

FINANCIAL TURNAROUND FRAMEWORK

Restoring Liquidity, Revenue Integrity, Infrastructure Delivery and Institutional Accountability

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Document Control

Attribute	Description
Purpose	To consolidate the financial diagnostic and recovery information into a comprehensive Financial Turnaround Framework for the City of Johannesburg.
Draft Status	Version 3.0 — incorporating audited 2024/25 GRAP AFS, Financial Model Review (PNA Law), and in-year 2025/26 data.
Framework Period	Immediate recovery to medium-term sustainability: 2026/27 to 2028/29, with a 120-day administrative stabilisation component.
Core Logic	Diagnose the fiscal and institutional crisis; identify root causes; structure recovery pillars; integrate the Hybrid Model for sweeping arrangement reform; define implementation phases; allocate owners; establish reporting discipline.
Classification	Confidential — for internal Council administration use.

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Executive Summary

The 2024/25 financial year produced meaningful improvement at headline level for the City of Johannesburg. The Group recorded a net surplus of R1.643 billion, total revenue of R81.1 billion reflecting ten percent year-on-year growth, a collection rate of 85.9 percent, and cash and cash equivalents improved to approximately R4.0 billion from R2.2 billion in the prior year. These results matter and should be acknowledged. They demonstrate that the City retains a substantial revenue base and that targeted intervention can produce measurable fiscal improvement within a single financial year.

However, these results do not yet constitute a structural turnaround. The headline surplus was achieved in part through the drawdown of a R2.5 billion short-term facility from the Development Bank of Southern Africa and a R412.7 million deferred tax credit — neither of which represents sustainable operational cash generation. Cash coverage stands at only 17 days against a national norm of one to three months. The current ratio is 0.73 to one against a norm of 1.5 to one. Repairs and maintenance remain at approximately four percent of property, plant and equipment against an eight percent norm. The gross consumer debtors book grew by R10.2 billion in a single year to R71.8 billion, with ninety percent aged beyond 91 days. Non-revenue water stood at 44.79 percent, representing approximately R3.8 billion in lost water revenue annually. Electricity losses remain at approximately 30 percent, representing approximately R5.7 billion in lost value. And while the Group Consolidated Annual Financial Statements received an unqualified audit opinion, the parent municipality received a qualified audit opinion for 2024/25 — a material governance setback that must be remedied.

In the 2025/26 financial year the underlying position remains fragile. By the February 2026 in-year mark the City was carrying an operating deficit of R418 million against a budgeted surplus of R1.1 billion, with total expenditure running R2.3 billion above budget and cash declining from R1.8 billion to approximately R1.4 billion. Capital budget execution stood at only 30 percent by end-February. However there was some improvement in March. The March 2026 in-year figures provide a more demanding test of institutional execution and they are more concerning. The net result is an operating surplus of R1.5 billion against a year-to-date (YTD) budgeted surplus of R1 billion. The actual operating expenditure exceeded budget by R1.8 billion. Cash had improved to and R3.9 billion. Capital budget spend stood at only 41 percent of the approved R8.4 billion adjusted budget.

National Treasury's formal assessment of the 2026/27 Draft MTREF has identified a R2.1 billion unfunded budget gap, flagged eight Metro Trading Services Reform minimum commitments as Amber or Red, and placed the City's engagement with its primary intergovernmental fiscal partner under formal corrective scrutiny. Moody's has placed the City's Ba3 rating under review for possible downgrade.

At the centre of these challenges sits a structural governance failure that runs deeper than any individual financial metric: the sweeping arrangement. Under the current model, all municipal entity bank accounts are zero-balanced daily into the City's primary bank account, which in practice has evolved from a sound liquidity management tool into an opaque cross-subsidisation mechanism that channels Johannesburg Water's surpluses to fund City Power's structural deficits without formal Council approval, without Revenue-Sharing Agreements, and without performance conditions. The consequence is a combined infrastructure backlog exceeding R52 billion, an accelerating deterioration in revenue-generating service capacity, entity boards that are structurally unable to exercise financial oversight, and a direct conflict with the National Treasury Metro Trading Services Reform Framework that places R10.1 billion in MTEF conditional grants at risk. This framework confronts that structural failure directly.

The central argument of this framework is that Johannesburg's financial recovery will not be achieved through revenue collection alone. Revenue recovery is essential, but it must be implemented simultaneously with expenditure control, trading services reform, audit remediation, municipal entity stabilisation, capital expenditure discipline, labour-management stability and stronger political-administrative oversight. The framework is organised around six integrated recovery pillars — Financial Recovery, Revenue Enhancement, Expenditure Containment, Creditor and Liquidity Reform, Governance and Compliance, and Labour Stability — supported by the Hybrid Model for sweeping arrangement reform and a phased Revenue-Sharing Agreement framework commencing with Johannesburg Water on 1 July 2026.

The immediate test of this framework is implementation discipline. Johannesburg already has significant plans, technical interventions and diagnostic reports. The problem is not the absence of plans but the persistent failure to convert plans into visible and measurable outcomes. This report therefore recommends that Council and the administration adopt a single Financial Turnaround Framework, mandate a City Manager-led implementation architecture with a single tracker, require monthly reporting against a measurable dashboard, align senior management and entity CEO performance agreements to the framework, and require portfolio-of-evidence reporting for every claimed achievement.

Executive Dashboard: Current Diagnostic Signals

Indicator	2024/25 Position (Audited)	2025/26 In-Year Signal	2026/27 NT Target	Turnaround Implication
Cash coverage	cost 17 days (norm: 1–3 months)	~5 days at March 2026; declining	Minimum 30 days	Daily monitoring; 120-day forecast; creditor prioritisation.
Current ratio	0.73:1 (norm: 1.5:1)	Remains below benchmark	Trend toward 1.0:1	Revenue acceleration and creditor strategy must operate together.
Unfunded budget gap	Closed for 2024/25	R1.038bn operating surplus at March 2026	R2.1bn gap (NT assessment) Funding Gap closed in final budget for council approval	Council decisions on revenue, and water subsidy required before final budget.
R&M as % of PPE	~3.8% (norm: 8%)	Below benchmark throughout year	Move to 6%+ medium-term	Ring-fence R&M for revenue-generating infrastructure.
Non-Revenue Water	44.79% / ~R3.8bn lost	Water losses at 32.94%; improving marginally	Target: <38% in 12 months	Accelerate reservoir repairs, PRVs, metering and enforcement.
Electricity losses	30% / ~R5.7bn	Persistent at 30%	Target: <20% medium-term	AMR, LPU/SPU audits, energy balancing, enforcement.
Gross debtors book	R71.8bn; 90% aged 91+ days	R73.7bn at March 2026	5% reduction in 91+ days	Segmentation, KYC, SARS integration, external collection, query resolution.
Audit outcome	Qualified (parent); Unqualified (Group)	Remediation active; dispute in progress	Unqualified for 2025/26	Daily reconciliations, GRAP controls, evidence packs.
Sweeping arrangement	0 of 8 NT Reform prerequisites met	RSA framework under development	JW ring-fenced from 1 July 2026	Hybrid Model; RSA waterfall; entity cash retention; DoA Matrix.

PART ONE**Purpose, Method and Strategic Context**

Why this framework, how it was developed, and what it must achieve

1.1 Purpose of the Financial Turnaround Framework

The purpose of the City of Johannesburg Financial Turnaround Framework is to provide a single, consolidated and measurable programme for restoring financial stability, service delivery capacity and institutional discipline across the City Group. It is intended to bring together the City's current diagnostic work, National Treasury concerns, revenue recovery initiatives, water and electricity loss-reduction programmes, AGSA audit remediation, municipal entity stabilisation, sweeping arrangement reform and capital execution priorities into one coherent implementation framework.

The framework must not operate as an additional strategy document sitting outside the City's formal planning and accountability system. It must influence budget decisions, SDBIP targets, monthly Section 71 monitoring, municipal entity shareholder oversight, performance agreements, audit action plans, expenditure authorisations, tariff and subsidy choices, and the City's engagement with National Treasury and the Presidential Johannesburg Working Group. The central objective is to rebuild the City's capacity to fund, deliver, account and reform simultaneously — stabilising cash and liquidity, improving the credibility of revenue assumptions, protecting and growing the revenue base, reducing wasteful and non-essential spending, restoring the link between capital expenditure and service delivery outcomes, improving audit reliability, and creating a visible accountability chain from Council decisions to administrative implementation.

1.2 Method and Source Base

This framework has been prepared from a body of diagnostic, implementation and oversight reports covering the City's financial and operational position as at May 2026. The primary source documents are the audited City of Johannesburg Metropolitan Municipality Group Annual Financial Statements for the year ended 30 June 2025 prepared under GRAP; the City of Johannesburg Financial Diagnostic and Recovery Framework of 15 May 2026; the PJWG Financial Turnaround and AGSA Audit Findings Interventions presentation of 18 April 2026; the Financial Sustainability Progress Report of 8 May 2026; the Financial Management Model Review and Reform Project prepared by Pumla Nkosi Attorneys Incorporated in May 2026; the Johannesburg Water Non-Revenue Water Strategy and Water Losses Strategy of March 2026; and National Treasury's formal assessment of the 2026/27 Draft MTREF.

The methodology is diagnostic and implementation-oriented. It first identifies the present financial and institutional condition of the City, then maps the root causes of distress, then translates the diagnosis into recovery pillars, workstreams, actions, owners, milestones, indicators and reporting requirements. The framework deliberately distinguishes between symptoms, root causes and corrective actions to avoid treating a structural crisis as a collection of isolated operational problems.

1.3 Strategic Problem Statement

Johannesburg's financial challenge is best understood as a systemic municipal crisis rather than a single budgetary shortfall. The City continues to raise substantial revenue and retains a large economic base, but that base is weakened by persistent billing inaccuracies, low and uneven collection performance, a large aged debtors book, high water and electricity losses, underinvestment in repairs and maintenance, capital execution delays, entity-level distress, audit evidence gaps, fragmented data systems and inconsistent consequence management.

Compounding all of these is a structural governance failure embedded in the sweeping arrangement. The daily zero-balancing of municipal entity bank accounts into the City's primary account has evolved from a sound cash management mechanism into an opaque cross-subsidisation system that channels Johannesburg Water's surpluses to fund City Power's structural deficits without formal Council approval, without Revenue-Sharing Agreements, and without performance conditions. The result is a combined infrastructure backlog exceeding R52 billion, entity boards that are structurally unable to exercise their statutory financial oversight duties, and a direct conflict with all eight pillars of the National Treasury Metro Trading Services Reform Framework. These failures are not independent of one another — they form a single system of mutual reinforcement.

The strategic risk is that the City could appear solvent or improving at Group level while structural distress continues to deepen at operational level. A Group surplus masks severe distress at Johannesburg Water, City Power and JOSHCO. Improved cash balances remain too low to create resilience against revenue shocks. A credible turnaround must therefore be honest about the difference between accounting improvement and institutional recovery, and must recognise that Johannesburg's financial problem is also a political problem — a signal about governance credibility, service delivery reliability and the City's capacity to honour its obligations to residents, creditors and intergovernmental partners.

1.4 Guiding Principles

Principle	Meaning for the Turnaround Framework
Plan realistically	Revenue assumptions must be grounded in actual collection capacity and historical performance, not aspirational budget balancing.
Fund honestly	The City must not approve expenditure mandates without a clear funding source, cash-flow effect and affordability assessment.
Procure efficiently	SCM must unblock priority infrastructure while improving compliance, value for money and contract management.
Implement consistently	Approved plans must be translated into named owners, firm deadlines, evidence requirements and monthly performance review.
Monitor continuously	Daily, weekly and monthly dashboards must detect early-warning signals before they become crises.
Correct quickly	Variances must trigger corrective action, not only retrospective explanation.
Account transparently	Each achievement must be backed by reconciled evidence and accountable ownership.
Enforce fairly	Credit control, by-law enforcement and disconnection actions must be rules-based, legally compliant and socially responsible.
Partner strategically	National Treasury, PJWG, labour, business, residents and creditors must be engaged through structured compacts, not ad hoc negotiations.
Deliver visibly	Financial recovery must be experienced by residents through more reliable water, electricity, roads, waste and customer service.
Reform transparently	The sweeping arrangement must be reformed through Council-approved Revenue-Sharing Agreements — restructured with accountability, not abandoned abruptly.

