BUREAU for ECONOMIC RESEARCH

What is going on in our municipalities?

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Roy Havemann, Natasha Marrian, Nomvuyo Guma and Rose Murunzi

Stellenbosch UNIVERSITY IYUNIVESITHI UNIVERSITEIT

AGENDA

- What is the municipal problem
- Where are we with reforms
- Politics around the local government elections
- Deep dive into the city of Johannesburg

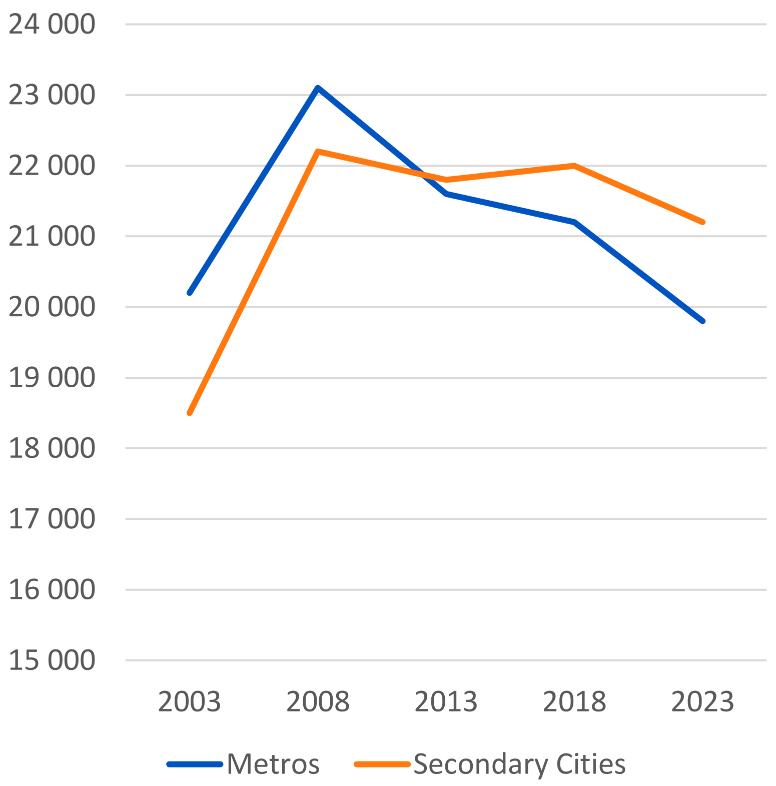
Municipal problems

There is a structural financial problem facing municipalities

Average real municipal employee costs have risen from R259 714 p.a. in 2005/6 to R431 284 p.a. in 2022/23

