

**NGQUSHWA LOCAL  
MUNICIPALITY**



**CREDIT CONTROL AND DEBT COLLECTION  
POLICY  
2022/2023**

## Summary

Publication Date	01 July 2020
Review Date	19 March 2022
Related Legislation/Applicable Section of Legislation	
Related Policies, Procedures, Guidelines, Standards, Frameworks	
Replaces/ Repeals (whichever is relevant, if any)	
Policy Officer (Position)	
Policy Officer (Phone)	
Policy Sponsor (Position)	
Department Responsible	Budget and Treasury Office
Unit responsible	Budget and Reporting
Applies to	All Ngqushwa Local Municipality Employees and Councillors
Key Words	Debit control and debt collection
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Council approval date	
Version	Version 1

**Deleted:** Municipal Finance Management Act 56 of 2003  
National treasury circular 54, 55, 56, 66 and 67

## REVISION RECORD

Date	Version	Revision Description
Feb 2020	Version 1	Credit Control and Debt Collection Policy 2020

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## 1. INTRODUCTION

The Municipal Council must ensure that all money due to the Municipality is collected, subject to the Municipal Systems Act. For this purpose the Municipal Council must adopt, implement and maintain a credit control and debt collection policy consistent with its rates and tariff policies and complying with the provisions of the Municipal Systems Act (Section 96)

The Municipal Council must adopt by-laws to give effect to its credit control and debt collection policy, its implementation and enforcement. By-laws may differentiate between different categories of taxpayers, customers, debtor's taxes, services, service standards and other matters (Section 98 of the Municipal Systems Act).

## 2 BACKGROUND

The purpose of this policy is to ensure that credit control forms part of the financial system of the Municipality and to ensure that prudent credit control procedures are consistently applied.

## 3 DEFINITIONS

**"Accounting officer"** means the municipal manager is the accounting officer of the municipality for the purpose of Act No. 56 of 2003: Local Government: Municipal Finance Management Act, 2003. (MFMA);

**"Chief Financial Officer" / "Manager: Finance"** means a person appointed in terms of section 56 of the Systems Act.

**"Council's Attorney"** means a law firm, including all legal practitioners, correspondents and affiliates of such law firms appointed by the council from time to time through a transparent bidding process, to handle all or specifically nominated legal affairs of the council on request.

**"Councillor"** means a member of the municipal Council

**"Days"** means calendar days unless specifically mentioned otherwise.

**"Head of Department"** means senior official appointed in terms of section 56 of the Systems Act and who is in charge of a specific service of the Council and "Senior Manager" has a cognate meaning;

**“Mayor”** means the councillor elected as the mayor of the municipality in terms of section 48 of Municipal Structures Act;

**“Month”** means one of the twelve months of the calendar year.

**“Municipality”** means the Ngqushwa Local Municipality.

**“Municipal Finance Management Act”** means the Municipal Finance Management, 2003 (Act No. 56 of 2003);

**“Municipal Manager”** means the person appointed in terms of section 54 of the Municipal Structures Act, and includes a person acting in this position;

**“Municipal Structures Act”** means the Local Government: Municipal Structures Act No. 117 of 1998;

**“Municipal Systems Act”** means the Local Government: Municipal Systems Act No. 32 of 2000, as amended.

#### **4 VISION**

The vision of this policy is to:

- 4.1 Ensure efficient notification of outstanding debt to debtors in default;
- 4.2 Provide debtors with monthly statements in time; and
- 4.3 Ensure sufficient and effective interaction with defaulters and to allow for the conclusion of arrangements for the payment of arrears over the agreed period of times.

#### **5 OBJECTIVES OF THE POLICY**

The objectives of this policy are to provide for:

- 5.1 Credit control procedures and mechanisms;
- 5.2 Debt control procedures and mechanisms; and
- 5.3 Realistic targets/benchmarks as set by the municipality which is consistent with:
  - 5.3.1 General Recognised Accounting Practices and collection ratios; and
  - 5.3.2 The estimate income set in the budget minus an acceptable provision for bad debts.