PART TWO**Financial Diagnostic and Status Quo Assessment**

The full picture: what the numbers tell us and what they conceal

NOTE ON CHRONOLOGICAL PRESENTATION

Each section below presents financial information in chronological order — 2024/25 audited actuals first, followed by the 2025/26 in-year position, followed by 2026/27 National Treasury benchmarks and targets. This sequencing shows both where the City is coming from and where it needs to go.

2.1 Overview of the Current Financial Position

2024/25 — Audited Position (Year Ended 30 June 2025)

The 2024/25 year-end position confirms a genuine headline improvement. Total Group revenue reached approximately R81.1 billion, five percent above budget and reflecting ten percent year-on-year growth. The collection rate of 85.9 percent was close to the budgeted 86 percent, and cash and cash equivalents improved to approximately R4.0 billion from R2.2 billion in the prior year. The Group recorded a net surplus of R1.643 billion, compared to R226 million in 2023/24. The Group Consolidated Annual Financial Statements received an unqualified audit opinion.

However, the improvement is not structurally secure. Cash coverage remains at only 17 days. The current ratio is 0.73 to one. Repairs and maintenance remain at approximately four percent of property, plant and equipment. A loan covenant breach was confirmed on the ABSA Cost Coverage Ratio facility, recovering only by the end of the first quarter of 2025/26. Total borrowings increased from R19.28 billion to R22.80 billion, driven primarily by a R2.5 billion DBSA short-term operational facility. And the parent municipality received a qualified audit opinion for 2024/25 — the first qualification in recent years — across receivables (R948 million), incorrect expense recognition (R348 million) and general expenses (R617 million).

2025/26 — In-Year Position (March 2026 In-Year)

The March 2026 mid-year figures provide a more demanding test of institutional execution and they are more concerning. The net result is an operating surplus of R1.5 billion against a year-to-date (YTD) budgeted surplus of R1 billion. The actual operating expenditure exceeded budget by R1.8 billion. Cash had improved to R3.9 billion. Capital budget spend stood at only 41 percent of the approved R8.4 billion adjusted budget. The Revenue War Room has generated R1.541 billion of the R2.9 billion target, confirming genuine momentum but leaving a gap of approximately R1.359 billion still to close.

2026/27 — National Treasury Budget Assessment

National Treasury's formal assessment of the 2026/27 Draft MTREF identifies a R2.1 billion unfunded budget gap arising from revenue assumptions that appear overstated relative to audited outcomes — electricity revenue growth assumptions of 20.2 percent and water revenue growth assumptions of 21.5 percent both exceed audited outcomes by a material margin. Treasury's application of an 85 percent collection rate, compared to the City's higher assumption of 88.6 percent, produces the R2.1 billion shortfall. Eight Metro

Trading Services Reform minimum commitments are rated Amber or Red, with the Johannesburg Water SPoMA appointment rated Red. Moody's has placed the City's Ba3 rating under review for possible downgrade — a direct risk to the City's debt capital market re-entry strategy following the successful redemption of the R9.9 billion bond portfolio.

2.2 Key Financial Metrics at a Glance

Metric	2024/25 Audited	2025/26 In-Year (March 2026)	2026/27 NT Target
Total Group Revenue	R81.1bn (+10% YoY)	R1.541bn War Room YTD	NT: 85% collection rate assumption
Net Group Surplus/(Deficit)	R1.643bn (after tax)	R1.6bn operating surplus at March 2026	Sustained operating surplus
Cash & Cash Equivalents	R4.0bn (from R2.2bn prior year)	~R3.9bn at March 2026	Minimum 1 month coverage
Cash Cost Coverage	17 days (norm: 1–3 months)	Below benchmark; declining in-year	30+ days
Current Ratio	0.73:1 (norm: 1.5:1)	Remains below benchmark	Trend toward 1.0:1 by 2027/28
Capital Budget Execution	~65–70% by year-end	41% by end-March 2026	70%+ by June 2026; 85%+ in 2026/27
Collection Rate	85.9%	85% YTD end of March	NT: 85%; City target: 88.6%
Unfunded Budget Gap	Closed for 2024/25	N/A	R2.1bn identified by NT

2.3 Financial Ratio Assessment

The table below presents the City's key financial ratios across the four financial years from 2022 to 2025, with the 2026/27 target trajectory derived from National Treasury's assessment. The pattern is one of gradual improvement on some indicators — notably debt-to-revenue and the net operating surplus margin — alongside persistent structural weakness on cash coverage, current ratio and repairs and maintenance spending.

Ratio	Norm	Jun 25	Jun 24	Jun 23	Jun 22	2026/27 Target	Status
Debt to revenue	≤45%	32%	34%	35%	39%	<35%	SOUND — improving
R&M as % of PPE	8%	4%	5%	4%	5%	6%+	WEAK — persistent
Cash / cost coverage	1–3 months	17 days	~0	1 month	1 month	>30 days	CRITICAL — improving
Current ratio	1.5–2:1	0.73	0.61	0.80	0.90	>1.0:1	WEAK — slowly improving
Net operating surplus margin	>0%	1%	-2%	-2%	2%	>1%	IMPROVED — fragile
Remuneration % of opex	25%–40%	26%	26%	27%	26%	≤26%	SOUND
Interest expense % of opex	≤8%	4%	4%	4%	4%	≤5%	SOUND

Solvency (assets/liabilities)	>2:1	1.97	2.1	2.3	2.3	>2:1	MODERATE declining	—
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2.4 Budget Credibility and the Unfunded Budget Gap

2024/25 — Audited Expenditure Performance

The 2024/25 audited financial statements confirm significant budget credibility challenges beneath the headline surplus. Total expenditure exceeded the final budget by R4.52 billion — six percent. The largest single driver was bulk purchases, which overran budget by R4.7 billion, driven by Eskom tariff escalation and sharply higher consumption following the suspension of load shedding. Council did not approve the adjustment budget proposal submitted by City Power during the process, creating a structural budget gap that materialised as an overrun. Debt impairment exceeded budget by R2.14 billion, confirming that collection levels continue to fall below expectations as an increasing proportion of customers migrate to the indigent category. Finance charges exceeded budget by R908 million, driven by interest on the R2.5 billion DBSA short-term facility drawn to fund operational cash shortfalls. Service charges under-recovered by R2.55 billion, with electricity falling short as units sold declined and water under-recovering as a result of Water Demand Management conservation programmes.

2025/26 — In-Year Budget Position

The in-year position at March 2026 shows that the structural expenditure pressures from 2024/25 have not yet been resolved. Total expenditure is running R1.8 billion above budget. Water shows a year-to-date under-recovery of R785 million and electricity a year-to-date over-recovery of R85 million. **The Revenue War Room has recovered R1.541 billion against a R2.9 billion target — genuine progress but with R1.359 billion still to close in the second half of the year.**

2026/27 — National Treasury Budget Benchmarks

National Treasury's assessment identifies the R2.1 billion unfunded gap as arising from three structural sources. First, accelerated revenue turnaround could contribute approximately R850 million or more through billing correction, SAP automation, KYC integration and enforcement — but this requires a structured programme with weekly accountability, not an aspirational target. Second, the rationalisation of the six-kilolitre free water allocation for non-indigent residents could contribute approximately R650 million on a partial basis, subject to completion of a public participation process and Council approval. Despite National Treasury's recommendation to review this tariff, this cannot be implemented as the city may face legal challenges if the implementation has not be subjected to public consultation. Consideration of this change will be made in the 2027/28 budget cycle. Third, and most significantly, the resolution of the Personnel Finance Agreement Phase 2 affordability question carries a R1.2 billion impact and requires a binding political decision from Council before the final budget is approved.

Gap-Closing Lever	Estimated Fiscal Effect	Required Decision / Action	Risk if Delayed
Revenue turnaround	~R700m+	Scale billing correction, SAP automation, external collection, KYC and targeted enforcement.	Collections remain below required level and unfunded gap persists.
6kl free water rationalisation	~R650m (partial)	Complete public participation; phased implementation for non-indigent customers in the 2027/28 budget cycle.	Water revenue pressure unresolved; JW structural deficit persists.

PFA affordability resolution	R1.2bn (political)	Council must resolve deferment, partial implementation or funded alternative before final budget.	Budget remains under pressure if long term affordability assessment is delayed
NT-identified savings (attrition, contracted services, capex cash, payment target)	Multiple items	Natural Attrition R498m; contracted services R132m; reduce cash capex – a portion of R350m; 86% payment target +R850m.	City relies too heavily on uncertain revenue improvement without expenditure discipline.

2.5 Revenue Performance and Collection

2024/25 — Audited Revenue Outturn

The full-year revenue summary for 2024/25 is positive at headline level, with actual revenue of R81.1 billion against a budget of R77.6 billion excluding capital transfers. Property rates exceeded budget by R361 million and remain a stabilising and predictable revenue stream. Government grants and subsidies exceeded the adjusted budget by R681 million, with the equitable share allocation growing by R519 million year on year to R7.57 billion. Finance income exceeded budget by R345 million. Against these positives, service charges under-recovered by R2.55 billion, with electricity falling short as units sold declined and water under-recovering as Water Demand Management conservation measures reduced billed volumes.

2025/26 — In-Year Revenue Performance (March 2026)

Revenue Stream	Budget MTD (Mar 26)	Actual MTD (Mar 26)	MTD Variance	YTD Variance	Diagnostic Comment
Property Rates	R1.52bn	R1.56bn	+R38m ✓	+R576m ✓	Positive. Rates remain a stabilising revenue base.
Electricity	R2.41bn	R2.21bn	-R204m ✗	-R767m ✗	Material under-recovery. Linked to losses, alternative energy and billing.
Water	R1.94bn	R1.76bn	-R178m ✗	-R1.08bn ✗	Largest YTD under-recovery. Linked to NRW, billing and WDM.
Prepaid Electricity	R153m	R241m	+R87m ✓	+R849m ✓	Positive offset. Prepaid migration strengthens cash conversion.
TOTAL	R6.39bn	R6.15bn	-R241m	-R274m	Aggregate under-performance masks different dynamics per stream.

2026/27 — National Treasury Revenue Targets

For the 2026/27 budget, National Treasury applies a collection rate assumption of 85 percent, compared to the City's assumption of 88.6 percent. The revenue growth assumptions for electricity at 20.2 percent and water at 21.5 percent in the City's draft budget are materially above audited outcomes and must be reset. National Treasury requires that revenue assumptions be supported by verified evidence from the Revenue War Room, billing correction outcomes and loss-reduction milestones rather than extrapolated from aspirational targets.

2.6 The Debtors Book: Structural Non-Payment

2024/25 — Audited Debtors Position (30 June 2025)

The gross consumer debtors book grew from R61.65 billion at 30 June 2024 to R71.82 billion at 30 June 2025 — an increase of R10.17 billion (16.5 percent) in a single year. The impairment allowance grew from R50.51 billion to R59.62 billion, producing a net realisable debtors position of only R12.20 billion. The water debtors gross book of R36.23 billion carries an impairment provision of R32.59 billion — a 90 percent impairment rate — confirming that the structural non-payment crisis in water services has reached the point where the gross book has negligible realisable value.

Category	Gross 2025 (R'000)	Gross 2024 (R'000)	Impairment 2025 (R'000)	Net Balance 2025 (R'000)
Rates (Statutory)	17,428,329	14,475,173	(13,137,742)	4,290,587
Electricity	11,403,654	10,045,631	(8,552,524)	2,851,130
Water	36,234,447	31,375,635	(32,587,207)	3,647,240
Refuse	6,422,909	5,444,540	(5,087,604)	1,335,305
City Cleaning Levy	325,882	308,925	(253,467)	72,415
TOTAL	71,815,221	61,649,904	(59,618,544)	12,196,677

2025/26 — In-Year Debtors Position (March 2026)

The total debtors book stands at R73.7 billion as at March 2026, of which R66.7 billion — approximately 90 percent — is aged beyond 91 days. Johannesburg Water holds approximately 53 percent of the total book at approximately R38.9 billion. The core administration holds approximately 22 percent and City Power approximately 16 percent. The scale of the water debtor exposure alone exceeds the City's annual cash holdings by a factor approaching ten. A generic collection approach is insufficient. The book must be segmented by collectability category and each segment addressed through a different legal and operational mechanism: collectable business and residential debt, disputed accounts, indigent and socially protected debt, government departmental debt, hijacked building accounts, illegal connection cases and unrecoverable debt requiring write-off.

