

MOQHAKA LOCAL MUNICIPALITY



"People's power in action"

DRAFT POLICY AND PRINCIPLES ON THE WRITING OFF OF IRRECOVERABLE DEBT

2013/2014



MOQHAKA LOCAL MUNICIPALITY
PRINCIPLES AND POLICY ON THE WRITING OFF OF IRRECOVERABLE DEBT

1. INTRODUCTION

- 1.1 The policy seeks that household consumers with no or lower income are not denied a reasonable service and that the municipality is not financially burdened with non-payment of services.
- 1.2 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.
- 1.3 Despite strict enforcement of the previous policies, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt. To allow this, the draft Credit Control Policy, inter alia, stipulated that:-
- 1.3.1 "Par 9.1.1 - The Municipal Manager must ensure that all avenues are utilised to collect the municipality's debt.
- 1.3.2 Par 9.1.2 - There are certain circumstances that allow for the valid termination of debt collection procedures, such as:-
- The insolvency of the debtor, whose estate has insufficient funds.
 - A balance being too small to recover, for economic reasons, considering the cost of recovery.
- 1.3.3 Par 9.1.3 - Where Council deems that a customer or groups of customers are unable to pay for services rendered.
- 1.3.4 Par 9.1.4 - The municipality will maintain audit trails in such an instance, and document the reasons for the abandonment of the action or claim in respect of the debt."
- 1.4 In addition, the policy further stipulated that:-
- 1.4.1 "Par 9.2.1 - Council must appoint a committee in terms of its delegations to review and recommend to Council to approve all bad debt write off cases."

2. PURPOSE 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. RESPONSIBILITY / ACCOUNTABILITY

- 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 should be the guiding principles in implementing the Policy on Writing Off of Irrecoverable Debt:-

- 4.1.1 The policy is in accordance with the Local Government Municipal Finance Management Act 2003, Local Government Municipal System Act 2000, as amended and other related legislation.

- 4.1.2 Before any debt is written off it must be proved that the debt has become irrecoverable. To ensure that recommendations for write off are consistent and accurate, irrecoverable debt will be defined as:-

4.1.2.1 Where the tracing of the debtors is unsuccessful; and

4.1.2.2 All reasonable steps, at the discretion of the appointed write off committee, were taken by the officials to recover the debt.

- 4.1.3 Bad debt write offs must be considered in terms of cost benefit; when it becomes too costly to recover and the chances of collecting the debt are slim, a write off should be considered.

- 4.1.4 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.

- 4.1.5 Differentiation must be made between those household consumers who cannot afford to pay for basic services and those who just do not want to pay for these services.

- 4.1.6 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 All amounts outstanding by indigent account holders will be considered for a possible write-off on annual basis

- 5.2 Upon approval for registration as an indigent household consumer, the debtor's interest on the arrear amount will be suspended.

6. Balances too small to recover considering the cost for recovery

- 6.1 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, such account must be considered for a possible write-off..

7. Insolvency of the Debtor and Insolvent Deceased Estates

- 7.1 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 Section 6.4 and 6.5 below.
- 7.2 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 Sections 6.4 and 6.5 below.

8. Untraceable Debtors

- 8.1 Where for any reason the forwarding 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 according to the service level agreement to collect that amount. 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.
- 8.2 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.

9. Special Incentives introduced by Council for Household Consumers in terms of the Approved Revenue Enhancement Strategy

9.1 Notwithstanding the Municipality's Credit Control 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:-

- 9.1.1 The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;
- 9.1.2 The current monthly amount must be paid in full; and
- 9.1.3 The written agreement has to be signed on behalf of the Municipality by a duly authorised officer together with the account holder. The original signed agreement must be kept in the office and a copy handed over to the account holder;

9.2 In order to determine monthly instalments, a comprehensive statement of income and expenditure, must be provided by the debtor and reviewed by a treasury official. To ensure the continuous payment of such arrangement the amount determined must be affordable to the consumer, taking into account that payment of the monthly current account is a prerequisite for concluding an arrangement.

9.3 Due to ineffective/ non implementation of credit control measures in the past, the majority of household consumers have accumulated significant arrear amounts and that 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 Council of Moghaka Local Municipality may resolve to implement special incentives to address the arrear debt. The incentive will be attended to in line with write off limitation. The incentive will be considered on the following basis:

- Discount of 10% for settlement of debt between R 3000 to R 5 000
- Discount of 20% for settlement of debt between R 5 001 and R 10 000
- Discount of 30% for settlement of debt between R 10 001 and R 30 000
- Discount of 40% for settlement of debt between R 30 001 and R 50 000
- Discount of 50% for settlement of debt between R 50 001 and more
- o Whenever practical, Chief Financial Officer, Manager Revenue or Senior Official may use the interest as an incentive for a write off.



10. **IMPLEMENTATION AND REVIEW OF THIS POLICY**

This policy shall be implemented once approved by Council. All future submissions for the writing off of debt must be considered in accordance with this policy. This policy should be review annually for amendments if any.
