GCR RATINGS

Credit rating report | South African Metropolitan Municipality | September 2020

City of Johannesburg Metropolitan Municipality

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
City of Johannesburg Metropolitan Municipality	Long Term issuer	National	AA-(ZA)	Stable Outlook
	Short Term issuer	National	A1+(ZA)	

Rating rationale

On 29 July 2020, GCR downgraded City of Johannesburg Metropolitan Municipality ("CoJ" or "the metro") long term issuer rating. The downgrade reflects the weaker operating environment, which is expected to affect the metro's operating performance. This is counterbalanced by the metro's improved liquidity position.

CoJ's operating performance has been stable and is considered rating neutral, despite some of the persistent weaknesses. In this respect, the metro evidences well diversified sources of income, with strong underlying growth in key income sources such as rates and water, but has been constrained by increasing staff costs, a rising debtors book over the review period and service delivery backlogs.

GCR expects the COVID-19 disruptions to compound these problems. The metro under-collected on its revenue by 20% in April and 13% in May 2020 due to hard country-wide lockdown, and has budgeted for an additional R884m debtors provision for FY20. More significantly, GCR expects revenue collection challenges to persist through FY21 as residents and commercial property owners face affordability constraints in meeting their obligations. A return to normalised collection levels is only anticipated once there is renewed economic growth. With less cash available, service delivery levels and the rate of infrastructure development are likely to suffer. The CoJ has already reduced its capital expenditure budgets to around R7.5bn per year for the FY21 to FY23 period, which will mitigate the need for additional funding support, but will detract from longer term service delivery. Amidst these challenges, cost rigor will be critical to maintaining strong service levels.

CoJ's financial position is constrained by its high debt, albeit that credit protection metrics have remained moderate due to income growth. Thus, gross debt amounted to R23.2bn at FY19 and is projected to be slightly higher at FY20. Nevertheless, due to robust revenues and operating cashflow flow growth, net debt to total income improved to 29% at FY19 (FY18: 35.8%), while operating cashflow coverage of gross debt rose to 37.1% (FY18: 23.5%). Similarly, operating cashflow coverage of interest rose to 4.2% (FY18: 2.7%). Credit protections metrics are anticipated to remain in the moderate range going forward, with net debt to total income expected to trend within 30% to 35% level. Concerns regarding the high level of debt are somewhat mitigated by the very long tenure of CoJ's debt, with most debt facilities amortising over a 10 - 20 year period, and its demonstrated diverse funding relationships.

12-month liquidity coverage of around 1.5x is supported by a projected c.R4bn cash on hand at FY20 (excluding c.R1.8bn in the sinking fund) and c.R2bn in committed facilities, largely from Development Bank of South Africa. Against this, are debt maturities of c.R1.8bn. Improved liquidity is also evidenced by firmer cash on hand of c.68 days at FY19 (FY18: c.20 days), with the metric expected to trend within 45 to 55 days level for FY20. Although the cut backs in capital expenditure will help preserve liquidity amidst the current disruption, longer term liquidity strength is dependent on improving collection rates.

The CoJ's very strong entity profile remains critical to its rating. The metro is the economic center of South Africa, contributing 15% to the country's GDP. Its economic strength is anchored by its broad diversification and its position as the economic gateway to the country and continent at large. Notwithstanding this, an increasing population alongside rising unemployment and poverty levels in some areas, will continue to increase the burden of CoJ's service delivery responsibilities and infrastructure backlogs.

Outlook Statement

The Stable Outlook reflects GCR's expectation that, despite anticipated challenges arising from COVID related disruption and an economic contraction, the metro has sufficient strong income and adequate liquidity sources to maintain its financial profile

Rating Triggers

Positive rating action could emanate from improved collect on revenues that strengthens the liquidity assessment or enables the metro to reduce debt somewhat. Negative rating action could arise from COVID related disruption that result in lower collections than anticipated, or increase the costs of service delivery without being compensated. This would likely lead to an increase in debt funding and weaker credit protection metrics.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Local and Regional Governments, June 2019
GCR Rating Scales, Symbols and Definitions, May 2019
GCR Country Risk Scores, May 2020

