

NGQUSHWA LOCAL MUNICIPALITY



DRAFT CREDIT CONTROL AND DEBT COLLECTION POLICY 2023/2024

Summary

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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)	
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Unit responsible	Budget and Reporting
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1. NAME OF POLICY

This is the Credit Control and Debt Collection Policy of the Ngqushwa Local Municipality and must be read in conjunction with the Credit Control and Debt Collection By-law of the Municipality.

2. BACKGROUND

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

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 this 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).

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 54A 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 Mayor must 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 quarterly to 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. SERVICE LEVEL AGREEMENTS

No municipal service may be provided by the Municipality unless a service level agreement for the provision of such service has been entered into with the Municipality.

A service level agreement 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:

- (a) Refuse collection, or any other municipal service that may be provided by the Municipality.

8. 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: -

All debtors that are at 90 days and above should receive firstly white letter of demand with the statement attached, if there is no response the second red letter of demand will be issued, after that Posting or delivering of a final notice to the debtor demanding a payment within [30days] days of the date of the notice;

The final notice shall contain the following information;

- (a) Final date for payment to be made
- (b) Total amount due for payment.

8.1 Recording Transactions

8.1.1 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.

8.1.2 Original invoices will be given to debtors.

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

8.2 Collecting Payments

8.2.1 Three methods of payments shall be used regarding debtors:

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

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

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

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

8.3 Monthly Statements

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

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

8.3.3 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) Details of the amount owed.

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

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

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

9. MANAGEMENT OF BAD DEBTS

9.1 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.

9.2 Calculation of Interest

In order to comply with the abovementioned Section of the Act, interest shall be charged on all arrear accounts at prime rate plus 1 % per month, and that interest shall be raised on accounts that are at 90 days and above. 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.

9.3 Waiving of Interest

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 60 days. The Chief Financial Officer must ensure that such action will not put the municipality in a disadvantageous position.

9.4 Writing off of bad debts

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

9.4.2 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 affect a settlement of its claim or to waive the claim.

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

9.4.4 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.

10. 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.

11. 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.

12. ARRANGEMENTS TO PAY OUTSTANDING AND DUE AMOUNTS IN CONSECUTIVE INSTALLMENTS

12.1 Agreement to pay arrears

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.

12.2 Statement of Assets

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.

13. 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) Property Rates Tax; and
- e) Refuse removal

14. AGENTS, ATTORNEYS AND OTHER COLLECTION AGENTS

14.1 Naming of Agents

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.

14.2 Instructions to Agents

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.

14.3 Liability for costs

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.

15. ATTACHMENTS OF PROPERTIES IN CASES OF ARREAR DEBT

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.

16. 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 or less	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	0%	10%	40%	50%

	arrangement with the municipality				
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	0%	5%	40%	60%
	Business Debtors (Arrangement with debtor)	0%	5%	20%	50%

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 as approved by Council.

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

APPROVED BY COUNCIL ON 30 MARCH 2023

MUNICIPAL MANAGER

MAYOR OBO COUNCIL