

KOPANONG LOCAL MUNICIPALITY



BUDGETACC2

DEBT WRITE-OFF POLICY

PRIVATE BAG X23
TROMPSBURG
9913

0517139200

05171390292

FIRST DRAFT



1. INTRODUCTION	P4
2. DEFINITION	P4
3. PURPOSE OF THIS POLICY	P5
4. VISION OF THIS POLICY	P5
5. TRANSPARENCY AND ACCOUNTABILITY	P6
6. CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITING OFF OF IRRECOVERABLE DEBTS	P6
7. DELEGATIONS TO WRITE OFF DEBT	P10
8. RECOVERY OF IRRECOVERABLE DEBTS	P10
9. REVIEW OF THIS POLICY	P10

DOCUMENT CONTROL

Date:

Summary: This document describes the Principles that will be acceptable to Kopanong Local Municipality, with effect from 01 July 2013.

Municipal Manager

Executive Mayor

Date:

Date:.....

KOPANONG LOCAL MUNICIPALITY
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 does not overstate its revenue with non-payment of services.

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. To deal with this, the Council also approved a revised Credit Control and Debt Collection Policy.

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 and Debt Collection Policy, inter alia, stipulated that:-

1.3.1 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 Council should adopt and implement a write off policy to formalise the processes for writing off such debts

2. DEFINITIONS

In this policy, unless the context indicates otherwise:

- a) "The municipality" means Kopanong Local Municipality;
- b) "Debt" means an obligation sounding in money and/or services due and owing to the municipality;
- c) "Debtor" means a person, natural or juristic, who owes a debt to the municipality and who may be compelled to pay in terms of a claim or demand by the municipality;
- d) "Irrecoverable debt" means the debt which in terms of this policy meets the criteria for writing off;
- e) "Arrears" means an unpaid or overdue amount that is due 30 days after the reading date
- f) "Bad debt" means money that is owed to Council but is uncollectible

- g) "Current debt" means the amount that is due for payment within 30 days to municipality
- h) "occupier" in relation to a property, means a person in occupation thereof irrespective of whether that person has the right to occupy;
- i) "owner" means:
 - i. in relation to an immovable property, a person in whose name ownership thereof is registered in the Deeds Office;
 - ii. a trustee, in the case of an immovable property which is trust property;
 - iii. an executor or administrator in the case of an immovable property which falls in a deceased estate;
 - iv. a trustee or liquidator, in the case of an immovable property in an insolvent estate or an estate in liquidation;
 - v. a judicial manager, in the case of an immovable property owned by a corporate body under judicial management;
 - vi. a curator, in the case of an immovable property registered in the name of a person under curatorship;
 - vii. a lessee, in the case of an immovable property that is registered in the name of the municipality and is let by it;
 - viii. a buyer, in the case of an immovable property sold by the municipality to the buyer and of which possession has been given to the buyer pending registration of ownership in the name of the buyer.

3. PURPOSE OF THIS POLICY

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

4. VISION OF THIS POLICY

- 1) The vision of the policy is to ensure that the debtors of the municipal Council are not over stated in the books of the Municipality.

- 2) To ensure any long outstanding debt is evaluated in order to determine the possibility of realising such income as revenue.
- 3) To ensure that where it is evident that a particular debt cannot be turned into revenue such debt be procedurally regarded as irrecoverable.
- 4) To ensure that the council of the municipality makes enough provision for bad debts in the budget.
- 5) To ensure that outstanding monies which have been outstanding for a long period after all attempts have been made in terms of recovering them should then be written off.

5. TRANSPARENCY AND ACCOUNTABILITY

- 1) The process of writing-off of debts by the municipality will be undertaken in a transparent and accountable manner.
- 2) A proposal to write-off a debt, either as part of a group of debts, or individually, will be considered by the Council on its merits pursuant to the procedure and with due regard to the information which must be provided to it in terms of this policy.
- 3) The Constitution entitles everyone to administrative action which is lawful, reasonable and procedurally fair and to be given reasons for any such action which affects them.
- 4) The Promotion of Administrative Justice Act 3/2000 is the legislation required by the Constitution to give effect to the right to just administrative action and in order to promote and efficient administration and good governance and to create a culture of accountability, openness and transparency in public administration or in the exercise of a public power or the performance of a public function.
- 5) This policy incorporates the above principles by providing parameters and procedures to guide the municipality and its officers in implementing it, and thereby exercising a public power through a series of administrative actions. In so doing, this policy seeks to provide certainty on the part of those affected by it with regard to how the municipality will act in the circumstances covered by the policy and uniformity of action on the part of its officers.
- 6) The municipality commits itself and its officers to act fairly and justly in an open and transparent manner in implementing this policy,

6. CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITING OFF OF IRRECOVERABLE DEBT

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

- 6.1.1 Upon approval for registration as an indigent household consumer, the debtor's outstanding balance as at the date of approval is written off.
- 6.1.2 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 and Debt Collection Policy and the Indigent Consumer Policy.

6.2 Balances on final accounts too small to recover considering the cost for recovery

- 6.2.1. 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.
- 6.2.2. 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 paragraph 7.4 (delegations to the Chief Financial Officer) below.

6.3 Insolvency of the Debtor and Insolvent Deceased Estates

- 6.3.1 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 paragraph 7 below.
- 6.3.2 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 paragraph 6 below.

6.4 Untraceable Debtors

- 6.4.1 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 30% of the amount that was actually 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.
- 6.4.2 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.

6.4.3 Debt written off in the above instances will automatically result in the debtor being reported to the credit bureau by the Municipality.

6.5 Special Arrangements in order to obtain a Clearance Certificate

6.5.1 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.

6.5.2 Where such circumstances may prevail the prospective new owner may apply to the Municipality for relief of such outstanding debt or a portion thereof.

6.5.3 Upon receiving, such application must be submitted to the Municipal Manager for consideration. In reviewing such application, the Municipal Manager must ensure that:-

- a) All reasonable measures have already been taken to recover the outstanding amount from the current debtor.
- b) The prospective buyer of the property is not in a financial position to settle the outstanding amount before a clearance certificate is issued.
- c) 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.
- d) Any amount to be written off in terms of paragraph 5.5 above must be subject to the provision of paragraphs 6.2 and 6.3 below.

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

6.6.1 Notwithstanding the Municipality's Credit Control and Debt Collection 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:-

- 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 a duly authorised officer.

6.6.2 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.

- 6.6.3 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 this agreement will be to promote full payment of the current account and to address the arrears on a consistent basis.
- 6.6.4 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.
- 6.6.5 Levying of interest on arrear accounts should be immediately suspended upon completion of a debt agreement. This will allow debtors to see progress on their accounts as continued payments will reflect a decrease on the balance.
- 6.6.6 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.
- 6.6.7 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.
- 6.6.8 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.
- 6.6.9 Where debtors fail to honour their arrangements without prior consultation interest will be reinstated and added to the original debt amount. 6.6.10 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 Book and enhance the financial viability and image of the Municipality.
- 6.6.10 Any amount to be written off in terms of paragraph 6.6 above must be subject to the provision of paragraphs 7.1, 7.2 and 7.3 below.

7. DELEGATIONS TO WRITE OFF DEBT

7.1 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:-

7.1.1 In the case of a household consumer an amount of R5,000 (excluding interest and penalties) per submission; and

7.1.2 In the case of a business consumer an amount of R10,000 (excluding interest and penalties) per submission.

7.2 Any amount in excess of the delegation provided for in paragraph 7.1 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:-

7.2.1 In the case of a household consumer an amount of R15, 000 (excluding interest and penalties) per submission; and

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

7.3 Any amount in excess of the delegation provided for in paragraph 7.2 above must be submitted together with a recommendation to Council for consideration.

7.4 All amounts to be written off in terms of paragraphs 7.1 to 6.7 above must be considered individually and each case on its own merits.

7.5 Detailed reports for all the write-offs as per paragraph 7 must be submitted to Council on a monthly basis.

8. RECOVERY OF IRRECOVERABLE DEBTS

- 1) Should there be a payment in respect of the account which has already been written off, such monies must be allocated to the specific vote number designed for recovery of irrecoverable debts.

9. REVIEW OF THIS POLICY

- 1) This policy must be reviewed on annual basis to take into account developments of legislation governing financial management in local government as well accounting standards.