Ratings History

City of Johannesburg Metropolitan Municipality

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term Issuer	Initial	National	AA(ZA)	Stable	October 2018
Short Term Issuer	Initial	National	A1+(ZA)		
Long Term Issuer	Last	National	AA(ZA)	Negative	June 2019
Short term Issuer	Last	National	A1+(ZA)		

ANALYTICAL ENTITY: CITY OF JOHANNESBURG METROPOLITAN MUNICIPALITY

City of Johannesburg Metropolitan Municipality ("CoJ"), is one of the 3 category A municipalities in the Gauteng province of South Africa. It covers around 1,645km^2 of the province's 9,918km^2 domain, housing the largest population and being the centre of South Africa's economy. The metro consists of seven regions, of which some of the main areas which are Midrand, Sandton, Roodepoort, Soweto, Alexandra, Inner City (central Johannesburg) and Orange Farm.

OPERATING ENVIRONMENT

The strength of the operating environment is underpinned by the very strong legislative environment governing South African local authorities alongside robust financial reporting standards.

Country risk

The South Africa country risk score of '7.0'reflects GCR expectations that GDP per capita will range between USD6,000 and USD6,500 over the next 12-18 months, balancing deeply negative economic growth in the short term due to COVID-19, with more modest projections over the medium/ long term with stable population growth and continued pressure on the local currency. It also factors in institutional scores in the middle of the range, supported by voice & accountability and regulatory quality, macro-economic stability, infrastructure and the strengths of the financial system. Corruption and politics, innovation and health are the detracting elements of institutional strength for the country. GCR have made a small positive adjustment to the initial score, balancing the size and diversification of the South African economy versus regional peers and strong monetary policy flexibility against the rapidly deteriorating fiscal position of the government and high profile SOEs. The full list of GCR Country risk scores can be found at https://gcrratings.com/wp-content/uploads/2020/05/20200527-Country-Risk-publication.pdf.

GCR considers the South African municipal sector to demonstrate a strong institutional and legislative framework. The quality of financial reporting is robust in that municipalities are required to publish quarterly financial performance reports, as well as very detailed annual financial statements. There are also several oversight bodies, most notably the Auditor General, who audits the financial statements annually and provides detailed opinions as to compliance with the necessary financial and operational regulations. As per GCR's criteria, the operating environment score is double the country risk score, whereafter some adjustments may be made. Given the strengths of the South African municipal sector, no negative adjustments are necessary.

BUSINESS PROFILE

Local and Regional Government Profile

CoJ's strong profile is underpinned by its position as the centre of economic activity in South Africa, housing numerous domestic and multinational businesses. Nevertheless, the metro continues to grapple with high unemployment and poverty, despite the generally high levels of service delivery targets.

CoJ is the economic hub of South Africa, contributing c.15% to the country's GDP. The metro is also considered to be an economy gateway to the African continent, being home to many multinational company headquarters for operations on the African continent. Further, CoJ benefits from its diverse economy which continues to anchor its economic stability. Underpinned by a broad services sector that accounts for c.75% of the city's economic output, the metro continues to provide economic and social opportunities to both South African citizens and migrants. Consequently, the metro has seen a 10-year average population growth of c.3%, ahead c.1.6% of the country while hosting c.8.9% of the country's population in FY19.

CoJ's GDP rose by just c.1.1% in 2018 exceeding the national GDP growth of 0.7%. albeit economic growth has been slowing for much of the past decade. Thus, the growth evidenced has not been adequate to meet the increasing population amidst a high unemployment rate high, standing officially at 30%, but could easily spike towards 40% in the wake of COVID-19 pandemic. This is expected to burden the metro with additional social grants responsibilities to its residents, against more constrained income levels. Approximately 45% of the population is estimated to live below the poverty line (compared to 52% nationally), but other socio-economic statistics such as access to electricity, sanitation and education exceed that for the country as a whole.

GCR notes the most recent R68.1bn metro's FY20/21 budget which prioritises tariff relief and rebates for pensioners t alleviate some of the negative impact of Covid-19 on the metro's residents. In addition, the budget also placed housing and the continuation of water, electricity, and road infrastructure development at the top of its priorities alongside basic service delivery. Over R1 billion has also been set aside for job creation. While all these efforts are positively viewed, the downward adjustment on the Medium Term and Revenue Expenditure Framework ("MTREF") total capital expenditure budget over the next 3 years (required to balance the budget) is a concern. In this regard, the MTREF has been reduced by 15% to R22bn from R26bn for the next 3 years in light of the pandemic. Over the longer term this may limit the metro's ability to sustain service delivery and improve living conditions for its residents. Positively, despite some delays, key catalytic projects including the Louis Botha and Soweto Jabulani Rea Vaya transport corridors are nearing completion, which may bolster economic and development activity.

