

METSIMAHOLO LOCAL MUNICIPALITY

BAD DEBT WRITE OFF POLICY



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TABLE OF CONTENTS

1. Introduction	3
2. Purpose of the policy	3
3. Policy principles	3
4. Responsibility / accountability	4
5. Categories of debtors that may qualify for the writing off of irrecoverable debt	4
6. Other conditions for debt to be written off	7
7. Approval of any debt to be written off	8
8. Implementation and review of this policy	8

1. INTRODUCTION

- 1.1.1 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.
- 1.1.2 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 policy, inter alia, stipulated that:-

2. PURPOSE OF THE POLICY

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

3. POLICY PRINCIPLES

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

- 3.1.1 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.
- 3.1.2 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:-
- 3.1.3 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.
- 3.1.4 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 without any interruption whatsoever to avoid debt to reach the stage of becoming too expensive to recover.
- 3.1.5 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.

- 3.1.6 Debt can only be written off if the required provision exists in the municipality's budget and/ or reserves.

4. RESPONSIBILITY / ACCOUNTABILITY

- 4.1.1 The Council has the overall responsibility for laying down the Policy on Writing Off of Irrecoverable Debt.

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

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

- 5.1.1 Upon approval for registration as an indigent household consumer, the debtor's outstanding balance to date of approval is written off as at the date of application taking into consideration the billing cycle for the specific month.
- 5.1.2 In a case where the indigent consumer exceeds the subsidized usage of services the said excess debt must be paid by the consumer.
- 5.1.3 Any new arrears accumulated by the debtor 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 Policy.

5.2 Balances too small to recover considering the cost for recovery

- 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 five hundred rand (R500) 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 consumer within a period of sixty (60) days such amounts will automatically be submitted to the Council for ratification to be written off.

5.3 Insolvency of the Debtor and Insolvent Deceased Estates

- 5.3.1 Where a debtor becomes insolvent the Municipality must ensure that it is clearly indicated at the auction of the debtor's estate that there are outstanding debts and that it must be made part of the conditions of sale that the arrears must be paid in order to obtain a clearance certificate for transfer of ownership. In this instance the debtor must be blacklisted.
- 5.3.2 In case of death of the debtor the Municipality must ensure that it is clearly indicated at the auction of the debtor's deceased estate that there are outstanding debts and that it must be made part of the conditions of sale that the arrears must be paid in order to obtain a clearance certificate for transfer of ownership.
- 5.3.3 In both instances the possibility exist that debt may remain on the current debtors account as the Municipal Property Rates Act stipulates that only the two years arrears prior the date of application for a clearance certificate can be included in the said certificate. Although there are several opinions with regard to the remaining portion of the debt, it seems that these debts might remain. In cases such as these, the debt must be submitted to the Council for ratification to be written off.

5.4 Untraceable Debtors

- 5.4.1 Where for any reason the debtor cannot be traced at the current or forwarding address or through any other contact details supplied, the debtor becomes untraceable. These cases must be handed over to a recognized tracing agent for possible tracing.
- 5.4.2 Before any invoice from a tracing agent is settled the Municipality must be furnished with a report on the actions taken by the tracing agent.
- 5.4.3 Any amount owed by a debtor that has become untraceable must automatically be submitted to the Council for ratification to be written off.
- 5.4.4 Debt written off in the above instances will automatically result in the debtor being blacklisted by the municipality.

5.5 Special Arrangements in order to obtain a Clearance Certificate

5.5.1 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. The MPRA stipulate that only the two year's debt prior to application for a clearance certificate may be included in the clearance certificate request which could result in outstanding debt not being collected via the clearance certificate process. However where a property is sold in sale of execution or in other exceptional cases 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.

5.5.2 Where such circumstances may prevail the prospective new owner may apply to the Municipality for relief of such outstanding debt or a portion thereof. Such application must be accompanied by at least the following support documentation:-

5.5.2.1 A copy of the Deed of Sale.

5.5.2.2 Cancellation figures issued by the financial institution

5.5.2.3 A detailed statement signed by the transferring attorney regarding to the finances available

5.5.3 Upon receiving, such application must be submitted to the Council for consideration. In reviewing such application, the committee must ensure that:-

5.5.3.1 All reasonable measures have already been taken to recover the outstanding amount from the current debtor.

5.5.4 To facilitate compliance with Section 118 of the Municipal Systems Act, all applications to write off debt outstanding for a period of less than two years in terms of paragraph 5.5.1 above must be submitted to Council for approval despite any delegations provided for in paragraphs

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

5.6.1 In terms of the municipality's credit control policy a debtor may enter into a written agreement with the Municipality to repay any arrears outstanding and current amount to the Municipality under the following conditions:-

5.6.1.1 The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;

5.6.1.2 The current monthly amount must be paid in full

5.6.1.3 A written agreement has to be signed by all relevant parties and on behalf of the Municipality by a duly authorised officer.

5.6.2 The incentive of a rebate amount in relation to actual payments made by the debtor on outstanding debt must be submitted to the Council for ratification to write off such debt.

6 OTHER CONDITIONS FOR DEBT TO BE WRITTEN OFF

Other cases whereby debt can be written off:

- When the cost to recover the debt will exceed the debt amount
- It has been proven that the debt has prescribed.
- Where Council expropriates any property
- Where it is not possible to prove the debt outstanding

7 APPROVAL OF ANY DEBT TO BE WRITTEN OFF

- 7.1.1 The council delegates the Mayoral Committee to consider and approve the writing off of debt in terms of the provisions of this policy as set out in paragraph 5 above.
- 7.1.2 The Municipal Manager will report monthly to the Mayoral Committee about the debts to be written off.
- 7.1.3 The Chief Financial Officer will recommend to the Municipal Manager on all debt to be written off.
- 7.1.4 It is recommended that the Chief Financial Officer be given delegation of authority to write off debt up to R 10 000
- 7.1.5 The write off of bad debt above R 10 000 up to R25 000 to be referred to Municipal Manager for approval and
- 7.1.6 Any bad debt to be written off above R25 000 to be referred to Mayoral Committee for approval.

8 IMPLEMENTATION AND REVIEW OF THIS POLICY

- 8.1.1 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.
- 8.1.2 The policy shall be reviewed annually