Credit rating report | South African Metropolitan Municipality | August 2021

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 strengths

- Regarded as the economic hub of South Africa, it is one of the most important metropolitan and commercial areas in the country, with diverse economic activities
- Good track record of strong operating performance with rising income levels
- Maintained a strong liquidity profile through COVID-19

Rating weaknesses

- High levels of gearing with moderately weak credit protection metrics
- Debtor collection and consequently cash flows, negatively impacted by the COVID-19 pandemic
- Lower rate of capex implementation and repairs and maintenance

Rating rationale

The ratings affirmation for City of Johannesburg Metropolitan Municipality ("CoJ" or "the metro") balance its position as the economic center of South Arica and well diversified sources of internally generated revenues (IGR), against high gearing and a moderate liquidity profile, exacerbated by the COVID-19 related disruptions.

CoJ's operating performance has remained fairly stable despite some of the persistent underlying weaknesses, such as service delivery backlogs. a reduction in overall collection rates, as well as the challenges presented by the COVID-19 disruptions. As collection procedures could not be fully implemented during the hard lockdown, and residents and commercial property owners faced affordability pressures, gross consumer debtors increased by 31% at FY20 to R34.9bn (FY19: R26.5bn), with the bad debts provision growing from R20.4bn (77% of debtors) at FY19 to R28bn (80%) at FY20. Nevertheless, while the average collection rate decreased to 86% in FY20 (FY19: 89%) it has since improved to around 90% through FY21. Further improvements will, however, be dependent on renewed economic growth.

Income growth of 6% was achieved for FY20, mainly driven by services revenue. However, this was offset by a relatively higher 9% increase in expenditure. One of the major reasons was a steep rise in staff costs, as many positions were insourced, but this should normalise in FY21 and going forward. With somewhat stronger income growth now projected for FY21, GCR expects the operating surplus to remain high.

COVID-19 disruptions negatively impacted both collections and capital project delivery during FY20. As a result, service delivery levels, repairs and maintenance as well as infrastructure development suffered, evidenced by a lower 73% capex implementation rate at FY20 (FY19: 93%), and expectations of around the same level in FY21. GCR considers this to be a key longer term risk, although the CoJ has introduced a capital development plan that budgets for a total of R94bn in spend over a 10-year horizon, and anticipates that only 25% of such budget will need to be funded with external debt.

CoJ's financial position remains constrained by its high gearing, as gross debt amounted to R22.3bn at FY20 (FY19: R22.2bn) and is projected to increase to c.R23bn at FY21. Nevertheless, credit protection metrics have remained moderate due to income growth, with net debt to total income improving to 25.8% at FY20 (FY19: 27%). However, operating cashflow coverage of gross debt fell to 28.2% (FY19: 38.5%) on the back of weaker operating cash flows, whilst coverage of interest decreased to 3.6% (FY19: 4.2%). Credit protections metrics are anticipated to remain in the moderate range over the rating horizon, with net debt to total income trending around the 28% level. Concerns regarding the high level of debt are somewhat mitigated by the long tenor of CoJ's debt (with most debt facilities amortising over a 10-20 year period), its demonstrated diverse funding relationships and the metro enjoying fixed interest rates on the majority of its funding facilities.

GCR positively notes that CoJ has maintained robust cash balances despite the COVID-19 crisis, resulting in 12-month liquidity coverage for FY22 of around 1.6x, underpinned by a projected R5.9bn in cash on hand at FY21, as well as c.R2.7bn in its sinking fund and an unutilized short term facility of R675m. Against this, capex of around R8.2bn is forecast for FY22, as well as debt maturities of c.R1.2bn. GCR notes however the large bond redemption of R2.3bn during FY23 which will likely reduce the metro's 24-month liquidity coverage ratio somewhat (although this is largely covered by the sinking fund). CoJ's improved liquidity profile is also supported by solid cash on hand of 58 days at FY21 and a similar projected level for FY22. With the metro implementing its aforementioned 10-year capex program, partly funded by rising debt, longer term liquidity strength is ultimately dependent on growth in cash flows, which in turn will be determined by rising IGR and improving collection rates.

CoJ's robust entity profile remains critical to its rating. The metro is the economic center of South Africa, contributing 15% to the country's GDP, 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 certain 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 ongoing challenges arising from COVID-19 related disruptions, the metro has sufficiently strong and diversified income streams to maintain its financial profile, as well as adequate liquidity sources.

