding policy documents will be tabled in Parliament.

NB: The response of the Department to the above budget vote recommendations is available on request from the Committee Secretariat.

### 3.2. BRRR 2022 recommendations and responses of the Department

The responses of the Department to BRRR of 2022 are listed below.

#### 3.2.1. Department of Employment and Labour

**Recommendation**

The Department ensures that both UIF and CF table their Annual Reports on time also their QPRs, in compliance with legislation so that AGSA can make informed audit outcomes.

**Response**

It is the desire of the UIF and the CF to submit the Annual Financial Statements (AFS) and Annual Reports to the AGSA on the legislated date of 31 May of every year. However, there are reasons behind the late submission of the AFS to AGSA for auditing and the subsequent delayed tabling of audited AFS and Annual Report that are not related to the UIF's inability to do its work. The underlying reasons are as follows:

- The Companies Act 71 of 2008, clause 30 (1), states that each year a company must prepare annual financial statements within six months after the end of its financial year, or such shorter period as may be appropriate to provide the required notice of an annual general meeting.
- Furthermore, clause 27 (1) stipulates that a company must have a financial year, ending on a date set out in the company's Notice of Incorporation. This date can be any date of the calendar year. The UIF and CF Investee companies have the following year-end dates:
    - 31 March= 8 Investee Companies
    - 29 February= 4 Investee Companies
    - 31 December= 3 Investee Companies
    - 30 June= 2 Investee Companies
    - 30 September= 1 Investee Company

- Contrary to the Companies Act, the Public Finance Management Act (PFMA) section 40 (b) states that the accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice and must submit those financial statements within two months after the end of the financial year. There is a huge period gap of six months between the Companies Act and PFMA.

  Section 40 (3) further states that the annual report and audited financial statements must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned. The Fund will never be in a position to comply with the above section if the audited financial statements from the Investee companies are not received within two months from the end of the UIF financial year end.

  To comply with both Acts above, UIF and CF opted to request extension to submit its annual financial statements in order to consolidate all information from the investee companies for the financials to be credible and fairly present the affair of the entity.
  In the meantime, UIF and CF drafted a technical memo which proposes change in GRAP implementation of the joint ventures and associates and it was submitted to National Treasury and Accounting Standard Board (ASBO) for consideration and approval.

  The Director-General at each instance evaluates the impact that the approved delay in the submission of the financial statements and annual report has on the organisation and interested stakeholders such as the oversight structures. The Minister and the Director-General are satisfied with the above reasons for non-submission.

  Regarding the Quarterly Performance Reports, the Unemployment Insurance Fund always prepares APP quarterly performance reports and has always been available to present the quarterly performance reports to the Portfolio Committee and any structure.

  CF Quarterly reports are compiled and submitted on time to DPME. CF ensures that the Performance is submitted monthly to internal governance structures. The monthly

performance is monitored and compiled into quarterly performance for submission to all governance structures which is on time.

The Annual report (AR) is dependent on the audit process conducted by AGSA. CF is committed to the 31 May timeline to submit the financials to treasury to allow AGSA to commence with the audit. CF does co-ordinate audit timelines and deliverables with AGSA to ensure the audit is completed by 31 July annually, to allow CF to incorporate the audited financials into the annual report. The challenges that contribute to delayed timelines is an audit process that extends beyond 31 July due to the quantum of information that AGSA requests. The CF has identified the gaps and commits to improve processes that will ensure a committed audit process that results in timeous submission of the AR.

**Recommendation**

Funded vacant posts in the Department are filled without delay, more importantly in the Inspection and Enforcement Services (IES) branch.

**Response**

Upon implementation of the wage agreement with Public Servants, the Department was instructed to fund the resultant increase within our allocation. The expected expenditure of R80 million resulted in the compensation of employees just enough to pay for the warm bodies. What this means is that all vacant position become unfunded. There's moratorium over filling of posts. Notwithstanding what is stated above, it should be stated that the Department is now filling positions that became vacant after the 30 June 2023 as they were funded and filled before the said date.

**Recommendation**

The Committee demands to receive a comprehensive workable plan on how all funded vacant posts will be rapidly filled in, gradually dropped down to zero, more importantly in the IES branch.

**Response**

The Department has met and briefed the Portfolio Committee at least twice on the matter of funded vacant posts. The presentations that were shared with the Portfolio Committee highlighted the progress that is made in this front. Suffice to state that currently, only positions that became vacant after the 30th June 2023 should be filled or swapped with a position on the unfunded list if deemed necessary.

**Recommendation**

The Committee asks to be provided with quarterly reports on how all ICT related challenges are resolved.

**Response**

ICT is operating in line with the DPSA Corporate Governance of ICT Policy Framework (CGICTPF), that government departments should comply with. CGICTPF which provides the direction on how ICT decisions in the departments should be directed to support with the business strategies.

Various ICT Governance Structures are in place at the department to direct various ICT matters i.e. Strategic ICT Committee (EXCO), ICT Steering Committee, ICT Architecture Committee, Various ICT Project focused Committees and Operational Committee. The ICT Reports are presented at ICT Steering Committees, EXCO, Audit Committees and Risk Management Committees on quarterly basis.

The ICT quarterly reports include the various aspects of ICT, i.e. ICT performance reports on various areas of ICT Projects, ICT Risks and progress reports, ICT Audit Findings and audit action plans to resolve the findings, Cyber Security matters, ICT APP targets reporting, ICT Budget and ICT Resources updates. Challenges are managed through discussions on matters during specific focused operational and project related Committees. ICT Matters are standing agenda items of discussions during EXCO and DEXCOM meetings**.**

**Recommendation**

The Department to provide the Committee with a report on how it is remedying not only the irregular expenditure of R16 865 million which is related to ICT, but to also report on correction measures on fruitless and wasteful expenditure.

**Response**

As part of the remedial actions in addressing control deficiencies identified in the management of procurement of goods and services in the Department, the CFO has established a fully-fledged financial compliance and reporting unit effectively from 1 April 2023. The unit has an approved organogram and a dedicated budget and is strategically headed by a Director and 7 support staff members. Among others the unit monitors and assess financial compliance and reporting within finance and conduct advisory and awareness and/or advocacy on all matters relating to financial compliance in the Department. The unit also conducts financial

investigations on identified instances of financial non-compliance and submits such reports to the CFO.

Financial compliance unit is also in a process to rollout a policy search engine, in assisting the department in developing a unified depository of all financial policies, procedures and standard forms that would be interactive on software platform. The policy search engine will be in a form of an online policy advisor incorporated into smartgov where all officials can perform searches that will give them the exact provision of the related policy response.

Loss Control Committee is established to investigate all financial related losses and initiate consequence management process where breaches and/or losses have been found resulting from negligible financial management practice.

Revised SCM policies and standard operating procedures to fortify and/or mitigate gaps that existed resulting in bridges that happened, is assisting the CIO to comply with SITA Act in the procurement of ICT goods and services. The aforementioned intervention is anticipated to derive enhancement and improvements in the financial compliance culture in the department.

**Recommendation**

The Committee needs quarterly reports on how operations in the Supply Chain Management are improved, in order to deal with the whole issue of poor record keeping and strengthen the financial control environment, among others.

**Response**

The UIF will provide the Committee with quarterly reports on how operations in the Supply Chain Management are being improved. The UIF has established a probity process as part of the bidding process. Furthermore, regarding record keeping, the Fund has procured an Enterprise Content Management to digitise all of its records.

**Recommendation**

A strategy to speed up completion of corruption cases must be shared with the Committee with immediate effect.

**Response**

Currently the department has appointed a panel of forensic investigators to assist with speedy attention given to corruption as the challenges that were faced by the department in delays were due to capacity issues in both human and applicable tools and resources.

### 3.2.2. Supported Employment Enterprises

**Recommendation**

The Committee receives regular updates on engagements between Department of Employment and Labour and National Treasury on preferential procurement status of the SEE.

**Response**

A meeting between SEE officials, The Chief Financial Officer (CFO) of the DEL as well as the office of the Chief Procurement Officer (CPO) from National Treasury was held on the 02 March 2023. The meeting resolved that the Public Procurement Bill that was to be published in the Government Gazette on the 22 May 2023 would somewhat bring about some kind of solution that will be a relief to the solution sort by SEE. The relief is brought by the provision in Section 17 (7) that stipulates that any Minister may submit a request to the Minister of Finance to make regulations regarding a matter pertaining to the portfolio of the relevant Minister, in this case the Minister of Employment and Labour on behalf of SEE.

SEE through DEL will have to bring the request to the Minister of Employment and Labour once the Bill is signed by the Head of State. The provision therefore enables SEE, through the Minister of Employment and Labour to submit a request to the Minister of Finance to make regulations under Preferential Procurement Policy as the provision [(Section 17 (7)] stipulates further to say any Minister may submit a request to the Minister of Finance to make regulations regarding a matter pertaining to the portfolio of the relevant Minister, in this case the Minister of Employment and Labour on behalf of SEE. The Department has also included a provision in the Employment Services Amendment Bill that is to be presented to Parliament once approved by Cabinet. The Provision seeks to clarify the legal status of the SEE as a government Trading Entity so that it can also benefit from the Amended Public Procurement Bill.

**Recommendation**

DEL must assist SEE to employ people with relevant skills in Finance.

**Response**

DEL has ensured that the entity employed a Chief Financial Officer for the entity.

The office of the DEL CFO is currently assisting SEE to get up and running with Caseware Management system. DEL has extended the services of both the Internal Audit and the Risk Management to the entity as they do not have the financial means to employ their own.

The Departmental National Risk Committee and the Audit Committee continues to oversee the work of the entity. The DG approved that the entity employs external financial management services company early in the year, to assist on putting together financial statements and to address a range of issues raised by the Auditor General. There are other initiatives underway to augment the current Finance management structure with an additional post of a Cost Accountant to address cost of sales and inventory related issues.

**Recommendation**

Designated groups must be affirmed. SEE as the Public Institution that is employing people living with disabilities must be catered for to ensure that no one is left behind, and sections that may be found in some of our statutes guaranteeing benefits to designated groups must be put into good practical use.

**Response**

SEE recognizes that it will not address the plight of people with disabilities alone. To this end, the entity has initiated the following:

- Establishing more practical and meaningful collaboration between SEE/DEL and Department of Social Development as well as Department of Women, Youth & Persons with Disabilities to have impactful outcomes in making a difference in the lives of designated groups.
- Launched Dialogues with Disability constituencies and special schools where SEE normally recruit its new staff members from under the European Union Funded Education for Employment Project.
- Concluded partnership agreement with the MERSETA to train people with Disabilities in various metal skills to facilitate their entry and integration into formal employment beyond SEE.
- Exchange strategies and approaches with other 09 Designated organisations that receive subsidies from DEL.

### 3.3.3. Nedlac

**Recommendation**

The entity briefs the Committee on its restructuring to employ more senior staff with facilitation and leadership skills.

**Response**

Due to the cost containment guidelines of the National Treasury and the significant reduction in our budget over the MTEF, Nedlac is no longer able to employ more senior staff. However, we continue to develop our existing staff including in respect of facilitation and leadership skills.

### 3.3.4. Productivity SA

**Recommendation**

The Department should develop a single source funding model to ensure that the mandate of Productivity SA is funded.

**Response**

DEL did submit a bid for additional funding to the National Treasury and this was not approved. DEL through the PES Branch, continues to transfer to Productivity SA an annual budget allocation of R62, 921.000 on a quarterly basis and based on a Memorandum of Agreement signed with the DG for Productivity promotion in accordance with the Employment Services Act mandate. Two tranches amounting to R41,947,332 for the two tranches have already been effected by end of September 2023.

The entity also receives funding from other three sources. This includes:

- a special annual allocation of about R10 million from the Department of Trade, Industry and Competition for the Workplace Challenge programme that they account for differently.
- They also receive an amount of R42 million from the Unemployment Insurance Fund to assist companies with Turn Around Solutions and must also account for separately.
- The entity is legally allowed to also generate income from provision of consultancy services to companies and last year, they generated about R23 million.
- The Department is of the view that any attempt to channel all the three sources of funding to be paid through PES or to replace the three additional sources with the National Treasury Allocation may not be realised in the current financial situation. DEL has impressed on the Productivity SA Board to ensure that management accounts properly and spend all these monies in accordance with the intended purpose so as to sustain the flow of additional resources until such time that a permanent solution can be secured.

**Recommendation**

The requirement that distressed companies should be in good standing with UIF and SARS must be reviewed to allow opportunities for companies to be assisted with compliance while concurrently assisting them to save jobs.

**Response**

The UIF has committed itself to contributing to the creation and preservation of jobs and livelihoods. It is against this fact that the Fund acknowledges that although non-compliance with the UIF related legislation is a big concern and must be discouraged, the preservation of jobs particularly in the face of the high unemployment rate, should be prioritised. Consequently, non-compliance with the UIF related legislation does not automatically preclude distressed companies from benefitting from the Fund's Temporary Employer Employee Relief Scheme (UIF). Non-complaint companies enter into an agreement with the UIF through which the company agree to comply with the UIF related legislation by an agreed timeframe whilst receiving the benefit in the interim. This is meant to ensure that the distressed companies save the existing jobs that are at risk of being lost whilst at the same time embarking on a process towards compliance.

**Recommendation**

Productivity SA must regularly monitor productivity champions to ensure that the objectives that have been intended by their appointment are indeed realised, which among others are to sustain the legacy of interventions in businesses, with a view to preserve jobs.

**Response**

Productivity SA has embarked on regular monitoring and evaluation exercise in order to assess the level of impact of the productivity champions and achievements of the intended objectives of its programmes. Furthermore, Productivity SA do case studies on projects completed with the focus of capturing lessons learnt for continuous improvement purposes and dissemination of same to the broader SA economy through quarterly newsletters and annual reports. In Quarter 2 of 2023/24 Financial Year, 418 Productivity Champions were trained, and this has contributed amongst other related interventions to the preservation of 3408 jobs in the period under review. The Productivity Champions are part of a broader company-based structure vested with ensuring long-term sustainability of the enterprise called the Future Forum made up of Management and Workers. Productivity SA in the spirit of continuous improvement will look at further mechanisms to monitor and enhance the effectiveness of this structure and that

of Productivity champions to sustain the legacy of interventions in businesses, with a view to preserve jobs.

### 3.3.5. Commission for Conciliation, Mediation and Arbitration

**Recommendation**

CCMA should be sufficiently resourced for it to respond effectively to its mandate of dispute resolution.

**Response**

The CCMA is funded through fiscus, its budget is decided by Parliament through Voted Funds. The role of the Department is to transfer what the Parliament has made available to the CCMA for its operations.

## 4. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE OF THE DEPARTMENT OF EMPLOYMENT AND LABOUR

### 4.1. Overview of Vote allocation and spending for 2022/2023

The activities of the Department of Employment and Labour are structured into four programmes, namely Administration; Inspection and Enforcement Services; Public Employment Services; and Labour Policy and Industrial Relations. Table 1 below reflects the allocation and expenditure per programme in 2022/23 financial year.

Table 1: Revenue and Expenditure per Programme for 2022/23 financial year

| PROGRAMMES | | 2022/23 | | | |
|---|---|---|---|---|---|
| | | FINAL APPROPRIATION | ACTUAL EXPENDITURE AS AT 31/03/2023 | AVAILABLE BUDGET | EXPENDITURE AS AT 31/03/2023 |
| | | *R'000* | *R'000* | *R'000* | *%* |
| 1. | ADMINISTRATION | 1 082 903 | 1 025 499 | 57 404 | 95% |
| 2. | INSPECTION AND ENFORCEMENT SERVICES | 617 287 | 587 853 | 29 434 | 95% |
| 3. | PUBLIC EMPLOYMENT SERVICES | 1 036 481 | 933 893 | 102 588 | 90% |
| 4. | LABOUR POLICY AND INDISTRIAL RELATIONS | 1 371 105 | 1 349 873 | 21 232 | 99% |

| | | | | |
|---|---|---|---|---|
| **TOTAL** | **4 107 776** | **3 897 118** | **210 658** | **95%** |

*Source: Presentation to the PC on Employment and Labour dated 18 October 2023*

Table 1 shows that the final appropriation for the Department of Employment and Labour amounted to R4.1 billion in 2022/23 financial year. The Department spent R3.9 billion or 95% of the final appropriation, resulting in under-expenditure of R210.7 million.

The larger portion of the final appropriation was allocated to the Labour Policy and Industrial Relations programme at R1.4 billion, followed by the Administration programme at R1.1 billion. The Inspection and Enforcement Services programme received R617.3 million and Public Employment Services programme received R1.0 billion.

### 4.2. Expenditure per programme of DEL in 2022/23

#### 4.2.1. Administration

The purpose of the Administration programme is to provide management, strategic and administrative support services to the Ministry and the Department, with a goal of building institutional capacity. To carry out this objective the activities of the programme are structured into five sub-programmes, namely: Ministry; Management; Corporate Services; Office of the Chief Financial Officer; and Office Administration.

The total allocation for the programme amounted to R1.1 billion, which is approximately 26.4% of the final appropriation to the Department. The programme spent R1.0 billion or 95% of the allocation resulting in under-expenditure of R57.4 million.

Underspending on Compensation of Employees was mainly because of delays in filling vacant posts. Underspending on Goods and Services was reported to be because of delays in payments for software licensing; reduced travelling; accommodation; subsistence and travelling; and foreign travel. Reduced Capital Expenditure resulted from delays in delivery of procured ICT equipment. Overspending on Payments for Financial Assets was reported to be mainly due to bad debts written off.

#### 4.2.2 Inspection and Enforcement Services (IES)

The purpose of this programme is to realise decent work by regulating non-employment and employment conditions through inspection and enforcement, to achieve compliance with all labour market policies. IES programme comprise the following sub-programmes: Management and Support Services; Occupational Health and Safety; Registration; Compliance, Monitoring and Enforcement; Training of Staff; and Statutory and Advocacy Services.

The final appropriation for this programme amounted to R617.3 million. The programme spent R587.9 million or 95% of the programme allocation, resulting in under-expenditure of R29.3 million. Underspending on Compensation of Employees was mainly because of vacant post. Underspending on Goods and Services was because of reduced travelling, accommodation, S&T, foreign travel. Reduction in Capital Expenditure resulted from delays in delivery of procured ICT equipment.

### 4.2.3. Public Employment Services (PES)

The purpose of the PES programme is to assist companies and workers to adjust to changing labour market conditions, and to regulate private employment agencies.

This programme comprises the following sub-programmes: Management and Support Services: PES; Employer Services; Work-Seeker Services; Designated Groups Special Services; Supported Employment Enterprises; Productivity South Africa; Unemployment Insurance Fund; Compensation Fund; and Training of Staff: PES.

The final appropriation for this programme was R1.0 billion and it spent R933.9 million or 90% of its allocation, resulting in a variance of R102.6 million. Underspending on Compensation of Employees was reported to be mainly due to vacant posts. Underspending on Good and Services was attributed to reduced travelling; accommodation, S&T; and foreign travel by Department's officials.

Underspending on transfers was reported to be due to few claims of injuries on duty and delays in the last tranche transfer towards GTAC. Underspending on Capital was mainly due to the delays in the delivery of laptops and desktops due to the global shortage from supplier.

### 4.2.4. Labour Policy and Industrial Relations (LP&IR)

The purpose of the LP&IR programme is to facilitate the establishment of an equitable and sound labour relations environment; support institutions of social dialogue and promote South Africa's interests in international labour matters; conduct research, analysis and evaluate labour policy; and provide statistical data on the labour market.

The LP&IR programme comprise the following sub-programmes: Management and Support Services: LP&IR; Strengthen Civil Society; Collective Bargaining; Employment Equity; Employment Standards; Commission for Conciliation, Mediation and Arbitration (CCMA); Research Policy and Planning; Labour Market Information and Statistics; International Labour Matters; and National Economic Development and Labour Council (NEDLAC).

The LP&IR programme was allocated R1.4 billion or 33.4% of the entire budget of the Department, which is the largest programme allocation. It spent R1.3 billion or 99%, resulting in under-expenditure of R21.2 million. The major reason for underspending on Compensation of Employees is vacant posts. Underspending on Goods and Services was attributed to reduced travelling; accommodation; S&T; foreign travel and delays in submission of GCIS invoices for marketing and advertising; delays in Government Printers invoices and appointment of Research consultants.

Underspending on Transfers was mainly due to the fluctuation of exchange rates and delayed reporting by non-profit organisations; therefore, tranches were not disbursed. Underspending on Capital was mainly due to the final figures for IT devices issued to officials was lower than had been anticipated; and the payment for leases of cell phones was not processed due to renewal phones being purchased, resulting in no lease costs; domestic furniture that was procured in 2021/22 for the Labour Attache that was only processed in March 2023.

### 4.3. Expenditure of DEL by Economic Classification in 2022/23

The Department reported its expenditure by Economic Classification as follows:

Table 2: Expenditure of the Department by Economic Classification

| ECONOMIC CLASSIFICATION | FINAL APPROPRIATION 2022/23 R'000 | ACTUAL EXPENDITURE AS AT 31/03/2023 R'000 | AVAILABLE BUDGET R'000 | EXPENDITURE AS AT 31/03/2023 % |
|---|---|---|---|---|
| CURRENT PAYMENTS | 2 165 576 | 2 076 737 | 88 839 | 96% |
| TRANSFERS AND SUBSIDIES | 1 804 064 | 1 689 506 | 114 558 | 94% |
| PAYMENT FOR CAPITAL ASSETS | 137 583 | 130 322 | 7 261 | 95% |
| PAYMENT FOR FINANCIAL ASSETS | 553 | 553 | 0 | 100.0% |
| TOTAL | 4 107 776 | 3 897 118 | 210 658 | 95% |

*Source: Presentation to the PC on Employment and Labour dated 18 October 2023*

Table 2 reflects expenditure of the Department by Economic Classification. Current Payments received R2.1 billion or.52.7% of the total budget of the Department, which is the largest share. A total of R2.01 billion or 96% of the Current Payments budget was spent by the end of the financial year resulting to a variance of R88.8 million.

Transfers and Subsidies was allocated R1.8 billion and R1.7 billion or 94% was spent by the end of the financial year resulting to a variance of R114.6 million.

Payments for Capital Assets was appropriated R137.6 million and R130.3 million or 95% was spent by the end of the financial year resulting to a variance of R7.3 million.

Payments for Financial Assets was appropriated R553 000 and 100% of the allocated amount was spent by the end of the financial year.

## 5. FINANCIAL INFORMATION

### 5.1. Report of the Auditor General of South Africa

The Auditor-General of South Africa (AGSA) found that the financial statements present fairly, in all material respects, the financial position of the Department of Employment and Labour as at 31 March 2023, and its financial performance and cash flows for the year then ended in accordance with the Modified Cash Standards (MCS) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA).

The AGSA selected the Inspection and Enforcement Services, and Public Employment Services programmes for auditing. AGSA did not identify any material findings on the reported performance information for the two programmes.

However, AGSA drew attention to the following matters:

5.1.1. Annual Financial Statements (AFS)

- The AFS submitted for audit were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1)(b) of the PFMA.
- Material misstatements of goods and services and related party disclosure note identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified opinion.

5.1.2. Expenditure Management

- Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R107.8 million. Most of the irregular expenditure was caused by non-adherence with the procurement process.

- Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R17.5 million. Most of the fruitless and wasteful expenditure was caused by payments made for IT related service that were not received.

5.1.3. Consequence Management

- AGSA was unable to obtain sufficient appropriate evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by the PFMA. This was reported to be because investigations into irregular expenditure were not performed.
- AGSA was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure as required by the PFMA. This was reported to be because investigations into fruitless and wasteful expenditure were not performed.

5.1.4. Internal Control Deficiencies

- AGSA found that Management did not ensure that there were effective controls over information technology systems, consequently, significant weaknesses were identified.
- Furthermore, preventive controls were not implemented to ensure reliable financial reporting and compliance with applicable laws and regulations, as material misstatements and instances of non-compliance were identified during the audit process.
- Finally, leadership did not ensure that consequence management is fully implemented and supported by investigation reports.

## 5.2. Financial Performance and Financial Position

### 5.2.1. Statement of Financial Performance

The total revenue of the Department amounted toR4.1 billion in 2022/23, which is an increase from R3.8 billion in 2021/22. Total revenue comprises the following:

- Annual appropriation: R4.1 billion
- Departmental revenue: R19.0 million
- Aid assistance: R35.1 million

The total expenditure amounted to R3.9 billion in 2022/23, which is an increase from the R3.2 billion in 2021/22 financial year. Total expenditure comprises the following:

- Compensation of employees: R1.2 billion
- Goods and Services: R725.2 million

- Transfers and subsidies: R1.7 billion
- Expenditure on capital assets: R134.9 million
- Payment for financial assets: R553 000

The Department recorded a surplus of R260.2 million in 2022/23 financial year.