## **6 RESPONSIBILITY FOR CREDIT CONTROL**

### **6.1 Supervisory Authority**

The Municipality's Executive Mayor must:

#### **6.1.1** Oversee and monitor the:

- a) Implementation and enforcement of the Municipality's credit control and debt collection policy and any by-laws enacted; and
- b) Performance of the Municipal Manager in implementing the policy and any by-laws.
- c) When necessary, evaluate, review or adapt the policy and any by-laws, or the implementation of the policy and any such by-laws, in order to improve efficiency of its credit control and debt collection mechanisms, processes and procedures; and
- d) Report to the quarterly meetings of the Council.

### **6.2 Implementing Authority**

The Municipal Manager must:

- 6.2.1** Implement and enforce the Municipality's credit control and debt collection policy and any by-laws enacted in terms of the Municipal Systems Act;
- 6.2.2** In accordance with the credit control and debt collection policy and any such by-laws establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the Municipality; and
- 6.2.3** Report the prescribed particulars monthly to a meeting of the supervising authority.

## **7. GRANTING CREDIT**

7.1 The granting of credit will be authorised by the Chief Financial Officer. Credit shall be granted to new and existing debtors. When credit is granted to existing debtors, the following will be taken into account before granting credit, the debtor's:

- a) 7.1 Current balance;
- b) 7.2 Payment history; and

c) 7.3 Current credit limit.

7.2 The following must be done when granting credit to new debtors:

- a) Confirm credit worthiness and history with the credit bureau; and
- b) Confirm credit history with other organisations where they obtained credit before.

7.3 The Chief Financial Officer shall be responsible for determining the new debtor's credit limit.

## **8. RECORDING TRANSACTIONS**

8.1 When issuing an invoice to a debtor, it must be ensured that the following information is captured on the invoice:

- a) Details of the service provided;
- b) The date of delivering the service;
- c) The total cost of the service provided;
- d) Payment terms as discussed with the Chief Financial Officer;
- e) The invoice number;
- f) The Chief Financial Officer's signature to serve as proof that the invoice is valid; and
- g) Bank details of the Municipality for payments from the debtor.

8.2 Original invoices will be given to debtors.

8.3 A duplicate of each invoice issued will be sent to the Accountant: Debtors to update/create the relevant debtor account.

## **9. COLLECTING PAYMENTS**

9.1 Three methods of payments shall be used regarding debtors:

- a) Electronic funds transfer (EFT);
- b) Cheques; and
- c) Cash.

9.2 The method of payment for a specific debtor shall be disclosed on the individual invoice for a debtor.

9.3 When debtors pay accounts via EFT the proof of payment will be faxed or e-mailed through to the Municipality.

9.4 Upon taking the proof of payment into receipt, the Senior Accountant shall update the relevant account of the debtor with the amount paid.

9.5 When debtors pay with cheques, the following procedure will be followed:

- a) Two employees will take the cheque into receipt;
- b) As proof of receipt, the employees shall sign the cheque register;
- c) Monthly bank reconciliations shall be performed on all cheques received are valid; and
- d) As soon as the cheque is deposited, the Senior Accountant shall update the relevant account of the debtor with the amount paid.

9.6 When signing the cheque register, the following information must be captured on the register:

- a) The cheque number;
- b) Date of receipt of the cheque;
- c) Signatures of both employees;
- d) Name of the debtor; and
- e) The amount of the cheque.

9.7 Monthly reconciliations in the cheque register shall be performed, to ensure all cheques recorded were received.

## **10 MONTHLY STATEMENTS**

10.1 Monthly statements shall be sent to all debtors to keep them informed about the dept and the amount that is owed.

10.2 Statements shall be e-mailed as well as mailed, thus to ensure the debtor receives the statement.

10.3 The following information must be recorded on the debtor statement:



- a) Name and address of the debtor;
- b) Debtor number;
- c) The date of the statement;
- d) The amount outstanding;
- e) Payment terms;
- f) Amount due for the applicable month;
- g) Signature of the Chief Financial Officer;
- h) Statement number; and
- i) Details of the amount owed.

