

JOE GQABI DISTRICT MUNICIPALITY



Irrecoverable Debt Write-Off

2017/2018

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**JOE GQABI DISTRICT 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 basic service and that the Municipality is not financially burdened with non-payment of these basic services. The Council of Joe Gqabi District Municipality approved policies on property rates, tariffs, credit control and debt collection, and Indigent support.
- 1.2 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:-
- 1.2.1 *The Municipal Manager must establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the Municipality.*
- 1.3 The Municipal Manager must ensure that all avenues are utilised to collect the municipality's debt. However, for various reasons there will always be bad debt cases that needs to be catered for through a policy on the writing-off of Irrecoverable debt for circumstances that allows for the valid termination of debt collection procedures as contemplated in section 109(2) of the Local Government: Municipal Systems Act (No 32 of 2000), such as:
- a) The Insolvency of a debtor whose estate has insufficient funds;
 - b) A balance being too small to recover, for economic reasons, considering the cost of recovery; and
 - c) Where Council deems that a customer or group of customers are unable to pay for services rendered.
- 1.4 The municipality will have to maintain audit trials in such instances where bad debt is written off and document the reasons for the abandonment of the actions or claims in respect of the bad debt.

2 PUPOSE 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 RESPOSNSIBILTY/ ACCOUNTABILTY

- 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 guiding principles in implementing the Policy on Writing Off of Irrecoverable Debt Policy
- a) The policy was compiled in accordance with the Local Government Municipal Finance

Management Act (No 56 of 2003) Local Government Municipal Systems Act, (No 32 of 2000), as amended and other related legislation

- b) Before any debt is written off it must be proven that the debt has become irrecoverable. To ensure that recommendations for write off are consistent and accurate, Irrecoverable debt will be defined as debt where:-
- The tracing of the debtors is unsuccessful, and
 - All reasonable steps were taken by the officials to recover the debt.
 - Any debt defined by Council at their discretion as irrecoverable
- c) Bad debt written off must be considered in terms of cost benefit, when it becomes too costly to recover and the chances of collecting the debt are very slow, a write off should be considered.
- d) 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.
- e) Differentiation must be made between those household consumers who cannot afford to pay for basic services (indigent households) and those who just do not want to pay for these services.
- f) 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 Indigent Households

5.1.1 Upon approval for registration as an indigent household consumer, the debtor's arrear outstanding balance as at 30 June 2014 will be written off.

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 and Debt Collection Policy.

5.2 Small balances

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 consumers within a period of sixty (60) days such accounts will automatically be written-off to the provisions of paragraph 6.4 (delegations to the Chief Financial Officer) below.

5.3 Insolvent 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 must be written off subject to the provisions of paragraph 6 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, be written off subject to the provisions of paragraph 6 below.

5.4 Untraceable Debtors

5.4.1 Where for any reason the forwarded 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 (Paragraph 5.2 cases excluded). The collection agent will be paid an all-inclusive fee of not more than 10% 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.

5.4.2 Any amount owed by debtor that has become untraceable must, be written off.

5.4.3. Debt written off in the above instances (paragraph 5.4.2) will automatically result in the debtor being reported to the credit bureau by the Municipality.

5.5 Clearance Certificate

5.5.1 In terms of section 118 of the Local Government: Municipal Systems Act a Municipality may not issue a clearance certificate on any property unless all outstanding amounts that become due during the two years preceding the date of application are paid to date. However, outstanding debt older than two years have accumulated over a period of time and it may not be within the ability of the current owner or prospective new owner to pay such an amount in order to obtain a clearance certificate.

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

5.5.3 Upon reviewing, such application must be submitted to the Municipal Manager for consideration.

In reviewing such application, the Municipal Manager must ensure that:-

- All reasonable measures have already been taken to recover the outstanding amount from the current debtor.
- The prospective buyer of the property is not in a financial position to settle the outstanding amount before a clearance certificate is issued.
- 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 for Household Consumers, Churches, Welfare organisations, Sporting bodies

5.6.1 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 (As at 30 June 2017) to the Municipality under the following conditions:-

- The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments as determined per arrangement.
- The current monthly amount must be paid in full; and
- 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 to a maximum period of 36 months.