### 5.2.2. Statement of Financial Position

The total assets of the Department amounted to R528.8 million in 2022/23, which is a decrease from R684.5 million in 2021/22. Total assets comprise the following:

- Current assets: R479.2 million
- Nom-current assets: R49.6 million

The total liabilities of the Department amounted to R512.3 million in 2022/23, which is a decrease from R670.4 million in 2021/22. Total liabilities comprise only current liabilities.

Net liabilities amounted to R16.5 million in 2022/23, which is an increase from R13.9 million in 2021/22.

## 6. FINANCIAL PERFORMANCE FOR Q1 OF 2023/24 FINANCIAL YEAR

### 6.1. Expenditure Analysis

The Department spent R960.8 million against the projection of R1.1 billion; R90.5 million or 8.6% lower than projected. The lower spending was on Compensation of Employees in Programme 2: Inspection and Enforcement Services, Goods and Services in Programme 1 and 4; and in Transfers and subsidies in Programme 3.

### 6.2. Expenditure per programme

### 6.2.1. Administration

Low spending by this programme amounts to R23 million or 8.6% mainly due to slower spending on Communication due to the length of time taken to verify payments and on property payments, which was over-projected. Slower spending on Goods and Services due to challenges with the contractor at the Taung labour centre which is being addressed by DPW&I. In addition, there were delays in finalising renovations at the Upington labour centre pending the appointment and placement of a qualified OHS consultant. The low spending on Payments for Capital Assets is due to delays in the delivery of laptops.

### 6.2.2. Inspection and Enforcement Services (IES)

Spending by this programme was lower than projected for Q1 by R14.9 million or 9.5%. The largest item of low spending by this programme is on Compensation of Employees due to vacant funded posts as well as the shift of OHS inspectors from the Department to the Compensation Fund. These vacancies also contributed to low spending on Goods and Services. Spending on Payments of Capital Assets was also low due to delays in the payment for software licensing fees, in procuring tools of trade for new inspectors and in the delivery of laptops.

### 6.2.3. Public Employment Services (PES)

Spending by this programme was lower than projected for Q1 by R48 million or 17.6% mainly due to GTAC drawing their funds late in respect of the Presidential Youth Employment Initiative, which was initially scheduled for June, but only captured in July. The transfer to the Compensation Fund for civil servants' injury on duty claims was higher by R1.3 million due to higher invoices received from the Fund than projected.

### 6.2.4. Labour Policy and Industrial Relations (LP&IR)

Lower than projected spending was R4.5 million or 1.3% mainly due to delays in receiving invoices from Government Printers, the National Minimum Wage Commission conducting their meetings virtually, less than budgeted payments in respect of Commission for Employment Equity (CEE) Board members' fees due to resignation of two CEE members, as well as delays in filling funded vacant posts. The payment to Nedlac was higher than projected by R10.7 million due to an earlier transfer for the Presidential Climate Commission.

## 7. ` OVERVIEW AND ASSESSMENT OF SERVICE DELIVERY PERFORMANCE FOR 2022/23

### 7.1. Annual performance per Programme

The Department reported its annual performance per programme as follows:

Table 3: Annual performance per Programme

| Branch | Annual Planned Indicators | Achieved | Not Achieved | Overall Achievement |
|---|---|---|---|---|
| **Administration** | 9 | 5 | 4 | 56% |

| | | | | |
|---|---|---|---|---|
| **Inspections and Enforcement Services** | 4 | 4 | 0 | 100% |
| **Public Employment Services** | 6 | 5 | 1 | 83% |
| **Labour Policy and Industrial Relations** | 10 | 7 | 3 | 70% |
| **Overall Performance** | **29** | **21** | **8** | **72%** |

*Source: Presentation to the PC on Employment and Labour dated 18 October 2023*

Table 3 above shows that the overall performance of DEL was 72% in 2022/23, which is an improvement from the 64% in 2021/22 financial year.

### 7.1.1. Administration

The Administration programme had nine annual planned indicators and five were achieved translating to an overall achievement of 56%, which is a decrease in performance from the 63% achieved in 2021/22 financial year. The following indicators were not achieved, and the reasons were provided:

- Approved Cyber Security Strategy and roadmap.

The Security Service Provider Experts advised that DEL needed to develop the Cyber Security Framework before the Strategy in line with the best information security standards.

- IES and PES systems replaced with SAP on HANA.

The project plan dates have been revised due to the project delays emanating from the absence of the SAP support and maintenance. It was reported that the SAP license usage report will be activated post Go Live.

- Roll out of the Ethics Management Plan for the year.

Ethics Strategy and Ethics Implementation Plan have not been approved.

- 93% resolution of reported incidents by disciplinary and criminal interventions.

Cases were not finalised within required timeframes due to capacity constraints.

### 7.1.2. Inspections and Enforcement Services

Programme two had four annual planned indicators and all were achieved, translating to an overall achievement of 100%. This is a marked improvement from the 25% achieved in 2021/22 financial year. Limpopo and Mpumalanga reported an overall performance of 67% and 33% respectively. All other provinces reported an overall performance of 100%.

### 7.1.3. Public Employment Services

The Public Employment Services programme had six annual planned indicators and five were achieved, translating to an overall achievement of 83%. This is consistent with the achievement of the previous financial year.

Both Gauteng and Limpopo reported an overall performance of 75%. The rest of the provinces reported an overall performance of 100%. Regarding the National Labour Migration Policy (NLMP), it was reported that the extensive consultative processes resulted in higher than planned levels of inputs which needed more time for incorporation. Furthermore, it was reported that preparations are underway for the policy to be tabled at the Inter-Ministerial Committee (IMC) on Migration and Nedlac, Parliament and Cabinet.

Regarding the National Employment Policy (NEP), it was reported that there were unexpected delays in the reappointment of the service provider by the ILO and in the issuing of a final certificate by the Presidency to enable the Minister to table the draft policy to Cabinet to request approval to commence with consultation.

### 7.1.4. Labour Policy and Industrial Relations

Programme four had ten annual planned indicators and seven were achieved, translating to an overall achievement of 70%. This is consistent with the achievement of the previous financial year. The following planned indicators were not achieved, and the reasons were provided:

- Employment Equity (EE) Regulations finalised but not published.

Publication of the EE regulations to implement the EE amendments is dependent on the promulgation of the EE Amendment Bill into law.

- 90% (20 received, 18 verified) collective agreements extended to non-parties within 60 working days.

Delay was reportedly caused by both external and internal factors.

- Annual implementation report submitted to Minister for sign-off after 30 April 2022.

It was reported that the report was delayed due to commitments in the chief directorate in respect of preparations for the Global Conference on the elimination of Child Labour.

## 8. OVERVIEW OF PERFORMANCE OF ENTITIES OF THE DEL: 2022/23

### 8.1. Supported Employment Enterprises (SEE)

SEE reported on its performance against annual performance targets as follows:

Table 4: SEE Performance against planned annual targets.

| ANNUAL PERFORMANCE TARGETS | ACTUAL ANNUAL PERFORMANCE |
|---|---|
| 1. 50 People with Disabilities employed (PWD). | 1. 50 PWDs employed. |
| 2. 10% annual sales increase. | 2. 88% annual sales increase (R51.7 million). |
| 3. Seven customer agreements signed. | 3. Four MOUs signed (3 shortfall). |

*Source: Presentation to the PC on Employment and Labour dated 18 October 2023*

SEE had three planned annual performance targets and achieved two, which translates to an overall performance of 67%.

SEE employed 50 people with disabilities as per planned performance target. Gauteng and the Western Cape employed 271 and 241 people with disabilities as at end of March 2023. The employment equity breakdown of employees is as follows:

- Males – 59%
- Females – 41%
- Youth – 37%
- Blacks – 51%, Whites – 27%, Coloureds – 21%, Indians – 1%

The entity overachieved its planned annual performance target of increasing sales by 10%. It increased annual sales by 88%, amounting to R51.7 million in monetary terms. The final sales figures in 2021/22 and 2020/21 were R28.5 million and R41.6 million respectively. The following sales boosted the sales revenue of the SEE:

- North-West Education Department – R20 million
- Northern-Cape Education Department – R12 million
- Western Cape Health Department – R36 million

- Nkangala FET College – R2 million

SEE signed four memorandums of understanding against the target of seven, resulting in a variance of three agreements.

### 8.1.1. Major Operational Risks 2022/23

SEE identified the following risks to its production in 2022/23 financial year:

- Intensified load shedding.

Load shedding impacted on SEE's operational output based on many hours of lost production.

- Rigidity in SEE price regulation

SEE price regulation not aligned to fuel price increase, increase in prices of raw materials and inflation in general.

- Lack of innovation/Obsoletion

There is no funding for new product development and for creation of new sales platforms/ online sales.

### 8.1.2. Risk Mitigation

In response to identified operational risks, management has:

- Established the structure and discipline through weekly STEERCO meetings for the achievement of primary objectives.
- Integrated value chain across operations and supply chain management to optimise production output.

### 8.1.3. The Dual Mandate

SEEs must balance the business fundamentals as well as the social imperatives mandate.

**Business fundamentals**

- Business development strategy.
- SCM/Procurement strategy.
- Operational efficiencies.
- Financial efficiencies.

**Social imperatives**

- Employment opportunities for PWDs.

- Address inequality of opportunities.
- Promote productive livelihoods.
- Improving skills and capacity.
- Psycho-social support.

### 8.1.4. Financial Figures for 2022/23

Financial figures were reported as follows:

**SEE Total Revenue – 217 million**

- National Treasury Grant – R166 million
- Sales of Goods and Services – R51 million

**SEE Total Expenditure – 221.6 million**

- Mandatory Expenses – R19.8 million
- Compensation of Employees – R176 million
- Other Expenses – R25.8 million

**Budgeted Revenue – R80 million**

- SEE needs at least R80 million from sales to augment treasury grant.

### 8.1.5. SEE Audit Qualification Areas

SEE received a qualified audit based on the following areas:

- Presentation of Annual Financial Statements (AFS)
- Inventory
- Cost of sales
- Contingent liabilities
- Payables and receivables

### 8.1.6. SEE 5 Key Drive Priorities

- Employment opportunities for PWDs mandate to be backed up by strong financial support to employ PWDs on a more sustainable basis.
- Improving on the regressed audit opinion to at least qualified audit opinion in 2023/24.
- Alternative energy source to support uninterrupted production output and to reduce the delivery lead times to customers.

- Provide way forward on SEE governance structure where the entity can have a clear direction on its role as a juristic person.
- Grow sales revenue to R80 million to invest in sustainable employment creation.

### 8.2. National Economic Development and Labour Council (Nedlac)

Nedlac was established through the Nedlac Act, No. 35 of 1994. It operates in terms of the Nedlac constitution. Nedlac's mandate is derived from the Nedlac Act, Labour Relations Act, Nedlac constitution and Nedlac protocols.

Nedlac's objectives in terms of the Act are to:

- Strive to promote the goals of economic growth, participation in economic decision-making and social equity.
- Seek to reach consensus and conclude agreements on matters pertaining to social and economic policy.
- Consider all proposed labour legislation relating to labour market policy before it is introduced in Parliament.
- Consider all significant changes to social and economic policy before it is implemented or introduced in Parliament.
- Encourage and promote the formulation of coordinated policy on social and economic matters.

#### 8.2.1. Nedlac's overall annual performance in 2022/23

Nedlac reported on its annual performance for 2022/23 as follows:

Table 5: Nedlac's Performance per Programme in 2022/23

| **Programme** | **Annual Planned Indicators** | **Achieved** | **Not Achieved** | **Overall Achievement** |
|---|---|---|---|---|
| Administration | 8 | 6 | 2 | 75% |
| Core Operations | 4 | 2 | 0 | 100% |
| Capacity Building | 1 | 0 | 1 | 0 |
| Presidential Climate Commission | 3 | 3 | 0 | 100% |

| | | | | |
|---|---|---|---|---|
| **Overall Performance** | **16** | **11** | **3** | **69%** |

*Source: Presentation to the PC on Employment and Labour dated 18 October 2023*

Table 5 shows that Nedlac had 16 annual planned indicators and 11 were achieved, translating to an overall performance of 69% in 2022/23 financial year. The Administration programme had eight annual planned indicators and six were achieved, translating to an overall achievement of 75%.

Core Operations programme had four annual planned indicators and two were achieved. However, there were no deliverables for two of the indicators, translating to an overall achievement of 100%. Capacity Building programme had one annual planned indicator and it was not achieved, translating to an overall achievement of 0%. The Presidential Climate Commission had three annual planned indicators, and all were achieved, translating to an overall achievement of 100%.

### 8.2.2. Governance Task Team progress

Nedlac reported progress on Governance Task Tam as follows:

Table 6: Governance Task Team Progress

| **Bill** | **Constitution** | **Protocol** |
|---|---|---|
| • Updates the functions of Nedlac.<br>• Requires a Minister to take into account a report from Nedlac on a policy or legislation respectively.<br>• Updates criteria for admission to Nedlac.<br>• Sifts some matters regulated in the Act to the constitution. | • Makes provision for more structures in addition to chambers.<br>• Allows constituencies to appoint their own representatives.<br>• Sets out clear admission and termination criteria and processes.<br>• Simplifies meeting procedures.<br>• Aligns with current PFMA, National | • Clarifies sequences of actions, roles and responsibilities, and decision making procedures.<br>• Enables participants to focus on matters of substance by clarifying process issues.<br>• Outlines the requirements for the completion of Nedlac processes; and |

| | | |
|---|---|---|
| • Introduce a Nedlac Lekgotla to replace the Exco and given the powers of Exco to the Manco. | Treasury and Department of Policy Monitoring and Evaluation (DPME) planning and report requirements. | • Provides for mechanisms to track the implementation of Nedlac processes. |

*Source: Presentation to the PC on Employment and Labour dated 18 October 2023*

### 8.2.3. Nedlac Expenditure per Programme in 2022/23

Nedlac reported on its expenditure per programme as follows:

Table 7: Nedlac Expenditure per programme in 2022/23

| **Programme** | **2022/23** | | | |
|---|---|---|---|---|
| | **Budget** | **Actual Expenditure** | **(Over)/ Under expenditure** | **Expenditure as % of Budget** |
| | **R'000** | **R'000** | **R'000** | **%** |
| Administration | 47 056 | 35 469 | 11 587 | 75.4% |
| Core Operations | 19 559 | 13 653 | 5 906 | 69.8% |
| Capacity Building | 7 500 | 2 678 | 4 822 | 35.7% |
| Presidential Climate Commission | 12 553 | 16 419 | -3 866 | 130.8% |
| Special Projects | 12 000 | 12 000 | - | 100% |
| **Total** | **98 668** | **80 219** | **18 449** | **81.3%** |

*Source: Presentation to the PC on Employment and Labour dated 18 October 2023*

Table 7 shows that Nedlac received a budget of R98.7 million in 2022/23 financial year, which is an increase of R18.8 million from the R79.8 million received in 2021/22. It spent R80.2 million or 81.3% of the budget allocation by 31 March 2023 resulting in a variance of R18.4 million.

The Administration programme received R47.1 million or 47.7% of the total budget allocation, which is the largest share of the total budget. This programme spent R35.5 million or 75.4% of its budget resulting to a variance of R11.6 million.

Core Operations programme received a budget of R19.6 million and spent R13.7 million or 69.8% of its budget, resulting to under expenditure of R5.9 million.

Capacity Building programme received an allocation of R7.5 million and spent R2.7 million or 35.7% of its total budget, resulting to a variance of R4.8 million.

The Presidential Climate Commission spent R16.4 million by end of the financial year against the budget of R12.6 million, translating to over expenditure by R3.9 million or 30.8%.

A total of R12 million was allocated for special projects and it was all spent, translating to 100% spending of the budget allocation.

Nedlac received an **unqualified audit opinion** from AGSA.

### 8.3. Productivity SA

#### 8.3.1. Legislative mandate of the Productivity SA

Productivity SA is established in terms of section 31 of the Employment Services Act, No. 4 of 2014, as a juristic person, with the mandate to promote employment growth and productivity, thereby contributing to South Africa's socio-economic development and competitiveness.

The Act enjoins Productivity SA to develop relevant productivity competencies and competitiveness in workplaces, with a focus on the following core functions:

- To promote employment and income growth, and workplace productivity.
- To improve the employment and reemployment prospects of employees facing retrenchments and those retrenched, which include schemes to provide for turnaround strategies, layoffs, retraining or alternative employment opportunities.
- To conduct research on productivity and competitiveness related matters, provide productivity improvement and competitiveness measures.
- To promote social dialogue and a culture of productivity and competitiveness in the workplace and all spheres of the nation's economic and community life.

The value proposition of Productivity SA is to provide Productivity and Operational Efficiency Enhancement Solutions to improve the competitiveness and sustainability of enterprises throughout the business lifecycle to accelerate the creation of wealth and decent work.

### 8.3.2. Productivity SA Annual Performance per Programme in 2022/23

Productivity SA reported on its annual performance per programme as follows:

Table 8: 2022/23 Performance per Programme

| **Programme** | | **Annual Planned Indicators** | **Achieved** | **Overall Achievement** |
|---|---|---|---|---|
| 1. | Administration: Corporate Services (CS) | 2 | 2 | 100% |
| 2. | Administration: Human Resources Management (HRM) | 1 | 1 | 100% |
| 3. | Administration: Corporate Relations (CR) | 1 | 1 | 100% |
| 4. | Competitiveness Improvement Services (CIS) | 3 | 3 | 100% |
| 5. | Business Turnaround and Recovery (BT&R) | 3 | 3 | 100% |
| 6. | Research, Innovation and Statistics (RIS) | 2 | 1 | 50% |
| **Overall Performance** | | **12** | **11** | **92%** |

*Source: Presentation to the PC on Employment and Labour dated 20 October 2023*

Table 8 above shows that Productivity SA had an overall performance of 92% in 2022/23 financial year, which is an improvement from the 75% achieved in 2021/22 financial year. The entity registered 100% achievement in five programmes and 50% in one programme. Research Innovation and Statistics programme achieved 50% of its annual planned indicators.

### 8.3.3. Productivity SA Annual Performance per Strategic Objective in 2022/23

Productivity SA reported its annual performance per strategic objective as follows:

Table 9: 2022/23 Performance per Strategic Objective

| Strategic Objectives | | Annual Planned Indicators | Achieved | Overall Achievement |
|---|---|---|---|---|
| 1. | Strengthen the institutional capacity of PSA to deliver on its mandate and be financially sustainable (CS & HRM) | 3 | 3 | 100% |
| 2. | To support government programmes aimed at sustainable employment and income growth (CIS) | 2 | 2 | 100% |
| 3. | To support enterprises facing economic distress and initiatives aimed at preventing job losses (BT&R) | 3 | 3 | 100% |
| 4. | Generation and dissemination of productivity related research and statistics (RIS) | 2 | 1 | 50% |
| 5. | To promote a culture of productivity and competitiveness in the workplace and community life | 1 | 1 | 100% |
| Overall Performance | | 12 | 11 | 92% |

*Source: Presentation to the PC on Employment and Labour dated 20 October 2023*

Table 9 above shows that Productivity SA achieved 100% on four strategic objectives and 50% on one strategic objective. The entity received 50% on strategic objective four, which is Generation and dissemination of productivity related research and statistics.

### 8.3.4. Key achievements for the 2022/23 Financial Year

During the year under review, Productivity SA achieved the following:

- Over 4360 SMMEs, entrepreneurs and workers were supported through the Competitiveness Improvement Services programme.
- Workplace Challenge Programme (WCP) extended its support to 101 enterprises. Of these enterprises, 80% is owned by blacks, 51% owned by women and 25% owned by the youth.
- The BT&R made a breakthrough accomplishing all its targets for the 2022/23 financial year as well as all commitments enshrined within the Funding Agreement. Since the lifting of the two-year suspension in July 2020, notable gains have been in strengthening and recapacitating the programme and the fruit of this revitalisation is now evident.
- Over 186 (107%) companies facing economic distress were supported against a target of 174 over the past three years. Over 1681 Future Forum members were trained, an achievement of 322% against the set target. Both these interventions resulted in over 15710 jobs being preserved/retained, a 181% achievement.
- Implementation of the ILO Productivity Ecosystem for Decent Work in South Africa which is designed to address constraints to productivity growth and decent work, as well as help countries tackle the challenge of promoting productivity growth and decent work practices in an integrated and mutually reinforcing manner. Productivity SA chairs the Project Advisory Committee (PAC) which plays a pivotal role in creating and implementing the programme that is to be developed.
- The Quality and Productivity Improvement (QPI) project in partnership with Japan International Cooperation Agency (JICA) and the Department of Trade, Industry and Competition (2022-2025) was also launched during the 2022/23 FY. This project aims for nationwide dissemination of Quality and Productivity Improvement (Kaizen) techniques for the industrial sector through creation of a network i.e., National Quality Productivity Network (NQPN) of service providers and related organisations.
- Productivity SA is playing a leading role in the Employment Working Group (EWG) at Brazil, Russia, India, China, South Africa (BRICS) countries and is championing the drive for adoption of the BRICS-Wide Productivity Ecosystem for Decent Work.
- The implementation of a six-month project on the Productivity Assessment and Culture Survey in The Presidency. The outcomes of the project include a report with recommendations on how to improve productivity and the culture of The Presidency and develop and implement the business turnaround strategy to improve business

efficiencies and productivity as well as culture in The Presidency according to the approved plan.

- Productivity SA participates in the Africa KAIZEN initiative in collaboration with JICA and AUDA-NEPAD that aims to accelerate Africa's industrialisation through improving productivity and quality improvement, creating decent work and expand job creation.

### 8.3.5. Challenges and Areas of Non-Performance for 2022/23 FY

Productivity SA identified the following challenges and areas of non-performance during the 2022/23 financial year:

- The Research, Innovation and Statistics programme recorded under-performance achieving one out of two key performance indicators in two consecutive years. This is due to capacity constraints of the research unit.
- Out of 2.3 million SMMEs, Productivity SA can only service a fraction of the total number due to lack of funding. The CIS programme is reliant on other regional and national partners to achieve the annual performance plan targets with the use of additional funding.
- Investment into technology would further assist the CIS unit improve on access to clients and service offerings to support the SMMEs in both the informal and formal economy to become sustainable entities that create decent work.
- Productivity SA's current funding model does not allow adequate achievement of its national mandate to lead and inspire a competitive and productive South Africa. The delays in finalising the single-source funding model in line with section 12 of the Employment Services Act is also exacerbating Productivity SA's funding challenges.

### 8.3.6. Financial Information for 2022/23 Financial Year

Productivity SA reported on its expenditure for 2022/23 financial year follows:

Table 10: Financial Performance for the year 2022/23

| | **Programme** | **Audited Outcome** | | |
|---|---|---|---|---|
| | | **2022/23** | **2021/22** | **% Change** |
| **Non-Exchange Revenue** | | | | |

| | | | | |
|---|---|---|---|---|
| DEL | Administration | 61 693 | 60 669 | 2% |
| DTIC | WPC | 10 558 | 10 389 | 2% |
| UIF | BT&R | 31 892 | 24 708 | 29% |
| Other Donor Funding | | 2 070 | 249 | 732% |
| **Total** | | **106 218** | **96 015** | **11%** |
| **Exchange Revenue** | | | | |
| Income from Advisory Services and Other | | 3 297 | 8 494 | -61% |
| **Total** | | **3 297** | **8 494** | **-61%** |
| | | | | |
| **Total Revenue** | | **109 515** | **104 509** | **5%** |
| | | | | |
| **Expenditure** | | | | |
| Compensation of Employees | | 82 755 | 74 911 | 10% |
| Goods and Services | | 37 362 | 25 948 | 44% |
| **Total Expenditure** | | **120 117** | **100 859** | **19%** |
| **(Deficit)/ Surplus** | | **(10 602)** | **3 650** | **-390%** |

*Source: Presentation to the PC on Employment and Labour dated 20 October 2023*

Table 10 above shows that the total revenue for Productivity SA amounted to R109.5 million in 2022/23 financial year, which is an increase from R104.5 million received in 2021/22 financial year.

The Department of Employment and Labour contributed R61.7 million towards the Administration programme. The Unemployment Insurance Fund contributed R30.9 million towards the Business Turnaround and Recovery programme. The Department of Trade, Industry and Competition contributed R10.6 million towards Workplace Challenge Programme.

