

Frequently Asked Questions

There has been much talk about the City's liquidity challenges in the last couple of weeks. What is the City's position on this matter?

The liquidity situation took a negative turn due to accelerated capex program ahead of 2010 and the implementation of programme Phakama. The drastic reduction of the annual capital expenditure is aimed at bolstering cash reserves back acceptable levels and thus less reliance on borrowing. After low revenue collections levels in 2010/11 the City revenue collection strategies are starting to bear fruit as can be seen on improved revenue collection rates. Furthermore the City has relied less on bridging finance relative to the previous financial year. The City is only now (September 2011) after 3 months from the beginning of 2011/12 issuing up to R1 billion commercial paper to mitigate any potential cash flow mismatches that might arise. In previous financial year the City had already issued in excess of R2 billion worth of commercial paper already after 2 months into the new financial year.

Are there any comments on the City's gearing levels and general state of the balance sheet?

The gearing increased to a peak of 53% in the 2009/10 financial year due to the accelerated capital infrastructure programme that was linked to successful hosting of the 2010 soccer world cup. The budgeted external borrowing has been reduced dramatically and is aimed at bringing back the balance sheet gearing within the targeted 50% debt to revenue, as shown in the table below;

Budget	2010	2011	2012	2013	2014
External Borrowing	R1,992bn	R1,512bn	R1bn	R1,2bn	R1,5bn
Debt Revenue	54%	51%	48%	42%	43%

What is the City's preferred method of funding - bond issuance or commercial paper? What about the size and tenor of each issue?

The bond issuance, long-term bilateral and DFI loans are utilized to finance capital expenditure whereas commercial paper issuance is aimed at bridging short term operational cash needs. However it must be noted that all commercial paper issues are backed by operational grants. The cost effectiveness of CP relative to the general banking facilities make it highly attractive to bridge cash flow gaps through CP rather than GBF facilities. Furthermore the City has demonstrated that it is a responsible issuer as in excess of R5 billion worth of commercial paper has been successfully redeemed in the past 2 financial years. Furthermore requirements of sec 45 of the MFMA were met as all CP issuances were redeemed prior to year end of each financial year as per the prescription of the MFMA.

What is a bond?

A loan from an investor to an entity (company or government) that borrows the funds for a certain period of time at a certain interest rate.

Who issues bonds?

Central and municipal governments, parastatals and corporate companies issue bonds to raise capital as part of their funding programme for capital project on general corporate requirements.

Who is eligible to purchase the City's Retail Bond?

To be eligible to purchase the City's Retail Bond, also known as "Jozibonds" you must be:

- A natural person (under the age of 18 requires your guardian's assistance)
- A legal entity (i.e. Trust, Company or a Close Corporation)
- A partnership or Stokvel

What are the benefits, to investors, of investing in Jozibonds?

Investors will be investing in the future of the City and at the same time will be rewarded with an attractive return on their investment which is normally only accessible to institutional investors.

How much can I invest?

The minimum amount a single person individual or entity can invest is R1000 (one thousand rands).

How long can I invest for?

The Jozibonds are available in 2, 3 and 5 year maturities.

Will the interest rates be different for the 2 year, 3 year and 5 year Jozibonds?

Yes. Each Jozibonds will have a different interest rate. The longer the maturity, the higher the interest rate that will be paid to an investor.

How will the Jozibonds be priced?

The Jozibonds will be benchmarked against the three-month rate used by banks when borrowing and lending money to each other (also known as JIBAR).

What is the three-month JIBAR?

It is the three-month Johannesburg Interbank Agreed Rate, the average interest rate at which banks borrow and lend money for a 3-month period. This rate is calculated daily by SAFEX as the average rate quoted by the various banks.

How will my interest be paid to me?

Interest will be paid directly into your JSE broker account. If you purchased Jozibonds through the SA Post Office, interest will be paid into your bank account.

How often will my interest be paid to me?

The interest payments will be paid quarterly (four times a year) with a final interest payment at maturity date.

What if I want my interest to be paid to me by cheque?

All payments including repayment of the capital amount can only be paid into your JSE broker account or your bank account if you purchased Jozibonds through the SA Post Office.

What if I do not have bank account?

If you don't have a bank account with a registered financial institution you can open one with a registered bank or at the Postbank.

How will my capital be repaid to me?

Capital will be paid directly into your JSE broker account or into your bank account if you purchased Jozibonds through the SA Post Office.

What will I need when I buy a Jozibond?

If you are a natural person, you will need:

- A valid Republic of South Africa identity book (if a resident) or a passport (if a foreigner)
- Proof of your residence
- Your personal bank account details
- A completed Application Form with appropriate FICA documents
- An amount not less than R1000 (one thousand rands)

If you are under 18 you will also need:

- Your guardian's signature on the application form