10.4 If the above mentioned information is not recorded on the statement, it must not be sent to the applicable debtor.

10.5 Debtors shall have 14 days to pay the due amount.

10.6 If the amount is not paid within 14 days, the debtor account shall be classified as in arrear.

## **11 BAD DEBTS**

### **11.1 Interest on arrears**

Interest must be charged on debts to the Municipality at the prime interest rate determined by the Minister of Finance in terms of section 80 of the Public Finance Management Act of 1999. The prime rate is set at 14% as at 8 February 2009.

### **11.2 Writing off of bad debts**

11.2.1 The Municipal Manager must delegate, in writing, to write off debt as contained in the delegation of powers.

11.2.2 A Chief Financial Officer may only write off debts owed to the Municipality if he or she is satisfied that:

- a) All reasonable steps have been taken to recover the debt and the debt is irrecoverable; or,
- b) He or she is convinced that:
- c) Recovery of the debt would be uneconomical; and
- d) It would be to the advantage of the Municipality to effect a settlement of its claim or to waive the claim.

11.2.3 All debts written off must be disclosed in the annual financial statements.

11.2.4 The approval of the Chief Financial Officer for the write-off of any debt does not mean that actions to recover the money will be terminated, however, further actions will be instituted depending on the costs involved and if debts is recovered it will be recorded in the financial records of Council as recovered.

## **12 LEGAL COSTS**

All legal costs, including attorney-and-own-client costs incurred in the recovery of amounts in arrears shall be levied against the arrears account of the debtor.

## **13 COST TO REMIND DEBTORS OF ARREARS**

For any action taken in demanding payment from the debtor or reminding the debtor, by means of telephone, fax, email, letter or otherwise, that his/her payments are due, a penalty fee may be levied against the account of the debtor in terms of the municipality's tariff provisions.

## **14 ARRANGEMENTS TO PAY OUTSTANDING AND DUE AMOUNTS IN CONSECUTIVE INSTALLMENTS**

14.1 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:

- a) The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;
- b) The current monthly amount must be paid in full; and
- c) The written agreement has to be signed on behalf of the Municipality by the Chief Financial Officer.

14.2 In order to determine monthly instalments, a comprehensive statement of assets and liabilities of the debtor must be compiled by a treasury official. To ensure the continuous payment of such arrangement the amount determined must be affordable to the debtor, taking into account that payment of the monthly payments due is a prerequisite for concluding an arrangement. The main aim of an agreement will be to promote full payment of the current amount outstanding and to address the arrears on a consistent basis.

## **15 SEQUENCE OF PAYMENTS**

When a debtor pays his/her account and that account is in arrear, the money paid will be allocated as follows:

- a) Interest on arrear account;
- b) Amount that is in arrear; and
- c) Current outstanding amount broken down as follows:
  - d) Tax;
  - e) Refuse removal;
  - f) Water and Sewage; and
  - g) Electricity.

## **16 AGENTS, ATTORNEYS AND OTHER COLLECTION AGENTS**

16.1 All external agents acting on behalf of the Municipality are to be named, together with their details and contact information. Likewise, all agents are to be supplied with a copy of the credit control measures.

16.2 Clear instructions must be given to agents to explain all arrangements for the customer's benefit. Under no circumstances may agents negotiate terms, extend payment periods or accept cash on behalf of the municipality.

16.3 The costs to the Municipality and to the debtor must be detailed for each stage of the credit control measures and for all possible actions. The liability for the costs of legal action and other credit control actions must, as far as is legally possible, be for the account of the debtor.

**17 DELEGATION OF POWERS**

This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Council and the Municipal Manager and other responsible officials. All delegations in terms of this policy document should be recorded in writing.

**18 IMPLEMENTATION OF THIS POLICY**

18.1 This policy will be effective from the date approved by council.

18.2 The implementation of this policy cannot be backdated and all sections thereof will only be implemented from date of approval.

**19. AMENDMENT AND REVIEW**

This policy may be reviewed annually by Council or as and when needed

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**APPROVED BY COUNCIL ON.....2022 UNDER ITEM NO.....**

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**MUNICIPAL MANAGER**

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**MAYOR OBO COUNCIL**