The total expenditure amounted to R120.1 million leading to a deficit of R10.6 million. Of this amount R82.8 million and R37.4 million went to compensation of employees and goods and services respectively.

A total of R46.1 million was spent on the Administration programme, which can be broken down as follows: Corporate Services-R27.8 million, Human Resource Management-R9.3 million and Corporate Relations-R9.1 million.

A total of R8.4 million was spent on Research, Innovation and Statistics programme.

Business Turnaround and Recovery and Workplace Challenges received R31.9 million and R11.1 million respectively.

Eliminations amounted to R21.1 million leading to the total expenditure of R12.1 million.

### 8.3.7. Audit Outcomes

The Productivity SA received an unqualified audit report with material findings.

The findings were on the following matters:

- Operating expenses-invoices not settled within 30 days.
- Supply management policy not adequate.
- Supply management standard operating procedure not updated to align the supply management policy and the National Treasury procurement thresholds and processes.
- Winning quote dated/received after the closing date.
- Contract/Service Level Agreement (SLA) signed before quotation evaluation date as per evaluation score sheet.
- Invoices received after year end for goods and services that were accrued before financial year end were not raised as accrued expenses in the financial statements.

- Misstatements of amounts disclosed in cashflow statements.
- The public entity did not submit the FORM B-BBEE 1 supported by the approved audited annual financial statements and the approved annual report pertaining to the 2021/22 financial year to the B-BBEE Commission within 30 days as required by regulation 12(2) of the B-BBEE Regulations.

### 8.4. Commission for Conciliation, Mediation and Arbitration (CCMA)

The CCMA is a statutory body established in terms of section 112 of the Labour Relations Act (LRA) of 1995. In terms of section 113 of the LRA, the CCMA is independent of the State, any political party, trade union, employer, employers' organisation, federation of trade unions or federation of employers' organisations.

The CCMA's statutory functions are set out in section 115 of the LRA and are divided into those that are mandatory and those that are discretionary.

#### 8.4.1. Mandatory Functions of the CCMA

Mandatory functions of the CCMA include:

- To conciliate and arbitrate workplace disputes.
- To assist with the establishment of workplace forums.
- To compile and publish statistics and information about its activities.
- To administer the Essential Services Committee.
- To consider applications for accreditation and subsidies of bargaining councils and private agencies.

#### 8.4.2. Discretionary functions of the CCMA

Discretionary functions of the CCMA include:

- To supervise ballots for unions and employer organisations.
- To provide training and information relating to the primary objective of the LRA.
- To advise a party to a dispute about the procedure to follow.
- To offer to resolve a dispute that has not been referred to the CCMA.
- To publish guidelines on any aspects of the LRA and to make rules.
- To provide training and advice on the establishment of the collective bargaining structures, workplace restructuring, consultation processes, termination of employment, employment equity programmes and dispute prevention.
- To conduct and publish research.

- To provide assistance of administrative nature to an employee earning less than the BCEA threshold.
- To determine fees that the CCMA can charge and regulate practice and procedures for conciliation and arbitration hearings.

### 8.4.3. CCMA Performance per Programme in 2022/23 Financial Year

CCMA Performance per Programme was reported as follows:

Table 11: CCMA Performance per Programme in 2022/23

| **Programme** | | **Annual Planned Targets** | **Achieved** | **Overall Achievement** |
|---|---|---|---|---|
| 1. | Administration | 5 | 5 | 100% |
| 2. | Proactive and Relevant Labour Market Intervention | 10 | 9 | 90% |
| 3. | Special Interventions and Support | 1 | 1 | 100% |
| 4. | Efficient and Quality Dispute Resolution and Enforcement Services | 12 | 11 | 92% |
| 5. | Effective Strategy Management and Governance | 3 | 3 | 100% |
| **Overall Performance** | | **31** | **29** | **94%** |

*Source: Presentation to the PC on Employment and Labour dated 20 October 2023*

Table 11 above shows that CCMA had 31 annual planned targets and achieved 29, translating to an overall performance of 94%. The performance of the entity in 2019/20, 2020/21, 2021/22 and 2022/23 was 84%, 84%, 100% and 94% respectively.

Programme 2 achieved nine of the ten annual planned targets, translating to an overall achievement of 90%.

The underachievement was reported to be due to the elimination of incomplete and defective evaluation forms from the total number of evaluation forms completed of 12030. The

numerator consists of the number of participant evaluation forms which were fully completed with positive rating. The revision of the participant evaluation form and guidelines for the assessment of output indicator 2.2.1.3 will be done and implemented in the 2023/24 financial year. Guidance will be provided to the participants on how to properly complete the forms.

Programme 4 achieved 11 of the 12 annual planned targets, translating to an overall achievement of 92%.

A total of 155 683 users accessed CCMA services and demonstrate work done by the CCMA. However, the details of the breakdown of the users who accessed CCMA services was not maintained. What was maintained was a summary report extracted from the case management system which only indicates the total number of cases heard and closed. This is what has been reported on throughout the financial year. Therefore, due to the unavailability of the evidence demonstrating the breakdown of the users, the actual number of users who accessed CCMA services from identified sectors reached per annum could not be verified.

### 8.4.4. CCMA Financial Performance in 2022/23

#### 8.4.4.1. CCMA Expenditure per Programme

The CCMA reported its expenditure per programme as follows:

Table 12: CCMA Expenditure per Programme

| **Programme** | | **Budget** | **Actual Expenditure** | **Variance** | **Variance** |
|---|---|---|---|---|---|
| | | **R'000** | **R'000** | **R'000** | **%** |
| 1. | Administration | 258 858 | 251 150 | 7 708 | 3% |
| 2. | Labour Market Intervention | 14 702 | 13 203 | 1 499 | 10% |
| 3. | Special Interventions and Support | 16 219 | 14 653 | 1 566 | 10% |
| 4. | Dispute Resolution and Enforcement Services | 771 465 | 757 374 | 14 091 | 2% |
| 5. | Strategy Management and Governance | 38 918 | 36 631 | 2 287 | 5% |

| | | | | |
|---|---|---|---|---|
| **TOTAL** | **1 100 161** | **1 073 011** | **27 150** | **2%** |

*Source: Presentation to the PC on Employment and Labour dated 20 October 2023*

Table 12 above shows that CCMA received a budget allocation of R1.100 billion and spent R1.073 billion or 98% by 31 March 2023 resulting in a variance of R27.2 million or 2% of the budget.

The Administration programme received R258.9 million, which is the second highest programme budget after programme 4. This programme spent R251.2 million or 97% of the budget resulting to the variance of R7.7 million or 3% of the budget allocation.

The variance was reported to result from timing differences in staff recruitment. The other factors that contributed to saving include projects such as JAVS maintenance, BUSA web tool, Helpdesk solution, CMS enhancements, Compliance Management Tool Software and procurement of laptops through the lease option which were budgeted for but not utilised as anticipated, as these projects were not awarded. Further, the employee wellness programme and employee relation activities as well as administration variable expenditure also contributed to the saving as the services are consumed as and when required. Furthermore, the savings related to operating costs result from the travel costs and training interventions which were budgeted for but not utilised as anticipated. Lastly, the saving is also seen in the expenditure resulting from recruitment services.

The Labour Market Intervention programme received R14.7 million budget and spent R13.2 million or 90% of the allocation, resulting to the variance of R1.5 million or 10% of the programme budget.

The variance was reported to be due to fewer claims received from the Councils on the awards made.

The Special Interventions and Support programme received R16.2 million budget allocation and spent R14.7 million or 90% of the allocation resulting to a variance of R1.7 million or 10% of the programme budget.

The variance was reported to result from timing difference in staff recruitment. The other contributing factor was saving on part-time commissioners related to mediation interventions.

Dispute Resolution and Enforcement Services budget received the budget of R771.5 million, which is the largest portion of the Department’s budget. It spent R757.4 million or 98% of the allocation resulting to a variance of R14.1 million or 2% of the programme budget.

The variance was reported to result from the unfilled vacancies related to the support staff and full-time commissioners. Furthermore, savings were realised from variable administration expenses.

Strategy Management and Governance programme spent R36.6 million or 94% of the R38.9 million budget resulting to a variance of R2.3 million or 6% of the programme budget.

The variance was reported to result from projects such as Qualitative Data Analysis Software, Social Media Management Tool, and Data Analytic Tool which were budgeted for but not utilised as anticipated. Lastly, the saving is also seen from an additional provision that was made for insurance related to procurement of ICT laptops and other assets as well as the saving resulting from travel and subsistence for provincial visits.

#### 8.4.4.2. Audit Outcome

The CCMA has maintained an unqualified audit opinion with no findings (clean audit) in the 2022/23 financial year.

#### Irregular Expenditure

One case to the value of R36 601 was assessed during the year 2022/23 and was found to have contravened the applicable laws and regulations. Based on the root cause, a recommendation was made by the Loss and Control Committee that the expenditure be recovered. The balance as of 31 March 2023 was R0.

#### Fruitless and Wasteful Expenditure

Eight cases to the value of R43 916 were assessed during the 2022/23 financial year and found to have contravened the applicable laws and regulations. Seven of the cases relate to the fruitless and wasteful expenditure that occurred in the 2022/23 financial year, while one case occurred in the 2021/222 financial year. Based on the root causes, the Loss and Control Committee recommended that the expenditure be recovered. The balance as of 31 March 2023 was R0.

## 9. COMMITTEE OBSERVATIONS

After considering the presentations made by the Department and its entities on their annual reports, the Committee made the following overall observations:

- That it notes with serious concern that Unemployment Insurance Fund (UIF) and the Compensation Fund (CF) have not submitted their Annual Financial Statements (AFS) and

Annual Performance Reports for 2022/23 audit, similarly to the previous year. Also that not all recommendations on the 2022 BRRR have been fully addressed, in particular on transport arrangements for SEE employees.

- The Statistics South Africa published the Quarterly Labour Force Survey for quarter two of 2023, which showed the unemployment rate to be 32.6%. This is a slight improvement from quarter one rate that was 32.9%. In terms of the expanded definition of the unemployment rate, it was 42.1% and 42.4% in quarter two and quarter one respectively.

**9.1. Department of Employment and Labour (DEL)**

9.1.1. The Department spent R3.9 billion or 94.9% of the allocated R4.1 billion in 2022/23 financial year and achieved 21 or 72 % of the 29 annual planned indicators.

9.1.2. The Department received an unqualified audit with material findings. These material findings on the financial statements, expenditure management, consequence management and procurement and contract management identified through the audit hinder the Department from obtaining a clean audit.

9.1.3. Underspending in all programmes of the Department was attributed mainly to the vacant posts.

9.1.4. AGSA made the following findings regarding ICT Governance in the Department:

- Approved ICT strategic plan not in place.
- Immature software asset management processes and governance.
- DEL made payments for unused/underutilised software licenses.

9.1.5. DEL irregular expenditure amounted to R107.8 million in 2022/23 financial year comprising R67.1 million for unapproved services and non-compliance with the SITA Act and R40.7 million for services procured without a valid contract.

9.1.6. The Department incurred fruitless and wasteful expenditure amounting to R17.5 million majority of which relates to payments made for ICT services that were not received.

**9.2. Supported Employment Enterprises (SEE)**

9.2.1 SEE increased its sales from R28.5 million in 2021/22 to R51.7 million in 2022/23 financial year.

9.2.2. SEE entered into four customer agreements against a target of seven agreements resulting in loss of an opportunity to make revenue.

9.2.3. SEE obtained an adverse audit opinion and the main qualification areas were inventories; cost of sales; receivables from exchange transactions; payables from exchange transactions; operating expenses; contingencies; and property, plant and equipment.

9.2.4. SEE incurred irregular expenditure amounting to R228 954 due to failure to obtain three quotations as per procurement procedures.

9.2.5. The entity incurred fruitless and wasteful expenditure amounting to R1.2 million because of inventory theft and loss.

**9.3. Nedlac**

9.3.1. Nedlac spent R80.2 million or 81.3% of the allocated R98.7 million and achieved 11 or 79% of the 16 annual planned indicators in 2022/23 financial year.

9.3.2. Nedlac received an unqualified audit opinion from the Auditor-General with reduced findings.

9.3.3. AGSA finding against Nedlac was on the quality of financial statements.

9.3.4. The entity incurred irregular expenditure amounting to R230 243, which is an increase of R35 511 or 18% compared to the previous financial year of R194 732.

9.3.5. The entity did not incur any fruitless and wasteful expenditure in the 202/23 financial year, which is an improvement from the 2021/22 financial year.

**9.4. Productivity SA**

9.4.1. South Africa's global competitiveness ranking was at 62 out of 64 countries in 2021 and 60 out of 63 countries in 2022.

9.4.2. SMMEs constitute close to 90% of businesses and are acknowledged as productive drivers of the economy. However, there is no national integrated enterprise development and support strategy and programme interventions in place.

9.4.3. Productivity SA's current funding model does not allow adequate achievement of its national mandate to lead and inspire a competitive and productive South Africa.

9.4.4. Productivity SA received an unqualified audit opinion from the Auditor-General with reduced findings.

### 9.5. Commission for Conciliation, Mediation and Arbitration (CCMA)

9.5.1 The CCMA has maintained an unqualified audit opinion with no findings (clean audit) in the 2022/23 financial year.

9.5.2. The entity achieved an overall performance of 94% with 29 targets achieved against 31 planned targets in the approved 2022/23 Annual Performance Plan. The two targets were recorded as not achieved because the evidence provided to the auditors was not admissible.

9.5.3. The CCMA's overall performance has been exemplary for consecutive years despite the budget constraints. However, the anticipated rise in industrial action might over-stretch the resources of the entity.

## 10. COMMITTEE RECOMMENDATIONS

Having considered the presentations of the Department and its entities on their annual reports, the Committee recommends that the Minister of Employment and Labour ensures that the following steps are taken:

- To formalize a meeting between both UIF and CF within 14 days of the adoption of this Report. In this meeting, a clear strategy must be developed to curb this continued non-submission of AFS and AR from happening again, because it makes DEL fall short on adequately exercising oversight on the entities.

### 10.1. Department of Employment and Labour

10.1.1. The Department should develop a plan to address issues raised by the Auditor General and report quarterly to the Portfolio Committee on progress made regarding the implementation of the Audit Action Plan.

10.1.2. The Department should align its ICT procurement processes with the SITA Act to address the material findings by the Auditor General. That within seven days of the adoption of this report, the Committee must invite SITA to appear before it to explain the SITA Act processes.

10.1.3. The Department must develop the ICT strategic plan and align all IT projects to the strategic plan.

10.1.4. The Department must implement a comprehensive system for managing consequences related to poor performance. It must investigate all transgressions that led to material irregularities, irregular expenditure, and fruitless and wasteful expenditure. It must urgently implement all recommendations from investigation reports concluded as this will promote the culture of accountability.

10.1.5. The Department must fill the vacant funded posts without delay, especially the posts under the Inspectorate and Enforcement Services programme. Further, the post of Chairperson of the Northern Cape Risk Committee must be filled without delay.

**10.2. Supported Employment Enterprises**

10.2.1. SEE's capacity, processes and controls must be strengthened to enable credible financial and performance reporting.

10.2.2. The Committee should receive regular updates on engagements between Department of Employment and Labour and National Treasury on preferential procurement status of the SEE.

10.2.3. The Department should provide alternative energy source for SEE factories to support uninterrupted production output and to reduce the delivery lead times to customers.

**10.3. Nedlac**

10.3.1. Nedlac's capacity, processes and controls must be strengthened to enable credible financial and performance reporting.

10.3.2. Nedlac must investigate all transgressions that led to irregular expenditure and urgently implement all recommendations from investigation reports concluded as this will promote the culture of accountability.

**10.4. Productivity SA**

10.4.1. The Department should develop a Single Source Funding Model to ensure that the mandate of Productivity SA is funded through section 12 of the Employment Services Act read together with section 40(a) of the Employment Services Act.

10.4.2. Temporary relaxation of the entry requirements which requires distressed companies to be in good standing with UIF and SARS and allow opportunities for companies to be assisted with compliance while concurrently assisting them to save jobs.

10.4.3. Adoption of the Institute of Management Development (IMD) Competitiveness Framework as a Country Framework for measuring and evaluating productivity and competitiveness.

**10.5. Commission for Conciliation, Mediation and Arbitration**

10.5.1. Application should be made to the National Treasury (NT) for budget surpluses of other entities within the portfolio that are not going to be utilised by those entities to be transferred to the CCMA.

10.5.2. Application should be made to the NT that the budget surplus of the CCMA that is because of unforeseen or unavoidable circumstances be retained by the entity.

10.5.3. CCMA should charge private sector clients for services rendered such as training and seminars provided.

## 11. APPRECIATION

The Committee appreciates the cooperation it received from the Department and its entities throughout the BRRR process. The Committee also acknowledges the assistance of the Auditor-General and Internal Audit Committee, in providing information necessary for compiling this report.

**Report to be considered.**

# 2. BUDGETARY REVIEW AND RECOMMENDATIONS REPORT OF THE PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS ON THE 2022/23 ANNUAL REPORT OF THE DEPARTMENT OF DEFENCE (DOD), DATED 25 OCTOBER 2023.

The Portfolio Committee on Defence and Military Veterans (PCDMV), having considered the financial and service delivery performance of the Department of Defence (DOD) for the 2022/23 financial year, on 11 October 2023, reports as follows:

## 1. INTRODUCTION

### 1.1. Description of core functions of the Department

Section 200 of the 1996 Constitution sets out the mandate of the South African National Defence Force (SANDF), while Section 204 establishes a civilian secretariat for the Department. The mandate of the SANDF is to "*defend and protect the Republic, its territorial integrity and its people in accordance with the Constitution and the principles of international law regulating the use of force*". In pursuance of this mandate, the Department of Defence (DOD) provides, manages, prepares and employs defence capabilities commensurate with the needs of South Africa, guided by the Constitution, relevant legislation and Executive direction.

### 1.2 Mandate of the Committee

The Portfolio Committee on Defence and Military Veterans (PCDMV) is mandated to oversee the Department of Defence and Military Veterans to ensure that the Department fulfils its mandate through the monitoring of the implementation of legislation and adherence to policies, such as the Defence Act (No. 42 of 2002), the White Paper on Defence (1996) and the 1998 Defence Review and the 2015 Defence Review. These policy guidelines assist the Committee in its oversight activities. The Committee scrutinises legislation that supports the mission statement of Government, the budget and functioning of the Department, and the employment of the SANDF.

### 1.3 Purpose of the BRR Report

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

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

In October of each year, parliamentary portfolio committees compile a BRRR that assess performance given available resources; evaluates the effective and efficient use and forward allocation of resources; and makes recommendations on the forward use of resources. The comprehensive review and analysis of the previous financial year's performance, as well as performance to date, form part of this process. 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.

### 1.4 Methodology in compiling the report

The Report is compiled from the various activities of the Committee throughout the financial year. It is inclusive of the Committee's meetings, oversight visits, reports on budget votes, strategic plans, annual performance plans (APP), quarterly reports and the relevant annual report, as well as previously published Committee reports.

### 1.5 Information used to compile the Report

Other information used in the assessment of the service delivery and financial performance include:

- Committee reports on the 2022/23 and 2023/24 budget hearings, strategic plans and annual performance plans;
- The National Development Plan 2030 (NDP);
- The 2023 Estimates of National Expenditure (ENE);
- The 2023 State of the Nation Address (SONA); and
- The Auditor-General of South Africa (AGSA) Report on the DOD.

### 1.6 Structure of the Report

This report comprises seven sections:

- An introduction which sets out the mandate of the Committee, the purpose of this report (BRRR).
- An overview of the key relevant policy focus areas.
- An overview and summary of previous key financial and performance recommendations of Committee
- A broad overview and assessment of financial performance of the DOD for 2022/23.
- An overview of service delivery and performance of the DOD for 2022/23.
- Key Committee observations.
- Key Committee recommendations.

## 2. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS

### 2.1 State of the Nation Address

President Ramaphosa delivered his State of the Nation Address (SONA) on 9 February 2023. The SONA focused mainly on the devastating impact of the ongoing electricity crisis on the economy and the Government's plan to end persistent load shedding. The SONA did not present new plans but concentrated on the most pressing issues affecting South Africa, namely load shedding, unemployment, poverty, the rising cost of living, and crime and corruption. Similar to previous years, with these focal points dominating the Address, there was little emphasis on matters pertaining to the DOD. However, some aspects noted by the President have an impact on the broader defence sector.

- *Safety and security at Eskom power plants:* While the SONA noted the important work of the Police in this regard, the South African National Defence Force (SANDF) also plays a role in ensuring safety at power plants. Up to 2,700 SANDF members were activated for deployment by the President on 23 December 2022, with some already in place at selected power plants. The deployment period expired on 16 March 2023.

- *The Welisizwe rural bridges programme:* In the 2022 SONA, it was announced that the programme aims to build 95 bridges in rural areas. The SANDF is a primary implementing agent due to its demonstrated engineering capability to carry out the function. In the 2023 SONA, the President announced that 24 bridges in KwaZulu-Natal are currently under construction, and site preparations are being made for a further 24 bridges.
- *Regional security:* The President noted South Africa's commitment "to achieving a better Africa and a better world." The SANDF remains a key contributor to ensuring safety and stability in the region. The SANDF currently contributes forces to the UN mission in the Democratic Republic of the Congo (DRC) and the Southern African Development Community (SADC) mission in Mozambique.
- *Domestic security:* The SONA also included reference to the impact of the July 2021 public violence in KwaZulu-Natal and Gauteng, as well as the impact of flooding on several provinces in 2022. The SANDF was crucial in intervening in both these instances and assisting citizens and other government departments.

## 2.2 The National Development Plan 2030

The National Development Plan (NDP) presents a number of recommendations, actions and indicators that relate to the DOD. The following represent some of the key aspects with relevance to the DOD:

- Chapter 7: Positioning South Africa in the World. The NDP proposes the convening of a high-level, high-impact task team to investigate South Africa's foreign relations. The study should outline an implementation programme to reach these objectives, focusing on, *inter alia*, national defence. The DOD contributes to this focus point of the NDP through peacekeeping operations and the presence of defence *attaches* around the world. Chapter 7 of the NDP also recommends that South Africa should extend the current agreement that allows the South African Navy to undertake anti-piracy operations in Mozambican and Tanzanian waters, to include Kenya. South Africa's anti-piracy operation, which involves the South African Air Force, Special Forces and South African Military Health Services as well as the South African Navy, must be strengthened in order for operations to be sustained.

- Chapter 7 of the NDP also recommends the strengthening of border-enforcement to curb cross-border smuggling of counterfeit goods.

- Chapter 9: Promoting health. The NDP notes the aim of Universal Health Care coverage and that everyone must have access to an equal standard of care, regardless of their income. The DOD provides health services to all members of the SANDF through the SA Military Health Services (SAMHS), as well as assisting mil veterans with medical care.

- Chapter 14: Fighting corruption. The NDP aims for corruption-free society, a high adherence to ethics throughout society and a government that is accountable to its people. The DOD furthers this goal through a number of initiatives, including the national anti-corruption hotline, Corruption and Fraud awareness campaigns as well as implementing and monitoring the DOD Procurement Policy.

The envisaged contributions are further expanded on in the Medium-Term Strategic Framework (MTSF).

## 2.3 The Medium Term Strategic Framework (2019 - 2024)

The 2019-2024 Medium Term Strategic Framework (MTSF) of Government identifies a number of priorities that are based on the electoral mandate. The 2022/23 Annual Reporting period falls under the mentioned MTSF. The MTSF identifies 7 priorities of Government and the DOD plays an important role in Priority 6 (Social cohesion and safer communities) and Priority 7 (A better Africa and world). Contributions to these outcomes are summarised in the table below.