The metro has also developed a comprehensive plan to build on its competitive advantages to attract increased investments, with the aim of driving growth in the metro through the private sector. However, given the COVID-19 disruption and the very weak national economy, GCR does not believe the target of 5% economic growth by FY21/FY22 will be achieved. Thus, social-economic challenges and backlogs are likely to persist over the medium term.

Operating performance

The ratings continue to be supported by continued strong underlying growth and robust operating surplus albeit they could begin to narrow over the medium term in the absence of meaningful cost rigour and improved debtors collection.

CoJ's operating performance has been largely stable over the review period. As depicted on Table 1 below, Revenue increased by 13.8% in FY19 (FY18: 4.4%), driven mainly by rates, water and general service revenue, which offset weak growth in electricity revenue. Rates growth was largely due to positive property roll valuation coupled with increasing property development activity. This is particularly true of ongoing commercial developments that account for around 60% of rates income, despite only comprising around 30% of the property value. Strong internally generated revenue, constituting c.80% of total income, limits dependence on grant income funding from the national government.

Table 1: Income progression (R'm)

	FY15	FY16	FY17	FY18	FY19	%Δ FY19 (%)	5yr CAGR
Rates	7 674.9	8 250.1	8 182.8	9 639.9	13 140.4	26.6	14.4
Electricity	12 878.5	14 044.8	14 649.5	13 209.6	14 076.5	6.2	2.2
Water	4 193.7	4 879.0	5 030.1	5 996.9	7 043.4	14.9	13.8
General service	4 432.8	4 404.7	5 001.6	5 617.5	6 346.8	11.5	9.4
Grants & subsidies	8 847.1	8 917.4	9 464.7	9 782.3	10 743.6	8.9	5.0
Other income	2 808.9	2 705.5	2 286.8	2 342.2	2 671.4	12.3	(1.2)
Total income	**40 835.8**	**43 201.5**	**44 615.4**	**46 588.4**	**54 022.0**	**13.8**	7.2

Source: CoJ Annual Financial Statements

Water income has also risen at a robust cumulative average growth rate ("CAGR") of 13.8% over 5-year period to FY19. The significant increase in water income for both FY18 and FY19 could mostly be attributed to higher prices albeit partially offset by water losses which held firm at 25% at FY19. Thus, the water margin held constant at 20% at FY19. Despite some efforts to curb physical water losses through the roll-out of prepaid meters, losses due to deteriorating infrastructure persist.

Electricity income has grown well below inflation over the review period, attributed to a combination of a reduction in electricity units sale, lower tariff increases, and stubborn electricity losses, which registered at 25.3% at FY19 (FY18: 23.2%). Illegal connections remain a critical challenge, albeit other challenges included faulty meters and incorrect building. All of these are being addresses. Positively, electricity income rose by 62.9% at FY19 mainly due to increase in tariffs by the metro. This, counterbalanced by reduction in electricity consumption saw the electricity margin hold constant at 22% at FY19 which remains a review period low.

While the metro tempered the electricity, tariff increase for FY21 to 6.23% (against an initially budgeted 8.1%), managing electricity income is expected to be challenging as Eskom has been granted substantial tariff increases going forward, which will have to be passed on to residents. This at a time when residents and businesses are under severe financial pressure. Despite the efforts of the metro, this may exacerbate the problems of illegal connections and weak collection challenges over the medium term.

The metro has been grappling with a rising debtors book over the review period. AS at FY19 the gross value o the book stood at R27bn, of which 75% was provided for, the highest provisioning rate amongst the metros. Pressure on the debtors book has been exacerbated by the COVID-19 pandemic, as a result of which the metro under-collected by 20% in April and May 2020 revenue by 20% and 13% respectively due to strict country-wide lockdown. This necessitated a further R884m provision for doubtful debts. To encourage payment, the metro has granted some debt relief to customers who have been honoring (at least partially) their municipal obligations during the hard country lockdown. However, GCR expects revenue collection challenges to continue to constrain income, further impacted by a likely increase in indigent households who are not required to pay.