Rating Triggers

Positive rating action could derive from improved revenue collection that strengthens the liquidity assessment and enables the metro to further reduce gearing levels. Negative rating action could arise should an improvement in collection rates not be evidenced, or if COVID-19 disruptions continue to increase the costs of service delivery without compensation. This would likely lead to an increase in debt funding and weaker credit protection metrics as a result of deteriorating cash flows.

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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, July 2021

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)	Stable	July 2020
Short term Issuer	Last	National	A1+(ZA)		

ANALYTICAL ENTITY: City of Johannesburg Metropolitan Municipality

City of Johannesburg Metropolitan Municipality 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 African country risk score has been maintained at a '7.0', albeit noting mounting challenges facing the economy amidst a prolonged pandemic that has continued to blunt recovery prospects. A sharp contraction in GDP growth, lower GDP per capita, worsening fiscal position, rising unemployment and social inequality all contribute to a broadly negative overlay on future prospects. The assessment is somewhat supported by fairly stable institutional scores based on the World Bank Governance Indicators & World Economic Forum Global Competitiveness Index. GDP growth is projected to improve to around 3% in 2021, but still expected to lag that of other emerging markets and developed countries, suggesting a longer road to economic recovery.

Overall, downside risks dominate the outlook horizon for the South African country risk score. While the pandemic's impact has been felt around the globe, the severity has been more pronounced in South Africa given its pre-existing economic frailties. South Africa is facing an uphill task to make up the lost ground with the government fast approaching unsustainable debt levels.

The full list of GCR Country risk scores can be found at https://gcrratings.com/risk-scores/

Sector risk

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 robust 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 rates of 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 economic gateway to the African continent, being the base for many multinational companies' headquarters, and boasting a well-developed road and highway network that serves as a portal to national and international routes. Further, CoJ benefits from its diverse economy which continues to anchor its economic stability. Underpinned by a broad services sector, 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 of c.1.5% of the country while hosting c.10% of the country's population in FY20.

Some 80% of the metro's income is internally generated revenue (IGR), of which electricity sales and income from property taxes are the key contributors. Positively, this renders the city only 20% reliant on grant income. CoJ's GDP growth during 2020 registered above the national GDP, albeit that economic growth has been slowing for much of the past decade. As such, the growth evidenced has not been adequate to meet the demands of the increasing population amidst a high unemployment rate within the metro, which currently stands at 35%, but could easily spike towards 40% in the wake of COVID-19 pandemic. This is expected to burden CoJ with additional social grant responsibilities for its residents, against more constrained income levels. Approximately 46% of the population is estimated to live below the poverty line (compared to c.56% nationally), but other socio-economic statistics such as access to electricity, sanitation, access to water and education exceed the national average.

Delays in capital expenditure project rollouts, as well as in repairs and maintenance due to COVID-19 disruptions, are likely to limit the metro's ability to sustain service delivery insofar as water, power and roads are concerned, where the infrastructure is worn out. That said, GCR positively notes the metro's plans to prioritise this going forward through the introduction of a capex plan valued at R94bn over a 10-year horizon.

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.

Although the metro was impacted by the looting and vandalism in July 2021, most of the damage was caused to private property. The direct cost of damage to municipal property has not yet been quantified, however the metro has indicated that it is fully insured. Over the short term there may be some negative impact on the rates base, as well as some necessary repairs and maintenance, but this should normalise as most businesses have already returned to normal operations.

Operating performance

The ratings continue to be supported by continued strong underlying growth, however the operating surplus has reduced due to COVID-19 disruptions and deteriorating debtors' collection

CoJ's operating performance has proved resilient through the COVID-19 challenges. Nevertheless, cash flows have been impacted by relief provided to residents who were struggling to meet their municipal charges, amounting to some R37m in FY20. In addition, credit control action for was suspended, and those residents who had been previously disconnected, were immediately reconnected.

To balance expenditure against the expected decline in income and cash flow, cost cutting measures were introduced where possible. Travel and conference expenses ceased, but funds were channelled into the purchase of personal protective equipment (PPE). Most significantly, although the capex budget was not formally reduced, CoJ's capex implementation rate declined to 73% in FY20 (FY19: 93%) due to COVID-19 related disruptions.