**DOD contributions to strategic outputs**

| MTSF Priority | Performance indicator | Target 2022/23 | Achievement 2022/23 |
|---|---|---|---|
| Priority 7 | Total number of Defence Attaché Offices | 44 Offices | 44 Offices |
| Priority 6 | Number of Reserve Force man days | 1 985 307 | 2 818 497 (142%) |
| Priority 7 | Percentage compliance with the Southern African Development Community Standby Force Pledge | 100% | 88% |
| Priority 7 | Percentage compliance with number of ordered commitments (external operations) | 100% | 67% |
| Priority 6 | Percentage compliance with number of ordered commitments (internal operations) | 100% | 100% |
| Priority 6 | Number of Joint, Interdepartmental, Interagency and Multinational military exercises conducted | 4 | 4 |
| Priority 6 | Number of landward subunits deployed on border safeguarding | 15 | 15 |
| Priority 6 | Number of hours flown per year *(includes an estimated 4 000 hours for Force Employment, approximately 12 100 hours for Force Preparation and 1 000 VVIP hours.)* | 12 000 | 12 059 *The target for flying hours was decreased from 15 000 in the previous year to 12 000 in 2022/23.* |
| Priority 6 | Number of hours at sea per Year *(Target reduced from 10 000 hours in 2020/21 to 8 000 in 2021/22)* | 8 000 | 2 770 |
| Priority 6 | Number of coastal patrols | 4 | 2 |

## 3. SUMMARY OF PREVIOUS (2021/22) KEY FINANCIAL AND PERFORMANCE RECOMMENDATIONS OF THE COMMITTEE

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

***Recommendations to the Minister of Finance and subsequent responses:***

- The Committee expresses its disappointment with the DOD not correctly spending the allocation of R225 million over the MTEF on border safeguarding technology. The Committee

recommends that the DOD reprioritises R140 million from its allocation for 2023/24 for the purpose of border safeguarding technology as force multipliers. Subject to this reprioritisation being carried out and spent successfully, the Committee then recommends further ring-fenced allocations for border safeguarding technology by National Treasury for the outer-years of the 2023 MTEF.

- *National Treasury response: The National Treasury agrees with this recommendation. The Department of Defence is allocated additional funding of R500 million in 2024/25 and R200 million in 2025/26 to procure equipment and technology to aid the safeguarding of borders. These earmarked funds may not be used for any other purposes. Any changes to these amounts will require the National Treasury's approval.*

- As in the PCDMV's BRRR recommendations to National Treasury in 2019, 2020 and 2021, the Committee again recommends a ring-fenced allocation for the midlife upgrades of the SA Navy frigates and submarines. The Committee is suggesting a staggered approach in this regard to limit the fiscal impact, but one that would ensure the midlife upgrades of all frigates and submarines over, for example, the next 7 to 10 years, starting in 2023/24. This will allow the SA Navy to appropriately plan vessel availability, adjust its sea-hour targets accordingly and report more accurately to Parliament. It would also add significant capacity in terms of maritime security which is currently characterised by very limited naval patrols.
  - *National Treasury response: Consistent with the committee's recommendation, the Department of Defence is allocated additional funding of R500 million in 2023/24, R441 million in 2024/25 and R480 million in 2025/26 for the midlife upgrades of the South African Navy's frigates and submarines. These earmarked funds may not be used for any other purposes. Any changes to these amounts will require the National Treasury's approval.*

- The Committee is concerned about the ability of the SA Air Force to effectively provide logistical and reinforcement support to SANDF members deployed outside South Africa due to limited strategic airlift capacity. The Committee therefore recommends an urgent ring-fenced allocation to address the strategic airlift shortcomings in the SA Air Force.
  - *National Treasury response: Consistent with the committee's recommendation, the Department of Defence is allocated additional funding of R1 billion in 2023/24 to strengthen the country's airlift transport capability. This earmarked allocation may not be used for any other purposes. Any changes to the allocated amount will require the National Treasury's approval.*

- The Committee is concerned about the stagnation and lack of investment in the SANDF landward defence capability, notably the SA Army's Infantry capability. This factor has been worsened by the non-finalisation of Project Hoefyster. The Committee therefore recommends engagement between National Treasury, the DOD and Armscor to consider further funding for Phase 2 of Project Hoefyster or, should this not be feasible, the upgrading of the current Ratel fleet to extend its serviceability. National Treasury, the DOD and Armscor should jointly report back to this Committee on the envisaged plan to address the Infantry capability constraints. These plans should be included in the DOD and Armscor Annual Performance Plans for 2023/24 and National Treasury should consider a statement to this effect in the 2023/24 Estimates of National Expenditure.
  - *National Treasury response: The National Treasury notes the committee's concerns. To date, government has invested R7.4 billion in Project Hoefyster. This project was supposed to acquire 264 infantry fighting vehicles to partially replace the old Ratel*

*fleet, but these vehicles have yet to be delivered. The National Treasury is open to engagement with the Department of Defence and Armscor on the feasibility of the project.*

- The Committee wishes to note to National Treasury that the SANDF's Mobility Packages being utilised for border safeguarding have been in use since 2017 and may soon reach the end of their lifespan. Given the ongoing role of the SANDF in border safeguarding, the Committee highlights the need for the DOD and National Treasury to jointly plan for upcoming expenses in this regard towards the end of the 2023 MTEF and beyond. The Committee also wishes to reiterate that the current Mobility Packages were considered an interim solution and any future joint planning by the DOD and Treasury should consider a more permanent long-term solution that can effectively aid in ensuring improved border safeguarding.
    - *National Treasury response: The National Treasury notes the committee's recommendation. Over the 2023 MTEF period, the National Treasury has allocated R700 million to procure helicopters, vehicles and technology for border safeguarding. The Department of Defence is responsible for the procurement of vehicles or mobility packages that will improve border safeguarding over the long term.*

***Recommendations to the Minister of Defence:***

- As noted in the recommendations to the Minister of Finance, the Committee recommends that the DOD reprioritises R140 million from its allocation for 2023/24 for the purpose of border safeguarding technology as force multipliers.
- The Committee urges the Minister to prioritise Consequence Management in the DOD through instructions to both the Secretary for Defence and the Chief of the SANDF. 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 Department and serve as a deterrent against further such cases.
- With most aircraft maintenance programmes now in place, the Committee urges the SA Air Force to improve its achievement against planned flying hours going forward.
- The Minister is encouraged to engage National Treasury and ensure that sufficient ring-fenced funding is in place for the newly negotiated aircraft maintenance programmes over the MTEF.
- The DOD and DPWI should jointly, as a matter of urgency, address the air conditioning at the SA Air Force headquarters. It is further recommended that the environmentally controlled SA Army warehouses be reactivated.
- It is recommended that the Minister should address matters related to procurement processes in the DOD, with much of the procurement aspects currently located in the ambit of the SANDF's Chief of Logistics and not with the Chief Financial Officer. A workable long-term solution to ensure stability in the procurement environment should be prioritised.
- The DOD is encouraged to fully staff and prioritise its Internal Audit Division to ensure that audit action plans are implemented.
- The DOD should ensure timely cooperation with the Office of the AGSA whenever audit requests are submitted.

## 4. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE FOR 2022/23

The DOD has eight programmes through which its executes it various tasks. The financial performance and performance against set targets of the various programmes and subprogrammes for 2022/23 are contained in the sections to follow.

## 4.1 Programme 1: Defence Administration

### 4.1.1 Defence Administration financial shifts and expenditure

| Programme | Adjusted Appropriation | Virement R'000 | Final Appropriation | Actual Expenditure | Variance | |
|---|---|---|---|---|---|---|
| | | | | | R'000 | % |
| Administration | 5 828 629 | 213 944 | 6 042 623 | 6 071 295 | (28 627) | 0.5% |

The purpose of this programme is to provide strategic leadership, management and support services to the DOD. The Administration programme's total expenditure for 2022/23 came to R6.071 billion, following virements of R214 million (3.7%) to the programme. While most subprogrammes saw its adjusted appropriation diminished through virements, the following two programmes saw its allocation increase significantly through virements:

- SANDF Command and Control (an increase of R18.378 million [9.8%])
- Office accommodation (an increase of R363.178 million [13%]).

The subprogrammes most negatively affected by virements include the following:

- Ministry (a reduction of R68.102 million [46%])
- Financial services (a reduction of R42.276 million [9.6%])
- Communication Services (a reduction of R75.989 million [61.5%])
- Defence Reserve Direction (a reduction of R10.361 million [27.4%])

In terms of expenditure per economic classifications, the following may also be noted:

- *Catering:* The Administration Programme spent R5.322 million for catering activities during 2022/23. Although this is slightly lower than budgeted it is significantly higher than the R2.891 million spent in the previous financial year.
- *Consultants:* The DOD spent R9.7 million on consultants during the year under review, which is similar to that spent in the previous financial year.
- *Operating leases:* A virement of R271.170 million was made to increase payments to operating leases in Programme 1 to a total of R1.945 billion for 2022/23. This is significantly higher than the R1.327 billion spent in the previous financial year.
- *Property payments.* Spending on property payments totalled R1.278 billion in 2022/23, which was lower than the R1.457 billion spent in the preceding financial year.
- *Rental and hiring:* While the DOD planned to spend only R50 000 on rental and hiring in Programme 1 in 2022/23, a virement of R2.212 million increased the final expenditure to R2.262 million for the year under review. A similar virement was made in the previous financial year.
- *Capital Assets:* An additional virement of R75.8 million was made to capital assets to increase final spending to R103.319 million.

### 4.1.2 Defence Administration performance

The Administration programme set seven (7) targets for 2022/23 of which one is considered classified information. While this is the same number of targets as in 2021/22, there are 2 targets fewer compared

to 2020/21 (which had 9 targets), of which one of the previously included targets related to the reduction in number of audit qualifications.

**Administration programme: Selected performance against set targets**

| Subprogramme | Target description | 2022/23 Target | 2022/23 Achievement | Comments |
|---|---|---|---|---|
| *Defence strategic direction* | % adherence to DOD index for policies | >60%<br>(Target lowered from 80% in 2020/21) | 67% | Five DOD Policies promulgated<br>• Policy on the Management of Plain/Civilian Clothing Allowance for SANDF Members<br>• Policy on State Housing in the DOD<br>• Interim Policy on the Management of Sexual Harassment in the DOD<br>• Policy on Rates for Reserve Force Aircraft<br>• Policy on the Management of Foreign Exchange Transactions in the DOD.<br>**Achieved** |
| | % Payments in 30 days | 75% | 81.5% | The lack of integrated departmental information systems adversely<br>contributes to the ability of the Department to verify all (100%) legitimate invoices received for payment within the prescribed 30-day period<br>**Achieved** |
| | % adherence to DOD index for plans | 100% (41) | 85.4%<br>(35) | 35 of 41 Planning Instruments finalised<br>**Not achieved** |
| | Number of Reserve Force man days | 1 985 307 | 2 818 497 | Increased utilisation of<br>Reserve Forces to augment HR capacity |

| Subprogramme | Target description | 2022/23 Target | 2022/23 Achievement | Comments |
|---|---|---|---|---|
| | | | | **Over-Achieved** |
| | Audits completed in terms of the approved Internal Audit Plan | 80% | 91.9% | 34 of 47 internal audits completed (compared to 33 in the previous year) **Achieved** |
| *Defence Capabilities provided* | Number of Defence Attaché Offices | 44 | 44 | **Achieved** |

## 4.2 Programme 2: Force Employment

| Programme | Adjusted Appropriation | Virement | Final Appropriation | Actual Expenditure | Variance | |
|---|---|---|---|---|---|---|
| | | | | | R'000 | % |
| Force Employment | 5 045 826 | (91 118) | 4 954 708 | 5 012 398 | (57 690) | 1.2% |

The purpose of this programme is to provide and employ defence capabilities. In 2022/23, following the adjusted appropriation, a virement of R91.118 million was made away from the programme. The Subprogramme 5 (Support to the people) was most affected as it saw its allocation decreased by 7.4% from an adjusted allocation of R1.426 billion to actual expenditure of R1.309 billion. Subprogramme 4 (Regional Security) also saw its allocation reduced through a virement of R69.7 million, resulting in final spending of R1.957 billion. The allocations of the Operational Direction and Special Operations subprogrammes saw their allocations marginally increase through virements.

In terms of economic classifications, the following can be noted:

- The adjusted allocation for Administrative fees was R32 000 while R1.124 million was spent on this item by the end of the year.
- Spending on Catering in Programme 2 was R3.124 million at the end of the financial year and although less than the adjusted appropriation, it is higher than the R1.891 million spent in 2021/22.
- While R177.334 million was budgeted for Contractors in the adjusted appropriation, a virement of R80 million was made away from the line item and year-end spending came to R96.615 million. While savings on Contractors should be commended, limited spending on this item in Programme 2 (Force Employment) may have operational consequences as civilian contractors are often responsible for various aspects to ensure operations continue optimally.
- The adjusted allocation for Fleet Services was reduced through a virement of R101.917 million, resulting in year-end spending of only R19.513 million.
- The allocation for fuel, oil and gas was decreased from its adjusted allocation of R133.686 million to final expenditure of R104.854 million.
- The allocation for Property Payments was decreased from its adjusted allocation of R29.333 million to final expenditure of only R5.452 million.

- Travel and subsistence saw an additional virement to increase the adjusted budget of R259.541 million to final expenditure of R301.985 million.

A total of 10 targets were set for the programme of which three were classified. Of the seven (7) remaining targets, three (3) were achieved. Of specific concern is the ongoing inability of the DOD to achieve its target in terms of the level of UN reimbursement in recent years. This has significant financial implications for the Department as it results in less funds returned to the DOD. Furthermore, much of the regression in the Force Employment programme's achievements is due to the unavailability of SA Navy equipment.

**Administration programme: Selected performance against set targets**

| Target description | 2022/23 Target | 2022/23 Achievement | Comments |
|---|---|---|---|
| Number of planned joint, interdepartmental and multinational military exercises | 4 | 4 | Ex SHARED ACCORD.<br>Ex IBSAMAR.<br>Ex OXIDE.<br>Ex MOSI<br>**Achieved** |
| Number of landward sub-units deployed for border safeguarding | 15 | 15 | **Achieved** |
| Percentage compliance with number of external operations | 100% | 67% | No Op COPPER Long-Range Patrols were conducted during FY2022/23<br>due to SA Navy prime mission equipment not being operationally available<br>as required.<br>**Not achieved** |
| Reimbursement from the UN for SANDF deployments | 70% | 57% | *There was a slight increased achievement from 47% in 2021/22 to 57% in 2022/23.*<br>**Not achieved** |
| Compliance with SADC Standby Force | 100% | 88% | The SA Navy could not provide the required capabilities as pledged.<br>**Not achieved** |
| Compliance with internal operations | 100% | 100% | Support to SAPS (Ops Prosper), Humanitarian assistance (Ops Chariot), Search and Rescue (Ops Arabella) and Border safeguarding (Ops Corona)<br>**Achieved** |
| Number of Maritime Coastal Patrols conducted per year | 4 | 2 | The SA Navy could not provide the required capabilities.<br>**Not achieved** |

## 4.3 Programme 3: Landward defence

| Programme | Adjusted Appropriation | Virement | Final Appropriation | Actual Expenditure | Variance | |
|---|---|---|---|---|---|---|
| | | | | | R'000 | % (Per Programme) |
| Landward Defence | 15 971 557 | (99 796) | 15 871 761 | 17 732 035 | (1 860 | 15 971 557 |

The purpose of this programme is to provide prepared and supported landward defence capabilities for the defence and protection of South Africa. In terms of spending, all subprogrammes spent 100% of their final appropriation. Following the adjusted appropriation, further virements to the value of R99.796 million was made away from the programme. The subprogrammes most affected by the virement away the programme include the following:

- Strategic Direction (allocation *decreased* by R319.765 million)
- Support capability (allocation *decreased* by R49.692 million)
- Infantry Capability (allocation *increased* by R171.498 million)

In terms of economic classifications, the following can be noted:

- The SA Army is the largest component of the SANDF and therefore the most significant in terms of CoE expenditure. In 2022/23, the programme over-spent on CoE by R1.862 billion (14.2%).
- Contractors (a decrease of R555.417 million), with only R44.567 million was spent by year-end.
- Scientific and technological services (an increase of R145.953 million), against an adjusted allocation of only R190 000.
- Fleet services (an increase of R28.671 million), with a final spending of R52.703 million by year-end.
- Travel and subsistence (a significant increase of R331.109 million), resulting in final spending of R602.044 million by year-end (compared to R498.720 million in the previous year, signifying a 20.7% increase in spending.
- Machinery and equipment (an increase of R71.761 million), with a final spending of R87.632 million by year-end.

Four (4) targets were set for this programme of which two are considered classified. The DOD managed to achieve both non-classified targets. The over-achievement on its training target is specifically noteworthy.

### 4.4 Programme 4: Air defence

| Programme | Adjusted Appropriation | Virement | Final Appropriation | Actual Expenditure | Variance | |
|---|---|---|---|---|---|---|
| | | | | | R'000 | % (Per Programme) |
| Air Defence | 6 637 134 | (258 291) | 6 378 843 | 6 763 529 | (384 686) | 6.0% |

The purpose of the Air Defence programme is to provide prepared and supported air defence capabilities for the defence and protection of South Africa. In terms of spending, as with other programmes, overspending relates to higher than planned CoE expenditure. Virements of R258.291 million was made away from the programme, mostly affecting the following programmes:

- Transport and maritime capability (allocation *reduced* by R532.354 million [50.5%])
- Air Combat capability (allocation *increased* by R86.466 million [28.2%])

- Base support capability (allocation *increased* by R129.184 million [6.0%])
- Command and Control Capability (allocation *increased* by R53.6 million [15.4%])

In terms of economic classifications, there was an over-expenditure on CoE to the value of R333.1 million. Other noteworthy economic classifications included the following:

- Computer Services (allocation increased by R24.6 million with final expenditure of R52.4 million)
- Contractors (allocation was decreased by R186.9 million with final expenditure of R921.4 million)
- Clothing and material (the allocation was increased significantly by R13.6 million with final expenditure of R16.3 million)
- Food and food supplies (allocation increased significantly by R112.6 million with final expenditure of R112.9 million)
- Fuel, oil and gas (allocation reduced by R75.9 million with final expenditure of R182.3 million)
- Materials and supplies (allocation reduced by R12.9 million with final expenditure of R10.1 million).
- Property payments (allocation reduced by R12.1 million with final expenditure of R19.5 million)
- Operating payments (allocation decreased by R96.1 million with final expenditure of R73.7 million)

Five (5) targets were set of which two are deemed classified (compliance with Joint Force Employment requirements and combat-ready capabilities available). In contrast to previous years, Programme 4 achieved its flying hours target, although the target for SA Air Force training was not met. However, the target for flying hours was reduced from 17 000 in 2021/22 to 12 000 in 2022/23. Actual achievement of flying hours decreased from 15 215 hours in 2021/22 to 12 059 hours in 2022/23.

**Air Defence programme: Selected performance against targets**

| Target description | 2022/23 Target | 2022/23 Achievement | Comments |
|---|---|---|---|
| Air Defence Training targets | 80% (637) | 76.5% (609) | 28 fewer learners (than planned) successfully completed training programmes.<br>**Not achieved** |
| Number of Air Defence unique force training exercises conducted | 1 | 1 | Ex Winter Solstice<br>**Achieved** |
| Number of flying hours per year | 12 000 | 12 059 | 8900 hours for force preparation<br>2 483 hours for force employment<br>675 VVIP hours<br>**Achieved (but with a significant reduction from the previous year)** |

## 4.5 Programme 5: Maritime defence

| Programme | Adjusted Appropriation | Virement | Final Appropriation | Actual Expenditure | Variance | |
|---|---|---|---|---|---|---|
| | | | | | R'000 | % (Per Programme) |
| Maritime Defence | 4 726 660 | (273 936) | 4 452 724 | 4 662 636 | (209 912) | 104.7% |

The purpose of the programme is to provide prepared and supported maritime defence capabilities for the defence and protection of South Africa. Following the mid-year adjustments, the allocation for the programme was further reduced through a virement of R273.9 million. The Maritime Defence programme overspent on its final budget by R209.9 million, largely due to overspending on CoE, as is the case in other programmes.

The Maritime Combat capability subprogramme's allocation was reduced by R166.9 million (9.9%) through a virement, while the Maritime Logistics Support Capability was the subprogramme most affected by the virement with its allocation being reduced by R333.6 million (28%).

In terms of economic classifications, the Programme over-spent on CoE by R146.9 million. Other noteworthy economic classifications included the following:

- Contractors (allocation reduced by R181 million with final expenditure of R195.6 million).
- Clothing and material (allocation reduced by R17 million with final expenditure of R8.2 million).
- Fuel, oil and gas (allocation reduced significantly by R171 million with final expenditure of only R39.4 million).
- Materials and supplies (allocation reduced by R31.3 million with final expenditure of R55.8 million).
- Property payments (allocation reduced by R29.4 million with final expenditure of only R2.1 million).
- Buildings (no funds allocated in the adjusted appropriation and an additional virement of R98.7 million made which was spent by year-end).

For the period under review, the Maritime Defence Programme had five (5) targets of which two were deemed classified (compliance with Joint Force Employment requirements and combat-ready capabilities). The only target not achieved relates to the total number of sea hours. The target for "number of maritime coastal patrols per year" were not included in details of Programme 5 in the Annual Report as per previous years (the SA Navy only achieved 2 of the planned four patrols).

**Maritime Defence programme: Selected performance against targets**

| Target description | 2022/23 Target | 2022/23 Achievement | Comments |
|---|---|---|---|
| Maritime Defence Training targets | 80% (398) | 98% (515) | **Achieved** Target achieved and an increased number of training opportunities compared to previous years. |
| Number of Maritime unique force training exercises conducted | 1 | 1 | Ex Red Lion **Achieved** |

| Target description | 2022/23 Target | 2022/23 Achievement | Comments |
|---|---|---|---|
| Number of sea hours per year | 8 000 | 2 770 | 1 356 for force preparation<br>1 414 hours for force employment<br>**Not achieved**<br>Most SA Navy vessels in commission were undergoing maintenance and repair. |

### 4.6 Programme 6: Military Health Support

| Programme | Adjusted Appropriation | Virement | Final Appropriation | Actual Expenditure | Variance | |
|---|---|---|---|---|---|---|
| | | | | | R'000 | % |
| Military Health Support | 5 632 165 | 102 327 | 5 734 492 | 5 979 581 | (245 089) | 4.3% |

The purpose of the Military Health Support Programme is to provide prepared and supported health capabilities and services for the defence and protection of South Africa. The programme overspent its budget by R245.1 million in 2022/23, largely as a result on overspending on CoE.

In terms of subprogramme expenditure, virements can be noted in all subprogrammes, most notably in the following:

- Strategic Direction (a reduction of R57.7 million [17.8%])
- Specialist/Tertiary Health Services (an increase of R108.4 million [4.8%])
- Military Health Product Support Capability (a reduction of R34.7 million [8.8%]).

In terms of economic classifications, Programme 6 overspent by R246.1 million on CoE. Of further interest in terms of the Military Health Support programme's economic classifications are the following:

- Communication (allocation reduced by R25.3 million with final expenditure of R9.4 million).
- Laboratory Services (allocation increased by R37.1 million with final expenditure of R78.3 million).
- Contractors (allocation reduced by R28.9 million with final expenditure of R32.3 million).
- Outsources services (allocation increase by R98.9 million with final expenditure of R723.5 million).
- Medical supplies (allocation reduced by R68.6 million with final expenditure of R58.6 million).
- Travel and subsistence (allocation increased by R36.7 million with final expenditure of R86.4 million.
- Machinery and equipment [Transport equipment] (no allocation made for this item in the adjusted appropriation with a late virement of R103.4 million of which 100% was spent).

The programme had four targets of which three were classified. The programme did not achieve the one declassified target around Military Health Training, falling well short, as was the case in the previous financial year.

### 4.7 Programme 7: Defence Intelligence

| Programme | Adjusted Appropriation | Virement | Final Appropriation | Actual Expenditure | Variance | |
|---|---|---|---|---|---|---|
| | | | | | R'000 | % (Per Programme) |
| Defence Intelligence | 1 166 297 | (68 202) | 1 098 095 | 1 114 001 | (15 909) | 1.4% |

The purpose of Defence Intelligence programme is to provide a defence intelligence and counter-intelligence capability. For 2022/23, the programme overspent on its adjusted allocation by R29.9 million, largely due to overspending on CoE. The only subprogramme affected by a virement was the Defence Intelligence Support Services with a reduction to its adjusted budget of R68.2 million.

In terms of economic classifications, the following can be noted:

- The allocation for outsourced services was reduced through a virement of R1.091 million, resulting on only R25 000 having been spent on outsourced services.
- The allocation for food and food supplies was reduced by R2.267 million with final expenditure of R4.1 million.
- R53 million was allocated in the adjusted budget for Operating leases of which all funds were moved away through a virement, resulting in no spending on operating leases.
- Travel and subsistence had its allocation reduced by R19.1 million, resulting in final spending of R7.3 million. This is, however, much higher than the R5.2 million spent in 2021/22.
- A virement of R10.7 million was made to Social Benefits under Household expenditure. Final expenditure on this item was R28.1 million by the end of the financial year compared to R2.7 in the previous financial year.