2026/27 — Debtors Management Targets

The framework requires a measurable reduction in the 91-day-and-older debtors balance through debt segmentation, the KYC data integration programme, external debt collection scaling and SARS-linked enforcement. The target is a five percent reduction in the gross 91-plus-day book within twelve months, with monthly reporting by segment category. Debtors collection days must move from the current 79 days toward the 60-day international benchmark by 2027/28. The Revenue Shared Services Centre allocation model must also be reformed to apply a first-in-first-out methodology, replacing the current proportional balance approach — a prerequisite for restoring entity-level billing accuracy across the Group.

2.7 Cash, Liquidity and Creditor Pressure

2024/25 — Audited Cash Position

The audited cash flow statement shows net cash from operating activities of R7.43 billion, offset by investing outflows of R8.87 billion — principally R8.34 billion in capital asset purchases — and financing inflows of R3.23 billion from net new borrowings. The year-end balance improved to R3.97 billion. However, the improvement was achieved in part through the drawdown of the R2.5 billion DBSA short-term facility and R670 million from Standard Bank for operational cash shortfalls, increasing total borrowings from R19.28 billion to R22.80 billion. These are operational facilities, not capital instruments. The ABSA loan covenant breach on the Cost Coverage Ratio, confirmed in the AFS Notes, is a direct signal of lender concern about the City's liquidity trajectory.

2025/26 — In-Year Liquidity Position

Cash declined from R1.8 billion to approximately R1.4 billion by February 2026, however cash rebounded to R3.9 billion in March. At this level, the City is operating without any meaningful liquidity buffer against revenue shocks, unexpected legal awards, emergency infrastructure repairs or delayed grant reimbursements. The successful redemption of the City's R9.9 billion bond portfolio — with the final bond COJ08 due in June 2026 for R1.44 billion — creates a window of opportunity for structured debt capital market re-entry, but only once audit credibility, liquidity ratios and governance reforms demonstrate sufficient improvement to rebuild investor confidence.

2026/27 — Liquidity Reform Targets

Liquidity reform must operate at three levels simultaneously. The City requires daily cash visibility through a 120-day forward cash-flow forecast reconciled to all revenue streams, grant inflows, payroll, bulk purchases, debt service commitments, creditor obligations and capital spending. It must create payment prioritisation rules that protect constitutional and operational priorities without creating uncontrolled creditor arrears. And it must link cash management directly to revenue enforcement and expenditure control. The medium-term target is a minimum cash coverage of one month — approximately R2.5 billion — sustained consistently, with the elimination of operational short-term borrowing through RSA-structured entity surplus flows.

2.8 Municipal Entity Financial Health

The City Group surplus masks substantial entity-level distress. Revenue-generating services are delivered primarily through municipal entities, and their financial health directly determines the City's service delivery capacity, revenue base and long-term fiscal sustainability. The sweeping arrangement's daily extraction of entity cash conceals the true financial position of each entity and prevents management and oversight structures from making informed decisions about which entities require intervention, restructuring or additional support.

2024/25 — Audited Entity Positions

Entity	Status	Key Signal (Audited)	Sweeping Position	Turnaround Requirement
Johannesburg Water	DISTRESS	NRW 44.79%; R3.8bn lost; infrastructure backlog R32.54bn; water debtor impairment 90%.	+R5.70bn — surplus swept to City	Ring-fenced compact, NRW reduction, SPoMA, reservoir repair, metering.
City Power	DISTRESS	R3.17bn annual deficit; net liabilities R4.43bn; bulk purchases 75% over budget.	-R15.97bn — City funding deficits	Revenue protection, AMR, energy balancing, shareholder loan conditions.

JOSHCO	DISTRESS	Deficit R559.9m; net liability R2.04bn; rental collection rate 69%.	-R1.73bn	Rental recovery, subsidy clarity, governance and cost controls.
JRA	MODERATE	Deficit R69.7m; liabilities exceed assets R116.5m; 91% transfer dependency.	-R536m	Capital prioritisation, contract management, performance RSA.
JDA	MODERATE	Cash-flow challenges from delayed City payments.	Overdrawn	Payment discipline, project pipeline controls.
Pikitup	MODERATE	Surplus R144m but landfill airspace depletion risk; fleet pressure.	+R500m	Waste infrastructure investment, fleet reliability, ring-fencing.
Joburg Market	SOUND	Surplus R117.3m; turnover R11.73bn; 46.3% national market share.	+R1.78bn	Protect commercial strength; reinvest in market infrastructure.
JPC	SOUND	Surplus R114.5m; related-party debtors exceed R1bn.	+R99m	Property revenue optimisation, lease regularisation.
JTC / JCT	SOUND	JTC surplus R21.5m; JCT surplus R3.09m; clean audits.	Minimal	Maintain governance discipline.

The pattern reveals a perverse incentive structure. The entities in financial distress are the major service delivery entities on which residents depend most directly. The entities in sound financial health are those whose surpluses are systematically swept to fund the deficits of the distressed entities. Without formal Revenue-Sharing Agreements and performance conditions, strong entities are penalised by surplus extraction while distressed entities face no performance accountability for the transfers they receive.

2.9 National Treasury's Assessment: Seven Critical Findings

National Treasury's formal assessment of the 2026/27 MTREF identified seven critical findings that define the City's current credibility deficit with its primary intergovernmental fiscal partner. These findings are not merely technical observations; they represent the minimum conditions the City must address to restore budget credibility, access market financing and demonstrate institutional recovery.

#	NT Finding	2024/25 AFS Evidence	Recovery Implication
1	Budget not credible — electricity +20.2%, water +21.5% vs audited outcomes.	Service charges under-recovered R2.55bn in 2024/25.	Revenue assumptions must be reset at NT-aligned levels before final budget.
2	Opex grows at 8.1% vs revenue at 6.5% — unsustainable mismatch.	Bulk purchases R11.9bn over budget; debt impairment R2.14bn over budget.	Expenditure must be structurally contained, not merely listed as savings targets.
3	Budget unfunded — NT applies 85% collection rate vs City's 88.6%; gap = R2.1bn.	85.9% actual collection rate; debtors book growing by R10.2bn in one year.	A funded budget requires a credible collection plan, not an aspirational target.
4	Asset renewal at 61.9% vs 100% guideline; R&M at 4.1% vs 8% norm.	R3.32bn R&M on R88.14bn PPE = 3.8%; R52.5bn combined infrastructure backlog.	Infrastructure investment must be ring-fenced and grow year on year.

5	mSCOA at 71/100; systems at 52% — data integrity compromised.	Qualified audit on parent; prior-year corrections across multiple entities.	SAP FI acceleration and mSCOA compliance are prerequisites for budget credibility.
6	MTSR: JW SPoMA appointment RED; 7 of 8 commitments Amber or Red.	0 of 8 NT Reform prerequisites fully met as at March 2026.	Eight NT commitments must be activated immediately with owners and deadlines.
7	Water mains failures at 1,551.9 per 100km; electricity access stagnant at ~79%.	NRW 44.79%; electricity losses 30%; JW backlog R32.54bn.	Service delivery failures are directly linked to financial governance weaknesses.

PART THREE**Root Cause Analysis**

Understanding the system that produces the crisis

3.1 The Systemic Crisis Loop**The Loop**

Billing weakness reduces revenue. Revenue decline produces liquidity stress. Liquidity stress defers maintenance. Deferred maintenance increases infrastructure failure. Infrastructure failure erodes public trust. Declining trust weakens payment culture. Weak payment culture further reduces revenue. Breaking this loop requires simultaneous and sequenced action across all dimensions — not sequential fixes that allow the cycle to reassert itself.

Johannesburg's financial and service delivery crisis is not a collection of independent failures. It is a self-reinforcing loop in which weakness in one area cascades into deterioration in adjacent areas, and in which each attempted fix can inadvertently worsen another dimension of the problem. The City has launched revenue campaigns without addressing billing integrity; it has set capital budgets without addressing project readiness; it has reported audit corrective actions without embedding daily documentation discipline. Each intervention treated a symptom rather than the system.

Within this loop, the sweeping arrangement adds a further and compounding dimension. Johannesburg Water's surpluses are extracted daily to fund City Power's deficits, depriving Johannesburg Water of the capital it needs for pipe replacement, reservoir rehabilitation and NRW reduction, which in turn accelerates the infrastructure deterioration that drives the revenue loss. The result is a loop within a loop. Breaking this reinforcing cycle requires simultaneous and sequenced action across all dimensions — a revenue campaign without billing correction will not hold; billing correction without loss reduction will not hold; loss reduction without ring-fenced infrastructure investment will not hold; infrastructure investment without governance reform of the sweeping arrangement will not hold.

3.2 Root Causes of Financial Distress

Root Cause Area	Evidence from Diagnostic Material	Underlying Institutional Problem	Turnaround Response
Revenue and billing failures	Collection rate close to budget but debtors book growing by R10.2bn in one year; NRW R3.8bn; City Power NTL R4bn; billing disputes and impairments rising.	Fragmented meter-to-cash chain; weak customer data; poor enforcement; query backlogs and illegal consumption.	Revenue War Room, KYC, SAP automation, external collections, D&R centralisation, meter audits and debt segmentation.
Expenditure unsustainability	Bulk purchases R4.7bn over budget; debt impairments R9.5bn; finance costs R908m over budget; PFA affordability challenge.	Budgeting and spending not sufficiently linked to affordability and cash consequences.	Cost containment, vacancy and overtime controls, procurement savings, PFA long term affordability decision and expenditure gateway.

Infrastructure underinvestment	R&M at 4%; water main failures at 1,551.9 per 100km; NRW 44.79%; electricity losses 30%; R52.5bn infrastructure backlog.	Maintenance deferred and capex not consistently targeted to reduce service and revenue risk.	Priority infrastructure pipeline, ring-fenced R&M, capex war room, loss-reduction projects and grant discipline.
Sweeping arrangement failure	JW R5.7bn surplus swept to fund City Power R15.97bn deficit; R7.48bn undocumented loans to MEs; 0 of 8 NT Reform prerequisites met.	Cross-subsidisation opaque; entity boards cannot exercise financial oversight; infrastructure starved of renewal capital.	Hybrid Model; Revenue Sharing Agreements (RSA) framework; entity cash retention; Delegation of Authority (DoA) Matrix; Single Point of Management Accountability (SPoMA) appointment; phased ring-fencing.
Audit and control weaknesses	Unqualified Group Opinion and Qualified audit on parent municipality; receivables impact R948m; incorrect expenses R348m; mSCOA at 71/100; R8.8bn UIFWE pipeline under investigation.	Compliance culture episodic; audit preparation not embedded daily; SAP and ERP gaps.	Daily reconciliations, GRAP cut-off controls, evidence packs, monthly internal audit assurance.

3.3 The Sweeping Arrangement: Structure, Asymmetry and Structural Financial Risk

What the Sweeping Arrangement Is

Following the iGoli 2002 restructuring, the City introduced a centralised treasury sweeping arrangement under which all thirteen municipal entity bank accounts are zero-balanced daily into the City's primary bank account. The arrangement provides a Group cash-pooling benefit and derives statutory authority from Sections 8 and 13 of the Municipal Finance Management Act. In principle, centralised cash management of this kind is sound practice. The problem in Johannesburg is not the principle but the execution. What began as a liquidity management tool has evolved into an opaque cross-subsidisation mechanism that operates without formal Council approval, without Revenue-Sharing Agreements, and without performance conditions on the entities receiving support.