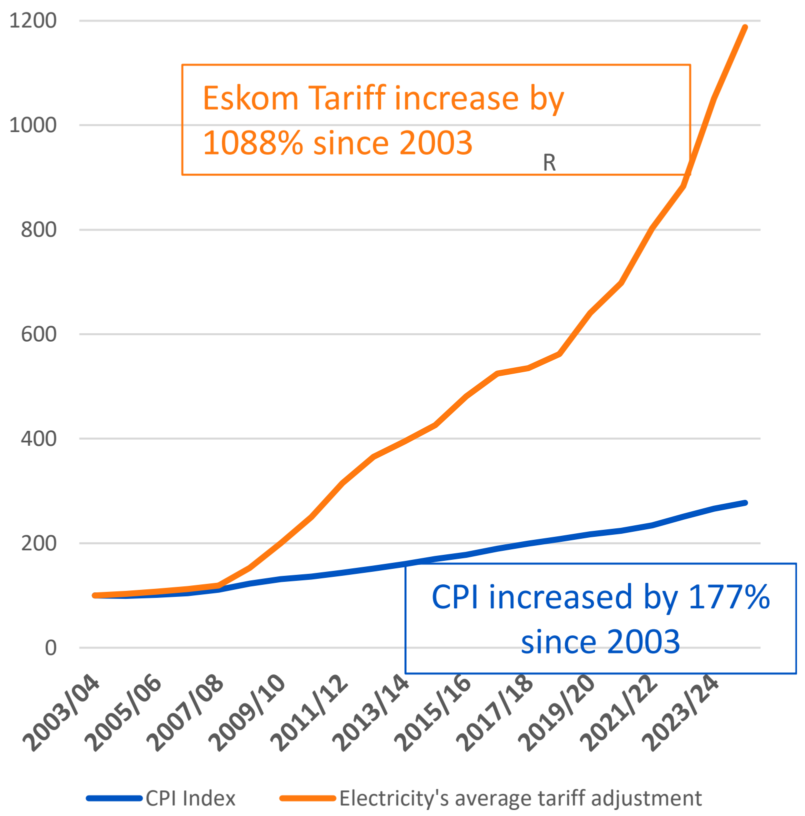
Per capita income has fallen…

Per person income



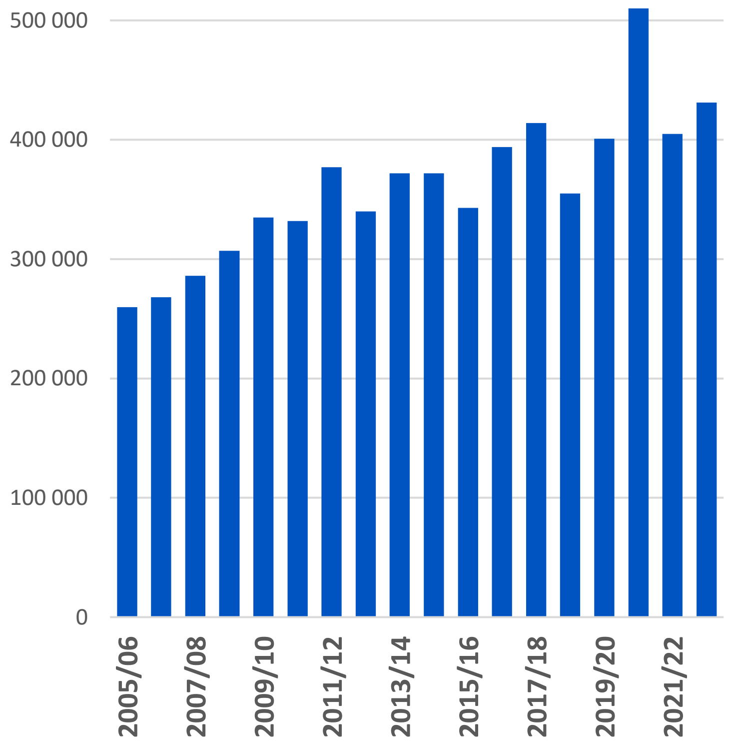
While big costs including electricity…

Price Index Base- 2003/24



… and wages have risen

ZAR per employee cost, adjusted for inflation

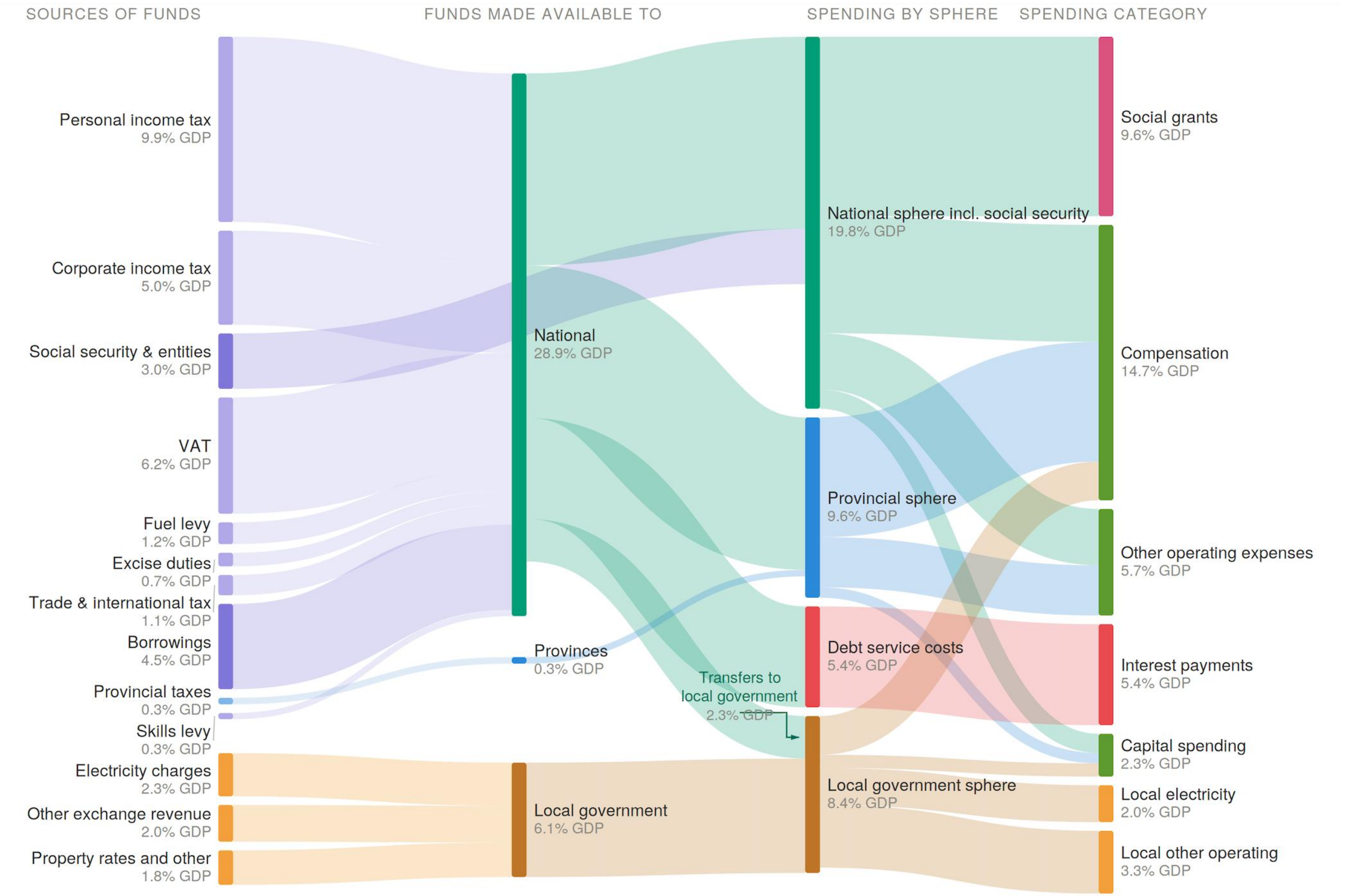


COGTA, Stats SA, NERSA tariff Books

... and there is limited scope for additional revenue meaning that municipalities need to do more with less

