

WEST RAND DISTRICT MUNICIPALITY



CREDIT CONTROL & DEBT MANAGEMENT POLICY

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PREAMBLE

WHEREAS, section 152(1) of the Constitution of the Republic of South Africa, 1996 (Hereinafter referred to as the Constitution) amongst others provides that: (1) *the objectives of local government is to ensure that the provision of services to communities occur in a sustainable manner;*

AND WHEREAS, section 153(a) of the Constitution provides that:

(a) *A municipality must structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community.*

The policy is also in concurrence with, section 156(4) (a) (b) of the Constitution allows for the national government and provincial governments to assign to a municipality, by agreement and subject to any conditions, by agreement and subject to any conditions, the administration of a matter listed local government, if :-

- a) *That matter would most effectively be administered locally; and*
- b) *The municipality has the capacity to administer it;*

AND WHEREAS, section 195(1) of Constitution provides that the public administration must be governed by the democratic values and principles enshrined in the Constitution, including-

- The promotion of the efficient, economic and effective use of resources;
- The provision of services impartially, fairly, equitable and without bias, and
- the fact that people's needs must be responded to;

AND WHEREAS, section 4(c) of the Municipal Systems Act no 32, 2000 (hereinafter referred to as the MSA) provides that the council of a municipality has the right to finance the affairs of the municipality by charging fees for services.

AND WHEREAS, section 5 (1) (g), read in conjunction with subsection (2)(b) of the MSA, provides that members of the local community have the right to have access to municipal services which the municipality provides, provided that, where applicable , pay promptly for services rendered by the municipality;

AND WHEREAS, section 6(2)(a),(c), (e) and (f) of the MFMA provides that the administration of the municipality must be responsive to the needs of the local municipality, take measures to prevent corruption and give members of local community full and accurate information about the level and standard of municipal services that they are entitled to receive; and inform the local community how the municipality is managed, of the costs involved and the person in charge; and

AND WHEREAS, Chapter 9 of MSA, sections 95,96,97,98,99 and 100 provides for Customer Care and Management, Debt Collection Responsibility of the Municipality, Contents of Policy, By-Laws that Give Effect to Policy, Supervisory Authority and Implementing Authority.

1. DEFINITION

- 1.1 Debt Management is the execution of functions necessary to collect unpaid revenue of municipality, owed by the clients who are debtors.
- 1.2 Credit Control is the limiting of services to debtors in arrears and negotiation for payment in exchange for normalizing further rendering of services;
- 1.3 Account means the municipal account for services rendered (firefighting and rescue services) and fines (municipal health services) and rental (shops, garage and living quarters).
- 1.4 Due date means the date indicated on an account statement by which time payment of the amount on the statement falls due.

2. THE PURPOSE OF THE POLICY

In order to sustain the local governance and continued service delivery (firefighting and municipal health services), the collection of revenue levied on the account statements submitted to debtors must be realised within the turnover rate not exceeding 30 days. Payment of arrears must also be addressed sufficiently by the debtors in order to minimise arrear debt.

This policy serves to clearly document the key elements of Credit Control and Debt Management to be implemented within the area of jurisdiction of the West Rand District Municipality and interventions to be implemented for non-compliance with the policy.

3. BACKGROUND

The Credit Control function focuses on payment demands and non-provision of services to bad debtors.

The Debt Management function focus on issuing reminder letters, arrangements, summonses, telephone follow ups and hand-overs. The legal function involves attorneys, collection agents as well as administration of deceased and insolvent estate, administration orders and inactive account with the related arrears writes offs.

4. POLICY OBJECTIVES

- 4.1 The objectives of policy are:
 - to maximize revenue by timeously collecting all money owed to the municipality;
 - to ensure that action taken to recover arrear debts is warranted and fair;
 - to enable WRDM to maintain a sustainable service delivery relationship with the community; and
 - To deliver excellent service to the community of WRDM in return for payment of their services accounts.

4.2 These objectives are achievable, if the following outcomes are met:

- all current accounts in WRDM are fully paid;
- suitable, sustainable agreements are reached with all account holders who have outstanding accounts with an age analysis longer than 60 days;
- relevant, an accurate and complete details of account holders are collected during opening (capturing) of account phase;
- persons liable for payment receive regular, accurate and timeous accounts that indicate the basis for calculating the amount due;
- full enforcement of Credit Control and Debt Management Policy; and
- The engagement of a reputable Credit Control and Debt Management Agency.

5. PRINCIPLES

- Non-payments of accounts by debtors has a direct-negative impact on the WRDM's ability to provide high quality service to the clients;
- Current levies not paid by the indicated due date are subject to Credit Control and Debt Management measure, including right of access to services;
- Interest on debt in arrears is levied monthly at the specified rate in ITEM 6.4 of this policy;
- Interest is levied on all arrears of 30 days and older. Interest levied but not paid is included in the arrear amount of such a debtor;
- Credit control measures are applied with pro-active reminders or warnings, account statements are regarded as notification of the arrears status of the account as well as stating the intention to take credit control measures;
- Refusal by banks to honor debit order payments is regarded as non-payment, upon which the relevant debtors are subject to credit control measures; and
- All notifications served to the domicile of clients must state the reasons for action taken as well as information as to how they can take corrective action to normalize the situation.