The Asymmetric Cross-Subsidisation Structure

CRITICAL FINDING

Johannesburg Water's R4.04 billion positive sweeping balance effectively subsidises City Power's R15.68 billion negative sweeping balance. This undocumented transfer generates R1.48 billion in sweeping interest income at CJMM level annually. It is a primary driver of the R52.5 billion infrastructure backlog and directly conflicts with all eight pillars of the National Treasury Metro Trading Services Reform Framework, placing R10.1 billion in MTEF conditional grants at direct risk.

Entity	Sweeping Position (2025)	Annual Flow	Legal Status
Johannesburg Water	+R5.70bn (asset — loan to shareholder)	~R1.82bn to Group annually	Undocumented; no RSA; no performance condition
Joburg Market	+R1.78bn (asset)	~R117m to Group annually	Undocumented; no RSA
Johannesburg Property Co	+R99m (asset)	~R50m to Group annually	Undocumented; no RSA

City Power	-R15.97bn (liability — funded by Group)	~R3.17bn from Group annually	Undocumented; no performance condition
JOSHCO	-R1.73bn (liability)	~R560m from Group annually	Undocumented; no RSA
JRA	-R536m (liability)	~R70m from Group annually	Undocumented; no RSA
Other entities (combined)	Various negative positions	~R500m from Group annually	Undocumented; no RSAs

Transfer Dependency Across the Group

The cross-subsidisation problem is compounded by a pattern of extreme transfer dependency across five entities, none of which carry performance conditions on the transfers they receive. The Johannesburg Roads Agency derives 91 percent of its total revenue from City transfers. Metrobus derives more than 88 percent. Johannesburg City Parks and Zoo derives 85 percent. The Johannesburg Tourism Company derives 86 percent and Johannesburg City Theatres 82 percent. JOSHCO and the Johannesburg Development Agency each derive more than a third of their revenue from transfers. The aggregate transfer burden, when combined with the undocumented cross-subsidisation at City Power, represents a structural fiscal commitment that is neither transparent, performance-linked, nor sustainable within the City's current revenue envelope.

RSSC Allocation Distortions

Beyond the direct sweeping mechanism, the Revenue Shared Services Centre's proportional allocation model creates material distortions in entity-level financial reporting. Customer receipts are distributed proportionally based on outstanding balances — with the oldest debt prioritised — rather than being applied on a first-in-first-out basis to current consumption. This means that payments made by customers for current month consumption are algorithmically allocated toward three-year-old arrears, causing current accounts to age artificially and triggering higher Expected Credit Loss provisions. The consequence is visible in the data: Johannesburg Water's gross water debtors book of R36.23 billion carries a 90 percent impairment rate, a rate that cannot be explained by actual non-payment alone and reflects in part the allocation distortion. Reforming the RSSC allocation model to a first-in-first-out basis is a prerequisite for restoring entity-level financial accuracy and improving recovery rates across the Group.

Legal Non-Compliance

The Financial Model Review finds that the current implementation of the sweeping arrangement violates multiple higher-order legal obligations. Section 87 of the MFMA requires entity boards to exercise financial management oversight — an obligation that is structurally impossible when entity accounts are zero-balanced daily. Sections 76 and 77 of the Companies Act impose fiduciary duties on entity directors and expose them to personal liability for reckless trading where their entity's surpluses are compelled to fund other entities' deficits without formal authorisation. Sections 78 and 83 of the Municipal Systems Act provide that entities have legal autonomy as juristic persons — autonomy effectively negated by daily zero-balancing. And all eight pillars of the National Treasury Metro Trading Services Reform Framework are currently unmet.

Scenario Analysis: The Risk of Both Inaction and Abrupt Cessation

CRITICAL

If Johannesburg Water were ring-fenced immediately and abruptly, the City could face a cumulative deficit of R50.5 billion over five years. If JW, City Power and Pikitup were ring-fenced simultaneously, the cumulative deficit could rise to R64.9 billion. These figures confirm that abrupt cessation is not viable. However, maintaining the status quo without formal Revenue-Sharing Agreements guarantees NT grant forfeiture, director liability exposure and accelerating infrastructure collapse. The only viable path is the phased, risk-mitigated Hybrid Model.

Scenario	Description	5-Year Cumulative Impact	Viability
A — Status Quo (no reform)	Sweeping continues without RSAs, ring-fencing or performance conditions.	Infrastructure backlog compounds; NT grants forfeited; director liability risk escalates.	NOT SUSTAINABLE
B — Abrupt Cessation	Immediate ring-fencing of all entities from 1 April 2026.	R50.5bn cumulative deficit (JW only); R64.9bn (JW + CP + Pikitup); Eskom default risk.	NOT VIABLE
C — Phased Hybrid Model (RECOMMENDED)	JW ring-fenced first from 1 July 2026; formal RSAs; phased expansion over 36 months.	Manageable transitional deficit offset by RSA capped transfers; infrastructure renewal begins.	RECOMMENDED
D — Deferred Reform	Ring-fencing deferred beyond July 2026.	NT grant risk increases with each quarter of delay; MTSR stage-gate penalties escalate.	CONDITIONAL — delay increases risk

3.4 Unfunded Mandates as a Structural Root Cause

Constitutional Framework and the Intergovernmental Fiscal Gap

No honest root cause analysis of the City of Johannesburg’s financial distress can be complete without confronting the role of unfunded mandates in structurally constraining the City’s fiscal position. An unfunded mandate arises when a higher sphere of government assigns a function or power to local government without providing adequate financial resources to carry it out. In the South African constitutional framework, this dynamic is not incidental — it is systemic. Section 156 of the Constitution grants municipalities executive authority over the functions listed in Schedules 4B and 5B, and Section 227 entitles local government to an equitable share of nationally collected revenue to provide basic services. Yet the gap between constitutional assignment and fiscal adequacy has widened persistently, and the City of Johannesburg absorbs a disproportionately large share of this national structural burden given its role as the country’s economic heartland and largest metropolitan municipality.

The Municipal Finance Management Act, under Section 38, expressly prohibits unfunded mandates and requires that any new duty imposed on a municipality be accompanied by a corresponding funding provision. In practice, this prohibition has not been consistently enforced. Over 120 pieces of sectoral legislation impose duties on municipalities in areas including health, libraries, disaster management, ambulance services and social development, without reliable budget transfers to cover delivery costs. Section 214 of the Constitution requires national and provincial government to take into account the financial needs of municipalities in revenue sharing, yet the Municipal Equitable Share formula has not kept pace with urbanisation growth, service backlogs or the rising cost of constitutionally mandated services. For the City of Johannesburg, the cumulative effect of this intergovernmental fiscal gap is estimated at between R6 billion and R9 billion annually in uncompensated cost exposure — a structural fiscal drain that directly undermines the City’s ability to fund its own operational priorities, maintain its infrastructure and service its obligations.

The Principal Unfunded Functions and Their Fiscal Impact on the City

Health clinics and emergency medical services, mandated through the National Health Act 61 of 2003, represent the largest single unfunded mandate category for the City at an estimated annual shortfall of R2.1 billion. Despite national government’s primary constitutional responsibility for health, the City continues to operate a network of primary healthcare facilities and emergency response services with inadequate national transfer compensation. Libraries and community services, assigned to local government under Schedule 5B of the Constitution and regulated through the Libraries Act, carry an estimated annual shortfall of R1.8 billion. These are discretionary facilities in political perception but constitutionally mandatory functions in law. Human settlements delivery under the Housing Act 107 of 1997 imposes a further estimated gap of R1.2 billion annually, driven by the mismatch between housing demand in Johannesburg’s growing urban population and the quantum of conditional grant funding transferred to the City. Disaster management under the Disaster

Management Act accounts for an estimated R600 million annual shortfall, and social development services a further R500 million.

In aggregate, the City is estimated to be diverting more than 30 percent of its operating budget to functions that are constitutionally mandated but insufficiently funded from the fiscus. This diversion is not optional — it reflects real constitutional obligations that expose the City to court orders, public protests, and governance crises if they are not met — but it crowds out the City’s discretionary expenditure on operations, maintenance and infrastructure renewal. The R52.5 billion combined infrastructure backlog documented in this framework, the persistently low repairs and maintenance ratio of approximately four percent of property, plant and equipment, and the chronic under-capitalisation of Johannesburg Water and City Power cannot be understood solely as a product of internal governance failures. They are also a product of a structural intergovernmental fiscal arrangement that has consistently over-burdened the City’s revenue envelope.

How Unfunded Mandates Amplify the Systemic Crisis Loop

The systemic crisis loop described in Section 3.1 — in which billing weakness reduces revenue, which defers maintenance, which accelerates infrastructure failure, which erodes payment culture — is materially worsened by the fiscal compression created by unfunded mandates. When the City is required to fund health services, libraries and disaster management from its own revenue, it has less available for water pipe replacement, electricity grid maintenance, capital expenditure readiness and creditor management. This means the compounding infrastructure deterioration documented throughout this framework does not arise from administrative failure alone. It is, in part, the predictable outcome of a municipality that is simultaneously operating as the country’s largest service delivery platform, a de facto national health provider and a social development agency — without commensurate intergovernmental fiscal support.

There is a further and more subtle mechanism. The fiscal stress induced by unfunded mandates reduces the City’s creditworthiness, limits its access to capital markets and reduces its ability to raise long-term infrastructure financing. This is confirmed by Moody’s placing the City’s Ba3 credit rating under review for possible downgrade — a rating action driven in part by fiscal stress metrics that are themselves a partial consequence of the intergovernmental fiscal gap. The R10.1 billion in National Treasury MTEF conditional grants currently at risk as a result of Metro Trading Services Reform non-compliance represents another dimension of the same dynamic: the City’s grant dependency has grown precisely because the Municipal Equitable Share formula has not kept pace with the City’s actual cost of service delivery, pushing the City toward conditional grant reliance as a structural substitute for adequate formula-based transfers. Sector departments have also compounded the problem by bypassing the Budget Council and Budget Forum processes and unilaterally imposing new service delivery obligations without prior fiscal impact assessments — a pattern that the 2024 White Paper on Local Government has explicitly recognised as requiring legislative remedy.

Emerging Policy Reform and its Implications for the City’s Recovery

The 2024 White Paper on Local Government acknowledges the unfunded mandate problem and proposes a framework for addressing it. Key provisions include a mandate costing requirement that would make formal cost assessments and guaranteed funding mechanisms prerequisites for any legislation imposing new obligations on municipalities before enactment; a reformed Municipal Equitable Share formula that explicitly accounts for unfunded mandates, urbanisation pressures and differentiated municipal capacity; a strengthened Budget Forum process that requires sector departments to obtain approval before implementing functional assignments; a formal intergovernmental assignment protocol requiring full staff, asset and funding transfers alongside any transfer of powers; and an Unfunded Mandate Oversight Mechanism under the Department of Cooperative Governance and Traditional Affairs to receive municipal complaints and arbitrate intergovernmental financial disputes. Additionally, the White Paper proposes the rationalisation and consolidation of conditional grants to reduce administrative burden and align grants with actual functional responsibilities.

These reforms, if enacted and implemented, would represent a meaningful improvement in the structural environment within which the City must achieve its financial turnaround. However, the City cannot plan its recovery on the assumption that intergovernmental fiscal reform will materialise within the 2026/27 to 2028/29 framework period. The turnaround must be achievable under current intergovernmental conditions while simultaneously making a structured, evidence-based case to national government for fiscal relief. The City’s

engagement with National Treasury and the Presidential Johannesburg Working Group provides a formal channel for this advocacy, and the Intergovernmental Relations compact contemplated under Section 8.5 of this framework should include an explicit strand on unfunded mandate quantification and the City's formal request for MES formula adjustment.

