



**FINAL CREDIT CONTROL DEBT COLLECTION
IMPAIRMENT AND BAD DEBT WRITE-OFF
POLICY**

2016-2017

PREAMBLE

In an attempt to ensure that the people residing within the Ngqushwa Municipal area of jurisdiction pay for services rendered by the municipality, the Ngqushwa Municipality hereby approves the Credit Control and Debt Collection Policy, in order to ensure that all who are not considered to be indigent cases pay for basic services that are provided by the municipality, as required by the Municipal Systems Act No. 32 of 2000 and other government regulations, and also to ensure that the levels of non-payment for municipal services are minimized. Payment for services rendered by the municipality will enable the municipality to provide services as planned in its annual Budget and the annual Integrated Development Plan (IDP).

DEFINITION OF KEY WORDS

In this policy the following words shall have the meanings assigned as follows: -

1. **"Act"** means the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003),
2. **"Accounting Officer"** refers to the Municipal Manager of the municipality,
3. **"Budget, Treasury Standing Committee"** refers to the committee of council dealing with the financial affairs of the municipality,
4. **"Chief Financial Officer"** refers to the head of the Budget and Treasury Business Unit,
5. **"Dishonoured Cheque"** a cheque rejected by the bank due to various reasons, such as insufficient funds in the account, incorrect cheque signatory, amount incorrect, etc.
6. **"Budget and treasury unit"** refers to the municipal department dealing with the financial affairs of the municipality,
7. **"Indigent Households"** These are households or ratepayers that fall within the qualifying criteria of being declared a poor household and qualify for financial assistance through the Assistance to the Poor / Indigent Policy,
8. **"MSA"** Municipal Systems Act No. 32 of 2000,
9. **"Policy"** refers to the Credit Control and Debt Collection Policy of the Ngqushwa Municipality

TABLE OF CONTENTS

	Page No.
1. Legal Compliance	
2. Scope of the Policy	4
3. Objectives of the Policy	
4. Credit Control and Debt Collection procedures and mechanisms	
5. Rendering of Municipal Accounts	5
6. Arrangements for payment of arrear accounts	6
7. Realistic Targets or Benchmarks	6
8. Assistance to the poor and indigence management	6
9. Attachment of properties in cases of arrear debt	6 - 7
10. A service contract agreement	7
11. Payment of deposits	7
12. Allocation of part-payments and appropriation of deposits	
13. Enquiries by account holders	9
14.	
15. Dishonoured and other unacceptable cheques, stop-orders and Bank debit orders	
16. Contractors tendering for municipal services	
17. Municipal employees and councillors whose accounts are in arrears	
18. Interest on arrears and other penalty charges	
19. Uncollectable arrears	11
20. Incentives applicable to account holders who settle their accounts on or before due dates	
26. Continuous improvement of methods of payment for services	11
27. Name and Shame Campaign	12
28. Promotion / Incentives for "Whistle Blowing"	12
29. Agreements with employers	12
31. Application of discretion by the Chief Financial Officer	12
32. How this policy will be successfully communicated?	
33. Review of the Credit Control and Debt Collection Policy	13

1. LEGAL COMPLIANCE

Chapter 9 of the Municipal Systems Act (MSA) No. 32 of 2000 deals with the subject of "Credit Control and Debt Collection" by municipalities in the Republic of South Africa, and states inter-alia the following: -

- (i) Section 95 of the MSA obliges the municipalities to establish a sound customer management system that aims to create a positive and reciprocal relationship between persons liable for these payments and the municipality,
- (ii) Section 96 of the MSA provides that a municipality must collect all monies due and payable to it, and for this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent to its rates and tariffs policy,
- (iii) Section 97 of the MSA provides that the credit control and debt collection policy of the municipality must provide for credit control and debt collection procedures and mechanisms as well as provision for indigent debtors that is consistent with its policies on indigent households and any national policies or government regulations on indigent households.

