

# **PRINCIPLES AND POLICY ON THE WRITING OFF OF IRRECOVERABLE DEBT**

## **1. INTRODUCTION**

- 1.1 To ensure that household consumers with no or lower income are not denied a reasonable service and that the municipality is not financially burdened with non-payment of services, the Council of Tswelopele Local Municipality approved a revised Indigent Policy at the Council meeting on the 31 May 2013.
- 1.2 However, the Council is faced with a significant amount of outstanding debt and the continuous defaulting by certain consumers who can afford to pay for services. The Council approved a revised Credit Control and Debt Collection Policy at the Council meeting on the 31 May 2013.
- 1.3 Despite strict enforcement of the above policies, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt. To allow this the approved Credit Control Policy, inter alia, stipulated that:-
  - 1.3.1 Par 5 (1) (c) - The Municipal Manager must establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the municipality.
- 1.4 In addition, the policy further stipulates that:-
  - 1.4.1 Par 19 (2) - Council must appoint a committee in terms of its delegations to review and recommend to Council to approve all bad debt write off cases.

## **2. PURPOSE OF THE POLICY**

- 2.1 The purpose of this policy is to ensure that the principles and procedures for writing off irrecoverable debt are formalised.

## **3. RESPONSIBILITY / ACCOUNTABILITY**

- 3.1 The Council has the overall responsibility for adopting and approving the Policy on Writing Off of irrecoverable debt.

#### **4. POLICY PRINCIPLES**

4.1 The following are the guiding principles in implementing the Policy on Writing Off of Irrecoverable Debt:-

4.1.1 The policy is in accordance with the Local Government Municipal Finance Management Act 2003, Local Government Municipal Systems Act 2000, as amended and other related legislation.

4.1.2 Before any debt is written off it must be proved that the debt has become irrecoverable. To ensure that recommendations for write off are consistent and accurate, irrecoverable debt will be defined as:-

4.1.2.1 Where the tracing of the debtors is unsuccessful; and

4.1.2.2 All reasonable steps, at the discretion of the appointed write off committee, were taken by the officials to recover the debt.

4.1.3 Bad debt write offs must be considered in terms of cost benefit; when it becomes too costly to recover and the chances of collecting the debt are slim, a write off should be considered.

4.1.4 Time value of money is very important because the older the debt becomes, the more difficult and costly it becomes to collect. It is therefore imperative that a proper system of credit control is implemented and maintained to avoid debt reaching the stage of becoming too expensive to recover.

4.1.5 Differentiation must be made between those household consumers who cannot afford to pay for basic services and those who just do not want to pay for these services.

4.1.6 Debt can only be written off if the required provision exists in the Municipality's budget and/ or reserves.

#### **5. CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITING OFF OF IRRECOVERABLE DEBT**

5.1 Approved Indigent Household Consumers in terms of the Municipality's Indigent Policy.

5.1.1 Upon approval for registration as an indigent household consumer, the debtor's outstanding balance as at the date of approval is written off at the expiry of six months since registration as an indigent.

5.1.2 Any new arrears accumulated by the debtor (i.e. any amounts in excess of the indigent allowance for free basic services) whilst registered as an indigent consumer, will not qualify to be written off and must be dealt with strictly in accordance with the Municipality's Credit Control Policy and Indigent Household Policy.

## **5.2 Balances too small to recover considering the cost for recovery**

5.2.1 Where final accounts have been submitted and paid by the respective consumer and the remaining balance after finalisation of any final readings and other administrative costs results in a balance of one hundred rand (R100) or less, such account must be forwarded once to the consumer for payment.

5.2.2 Where such account is not paid by the respective consumer within a period of sixty (60) days such amounts will automatically be written off subject to the provisions of Section 6.4 below.

## **5.3 Insolvency of the Debtor and Insolvent Deceased Estates**

5.3.1 Where a debtor becomes insolvent the Municipality must ensure that a creditor's claim is timeously registered. Any amount not being recovered due to insufficient funds or if there is a risk of a contribution being made to an insolvent estate must, after notification, be written off subject to the provisions of Section 6.4 and 6.5 below.