5.6.3 Due to ineffective implementation of credit control measures in the past, certain households consumers may have accumulated significant arrear amounts and 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 may resolve to implement special incentives to address the arrear debt.

5.6.4 The condition of the incentives is as follows

- (a) Participant to promptly and timeously pay six (6) consecutive monthly accounts rendered plus the agreement amount. The amount must be paid before or on due date
- (b) 25% of the six months agreement total paid will be written-off after every six months

5.6.5 Writing off any debt in terms of such an arrangement will be strictly in accordance with a repayment period of 36 months.

5.6.6 When a debtor in this category of consumers who does not want to make arrangements for the repayment of their arrear account (As at 30 June 2014) as set out in our credit control and debt collection policy pays 50% on their arrear debt through a once-off payment, the remaining 50% on the arrear debt will be written-off immediately.

Calculation of incentive to be written-off

25 % of the total agreement amount promptly paid for six (6) consecutive months in addition to the monthly account.

Example

Arrear debt 30 June 2014 R 5 000

Debt agreement (5000/36) maximum 36 months R 138.89 per month

For every six consecutive months that the participants monthly account and arrangement (R138.89 X 6 = R 833.34) has been paid, an amount of R 208.34 (25% of R 833.34) will be written-off.

Participants who default by two months or more will be suspended from this incentive scheme. In order to be reinstated on this incentive scheme, must pay all outstanding amounts. Participants who default on regular basis will at management discretion be removed from this scheme and normal credit control actions in terms of our credit control and debt collection policy will be instituted.

5.7 Special Incentives for businesses, Industrial and agricultural consumers

5.7.1 When a debtor in this category of consumers who does not want to make arrangements for the repayment of their arrear account (As at 30 June 2014) as set out in our credit control and debt collection policy pays 50% on their arrear debt through a once-off payment, the remaining 50% on their arrear debt will be written-off immediately

5.7.2 Any amount to be written-off in terms of paragraph 5.7.1 above shall be subject to the provisions of paragraph 6.1, 6.2 and 6.3 below.

5.8 Special Incentives for government departments and schools

5.8.1 Any incentive arrangement and amount to be written-off for this category of consumers will be reviewed by a committee of Council who will make a recommendation to the Executive Mayor and Mayoral Committee for consideration

5.8.2 The Executive Mayor will have the discretion and the delegated powers to resolve on any amount to be written-off notwithstanding the recommendation of the committee of Council

5.9 Irrecoverable debt not catered for in the policy

5.9.1 Should there be any irrecoverable debt cases that the administration and the committee of Council cannot dispose of in terms of this policy, particulars of the irrecoverable debt cases shall be submitted to the committee of Council who will make a recommendation to the Executive Mayor and Mayoral Committee for consideration

5.9.2 The Executive Mayor will have the discretion and the delegated powers to resolve on any amount to be written-off in these instances notwithstanding the recommendation of the committee of Council.

6 DELEGATIONS TO WRITE OFF DEBT

6.1 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:-

6.1.1 In case of a household consumer, church, welfare organisation and sporting body an amount of R10, 000 (excluding interest and penalties) per submission; and

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

6.2 Any amount in excess of the delegation provided for in paragraph 6.1 above must be submitted together with a recommendation to the Municipal Manager for consideration. The Municipal Manager will, after a 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:-

6.2.1 in the case of a household consumer , church, welfare organisation and sporting body an amount of R30, 000 (excluding interest and penalties) per submission; and

6.2.2 In the case of a business consumer an amount of R50 000 (excluding interest and penalties) per submission.

6.3 Any amount in excess of the delegation provided for in paragraph 6.2 above must be submitted together with recommendation to Council for consideration.

6.4 All amounts to be written off in terms of paragraphs 6.1 to 6.3 above must be considered individually and on each case's own merits.

6.5 Detailed reports for all the write-offs as per paragraph 6 must be submitted to Council

7 IMPLEMENTATION AND REVIEW OF THIS POLICY

7.1 This policy shall be implemented from 1 July 2017 once it has been approved by Council. All future submissions for the writing off of debt must be considered in accordance with this policy.

7.2 In terms of section 17 (1) (e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.