6. KEY CREDIT CONTROL AND DEBT MANAGEMENT PROCESSES.

6.1 Credit Control Measure

- A warning notice that the account has not been paid on the due date is generated after the due date and delivered to the debtor's physical address; and
- This warning notice clearly states that a period of 7 days is allowed for payment or arrangement for payment.

6.2 Estates Accounts Collection

- the accounts of debtors who are declared as insolvent or liquidated, under administration or decreased are dealt with according to normal legal practices by collection staff of the municipality; and
- unsuccessful claims in terms of liquidations or insolvency are recommended to Council for possible write offs.

6.3 Revenue Recovery Methods

- where the letter of final demand yields no response, the account may be handed over to external debtors collectors and/or attorney for collection;
- government (national, provincial, municipality) accounts will not be handed over to external debt collectors and/or attorneys in terms of Section 41(1) (h)(vi) of the Constitution of the Republic of South Africa, 1996;
- if the amount due for services and fines is unpaid by the owner of the property, the municipality may recover the amount from tenant or occupier of the property;
- the amount due may be recovered from the agent of the owner; and
- the Council reserves the right to its hand over any debt irrespective of its aging.

6.4 Payment Terms and Interest Charged on Outstanding Accounts

- all categories of clients are required to effect payment of their services accounts on or before the due date advised on account statements; and
- interest at the prime bank lending rate is charged on all services accounts or portions of accounts which are not settled/paid on due date.

6.5 Arrangement and Payment Extension

- arrangement to pay arrear account balances will be considered but limited to a period of twelve (12) months.
- an initial payment of fifteen percent (15%) of the outstanding debt will be required for the arrangement to be considered favorably.
- no payment extension will be allowed on current account of the defaulter,
- acknowledgement of debt and arrangement agreement forms must be completed fully and signed by the customer himself/herself or proxy;
- the total arrear amount which is subject to the agreed arrangement will cease to attract interest if the arrangement is honored, however, if the arrangement is dishonored, interest will be levied and the whole amount becomes due and payable; and
- agreement may not be concluded with client who responds only after being handed over to attorneys or collection agencies.
- Payment arrangement concluded will suspend interest to be levied by the municipality and customer concerned will be requested to settle a portion of long outstanding amount plus current amount levied on the account.

6.6 Writing off of bad debts

- Bad debts should only be written off once all possible steps of collection and legal action have failed. Audit trail records must indicate all steps and procedures instituted to recover debts, and debt should prove uneconomical to recover. Claims should be submitted as soon as possible in cases of insolvency or liquidation, and remaining debt after settling of claims should be written off.
- Where a debt was impaired, this provision will be reversed when the debt is written off.

6.7 Provision for Bad Debts (Debt Impairment)

The debtors of the municipality with outstanding balances of ninety days or more will be impaired according to the principles outlined hereunder.

Debt Impairment

- Impairment of outstanding debtors will be conducted at the end of each financial year based on the payment of the accounts by the debtors and the debt outstanding;
- The payment performance of the debtor account will determine the impairment to be applied to the account;
- These principles will be applied when impairing debtors;
 - 1) 0% provision in main and coupled account balance are ≤ 0
 - 2) 100% provision for inactive accounts;
 - 3) 100% provision if arrangement was not kept;
 - 4) 100% provision for arrears that are 90 days and older
 - 5) All other provision to be calculated based on the collection rate.

Impairment procedures are outlined in the SOP for Impairing of Debtors

Delegations for writing off of bad debt:

1. Value of debt up to and including R500 per debtor: Chief Financial Officer.
2. Value of debt between R501 and R1 000 per debtor: Municipal Manager.
3. Value of debt between R1 001 and more per debtor: Council approval.

7 COMMUNICATION WITH COMMUNITIES AND OTHER STAKEHOLDERS

On approved of the Credit Control and Debt Management Policy (CCDMP), a comprehensive communication plan will be implemented through the Corporate Services Directorate (Communication Officer), in conjunction with the relevant Directorate (Public Safety, Health and Social Development).

8 REPORTING AND PERFORMANCE MANAGEMENT

The Chief Financial Officer (CFO) shall report quarterly to the Municipal Manager in a suitable format to enable the Municipal Manager to report to the Executive Mayor as supervising authority in terms of MSA section 99 read in conjunction with MSA section 100; and

The report shall contain particulars on cash collection statistics showing debt recovery information (numbers of clients, enquiries, arrangements, default arrangements, growth or reduction of arrear debt)

9 APPLICATION OF THE POLICY

The Council will on application of the Credit Control and Debt Management Policy (CCDMP), avoid discrimination as forbidden by the Constitution, 1996 unless it is established that the discrimination is fair as allowed by the Constitution.

10 REVIEW OF THE POLICY

The Council shall ensure that the Cost Containment Policy is reviewed as part of the process of preparing its annual budget