- There are only three significant sources of income for municipalities:
  - Property rates, which is the same base as the income tax
    - Declining per capita income = declining services per capita OR unsustainable borrowing
  - “Exchange revenue” – income from electricity, water and other services supplied by the municipality
    - Can be delivered MUCH more efficiently
    - Metro trading services reform
  - Transfers from the centre, which come from general taxes
    - Increased taxes neither politically nor economically feasible

- In the large metros, e.g. Joburg, the problem is arguably not a money one but a management one



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Where reform stands now

Momentum is uneven across the seven reforms

Direction of travel by quarter (2026)

REFORM	Q1	Q2	Q3
Electricity	🟢	🟢	🟢
Logistics	🟠	🟢	🟢
Water	🔴	🔴	🟠
Visa	🟠	🟠	🟢
Local Government	🔴	🟠	🟠
Spatial integration	🟠	🟠	🔴
Digital infrastructure	🟢	🟢	🟢

🟢 Accelerating 🟠 Steady 🔴 Stalled

BER Reform Barometer

Local Government is becoming a constraint for electricity and water reform

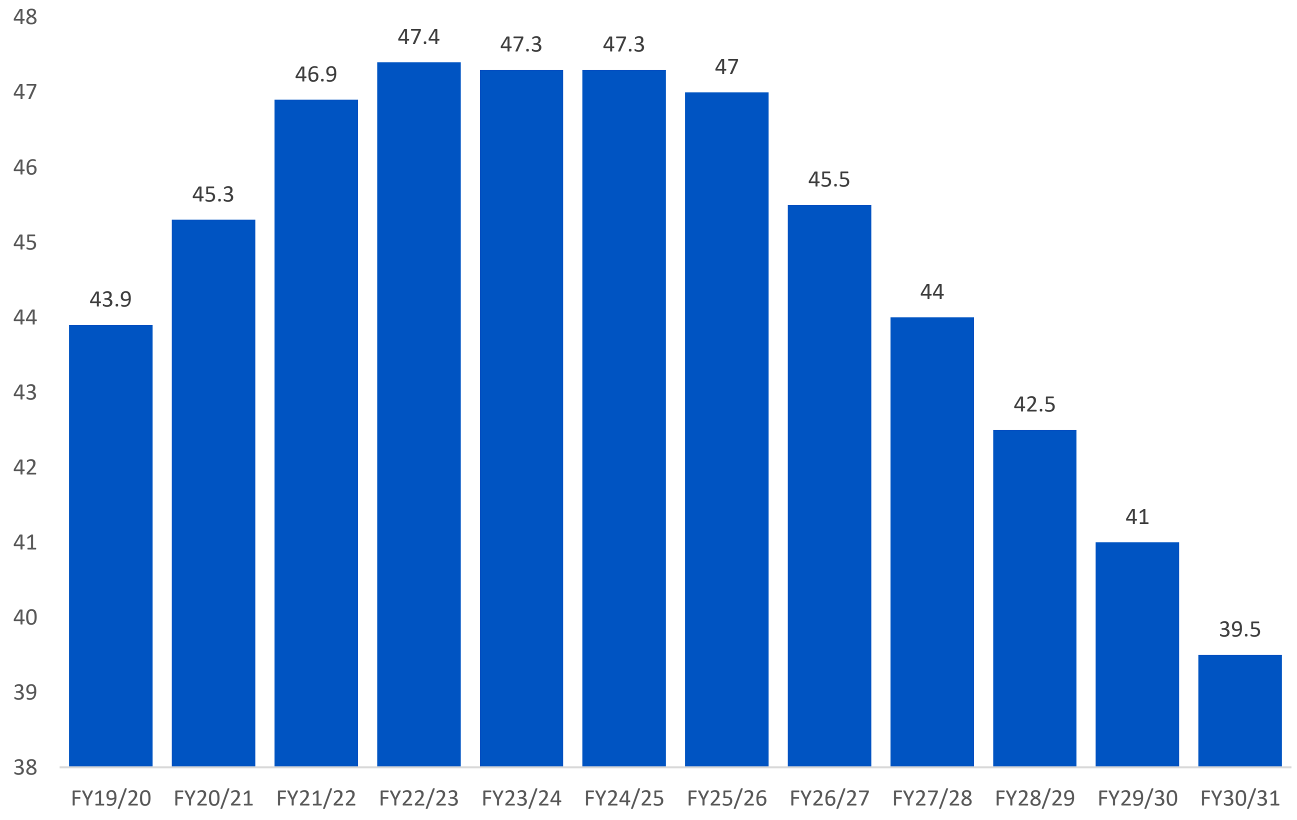
- Electricity

Eskom Restructuring Task Team (ERTT)'s Phase 2 focus shifted to financial sustainability, including municipal debt and Eskom's obligations to lenders

- Water

The National Water Action Plan's action plan to address the water crisis is municipal reforms, such as reducing debt to water boards

The Non-Revenue water (%) is still projected to be higher than the benchmark of 25%



Four local government reforms are moving at once

Local Government White Paper

Consultation closed May 2026

- First substantive revision of the 1998 White Paper.
- 65 reform recommendations across governance, institutional professionalism and financial sustainability.
- Scheduled to be launched on 15 September 2026.