5.3.2 In case of death of the debtor a creditor's claim must be timeously registered against the deceased's estate. Any amount not being recovered due to insufficient funds or if there is a risk of a contribution being made to a deceased estate must, after notification, be written off subject to the provisions of Sections 6.4 and 6.5 below.

## **5.4 Untraceable Debtors**

- 5.4.1 Where for any reason the forward address of a debtor becomes untraceable or the debtor becomes untraceable from the current address, such account must be handed over to a collection agent for recovery of the debt. The collection agent will be paid an all-inclusive fee of not more than 10% of the amount that was collected. The Terms of Reference for such collection agent must include the appointment of a tracing agent to locate the debtor. Should a debtor be untraceable, the collection agent must report to the Municipality on the actions that were taken to attempt to trace the debtor.
- 5.4.2 Any amount owed by a debtor that has become untraceable must, after notification, be written off or sold to a debt collection agency at a discount.
- 5.4.3 Debt written off in the above instances will automatically result in the debtor being reported to the credit bureau by the Municipality.

## **5.5 Special Arrangements in order to obtain a Clearance Certificate**

- 5.5.1 In terms of legislation the Municipality will under normal circumstances not issue a clearance certificate on any property unless all outstanding amounts are paid to date. However due to the possible inefficiency of the Municipality to implement its credit control policy it might be possible that such a property may have accumulated such a significant outstanding balance over a period of time that it may not be within the ability of the new owner to pay such an amount in order to obtain a clearance certificate.
- 5.5.2 Where such circumstances may prevail the prospective new owner may apply to the Municipality for relief of such outstanding debt or a portion thereof.
- 5.5.3 Upon receiving, such application must be submitted to the committee for consideration. In reviewing such application, the committee must ensure that:-
- 5.5.3.1 All reasonable measures have already been taken to recover the outstanding amount from the current debtor.
- 5.5.3.2 The prospective buyer of the property is not in a financial position to settle the outstanding amount before a clearance certificate is issued.

5.5.3.3 It is not in the interest of the municipality and/ or the community to withhold a clearance certificate before the outstanding debt is fully paid.

## **5.6 Special Incentives introduced by Council for Household Consumers in terms of the Credit Control and Debt Collection Policy**

5.6.1 Notwithstanding the Municipality's Credit Control Policy a debtor may enter into a written agreement with the Municipality to repay any outstanding and due amount to the Municipality under the following conditions:-

5.6.1.1 The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;

5.6.1.2 The current monthly amount must be paid in full; and

5.6.1.3 The written agreement has to be signed on behalf of the Municipality by a duly authorised officer.

5.6.2 In order to determine monthly instalments, a comprehensive statement of assets and liabilities and income and expenditure, must be provided by the debtor and reviewed by a finance official. To ensure the continuous payment of such arrangement the amount determined must be affordable to the consumer (i.e. amount not to exceed 25% of gross income), taking into account that payment of the monthly current account is a prerequisite for concluding an arrangement.

5.6.3 Due to ineffective implementation of credit control measures in the past, the majority of household consumers have accumulated significant arrear amounts and that these consumers are not in a position to pay off these arrear amounts in full together with their current monthly accounts. In order to improve the current payment levels from consumers the Municipality has resolved to implement special incentives to address the arrear debt.

5.6.4 To encourage consumers to pay off arrear debt Council will enter into a once-off arrangement, with a household consumer only, to pay off his/ her arrear debt over a period of time in terms of specific incentives. The main aim of an agreement will be to promote full payment of the current account and to address the arrears on a consistent basis.

5.6.5 Writing off any debt in terms of such an agreement will be strictly in accordance with the provisions set out in the Municipality's Credit Control and Debt Collection Policy.