Grant income has grown at c.5% over the past 5 years, tracking the inflation rate. However, grant income jumped by 10% to R10.7bn at FY19 (FY18: R9.8bn) mainly as a result of a sharp increase of 17% in urban settlements development grants, in support of the metro's commitment to provide better housing infrastructure to its city dwellers. The public transport grants fell by 4% as much of the current projects near completion. That said, the equitable share grant growth continues to rise above CPI (12% at FY19), providing the metro with resources to meet its social obligations. GCR is of the view that equitable grant support will become more critical over the medium term as high unemployment and job losses will increase the number of indigent households.

Table 2: Expenditure progression (R'm)

	FY15	FY16	FY17	FY18	FY19	%Δ FY19 (%)	5yr CAGR
Salaries and wages	8 716.6	9 133.2	10 394.7	10 840.7	12 829.8	15.5	10.1
Electricity	9 039.5	9 871.0	10 696.8	10 349.7	10 914.6	5.2	4.8
Water	3 523.3	3 876.7	4 282.1	4 823.3	5 620.3	14.2	12.4
Grants & donations	577.1	484.4	500.7	289.3	180.3	(60.5)	(25.2)
Depreciation	2 388.6	2 809.2	2 998.8	3 132.8	3 186.4	1.7	7.5
Repairs & maint.	1 453.3	1 808.2	1 899.5	1 946.3	2 311.1	15.8	12.3
Other expenses	7 194.9	7 850.8	7 128.3	7 095.3	6 272.5	(13.1)	(3.4)
Bad debts	3 865.2	2 486.3	3 941.3	3 483.3	4 650.7	25.1	4.7
Net interest	1 580.0	1 880.6	2 421.8	2 525.4	2 434.3	(3.7)	11.4
Total expenditure	**38 338.4**	**40 200.5**	**44 264.1**	**44 486.3**	**48 400.2**	**8.1**	**6.0**

Source: CoJ Annual Financial Statements

Expenditure has grown at a CAGR of 6% over the review period, largely matching the 7% CAGR in income. Much of this is driven by municipal salaries growth of 15.5% albeit the staff cost ratio remains sound at 27% of total expenditure, below the 30% threshold set by the National Treasury. That said, the c.6.25% per year increase in staff costs over the next 3 years, over which the metro has limited control down because of collective bargaining agreements, remains a major risk for ongoing financial stability. This, coupled with increase in tariffs on key revenue sources over the medium term, could see narrowing of the metro's operating surplus over the medium term in the absence of meaningful overall cost rigour.

Repairs and maintenance spend has grown over the review period, albeit the quantum has lagged behind the depreciation charge, hinting that actual spend may be insufficient. This is corroborated by the fact that metro projects repairs and maintenance as a percentage of property plant and equipment ratio to be around 4% (to largely track CPI) over the medium term despite the municipal benchmark of 8%.

Bad debt impairments have been a key component to the metro's cost growth over the review period, highlighting the persistent billing and collections challenges. Despite retained cash improving over the review period as seen on table 3 below, collection challenges are expected to weaken the operating cashflows over the rating horizon unless there is a meaningful improvement in overall national economic growth. Notwithstanding the measures being implemented to improve collections, GCR does anticipate further pressure on bad debts over the medium term as consumers are forced to absorb higher rates, water and electricity costs.

Table 3: Cashflow (R'm)					
	2015	2016	2017	2018	2019
Cash flow from operations	7 386.8	6 308.6	3 574.9	4 894.7	8 626.1
Net capital expenditure	(9 759.7)	(10 170.3)	(7 228.5)	(6 497.6)	(7 668.3)
Investment activity	(266.7)	1 100.0	400.0	959.5	-
Retained cash	**(2 639.6)**	**(2 761.7)**	**(3 253.6)**	**(643.4)**	**957.9**

Source: CoJ Annual Financial Statements

Management and governance

Management processes remain sound as unqualified audit reports have been received over the review period, albeit GCR notes the persistent increase in irregular expenditure in the recent financial years.