Local Government Fiscal Framework

Under review

- Reform of the transfers and own-revenue framework underpinning municipal finance.

Metro Trading Services

Implementation

- Ring-fencing electricity and water trading accounts within metros to protect revenue
- improve accountability for the two most fiscally significant services.

Public Service Commission Bill

Awaiting president's approval

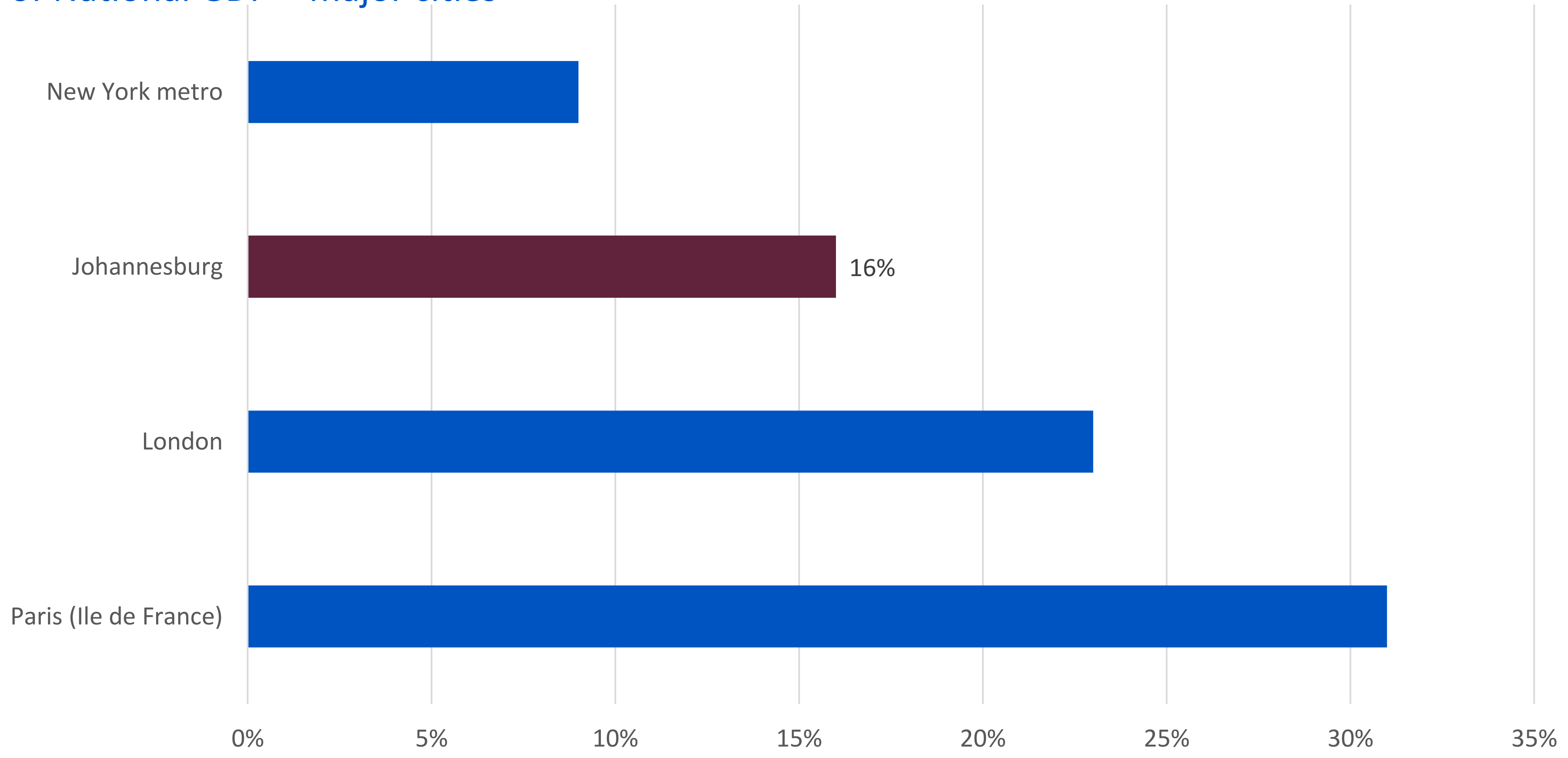
- Passed the National Assembly; extends PSC oversight powers into local government for the first time.
- The committee has flagged that funding hasn't kept pace with the expanded mandate.

Deep dive into City of Joburg

Joburg is South Africa's most important city

Johannesburg is the single largest contributor to South African GDP and the country's primary financial-services and corporate hub. Sustained underperformance in the metro transmits directly into national growth

Share of National GDP – major cities



The city's position at a glance

R97.1 billion

City Budget 2026/27

R88.3bn opex + R8.8bn capex

R3.7 billion

Operating Deficit (2023/24)

Up from R3.3bn prior year

R57 billion

Total Consumer Debt Owed

Commercial R11.5bn · State entities R2.4bn

R220+ billion

Infrastructure Backlog

Acknowledged, 2026 State of the City

Caa2 (junk)

Credit Rating (Moody's)