PART FOUR**Financial Turnaround Framework and Recovery Pillars**

Six integrated pillars for a structured and measurable recovery

4.1 Overview of the Framework

#	Pillar	Purpose	Core Measures
1	Financial Recovery	Restore budget credibility, financial discipline and cash stability.	Expenditure controls, funded budget discipline, cash-flow monitoring, MFMA compliance, ABSA covenant remedy.
2	Revenue Enhancement	Protect and grow the City's revenue base.	Billing correction, collections, KYC, SAP automation, external collections, D&R centralisation, debt segmentation.
3	Expenditure Containment	Reduce non-essential and inefficient spending without undermining delivery.	Vacancy moratorium, overtime controls, bulk purchase discipline, PFA long term affordability decision, procurement savings.
4	Creditor and Liquidity Reform	Stabilise cash, reduce arrears and restore payment credibility.	120-day cash-flow forecasting, payment prioritisation, RSA waterfall, SPoMA reform, creditor plans.
5	Governance and Compliance	Strengthen financial governance, audit outcomes and entity oversight.	mSCOA/ERP improvement, UIFWE reduction, audit remediation, entity compacts, Hybrid Model implementation.
6	Labour Stability	Manage workforce issues within affordability while protecting delivery.	PFA long term affordability, labour engagement, performance agreements, overtime reform, change management.

Pillar 1: Financial Recovery**2024/25 Context (Audited)**

The audited financial statements confirm that the Group net surplus of R1.643 billion was achieved only through the drawdown of R2.5 billion in short-term DBSA borrowings and a R412.7 million deferred tax credit — both non-recurring items. The ABSA loan covenant breach on the Cost Coverage Ratio, confirmed in the AFS Notes, signals lender scrutiny that must be formally addressed and cannot recur. Total borrowings increased from R19.28 billion to R22.80 billion, with the increment driven primarily by operational short-term facilities rather than capital investment — an unsustainable pattern.

2025/26 and 2026/27 Actions and Targets

The most important actions under this pillar are the adoption of NT-aligned revenue assumptions at 85 to 86 percent collection levels unless supported by verified War Room evidence, the implementation of daily cash-flow monitoring and a rolling 120-day cash forecast, and the formal response to the ABSA covenant breach with a demonstrated remedy by the end of the first quarter. A monthly financial recovery scorecard, prepared by the Group CFO and reviewed by the City Manager and Mayoral Committee, must serve as the primary accountability instrument. The target for 2026/27 is cash coverage of minimum 30 days, a debt-to-revenue

ratio maintained below 35 percent, and the elimination of operational short-term borrowing through RSA-structured entity surplus flows.

Key Performance Indicators

Funded budget status | Cash coverage days | Monthly operating surplus or deficit | Section 71 variance resolution rate | Creditor days

Pillar 2: Revenue Enhancement

2024/25 Context (Audited)

Service charges under-recovered by R2.55 billion against budget, with electricity falling short as units sold declined and water under-recovering as a result of Water Demand Management conservation measures. The gross consumer debtors book grew by R10.2 billion despite the collection rate being close to budget, confirming that billing and collection are generating nominal revenue without converting it into reliable cash. Fines and penalties exceeded budget by 145 percent, demonstrating that enforcement-led revenue significantly outperforms projections when properly resourced and sustained.

2025/26 Progress and 2026/27 Targets

The Revenue War Room has recovered R1.541 billion of the R2.9 billion target as at May 2026 — a credible start reflecting billing Division 8 accounts, stand-by-stand billing, debit journal adjustments, external debt collection of R202 million, and the Walk-the-Floor campaign recovering R170 million since March 2026. However, the gap of R1.359 billion remains, and the meter installation target of 44,000 is significantly behind. The programme must move beyond general collection campaigns and rebuild the full meter-to-cash chain: correct customer data, accurate meters, valid tariffs, correct billing, rapid query resolution, targeted enforcement and cash conversion. The War Room must report weekly against five tests — value identified, value validated, value billed, value collected and value sustained — with the gap between potential and actual cash collection visible at all times.

Key Performance Indicators

Revenue collected against R2.9bn ambition | Corrected accounts billed | Debt 91+ days reduction | KYC completion rate | Query resolution turnaround time

2.1 Addressing the Culture of Non-Payment for Services

Revenue recovery cannot succeed without confronting the underlying culture of non-payment. Residents must understand that the cost of electricity, water and waste services is real: bulk purchases from Eskom and Rand Water must be settled, and operational staff must be remunerated. The debtors book at R73.7 billion — with 90 percent aged beyond 91 days — confirms that this culture, if unchallenged, will neutralise every billing and collection improvement in the Revenue War Room programme.

Efforts should intensify enforcement against illegal connections, meter bypassing and meter tampering as a non-negotiable component of the loss-reduction programme. Demonstrated improvements in collection rates in identified high-performing regions provide a basis for engaging organised labour on performance-linked revenue incentive arrangements linked to the implementation of the PFA. These measures will be incorporated into the Revenue War Room reporting structure and tracked monthly against the five-step meter-to-cash chain.

Key Performance Indicators

Illegal connection operations conducted | Meters secured or replaced after tampering | PFA incentive engagement sessions held | High-performing region collection rate improvement reported

Pillar 3: Expenditure Containment

2024/25 Context (Audited)

Total expenditure exceeded budget by R4.52 billion. Bulk purchases — the single largest budget credibility failure at R4.7 billion over budget — are driven by structural factors: Eskom tariff escalation and the end of load shedding increasing consumption are not temporary aberrations, and only City Power's ring-fencing and non-technical loss reduction will structurally address this overrun. Operational expenditure growing at 8.1 percent against revenue growth of 6.5 percent — the trajectory flagged by National Treasury — will progressively erode the operating surplus unless addressed through deliberate containment measures.

2025/26 and 2026/27 Actions and Targets

The PFA Phase 2 affordability question is the single largest expenditure pressure item at R1.2 billion. A Council resolution must be secured before the final 2026/27 budget is approved, clearly stating whether Phase 2 is deferred, partially implemented or implemented with a funded offset — a deferred decision creates an unquantified liability that threatens budget credibility with both National Treasury and Moody's. Beyond PFA, the framework requires enforcement of the vacancy moratorium and overtime controls with a monthly savings dashboard, review of contracted services targeting National Treasury's identified R132 million saving, and implementation of an expenditure gateway requiring an affordability assessment before any new commitment is made.

Key Performance Indicators

Opex growth vs revenue growth | Overtime spend | Contracted services savings | PFA funding decision status | Debt impairment movement

Pillar 4: Creditor and Liquidity Reform

2024/25 Context (Audited)

Payables from exchange transactions stood at R25.40 billion in current liabilities and R2.32 billion in non-current liabilities, confirming persistent non-compliance with MFMA Section 65's 30-day payment requirement. The R7.48 billion in CJMM loans to municipal entities — documented in the AFS but backed by no formal instruments — generated R1.48 billion in sweeping interest income for the parent municipality, confirming the scale of daily zero-balancing that continues without formal Council approval.

2025/26 — The RSA Waterfall as the Central Liquidity Instrument

The most significant creditor and liquidity reform action in 2025/26 is the establishment of the Johannesburg Water Revenue-Sharing Agreement waterfall. This instrument replaces the opaque sweeping mechanism with a transparent, Council-approved priority structure. The first tier protects Johannesburg Water's full operational expenditure and working capital requirement of approximately R15.8 billion annually as an unconditional first call on revenue. The second tier directs a minimum of R2 billion annually into a ring-fenced Capital Replacement Reserve, ending the practice of extracting entity surpluses before infrastructure renewal is funded. The third tier allocates R500 million annually to the NRW reduction programme. The fourth tier is a capped and performance-linked City transfer of R1.2 billion annually that formally replaces the discretionary sweeping mechanism. Any residual balance forms a fifth tier available to Johannesburg Water's board for liquidity buffering and future capital expenditure.

Priority Tier	Purpose	Annual Amount	Condition
Tier 1 — Operational Continuity	JW OPEX and working capital retention	R15.8bn	Mandatory — first call on revenue
Tier 2 — Capital Replacement Reserve	Infrastructure renewal for water and sanitation	R2.0bn	Mandatory — minimum 10% of surplus
Tier 3 — NRW Reduction Programme	Leak detection, pipe replacement, PRV investment	R500m	Mandatory — linked to NRW reduction targets
Tier 4 — City Transfer (RSA Capped)	Transfer to City under formal, Council-approved RSA	R1.2bn (capped)	Conditional — performance-linked
Tier 5 — Excess Reserve	JW liquidity buffer and future capex	Residual balance	Discretionary — JW Board approval

Key Performance Indicators

Cash balance | Cash coverage days | RSA waterfall compliance | Creditor ageing | Grant cash-backed status | Bulk creditor compliance

Pillar 5: Governance and Compliance

2024/25 Context (Audited)

The parent municipality's qualified audit opinion is the most visible governance signal from the 2024/25 year, but it sits within a broader pattern of institutional control failure. The mSCOA compliance score of 71 out of 100 and SAP Financial Accounting implementation at 39 percent mean there is no single citywide management view. UIFWE stands at R13.3 billion with a further R8.8 billion pipeline under investigation — reduced from R23.7 billion through write-offs rather than improved compliance. The R7.48 billion in undocumented CJMM loans to municipal entities is the single largest UIFWE regularisation target and will be addressed through the RSA Framework.

2025/26 Governance Prerequisites — The Critical Path

Eight governance prerequisites for the Hybrid Model must be completed in 2025/26. A Council resolution approving the RSA Framework and Hybrid Model must be secured by 30 June 2026— this is the legal foundation without which no other governance reform can proceed. The Delegation of Authority Matrix must be revised and formally approved by the end of June 2026, restoring entity board financial oversight authority. The SPoMA position for Johannesburg Water — rated Red by National Treasury's MTSR assessment — must be advertised and filled by June 2026, representing the single highest-priority appointment in the City Group. The ring-fenced bank account for Johannesburg Water must be operational and MFMA Section 8-compliant by 30 June 2026. The ABSA loan covenant breach must be formally responded to by 30 June 2026. City Power's R19 billion sweeping balance must be formally restructured as a subordinated loan by September 2026. The RSSC allocation model must be redesigned to first-in-first-out basis by September 2026. And a full NT compliance submission against all eight MTSR commitments must be submitted by September 2026.

Key Performance Indicators

Audit finding closure rate | UIFWE regularisation progress | mSCOA compliance score | SAP FI implementation | RSA compliance status | Evidence pack rate

5.1 Combating Systemic Fraud and Corruption in Municipal Entities

Governance and compliance cannot be restored while systemic fraud and corruption persist within municipal entities. The Section 79 Finance Oversight Committee has noted that bribery and corruption — involving contractors, operational staff and management at various levels — represent a material risk to the financial turnaround, most acutely within City Power. Fraud inflates costs, erodes revenue, undermines infrastructure delivery and directly contributes to the electricity losses that cost the City approximately R5.7 billion annually. No governance framework can succeed if it does not confront this risk explicitly.

Anti-corruption protocols and mandatory reporting obligations should be embedded in all entity operations; consequence management for fraud and corruption is swift, transparent and publicly reported; and performance agreements are extended to all categories of workers — not only senior management — incorporating explicit integrity targets alongside service delivery objectives. Employees who achieve targets and demonstrate honest conduct should be formally recognised and rewarded. These measures reinforce the accountability objectives of Pillar 5 and will be monitored through the monthly governance dashboard reported to Council.

Key Performance Indicators

Number of fraud and corruption cases investigated and concluded | Consequence management actions taken | Performance agreements extended to all employee categories | Anti-corruption training completion rate

Pillar 6: Labour Stability

Labour stability is critical because the turnaround cannot be implemented against the workforce. At the same time, labour agreements must be affordable, lawful and aligned to service delivery outcomes. The PFA Phase 2 issue must be resolved through a transparent affordability model and structured labour engagement rather than deferral. Performance agreements for Section 54A and Section 56 managers, Group Heads, entity CEOs and senior finance officials must be aligned to turnaround targets within the first 60 days of framework adoption. City Power's operational transformation under the Transition Fund arrangement will require sustained engagement with labour structures given the entity's history of industrial action. Post-retirement benefit obligations of R881 million recorded in the 2024/25 Group AFS require actuarial management as part of the medium-term fiscal framework.

Key Performance Indicators

PFA Council decision | Labour engagement sessions held | Overtime reduction percentage | Performance agreement alignment rate | Change management rollout completion

Pillar 7: Personnel-Expenditure and Staff-Establishment Audit

The Section 79 Finance Oversight Committee has recommended that the Financial Turnaround Framework be strengthened through an independent personnel-expenditure and staff-establishment audit across the Core Administration and all municipal entities. This is framed as a fiscal-discipline, governance and service-delivery intervention in direct support of the Framework's expenditure-containment, performance-management and accountability objectives. It is not an indiscriminate staff-reduction exercise.