CoJ has received unqualified audit reports over the review period. In that regard, majority of the metro's entities received unqualified audit reports albeit with some material findings. The majority of the findings relate to non-compliance with the Municipal Finance Management Act (MFMA) on procurement and tender management. Despite efforts outlined by the metro to curb irregular expenditure year on year through frequent financial reporting and internal audit oversight, GCR is of the view that irregular expenditure will persist, as is the case for most big municipalities in the country. However, GCR takes comfort in that the key finance team has had a long tenure at the metro, suggesting stability in the accounting function.

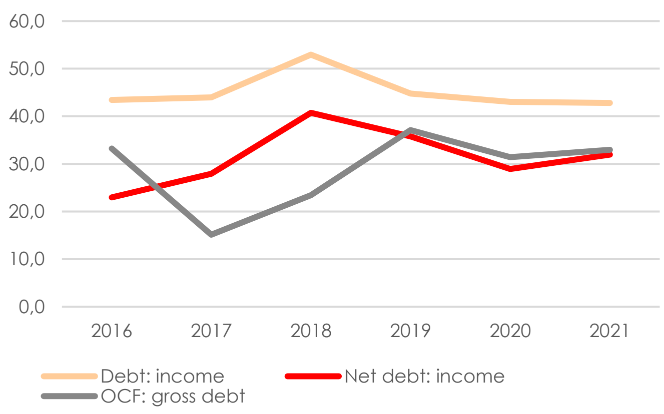
FINANCIAL PROFILE

Leverage and capital structure

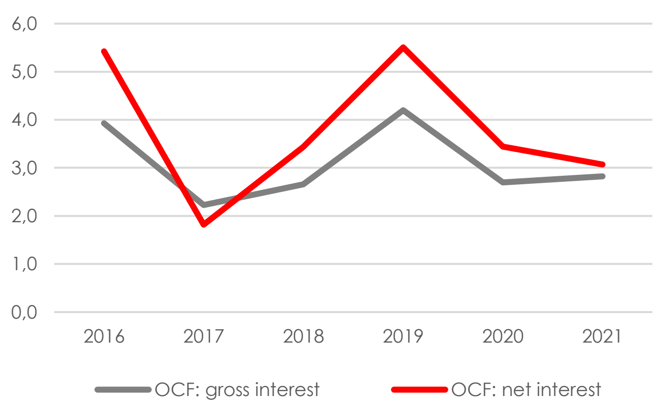
CoJ evidences a high debt position, with moderately low cash flow coverage of debt and interest coverage. Counterbalancing this, however is the metro's strong access to capital and a sinking fund reserved for debt maturities.

CoJ has made of use of significant debt to fund its capex over the review period. In this regard, gross debt stood at c.R24bn at FY20 (FY19: R23.2bn; FY18: R20.9bn) above the other large metros. Accordingly, relatively weak credit protection metrics continue to weigh down the ratings. That said, after more robust revenues and operating cashflows mainly from rates, the metro reported an improved net debt to total income of 29% at FY19 (FY18: 35.8%) and a stronger operating cashflow coverage of gross debt of 37.1% (FY18: 23.5%). Similarly, operating cashflow coverage of interest improved to 4.2% (FY18: 2.7%). However, after catering for R3bn capex debt funding planned for FY21and anticipated significant increase in debt funding costs driven by the COVID-19 pandemic, credit protection metrics are expected to moderate over the medium term, with net debt to total income expected to trend between 30% to 35% level over the medium term.

Graph 1: Leverage progression



Graph 2: Interest coverage



*2020 and 2021 are forecasts

CoJ's robust access to funding continues to positively contribute to the metro's leverage and capital assessment. In this respect, the metro has historically demonstrated capital raising strength from commercial banks, development finance agencies and the debt capital markets. CoJ successfully borrowed R2.9bn from DBSA in FY20 and plans to borrow a further R3bn in FY21. Although this contributes to funding concentration (42% of debt is provided by DBSA), this preference to the bank is a consequence of the longer tenors and more favourable loan terms. Nevertheless, there remains a risk that DBSA could reduce new funding to the metro as DBSA nears its single-counterparty loan limit with CoJ. GCR also takes comfort in the metros' demonstrated funding relationships with other private sector and development institutions, as well as the capital markets, which continue to provide funding.