Deeply speculative status

Unqualified w/ Findings

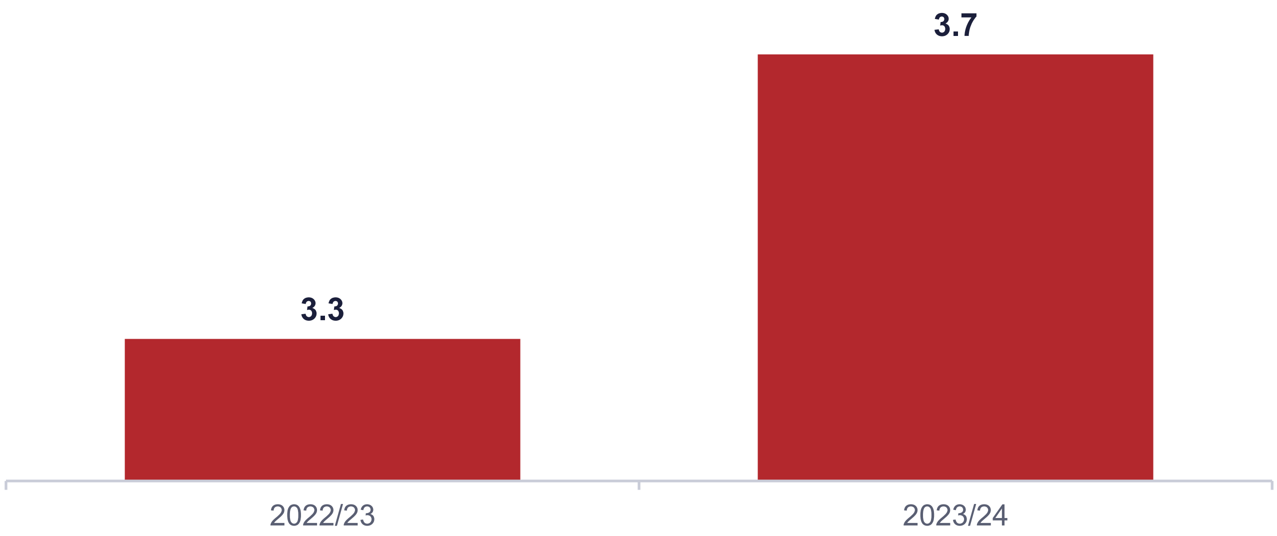
Audit Outcome 2024/25

11th consecutive year

A widening structural deficit

Johannesburg generates roughly **16% of national GDP**, yet its financial position has deteriorated dramatically. After a modest surplus in 2019/20, the City has posted operating deficits every year since — Parliament's SCOPA has said that if Joburg were a business, it "would almost certainly have been declared bankrupt."

Operating deficit (R billion)



KEY FINANCIAL INDICATORS · 2024/25 PROVISIONAL

Cash Balance (Dec 2025)

R2.1bn (down from R3.3bn Nov 2025)

Revenue Collection Rate

~75–82% vs 88% target

Eskom Arrears (June 2026)

R5.2 billion

Moody's Credit Rating

Caa2 — deeply speculative

City Power Cumulative Deficit

R19 billion

Joburg Crisis Report

A quarter of every rand goes to salaries

R21bn

Salary bill, 2025/26 — of an R84bn total operating budget

~25%

Of operating expenditure — up from ~22% in 2020/21

R1.75bn / month

Average monthly salary bill

Joburg Crisis Report

In March 2026, an extraordinary council meeting collapsed when the 2025/26 adjustment budget — including **R1.35 billion** in salary overspend — failed to secure the required 136 votes (58 abstained, 67 against).

Legacy Salary Dispute

R10 billion "Personal Frequency Adjustment" wage deal contested by DA/EFF/ActionSA; Minister Godongwana has called the arrangement unlawful and warned it risks the City's equitable share grant.

Entity Executive Pay

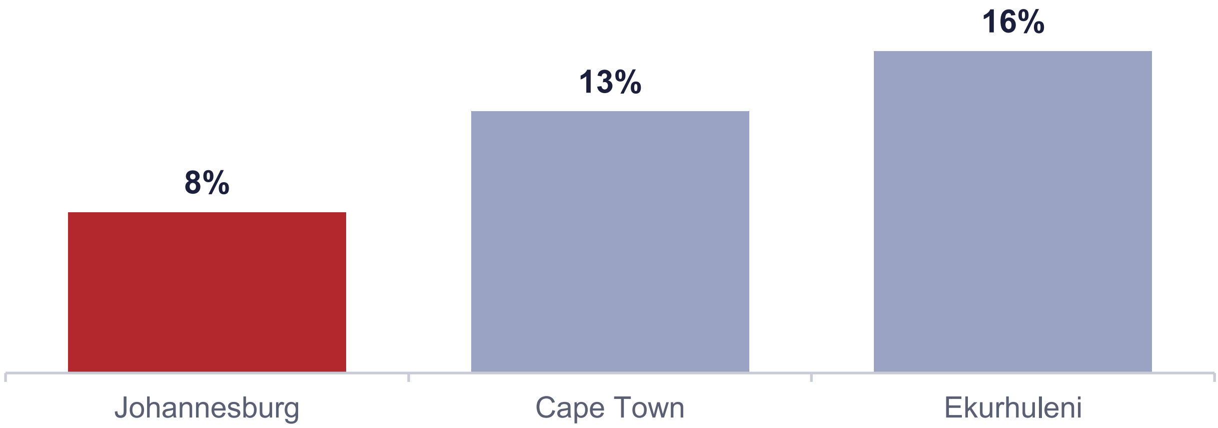
The City's 13 municipal entities add further payroll burden — board chairs and CEOs earn between R1.6m and R3.6m p.a. in organisations that have collectively run at a loss for years.

