



MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

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Cllr Dada Morero
The Executive Mayor
City of Johannesburg Metropolitan Municipality
P. O Box 1049
JOHANNESBURG
2000

Dear Cllr Morero

TRANSGRESSION OF THE BUDGET LAWS AND ASSOCIATED REGULATORY INSTRUMENTS BY THE CITY OF JOHANNESBURG METROPOLITAN MUNICIPALITY

Recently, I have observed series violations of various legislative and regulatory compliance requirements under the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), that suggest a deterioration in the City's governance and overall financial health.

2025/26 Adjustments budget

The 2025/26 adjustment budget was approved by council on 20 March 2026 after the MEC has provided extension to the municipality. Various potential risks were highlighted by the officials of the municipality in the report to council before approving the adjustments budget. These potential risks are as follows:

- Revenue collection levels not meeting budgeted targets;
- Johannesburg Water – over estimation of exchange revenue (service charges) and if the trend continues the under recovery can increase at year end;
- Over expenditure: YTD 31 January 2026 reflects over expenditure of approximately R3.9 billion on employee related cost; bulk purchases electricity, inventory consumed and operational cost;
- *Projected revenue improvements are not being sustained thereby putting at risk any expenditure matched against such revenue;*
- *JRA – engineering services/bulk services. An amount of R708.6 million is reflected for JRA (to fund capital expenditure) which is not backed by cash in the bank within JRA; and*
- *The reduction of R979.6 million in the equitable share allocation (not included in the draft adjustments budget) – National Treasury letter to the City Manager dated 12 November 2025 (the amount has been amended to R455.9 million - National Treasury letter to the City Manager dated 19 March 2026).*

It must be emphasized that an annual budget in terms of section 18 (1) of the MFMA may only be funded from:

- (a) Realistically anticipated revenues to be collected; and
- (b) Cash-backed accumulated funds from previous years' surpluses not committed for other purposes.

The adjustments budget was assessed by National Treasury to be unfunded; revenue collection was overstated while expenditure was understated. The understating of expenditure will mostly result in unauthorised expenditure by June 2026 which will put further financial strain on the municipality.

Failure to comply with the requirements of the Municipal Regulations on Municipal Standard Chart of Accounts (*m*SCOA)

The previous Minister of Finance promulgated the Municipal Regulations on a Standard Chart of Accounts in the Government Gazette (Notice no. 37577) on 22 April 2014. The regulations apply to all municipalities and municipal entities and came into effect from 1 July 2017. Additionally, in terms of Section 74 (1) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), the municipality is mandated to submit to the National and Provincial Treasuries documents and returns as may be prescribed or required.

Although the City has demonstrated improvement with *m*SCOA data strings submissions and alignment of data between the City's financial system and council approved document, the *m*SCOA system-related challenges, delays in the implementation of the *m*SCOA roadmap and non-functionality of key modules remains a serious concern.

The National Treasury notes with concern the continued non-compliance of the City with *m*SCOA Regulations. The City remains unable to transact and report fully through an *m*SCOA compliant financial management system, as required by the *m*SCOA regulatory framework.

While it is acknowledged that the City has made progress, particularly with the implementation of the Human Resources (HR) and Payroll modules, the City continues to rely on the SAP Programme Interim Solution to prepare its MTREF budget and submit in-year reports to the National Treasury. This interim arrangement does not meet the minimum compliance standards prescribed by the *m*SCOA Regulations, which require municipalities to maintain a fully functional, automated financial system capable of end-to end processing in line with the prescribed *m*SCOA segments. This is also a direct violation of the Treasury Norms and Standards as outlined in Section 216 of the Constitution.

The National Treasury further notes material weaknesses in system functionality and integration, with less than 30 per cent of applications integrated into the City's Enterprise Resource Planning (ERP) system. It is also noted with concern that the City's key sub-systems are not seamlessly connected, limiting the City's ability to generate consolidated budgets, in-year financial reports, and Annual Financial Statements (AFS) directly from the ERP system. These deficiencies indicate that the City's financial transactions are still not being processed in accordance with the prescribed *m*SCOA classification framework. The continued reliance on hybrid processes exposes the City to reporting challenges, compromising data integrity and compliance with *m*SCOA Regulation.

