RATING ANNOUNCEMENT

GCR revises the Outlook on City of Ekurhuleni Metropolitan Municipality's National Scale Issuer Rating of $BBB_{(ZA)}$ to Negative, due to the deterioration in the Audit outcome and other governance concerns

Rating action

Johannesburg, 19 May 2026 – GCR Ratings (GCR) has affirmed the City of Ekurhuleni Metropolitan Municipality's national scale long and short-term issuer ratings at $BBB_{(ZA)}$ and $A3_{(ZA)}$, respectively. The rating outlook has been revised to Negative from Stable.

Rated entity	Rating class	Rating scale	Rating	Outlook/Watch
City of Ekurhuleni Metropolitan Municipality	Long Term Issuer	National	$BBB_{(ZA)}$	Negative Outlook
	Short Term Issuer	National	$A3_{(ZA)}$	

Rating rationale

The Negative outlook on City of Ekurhuleni Metropolitan Municipality's (Ekurhuleni or the Metro) ratings follows the Qualified opinion issued by the Auditor General (AG) on the Metro's financial statements for the year to 30 June 2025 (fiscal 2025), as well as revelations of potential irregularities in certain operations. Additionally, financial performance measures remain weak, although we note the continued reduction in leverage as per the financial sustainability plan.

The Qualified audit opinion for fiscal 2025 relates to a breach in the Metro's database system, whereby an unknown number of consumer accounts were erased or changed. Thus, the AG could not verify that the actual quantum of service revenue and service-related debtors was correct, with the differential estimated at around ZAR2 billion. As the breach continued into 2026, we expect an impact on the fiscal 2026 audit findings, although Ekurhuleni is looking at ways to manually verify all information prior to the audit. To rectify the situation, Ekurhuleni is upgrading its systems to ensure there is an offsite backup for its databases and that all access to the system is properly logged. Although the reported figures for cumulative Unauthorised, Irregular and Fruitless and Wasteful Expenditure (UIFW) of ZAR2.25bn in fiscal 2025 is moderate, ongoing judicial commissions suggest that this figure could be understated.

Ekurhuleni's operating performance remains weak. The Metro reported a small deficit of ZAR158m in fiscal 2025 (USD9.6m), contrasting the surpluses reported over the previous four years. This resulted from a moderate 3.1% increase in income, as trading service revenue was only marginally higher and rates were flat, relative to a 4.9% rise in expenditure driven by bulk purchases and notably higher staff costs. However, income is expected to increase materially in fiscal 2026, as the new property valuation roll has resulted in a 16% increase in rates for the 9 months to 31 March 2026 (9M FY2026), whilst bulk tariffs are also higher. Accordingly, the

Metro has indicated that it should revert to a small surplus for fiscal 2026, notwithstanding continued pressure on expenditure, particularly staff costs.

The challenges facing the Metro are most evident in the sharp contraction in the electricity and water margins, to 3% and 21% respectively in fiscal 2025 (fiscal 2024: 13% and 28% respectively). Although much of the revenue growth has been driven by tariff increases for the distribution of these services, this has led to increased incidence or electricity and water theft, whilst the costs of maintaining existing infrastructure has also risen materially. Moreover, as the price for these services has risen, more residents have been unable to pay, resulting in a continued sharp increase in outstanding debtors, as well as higher indigents requiring free services. As a result of collection challenges, Ekurhuleni has not been able to maintain full and timeous payments to bulk suppliers, resulting in increased creditors and the potential for service disruption. Collections through fiscal 2025 and into fiscal 2026 have averaged around 88%, but this is below the Metros' target of 90% and national guidelines of 95%.

Our assessment of leverage and capital structure has improved slightly due to the amortisation of debt. Gross debt has steadily decreased from historic levels of ZAR10.3 billion to ZAR7.6 billion in fiscal 2025. As a result, the gross debt to income ratio declined to a low 10.8% in fiscal 2025 (fiscal 2024: 14.4%), whilst the combination of lower debt and reduced interest rates supported an improvement in interest coverage to 7x (fiscal 2024: 5.1x). Gearing ratios are likely to improve in fiscal 2026 as debt reduces by a further c.ZAR800 million and income increases. In our view, access to new funding facilities is limited and is a constraint to the rating as private sector financial institutions have been reluctant to fund municipalities in recent years, exacerbated by the deterioration in audit outcomes. Given its financial constraints, Ekurhuleni does not intend to raise new facilities over the medium term, relying primarily on government grants to fund its capex. However, this will have a negative impact on infrastructure development and service delivery as the capex budget remains limited in the ZAR3 billion to ZAR3.3 billion range over the medium term.