The programme had only one target reported on in the Annual Report related to the number of vetting decisions taken. It did not achieve this target with 5 111 vetting decisions taken against a target of 5 500. The underachievement can be attributed to the reprioritisation of available resources to national events and activities in addition to staff shortages and inadequate staffing levels. The programme previously included a target related to the number of Defence Intelligence Products produce per year, which was removed from the 2022/23 cycle.

### 4.8 Programme 8: General Support

| Programme | Adjusted Appropriation | Virement | Final Appropriation | Actual Expenditure | Variance | |
|---|---|---|---|---|---|---|
| | | | | | R'000 | % (Per Programme) |
| General Support | 6 593 344 | 475 022 | 7 068 366 | 7 261 271 | (192 905) | 2.7% |

The purpose of the General Support programme is to provide support capabilities and services to the Department. The programme overspent on its final budget by R192.9 million. After the mid-year adjustments, an additional R475 million was allocated to the programme through virements.

Major shifts in the programme included the increase in the Joint Logistical Services allocation (by R357.2 million) through a virement. The Command and Management Information Services' allocation was increased by R111.6 million and the Military Police allocation by R25 million.

In terms of economic classifications, the General Support programme overspent on CoE by R143.5 million. Other aspects in terms of the economic classification to consider includes:

- The Minor assets allocation was reduced through a virement of R42.3 million with final expenditure of R27.2 million.
- Catering for Departmental activities was reduced through a virement. However, final spending of R7.3 million was still significantly higher than the R3.9 million spent in the previous financial year.
- A large virement of R296.3 million was made to Outsources services. Final spending on outsourced services was R297.3 million by the end of the financial year, compared to R204.3 million in the previous year.
- The adjusted budget for Property Payments was R403.7 million, but a virement reduced this allocation by R383.5 million.
- Travel and subsistence for Programme 8 was R164.9 million for the year under review, compared to R145.2 million in the previous financial year.
- Operating Payments for Programme 8 was R124.6 million for the year under review, compared to R62.4 million in the previous financial year.

In terms of performance, a total of six (6) targets were set for 2022/23 two (2) were achieved, which is a regression from the four (4) achieved in the previous financial year.

**Programme 8: General Support achievements against targets for 2022/23**

| Target description | 2022/23 Target | 2022/23 Achievement | Comments |
|---|---|---|---|
| Percentage procurement requests fully completed within 90 days from day of registration | 95% | 62.24% | Regression from 97.5% achieved in 2021/22. Legislative changes implemented during F022/23; high staff turnaround and the submission of incorrect documentation by suppliers delayed the processing of payments. **Not achieved** |
| Payment of leases, Accommodation charges and municipal services – Payment according to facilities plan | 100% | 99.28% | Regression from 102% achieved in 2021/22. **Not achieved** |
| Compliance with ICT Capabilities Plan | 90% | 79.6% | Improvement on 45.7% achievement in the previous year. **Not achieved** |
| Number of Crime Prevention operations conducted | 124 | 174 | Increased visible military policing activities assisted in reducing crime **Achieved** |

| Target description | 2022/23 Target | 2022/23 Achievement | Comments |
|---|---|---|---|
| Criminal cases investigated (backlog) | 40% | 36.2% | Regression from 73.9% achieved in 2021/22.<br>Lack of resources contributed towards the underachievement. Military Police officials were utilised during various exercises and other taskings.<br>**Not achieved** |
| Criminal cases investigated (in-year) | 25% | 37.1% | Regression from 53.6% achieved in 2021/22.<br>The closing of new dockets registered that have no prospect of prosecution by means of a thorough investigation largely contributed to the overachievement.<br>**Achieved** |

## 5. ORGANISATIONAL STRUCTURE AND HUMAN RESOURCE SUPPORT

The Human Resources Management chapter of the 2022/23 Annual Report deals with various issues related to personnel. Among others, the following key aspects can be considered:

- **Personnel spending (Compensation of Employees):** By then end of 2021/22, the DOD has incurred a cumulative total of R10.015 billion in irregular expenditure related to Compensation of Employees (CoE) since 2017/18. This amount has not been condoned by National Treasury and therefore remains captured on the DOD total of irregular expenditure.

  For 2022/23, the DOD received a main appropriation for CoE at the start of 2022/23 to the value of R30.680 billion which was adjusted upwards during the mid-year adjustments to R31.786 billion. *The adjustment was made by National Treasury for Operation Vikela (R755 million) and annual salary adjustments.* At the end of 2022/23, the DOD spent R34.661 billion on CoE which is 63.49% of the Department's total expenditure. *The DOD overspent on Compensation of Employees by R2.875 billion in 2022/23. Of concern is that this overspending on CoE is higher than the R2.708 billion overspending on CoE in 2021/22, despite several interventions such as the Mobility Exit Mechanism (MEM).*

- **Progress on cost-saving measures related to CoE.** The DOD highlighted the following progress in relation to CoE interventions:
  - 14 504 vacant posts were deactivated. *(No savings impact).*
  - The average HR capacity as at 31 March 2023 was 69 359. Due to normal and induced attrition, a force reduction of 2 186 officials materialised. *(Potential future savings).*
  - Two-yearly MSDS intake. *(Long-term savings, but negative impact on rejuvenation)*
  - Capped allowances. *(Saving of R30 million in 2022/23)*
  - 1 295 soldiers separated through MEM and 195 civilian personnel separated through the Employee Initiated Severance Package.
  - Reduction of Reserve Force utilisation. *(Not achieved in 2022/23 the need for Reserves to augment military operations)*

- **Critical occupation vacancy rates:** In terms of critical occupations, other areas with high vacancy rates should be noted:
    - Airspace Control has a vacancy rate of 13.6% (up from 11.5% in 2021/22).
    - Aircrew has a vacancy rate of 25% (similar to 2021/22).
    - Nursing has a vacancy rate of 21.7% (up from 16.6% in 2021/22).
    - Technical has a vacancy rate of 27.5% (up from 23.3% in 2021/22).
    - Engineers has a vacancy rate of 40.61% (up from 37% in 2021/22).

- **Over-staffing in Anti-Aircraft and Artillery Formations.** The Annual Report notes 1 043 anti-aircraft employees against an approved establishment of on 968. Similarly, the Report notes 1 491 artillery employees against an approved establishment of only 1 289.

- **Employees with salaries higher than those determined by job evaluation:** In 2022/23, the DOD has one senior manager (the CFO) who earns a salary which is higher than that determined by the Job Evaluation. It is unclear if this refers to the previous CFO or the current Acting CFO.

- **Future employment equity concerns.** While the DOD has made significant progress in addressing employment equity, current recruitment patterns reflect poorly on employment equity and may bring about equity misalignment in future. In 2022/23, 1 986 MSDS members were recruited to the SANDF. Of these, 219 (11.0%) were coloured, 49 (2.5%) Indian; and only 52 (2.6%) were white, while there were 1 666 (83.9%) African. A similar pattern existed in the previous recruitment round of the SANDF's MSDS programme, which will have long-term implications for employment equity. It is evident that efforts should be enhanced to attract young South Africans of *all* races to serve in the SANDF.

- **Non-signing of performance agreements by Senior Management:** A total of 14 of the total of 273 senior managers did not sign their performance agreements. Of these, three were in the SANDF and eight were in the civilian sector (others were either suspended or on Lave of Instruction)

- **Sick leave cost:** The total cost of sick leave has fluctuated significantly in recent years. However, in 2019/20, the total cost of sick leave increased drastically to R400.2 million and again decreased significantly to R259.0 million in 2020/21. The average number of days' sick leave per employee decreased from 8 in 2019/20 to 7 in 2020/21. In 2021/22, the cost of sick leave increased to R314.5 million and the average number of sick days remained at 7 per employee. This increased further in 2022/23 to R383.6 million with an average of 9 sick days per employee for the year.

## 6. BROAD FINANCIAL CONCERNS AND THE AUDITOR-GENERAL'S REPORT

### 6.1 Unauthorised, fruitless and wasteful, and irregular expenditure

Irregular expenditure, according to the DOD, amounted to R555.9 million for 2022/23, but the over-expenditure on CoE is not reflected in this amount. Rather, the CoE over-expenditure of R2.995 billion was captured as unauthorised expenditure. Furthermore, spending on Project Thusano was not included in the DOD's estimates of Irregular Expenditure although the AGSA previously indicated that *all* spending under Project Thusano is considered irregular. According to the DOD, major contributors to irregular expenditure include:

- R308 million was for procurement without following South African Procurement Legislation.
- R70 million was for an alternative payment solution for aircraft fuel and airport services when the winning bidder did not comply with the mandatory requirements of the bid.
- R48 million was incurred using a biased specification and non-compliance by inviting all of the suppliers on the RT57 contract for the procurement of vehicles.
- R25 million constituted 23 incidents where no competitive bidding process was followed.

R10 million was incurred in 10 instances where the Department did not comply with the SITA Act.

Fruitless and wasteful expenditure decreased from R3.332 million in 2021/22 to R2.569 million in 2022/23, based on eight incidents which are under investigation. In terms of consequence management for fruitless expenditure, the DOD states that "implementation of these recommendations and consequence management are slow, hence repeat findings from the auditors."

## 6.2 Findings by the Auditor-General of South Africa

As in recent years, the DOD received a **qualified audit opinion** from the Auditor-General for 2022/23. The basis for the qualified audit opinion rests on the following:

- *Goods and services and investments.* Similar to previous years, the AG was unable to obtain sufficient appropriate audit evidence for sensitive projects (in relation to the Special Defence Account (SDA)).

- *Movable tangible assets.* The AG was unable to obtain sufficient appropriate audit evidence for movable tangible capital assets as the Department could not indicate where these assets are located or provide other information relating to the existence of these assets. The AG was therefore unable to determine whether any adjustments were necessary to movable tangible capital assets stated at R66,78 billion.

- *Irregular expenditure.* The Department did not fully record irregular expenditure in the notes to the financial statements as required by the PFMA.

The AG also raised the following emphasis of matters:

- **Uncertainty of future outcomes of litigation.** The Department is the defendant in various lawsuits to the value of R8.26 billion. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

- **Unauthorised expenditure**. The Department incurred unauthorised expenditure of R2,99 billion due to overspending of the main vote.

  Further aspects of value to the PCDMV that were raised by the AGSA include:

- **Consequence management.** The AGSA was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure, as required by section 38(1) (h) (iii) of the PFMA. Similarly, the AGSA also could not find audit evidence of steps taken against officials who incurred fruitless expenditure.

- **Procurement.** The AGSA was unable to obtain sufficient appropriate audit evidence that all contracts were awarded in accordance with the legislative requirements as department did not have proper record keeping in place. Further, some goods and services were procured without obtaining at least three written price quotations while other contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state.

- **Internal control deficiencies.** Leadership did not exercise sufficient oversight over financial and performance reporting, compliance with laws and regulations and related internal controls. The action plans developed to address prior year audit matters were not adequate, and they were also not effectively implemented and monitored.

- **Material irregularities.**

    - (1) Medical equipment procured as part of the turn-key project at 2 Military Hospital were not utilised. This includes the cardiovascular theatre unit of R13 702 800, procured and installed in 2018 and six renal dialysis units of R2 328 114, procured and installed in 2019.
    - (2) In February 2017, the Department awarded a contract for services relating to inventory and asset verification for a period of five years, commencing from 1 March 2017. The department did not comply with the requirements of paragraph 2(1)(f) of the PPPFA in awarding this contract because it did not award the entire contract to the bidder that scored the highest points in the evaluation process.
    - (3) The Department made lease payments in the financial years 2015-16 to 2019-20 for unoccupied office buildings, in contravention of section 45(b) of the PFMA, which requires the effective, efficient, economical and transparent use of the department's financial resources. The noncompliance resulted in a financial loss of R108,3 million, which forms part of the closing balance of fruitless and wasteful expenditure.
    - (4) The Department awarded a contract worth R13,9 million for the supply and delivery of fuel to a supplier using evaluation criteria that differed from those stipulated in the original request for quotations.
    - (5) On 14 April 2020, the Department procured 1 000 infra-red (IR) thermometers at a price of R3 984,75 each, spending a total of R3 984 750 on this transaction. The price paid was above the recommended price of R2 727,86 per IR thermometer, as indicated in National Treasury.

## 7. COMMITTEE OBSERVATIONS: DEPARTMENT OF DEFENCE

The Committee made the following general observations on the 2022/23 Annual Report:

a. The Committee expressed its concern regarding the repeat findings of the AGSA in relation to the DOD, specifically as it relates to findings around the lack of consequence management in the Department.
b. The Committee noted the need for the AGSA to provide additional details on the status of cases referred to the Special Investigative Unit (SIU) and other law enforcement agencies by the AGSA that relate to the DOD as this will assist the Committee to better track consequence management in the Department.
c. The Committee highlighted as problematic the long delays in finalising the appointment of a permanent Secretary for Defence and Chief Financial Officer in the DOD.
d. The Committee queried whether there are any plans to withdraw the SANDF contingent that forms part of the United Nations (UN) Mission in the Democratic Republic of the Congo (DRC), but noted the SANDF's observation that no formal plans in this regard have been forthcoming from the United Nations and, as such, the SANDF will continue to fulfil its mandate as part of the mission.
e. The Committee questioned why the DOD was unable to realise notable savings in CoE as a result of the implementation of the Mobility Exit Mechanism. The DOD noted that such savings will only be realised over the medium-term with a major impact only visible by 2025/26. However, the Committee expressed the need for the DOD to make a more concerted effort to ensure it realises savings earlier.
f. The Committee noted that over-expenditure on CoE also relates to the higher than planned use of the Reserve Force due to ongoing defence commitments.
g. Based on the tight fiscal conditions under which the DOD functions, Members expressed concern around the potential for mid-year budget cuts to the DOD's 2023/24 allocation and highlighted that if this should be implemented, it will have a devastating impact on the SANDF's operational capabilities, training and force readiness.
h. The Committee highlighted the clear need to address problems around the DOD procurements systems and further noted the centrality of outdated ICT systems to this problem. Members observed that outdated ICT systems likely contributed to adverse findings by the AGSA. There is thus an urgent need to address ICT systems, specifically in relation to procurement and logistics management.
i. Members noted with concern the reduction in the target for flying hours from 15 000 in 2021/22 to 12 000 in 2022/23 and pointed out that the achievement of this reduced target does not inspire confidence in the SA Air Force.
j. Similar to the above observation, Members expressed grave concern about the state of the SA Navy and that it only managed to achieve 2 770 sea hours during the year. The DOD informed the Committee that this was largely due to vessel unavailability and that it will improve over the medium-term. However, Members highlighted that the deterioration in sea-hours achieved is a reflection on the regression of the SA Navy's primary equipment and that this clearly impacts on force readiness, as is evident in the SANDF not achieving its target in terms of the SADC Standby Force.
k. The Committee expressed disappointment that the Welesizwe Bridges programme, which is a Presidential initiative also highlighted in the 2023 SONA, has not delivered as required. However, Members noted the SANDF's input that such delays are not due to the SANDF's own doing, but due to delays in the provision of hardware from other Departments.

l. Members observed the need for the DOD's Internal Audit Division to be more proactive, especially as it relates to the use of procured equipment. As an example, Members noted the procurement of medical equipment which is then not utilised, resulting in adverse findings by the AGSA.
m. The Committee noted the need for the DOD to be again included in Priority 6 (Safer Communities) of the Revised Medium-term Strategic Framework (MTSF) of 2019 when planning commences for the next MTSF.

## 8. COMMITTEE RECOMMENDATIONS

Based on its analysis and overview of the 2022/23 Annual Report as well as the Committee's continued oversight of the DOD, the Committee makes the following recommendations:

**Recommendations to the Minister of Finance:**

a. The Committee wishes to impress on National Treasury the need to continue funding its prior commitments to this Committee over the MTEF as it relates to the funding of border safeguarding technology and border patrol vehicles, the midlife upgrades of the SA Navy frigates and submarines and the upgrading of the SA Air Force airlift capability. The Committee further stresses the importance to keep funding these upgrades beyond the MTEF in order not to undo the progress made through current allocations and to ensure operational stability in terms of prime-mission equipment.
b. The Committee notes a number of adverse findings by the AGSA related to the DOD's procurement systems and its logistics management systems and that these are underscored by outdated ICT systems and infrastructure. The Committee therefore recommends that National Treasury provides the DOD with an additional ring-fenced allocation for the upgrading of ICT systems in the procurement and logistics management environments. The Committee believes this will contribute to less adverse findings and better internal management in the DOD in the long term. The Committee will track such improvements over the next MTSF.
c. The Committee recommends an urgent engagement between the SANDF and National Treasury in relation to funding for environmentally controlled warehouses in the SANDF. These warehouses house a significant percentage of the SANDF's strategic equipment reserves. The failure to store them in the correct environments will not only impact on the SANDF's operational capability, but could also have major long-term financial implications. The Committee recommends that National Treasury ascertain which of these warehouses are of most strategic value and that these be funded through a ring-fenced allocation.
d. The Committee remains concerned about the limited progress in addressing CoE over-expenditure in the DOD and is therefore of the view that a long-term, permanent solution is required through the development of a sustainable rejuvenation model for the SANDF. In line with the Committee's September 2023 Study Tour Report, the Committee recommends to the DOD to develop a new Human Resources management strategy or adjust the current strategy to ensure long-term stability in the SANDF's personnel contingent by focusing specifically on force rejuvenation. It is recommended that this plan be developed *in consultation with National Treasury and that the plan be fully funded* to achieve the desired outcomes. Of specific importance to this recommendation is that the Strategy should create a permanent exist mechanism for older soldiers who will not advance in their military careers and that such an exit mechanism ensures a smooth transition to civilian life through, for example, vocational training, job placement and/or monetary assistance. The Strategy should be adapted for the unique socio-economic conditions in South Africa on the one hand and be fully aimed at creating long-term force rejuvenation and CoE stability in the DOD.

e. Based on a recommendation of Parliament's Joint Standing Committee on Defence (JSCD) on 21 September 2023 in relation to the Military Ombud, the PCDMV requests that the ceiling for CoE be increased marginally to accommodate the current expenditure levels of the Office of the Military Ombud.

**Recommendations to the Minister of Defence:**

a) The Committee notes with anticipation the current development of the Future Strategic Direction that will determine a new level of defence ambition that the country can afford and maintain. The Minister must prioritise this policy development and ensure that it meets the deadline set for the end of the 2023/24 financial year. The Committee further recommends an engagement between the PCDMV, the Ministry and the Secretariat in the first quarter of 2024 to discuss progress in this regard and for the input of Members to be taken into account in the drafting of the Future Strategic Direction.
b) In line with the AGSA finding, the Committee recommends that the Executive Authority and Accounting Officer implement effective control measures to ensure the efficient, effective and economical use of resources to assist the DOD to use available funding to better support key performance areas. In this regard, increased expenditure on Subsistence and Travel, medical outsourcing, allowance payments as well as a lower UN reimbursement to the DOD are of specific concern and need to be addressed. The DOD should submit a written report to the Committee on the following to ensure ongoing oversight of efficient expenditure:
    - A detailed breakdown of Subsistence and Travel expenditure per rank group for 2022/23 and the first six months of 2023/24.
    - A detailed breakdown of all the categories of allowances and related expenditure per programme for 2022/23 and the first six months of 2023/24.
    - A breakdown of medical outsourcing for 2022/23 and the first six months of 2023/24.
    - An overview of expected UN reimbursement in 2023/24 and efforts to improve the reimbursement.

    *The written response should be submitted to Parliament by 22 November 2023.*
c) The DOD continues to incur irregular expenditure related to Project Thusano. The Minister previously indicated to the PCDMV that she wishes to undertake a feasibility study on Project Thusano. The Minister should provide feedback to the Committee on the status of this study and what steps will be taken to prevent further irregular expenditure prior to the Project coming to a close in December 2024. *The written response should be submitted to Parliament by 22 November 2023.*
d) In addition to the recommendation to the Minister of Finance, the Committee recommends that the DOD should reprioritise internal funds to ensure that contracts for environmentally controlled warehouses are put in place. *Progress in this regard should be reported in the 2024/25 Annual Performance Plan of the DOD.*
e) The Committee notes that the DOD has been excluded from Priority 6 of the Revised MTSF 2019. The Committee recommends that the Minister advises for the reintroduction of the DOD to this priority and for it to report on this priority in the next MTSF.
f) The Committee notes that the Reserve Force Council is currently not constituted and urges the Minister to address this shortcoming. *The Minister should provide the Committee with a written response in this regard by 22 November 2023.*

g) With a number of aircraft maintenance contracts being put in place, the Committee recommends that the target for flying hours in Programme 4 be re-adjusted to 15 000 in 2024/25. The Committee further recommends that financial discipline should ensure that all available funds are pushed into achieving this target.
h) The DOD should drastically improve on the low number of sea hours achieved in 2022/23. While the Committee is aware that its previous requests for funding for midlife upgrades will take time to be implemented and to get vessels sea-ready again, the SA Navy is urged to prioritise sea-hours in the remainder of 2023/24 and in 2024/25 and to direct funding towards this priority. Furthermore, the DOD should ensure that it achieves its target for maritime patrols during the remainder of 2023/24 and where the SA Navy is not able to do this, the SA Air Force should patrol South Africa's coastal waters.
i) The Committee noted that aircrew in the SANDF has a vacancy rate of 25% and also noted low aircraft availability, which may impact on the ability of aircrew to remain current in terms of flying licencing requirements. The DOD should provide feedback on the percentage of pilots maintaining their 'current' status and mitigation strategies to ensure that they remain current in terms of flying requirements. *The written response should be submitted to Parliament by 22 November 2023.*

***Report to be considered.***

# 3. BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE PORTFOLIO COMMITTEE ON DEFENCE AND MILITARY VETERANS ON THE 2022/23 ANNUAL REPORT OF ARMSCOR AND THE CASTLE CONTROL BOARD (CCB), DATED 25 OCTOBER 2023.

The Portfolio Committee on Defence and Military Veterans (PCDMV), having considered the 2022/23 annual reports of the Armaments Corporation of South Africa (ARMSCOR) and the Castle Control Board (CCB), on 11 and 18 October 2023 respectively, reports as follows:

## 1. INTRODUCTION

### 1.1 Mandate of the Committee

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

### 1.2 Purpose of the BRR Report

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

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

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

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

## 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 9 February 2023. As was the case in recent years, no direct reference was made to Armscor, but the president again emphasised local production and procurement. This has relevance to Armscor's role in the procurement value chain as the primary acquisition agent for the South African National Defence Force (SANDF). The president's focus on local production also extends to the local defence industry.

### 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. 2021/22 BRRR RECOMMENDATIONS

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

- 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.
- 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 PCDMV recommendation to the Minister of Finance).
- 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 PCDMV recommendation to the Minister of Finance).
- 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.
- 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 PCDMV BRRR, yet little progress has been made.
- 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.
- 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.

## 4. OVERVIEW OF THE 2022/23 ARMSCOR PERFORMANCE

As was reported in previous years, Armscor continues to operate under financial pressure, as is the broader defence industry, due to funding constraints in the defence environment. Of particular concern is the declining 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. Similarly, reduced funding in the DOD also results in a reduction in maintenance of the SANDF’s primary mission equipment, much of which Armscor is responsible for contract management. These factors complicate contract management and the effective maintenance of prime mission equipment. The situation at Armscor is further complicated by the demise of Denel, since Denel contracts represent a large portion 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

Acquisitions for the SANDF and other government departments reflect Armscor’s core function, but remain under pressure due to limited funding available to the DOD to engage in capital acquisition.

The acquisition responsibility of Armscor can be broadly classified into two main categories being, capital acquisition (funded by the DOD's Strategic Defence Account (SDA) and system support and procurement (funded by the General Defence Account (GDA)). 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 2022/23 financial year, Armscor managed and executed contracts worth R17.22 billion (an increase from the R12.409 billion in 2021/22), including the following:

- Maintenance and support contracts worth R4.091 billion (compared to R3.960 billion in 2021/22).
- Capital acquisition contracts managed worth R13.129 billion (compared to R8.464 billion in 2021/22).

The Armscor 2021/22 Annual Report also noted the continued decline of capital projects. Previously, the Armscor Annual Report for 2020/21 noted that the funding allocation for projects on the Special Defence Account (SDA) (Capital Budget) has been continually decreasing over the past four years. Although the capital acquisition portfolio appears to be relatively high, the bulk of this portfolio (R10.402 billion) comprises multi-year Denel orders of which the order values have been accumulating over the past number of years due to non-expenditure on those orders. During the 2022/23 reporting period, there were only eight capital projects with a specific funding allocation for the year. Nonetheless, a total of 22 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.