Scope of the audit: The audit shall include: verification of all employees against the approved staff establishment, payroll, identity, attendance and work-location records — with specific testing for ghost workers, duplicate records, inactive employees, unauthorised appointments and employees remunerated outside approved structures; verification that each post remains necessary, funded, properly filled and linked to a current service-delivery or statutory function; verification of employee qualifications, professional registrations and competency requirements in accordance with the Local Government: Municipal Staff Regulations, 2021; assessment of whether employees are performing their designated functions and whether underperformance has been addressed through lawful performance-management processes; review of overtime, acting allowances, scarce-skills allowances, standby pay, leave encashment, travel and subsistence claims to confirm legality, affordability and continuing necessity; review of all staff-linked recurring contracts (cell phones, data, devices, vehicles, fuel cards) to confirm necessity and cost-

effectiveness; verification that municipal manager and senior manager remuneration complies with the upper limits prescribed under the Municipal Systems Act, 2000; and verification that councillor remuneration, allowances and benefits comply with the Remuneration of Public Office Bearers Act, 1998.

Reporting: Audit outcomes shall be formally tabled before Council and made available in full to councillors, reported through the Financial Turnaround Framework dashboard. The report must include a costed implementation plan identifying lawful savings, irregular expenditure risks, recoverable overpayments, posts requiring rationalisation, unnecessary staff-linked contracts to be cancelled, and any matters requiring disciplinary, civil recovery or criminal referral. The Group Chief Financial Officer is directed to commission this audit within 30 days of Council's adoption of this Framework, with completion and reporting to Council within 90 days thereafter.

Key Performance Indicators

Audit commissioned within 30 days | Audit report tabled to Council within 90 days | Ghost worker / duplicate records identified and resolved | Costed savings plan adopted | Disciplinary and criminal referrals actioned

PART FIVE**Priority Workstreams and Operational Interventions**

Revenue, infrastructure, audit and entity recovery programmes

5.1 Revenue War Room and the R2.9 Billion Revenue Ambition

2024/25 Baseline

Service charges under-recovered by R2.55 billion in 2024/25. Fines and penalties exceeded budget by 145 percent, demonstrating that enforcement-led collection significantly outperforms projections when resourced. Electricity and water were both below budget due to losses, Water Demand Management and billing inaccuracies — structural challenges that the War Room must address programme by programme.

2025/26 Progress (May 2026)

The Financial Sustainability Progress Report of 8 May 2026 records R1.541 billion recovered against the R2.9 billion target. Billing Division 8 has addressed 699 accounts for an estimated R8.5 million impact. Stand-by-stand billing has addressed 472 accounts for R12.6 million. Debit journal adjustments carry a potential impact of R464.9 million with R440.4 million applied. The under-billed initiative has addressed 69 accounts for a potential R283.6 million. External debt collection has recovered R202 million to March 2026, and the Walk-the-Floor campaign has collected R170 million since 10 March 2026. These results are credible and must be sustained and scaled. The meter installation target of 44,000 is significantly behind at 3,109 actual, requiring urgent escalation.

2026/27 Target

The full R2.9 billion revenue ambition must be closed and embedded into the 2026/27 budget baseline. The War Room must continue weekly reporting against all five tests — value identified, validated, billed, collected and sustained — with consequence management for any workstream falling behind its weekly target.

Accountability Test

The Revenue War Room must report weekly against five tests: value identified, value validated, value billed, value collected and value sustained. The difference between potential revenue and cash collected must be visible at all times.

5.2 LPU and SPU Metering Initiatives

Large Power User and Small Power User metering initiatives are central to electricity revenue protection. LPU initiatives stand at approximately 66 percent completion — 10,557 of the 15,909 baseline completed, with 5,442 outstanding and 408 exceptions. SPU initiatives are at near-full completion at 30,958 of 31,268, with 7,776 exceptions of which 23,173 have been resolved. Energy balancing across the 1,100 identified feeder zones has commissioned 608 substations, with 310 outstanding and 173 exceptions. These figures reflect substantial progress, but the exception management burden across all three programmes requires active governance to prevent completed work from being undermined by unresolved system anomalies.

Programme	Baseline	Completed	Outstanding	Exceptions / Resolved	Interpretation
LPU initiatives	15,909	10,557	5,442	408 exceptions	Prioritise remaining by revenue value and risk.
SPU initiatives	31,268	30,958	310	7,776 exceptions; 23,173 resolved	High completion; exceptions indicate system complexity.
Energy balancing	1,100 feeder zones	608 at 32 substations	310	173 exceptions	Useful for loss localisation and feeder-level planning.

5.3 City Power Loss Reduction Programme

2024/25 Audited Position

Total electricity losses of approximately 30 percent represent one of the most financially material operational challenges in the Group, comprising approximately 21 percent non-technical losses estimated at R4 billion and approximately nine percent technical losses estimated at R1.7 billion. This loss rate significantly exceeds the benchmark metro loss range of 10 to 15 percent. The combination of a 30 percent loss rate with a 75 percent bulk purchase budget overrun creates a compound fiscal crisis at City Power that cannot be addressed through collection improvement alone.

2025/26 Interventions and 2026/27 Targets

The Loss Reduction Programme targets a reduction in non-technical losses from 21 percent to 15 percent by December 2026 — a milestone that serves as the prerequisite for access to the second tranche of the Transition Fund — and to 12 percent by June 2027. Technical losses are targeted at six percent by 2027/28, recovering approximately R570 million annually. The effective collection rate improvement from approximately 25 percent to 40 percent by June 2027 represents a potential recovery of R3.5 to R4 billion annually. The Eskom settlement agreement of R835 million must be executed by September 2026 to eliminate the default risk that currently represents the Group's most extreme single financial risk.

Loss Type	Scale (2024/25)	Core Drivers	Intervention Package
Non-technical losses	~21%; R4bn	Illegal connections, meter bypass, billing gaps, non-vending meters.	AMR for large users, stand-by-stand audits, JMPD operations, KYC, enforcement and billing corrections.
Technical losses	~9%; R1.7bn	Ageing grid, faulty meters, transformer and feeder losses, weak telemetry.	Grid renewal, energy balancing, substation automation, SCADA and load-profile audits.

5.4 Johannesburg Water Non-Revenue Water Programme

2024/25 Audited Position

The 2024/25 audited financial statements confirm through Note 24 on Water Losses that total NRW stands at 44.79 percent, representing R3.837 billion annually. This includes unbilled authorised consumption of 11.85 percent (R1.015 billion) and the controllable water losses component of 32.94 percent, comprising physical losses of 23.72 percent from network leaks and commercial losses of 9.22 percent from illegal connections and metering errors. The controllable loss component exceeded the upper bound of Johannesburg Water's

own target range of 30 to 40 percent by 4.79 percentage points — R410.6 million in excess losses above the target band.

2025/26 Programme Progress (March 2026)

NRW Intervention	Progress / Status (Mar 2026)	Potential / Impact	Turnaround Requirement
Reservoir and tower rehabilitation	42 leaking reservoirs identified; 22 prioritised; 7 contractors appointed.	Potential saving: ~15,796 kl/d.	Fast-track contractor performance; monthly evidence of completed repairs.
Active and passive leak detection	9,116.7 km surveyed; 2,173 bursts and 6,439 meter leaks repaired.	11.76m kl/annum saved YTD.	Maintain annual survey target; prioritise high-loss zones.
Pressure management (PRVs)	535 of 718 PRVs rehabilitated; 51 smart controllers installed.	Night-flow reduction: 5.92m kl/annum.	Accelerate rehabilitation; connect to telemetry dashboard.
STS prepaid meters	41,800 installed; 41,779 on vending platform.	Improved cash conversion and consumption management.	Resolve bypass challenge through enforcement and community engagement.
Bulk metering telemetry	160 of 203 critical meters linked to telemetry.	Enables zonal water balance and targeted WDM.	Complete telemetry; use data for area-level interventions.
Water pipe replacement	16km replaced of 85km annual target (19%).	R1.09bn/yr required for 1.5% renewal rate.	Critical gap — escalate contractor capacity and procurement readiness.
Capital Replacement Reserve	Currently swept — not ring-fenced.	R2bn p.a. required from July 2026.	JW RSA Tier 2 to establish CRR from 1 July 2026.

5.5 AGSA Audit Remediation Programme

2024/25 — Qualification Areas

The AGSA issued a qualified opinion on the City of Johannesburg parent municipality for 2024/25. The qualification covers three areas: receivables from exchange transactions, where insufficient audit evidence affected the ability to confirm existence, accuracy, valuation and completeness of the debtors balance with a financial impact of R948 million; incorrect recognition of expenses, where prior-year expenditure was recorded in the 2024/25 financial year in violation of GRAP cut-off requirements, with an impact of R348 million; and general expenses, where system constraints and incomplete procedures contributed to recognition weaknesses with an impact of R617 million. The City has formally disputed AGSA's audit conduct. However, the dispute does not suspend the audit outcome — the qualified opinion stands and must be addressed through substantive corrective action.

2025/26 Actions and 2026/27 Target

Audit Reform Area	Key Actions	Owner	Timeline
Debtor verification	Daily debtors reconciliation; validate accuracy and supporting schedules against ledger.	Group Finance / Accounting	April 2026 — then monthly

Expense recognition controls	Enforce GRAP cut-off procedures; automate expense recognition through SAP.	Core Accounting / SAP	April 2026 and ongoing
Financial documentation	Load all outstanding documentation; complete full GRAP compliance review.	Departments and Finance	April 2026 and ongoing
Record management	Standardised record-keeping protocols; retrieval-ready audit evidence with clear ownership.	Group Finance / CM Office	April–June 2026; then institutionalised
Audit readiness programme	Monthly internal audit reviews; pre-audit preparation from July 2026.	GCFO / City Manager Office	April–June 2026; 2026/27 cycle
JSE listing requirements dispute	Resolve audit dispute with AGSA to restore debt capital market access.	GCFO / Legal	June 2026

Target

Unqualified audit opinion for both Group and parent municipality for 2025/26. Clean financial statements, GRAP compliance verified across all departments, and an institutional culture of financial accountability embedded in daily operations.

5.6 Capital Expenditure and Infrastructure Delivery

Capital execution is a major institutional credibility test. Only 41 percent of the R8.4 billion capital budget had been spent by the end of March 2026. This is not primarily a funding failure; it is an execution failure. The consequences are significant: infrastructure does not improve, service delivery does not visibly change, grant conditions are at risk, and public trust continues to erode. The root causes are well understood — late project readiness, SCM process delays, payment delays to contractors, land and wayleave constraints, design inadequacies and contractor performance failures — and each blocked project requires a different intervention. A weekly Capital Expenditure War Room must classify projects by blockage type and assign a named unblocker with a resolution date.

The R2 billion Capital Replacement Reserve established through the Johannesburg Water RSA from July 2026 represents the single largest new infrastructure investment instrument the City will have created in years and must be deployed with discipline and transparency from the first quarter. Capital spending must be assessed not only by the percentage of budget spent but by whether spending is reducing losses, improving infrastructure reliability, unlocking revenue and producing measurable improvements in the resident experience.

5.7 Municipal Entity Turnaround Compacts

Every major municipal entity must sign a turnaround compact aligned to this framework within 60 days of its adoption. The compact must translate Group recovery priorities into entity-specific financial, service delivery, audit and governance commitments with named owners and monthly reporting obligations. The City Manager, acting on behalf of the shareholder, must hold entity CEOs accountable to their compacts through monthly reporting and quarterly board performance reviews.

Compact Element	Minimum Content
Baseline financial position	Revenue, expenditure, deficit or surplus, cash, creditors, debtors, sweeping position, liquidity and solvency as at signing date.
Service delivery baseline	Core operational indicators: losses, connections, failures, repairs, fleet availability and response times.
Revenue and cost targets	Collection targets, billing accuracy, loss reduction targets, tariff assumptions and cost containment commitments.