Despite expenditure containment measures, the metro reported a large reduction in its gross surplus at FY20 to R3.7bn (FY19: R6.5bn). GCR expects the COVID-19 disruptions to continue to impact earnings over the short to the medium term. Further, the metro has curtailed tariff increases for water and electricity somewhat cushion residents from the impact of the large increases in bulk tariffs, but this will lead to a further narrowing of the margin.

Table 1: Income progression (R'm)

	FY16	FY17	FY18	FY19	FY20	%∆ FY20	5yr CAGR
Rates	8 250.1	8 182.8	9 639.9	13 281.9	13 4462	1.2	17.7
Electricity	14 044.8	14 649.5	13 209.6	13 935.28	15 522.4	11.4	4.8
Water	4 879.0	5 030.1	5 996.9	6 995.9	7 197.5	2.9	14.5
General service	4 404.7	5 001.6	5 617.5	6 355.6	7 178.5	12.9	12.8
Grants & subsidies	8 917.4	9 464.7	9 782.3	10 745.7	11 182.5	4.1	6.0
Other income	2 705.5	2 286.8	2 342.2	2 751.3	2 756.2	0.2	(0.5)
Total income	**43 201.5**	**44 615.4**	**46 588.4**	**54 065.5**	**57 283.3**	**6.0**	**8.8**

Source: AFS

While revenue increased in FY20, driven mainly by rates and electricity, slower growth was evidenced due to lower consumption by businesses as a result of the COVID-19 lockdowns. Water losses decreased to 19% at FY20 (FY19: 25%), despite an increase in non-paying customers and persistent infrastructure challenges.

Despite electricity income growth registering well above inflation over the review period, pressure on margins is still evident due to bulk purchase costs increasing disproportionately to revenue, as tariff Increases have not fully been passed on to consumers. Moreover, energy losses have remained persistently high, rising from 25% at FY19 to 28% at FY21, further eroding margins. In addition, there has been a notable increase in the number of self-generating customers, particularly in the wake of increased loadshedding. Thus, although electricity income rose by 11.4% at FY20, the electricity margin did not increase proportionately, registering only slightly higher at 25% at FY20 (FY19: 22%).

Grant income growth at c.5% over the past 5 years has largely tracked the inflation rate. The equitable share grant increased by R721m, providing the metro with resources to meet its increasing social obligations. As high unemployment and job losses will increase the number of indigent households, equitable share grant will become more important. However, GCR is concerned that growth in the grant will be constrained by the weak national fiscal position.

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Table 2: Expenditure progression (R'm)

	FY16	FY17	FY18	FY19	FY20	%∆ FY20	5yr CAGR
Salaries and wages	9 133.2	10 394.7	10 840.7	12 741.6	14 960.1	17.4	14.5
Electricity	9 871.0	10 696.8	10 349.7	10 914.6	11 629.7	6.6	65
Water	3 876.7	4 282.1	4 823.3	5 620.5	6 041.3	7.5	14.4
Grants & donations	484.4	500.7	289.3	180.3	288.5	60.0	(15.9)

Depreciation	2 809.2	2 998.8	3 132.8	3 251.1	3 255.9	0.1	8.1
Contracted Services	2 655.7	23.4	39.4	32.7	120.4	268.7	(53.6)
Repairs & maint.	1 808.2	1 899.5	1 946.3	2 324.6	1 991.0	(14.3)	8.2
Other expenses	5 195.1	7 104.9	7 056.0	6 541.0	6 830.1	4.4	10.4
Bad debts	2 486.3	3 941.3	3 483.3	4 651.6	6 976.7	50.0	15.9
Net interest	1 880.6	2 421.8	2 525.4	2 500.0	2 524.1	1.0	12.4
Total expenditure	**40 200.5**	**44 264.1**	**44 486.3**	**48 757.9**	**54 617.8**	**12.0**	**9.3**

Source: AFS

Expenditure growth over the review period has exceeded growth in income. Much of the growth in the cost base remains driven by municipal salaries albeit that the staff cost ratio remains sound at 27% of total expenditure, just below the 30% threshold set by the National Treasury (NT). The large staff cost increase was largely the result of insourcing of security officers and cleaners, as well as general inflationary increases. Cost increases have, however, been limited in recent negotiations with unions and thus are expected to continue to trend at around 27% of total expenditure. This, coupled with increases in tariffs on key revenue sources over the medium term, could see a narrowing of the metro's operating surplus over the medium term in the absence of meaningful income development.