Section 97(1) of the MSA requires that the credit control and debt collection policy of the municipality **must** provide for the following: -

- (i) Credit control procedures and mechanisms;
- (ii) Debt collection procedures and mechanisms;
- (iii) Provision for indigent debtors that is consistent to its indigent policy, and any other government regulations relating to indigent households;
- (iv) Realistic targets consistent with (a) General Recognised Accounting Practices and collection ratios, and (b) the estimates of income as set in the budget less an acceptable provision for bad debts;
- (v) Interest on arrears, where appropriate;
- (vi) Extension of time for payment of accounts;
- (vii) Any other matters that may be prescribed by regulation in terms of Section 104 **of the MSA.**

Section 97(2) of the MSA further states that the municipality's credit control and debt collection policy may differentiate between different categories of ratepayers, users of services, debtors, taxes, services, service standards and other matters as long as the differentiation does not amount to unfair discrimination.

Section 99 of the MSA places the legal responsibility on the Mayor or Executive Committee, of monitoring and supervising the application of the credit control and debt collection policy, and of reporting to council on the extent and success of credit control actions. Section 99 of the MSA assigns the legal responsibility for

implementing the credit control and debt collection policy and by-laws to the Accounting Officer or to the delegated official

2. SCOPE OF THE POLICY

This policy applies to the Ngqushwa Municipality's area of jurisdiction, and is only applicable to the municipal accountholders within Ngqushwa Municipal area, who are excluded from the Assistance to the Poor / Indigent Policy of the municipality, as determined or revised from time to time by Council.

3. OBJECTIVES OF THE POLICY

The objectives of the Credit Control and Debt Collection Policy of the Ngqushwa Municipality are as follows: -

- (i) Ensuring that households pay for the basic services that they are afforded by the municipality,
- (ii) Ensuring that the municipality is able to provide services as approved in its annual budget or its annual integrated development program (IDP), and
- (iii) Ensuring that the non-payment of services is minimised to an acceptable level.

4. CREDIT CONTROL PRINCIPLES

The following principles should be considered:

- 4.1 Enforcement is a local matter subject only to relevant legislation;
- 4.2 The municipal manager who is entrusted with the determination and execution of credit control measures must report to the municipal council;
- 4.3 Enforcement and policy-making must be independent to ensure accountability;
- 4.4 Credit control must be understandable, uniform, fair and consistently applied;
- 4.5 Credit control must be effective, efficient and economical;
- 4.6 The credit control measures employed must be sustainable in the long term; and
- 4.7 A proper indigence policy must be in place to ensure that the circumstances of the poor are accommodated.

INDIGENT SUPPORT POLICY

Indigents are defined as those people who, due to a number of factors, are unable to make a full monetary contribution towards basic services.

Typical examples are pensioners, student's unemployment, disabled persons, etc. Municipalities are expected to institute an indigent support policy that will on an individual basis, subsidize those who are unable to pay the full charges for services rendered to them.

4. CREDIT CONTROL AND DEBT COLLECTION PROCEDURES AND MECHANISMS

In accordance with the commonly accepted best practice, this municipality will have to strive to its utmost to ensure that payment levels for the present and future financial years, in respect of all amounts legitimately owing to the If payment for the amount due is not received by the municipality by the due date, then the following procedure shall be instituted:-

Posting or delivering of a final notice to the debtor demanding payment within [30days] days of the date of the notice;

The final notice shall contain the following information;

- 1) Final date for payment to be made
- 2) Total amount due for payment.

municipality, inclusive of the balance of the monthly accounts payable by registered indigents, are maintained at an annual average of **between 90 – 95%**. It is generally accepted by this municipality that payment levels averaging below **90%** per month are untenable.

The success of reducing the non-payment levels rests with all stakeholders of the Ngqushwa Municipality, which include the political leadership (e.g. Mayor, Ward Councillors/Ward Committee), administrative leadership (e.g. Municipal Manager, Directors), business community, churches, employees of the Ngqushwa Municipality, **and any other relevant stakeholder/s** demonstrating their unequivocal support to this policy.

