CDE

METRO TRADING SERVICES REFORM PROGRAMME

A discussion with Ashor Sarupen

Deputy Minister of Finance

In July 2026, CDE brought together leaders from Johannesburg civil society organisations, individuals, initiatives and NGO's with the Deputy Minister of Finance, Ashor Sarupen. The discussion focused on National Treasury's Metro Trading Services Reform (MTSR) programme and its implications for metros such as Johannesburg.

Sarupen emphasised the importance of metros to South Africa's economy. They account for more than two-thirds of economic activity and accommodate approximately 40 per cent of the country's population. The breakdown of service delivery, therefore, severely damages the broader investment environment, stifles job creation and compromises public health and quality of life. This is especially evident in the collapse of trading services such as electricity, water reticulation, sanitation and refuse removal.

To address this breakdown in trading services, National Treasury, in partnership with the World Bank, launched the MTSR programme, which also forms part of Operation Vulindlela.

What has caused trading services breakdown?

Sarupen explained that the bulk of the revenue earned by metros comes from tariffs and charges on trading services. Under the Municipal Finance Management Act, tariffs should reflect the cost of providing those services. In principle, this revenue should allow metros to operate, maintain and renew their utility infrastructure on a financially sustainable basis.

However, over the past 30 years, metros have aggressively used revenue from core utility trading services as "cash cows" to cross-subsidise unrelated non-core functions.

According to Sarupen, this structural diversion of revenue resulted in chronic underinvestment in the very trading services that generate income for metros, precipitating an operational and infrastructure collapse across South Africa's major metros. Ageing infrastructure, inadequate maintenance, weak governance and tariffs that do not cover the actual cost of service delivery reinforced this deterioration.

Sarupen explained how employee costs compounded this pressure by growing faster than inflation, and faster than employee costs in national and provincial government over the past 15 years.

What is the Metro Trading Services Reform programme?

The MTSR is a national economic reform aimed at arresting the collapse of trading services without constitutional or legislative changes.

The reform aims to permanently disrupt the deeply entrenched, yet historically flawed, municipal funding model. This is done by incentivising metros to ring-fence trading services so that revenue derived from a service must be spent on that service's infrastructure, maintenance and operations.

Utilities or departments are expected to be operationally independent, with their own supply chains, processes and procedures. By cutting off the cross-subsidisation pipeline, metros will no longer be able to mask administrative bloat or fund non-essential functions at the expense of infrastructure maintenance.

Sarupen stressed that the programme is a reform initiative rather than a municipal bailout, adding "We are moving away from a model where metros come to national government begging for money without discipline in how they spend their own money."

The intervention, targeted and performance-based, is designed to shift trading services from a state of crisis into recovery and, ultimately, sustainable performance. Unlike traditional municipal grants or unconditional funding, participation is voluntary, but conditional. Metros must meet a series of institutional, financial and operational milestones to remain in the programme and qualify for performance-based grants.

The programme also incentivises reinvestment in trading services. For every rand that a metro successfully spends on qualifying infrastructure, Treasury will match it over a five-year period.

Timing and targets

The Deputy Minister outlined a timeline spanning six years.

- **Milestone 1 (June 2025):** Metros were required to officially adopt the reform initiatives.
- **Milestone 2 (2026):** Metros had to establish a Single Point of Management Authority (SPMA) and resolve internal delegations of power. This ensures that the designated professionals managing services have the authority to implement the reform programme. By consolidating the operational and financial oversight of core services under one roof, the SPMA centralises accountability and eliminates fragmented oversight.
- **Milestone 3 (2027):** Municipalities must complete comprehensive cost of supply studies. Many of these studies are already underway. They are essential for metros to understand the true cost of delivering services to residents, which most metros don't know.
- **Milestone 4:** Once the cost of supply is understood, metros will evaluate the financial impact of ring-fencing on their broader municipal budgets.
- **Milestone 5:** The ring-fencing process will begin with water services because it will have a smaller budgetary impact and will be less disruptive to metro finances. Electricity will be the final service to be ring-fenced as its separation will cause significant disruption to the municipality's general exchequer.
- **Milestone 6 (Progressing up to 6 Years):** The final stages require metros to demonstrate concrete budget support for their business and investment plans. This means the municipalities must progressively raise their capital expenditure on infrastructure each year to fully finance these plans, which the National Treasury will match rand-for-rand.

Assessing performance

National Treasury recognised that providing additional funding to distressed municipalities could lead those cities to reduce their own capital expenditure and substitute it with national grant funding.

By structuring the funding pool as a performance-matched incentive, Treasury aims to ensure that national funding supplements, rather than replaces, municipal expenditure. Municipalities must therefore commit their own resources before they can benefit from the programme.