Capital plan	Priority projects, readiness stage, procurement stage, funding source and monthly capex target.
Audit plan	Outstanding findings, corrective actions, evidence requirements and internal assurance schedule.
Governance obligations — RSA	RSA performance milestone obligations, board reporting frequency, DoA compliance and consequence management framework.
Risk register	Top financial, operational, legal, labour and service delivery risks with documented mitigations.

PART SIX**Implementation Model, Hybrid Model and Governance Architecture**

From strategy to execution — the structure for delivery

6.1 The Hybrid Model — Phased Ring-Fencing and Revenue-Sharing Agreements

The recommended approach for reforming the sweeping arrangement is the Hybrid Model: a phased, risk-mitigated transition to ring-fencing, commencing with Johannesburg Water on 1 July 2026 and expanding over 36 months. The Hybrid Model preserves Group cash-pooling benefits during the transitional period while establishing entity-level accountability through formal, Council-approved Revenue-Sharing Agreements. It is the only approach that is simultaneously legally sound, financially viable and practically achievable within the City's current institutional capacity and the National Treasury's reform timeline.

The model rests on four structural pillars. First, formal Revenue-Sharing Agreements — Council-approved instruments that explicitly define transfer amounts, caps, conditions and performance requirements for each entity, replacing the opaque sweeping mechanism with documented, accountable inter-entity transfers. Second, entity cash retention limits — defined daily liquidity buffers permitting entities to retain specified cash amounts for operations, creditor payments and infrastructure before sweeping any balance, restoring practical board authority over cash positions. Third, the Delegation of Authority Matrix — a formal, approved instrument that clarifies decision-making powers between entity boards and Group Treasury, restoring entity board financial oversight authority under the Companies Act and MFMA. Fourth, performance conditionality — a fundamental departure from the current model in which all transfers to City Power and deficit entities are linked to defined turnaround milestones, converting cross-subsidisation from an entitlement into an accountability instrument.

Pillar	Description	Legal Instrument	Target Date
1. Formal Revenue-Sharing Agreements	Council-approved RSAs defining transfer amounts, caps, conditions and performance requirements.	MFMA S8(1); MSA S81; Council resolution	June 2026
2. Entity Cash Retention Limits	Defined daily liquidity buffers for operations, creditors and infrastructure before sweeping.	MFMA S87; NT Reform requirement	June 2026 — DoA Matrix
3. Delegation of Authority Matrix	Clarified decision-making powers between Entity Boards and Group Treasury.	MFMA S92; Companies Act S76; King IV	June 2026
4. Performance Conditionality	All transfers to City Power and deficit entities linked to defined turnaround milestones.	MFMA S55; Companies Act S66	September 2026

Performance Conditionality on Revenue-Sharing Agreements

Performance conditionality transforms each RSA into a two-way accountability compact. Under the Johannesburg Water RSA, the capped City transfer of R1.2 billion annually is conditional on the Capital Replacement Reserve being funded at R2 billion, the NRW programme being funded at R500 million and NRW trending below 40 percent — failure to meet these conditions results in suspension of the transfer pending a Council review. For City Power, the Transition Fund is structured in three performance-linked tranches: the first conditional on submission of the Eskom settlement plan and Non technical Losses (NTL) reduction to 18

percent by June 2026; the second on NTL at 15 percent by December 2026, 50,000 smart meters installed and a 35 percent collection rate; and the third on NTL at 12 percent by June 2027, 100,000 smart meters installed and a 40 percent collection rate. For the JRA, the performance-linked subsidy RSA requires measurable road resurfacing targets, fleet availability above 75 percent and contract management milestones before the full transfer amount is released.

6.2 Governance Architecture

The framework requires a governance architecture strong enough to maintain political oversight while protecting administrative execution. The principle is that political leadership sets the mandate, resolves policy choices and provides oversight, while the administration converts the mandate into funded, lawful, evidence-based implementation.

Structure	Chair / Lead	Core Role	Frequency
Political Oversight Committee	Executive Mayor	Political direction, policy blockage resolution, high-level progress oversight and Council alignment.	Monthly
Administrative Steering Committee	City Manager	Implementation coordination, accountability enforcement, entity and interdepartmental issue resolution.	Weekly / fortnightly
Financial Turnaround War Room	GCFO / Group Governance	Revenue, cash, expenditure, creditors, audit, capex and entity financial recovery tracking.	Weekly
Capital Expenditure War Room	COO / Infrastructure lead	Priority projects, blocked projects, grant spending and infrastructure delivery.	Weekly
Audit Remediation Task Team	Internal Audit / CM Office / GCFO	Qualification remediation, evidence packs, GRAP controls and pre-audit readiness.	Monthly + weekly technical
Entity Compact Forum	Group Governance / CM Office	Entity financial recovery, audit actions, service delivery targets and compact compliance.	Monthly
RSA Oversight Committee	GCFO / Group Treasurer	RSA waterfall compliance, performance milestone achievement and quarterly reporting to Council.	Quarterly + as needed

PART SEVEN

Reporting, Monitoring and Risk Management

The accountability architecture for implementation

7.1 Reporting Framework

Reporting must shift from descriptive narrative to management-oriented discipline. Every report must show the baseline, target, actual performance, variance, reason for variance, corrective action, owner, deadline and evidence. The City must use a single implementation tracker and a dashboard that draws from finance, entities, revenue, capital, water, electricity, audit and risk data — updated monthly and reviewed weekly for high-risk items. A consolidated Financial Turnaround Progress Report must be tabled monthly at Mayoral Committee and presented quarterly to Council.

Report	Frequency	Prepared By	Submitted To	Minimum Content
Daily cash dashboard	Daily	GCFO / Treasury	CM, Executive Mayor	Opening balance, inflows, outflows, closing balance, risk items.
Revenue War Room report	Weekly	Group Finance / RSSC	CM, Mayoral Committee	Target, billed, collected, corrected accounts, enforcement and exceptions.
Capital Expenditure War Room	Weekly	Infrastructure / Entities	City Manager	Capex spend, blocked projects, grant spend, milestones, unblockers.
RSA Waterfall Compliance Report	Monthly (quarterly to Council)	Group Treasurer / SPoMA	GCFO, Council	JW RSA tier compliance; CRR funding status; NRW milestone; City transfer.
Audit remediation report	Monthly	Internal Audit	Audit Committee, CM	Findings, actions, evidence, responsible owner and closure status.
Entity recovery report	Monthly	Entity CEOs / Group Governance	CM, Shareholder structures	Financial, service, audit and risk compact performance.
Financial Turnaround Progress Report	Monthly	Turnaround PMO	Mayoral Committee, Council	Dashboard, risk matrix, tracker and decisions required.
Quarterly strategic review	Quarterly	City Manager	Council, NT / PJWG	Progress against phases, risks, policy choices, support requirements.

7.2 Portfolio of Evidence Discipline

Every reported achievement must have a portfolio of evidence. This is especially important given the qualified audit opinion, which was driven in part by the absence of supporting documentation. The evidence pack must be part of monthly management discipline, stored in a standardised digital repository with clear ownership and retrieval protocols — not assembled at audit time. Revenue billed must be supported by billing run reports, account lists, system extracts, quality assurance sign-offs and reconciliations to the general ledger. Revenue collected must be supported by bank statements, SAP allocation reports and reconciled cash reports. RSA waterfall compliance must be supported by the Johannesburg Water ring-fenced account statement, CRR contribution confirmations, NRW programme expenditure records and City transfer authorisations. Capital project progress must be supported by contracts, purchase orders, site certificates, payment certificates, milestone photographs, risk logs and financial reports. Audit finding closures must be supported by the finding reference, the corrective action taken, the evidence file and internal audit validation.

7.3 Risk Matrix

The following risk matrix captures the extreme and high-rated risks to the framework. It must be maintained as a live instrument by the Steering Committee, updated monthly and reported quarterly to Council.

Risk	Likelihood	Impact	Primary Mitigation	Owner
City Power Eskom default — grid collapse risk	High	Extreme	Transition Fund established before CP exits sweeping pool; Eskom settlement by September 2026.	City Power / GCFO
RSA not Council-approved before JW go-live	Medium-High	Extreme	Expedited Council engagement during April budget consultation; special Council meeting if required.	City Manager / Council
NT grant forfeiture — R10.1bn MTEF at risk	Medium	Extreme	Proactive NT engagement; quarterly compliance progress; reform timeline agreement.	GCFO
Revenue under-collection persists	High	High	Weekly Revenue War Room; KYC; external collections; D&R centralisation; debt segmentation.	GCFO / RSSC
Loan covenant breach recurrence (ABSA)	Medium	High	Formal response by April 2026; cash coverage improvement; eliminate operational short-term borrowing.	GCFO / Treasury
NRW reduction too slow	High	High	Monthly NRW dashboard; contractor oversight; PRV acceleration; enforcement; CRR funding from July 2026.	JW / EISD
Electricity losses remain at 30%	High	High	AMR rollout; LPU/SPU programme; energy balancing; illegal connection operations; Transition Fund.	City Power
PFA affordability unresolved	High	High	Council decision before final budget approval; NT engagement and labour communication.	COO / Political
Capital underspending continues	High	High	Capex War Room; blocked project register; SCM unblockers; grant escalation.	COO / Infrastructure
Director liability under Companies Act S76–77	Medium	High	RSA Framework approved; DoA Matrix formalised; directors' indemnity reviewed.	Group Governance / Legal
JOSHCO insolvency proceedings triggered	Medium	High	JOSHCO turnaround compact; SHRA grant maximisation; rental collection improvement to 80%.	JOSHCO Board / Group Governance

Data systems remain fragmented	High	Medium	SAP FI acceleration; compliance plan; GIS restoration; PowerBI dashboards.	mSCOA	GICT / GCFO
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PART EIGHT**Governance Reform and Accountability**

Structural institutional reforms for sustainable recovery

8.1 Board and Oversight Effectiveness

Municipal entity boards have been structurally prevented from exercising financial oversight under the sweeping arrangement, because the daily zero-balancing of entity accounts renders any board authority over cash positions illusory. An entity board that has no cash in its account at the end of each day cannot make operational financial decisions, cannot protect its infrastructure budget from extraction, and cannot hold its management accountable for liquidity management. The Hybrid Model, through entity cash retention limits and the Delegation of Authority Matrix, restores this authority and creates the conditions under which boards can function as intended under King IV, the MFMA and the Companies Act.

The framework requires competent, skills-matched board appointments with quarterly shareholder performance compacts that contain measurable targets; monthly consolidated entity reports to Group Governance; and boards held accountable for MTSR stage-gate delivery. Non-compliance with compact obligations must trigger shareholder intervention within defined timelines.

Best Practice Reference

King IV requires that boards exercise independent oversight, maintain a clear delegation of authority matrix, and ensure audit committees review internal controls quarterly. These principles apply to all City entities.

8.2 Performance Management and Consequence

The accountability register is not functioning effectively, and disciplinary action on repeat audit findings has been slow or absent. This must change. Section 56 and Section 54A managers must maintain an accountability register with binding deadlines. Repeat audit findings must trigger disciplinary proceedings within 30 days of identification. No performance bonus may be payable without clean evidence of delivery against agreed targets. KPI evidence packs must be required before quarterly performance report sign-off.

SPoMA and entity CEO remuneration must be formally linked to AFS-anchored performance indicators. The City Power SPoMA's variable remuneration must be tied to non-technical loss reduction from 21 to 15 percent by December 2026 (contributing 20 percent of variable pay), smart meter deployment (15 percent), collection rate improvement (20 percent), and Eskom settlement execution (15 percent). The Johannesburg Water SPoMA's variable remuneration must be tied to NRW reduction from 32.94 percent to 25 percent by 2028 (contributing 25 percent), Capital Replacement Reserve investment execution (20 percent), ring-fenced AFS publication (15 percent), and cost-reflective tariff implementation (15 percent).

8.3 UIFWE Management and Regularisation

Unauthorised, Irregular, Fruitless and Wasteful Expenditure stands at R13.3 billion for 2024/25, reduced from R23.7 billion. This reduction must be understood in context: it was achieved primarily through write-offs approved by MPAC and entity boards, not through improved procurement compliance or recovery from responsible officials. The R8.8 billion pipeline under investigation remains a continuing governance risk.