Repairs and maintenance spend decreased significantly over the period, reducing to 3.8% of the operating budget (FY19: 4.8%), well below the NT guidelines of 8%. Although the reduction in FY20 was attributed to several maintenance projects being put on hold during the COVID-19 lockdown, GCR considers this negatively as the lower maintenance has resulted in a deterioration of municipal infrastructure. This could have the dual impact of constraining income growth and necessitating higher maintenance expenditure in upcoming periods.

CoJ continues to grapple with a rising debtors' book. Gross debtors increased 31% to a record high of R34.9bn at FY20, driven mainly by under-collections during the strict lockdown in the final quarter of FY20. This necessitated an increase in the provision for doubtful debts to 80% (FY19: 77%). The average collection rate declined to 86% for FY20 (FY19: 89%) against a COVID-adjusted budget of 88%. Although collections have since improved to around 90% through FY21, GCR expects revenue collection challenges to continue to constrain income, further impacted by a likely increase in indigent households. Thus, while retained cash improved in FY20, this was more a factor of lower capex. GCR expects cash flow from operations to remain under pressure over the rating horizon unless there is a meaningful improvement in overall national economic growth.

Table 3: Cashflow (R'm)

	2016	2017	2018	2019	2020
Cash flow from operations	6 308.6	3 574.9	4 894.7	8 382.6	6 176.9
Net capital expenditure	(10 170.3)	(7 228.5)	(6 497.6)	(7 273.6)	(5 755.8)
Investment activity	1 100.0	400.0	959.5	(9.4)	(0.9)
Retained cash	**(2 761.7)**	**(3 253.6)**	**(643.4)**	**1,099.6**	**422.1**

Management and governance

Management processes remain sound as unqualified audit reports have been received over the last 8 years, albeit GCR notes the persistent increase in irregular expenditure in the recent financial years.

CoJ has received unqualified audit reports for the last 8 years, albeit that some municipal entities have deteriorated somewhat from previous Clean Audits. The majority of the findings relate to non-compliance with the Public Finance Management Act (PFMA) on procurement and tender management, leading to still high unauthorised, irregular, fruitless and wasteful expenditure ("UIFW"). However, GCR notes the metro's adoption a three-pronged approach to reduce UIFWs. This includes: 1) more stringent focus on financial management controls to prevent, deter and detect any instances that may result in UIFWs; 2.) mechanisms for the timeous reporting or declarations of incidents of UIFWs;

and 3) the centralisation of all UIFW investigations coupled with the adoption of a Project Management approach with specified deliverables, timelines and a resource plan.

FINANCIAL PROFILE

Leverage and capital structure

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

CoJ debt is significantly higher than the other large metros and accordingly, relatively weaker credit protection metrics weigh down the ratings. Nevertheless, gross debt has stabilised somewhat, at R22.3bn at FY20 (FY19: R22.2bn) and is only projected to be around R23bn at FY21. As total income increased 6% at FY20, the metro reported a slightly improved net debt to total income ratio of 25.7% at FY20 (FY19: 27%), albeit that declining operating cash flows resulted in a weaker operating cash flow coverage of gross debt of 27.7% (FY19: 37.7%). Similarly, operating cashflow coverage of interest deteriorated to 3.1x (FY19: 4.1x). Although around R3bn in debt funding for capex is projected over the medium term, credit protection metrics are expected to remain stable, with net debt to total income expected to trend between 26% to 28%.