The programme seeks to avoid bureaucratic tick-boxing by linking all financial disbursements to independently verified physical outcomes. Simply producing a business plan or organogram will be insufficient to unlock the funding pool.

As the Deputy Minister observed, the true measures of success are: "Can a resident in the city turn on a tap knowing the water's going to come out? Can they turn on a switch knowing that the light will go on?" Failure to meet substantive infrastructure and maintenance targets may result in a metro's removal from the programme.

Treasury powers to enforce compliance

Treasury cannot legally dictate municipal spending, appointments or salaries. It can, however, expel non-compliant metros from the reform programme. For example, if a municipality appoints an executive or board that Treasury considers technically unsuitable, it may withhold matched funding or remove the municipality from the programme.

Additionally, Treasury has the power to withhold equitable share funds in cases where utility debt has continued to grow unabated, as seen in Johannesburg and other metros in July 2026. Equitable share funds are allocated to local governments from the National Revenue Fund using a formula that takes account of population, the number of indigent households and municipalities' ability to raise their own revenue.

Does the programme prescribe delivery models to metros?

The programme respects the constitutional autonomy of local government and does not impose a single delivery model on municipalities. Instead, it offers three paths: establishing an independent municipal entity, creating a ring-fenced internal municipal department, or pursuing long-term private-sector concessions under Section 78 of the Municipal Systems Act.

How is the programme funded?

Treasury has partnered with the World Bank through a Program for Results framework. Under this arrangement, a World Bank loan will contribute R19 billion to a total funding pool of R54 billion, with Treasury contributing the balance.

The funding pool will match qualifying metro infrastructure expenditure over a five-year period. The amount available to each metro will depend primarily on its performance, while allocations will also take metro size into account.

Treasury is projecting that linking the R54 billion to performance outcomes and institutional reforms could unlock more than R100 billion in long-term infrastructure investment across the metros

Cross-subsidisation

According to Sarupen, legitimate cross-subsidisation can and must take place to support indigent households ensuring that they receive free basic services.

Under this model, wealthier households pay for utilities such as electricity and water at rates that subsidise lower-income residents. National Treasury also compensates municipalities through the equitable share formula, which draws on Stats SA household level poverty data.

This model must continue, but it needs to be implemented properly so that the designated funds reach the intended beneficiaries and are managed in a way that ensures that core utility services remain functional and well maintained.

Sarupen also explained that, under the programme, revenue from a trading service may be used to support other municipal functions only after the ring-fenced utility has met its own operational and developmental obligations for the financial year.

Are South African Municipalities financially sustainable?

Despite widespread claims of municipal bankruptcy, the Deputy Minister argued that cities generate sufficient baseline revenue to sustain their core functions.

South Africa already spends approximately 8 per cent of its GDP on local government, a figure that is well above the global average of 4 to 5 per cent.

The crisis is fundamentally one of fiscal leakage, excessive administrative costs, rising employee costs and a failure to enforce credit control, rather than an absolute lack of capital. By enforcing cost-reflective tariffs, credit control and strict capital reinvestment through the reform programme, the underlying financial models of these cities can be stabilised.

How is the City of Johannesburg performing under the programme's requirements?

Johannesburg currently demonstrates only "minimum compliance", with uneven commitment across its entities. City Power aligns closely with the programme's spirit by openly acknowledging its R44 billion infrastructure backlog and quantifying revenue leakage. Joburg Water falls short by underfunding capital expenditure and accepting slowed infrastructure renewal. Within the City of Johannesburg, Pikitup is deemed the weakest performer against the programme's criteria, offering predominantly narrative roadmaps without the necessary financial quantification.

If the Metro Trading Services Reform is successful

Sarupen concluded that "If we do this right, we can create a virtuous cycle. Better services attract more investments, investment generates economic activity, economic activity expands municipal revenues, and increased revenue then supports further infrastructure improvements. So successful reform would improve the daily lives of millions of South Africans."

CDE's Johannesburg in Brief

Johannesburg in Brief is a series of publications reflecting discussions on critical issues affecting Johannesburg and other South African metros. These discussions form part of CDE's ongoing engagements with people and organisations concerned about the state of Johannesburg, with the aim to reflect on the city's mounting governance and infrastructure crises, and to think practically about what it will take to rebuild the city. Previous publications include:

- **Local Government White Paper with Pascal Moloi, convenor of the 2025/26 White Paper review process and former City Manager of Johannesburg** (May 2026)
- **City Improvement Districts with Katlego Dikobe, general manager of the Gauteng Precinct Management Association** (March 2026)
- **Water Services with Sean Phillips, Director General of the Department of Water and Sanitation** (December 2025)

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