2026/27 Budgeted Bill

R22.3 billion salary bill budgeted for 2026/27, continuing the upward trajectory even as the City's cash position weakens.

The City can't spend the money it already has

Capital spend pace vs. major metros — Q1 2025/26 (% of annual budget spent)



Joburg's Q1 spend — lowest among major metros, worsening at Q2 (26% vs the ~50% midyear norm).

WATER PIPE RENEWAL

60–70 km/yr

vs. ~125 km/yr international benchmark — full network renewal at current pace: nearly 200 years

CAPITAL BUDGET 2026/27

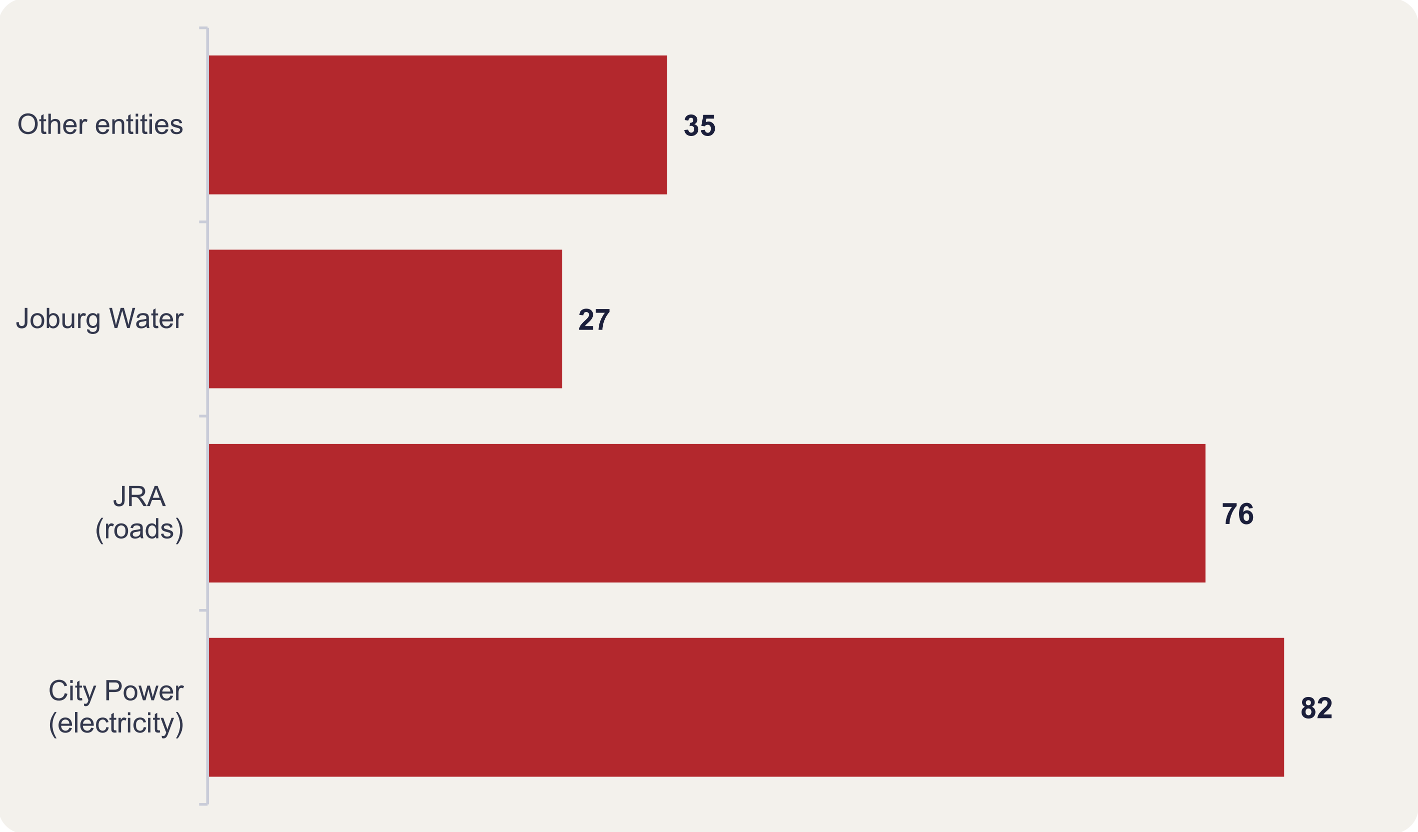
R8.8bn

R25.3bn over the medium term

Causes: SCM failures, shortage of qualified project managers, procurement irregularities, mid-year budget cuts, and rapid mayoral turnover.

