



Ekurhuleni
METROPOLITAN MUNICIPALITY

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Date: 12 August 2010

To: Ekurhuleni Metropolitan Municipality Local Community, National Treasury, Gauteng Provincial Treasury and Other Interested Persons

Information Statement in respect of the provision of a guarantee for the debt funding of East Rand Water Care Company (ERWAT).

The East Rand Water Care Company (ERWAT), which is an Entity of the Ekurhuleni Metropolitan Municipality approved the taking up an external loan amounting to R550 000 000.00 to fund its multiyear capital budget.

ERWAT approached the EMM for the provision of a guarantee for this loan. Their request was considered by Council on the 21st July 2010 and it was approved by Ekurhuleni Metropolitan Municipality to stand as guarantor/surety for the above debt, subject to the successful completion of the MFMA section 50 process as explained below:

Section 50 reads as follows:

A municipality may not issue any guarantees for any commitment or debt of any organ of state or person, except on the following conditions:

- (a) The guarantee must be within limits specified in the municipality's approved budget;*
- (b) a municipality may guarantee the debt of a municipal entity under its sole control only if the guarantee is authorised by the council in the same manner and subject to the same conditions applicable to a municipality in terms of this Chapter if it incurs debt;*
- (c) a municipality may guarantee the debt of a municipal entity under its shared control or of any other person, but only with approval of the National Treasury, and then only if-*
 - (i) the municipality creates, and maintains for the duration of the guarantee, a cash-backed reserve equal to its total potential exposure as a result of such a guarantee; or*
 - (ii) the municipality purchases and maintains in effect for the duration of the guarantee, a policy of insurance issued by the registered insurer, which covers the full amount of the municipality's potential financial exposure as a result of such guarantee.*

The Municipal Finance Management Act lists the requirements for taking up external loans.

Particularly, section 46 reads as follows:

"46. (1) A municipality may incur long-term debt only in accordance with and subject to any applicable provisions of this Act, including section 19, and only for the purpose of:

(a) capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government as set out in section 152 of the Constitution, including costs referred to in subsection (4); or

(b) re-financing existing long-term debt subject to subsection (5).

(2) A municipality may incur long-term debt only if-

(a) a resolution of the municipal council, signed by the mayor, has approved the debt agreement; and

(b) the accounting officer has signed the agreement or other document which creates or acknowledges the debt.

(3) A municipality may incur long-term debt only if the accounting officer of the municipality-

(a) has, in accordance with section 21A of the Municipal Systems Act-

(i) at least 21 days prior to the meeting of the council at which approval for the debt is to be considered, made public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided; and

(ii) invited the public, the National Treasury and the relevant provincial treasury to submit written comments or representations to the council in respect of the proposed debt; and

(b) has submitted a copy of the information statement to the municipal council at least 21 days prior to the meeting of the council, together with particulars of-

the essential repayment terms, including the anticipated debt repayment schedule; and

the anticipated total cost in connection with such debt over the repayment period."

In compliance with the above you are herewith invited to submit your written comments or representations to Ekurhuleni Metropolitan Municipality in respect of the proposed guarantee. Full particulars of the proposed debt appear on the following pages.

Written comments and representations may be addressed to the City Manager at any of the following addresses before **6th September 2010**:

Mr Khaya Ngema
City Manager
Ekurhuleni Metropolitan Municipality
For attention of Ms. Annette van Schalkwyk (Finance Department)

P.O. Box X66
BENONI
1500

OR
68 Woburn Avenue
BENONI
1501

OR
Fax: (011) 437 – 2152

OR
E-Mail: annettev@ekurhuleni.gov.za

Yours sincerely,



Zakes Myeza

CHIEF FINANCIAL OFFICER



INFORMATION STATEMENT: PROPOSED LONG TERM DEBT

ERWAT is a municipal entity owned by Ekurhuleni Metropolitan Municipality and is responsible for the purification of waste water mainly in the Ekurhuleni area.

ERWAT intends acquiring a long-term loan for the amount of R550 million.

The purpose of the loan is to fund capital expenditure, i.e. constructing extensions to two of our existing facilities namely our Welgedacht (near Springs) and Waterval (South of Alberton) Waste Water Care Works. In each case the extension will increase the capacity of the existing plants by 50ML/day. The increase of the capacity of the two mentioned plants is in line with ERWAT's long term Facilities Development Plan which links into and align with Ekurhuleni Metropolitan Municipality IDP. The flow to the current plants has increased to the extent that both facilities are running at above design capacity which makes future development in the areas impossible if the capacity is not increased.

The financial institute would require a guarantee from Ekurhuleni Metropolitan Municipality for an amount of R550m (Five Hundred and Fifty Million Rand only) in favour of the bank.

Written comments or representations are hereby invited from any interested party and should be addressed to:

The Chief Financial Officer: ERWAT
P O Box 13106
Norkem Park, 1631
Or via email to: wiml@erwat.co.za