5. NOTICE OF DEFAULT

The Municipal Manager or his/her designate will dispatch to every defaulting account holder (i.e. an account holder who failed to pay in full on the due date or failed to make suitable arrangements with the Chief Financial Officer to settle his/her services accounts in full billed by the municipality, after thirty days of the calendar days after each monthly due date for the payment of municipal accounts for property rates, other services rendered by the municipality and service charges) a notice stating that unless full payment is received or an acceptable arrangement made with the Chief Financial Officer for partial or late payment, the municipal services such.

RECOVERY OF RATES IN ARREARS FROM TENANTS AND OCCUPIERS

If an amount due for rates levied in respect of a property is unpaid by the owner of the property after the date determined in terms of section 26(2), the municipality may re-cover the amount in whole or in part from a tenant or occupier of the property despite any contrail obligation to the contrary on the tenant or occupier. The Municipality may recover an amount only after municipality has served a written notice to the occupier.

6. RENDERING OF MUNICIPAL ACCOUNTS

All efforts will be made to ensure that municipal accounts are rendered promptly on a monthly basis to all consumers or owners of properties situated within the Ngqushwa Municipal area of jurisdiction. It will also be ensured that accounts are accurate. It must also be indicated that accountholders have a responsibility to contact the nearest Finance Department's offices or the Chief Financial Officer in cases of failure to receive a municipal account, so that such situation can be attended to timeously. Failure to receive a municipal account does not stop the municipality from implementing credit control procedures.

7. ARRANGEMENTS FOR PAYMENT OF ARREAR ACCOUNTS

Allowing defaulting account holders to make arrangements for the payment of arrear accounts shall be at the discretion of the Municipal Manager or his/her designate. Each defaulting account holder shall be allowed a period as determined by the Municipal Manager or his/her designate, with a **minimum of 10% (where practically possible, and also consult the Credit Control and Debt Management By-Law for more clarity)** of gross earnings, within which to pay an arrear account, together with the interest raised on such account, and it shall be a conclusion of any arrangement that the account holder is bound to pay every current municipal account in full and on time during the period over which such arrangement extends.

If an account holder breaches any material term of an arrangement, the balance of the arrear account, together with the interest that was put on hold will be included in the current balance, and become due to the municipality, and if the account holder defaults on such payments, the Municipal Manager or his/her designate that account will be forwarded to debt collector up to Municipal attorneys .

An account holder who has breached an arrangement as set out above, shall not be allowed to make any further arrangements for the payment of arrear accounts, but shall be proceeded against, after the dispatch of the initial notice of default as envisaged in Paragraph 5 above, and failure by the account holder to pay the arrear account in full, together with the interest raised on such arrears as required in terms of such notice, will be dealt with as though such account holder had breached a material term of arrangement.

8. REALISTIC TARGETS OR BENCHMARKS

In order to be in a position to measure the outcome of this policy, it is believed that the output should be measured in terms of the Generally Recognised Accounting Practices and the following benchmarks will be applicable: -

- **Debt Collection Period**

$$\text{Formulae} = \frac{\text{Total Outstanding Debtors} \times 365}{\text{Revenue}}$$

- **Annual Debtor's Collection Rate**

$$\text{Formulae} = \frac{\text{Last 12 months receipts from debtors}}{\text{Last 12 months billing}} \times \frac{100}{1}$$

The national norm of the "Debt Collection Period" is at 45 days, whilst the "Debtor's Collection Rate" is anything greater than 90%.

9. ASSISTANCE TO THE POOR AND INDIGENCY MANAGEMENT

In regard to the payments expected from the registered indigents and the credit control and debt collection actions contemplated in respect of such residents, this policy must be read in conjunction with the municipality's approved policy on indigent management.

10. A SERVICE CONTRACT AGREEMENT

A service contract shall be entered into with the municipality for each property to which the municipality is expected to provide all or any of the following services: -

- (i) Property rates
- (ii) Refuse collection.

Such contract shall set out the conditions on which services are provided and shall require the signatory to note the contents of the municipality's Credit Control and

Debt Management Policy, a copy of which shall be provided to such signatory, as well as the provision of the Municipal Systems Act 32 of 2000, in regard to the municipality's right of access to property.