The infrastructure backlog is R220+ billion — and growing

Backlog by sector (R billion, estimated)



Joburg Crisis Report

44.7%

Non-revenue water — the City loses nearly half of all water it treats, costing R2.8bn/yr

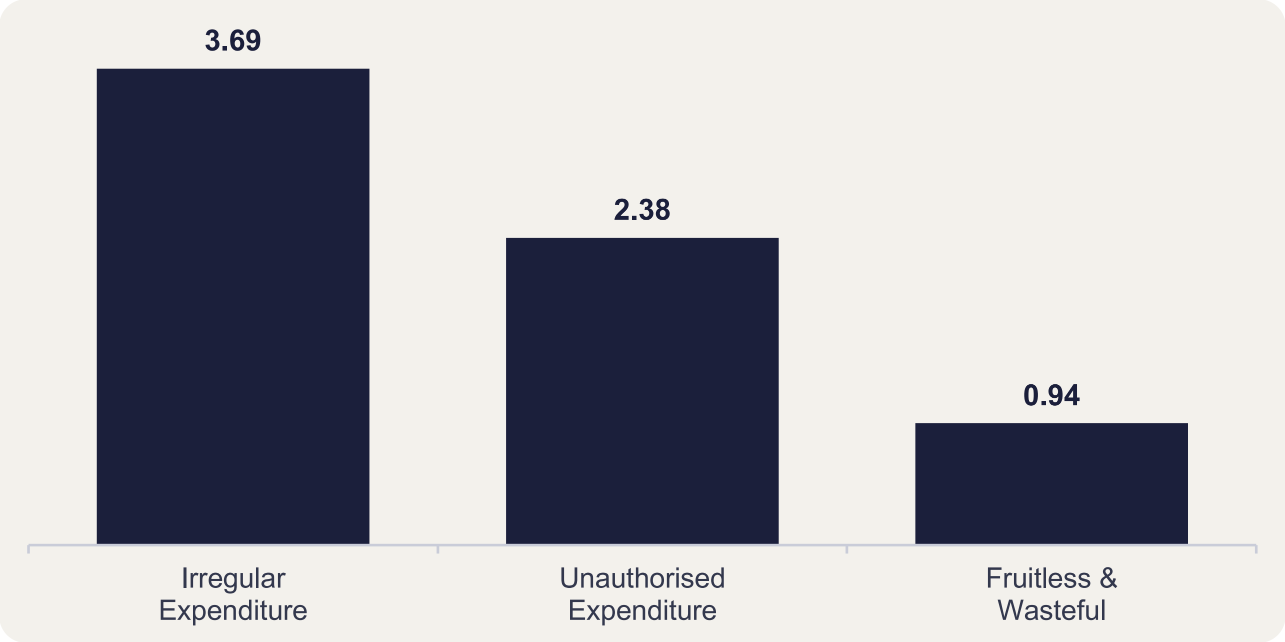
27%

Electricity losses — technical distribution loss plus meter tampering and illegal connections, worth R5.7bn/yr

“Operating on false assurances”

AGSA presented the City's 2024/25 audit outcomes to Parliament's SCOPA on 2 June 2026: **unqualified with findings for the 11th consecutive year**, with weak internal controls across the City and 12 of its 13 entities.

Expenditure irregularities, 2024/25 (R billion)



Joburg Crisis Report

ALSO FLAGGED

Fruitless & wasteful expenditure tripled

R322 million (2023/24) → R943 million (2024/25) — mainly late-payment penalties and unused SAP licences.

City Power — going concern uncertainty

Liabilities exceed assets by R1.1bn; R4.9bn in irregular expenditure (2023/24 audit).

20+ material irregularities

Across municipal entities, including Pikitup — accountability action described by AGSA as "tardy."

R7.7bn unresolved

Cumulative irregular expenditure carried over, unresolved from prior years.

A precarious start to 2026/27

The R97.1 billion budget tabled in May 2026 has been criticised as "unfunded" — repeating the pattern of overestimated revenue and underestimated expenditure that National Treasury has repeatedly flagged.