The R7.48 billion in undocumented CJMM loans to municipal entities — confirmed in the 2024/25 AFS — is the single largest UIFWE regularisation target and will be addressed through the Council-approved RSA Framework, which converts these undocumented transfers into formal, compliant inter-entity instruments.

Going forward, a procurement compliance gateway before any commitment is made replaces the current model of retrospective regularisation. All UIFWE must be reported at transaction level and regularised or written off with affidavit within 90 days of identification, with MPAC oversight on every write-off.

8.4 Technology: Real-Time Governance Intelligence

The current technology position — GIS offline, PowerBI dashboards in development, mSCOA at 71 out of 100, SAP FI at 39 percent, platforms not integrated — means there is no single citywide management view. Technology investment is therefore not an administrative luxury; it is a prerequisite for credible governance.

Priority actions are the restoration of GIS as an immediate requirement for spatial fault visibility and infrastructure governance, the deployment of PowerBI executive dashboards for financial and service delivery data, the acceleration of SAP FI to above 80 percent by the second quarter of 2026/27, the completion of TIBCO entity integration for a consolidated Group view, and the development of a dedicated RSA waterfall monitoring module that shows the Johannesburg Water ring-fenced account balance, CRR contribution status, NRW programme expenditure and NT compliance milestone status in real time.

8.5 Intergovernmental Relations and NT Compact

National Treasury's formal corrective engagement has been triggered. Eight MTSR commitments are rated Amber or Red, with the Johannesburg Water SPoMA appointment the single Red item. Moody's has placed the City's Ba3 rating under review. The NT engagement strategy requires a formal compliance pathway agreement that protects grant flows during the April to June 2026 governance establishment period, an MTEF period extension for City Power's ring-fencing to December 2026 given the Eskom default risk confirmed by the bulk purchase overrun, and quarterly progress submissions anchored to AFS-confirmed baseline metrics rather than aspirational claims. A Partnership Committee with National Treasury must be institutionalised with monthly progress reporting and independent verification milestones — the mechanism through which credibility with markets and ratings agencies will be rebuilt over the medium term.

8.6 Governance Maturity Roadmap

Stage 1: Crisis Stabilisation (0–6 months)	Stage 2: Control Restoration (6–18 months)	Stage 3: Institutional Discipline (18–36 months)	Stage 4: Governance Excellence (36+ months)
ABSA covenant breach resolved RSA Framework Council-approved DoA Matrix formalised SPoMA advertised JW ring-fenced account open City Power debt restructuring plan submitted PFA Council decision taken Revenue War Room and Capex War Room active NT 8 workstreams delivering	JW exits sweeping pool (Jul 2026) CRR R2bn operational City Power Transition Fund active Eskom settlement executed Pikitup ring-fencing complete mSCOA >85/100; SAP FI >80% JSE suspension lifted Entity compacts signed and reporting	JW ring-fenced AFS published NT full compliance submission R10.1bn grants secured RSSC FIFO reform operational Clean Group and parent audit sustained Real-time dashboards live Cash coverage >30 days Capital readiness >90%	Cash coverage >1 month consistently R&M >6% of PPE trending to 8% NRW <30% Electricity losses <20% Collection rate >88% All RSAs performing City Power break-even Governance excellence benchmark

PART NINE**Recommendations for Political and Administrative Decision-Making**

Structured decisions required to enable recovery

9.1 Summary of Recommendations

The framework requires ten structured decisions from Council, the Executive Mayor, the City Manager and the administration. These are not aspirational requests; they are binding decisions whose absence or delay creates quantifiable fiscal and governance risk.

#	Decision / Action	Content and Rationale	Consequence of Delay
A	Formally adopt the Financial Turnaround Framework	Council to formally adopt the six-pillar Financial Turnaround Framework as the City's consolidated response to the NT assessment, the unfunded budget risk and the AGSA findings. The framework must be incorporated into performance agreements and budget processes.	The City continues to manage the crisis through fragmented departmental work plans without unified accountability.
B	Mandate a single implementation tracker	The City Manager to maintain a single tracker with named owners, firm deadlines, measurable targets, risks, dependencies, portfolio-of-evidence requirements and monthly progress status.	Reporting remains descriptive rather than managerial; accountability gaps persist.
C	Resolve the PFA affordability question	Council to make a binding decision on PFA Phase 2 — deferment, partial implementation or funded alternative — before the final 2026/27 budget is approved.	The budget remains under pressure until long term affordability matter is resolved
D	Approve the Hybrid Model and RSA Framework	Council to approve the 36-month phased Hybrid Model beginning with JW as pilot, with formal RSAs carrying performance conditionality, a DoA Matrix and entity cash retention limits.	Cross-subsidisation remains opaque; entity boards remain unable to exercise oversight; R10.1bn NT grants remain at direct risk.
E	Mandate the R2.9bn revenue ambition	Council to endorse the target and require weekly War Room reporting on value identified, validated, billed, collected and sustained, with consequence management for non-delivery.	Revenue recovery remains ad hoc; the R1.359bn remaining gap does not close in time for the 2026/27 budget.
F	Appoint JW SPoMA immediately	Advertise by 15 May 2026 (NQF 8 Engineering + NQF 7 Finance); appoint by June 2026. The single item rated RED by NT and the most urgent appointment in the City Group.	NT MTSR stage-gate fails; ring-fencing cannot commence 1 July 2026; R10.1bn grant conditionality deadline missed.
G	Formally restructure City Power's R19bn sweeping balance	Council to approve conversion of the undocumented R19bn sweeping liability into a formal subordinated loan with repayment schedule and Transition	Director liability under Companies Act S76–77 persists; UIFWE exposure continues; City Power structural deficit unaddressed.

		Fund performance conditions by September 2026.	
H	Reform the RSSC allocation model	Implement first-in-first-out receipt allocation, replacing the current proportional balance method, to restore entity-level financial accuracy and improve debtor collection rates across the Group.	90% water debtor impairment rate continues; entity-level billing accuracy remains distorted; collection improvement constrained.
I	Prioritise revenue-generating infrastructure	Ring-fence R&M and capital for water, electricity, roads and waste. Targets: NRW below 38% in 12 months; electricity losses below 25% in 24 months; asset renewal ratio to 75%.	Infrastructure losses compound; service delivery deteriorates; payment culture weakens further.
J	Report monthly to political and administrative oversight	Consolidated Financial Turnaround Progress Report tabled monthly at Mayoral Committee and Council, with quarterly reporting to NT and PJWG including RSA waterfall compliance status.	Oversight structures cannot exercise meaningful accountability without regular, evidence-based reporting.

The City has plans. The challenge is execution. Johannesburg's recovery will be judged not by strategy documents but by measurable improvements in residents' lived experience: credible revenue, reliable infrastructure, reformed entity governance and transparent accountability. The Hybrid Model and Revenue-Sharing Agreement Framework are the structural reforms that convert financial governance from opacity to accountability. This is the moment to commit.

9.2 Unfunded Mandates: Reflections on Recommendations and the Way Forward

The analysis in Section 3.4 establishes that unfunded mandates are not a peripheral concern for the City of Johannesburg — they are a structural dimension of the fiscal crisis that this framework must address. The recovery interventions described across Parts Four to Eight of this framework are achievable and necessary, but their long-term sustainability depends in part on whether the intergovernmental fiscal environment within which the City operates is reformed. This section reflects on the recommendations that flow from the unfunded mandate analysis and sets out the City's proposed way forward across three time horizons.

Short-Term Actions (2026/27)

The most immediate priority is the completion of a comprehensive internal audit of all unfunded and underfunded mandates affecting the City. This audit must quantify each mandate by function, assign the applicable legislation, estimate the annual cost shortfall against actual transfer receipts, and produce a consolidated fiscal impact register that is maintained and updated annually. This register will form the evidential foundation for the City's formal submission to National Treasury and the PJWG. Without a credible and reconciled mandate audit, the City's intergovernmental advocacy rests on estimates rather than audited evidence and will carry limited weight with fiscal authorities.

In parallel, the City should formally request that National Treasury issue a circular requiring cost assessments for all pending legislation that proposes to impose new functional obligations on metropolitan municipalities. This is consistent with the provisions proposed under the 2024 White Paper on Local Government and with existing MFMA Section 38 requirements. The City can pursue this through its formal MTREF engagement, through the South African Local Government Association's Budget Forum representations and through direct

submissions to the Parliamentary committees on Finance and on Cooperative Governance. Emergency relief funding for municipalities in severe fiscal distress should also be formally raised in the intergovernmental engagement compact contemplated under Section 8.5 of this framework, with the City's documented mandate shortfall as supporting evidence.

Medium-Term Actions (2027/28 – 2028/29)

Over the medium term, the City's principal advocacy objective should be the reform of the Municipal Equitable Share formula to explicitly fund assigned mandates. The current formula does not adequately reflect urbanisation growth trajectories, the scale of the City's indigent service delivery obligations or the structural cost differential between delivering services in a high-density metropolitan environment and the per-capita MES allocation the City receives. The City should work through SALGA's technical structures and the Budget Forum to develop a revised MES model proposal that demonstrates the funding gap quantitatively and that proposes a phased formula adjustment tied to verified mandate delivery data.

The rationalisation and consolidation of conditional grants is an equally important medium-term priority. The current proliferation of conditional grants — each with its own application requirements, reporting obligations, performance conditions and compliance timelines — imposes a substantial administrative burden on an already capacity-constrained City administration. Grant consolidation into fewer, better-targeted performance grants aligned with the City's core functional responsibilities would reduce administrative cost, improve grant utilisation rates and reduce the risk of grant forfeiture through administrative non-compliance rather than substantive delivery failure. The R10.1 billion in MTEF conditional grants currently at risk due to Metro Trading Services Reform non-compliance is a direct illustration of this systemic vulnerability. The mandatory intergovernmental assignment protocols proposed under the 2024 White Paper — requiring full staff, asset and funding transfers alongside any functional assignment — should be actively supported by the City through its legislative engagement structures.

Long-Term Structural Reform

In the long term, South Africa's developmental state objectives cannot be achieved if local government remains constitutionally mandated but fiscally starved. For the City of Johannesburg, this is not an abstract policy concern — it is a quantifiable fiscal risk that directly affects its ability to maintain its credit rating, retain its capital market access, fund its infrastructure backlog and sustain the service improvements that this turnaround framework is designed to deliver. The long-term reform agenda must include a clarification of concurrent function boundaries in Schedules 4 and 5 of the Constitution to resolve the persistent ambiguity about where national and provincial responsibility ends and local government responsibility begins, and the creation of a permanent Unfunded Mandate Oversight Body with meaningful dispute resolution powers and access to constitutional remedies.

The principle of differentiated governance — recognising that metropolitan municipalities like Johannesburg operate at a fundamentally different scale, density and complexity than district or local municipalities — must also be embedded in the legislative framework. Johannesburg's financial turnaround cannot be benchmarked against national averages for 257 municipalities of vastly different types and capacities. The City's recovery framework, intergovernmental compact and MTEF engagement must make this differentiation argument consistently and with supporting evidence.

Resolving the unfunded mandate problem requires political will, legislative reform, and a fundamental restructuring of intergovernmental fiscal relations. The City of Johannesburg cannot wait for that systemic reform before executing its own turnaround — and this framework does not propose that it should. What it does propose is that the turnaround framework and the intergovernmental advocacy agenda be pursued simultaneously, with the mandate audit as the evidential foundation, the NT Compact as the immediate channel, and the long-term constitutional and legislative reform process as the structural destination. Johannesburg's financial recovery will be both faster and more durable if it is supported by a national intergovernmental fiscal framework that funds what it mandates.

Sustainability Progress Report 8 May 2026; CoJ Integrated Development Plan 2022/23–2026/27; National Treasury Local Government Budget Data; SALGA Research 2024; White Paper on Local Government (2024 Review); Unfunded Mandates — The Challenge Facing Local Government in South Africa: A Strategic Analysis (May 2026). This document is confidential — for internal Council administration use only and does not constitute legal or financial advice.