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. The Project has had some delays due to *Force Majeure* claims related to Covid-19, flooding and civil unrest. At the end of 2022/23, the construction of the Hydrographic Survey Vessel platform and its superstructure had been completed with the exception of the installation of equipment, which is ongoing. All Survey Motor Boats (3 in total that complements the main large Survey Vessel) have been handed over to the SA Navy. Armscor does note, however, that "the main contractor has been experiencing commercial challenges, which are having a negative impact on the programme. In this regard, Armscor has intervened by amending the contract to ease cash-flow management between the main contractor and their sub-contractors."

**Inshore Patrol Vessels (IPVs) (Project Biro)**: By the end of 2022/23, the status of the three vessels were as follows:

- The delivery of the first vessel took place in May 2022 and has been taken into operation by the SA Navy.
- The construction of the second vessel has been completed and the vessel was launched during the reporting period.
- The keel of the third vessel has been laid and manufacturing of the ship sections is nearing completion.

**Midlife upgrade of the SA Navy Frigates (as partially funded following from previous PCDMV BRRR recommendations):**

The project formally established the Functional Baseline (Defining the operational requirement) during 2021. However, due to the reduction of the capital budget, the project has been suspended. In 2022/23, National Treasury has, consistent with the Committee's recommendation, allocated the DOD additional funding of R500 million in 2023/24, R441 million in 2024/25 and R480 million in 2025/26 for the midlife upgrades of the South African Navy's frigates and submarines. These earmarked funds may not be used for any other purposes. The Armscor Annual Report did note that "The current allocation of R1,4 billion is allocated to refit two submarines and one frigate. These projects are managed by the Dockyard."

**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. In 2022/23, Armscor launched an initiative to investigate the possible reviving of the project. The Corporation found that it is feasible to complete the industrialisation and production of the missiles to meet the requirement of the SA Air Force. This could be pursued by following a completely different and unique contracting model and with greater participation from the local defence industry. Armscor is currently pursuing the new approach to the project and by the end of the reporting period, Armscor had completed the development of the model to be followed.

**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**. The third phase of the GBADS programme addresses the Design and Development of the Battle Management, Command and Control, Communications, Computers and Information integration within the Mobile Air Defence System Regiment. The development of this system is currently in process and should be completed with the establishment of a Product Baseline by April 2024.

**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 2021/22 Annual Report noted that the Operational Test and Evaluation of the complete system is expected to commence during June 2022 with completion scheduled for July 2022. However, the 2022/23 Annual Report did not provide an update on whether the said progress was made.

## 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 2022/23, similar to the preceding year, Armscor managed 14 such agreements of which 13 relate to defence acquisition projects. 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 R23.305 billion compared to R23.332 billion in 2021/22. Outstanding DIP obligations are as follows:

- DIP agreements related to the Strategic Defence Packages (1): R0
- DIP agreements related to ongoing defence projects (15): R407 million
- DIP agreements related to the SAPS (1): R17 million

It was previously noted that 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.

Furthermore, the 2022/23 Annual Report notes that, in relation to Project Hotel and its DIP credits, the non-payment of suppliers by the main contractor (SAS) during the previous financial year, continued to persist during the reporting period. The non-payment of sub-contractors by the main contractor has resulted in significantly lower than planned execution of DIP related activities.

### 4.3 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.

Following Covid-19, there has been an increase in foreign sales at Alkantpan and the trend is expected to continue, with 16 tests taking place in 2022/23. Alkantpan is also now offering Unmanned Aerial Vehicles (UAV) testing.

***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 2022/23, Hazmat encountered a decline in manufacturing output (e.g. mining industry) due to load shedding which resulted in a decrease in the need for Hazmat's products. This resulted in Hazmat experiencing its first net loss in several years.

***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 2022/23, Gerotek added 2 new climatic chambers and 3 new training vehicles. Memoranda of Agreement were signed with Johannesburg Water, and Gauteng Province Department of Roads and Transport (GPDRT) for advanced driver training.

***Protechnik Laboratories*** focuses on chemical and biological defence. Protechnik's 2022/23 activities included several projects with the South African Military Health Services on chemical detection technology.

***Ergonomics technologies*** focuses on integrating ergonomics into the SANDF. The 2022/23 Annual Report highlights include:

- Expanding motion capture and biomechanical modelling capabilities.
- With Flamengro, testing body armour response to blast loading via Digital Imaging Correlation.
- Provided ergonomics inputs towards a boot specification for the South African Special Forces.

***Flamengro:*** In 2022/23, Armscor focused on the completion of the 30 x 173 mm medium calibre concept demonstrator for Counter Rocket Artillery and Mortar. Further a design and commissioning of a spin-jig for a pre-fragmented 30 mm projectile fuse testing was achieved, in partnership with Rheinmetall-Denel, Denel Pretoria Metal Pressings and Reutech Solutions. This development has now surpassed technology readiness level 4.

***Armour Development*** conducts 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 2022/23, Armour Development has received new orders for their Armour Protection Technology and Critical Angle projects. The Critical Angle project is executed in partnership with a Swedish company.

***The Institute for Maritime Technology (IMT)*** provides techno-military expertise to support naval decision-making. The IMT indicated a significant concern during 2022/23 in that it had a high number of resignations in key positions that led to 17 vacancies. This may impact on the IMT's ability to deliver services, especially if it has an exodus of highly skilled individuals. Furthermore, previous Annual Reports referred to the successful 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.

***The Intellectual Property Management Division (IPMAD):*** Intellectual Property (IP) created or acquired during acquisition of defence matériel or technology development projects, on behalf of the DOD, is managed by the Intellectual Property Management division (IPMAD). One Armscor IP/technology was exploited in the 2022/23 financial year.

## 4.4 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 2022/23, the Armscor notes that "Capital renewal and equipment upgrades were managed on an ongoing basis, where old and redundant equipment were disposed of and replaced with newer technologies, putting Dockyard at the forefront of the latest technologies. Maintenance of facilities such as the dry-dock, cranes, and synchro lift was also prioritised in terms of procurement and execution."

Updates on the maintenance of specific classes of vessels include:

*Submarines:*

- *SAS Charlotte Maxeke*: The refit is in full swing as the overhaul phase is being concluded.
- *SAS Manthathisi*: Planned maintenance DED was completed and the boat undocked in December 2022. The boat passed post-maintenance trials and is ready to sail.

*Infrastructure upkeep:*

- The divisions provided 100% of ancillary services to the SA Navy. The power generation has taken a strain due to Eskom load shedding disruptions. The Durban synchro lift is operational with limited capacity.

On 13 September 2023, the PCDMV conducted a visit to the Armscor Dockyard. During the visit, Armscor noted the challenges and mitigations reflected in the table on the next page in terms of the Dockyard. Following the visit to the Dockyard, the Committee made the following recommendation: *While the Committee is aware of the funding constraints that the Dockyard is subjected to, the Committee recommends that the Entity prioritises the rejuvenation of its building infrastructure utilising funding made available by Armscor and the DOD. In addition, thereto, the Committee recommended that the Dockyard makes use of available commercial opportunities with the SA Navy taking priority.*

## 5. HUMAN CAPITAL MANAGEMENT

At the end of 2022/23, Armscor, including the Armscor Dockyard, had a staff complement of 1 374, which is in line with the previous financial year (1 375).

In terms of Employment Equity, 88.06% of the Armscor Human Resources contingent is African, Coloured and Indian, which is an increase from 87.05% in 2021/22 (and 83.48% in 2020/21). The 2022/23 Annual Report further indicates that 40.76% of employees are female, which also represents an increase from the 40.0% in the preceding year. Armscor's Employment Equity Plan's target for 'black representation' as well as female representation has accordingly been achieved. Furthermore, Armscor's business is centred within the following occupations: Science, Engineering, Technical and Technical Support and the total number of employees within this category is currently 49,13%

In terms of the Human Resources turnover rate, the corporate target for controllable staff turnover in technical positions, excluding retirements, should be less than or equal to 4%. However, turnover in technical functions significantly exceeded this:

- Science – 16,67%
- Engineering – 5,67%
- Technical – 3,12%.

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 38 students with bursaries to study at different institutions, of which the majority were in engineering and science. This is higher than the 29 bursaries reported in the previous financial year.
- Defence Engineering and Science University Programme (DESUP). The number of DESUP students for 2021/22 was not indicated in the 2022/23 Annual Report.
- Talent Development Programme. For 2022/23, 32 candidates participated in this programme, which is slightly higher than the 31 who participated in the preceding year.

## 6. PERFORMANCE OVERVIEW

Armscor has two categories of performance measurement namely:

- *Performance against the Service Level Agreement Outputs*. (10 of 14 targets set for 2022/23 achieved [71.42% targets achieved]).

- *Performance against Group Strategic Outputs.* (17 of 21 targets set for 2022/23 achieved [80.95% targets achieved].

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

**Selected Key Performance Indicators not achieved/partially achieved by Armscor in 2022/23**

| Objective | KPI | Goal | Achievement | Comments |
|---|---|---|---|---|
| *Performance against the Service Level Agreement Outputs* | | | | |
| **Acquisitions and procurement** | Percentage of DOD system support and procurement requirements converted into orders placed. | 95% | 90.03% | **Target not achieved** DOD requirements to the value of R997,30m were received. Armscor committed R978,77m of the above mentioned funds resulting in an achievement of 90,03%. |
| **Defence Industrial Participation (DIP)** | Value of DIP credits to be granted to overseas suppliers. | R111.31 million | R23.62 million | **Target not achieved** |
| **Defence Technology, Research, test and evaluation requirements for the DOD** | Percentage of execution of technology requirements. | 95% | 51.68% | **Target not achieved** The performance was due mainly to the orders on the R&D divisions being placed late in the Financial Year (2022/23). As a result, there was insufficient time for the R&D Divisions to execute all the contracted work and invoice within the 2022/23 financial year. |
| **Dockyard** | Percentage of compliance to project finance. | 90% | 75% | **Target not achieved** This resulted from non-spending of the special project FA approved in October 2022. (Target also not |

| Objective | KPI | Goal | Achievement | Comments |
|---|---|---|---|---|
| *Performance against the Service Level Agreement Outputs* | | | | |
| | | | | achieved in the previous financial year) |
| *Performance against Group Strategic Outputs* | | | | |
| **Infrastructure renewal** | Appoint an Enterprise Resource Planning Service Provider | 31 May 2023 | - | **Target not achieved** The due date for order placement was not achieved. The ERP Request for Bid (RFB) was advertised on 17 March 2023 and is now closed. Delay due to Supreme Court decision about procurement regulations. |
| **Infrastructure renewal** | Implementation of the approved application system renewal plan. | 80% | 0% | **Target not achieved** The implementation of the ERP is dependent on the successful appointment of the ERP service provider. (Target was also not achieved in three previous years) |
| **Stakeholder engagement** | Stakeholder Survey (conducted every second year). | 1% improvement | 0.1% decline | **Target not achieved** Stakeholders' satisfaction is rated 7,2. for the 2022/23 financial year. This is 0,1% decline as compared to the 7,3 of 2020/21 financial year. |
| **Transformation of corporation** | Controllable staff turnover in technical positions, excluding retirements (less than or equal to 4%). | <4% | 4.66% | **Target not achieved** There were 25 (out of 536 technical positions) resignations during the reporting period. |

## 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 R4.6 million
- **2022/23: A surplus of R167.98 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 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|
| Sale of goods and services | R301.8 million | R268.8 million | R276.4 million |
| Government grants | R1.113 billion | R1.257 billion | R1.270 billion |
| Interest | R89.1 million | R86.2 million | R126.3 million |
| Rental | R71.4 million | R62.7 million | R59.1 million |
| Other income | R15.1 million | R21.0 million | R21.6 million |

The following additional financial matters should also be noted:

- Employee-related costs decreased from R1.2 billion in 2021/22 to R1.06 billion in 2022/23.
- Investments in joint ventures increased from no allocation in 2021/22 to R6.235 million in 2022/23.
- Payables from non-exchange transactions increased from R48.7 million in 2021/22 to R184.3 million in 2022/23.
- Sale of goods and services decreased from R53.7 million in 2021/22 to R23.9 million in 2022/23.
- Debt impairment losses increased from R7.7 million in 2021/22 to R44.0 million in 2022/23.

Payment to the executive directors:

- Payment to the executive director positions (CEO and CFO) *increased* from R8.255 million in 2021/22 to R9.015 million in 2022/23 (a 9.6% increase).
- The main contributor to the increased payment to executive directors relates to an increased payment for 'other benefits' from R1.387 million in 2021/22 to R1.816 million in 2022/23. *Note: 'Other benefits' include bonus (13th cheque), performance related payments and leave capitalisation.'*
- The largest contributor was the increase in 'other benefits' for the CEO that increased from R898 000 in 2021/22 to R1.210 million in 2022/23.

Payment to non-executive directors:

- Fees and Committee remuneration to non-executive directors *decreased* from R4.231 million in 2021/22 to R3.995 million in 2022/23.

Payment to executive committee members:

- Payment to executive committee members *increased* from R17.6 million in 2021/22 to R23.4 million in 2022/23. The number of executive committee members increased from six in 2021/22 to eight in 2022/23.

**Fruitless, wasteful and irregular expenditure**

In 2022/23, **fruitless expenditure** amounting to R353 000 was incurred, which is much lower than the R13.4 million incurred in 2021/22. The closing balance for fruitless expenditure by the end of the financial year, and taking into account the previous financial year, was R13.7 million.

**Irregular expenditure** of R27.5 million was incurred in 2022/23, which is higher than the R17.5 million in 2021/22.

In terms of **Consequence Management**, Armscor notes:

- A criminal case against officials with regards to fraudulent procurement processes that were under assessment in the previous year is in process with the Military Police and Director Public Prosecution Provincial.
- Disciplinary action was taken against six officials for irregular and fruitless expenditure incurred due to non-compliance to procurement regulations and losses suffered by the company. Three of the officials were dismissed whilst two resigned from the company. The disciplinary matter for one official is in progress.

**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 2022/23.

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

- Effective and appropriate steps were not taken to prevent irregular expenditure as required by section 51(1)(b)(ii) of the PFMA. The majority of the repeat irregular expenditure was caused by awarding of quotations that did not indicate the stipulated minimum threshold for local production and content.
- Effective and appropriate steps were not taken to collect all revenue due, as required by section 51(1)(b)(i) of the PFMA.
- Bid documentation for procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production
- Senior management did not exercise sufficient oversight responsibility over performance 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 performance report. This resulted in a material adjustment to the annual performance report.

The Military Police Unit is investigating allegations of procurement irregularities at the Dockyard division. These investigations were still in progress at the date of this report.

## 8. COMMITTEE OBSERVATIONS: ARMSCOR

The Committee made the following general observations on the 2022/23 Armscor Annual Report:

a. The Committee's main observation and discussion point revolved around the fact that the high levels of achievement by Armscor in contract placement and managing do not reflect in the reality on the ground. In specific relation to the SA Air Force and SA Navy capabilities, it is

evident that flying hours and sea hours are drastically decreasing, yet Armscor achieved most of its targets related to contract management. The Committee therefore questioned the value for money derived from these maintenance contracts as delivery does not seem to equate to actual operational equipment. Members noted that there is thus clearly a need for a results-based model in relation to the work of Armscor and the DOD.

b. The Committee noted the ongoing need for the refits of SA Air Force and SA Navy prime mission equipment. Armscor informed the Committee that fiscal constraints remain a major hindrance to such programmes. For example, Armscor noted that one of the SA Air Force aircraft types for which Denel is responsible, they now received the same allocation as in 2007, which clearly means that high level of maintenance cannot be afforded.
c. The Committee welcomed Armscor's indication of its quick response to place the contracts for the maintenance of the Frigates and Submarines between July and October 2023 following National Treasury's provision of additional funds as a result of the PCDMV's intervention.
d. The Committee expressed its concern that there are currently no support contracts in place for the Oryx and Rooivalk helicopters, but noted that new contracts are set for late in 2023.
e. Members requested further details on the full payment of board members, inclusive of all costs to Armscor.
f. The Committee noted progress in recent months regarding decisions on Project Hoefyster, but questioned how many actual vehicles will be delivered under the new plans. Members also noted that even if Project Hoefyster, in its scaled-down format, were to be completed, it does not negate the need for the Ratel Fleet to be maintained and modernised.

## 9. COMMITTEE RECOMMENDATIONS

Based on its analysis and overview of the 2022/23 Armscor Annual Report and other oversight activities, the Committee makes the following recommendations:

**Recommendation to the Auditor-General of South Africa:**

a) The Committee remains concerned about the effectiveness of the entire prime-mission equipment repair and maintenance value-chain, whether value for money is derived, and whether current contracting systems allow for optimal efficiency in a military environment where multi-year maintenance and repair contracts are required. The Committee recommends that the AGSA's office should provide insights and should consider conducting a performance audit in relation to the repair and maintenance selected contracts of the SA Air Force as well as Project Hoefyster managed by Armscor and executed by the SANDF. The selection of SA Air Force contracts should reflect both maintenance contracts with Denel as well as external service providers. The AGSA is advised to make use of auditors with the necessary understanding of this complex military environment. The AGSA should report back to the PCDMV in 2024 on its findings and specifically on (1) whether value for money is derived, (2) findings on the mismatch between contract management achievement and actual prime-mission equipment availability, (3) whether current contracting systems allow for optimal efficiency in a military environment where multi-year maintenance and repair contracts are required and (4) proposed recommendations to improve efficiencies that will ensure prime-mission equipment readiness. The AGSA should indicate to the Committee in writing by 22 November 2023 what the process will be and when it can expect feedback from the AGSA's office.

b) The Committee reminds the AGSA to ensure continuous engagements with the internal auditing divisions of the DOD and defence entities as a means of providing support towards improved audit outcomes.

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

a. The Committee noted that the Defence Industry Lekgotla which the Minister planned has not taken place as yet. The Committee urges the Minister to prioritise this engagement with the industry and also liaise with the PCDMV to form part of deliberations.
b. The Committee wishes to thank the current Armscor Board for its continuous engagement with and support to the Committee throughout its term in office.
c. The Committee encourages the Minister to prioritise the appointment of the new Armscor Board, given that the term of the current Board comes to an end in November 2023. The Minister is also urged to note the Committee's sentiment that Armscor should be proficient in both effectively supporting the DOD, as required by the Armaments Corporation of South Africa Act (No 51 of 2003), as well as pursuing commercial opportunities to ensure its sustainability. It is the Committee's wish that the Board's composition and expertise should reflect this dual requirement and that the support to the DOD not be neglected.
d. The Committee noted that, in the 2022/23 financial year, Armscor managed and executed contracts worth R17.22 billion. Armscor should provide the Committee with a breakdown of the value per contract (maintenance and capital acquisition), as of October 2023. *The details and value of the contracts should be provided to the Committee by 22 November 2023*.
e. Armscor should report to the Committee whether new contracts have been negotiated for the Oryx and Rooivalk helicopter fleet. *The details and value of the contract should be provided to the Committee by 22 November 2023*.
f. Armscor should provide the Committee with a further written update on the status of Project Hoefyster, including the proposed fleet size to be produced under Phase 2 of the project, following Denel's costing of Phase 2 which should be finalised by December 2023. *The written feedback should be provided to the Committee by 31 January 2024.*
g. Armscor should provide the Committee with a breakdown of all costs related to the full payment of Board members, including additional benefits such as travel and other allowance not reflected in the Annual Report.
h. Armscor is urged to ensure, thorough proactive planning with the DOD, that in future, maintenance contracts are negotiated and ready for implementation by the time existing contracts come to an end.

## 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 following:

- An overview and Assessment of Financial Performance with specific reference to the appropriation statement for the 2022/23 financial year; financial statements; and findings of the Auditor General of South Africa (AGSA).
- An overview and Assessment of Programme Performance focusing on the four Programmes.
- CCB Governance and Human Resources.
- Committee observations and recommendations.

## 2. STRATEGIC PRIORITIES OF GOVERNMENT AND THE CCB.

For the last three 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 referred 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." This trend continued in the 2022/23 Annual Report of the CCB which highlighted the lingering impact of the pandemic on tourism in South Africa, including the Castle.

The 2022/23 Annual Report of the CCB referred to its Strategic Outcome oriented goals per programme as follows:

- Administration: The programme ensures clean, sound administration and good corporate governance.
- Maintenance and Conservation at the CGH: The intended outcome of this programme is to ensure the proper maintenance, preservation, interpretation and showcasing of the history of the CGH.
- Maximising the Castle's tourism potential: The intended outcome of this programme is to optimise the tourism and revenue generation potential of the CGH.
- Increase Public Access to the CGH: This program's intended outcome is to optimize public access and increase the CGH's public profile and positive perception across all community sectors.

The CCB Chairperson, Lt Gen XB Ndlovu, notes the following strategic risks/opportunities to the CCB:

- The need to recover from the impact that Covid-19 had on the tourism industry and the related impact on revenue for the CCB. The key to overcoming this challenge is the aggressive marketing and promotion of the Castle.
- Securing the perimeter fence has become imperative if it wants to position the Castle as a UNESCO World Heritage site.
- The use of technology to cost-effectively maintain, enhance, and promote the Castle of Good Hope's built and intangible heritage. A Memorandum of Understanding with SITA assists in this regard.
- The Board commits to again attain a clean audit (this after the CCB failed to obtain a clean audit in 2022/23).

## 3. SUMMARY OF PREVIOUS RECOMMENDATIONS OF THE COMMITTEE

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

a. 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.
b. 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.

c. 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.
d. The Committee commended all DOD role-players for its support to the CCB and encourages them to continue to support the CCB.
e. 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.
f. 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.
g. 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.

## 4. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE

### 4.1 Financial performance for 2022/23

As in the previous financial year (2021/22), the CCB recorded significant underspending in the 2022/23 financial year. The under-expenditure of R1.646 million for 2022/23 (R2.7 million in 2021/22) may at first seem like a saving, but it has to be viewed against the background of the R6 million financial support from the DOD. It can therefore be questioned whether the financial assistance should not be decreased permanently.

**Table 1: Budget for FY2020/21 to FY2022/23**

| | **2020/21** | | **2021/22** | | **2022/23** | | |
|---|---|---|---|---|---|---|---|
| | **R'000 (*R thousand)*** | | | | | | |
| | Budget | Budget | Budget | Actual Expenditure | Budget | Actual Expenditure | (Over)/Under Expenditure |
| Administration | 4 711 | 4 711 | 8 450 | 6 203 | ***8 957*** | ***7 441*** | ***1 516*** |
| Preservation and protection | 304 | 304 | 660 | 438 | ***700*** | ***639*** | ***61*** |
| Tourism Promotion | 0 0 0 | 0 0 0 | 85 | 5 | ***90*** | ***22*** | ***68*** |
| Increased public profile | 150 | 150 | 243 | 65 | ***258*** | ***257*** | ***1*** |
| **Total** | **5 165** | **5 165** | **9 438** | **6 756** | ***10 005*** | ***8 359*** | ***1 646*** |

As noted by the CCB Chairperson, there is also a need for the Castle to focus on increasing its revenue generation. This will enable the Castle to, once again, become self-sufficient as in the past where it did not require funding from the DOD. Table 2 below highlights the revenue generation of the Castle over the past 3 financial years. Noteworthy is the increase in financial assistance from the DOD from R5.5 million in 2021/22 to R6.0 million in 2022/23.

**Table 2: Revenue FY 2020/21 - 2022/23**

| | **2020/21** | **2021/22** | **2022/23** |
|---|---|---|---|

| Source of revenue | Estimate | Amount collected | Estimate | Amount collected | Estimate | Amount collected |
|---|---|---|---|---|---|---|
| **Sales** | 1 100 | 475 | 2 586 | 1 075 | **2 559** | **2 507** |
| **Rental income** | 1 056 | 255,4 | 1 100 | 2 100 | **1 212** | **1 910** |
| **Other income** | 9 | 555,2 | 102 | 46 | **74** | **441** |
| **Interest income** | 0 | 34,4 | 150 | 107 | **160** | **293** |
| Grant | 3 000 | 4 900 | 5 500 | 5 500 | **6 000** | **6 000** |
| **TOTAL** | **5 165** | **6 220** | **9 438** | **8 828** | **10 005** | **11 151** |

The CCB Strategic Outlook highlights the importance of revenue generation for the CCB. The CCB noted that "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. We appointed a new Restaurateur in December 2022, promising to deliver an excellent service to our clients who can spend in other areas too. The focus is on high-yield commercial events for the site, thereby supporting the objectives of Project Koba-Tlala."