Figure 1: Leverage progression

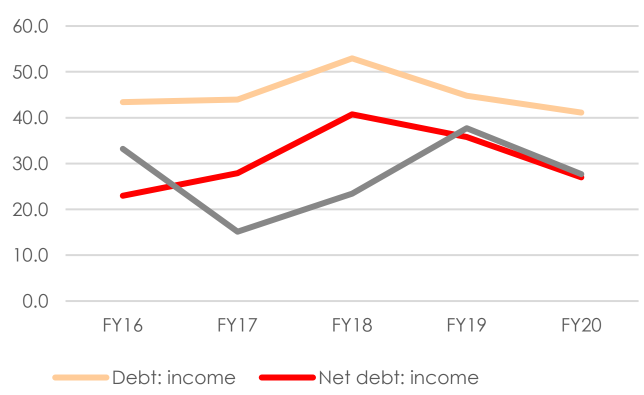
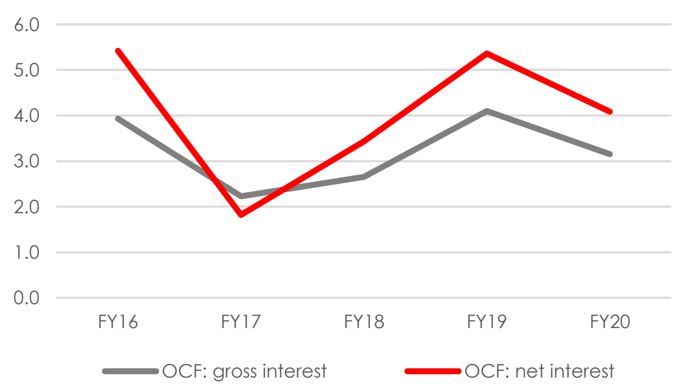


Figure 2: Interest Coverage



CoJ's solid access to funding positively contributes to the metro's capital structure assessment. In this respect, the metro has historically demonstrated capital raising from commercial banks, development finance agencies and the debt capital markets. CoJ successfully borrowed c.R3bn from DBSA in FY20 (drawing down R1.5bn in FY20 and the remainder in FY21), an additional R1.5bn during FY21, and further plans to borrow another R3bn in FY22. Although this contributes to funding concentration (52% 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. The metro redeemed R850m in maturing DMTN notes in FY21 and may consider new issuances to supplement its funding requirements if terms are favorable.

CoJ's debt maturity profile is also positively considered. The metro has secured facility terms ranging from 10 years to in excess of 25 years. Moreover, as almost all the debt is amortising, there are no maturity concentrations. Only the DMTN notes have bullet repayments, but the redemption is managed by quarterly investments into a sinking fund account.

Liquidity

CoJ's liquidity profile is underpinned by robust cash holdings and strong access to capital, despite a deterioration in operating cash flows over the review period

CoJ's liquidity is considered moderate, with coverage of 1.4x over the next 12 months to FY22. This is reflective of its improved cash position of c. R5.9bn at the end of FY21 (FY20: R5.6bn), as well as R2.7m in its sinking fund. CoJ also maintains an unutilised short-term facility of R675m, provided by Standard Bank, to meet short term funding requirements, albeit it has not been utilised. Against this however, are debt maturities of R1.2bn during FY22, as well as a significant capex budget of R8.2bn. GCR further notes a large bond redemption of R2.3bn during FY23, which in addition to a further R1.1bn in debt maturities, reduces the metro's 24-month liquidity coverage ratio. However, the sinking fund reserve currently has sufficient resources to cover the redemption.

GCR also heeds the weakening trend in days cash on hand. Having peaked at 62 at FY20, coverage is expected to be around 58 days at FY21 and 52 days at FY22. This decreasing trend is a result of some pressures on cash inflows due to deterioration in debtor collections arising from the adverse COVID-19 effects, coupled with the metro having to fund capital spend increasingly from internal sources. Nevertheless, at this level, days cash coverage remains at the top end of the National Treasury's 30-60 day guidance.

Table 4: Cashflow forecast (R'm)

	FY22	FY23
Operating income	59 132.2	63 810.6
Cash payments	(51 873.1)	(55 344.1)
Net operating income	**7 259.1**	**8 466.6**
Capital grants	1 460.0	2 063.8
Net finance income (outflows)	(2 457.5)	(2 565.2)
Total capex	(8 157.5)	(8 544.2)
Net cash outflow	**(1 895.8)**	**(579.1)**
Starting cash	7 217.8	7 079.4
Ending cash	7 079.4	7 138.4
Days cash on hand	**52.5**	**49.8**

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);
- Audited financial results of City of Johannesburg Metrpolitan Municipality 2019/2020
- Budget reports up to 2021/2024;
- The Integrated Development Plan 2020/2021;
- Schedule A accounts to December 2019
- MTB 2020-21 Final Approved Budget
- Market presentations
- CoJ Liability Profile
- Various Management Accounts