- 5.6.6 Levying of interest on arrear accounts should be immediately suspended upon completion a debt agreement. This will allow debtors to see progress on their accounts as continued payments will reflect a decrease on the balance.
- 5.6.7 As long as the agreement is honoured no further interest will be added. However, in case of default the suspended amount will be reversed and interest will again be levied from the date of default.
- 5.6.8 Where a debtor pays 50% or more on the principal portion of his/her arrear account or settles the principal portion of the arrear account in full through a once-off payment, all interest penalties on arrear amounts will be written off immediately.
- 5.6.9 Where arrangements are made to pay off the principal portion of the arrear amount in instalments, such instalments should be determined on the outstanding amount excluding arrear interest. Such an arrangement should be honoured for at least a six-month consecutive period where-after interest on arrear amounts will be written off on a monthly basis. This arrangement will imply that upon payment of the final instalment all interest on arrear amounts will have been written off.
- 5.6.10 Where debtors fail to honour their arrangements without prior consultation interest will be reinstated and added to the original debt amount.
- 5.6.11 The arrangement referred to in paragraph 5.6.5 may be extended to other Poverty Alleviation & Job Creation Strategies that the Municipality may implement. Such strategies may include:-
- 5.6.11.1 The casual/contract employment of a debtor in a particular Municipal project (i.e. refuse collection, road maintenance, verge cutting etc.)
- 5.6.11.2 A 50% cash payment to the debtor and 50% payment that will be credited against the debtor's arrear account.
- 5.6.11.3 The accounting treatment shall be that the project or programme will be debited (charged) full 100% as this will be the input cost of the labour (100% cost paid out as 50% cash paid to the debtor and 50% credited against the debtor's arrear account as though it were a cash payment).
- 5.6.12 The purpose of the above strategy/arrangement is to instil a sense of pride to the customers of the Municipality that cannot pay off their arrears, whilst extending services delivery,

creating jobs, and alleviating poverty, and at the same time reducing the Debtors Register and enhance the financial status and image of the Municipality.

5.6.13 Any amount to be written off in terms of paragraph 5.6 above must be subject to the provision of Section 6.4 and 6.5 below.

## **6. ESTABLISHMENT OF A COMMITTEE TO MONITOR ANY DEBT TO BE WRITTEN OFF**

6.1 Council will establish and appoint a Committee (Revenue Enhancement Committee) to monitor the implementation of this Policy.

6.2 The Committee will consist of the following members:-

6.2.1 The Municipal Manager (Chairperson).

6.2.2 Chief Financial Officer (Alternative Chairperson).

6.2.3 Chairperson of the Portfolio Committee for Finance.

6.2.4 One member of the Portfolio Committee for Finance to be nominated by the Portfolio Committee for Finance.

6.3 The above Committee will meet at least quarterly to receive and review a report from the Chief Financial Officer containing full details of any actions taken by officials with respect to this Policy, and to consider any circumstances not covered by this Policy.

6.3.1 The quorum for the Committee shall be 50% of the members plus one.

6.3.2 Formal minutes of Committee meetings must be prepared and submitted to Council.

6.4 The Chief Financial Officer will, after thorough review of any applications in terms of this Policy, be delegated to write off any amounts to the maximum of:-

6.4.1 in the case of a household consumer an amount of R10, 000 (excluding interest and penalties) per submission; and

6.4.2 in the case of a business consumer an amount of R20, 000 (excluding interest and penalties) per submission.

6.5 Any amount in excess of the delegation provided for in paragraph 6.4 above must be submitted together with a recommendation to the Municipal Manager for consideration. The Municipal

Manager will, after thorough review of any recommendation by the Chief Financial Officer and in terms of this Policy, be delegated to write off any amounts to the maximum of:-

6.5.1 in the case of a household consumer an amount of R30,000 (excluding interest and penalties) per submission; and

6.5.2 in the case of a business consumer an amount of R50, 000 (excluding interest and penalties) per submission.

6.6 Any amount in excess of the delegation provided for in paragraph 6.5 above may only be reviewed by the Executive Mayor and must be submitted together with a recommendation to Council for consideration.

6.7 All amounts to be written off in terms of Section 6.4 and Section 6.5 above must be considered individually and each case on its own merits must be separately reported to the Committee.

## **7. IMPLEMENTATION AND REVIEW OF THIS POLICY**

7.1 This policy shall be implemented once approved by Council. All future submissions for the writing off of debt must be considered in accordance with this policy.