Where the signatory is not the owner of the property to which the services are to be provided, a properly executed letter from such owner indicating that the signatory is the lawful occupant of the property shall be attached to the service contract. Current consumers and users of the municipality's services who have not entered into a service contract as envisaged above, must do so within two years from the date on which the by-laws to implement the present policy are published, and failure to do so shall be considered as a default equivalent to non-payment of municipal services.

11. ALLOCATION OF PART- PAYMENTS AND APPROPRIATION OF DEPOSITS

If an account holder pays only part of any municipal account due, the Chief Financial Officer or his/her designate shall allocate such payment according to the status of the arrear account, depending on the type of service that is **most** in arrears.

In the event of an account holder defaulting on the payment of an arrear account, the Chief Financial Officer or his/her designate shall forthwith appropriate as much of such deposit as is necessary to defray any costs incurred by the municipality and the arrear amount owing to the municipality in the same sequence that has been determined by the Chief Financial Officer.

12. ENQUIRIES BY ACCOUNT HOLDERS

In the event of an account holder reasonably querying any item or items on the monthly municipal account, no action shall be taken against the account holder, provided that the account holder has paid by the due date an amount equal to the monthly average monetary value of the three most recent un-queried accounts in respect of the service under query, as well as all un-queried balances on such account, and provided further such query is made in writing by the Municipal Manager or his/her designate on behalf of the account holder on or before the due date for the payment of the relevant account.

13. DISHONOURED AND OTHER UNACCEPTABLE CHEQUES, STOP ORDERS AND BANK DEBIT ORDERS

In the event of an account holder tendering a cheque or paying through a bank debit order or stop order, which is subsequently dishonoured by or is found to be unacceptable to the account holder's bankers, the Chief Financial Officer or his/her designate, shall, in addition to taking the steps contemplated in this policy against defaulting account holders, charge such account holder the penalty charge for unacceptable cheques, as determined by council from time to time, and such charge shall rank equally with the costs and expenses incurred by the municipality including the bank charges levied to the municipality relating to dishonoured cheques.

Account holders who pay the municipality with dishonoured or unacceptable cheques may have their accounts blacklisted by the municipality, and in such case all future arrangements may not be entertained. The account holders account will be debited by the charges charged by the bank from the Municipality's bank account.

14. CONTRACTORS/ SERVICE PROVIDERS TENDERING FOR MUNICIPAL SERVICES

As one of the qualification criteria for contractors who apply for any municipal tender, the Chief Financial Officer must provide a certificate confirming that the prospective bidder does not owe the municipality within which it operates, **(this applies to any municipality in the Republic of South Africa)** for any services rendered to the bidder by the municipality. Such certificate must be signed by the Chief Financial or his/her designate. **No tender must be awarded to any "prospective bidder" whose municipal account is in arrears or with no suitable arrangements having been made with the Chief Financial Officer. Attached as Annexure "A" is a declaration statement that must be obtained from the Finance Directorate relating to the status of the municipal account of a "prospective service provider" before any contract is awarded to the tenderer (this includes any infrastructure contract, services such as B&B accommodation, catering service, etc.).**

15. MUNICIPAL EMPLOYEES AND COUNCILORS WHOSE ACCOUNTS ARE IN ARREARS

Section 124 of the Municipal Systems Act (No 32 of 2000) clearly states that municipal employees, whose accounts are in arrears for a period longer than three (3) months, without any acceptable arrangements with the Municipal Manager or his/her designate, will result in such arrears deducted from their salaries without any warning. **The same applies to Councillors whose accounts are in arrears for a period exceeding three months, in terms of the "code of conduct" applicable to Councillors. The Municipal Finance Management Act No. 56 of 2003 further requires the Chief Financial Officer to disclose, in the set of financial statements, the name of Councillors whose municipal accounts were in arrears for a period greater than 90 days at anytime during a particular financial year.**

It is therefore the responsibility of the Municipal Manager or his/her designate to ensure that such sections of the Municipal Systems Act and Municipal Finance Management Act are at all times applied to all the employees and Councillors of this council.