### 4.2 Findings of the Auditor-General of South Africa

The Castle did not receive a clean audit in 2022/23 (as it has managed to do in the past), but received an **Unqualified Audit with findings** from the Auditor-General of South Africa (AGSA).

The AGSA selected aspects of Programme 2 – maintenance and conservation at Castle Control Board, Programme 3 – maximising the castle's tourism potential and Programme 4 – increase public access to the Castle of Good Hope for its audit. The AGSA draws the attention of Parliament to the following matters:

- The AGSA identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Programme 3.
- Some of the quotations were accepted from prospective suppliers who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by Treasury Regulation 16A8.4 and paragraph 7.2 of National Treasury Instruction 03 of 2021/2022.
- Some of the quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order.
- Management did not to ensure that the appropriate legislation was applied to ensure that a supplier's tax status is verified at the time of the award and suppliers declare their interest.

## 5. OVERVIEW AND ASSESSMENT OF PROGRAMME PERFORMANCE

The CCB set a number of targets in its Annual Performance Plan (APP) for 2022/23 for its various programmes. The sections below provide an overview of performance focus areas, specifically where targets were not met.

***Programme 1: Administration***

The CCB achieved most of its targets for Programme 1 (Administration), excluding the target to reduce irregular expenditure as there was an increase in irregular expenditure for the year under review. Achieved targets for the programme include the following:

- Four policies approved (Gift Policy; Asset Management Policy; SCM Policy; Delegations).
- 70% reduction in the number of audit findings.
- Annual Performance Plan (APP) submitted in February 2022.
- Annual Report submitted timeously.
- The CCB's four Quarterly Reports were submitted on the DPME system.
- CCB CEO performance agreement submitted to the Board for approval.
- CCB Members' performance agreements submitted.
- Submission of all reports and attendance of committee meetings in support of parliamentary activities.
- The CCB did not incur fruitless and wasteful expenditure.

***Programme 2: Maintenance and conservation of the Castle***

The CCB achieved all its targets for Programme 2, including the following:

- 59 preventative and regulation maintenance projects completed.
- Four tangible heritage projects implemented.
- 64 non-commercial cultural events hosted.
- Seven exhibitions hosted.

***Programme 3: Maximising the Castle's tourism potential***

The CCB achieved four of the six targets set for Programme 3. Achieved targets included:

- Generating R10 million through tourism events against a target of R8.829 million (including the DOD grant).
- 42 Film and fashion shoots at the Castle.
- One tourism infrastructure upgrade.
- Two joint marketing initiatives undertaken

Targets that were **not achieved** in Programme 3 include the following:

- The Annual Number of visitors were 73 765 against a target of 120 000.
- 18 Commercial events were held at the Castle against a target of 20.

In relation to Programme 3, the AGSA identified material misstatements in the annual performance report submitted for auditing for Programme 3. This may imply that more targets were not achieved and the CCB should be questioned on the AGSA's findings and the impact on performance in Programme 3.

***Programme 4: Increased public access to the Castle***

The CCB achieved all four targets set for Programme 4 which included the following:

- Reaching 1.8 billion number of potential visitors reached through the media.
- The Castle hosted 18 student interns.
- The Castle hosted 19 heritage educational programmes organised for women, unemployed youth, disabled and traditional communities.
- The Castle hosted 14 heritage programmes organised for Military Veterans.

## 6. HUMAN RESOURCES

The CCB's 2022/23 Annual Report starts with the exact same summary of its Human Resources concern as in the previous Annual Report (2021/22). The two Annual Reports note 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 [National Treasury] and the AGSA and delayed any decisiveness as to the ultimate civilian management structure of the CCB.*" It stated further in both reports that the CCB has now successfully resolved this matter but has been put on the back foot with the departure of three managers and two other staff members.

By the end of 2022/23, the CCB Management team included 26 full-time CCB-remunerated staff members, which is a decrease from the 28 full-time employees in the previous year. The reduction in personnel was at the semi-skilled and unskilled level. There are currently two vacancies at the senior management level, which remain from the previous year.

During 2022/23, no performance rewards were paid. Training costs for the year amounted to R5 695.00 for eight employees. In terms of labour relations, one verbal warning and eight written warnings were issued to staff.

## 7. COMMITTEE OBSERVATIONS: CASTLE CONTROL BOARD

The Portfolio Committee made the following Observations on the 2022/23 Annual Report of the CCB:

a. The Committee expressed its concern that the CCB failed to maintain a clean audit outcome from the AGSA as it has done in previous years.
b. Members again raised the ongoing matter relating to the security of tourists at the Castle and highlighted the need for fencing and other security measures to be enhanced.
c. Related to the security matter, the Committee again expressed the need for all relevant parties and stakeholders to resolve the matter of informal dwellings being constructed next to the Castle. The Committee was informed that it is established that the area occupied belongs to the Department of Public Works and Infrastructure and that further steps are being taken to address the matter.
d. The Committee welcomed the increased number of tourists visiting the Castle, but also noted that this is still not aligned with pre-Covid levels and further efforts will have to be made to increase the number of visitors to the Castle.
e. The Committee highlighted the need for continuous maintenance of the buildings that form part of the Castle Complex.
f. The Committee noted the increased allocation from the DOD to the CCB for 2022/23 and, given the underspending of the Castle, questioned whether this should not be lowered.
g. The Committee noted comments made by the CCB that the issue around Reserve Force guards for the Castle has largely been resolved.

## 8. COMMITTEE RECOMMENDATIONS: CASTLE CONTROL BOARD

The Portfolio Committee, after considering the 2022/23 Annual Report of the CCB, makes the following recommendations:

a) The Committee recommends that the CCB urgently put in place the necessary measures to ensure that it once again achieves a clean audit in 2023/24.

b) The Committee recommends that the CCB reconsider its current approach to attracting tourists as it has not been able to recover from lost market share since the Covid-19 pandemic. The Committee specifically notes the limited spending on marketing and urges the CCB to ensure that it implements an active strategy to attract more foreign and domestic tourists.
c) The Committee recommends further engagements between the CCB, the Department of Public Works and Infrastructure and the City of Cape Town regarding the informal settlers that occupy an area adjacent to the Castle. *The CCB should provide the Committee with written feedback on progress in this regard by 22 November 2023.*
d) The Committee recommends that the CCB decreases its reliance on the transfer (grant) from the DOD and once-again become self-reliant. To this extent, the Committee notes observations made by the CHG CEO that the transfer will be decreased over time. *The CCB should provide the Committee with a written plan, by 22 November 2023*, of the reduction in DOD transfers over the MTEF and how it envisages that it will fill the fiscal gap.

***Report to be considered.***

# 4. BUDGETARY REVIEW AND RECOMMENDATIONS REPORT (BRRR) OF THE PORTFOLIO COMMITTEE ON HUMAN SETTLEMENTS, 25 October 2023.

The Portfolio Committee on Human Settlements (the Committee), having considered and assessed the performance of the Department of Human Settlements (the Department) and its Entities for the 2022/23 Financial Year, and the associated briefs from the office of the Auditor-General South Africa (AGSA) and the Department of Planning, Monitoring and Evaluation (DPME) on 11, 13 and 18 October 2023, reports as follows:

## 1. INTRODUCTION

The Department' mission is to facilitate the creation of sustainable human settlements and improved quality of household life. The vision of the Department is a nation housed in sustainable human settlements. Its mandate and core business are derived from section 26 of the Constitution, 1996 (which guarantees the right to adequate housing), policies applicable to government, such as Breaking New Ground, and legislation such as the Housing Act, (Act No. 107 of 1997).

The Department has two approaches to address housing needs, namely, through the scaled delivery of subsidised housing for low-income households, and through striving to create an environment conducive for operations of the subsidised housing market within the larger economy. The Medium-Term Strategic Framework (MTSF) 2019- 2024 identified several priorities in relation to human settlements to realise the vision of sustainable human settlements and an improved quality of household life.

### 1.1 MANDATE OF THE COMMITTEE

The Committee's mandate is to maintain an oversight responsibility that ensures a quality process of scrutinising and overseeing government's action. It is driven by the ideal of realising a better quality of life for all people in South Africa. It is also required to facilitate public participation as well as to oversee compliance with regulatory legislative frameworks related to human settlements.

In brief, the Committee:

- Considers legislation referred to it.
- Conducts oversight of any organs of state and constitutional institutions falling within its portfolio.
- Considers international agreements.
- Considers budget of Department and Entities falling within its portfolio.

## 1.2 MANDATE OF THE DEPARTMENT

The mandate of the Department is to determine, finance, promote, co-ordinate, communicate, and monitor the implementation of housing policy and the provision of human settlements.

Since the formulation of the Comprehensive Housing Plan in 2004, the Department has conducted various initiatives to enhance the creation of comprehensive, integrated, co-ordinated, sustainable human settlements, and quality housing. These initiatives include the review of the National Housing Code which determines national norms and standards in respect of housing development. In keeping with this responsibility, the Department has set short-, medium-, and long-term human settlements development goals towards breaking of apartheid spatial patterns while promoting access to adequate housing, affordable services in better living environments, and a more functional equitable residential property market.

Outcome 8 of the government's outcome-based service delivery approach is focused on the mandate of the Department. This mandate is to create sustainable human settlements and work towards improving the quality of household life. Section 26 of the Constitution of the Republic of South Africa (1996) and the Housing Act (No. 107 of 1997) are still considered the foundation for the operational models and the spending focus of the Department.

## 1.3 OBJECTIVES OF THE DEPARTMENT

In line with aims of the National Development Plan (NDP), the objectives of the Department are to achieve visible results from effectively coordinated spatial planning systems by 2030 and this would be done through:

- The development of the Spatial Master Plan for Human Settlements that would direct investments to the priority precincts.
- Implementation of Catalytic Projects.
- Prioritising, targeting, and focusing resources (financial and others) towards upscaling delivery.
- Supporting and encouraging government and private sector collaboration and integration.
- Promoting the participation of youth and women, youth and persons living disabilities in human settlements development programmes.
- Scaling up delivery on the Informal Settlements Upgrading Programme.

## 2. PURPOSE OF THE BRRR

In terms of Section 5 of the Money Bills Amendment Procedures and Related Matters Act, (No. 9 of 2009) the National Assembly, through its Committees, must annually compile BRRRs that assess service delivery and financial performance of Departments and may provide recommendations on forward use of resources. The BRRR is also a source document for the Committees on Appropriations when considering and making recommendations on the Medium-Term Budget Policy Statement (MTBPS).

### 2.1 METHODOLOGY

The Committee compiled the 2022/23 BRRR using the following documents:

- The NDP: Vision for 2030.
- Medium Term Strategic Framework.
- 2022/23 State of the Nation Address (SONA).
- Strategic Plans of the Department and its Entities.
- Annual Performance Plans and Annual Reports of the Department and its Entities.
- Assessment made by the DPME and the AGSA outcomes of audit findings.

## 3. NDP VISION 2030

In relation to the NDP 2030, the Department has the following strategic priorities:

- Respond systematically, to the entrenched spatial patterns across all geographic scales that perpetuates social inequality and economic inefficiency.
- Implement strategically the chosen catalytic interventions to achieve spatial governance.
- Achieve a creative balance between spatial equity, economic competitiveness, and environmental sustainability.
- Expand personal freedoms by providing the residents of South Africa with greater choice of where to live.
- Support individuals, communities, and the private sector in engaging with the state on the future of the spaces and settlements in which they live and work while streamlining processes to enable local governments to implement strategic spatial intervention.
- Promoting the participation of Women, Youth and Persons with Disabilities in human settlements development programmes.
- Scaling up delivery on the informal Settlements Upgrading Programme.

## 4. THE 2019-24 MEDIUM TERM STRATEGIC FRAMEWORK (MTSF)

The 2019- 2024 MTSF is both a five-year plan implementation plan and an integrated monitoring framework. The plan focuses on the seven priorities and related interventions of the sixth administration of government. The integrated monitoring framework focuses on monitoring and outcomes, indicators, and targets towards the achievement of priorities. The MTSF promotes alignment, coordination, and ultimately full integration of all development planning instruments into an integrated framework without duplication, role conflict and coordinated development in all spheres of government. The MTSF is structured into priority outcomes which cover the focus areas identified in the NDP Chapters.

The focus of the MTSF 2019-24 for the Human Settlements Sector is to implement a coherent programme to transform human settlements and to ensure that delivery of housing is used to restructure towns and cities. To strengthen the livelihood prospects of households and overcome spatial apartheid patterns. To advance this vision, the MTSF 2019-24 has three interrelated outcomes with clear targets:

- Spatial transformation through multi-programme integration in priority development areas (PDA's).
- Adequate housing and improved quality living environment.
- Security of tenure through the provision of title deeds.

The following are specific MTSF 2019-24 targets for the Human Settlements Sector:

- Deliver 450 000 subsidised housing units.
- Approve 20 000 applications to purchase units for Finance Linked Individual Subsidy Programme (FLISP).
- Deliver 300 000 serviced sites.
- Deliver 30 000 social housing/ rental housing units in PDAs.
- Deliver 12 000 Community Residential Units (CRU)/ rental housing units in PDA's.
- Upgrade 1 500 Informal Settlements to Phase 3.

### 4.1 THE STRATEGIC FOCUS FOR HUMAN SETTLEMENTS

Targeted infrastructure investment is critical for economic growth as well as contributing towards social protection and community development. The focus is on infrastructure development to support economic growth and enhance social protection. The Human Settlements Strategy is grounded on the following:

- Amassing government investment through investment in identified areas.
- Infrastructure development to support both economic growth and enhance social protection.
- Improve neighbourhood design to contribute to a better quality of health and well-being of households.
- Investment in public spaces (walkways, public transport stops, streets, squares, parks, trading spaces, food gardens and the like).
- Supporting the South African construction industry and the real estate industry.
- Supporting job creation and transformation through the appointment of local designated groups.
- Evidence-based directed and big data management.

## 5. SONA 2022/23: ANALYSIS OF KEY PRIORITIES PERTAINING TO THE DEPARTMENT

During the 2023 SONA address, the President referenced human settlements sector in three aspects, namely:

- Infrastructure projects: In January 2023, projects worth R232 billion were under construction and projects worth nearly R4 billion were completed. Completed projects included new human settlements in Gauteng.
- Title deeds: During 2023, steps would be taken to unlock massive value for poor households by expediting the provision of title deeds for subsidized houses. This would include processing the current backlog of title deeds, of over 1 million houses, with an estimated value of 242 billion in assets.
- State-owned land for human settlements: The Department of Public Works and Infrastructure had finalized the transfer of 14 000 hectares of state land for housing.

## 6. DEPARTMENT AND ENTITIES PERFORMANCE AND NON-PERFORMANCE

The Department reported on several achievements in its provision of sustainable and integrated human settlements. This includes the following:

- Supported provinces to implement housing programmes.
- Responded to housing emergencies.
- Provided support to provinces to finalise a majority of the PHC.
- Analysed investments made in key programmatic interventions.
- Monitored projects and the MTSF sector standardised indicators.
- Engaged stakeholders.

The Department increased the rezoning of land within the PDAs, land, and buildings acquired near the PDAs. This land acquired from the Department of Public Works and Infrastructure, and buildings from the South African Broadcasting Corporation building located in Sea Point, Cape Town, and two ESKOM buildings which are in Braamfontein, Johannesburg and Kimberly respectively. The acquisition of these buildings was part of the efforts to regenerate inner cities, while ensuring access to adequate housing.

The Department launched the First Home Finance (FHF) programme as a revamped version of the erstwhile FLISP, a move that would see more people gain easy access to help finance their first homes. The programme was designed to support first-time home buyers earning between R3 501 and R22 000 a month. A total of 5 811 households received financial assistance towards purchasing their very first homes. With respect to the Social Housing Programme (SHP), a new Consolidated Capital Grant (CCG) quantum of R328 687 both institutional and subsidy and Restructuring Capital Grant was implemented. The income band for SHP beneficiaries was also increased from R15 000 to R22 000. A total of 3 182 social housing units were delivered in PDAs, cumulatively accounting for 10 819 units over the MTSF-period.

A total of 3 871 serviced sites were delivered during 2022/23, contributing to the 173 392 overall for the MTEF period – against a target of 300 000 for the MTEF period. A total of 3 445 blocked and incomplete projects were also identified in collaboration with the provinces. As a result, 103 projects were resuscitated and placed back in the business plans of the relevant provinces during the 2022/23 reporting cycle. The balance of these projects was earmarked for unblocking in the 2023/24 and 2024/25 financial years. However, in instances where unblocking would not be workable, the predetermined beneficiaries would be allocated to new and current projects.

Efforts were made to issue title deeds to beneficiaries to ensure security of tenure. However, the performance of this programme was notably less than projected. The Department had planned to deliver 397 562 title deeds, but only 25 235 was achieved. The challenges impacted on the Department’s performance included the following:

- Outstanding township establishment plans.
- Family disputes amongst qualifying beneficiary estates.
- Provinces planning more than they can deliver.
- Inadequate budgeting by Provinces.
- Deceased estates.

## 7. THE DEPARTMENT'S ALLOCATIONS - MTEF ALLOCATIONS

### 7.2 Expenditure of the Department

While expenditure remained high, the performance achievement rate had not recovered to its per-Covid-19 period when the Department managed to meet 83% of its targets. Expenditure remained in the upper 90%. The Department met 27 out of 39 targets for 2022/23, resulting in a 58% performance achievement rate. The Department's performance was to a significant extent influenced by compliance and response times from provinces. Performance target achievement rate was not aligned with the expenditure rates recorded over the past five years. By the end of the 2022/23 financial year, the Department had spent R32.9 billion out of the final appropriation of R33.5 billion (or 98,1%). The Department therefore underspent by R 608 million.

### 7.3 Quarterly Performance per Programme

#### 7.3.1 Programme 1 (Administration)

This programme received an appropriation of R562,6 million, of which it spent 85,8% (compared to 84,07 % in 20221/22). It therefore underspent by approximately R79 million (18,9%).

#### 7.3.2 Programme 2 (Integrated Human Settlements Planning and Development)

This programme received an appropriation of R21.97 billion, of which it spent 99.7% by the end of the 2022/23 financial year. Actual expenditure was therefore R57.2 million less than projected (0.3%). Underspending was attributed to three main areas, namely Compensation of Employees, Goods and Services and Expenditure for Capital Assets.

#### 7.3.3 Programme 3 (Informal Settlements)

This programme received a total appropriation of R9.3 billion (compared to R8.4 billion in 2021/22), of which it spent R8.9 billion (or 95.3%). This programme therefore underspent by R430 million. Underspending was mainly attributed to underspending on Compensation of Employees, Goods and Services, Transfers and Subsidies and Expenditure for Capital Assets.

### 7.3.4 Programme 4 (Rental and Social Housing)

This programme received an appropriation of R947.6 million for the 2022/23 financial year (compared to R 936, 7 million in 2021/22), of which it spent R906,8 million (95.7%). The programme therefore underspent by R40.6 million (or 4.3%) in 2022/23, primarily due to underspending on Goods and Services and Expenditure for Capital Assets.

### 7.3.5 Programme 5 (Affordable Housing)

This programme received a total appropriation of R594,8 million in 2022/23, of which it spent R581,9 million (97.8 %). This programme underspent by R13 million (or 2.2%) primarily due to underspending on Compensation of Employees, Goods and Services, and Expenditure for capital assets. Out of the 4 targets, only 1 target was achieved, resulting in a 25% achievement rate.

## 7.4 Audit Outcomes

For 2022/23 the Department received an unqualified audit with findings on performance information. However, the financial statements were clean and findings on performance information was adjusted accordingly. The AGSA found no significant deficiencies in internal controls. However, there were instances of non-compliance with the Public Finance Management Act (No. 1 of 1999 (PFMA). The Department did not have sufficient monitoring controls to ensure proper implementation of the overall process of planning and reporting. This is due to the reported underlying data primarily used to determine the amounts on the annual performance report that was not reviewed appropriately to ensure that the correct amounts had been used in the report. The AGSA also noticed the instances of non-compliance with the PFMA and Treasury regulations, as referred to in the above text box.

## 7.5 Departments' achievement

The Department achieved the following:

- The Department engaged Provinces and Entities to influence integrated sector planning, budgeting, implementation, and reporting. Investments made in key programmatic interventions were analysed.

- Responded to housing emergencies; fast-tracking of repairs through a voucher system, allowing provinces and metros to utilize available funds from HSDG and ISUP to intervene in dealing with the damages; national Emergency Housing Response Fund.
- Provided support to finalise most PDAs implementation plans.
- In February 2023, the Department launched the FHF programme as a revamped version of the erstwhile FLISP – total of 5 811 households received financial assistance 8 262 of targeted 9 769 uninhabitable mud houses were eradicated in rural Provinces of Limpopo, Northwest, and the Free State.
- Developed a National Unblocking Programme - diagnostic evaluation of all blocked projects (3 445 projects identified) 925 of 1 873 targeted units delivered in 2022/23.

## 8. HUMAN SETTLEMENTS ENTITIES

### 8.1 National Home Builders Registration Council (NHBRC)

During the year under review, the NHBRC's performance was based on three programmes, namely, Administration, Regulation, and Consumer Protection. The NHBRC achieved 89% of the targets under Administration, 86% under Regulation, and 100% under Consumer Protection. The overall performance for 2022/23 showed that 89% of the set targets were achieved, which was slightly below the performance achieved in the 2021/22 financial year.

The NHBRC maintained its unqualified opinion on the financial statements over the past three years. An improvement was noted in the number of material misstatements identified and corrected during the audit process. The opinion on the annual performance report programme 2 also improved to unqualified in the current year. Although some improvement was noted in material non-compliance findings, the continued material non-compliance findings on consequence management hinders the obtainment of an overall improved audit outcome. The NHBRC achieved the following:

- Housing Consumer Protection Bill presented to the Committee, the National Assembly (NA) and is currently being processed by the National Council of Provinces (NCOP).

- Initiated the implementation of e-services platform for homebuilders and housing consumers to make NHBRC service accessible through web-based solutions and applications.
- Woman Empowerment Programme launched in Partnership with GIBS as part of the social transformation strategy of the NHBRC (Graduation in December 2022).
- Introduced training initiatives for the designated groups and building inspectors as part of capacity creation in the Sector and our Social Transformation Strategy.
- NHBRC heeded the National Treasury's call for State Entities to tighten their purses in response to the Covid-19 pandemic and to exercise prudence in managing public funds. Cost containment measures, as guided by the cost containment measures issued by National Treasury were implemented during the reporting period.
- Improving the audit outcome of the organisation.
- Contributing to Innovative Building Technologies (IBT) research work.

**8.2 National Housing Finance Corporation (NHFC)**

In the year under review, the NHFC approved R989 million and disbursed R749 million for affordable housing finance in South Africa. The entity received an unqualified opinion with a finding on compliance with applicable legislation, non-compliance on expenditure management. Decrease in the number of material findings, indicated improvements in the control environment. The NHFC achieved the following:

- Disbursements to designated groups including women and youth-owned entities more than doubled from R124 million in 2021/22 to R274 million in this financial year.
- FHF or FLISP: applications approved increased by 46% from 2 935 to 4 283 and the total value increased from R166 million to R286 million.
- Number of FHF subsidies disbursed increased from 3 268 to 4 107 with values increasing from R173 million to R221 million.
- Enterprise development through procurement spend increased to R140.3 million for work packages for SMME which included 123 black-owned

SMMEs, 42 women-owned contractors, 15 youth-owned contractors benefited.

- The NHFC had appointed the first female Chief Executive Officer (CEO) in its history of 27 years, Ms Azola Mayekiso.
- Re-branded FLISP to FHF which resulted in significance in clarity, accessibility and the concept of a "home" carries strong emotional resonance.
- FHF portal - digitised the application process.
- Implementation of information and cyber security measures including privacy of personal information to heighten security posture (management of information assets) – to align to organisation's strategy and global trends.
- Closed the financial year with R2 billion committed to clients.
- Leadership development - 25 candidates in the succession pool and mentorship programme.
- Graduate, Learnership and Chartered Accountants (TOPP) intake – youth training and professional development.