Eskom Supply Risk

R5.2bn debt; ring-fencing from July 2026; arrears deadline 8 July

Equitable Share Risk

Minister Godongwana has warned unlawful wage deals could forfeit national grants

Revenue Collection

Collection rate ~75–82% vs 88% target; R57bn in total consumer arrears

Credit Access

Caa2 Moody's rating severely limits borrowing capacity and cost

Water Crisis Trajectory

44.7% non-revenue water; network replacing at half the required pace

Election Risk

Political instability in a coalition council hinders multi-year planning

Legal Exposure

Usindiso fire inquest implicated JPC; multiple litigation risks

Grant Funding Risk

Conditional grant disbursements jeopardised by unfunded budget tabling

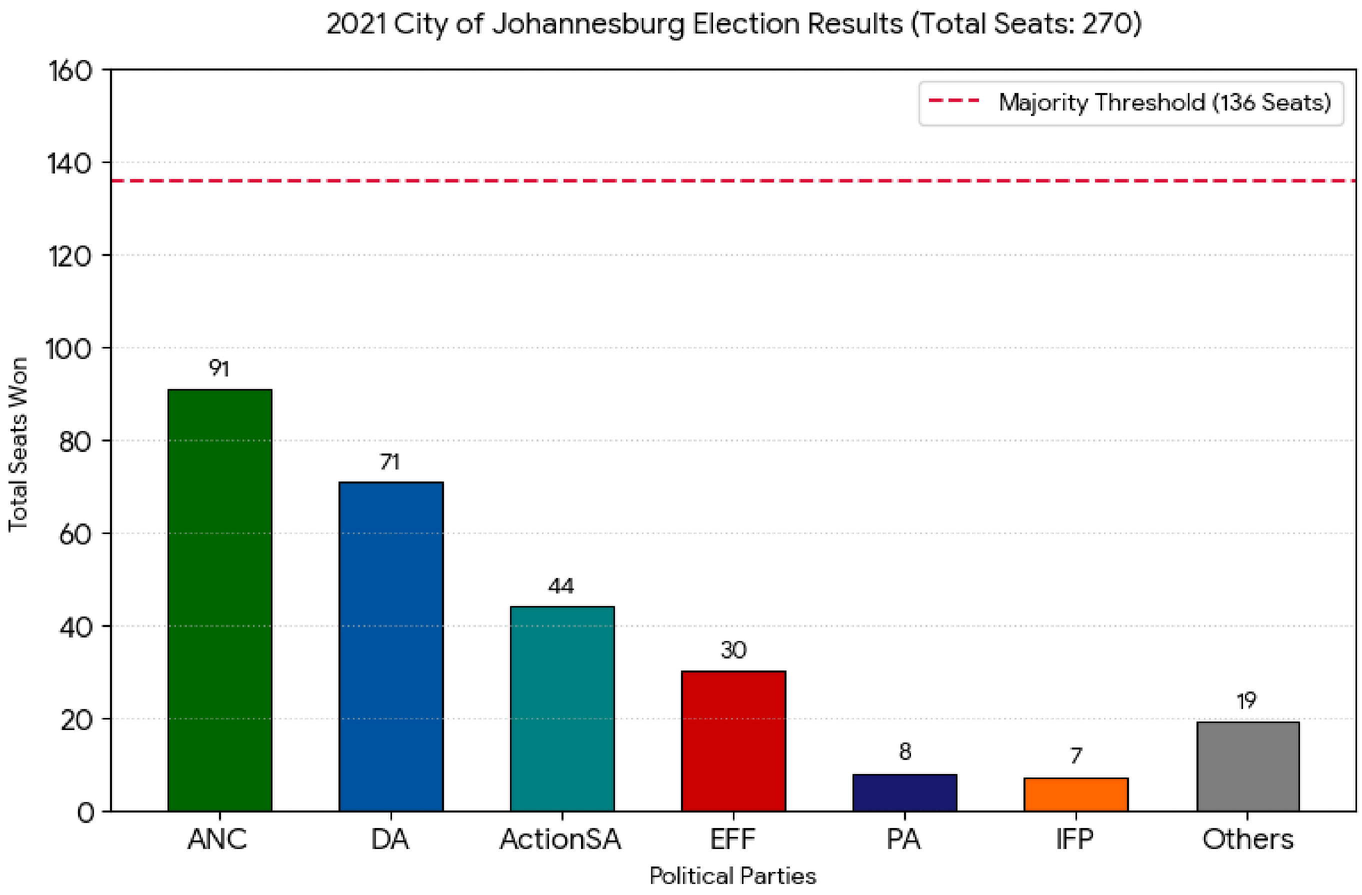
Election 2026: An epic battle

Election 2026 in numbers

- IEC under intense pressure due to scale and complexity of electoral environment
- Seats to be contested: **10 526**
- Number of candidates nominated for these seats rose by **42%** from 99 000 in 2021 to **142 072** in 2026
- Number of political parties contesting nationally: **227**
- Number of political parties contesting in the metros: **49**
- Overall, 546 political parties are contesting nationally, provincially, in the metros and the districts out of a total of **732** registered parties
- The City of Johannesburg – a recipe for voter fragmentation with **80** proportional representation contestants
  - Why does this matter?
    - The high number of PR contestants directly impacts half of the city's power structure
    - High likelihood of a hung council
    - Voter fragmentation and complex ballots
    - High potential for political instability involving small "kingmaker" parties

Polling at a glance in key battleground

- Ground Zero: City of Johannesburg:
- The SRF is polling the DA at 42%, the ANC at 18%, MKP 13%, ASA 10%, EFF 8%
- Elections analyst Dawie Schultz analysing by-election trends using his own model places the DA at 39%, ANC 27% EFF 9%, ASA 7% and MKP at 6%
- Similar picture across metros, DA polling as the as the largest party in Tshwane and Cape Town, ANC largest in Mangaung although below 50% for the first time, MKP polling as he largest in eThekwini



Metros in 2026: A tale of hard choices

- The two largest parties, the ANC and the DA, face a stark choice in the upcoming election, across the metros and the secondary cities to a lesser extent.
- The historic opponents could opt for stability by working together where they cross the 51% threshold **or** they can form coalitions through corralling small parties into (given recent experience) largely patronage-based, unstable and unpredictable arrangements.
- The latter arrangement has been the norm in our metros since 2016.
- This recent history illustrates the huge toll these arrangements have exacted on our cities, accelerating deterioration in crucial economic nodes like Johannesburg, eThekwini, Tshwane and Ekurhuleni.
- The choice for the larger parties is stark, but a difficult one, which would entail putting aside their own interests and that of their members, for the sake of residents and the cities in which they live.
- Prospects of this scenario unfolding on a large scale are limited, yet there is hope – there is at least a recognition that the small party tie ups place development and delivery at risk.
- On the one hand, the new leadership of the DA seeks to differentiate itself from past leadership cores (yet still relying on old thinking and strategies) and an increasingly divided, factionalised ANC, is too weak at the center (national leadership level) to drive such a strategy. On the other, there have been tentative shifts in this direction – in Ekurhuleni for instance, the DA voted in favour of the ANC budget to prevent the collapse of the council and there is strategic cooperation between the ANC, DA and IFP in selected councils in KwaZulu Natal.

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royh@sun.ac.za
@BERcoza
www.ber.ac.za

Stellenbosch UNIVERSITY IYUNIVESITHI UNIVERSITEIT