The Metro's liquidity position remains weak. Although cash reserves rose to ZAR1.6 billion in fiscal 2025, from ZAR889 million in fiscal 2024, this is considered relative to the ZAR3.2 billion increase in creditors. Accordingly, the current ratio registered at 0.82x in fiscal 2025 (fiscal 2024: 0.85x), below the metro's 1x target and the 1.5x-2.1x treasury band. Although cash holdings exceeded ZAR3 billion at 9M fiscal 2026, we expect this to decrease towards year-end as expenditure accelerates, with a slight net increase to c.ZAR2 billion at fiscal 2026. Nonetheless, coverage metrics remain constrained, with days cash on hand expected to continue to trend well below the 30 day target (fiscal 2025: 12 days).

Outlook statement

The Negative outlook reflects the uncertainty regarding the veracity of Ekurhuleni's financial statements given the identified weaknesses in system management, as well as concerns on governance inefficiencies. Certain financial and operational performance indicators have also weakened.

Rating triggers

The ratings could be downgraded if Ekurhuleni is unable to rectify the current uncertainties and weaknesses in its financial management, or if allegations of wrongdoing translate into the restatement of historical accounts, or additional investigations. We could also downgrade if operating performance continues to deteriorate. This could be induced by weaker collection rates that impede the liquidity position. Over the medium-term, low capex and infrastructure spend could result in a further penalisation due to GCR's sustainability assessment.

A return to a Stable rating is dependent on the adequate resolution of audit findings and demonstrated systems resilience. Improvements in the Metro's financial and operational performance that also translates into a sustainable strengthening in liquidity sources would also be positively considered.

Analytical contacts

Primary Analyst	Eyal Shevel	Sector Head: Corporate & Public Sector
Johannesburg, ZA	Shevel@GCRratings.com	+27 11 784 1771
Committee chair	Sheri Morgan	Deputy Sector Head: Corporate & Public Sector
Johannesburg, ZA	Morgan@GCRratings.com	+27 11 784 1771

Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
GCR Rating Scales Symbols and Definitions, May 2023
Criteria for Rating Local and Regional Governments, May 2024
GCR's Country Risk Scores, March 2026

Ratings history

City of Ekurhuleni Metropolitan Municipality

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long term issuer	Initial	National	BBB(ZA)	Stable Outlook	April 2022
Short term issuer		National	A3(ZA)		
Long term issuer	Last	National	BBB(ZA)	Stable Outlook	May 2025
Short term issuer		National	A3(ZA)		

Risk score summary

Rating Components & Factors	Score
Operating environment	**13.50**
Country risk score	7.00
Sector risk score	6.50
Business profile	**(0.50)**
LRG Profile	1.25
Operating performance	(1.25)
Sustainability	(0.50)
Financial profile	**(3.00)**
Leverage & cash flow	(0.50)
Liquidity	(2.50)
Comparative profile	**0.00**
Group support	0.00
Peer comparison	0.00
Total Risk Score	**10.00**

Glossary

Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital Expenditure	Expenditure on long-term assets such as plant, equipment or land, which will form the productive assets of a company.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
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.
Debtor	The party indebted or the person making repayments for its borrowings.
Downgrade	The rating has been lowered on its specific scale.
Gearing	Gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
Income	Money received, especially on a regular basis, for work or through investments.
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.
Operating Result	The sum of underwriting result and investment income.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.

Salient points of accorded rating

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 the rated entity.

The ratings above were solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Audited financial results to 30 June 2025 (plus four years of comparative numbers)
- Auditor General Report in respect of the financial year ended 30 June 2025
- Financial results for 9 months to 31 March 2026
- Schedule A accounts Budget report 2026/2027
- The Integrated Development Plan 2025
- MTREF Budget 2024/2025- 2027/2028
- Exchange Rate ZAR16.62/USD on 19/05/2026 Source: https://www.bloomberg.com/markets/currencies