**8.3 Social Housing Regulatory Authority (SHRA)**

The SHRA ended the 2022/23 financial year with net assets to the value of R895.2 million – which is on par with the previous financial year. Its balance sheet is thus positive. The entity's operating expenses of R923.3 million exceeded its income of R914 million, resulting in an operating deficit of R8.9 million. However, when adding R68.2 million income derived from interest, it resulted in R53.9 million surplus for the year. For this financial year 2022/23, the SHRA received an unqualified audit opinion. However, the AGSA drew attention to the following matters:

- The AGSA identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Programme 4: Project Development and Funding. The management did not correct the misstatements, and the AGSA reported on the material findings.
- The financial statements and annual performance report submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(b) of the PFMA.

- Material misstatements of liabilities, revenue, expenditure, and disclosure items identified by the auditors in the submitted financial statement were corrected subsequently, resulting in the financial statements receiving an unqualified audit opinion.

SHRA achieved the following:

- The portfolio of units under regulation rose from 32 046 units, managed by 25 institutions in 2018, to 44 114 units managed by 39 institutions. This was a 38% increase in the portfolio, and a 56% increase in the number of delivery agents with stock under management.
- Of the 39 delivery agents with stock under management, 26 were accredited institutions accounting for 60% or 26 633 units. This included 4 Municipal Owned Entities (MOE) accounting for 27% or 11 782 units, followed by 9 Other Delivery Agents (ODA) with 13% or 5 699 units.
- There was improvement on tenanting completed units in the past three years from 52% in 2020/21 to 82% of annual units being tenanted in relation to completions.
- A total of 3 182 social housing units were completed against the target of 3 000-units, while 2 595 units were tenanted against a target of 3 529, with a shortfall of 934 units.
- The SHRA was tasked with the delivery of 18 000 social housing units for both the national MTSF 2019–24 period and Strategic Planning period from 2020–25.
- A total of 7 990 jobs were created through the implementation of social housing projects.

The entity experienced the following challenges:

- The achievement rate for performance targets was 58%, compared to 61% in 2021/22, and 71% in 2020/21.
- Vacancies increased from 8% in 2021/22 to approximately 11% in 2022/23.

- Accreditation of new projects from institutions that are ‘majority-owned’ by women, youth, or persons living with disabilities, reached 25%, falling short of the set target of 40%.
- Rental boycotts were identified as a primary threat to the ongoing sustainability of the sector, while a draft strategy had been formulated during the financial year.
- Criminals and gangs, commonly referred to as ‘construction mafias’, illegally occupy and take control of construction sites nationwide, extorting money from developers. This had negatively impacted some human settlements projects and the economy. Their interference resulted in some projects being halted, negative community dynamics, the need for extra security measures, and an increased financial burden.

**8.4 Housing Development Agency (HDA)**

The HDA reported 74% of performance against predetermined targets; 1433 housing units constructed; 993.0012 hectares acquired; 40 development plans for PDAs completed; 4757 serviced sites; and 1731 title deeds issued. During the period under review the HDA developed an organizational governance and performance recovery plan which resulted in an unqualified audit opinion with findings and a seventy-four percent (rounded-off) achievement of its targets. This marked a significant improvement from the previous financial years where the audit opinions were qualified for three consecutive financial years, and the annual performance of targets achieved was 29%.

In the year under review out of the 23 indicators in the Annual Performance Plan (APP), 17 were achieved and six were not achieved. The Board focused on the strategic direction and oversight on ensuring the strategic and annual performance plan targets and outcome were achieved or improved upon. All required Board Committees were established and functional; this includes an Audit and Risk, Social and Ethics, Human Resources and Remuneration, and Land, Programmes and Property Development. Dr Tshilidzi Ratshitanga served from the 26th of November 2021 to the 8th of March 2023 as Board Chair, whilst for the period of the 9th of March 2023 to the 6th of June 2023, Mr. Manqoba Soni acted as Board Chair. Thereafter Hosi P.C. Ngove was appointed as Board Chair on the 7th of June 2023.

### 8.5 Property Practitioners Regulatory Authority (PPRA)

In an endeavour to discharge its mandate, the PPRA organised itself into the following five programmes:

- Programme 1: Finance and Administration.
- Programme 2: Licensing and Enforcement.
- Programme 3: Inspection and enforcement.
- Programme 4: Research, Professionalism, and Training.
- Programme 5: Transformation.

During the period under review, the PPRA had set itself twenty-four annual performance targets, it achieved eight. This translated into a success rate of 33.3%. The outcome for PPRA remained unchanged due to management not addressing prior year audit findings, as a result, debtors were not properly managed resulting in debtors outstanding for long periods of time. Instances were noted where debtors were charged interest when there was no resultant debt. The SAP system in place does not distinguish between new and existing practitioners and thus making it difficult to provide evidence to support the annual performance report.

The entity for the better part of the 2022/23 financial year had several vacancies particularly at the executive level (Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operation Officer (COO), Chief Revenue Officer (CRO)), this had a direct impact on the audit outcomes of annual financial statements and audit of predetermined objectives. PPRA achieved the following:

- The Property Sector Research Centre was established, in partnership with the National Research Foundation (NRF), to fulfil the research agenda, as set out in section 22 (4) of the Act.
- The new organisational structure was finalised, in concurrence with the Minister of Human Settlements during November 2022.
- The recruitment process for C-Suite and critical management positions was concluded. Other critical positions were earmarked to be filled in the 2023/24 financial year.

During the period under review, the PPRA encountered the following key challenges:

- The SAP system encountered continuous downtime. This negatively impacted on the delivery service from the PPRA, resulting in a backlog in the processing of applications.
- Delays in configuring the information and communication technology (ICT) system to register and issue FFCs to all new categories of Property Practitioners.
- Legislative requirement of orders being issued after 60 days caused delays in orders being signed and submitted for enforcement.
- The Entity further relayed on consultants to clear receivable issues without balancing that the information is correct.

**8.6 Community Schemes Ombud Services (CSOS)**

In 2022/23, the CSOS listed a total of 28 performance targets, of which it achieved 20. This resulted in an achievement rate of 71.4%. This reflected a decrease of 11%, compared to the previous financial year, wherein the Entity had achieved 82%. Human resource (HR) planning remained at the core of ensuring that the Entity has the necessary capacity to deliver on its mandate and outcomes, as and when required. The organisational redesign project, which commenced in the 2021/22 financial year had not come into fruition. As a result, the vacancy rate increased by 11,4%, from 36% in the prior year to 47.4%. The CSOS had a voluntary turnover rate of 21.96%, which was a slightly higher compared to the optimal functional voluntary employee turnover rate for organisations in South Africa, that was calculated to be between 14% and 19%.

However, the high turnover percent was a result of having more internship programmes and temporary employees, whose contracts expired during the year under review. The CSOS recorded a significant increase in its revenue collection. This increase was due to a surge in the community scheme registration and charging of interest. Consequently, schemes were required to submit levy schedules, proof of payments, and outreach interventions with top paying managing agents. The CSOS implemented a billing of schemes in 2021/22, which led to an increase in

correspondence from schemes requiring reconciliation and updating of their CSOS financial records. Revenue generated from levies amounted to R333,6 million in 2022/23, which was higher than its set target of R262.3 million. The Entity achieved the CSOS following:

- The percentage of disputes adjudicated 90 days increased by 68.57%. This includes 208 adjudications finalised outside the 90 days period.
- A 41% increase in number of training sessions conducted.
- A 27% increase in levies billed.
- A 31% in schemes registered.
- A 30% increase in scheme governance documentation quality assured.
- 100% (3/3) of community schemes requests for Executing Managing agents awarded to previously disadvantaged individuals.

The Entity experienced the following challenges:

- While the CSOS ended the 2022/23 financial year with net assets to the value of R271.1 million, it was 21.5% lower than the previous year. Net assets totalled R345.6 million in 2021/22. Lower net assets were due to an increase in the entity's liabilities, which grew from R138.6 million previously, to R213.2 million by the end of 2022/23.
- The rise in liabilities was attributed to more than a third increase (34.1%) in 'allocated levies' collected by the entity. This refers to levies paid into the entity's bank account – without adequate references which would allow the entity to identify which community scheme made the deposit. The value of unallocated levies rose from R115 million in 2021/22, to R154.2 million. While the entity reports its intention to trace deposits and reduce the unallocated levies into the future, this process requires close monitoring by Parliament.
- While revenue increased with more than a quarter (28.7%) from the previous year, the entity's expenditure more than doubled (113.8%) than what it was in 2021/22. Expenditure rose to R346 million, from R161,9 million previously. The sharp increase in the entity's expenditure, resulted in a significant smaller operating surplus than what it was in 2021/22. The operating surplus in 2022/23 was R30.8 million, compared to R131 million in 2021/22.

- Higher expenditure is due mainly to debt impairment to the value of R120 million, and a 33.6% increase in employee-related expenses from R99.3 million previously to R132.6 million. Impairment refers to a permanent reduction in the value of an organisation's assets. In 2022/23, the entity evaluated its debtors for recoverability based on their aging, which resulted in impairment loses. It should be noted that there was no impairment recorded for the previous financial year since there was no impairment loss provision. For 2021/22, entity's impairment assessment was done as of 31st of March 2022, and at the time there were no indications for impairment as per the impairment policy.

## 9. REFLECTION BY THE AGSA

The Committee was briefed in a virtual meeting by the AGSA on the audit opinion. The AGSA indicated that overall, the portfolio achieved an average of 58% of its targets. The non-achievement of key indicators affects lived experiences of citizens due to e.g., 4 housing programme agreements for mining communities not being developed, quarterly reports on title deeds not including information from all provinces by the Department, etc. Audit action plans were in place at the Department and Entities, however there were repeat audit findings in the portfolio. NHBRC, CSOS and HDA reported significant achievements of their targets. This raised concerns on whether the entities in the portfolio are fulfilling their different mandates. The Department evaluates quarterly performance reports of the Entities, provides recommendation, and action plans. However, there was no evidence that the monitoring process had led to improvements in performance.

### 9.3. Recommendations to the Committee

The AGSA provided the following recommendations which were adopted by the Committee:

- Closely monitor and regularly follow on progress on audit action plans at the Department and Entities. Ensure the improvement of business plans and close misalignment gap between MTSF and available funds.

- Monitor the key vacancies at the Department and Entities to ensure stability of leadership. The Department should ascertain that three Deputy Director Generals (DDG) positions which were at Cabinet (at the time of this report) and then filling other vacancies.
- Follow up with Department and Entities that incurred irregular and wasteful expenditure to ensure there is consequence management.
- Ensure the setting up a dedicated team to deal with disasters and disaster funds should be centralised at national level.
- Ensure that the Department engages with the National Treasury to review grant conditions and finding the balance between performance and compliance with Division of Revenue Act (DORA).
- Ensure that the Department engages Entities to obtain feedback, commitments from the entities, and to ensure accountability.

## 10. REFLECTION BY THE DPME

The Committee was briefed in a virtual meeting by the DPME on its analysis of the quarterly performance reports of the Department. The presentation was noted.

## 11. OBSERVATIONS AND RECOMMANDATIONS

Having been briefed by the AGSA, the DPME, the Department and its Entities on its annual report, the Committee adopted recommendations provided by AGSA presented in section 9.3. The Committee also made the following observations and recommendations:

1. **Observation:** Noted the achievement of the unqualified audit outcomes by the Department and Entities, filling in of key positions, the appointment of Boards Members of all entities, the appointment of a woman CEO by NHFC, improved collaboration with provinces, and leadership improvements in the sector.

   **Recommendation:** Ensure that the Department and Entities improve from unqualified to clean audits in the future. Ensure transformation objectives of the country by accelerating the appointment of women, youth and persons living with disabilities to strategic positions in the sector.
2. **Observation:** Noted the implementation of lifestyle audits by NHBRC on inspectors. This was because inspectors were alleged to be receiving bribes to

approve poorly constructed houses. Furthermore, these houses were often not completed on time.

**Recommendation:** Fast-track the implementation of the lifestyle audits initiative to root-out corruption and bribery. Thereafter, ensure consequence management for those involved in corruption and bribery. Provide the Committee with timeframes on the completion of the lifestyle audit. Lifestyle audits can be replicated to other Entities who have got similar mandates as NHBRC. Ensure that housing projects are completed on time by adhering to the Project Readiness Matrix. The NHBRC should develop a comprehensive and integrated plan to prevent the approving of poor workmanship.

3. **Observation:** That some of the key vacancies were filled in the Department, HDA, NHFC and SHRA, however there were still key vacancies that still need to be filled at the Department, CSOS, NHBRC, and PPRA to ensure stability of leadership.

   **Recommendation:** Fast-track the filling of key positions with competent individuals at the Department, CSOS, NHBRC, and PPRA to ensure stability of leadership in the sector.

4. **Observation:** Noted that the initiative to develop the rental boycott strategy within SHRA.

   **Recommendation:** Fast-track the development of the rental boycott strategy. Present this strategy to the Committee by second quarter 2023/24 financial year.

5. **Observation:** That there was underperformance in the delivery of BNG housing units, PDAs programme, and informal settlements upgrading programme, and title deeds.

   **Recommendation:** Conduct an analysis of where performance problems are and address them accordingly. The must be consequence management against those who do not perform their contractual duties.

6. **Observation:** That construction mafias continued to be a challenge that undermines the democratic gains of the post-apartheid government and infringe on the citizen rights.

   **Recommendation:** Adopt proper procedures to deal with construction mafias. Closely work with communities and the Law Enforcement Authorities to identify and harshly punish those who are involved in the practice. The Law Enforcement Authorities should establish an anti-construction mafia unit to solely deal with construction mafias.

7. **Observation:** That provinces were often accused of poor planning and submitting projects that were not ready for implementation to the Department.

   **Recommendation:** Use the Project Readiness Matrix to ensure that projects submitted are ready for implementation. Ensure that provinces submit project lists on time to ensure prompt implementation.
8. **Observation:** That there was a lack of implementation of actions plans or turn around strategies by the Department and entities to address repeated findings by the AGSA. Often actions plans do not deal with root causes of irregular expenditure.

   **Recommendation:** Ensure that these turn around plans are implemented on time. Update the Committee on a quarterly basis on progress made in this regard.
9. **Observation:** Note that the Departments and National Treasury, through Operation Vulindlela, were in the process of developing a strategy to unblock the title deeds programme.

   **Recommendation:** Fast-track the development of the strategy to unblock the title deeds programme. Ensure that the Steering Committee on Tittle Deeds presents this strategy to the Committee by the second quarter of the 2023/24 financial year.
10. **Observation:** That municipal capacity to implement and manage housing development was a challenge.

    **Recommendation:** Closely work with municipalities and the HDA to ensure that accredited municipalities are provided with necessary capacity to implement and manage housing development.
11. **Observation:** That the management of the beneficiary list was still a persisting problem. This was compounded by the Housing Subsidy System (HSS) that was not aligned to the Housing Needs Register (HNR). This resulted in interference.

    **Recommendation:** Fast-track the digitalisation of the beneficiary list and alignment of the HNR with HSS system. Present progress on the digitisation to the Committee in six months after the adoption of this report. This presentation should also provide the timeframe.
12. **Observation:** That there was no correlation between budget spent and MTSF targets achieved.

    **Recommendation:** Ensure that budget spent, and targets achieved are aligned. Conduct frequent monitoring of plans to ensure consistent alignment with the MTSF and NDP.

13. **Observation:** That there were no retention strategies in the sector, which often results in the loss of institutional memory.

    **Recommendation:** Ensure the implementation retention strategies to protect institutional memory.

14. **Observation:** That there was an issue of decaying towns which was often accompanied by building hijacking.

    **Recommendation:** Ensure that NHFC and SHRA assess abandoned buildings to provide more rental and bonded houses. Thereafter, there is need for frequent audits of these buildings.

15. **Observation:** Noted the digitisation of the NHFC systems to professionalise their products or services.

    **Recommendation:** Share with other Entities this approach to assist them professionalise their products or services where possible. Furthermore, the Department and Entities should move towards digital where possible.

16. **Observation:** Noted housing insurance provided by the NHBRC. However, the Committee was concerned about the lack of consumer education in that regard.

    **Recommendation:** Ensure periodic public or consumer education on NHBRC insurance. A quarterly report should be provided to the Committee on progress made. Furthermore, the Entity should improve its visibility, particularly in rural areas.

17. **Observation:** Noted efforts by Entities to deal with transformation by empowering women contractors.

    **Recommendation:** This transformation drive should also reach youth and persons living with disabilities. The Department should work National Youth Development Agency (NYDA), other youth formation, and persons living with disabilities formations. A quantitative report should be provided on quarterly bases on progress made.

18. **Observation:** Appreciated the invitation to the CSOS Indaba because it was informative. However, the Committee was concerned about the substandard communication strategy of the Entity. This was because the Entity was often accused of not communicating on time. This was compounded by problems encountered in the CSOS Connect System.

    **Recommendation:** Ensure that CSOS improve their communication strategy and visibility in communities. That CSOS improves the CSOS Connect System.

19. **Observation:** Noted the qualified opinion by the AGSA on PPRA.

    **Recommendation:** Ensure that the PPRA develop action plan that address root cause of the finding. The plan should be presented to Committee by the second quarter of 2023/24 financial year.

20. **Observation:** That the issue of poorly performing contractors, affecting the performance of the Department, was coming up frequently.

    **Recommendation:** MINMAC should look at how best to blacklist contractors who are poorly performing or abandoning projects. Report to the Committee on the strategy in six months after the adoption of this report.

## 12. CONCLUSION

It is the submission of the Committee that the implementation of these recommendations would positively respond to the objectives of the Department and Entities, the NDP and the lives of the people. Recurring challenges observed would be resolved as swiftly as possible if accountability regarding these recommendations could be forthcoming from all the Entities within the sector. To ensure the realisation of these objectives at specified timeframes, the Committee will conduct its oversight on specified intervals. In addition, Parliament should track the implementation of these recommendations by the Executive.

**Report to be considered.**

## 5. Report of the Portfolio Committee on Water and Sanitation on two petitions tabled by Ms C Phillips (Democratic Alliance) and Ms Sukers (African Christian Democratic Party), dated 24 October 2023

The Portfolio Committee on Water and Sanitation, having considered the petitions published in the Announcements, Tabling's and Committee Reports (ATC) dated 7 and 11 June 2023, respectively, lodged by the Honourable Phillips on 7 June 2023 (Petition from the residents of Northern and North-Eastern suburbs of Rustenburg, North-West Province) and Honourable ME Sukers for the Democratic Alliance (ACDP) dated 11 June 2023 (Petition from the residents of Warrenton, Northern Cape) to investigate the water crisis) calling on the Assembly to address the following issues raised:

> Ms. C Phillips (DA) presented a petition on behalf of the residents of Rustenburg, where reservoirs were not sufficiently filled and, therefore, could not supply certain areas with water. The lack of sufficient water supply to the residents was due to inadequate maintenance, insufficient tools and equipment, lack of staff, lack of expertise within the staff component, and an outdated manual system. This resulted in insufficient water in the reservoirs and continuous breakdowns.
>
> Ms. M Sukers (ACDP) presented a petition on behalf of the Warrenton community, which had gone without water for months and, in some places, for years. Incomplete infrastructure projects and a subsequent flood in the area had caused a lack of water supply. Political favouritism and a lack of response to the community's pleas had left them in dire straits. And reports as follows:

National Assembly Rule 347(1) determines that a petition "must be lodged by a member with the Secretary for approval and tabling by the Speaker and must be signed at the beginning by the member. Rule 348 states that in the case of general matters (other than financial), after approval by the Speaker, the petition is tabled and referred to the relevant committee as in Rule 350(b).

## 1. Processing the Petition

This report is based on information collected in one meeting held on 5 September 2023 from the two petitioners. The Department of Water and Sanitation was present as observers.

## 2. Outcome of Meeting

### 2.1 First Meeting

The committee met to collect the relevant information from the petitioners. The two petitions Rustenburg presented to the Committee in a virtual meeting urgently requested assistance from the state to resolve water and sanitation challenges in the respective areas.

#### 2.1.1 Rustenburg petition

Although Rustenburg has been one of the fastest-growing municipalities since 2015, water services provision to communities was not aligned with the supply and demand needs of a growing population. The lack of water supply has had a detrimental impact on the quality of life of people as well as constraining communities' efforts to undertake everyday household chores.

In further detailing the challenges encountered, Ms Phillips highlighted the following administrative limitations and technical weaknesses inherent within the municipality, further exacerbating the water services provision to communities. This, in the main, related to:

- State of the municipal administration, which currently did not have a municipal manager, with most of the directors in the municipality in acting positions.
- The underlying challenges encountered in the municipality resulted in the lack of treated water to fill the reservoirs due to limited or no supplies of technical tools and skilled personnel to manage the manual operation of the water supply system. Inadequate maintenance resulted in significant leaks in the system.

#### 2.1.2 Warrenton petition

The Warrenton petition by Ms M Sukers (ACDP) highlighted the plea by the residents for the Assembly to investigate the water crisis in the town. The town's strategic positioning was touted as a valuable

economic development process. Still, the impact of chronic service delivery failures, specifically water and sanitation, contributed to the snail's pace of development.

In further detailing the challenges encountered, Ms Sukers highlighted the following administrative limitations and technical weaknesses inherent within the municipality, further exacerbating the water services provision to communities. This, in the main, related to:

- Poor political leadership resulted in a breakdown of trust between residents and the municipality, resulting in social unrest and legal action by the municipality.
- A water treatment project initiated in 2018, with a completion date set for June 2021 and a funding allocation of R90 million, was incomplete and at a standstill. The estimated cost to date is approximately R94 million.
- A bulk water supply pipeline with a budget of R18 million and a completion date of 2021 is incomplete. The new internal water reticulation project, valued at R22.8 million, is under construction.
- The February floods and challenges due to non-completion of projects and poor operational infrastructure maintenance resulted in communities without water for seven (7) months.
- The inconsistent water supply, owing to breakdowns, resulted in water tankers to the value of R1.9 million being allocated to the area. However, selective allocation due to ‘political favouritism’ led to the most vulnerable being forced to use water from the river or buy water per litre.
- Emergency interim pipeline restoration after the floods was set for completion in May, but this was delayed with no explanation provided.
- Other concerns raised by community members included the lack of transparency in procurement and contract management, the lack of implementation of audit plans and corrective measures, the lack of technical capacity and expertise, ageing infrastructure, and the incomplete projects that impeded service delivery to the communities of Magareng.

Community members also raised the following critical questions, which require responses from the relevant government departments:

- What happened to the funding of the water treatment plant upgrade, and when would it be completed?
- What happened to the pipeline funding to connect Ikutseng households to the water supply?

- What was the total cost breakdown for the emergency water distribution over the seven months, including the interim pipeline project to restore the water supply?
- What had been the cause of the delay in completing work on the interim and permanent pipelines to restore the water supply – how many contractors had worked on the project?
- Could there be oversight by both the Departments of Water and Sanitation and Cogta, with a visit to the municipality to improve accountability?

## 2.2 Observations

Members of the Committee, in engaging in the submission of petitions, responded with the following observations:

### 2.2.1 Rustenburg

- The submission of petitions must be forwarded to respective departments for responses and action plans with concrete timeframes.
- The emergent conflict in the municipality with three different entities managing the water supply should be further evaluated to assess whether these contributed to contestations to water supply to specific municipalities.
- The referral of the petitions by the National Assembly to the Portfolio Committee on Water and Sanitation but submitted to the Portfolio Committee on Cooperative Governance and Traditional Affairs, as well.
- The matter is posited mainly within the intergovernmental relations framework, and cooperation amongst all spheres of government is paramount.
- The National Treasury and associated departments must more closely monitor reporting systems around grant funding for water and sanitation service provision infrastructure.

### 2.2.2 Warrenton

- Intergovernmental relations must be strengthened as many municipalities fail the residents in parts of the country.
- The blurring of lines between the Department of Water and Sanitation and the Department of Cooperative Governance and Traditional Affairs should not cause incorrect referrals of petitions.

## 3. Resolutions

After careful consideration of both petitions, Members of the Committee resolved that:

- Both petitions be referred to the Departments of Water and Sanitation and Traditional Affairs and Cooperation for their responses. Thereafter, a joint meeting with the departments and petitioners would be called. There was consensus that both matters would be expedited.
- The Chairperson write to the National Assembly Table or the Unit charged with referrals of petitions to the respective Committee to ensure the correct procedure is followed in assigning petitions. This is related to the continuous referral to the Portfolio Committee on Water and Sanitation on petitions highlighting the challenges communities face in access to water services provision. The Committee stressed that water services provision falls within the mandate of the Portfolio Committee on Cooperative Governance and Traditional Affairs, and incorrect referrals result in delays in processing the petitions.

**Report to be considered.**