16. INTEREST ON ARREARS AND OTHER PENALTY CHARGES

In terms of Section 64(2) of the Municipal Finance Management Act No. 56 of 2003, the Accounting Officer **must** take all reasonable steps to ensure that **"(g) the municipality charges interest on arrears, except where the Council granted exemption in accordance with its budget related policies" or the customer has made payment arrangements with the Municipality.**

In order to comply with the abovementioned Section of the Act, interest shall be charged on all arrear accounts at the prevailing the standard rate of interest of 1% offered by the municipality's bankers and that interest shall be raised on 90 days plus accounts on a monthly basis. All amounts unpaid including interest previously raised and penalty charges, but excluding value added tax shall be taken into account. In an instance where the charges were incorrectly determined or calculated by the Chief Financial Officer, interest incorrectly raised on such debtor's account will be reversed.

In an effort to incentivise various categories of accountholders to pay their arrear accounts, the municipality may consider assisting in writing-off the interest portion in the account, provided that an acceptable amount of the capital portion outstanding is to be settled either with a single payment and / or instalments not exceeding a period of six months. The Chief Financial Officer must ensure that such action will not put the municipality in a disadvantageous position.

17. ATTACHMENTS OF PROPERTIES IN CASES OF ARREAR DEBT

9
The municipality will exercise the right to attach properties (movable and immovable) in cases where accountholders are in arrears with their municipal accounts without any suitable arrangements being made with the Chief Financial Officer, and or have ignored all the written requests for the settlement of the arrear account/s. This will be undertaken as the last resort for the municipality in cases of arrear accounts. Attachment of properties belonging to poor or indigent person/s is not encouraged by this paragraph.

18. UNCOLLECTABLE ARREARS/STEPS TO BE TAKEN BEFORE WRITTING – OFF OF DEBT.

Bad debts should be written only off once all possible steps of collection and legal action have failed. Before any debt can be written-off, all the applicable actions as contained in the approved Credit and Debt collection policy of Council should have been implemented.

The effective implementation of this policy also implies a realistic review of the municipality's debtor's book at the conclusion of each financial year. The Chief Financial Officer or his/her designate shall as soon as possible after 30 June of each year present to the **Budget steering Committee (BSC)** a report indicating the amount of the arrears which is believed **to be** uncollectible, together with the reasons for this conclusion.

The **Budget steering Committee** shall then recommend the write-off of such arrears, if all possible steps of collection and legal action have failed. The municipality must also ensure that the provision for bad debts is maintained at an acceptable level, and appropriations must be made at the end

of the financial year from surpluses to boost the provision. **The budget for bad debts is to be made annually from the operating account. The**

recommendation for the writing-off of arrear debts can also be initiated by the Chief Financial Officer on an ad-hoc basis (as and when such situation is identified). The municipality may recover the written-off debt if the debtor's position changes (e.g. financially sound, debtor can be traced, etc.).

M,

IMPAIRMENT OF DEBTORS

The Municipality must make an objective assessment of its financial assets to determine if there is possible impairment guided by International Accounting Standard section 39. If the objective evidence exists that the receivables are impaired, that carrying amount of receivables shall be reduced through the use of an allowance account known as the provision for doubtful debts.

The red flag that debtors are impaired is evidenced by debtors not paying for services rendered within the required time and age of the debtors.

CALCULATION OF PROVISION FOR DOUBTFULL DEBTS

For the purpose of applying ISA sec 39 the municipality has considered categorisation of trade debtors into classes as follows:

Government debtors – These are generally considered to be low risk due to historical experience and engagements that has transpired.

Business Debtors – These represent fairly low risk to the municipality as they are usually financially viable as well as easily traceable and identifiable.

Residential - These represent a comparatively high risk.