CoJ's debt maturity profile is also positively considered. The metro has secured funding terms ranging from 10 years facilities to in excess of 25 years. Moreover, as almost all the debt is amortising, maturities are evenly spread over the life of the debt. Only the DMTN notes have bullet repayments and these are covered by investments in a sinking fund account.

Liquidity

Despite some cash flow concerns, liquidity is supported by robust cash holdings and strong access to capital, whilst capex projections have also been scaled back to accommodate lower cash resources

CoJ's liquidity position is considered positive to the ratings after an improvement in cash days on hand to c.68 days at FY19 (FY18: c.42), above 45 days National Treasury municipal threshold. This can largely be attributed to a strong performance in property rates revenue due to positive property valuation roll, which rose by c.35% to R13.1bn at FY19 (FY18: R9.6bn). That said, cash days on hand is likely to have decreased to between 45 to 55 days at FY20, where it is likely to remain over the medium term (table 4 below).

The metro's liquidity is underpinned by c.R4bn cash on hand (excluding sinking fund) for FY20 (FY19: R5.3bn) and R1.5bn facilities from DBSA. In addition, CoJ has a short-term facility of R675m provided by Standard Bank which the metro has never had to draw down on during the review period. Counterbalancing this, however, are amortising debt maturities of R1.8bn majority and an R850m bond repayment payment. Positively, this is comfortably covered by the R2.7bn cash in the sinking fund reserve. Given the expected cash flow constraints and the need for additional service provision, CoJ has reduced projected capex spend to around R7.5bn for the FY21-FY23 period. While this will help preserve cash resources, it will impact the metro's ability to address its infrastructure backlogs. Accordingly, CoJ's liquidity sources are expected to comfortably cover its uses by around 1.5x over the next 12 months and around 1.2x over 24 months.

Table 4: Cashflow forecast (R'm)		
	FY21	FY22
Operating income	61 795.0	64 857.0
Cash payments	(51 140.7)	(52 660.4)
Net operating income	**10 654.3**	**12 196.6**
Capital grants	2 637.5	3 137.9
Net finance income (outflows)	(2 901.6)	(3 034.2)
Total capex	(7 458.6)	(7 507.9)
Net cash outflow	**2 931.6**	**4 792.5**
Starting cash	8 016.5	7 350.2
Ending cash	7 350.2	7 857.3
Days cash on hand	**52.5**	**54.5**

Source: CoJ Medium Term Expenditure Framework

COMPARATIVE PROFILE

Government support

No additional government support is factored into the rating as the National Treasury has stated explicitly that it does not guarantee municipal debt.

Peer analysis

The peer analysis is neutral to the rating.

RATING ADJUSTMENT FACTORS

Structural adjustments

CoJ is the major operating entity, and consequently there are no adjustments to the ACE in arriving at the final rating.

Instrument ratings

No adjustments for instrument ratings are applicable.

RISK SCORE SUMMARY

Rating Components & Factors	Risk score
Operating environment	**14.00**
Double country risk score	14.00
Adjustments	0.00
Business profile	**3.00**
Local and Regional Government Profile	3.00
Operating Performance	0.00
Management and governance	0.00
Financial profile	**(2.00)**
Leverage and capital structure	(1.00)
Liquidity	(1.00)
Comparative profile	**0.00**
Group support	0.00
Government support floor	0.00
Total Risk Score	**15.00**

Glossary

Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Coverage	The scope of the protection provided under a contract of insurance.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Income	Money received, especially on a regular basis, for work or through investments.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Offset	A right (Right of Offset) to set liabilities against assets in any dispute over claims.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Reserves	A portion of funds allocated for an eventuality.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.
Upgrade	The rating has been raised on its specific scale

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument;.

The credit ratings have been disclosed to City of Johannesburg Metropolitan Municipality. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

City of Johannesburg Metropolitan Municipality participated in the rating process through management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from City of Johannesburg Metropolitan Municipality and other reliable third parties to accord the credit ratings included:

- Audited financial results of City of Johannesburg Metropolitan Municipality 2018/2019 (Plus four years of comparative numbers);
- Budget reports up to 2021/2022;
- The Integrated Development Plan 2019/2020; and
- Schedule A accounts to December 2019.