

-POLICY ON THE PRINCIPLES AND WRITING OFF OF IRRICOVERABLE DEBT-

NAMA KHOI MUNICIPALITY



FINAL POLICY ON THE PRINCIPLES AND WRITING OFF OF IRRECOVERABLE DEBT

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DOCUMENT AND VERSION CONTROL

Version: N/A

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Summary: This document describes the Policy on the Writing Off of Irrecoverable Debt that will be applicable to the Nama Khoi Municipality, with effect from 01 July 2022

Municipal Manager

Mayor

Date:

Date:

NAMA KHOI 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 is not financially burdened with non-payment of services, the Council of Nama Khoi Municipality approved a revised Indigent Policy.
- 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.
 - 1.3.2 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 allow 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 –
 - 1.3.2.1 The insolvency of a debtor whose estate has insufficient funds;
 - 1.3.2.2 A balance being too small to recover, for economic reasons, considering the cost of recovery; and
 - 1.3.2.3 Where council deems that a customer or group of customers are unable to pay for services rendered.
- 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.
 - 1.4.2 In addition council must appoint a committee in terms of its delegations to review and recommend to council to approve all bad debts write-off cases (Financial Committee).

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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.
- 2.2 To provide for rationalisation of the municipalities debtors accounts and financial records by writing of bad debts that are irrecoverable.

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 are the guiding principles in implementing the Policy on Writing Off of Irrecoverable Debt:-
 - 4.1.1 The policy has been compiled in accordance with the Local Government Municipal Finance Management Act (MFMA), 2003, Local Government Municipal Systems Act (MSA), 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 debt where:-
 - The tracing of the debtors is unsuccessful; and
 - All reasonable steps 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 remote, 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 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 as at the date of approval is 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 and the Indigent Consumer Policy.

5.2 Balances on final accounts 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 be considered for write off.

5.3 Insolvency of the 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 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 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 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.

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5.4 Untraceable Debtors

5.4.1 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 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 a debtor that has become untraceable must, after notification, be considered to be written off or sold to a debt collection agency at a discount.

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

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.

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

- 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 as per section 118 is paid.

5.5.4 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.

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

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 to the Municipality under the following conditions:-

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

5.6.3 Due to ineffective implementation of credit control measures in the past, certain household 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 older than 3 years. The incentive will be attended to align with write-off limitation. The incentive can be considered on the following basis –

5.6.3.1 That any incentive offered is done on the basis of a payment and not at a zero (0) offer.

5.6.3.2 That a debtor pays 50% of the total costs excluding interests, other collection charges, taxes and taxes, the debtor may receive 50% based on Council resolution within specified period such as determined by Council.

5.6.3.3 If the recent arrears are not older than 3 years the debt is due and payable and the interest written back will apply as an incentive.

5.6.3.4 If the recent arrears exceed 3 years, only debt older than 3 years will be considered for the incentive scheme referred to in point 5.6.3.2

5.6.4 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.

5.6.5 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.

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- 5.6.6 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.
- 5.6.7 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.
- 5.6.8 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.
- 5.6.9 The incentive will only be applicable to debtors with arrear balances older than three years.
- 5.6.10 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.
- 5.6.11 Where debtors fail to honour their arrangements without prior consultation, interest incentive and/or the 50% incentive amount will be reinstated and added to the original debt amount.
- 5.6.12 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.
- 5.6.13 Any amount to be written off in terms of paragraph 5.6 above must be subject to the provision of paragraphs 6.1, 6.2 and 6.3 below.

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6 IRRECOVERABLE DEBT NOT CATERED FOR IN THE POLICY

- 6.1 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 Committee for consideration.
- 6.2 The Executive Committee 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

7 ESTABLISHMENT OF A COMMITTEE TO MONITOR ANY DEBT TO BE WRITTEN OFF

- 7.1 Council will establish and appoint a committee to monitor the implementation of this committee.
- 7.2 The committee will consist of the members of the Finance Committee.
- 7.3 The above committee will meet at least once a year to receive and review a report from the Chief Financial Officer containing full details of any action taken by officials with respect to this policy and to consider any circumstances not covered by this policy.
- 7.3.1 The quorum for the committee shall be 50% of the members plus one
- 7.3.2 Formal minutes of committee meetings must be prepared and submitted to council.
- 7.4 The Chief Financial Officer will after thorough review of any application in terms of this policy be delegated to submit any resolution taken by this committee to Council / Executive Committee.

8 DELEGATIONS TO WRITE OFF DEBT

- 8.1 The Chief Financial Officer will, after thorough review of any applications in terms of this Policy, be delegated to write off any amounts as per Council Resolution.
- 8.2 All accounts with extremely high balances should 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 as per Council Resolution.
- 8.3 All amounts to be written off in terms of paragraphs 6.1 above must be considered individually and each case on its own merits.
- 8.4 A comprehensive report detailing accounts holders particulars, account numbers, addresses, amount written off, the reasons for writing off etc must be submitted to Council.

9 ADMINISTRATION AND MANAGEMENT

- 9.1 The Chief Financial Officer and the Revenue and Debt Collection Official must maintain a register of debt that have been written off which will be available for presentation to the Audit Committee. The register will record the details of the debt, the authority for writing it off and any subsequent action to reinstate and recover.
- 9.2 To prevent unauthorized journal entries relating to bad debts recording function are to be restricted with no journal adjustments to take place on the debtors' module without specific approval by the CFO.
- 9.3 In order to provide further assurance of the validity of the accounting information of the debtors accounts, an independent reconciliation between approved adjustments and actual adjustment should be performed every time after approval and processing and Bad Debts Written Off journal entries.
- 9.4 The Chief Financial Officer will perform an annual analytical review of debtors' accounts to ensure that bad debts are written off in a timely manner.

10 PROVISION FOR BAD DEBTS

When providing for bad debts in an annual budget consideration should be given to any doubt as to the collectability of debts and the potential of a current debt to deteriorate and become bad.

11 POTENTIAL RISK OF NON-COMPLIANCE

Failure to adhere to the provisions of this policy may lead to either one or more of the following scenarios:

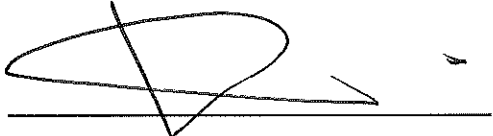
- 11.1 Steps would be taken to recover debtors with insignificant account balances, where costs of recovery including manpower, postage and collection agent fees outweigh any possible benefit that could be obtained in return;
- 11.2 Unauthorized writing off of bad debts.
- 11.3 Lack of proper internal controls systems and segregation of duties could hide the fact by making false bad debt journal entries;
- 11.4 Failure to write off bad debts could trigger audit queries; and
- 11.5 Debtors could be overstated due to insufficient provision for bad debts.

12 IMPLEMENTATION AND REVIEW OF THIS POLICY

12.1 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.

12.2 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.

APPROVED AND IMPLEMENTATION OF POLICY

COUNCIL APPROVAL: 	IMPLEMENTATION DATE: 01 July 2022
R KRITZINGER SPEAKER	DATE: 30 June 2022