The following tabulated information provides the percentage provision per category and ageing of debtors

#	Debtor Category	Ageing of Debtors			
		30days less	or 60 days	90 days +	120+ days+
1.	Residential Debtors (No arrangement made with the Municipality)	0%	0%	50%	90%
2.	Indigent debtors	100%	100%	100%	100%
3.	Residential Debtors(Entered in to arrangement with the municipality)	0%	10%	40%	50%

4.	Government debtors (No engagement with the government debtors)	0%	0%	0%	0%
5.	Government Debtors (engagement with the government debtors and there are supporting documents)	0%	0%	0%	0%
6.	Business Debtors (No engagement with debtor)	88850%	5%	40%	60%
	Business Debtors (Arrangement with debtor)	0%	5%	20%	50%

19. INCENTIVES APPLICABLE TO ACCOUNT HOLDERS WHO SETTLE THEIR ACCOUNTS ON OR BEFORE DUE DATES

All efforts must be made to ensure that accountholders, who consistently pay their accounts in time, are treated as good payers, 5% should be granted quarterly.

Those who are in areas of above 90 plus they should settle 80% of the debt and they will receive 20% discount, if the arrangement has been signed, the payment will as per the signed agreement.

20. CONTINUOUS IMPROVEMENT OF METHODS OF PAYMENT FOR SERVICES

In an attempt to improve payment methods for municipal services and encourage payment for services, the Ngqushwa Municipality will continuously improve the payment methods to incorporate all sophisticated methods, and such methods that are available 24 hours a day, such as internet or on-line payment facilities, debit and credit card facilities, etc. **and also depending on the cost structure of the recommended payment method.**

21. NAME AND SHAME CAMPAIGN

It is the intention of the Ngqushwa Municipality to publicly name such institutions and individuals (who are falling out of the indigent threshold), who are in arrears with their municipal accounts, for a period in excess of six (6) months without any suitable arrangement having been concluded with the Chief Financial Officer or his/her designate. This list can be displayed in all municipal notice boards, Ngqushwa Municipal Website and other organs of state. **The municipality cannot conduct business (through the tendering process) with a company that has an arrear debt with the municipality, without any suitable arrangements having been made with the Chief Financial Officer.**

22. AGREEMENTS WITH EMPLOYERS

As contemplated by section 103 of the MSA, the municipality can enter into agreement with any employer to deduct monies owing to the municipality directly from its employees' salary **with the consent of the employee concerned**, and such deducted amount be paid directly to the municipality's bank account in order to defray the outstanding arrear amount.

23. APPLICATION OF DISCRETION BY THE CHIEF FINANCIAL OFFICER

In successfully applying this policy, the Chief Financial Officer is given authority to apply his/her discretion in cases where such discretion is needed (e.g. writing off debts for indigent consumers, deceased estates, suitable arrangements for various cases, etc.), or ambiguity exists or a "grey area" prevails.

24. HOW THIS POLICY WILL BE SUCCESSFULLY COMMUNICATED

The success of this policy will depend on various key stakeholders that exist within the Ngqushwa Municipal area of jurisdiction, including the following: -

- Political Leadership (e.g. Mayor, Councillors and Ward Committee Members),
- Administrative Leadership (e.g. Municipal Manager and Executive Managers of all Departments),
- All Employees of Council have the responsibility of being the mouthpiece of the municipality or their employer, in as far as informing the members of the public about their benefits resulting from this policy,

This policy must be communicated to the communities residing at Ngqushwa Municipal area of jurisdiction through community newspapers, notices in the notice boards, municipal websites, door-to-door campaigns, Imbizo/Gatherings, municipal accounts, booklets, etc.

Lastly, the Municipal Manager must ensure that this policy is listed in the Municipality's website, and is accessible to the general public.

25. REVIEW OF THE CREDIT CONTROL AND DEBT COLLECTION POLICY

This policy will be reviewed at least once a **financial** year, and such review must firstly be submitted to the **Budget and Treasury Standing** Committee by the Chief Financial Officer, and be finally endorsed by the Municipal Council before it can be implemented. This policy supersedes any other one adopted by Council previously, including any other resolutions taken.

EFFECTIVE DATE: 1 July 2016