Although the City has established a functional *m*SCOA Steering Committee and an implementation roadmap, progress remains uneven. The roadmap submitted to the National Treasury still reflects gaps, and the City has yet to demonstrate measurable milestones towards full compliance.

The City continues to face difficulties with cash flow reporting. Although there is an improvement compared to previous financial years, there remain notable discrepancies, particularly pertaining to opening balances and cash from investing activities.

There is also a difference between the figures reported in quarter two of the MFMA S71 financial report and the 2024/25 Annual Financial Statements on Operating Revenue, Operating Expenditure, cashflow and creditors.

In view of the above, the City fails to comply with the MFMA and its Regulations on the Municipal Standard Chart of Accounts, including associated MFMA and *m*SCOA circulars issued to guide the

municipalities on the implementation of the mSCOA reform. Inaccuracy of the financial information negatively affect the Council's ability to make proper decisions on the financial affairs of the City. The situation also continues to negatively affect the National and Provincial Treasury's oversight responsibility assigned by the Constitution and the MFMA.

Failure to prevent and address unauthorised, irregular, fruitless and wasteful expenditure

In terms of section 62 (1)(d) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to prevent the incurrence of unauthorised, irregular, fruitless and wasteful expenditure (UIFWE). Section 78 of the MFMA outlines the same responsibility for senior managers and other officials of a municipality exercising financial management responsibilities to prevent incurrence of unauthorised, irregular, fruitless and wasteful expenditure.

I have been advised that officials within my department have engaged with members of the Municipal Council led by the Speaker, the Municipal Public Accounts Committee and senior officials within the administration led by the City Manager. The state of UIFW within the City was discussed during this session and commitments made. The session stem from a letter written in December 2025 by the Director-General of the National Treasury where certain information was required to be submitted. To date, we have not received any information from the City. I would like to encourage you to ensure that the required information is submitted as soon as possible.

Failure to pay creditors within 30 days in terms of the Municipal Finance Management Act

The accounting officer must for the purpose of subsection (1) take all reasonable steps in terms of section 65 (2)(e) of the Municipal Finance Management Act no. 56 of 2003 as amended to ensure

- that all money owed by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

The outstanding amount owed to creditors has increased from R17 billion in 2022/23 to R25.2 billion in 2024/25, whereas the city's cash and cash equivalent of R3.9 billion in 2024/25 is insufficient to repay outstanding creditors of R25.2 billion. This is a marker of severe financial distress, indicating that the city does not have the liquidity required to pay its creditors.

Imminent unsustainable salary adjustments

The City signed an agreement with the South African Municipal Workers Union (SAMWU) in November 2025 committing to R10.3 billion in salary increases over the next two years to address a wage dispute. Given that the City is in financial distress, it is unclear how it intends to fund these salary increases over the MTREF.

Taking into cognizance the current state of finances using the creditors and cash equivalents as a matrix, you have committed the City into a financial obligation that is not possible to fulfil. Of concern is that this decision is a direct transgression of MFMA and budget and reporting regulations. You are requested to indicate what measures will be implemented and how this violation will be arrested or reversed.


You are hereby directed to stop proceeding with the implementation of this illegally signed agreement that has the potential to destroy the sustainability of the City of Johannesburg beyond this term of Office as well as the negative impact on the national economy at large. Secondly, not only is your Adjustments Budget not funded in terms of Section 18 of the MFMA, but you very well know the City cannot afford this agreement.

In the event that the City is not willing to remedy this situation with immediate effect, I am hereby given you formal notice that the National Treasury will invoke Section 216 (2) of the Constitution targeting your July 2026 Equitable Share installment.

Should you require further clarification or information, please contact Ms Ogalaletseng Gaarekwe, Deputy Directors-General: Intergovernmental Relations at Ogalaletseng.Gaarekwe@treasury.gov.za

Your cooperation is highly appreciated.

Yours Sincerely,



ENOCH GODONGWANA, MP

MINISTER OF FINANCE

DATE: 23/04/2026

Cc: Minister of Cooperative Governance and Traditional Affairs: Velenkosini Hlabisa, MP
Gauteng MEC of Finance: Nkululeko Dunga, MPL
Gauteng MEC of Cooperative Governance and Traditional Affairs: Jacobo Mamabolo, MPL