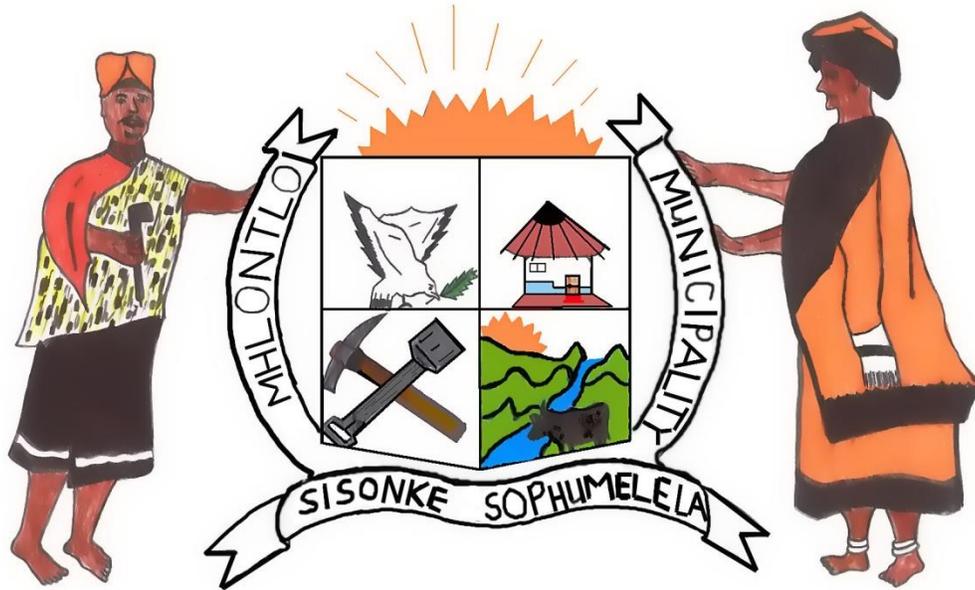


# MHLONTLO LOCAL MUNICIPALITY



## ***CREDIT CONTROL AND DEBT COLLECTION POLICY***

## 1. Preamble

**Whereas** the dynamic nature of the Mhlontlo Local Municipal Council's business requires a commitment to establishing the responsibility for a network of processes with the objective of controlling the operations of the organization in a manner which provides the Accounting Authority reasonable assurance that:

- a) The Council's resources (including its people, systems and data/information bases) are adequately protected.
- b) Data and information published either internally or externally is accurate, reliable and timely
- c) Resources are acquired economically and employed cost effectively and efficiently; quality business processes and continuous improvement are emphasized.
- d) The actions of Municipal Officials are in compliance with the Municipality's policies, standards, plans, procedures and all relevant laws and regulations and
- e) The Municipality's plans, programs, goals, and objectives are achieved.

**Whereas** this document serves as a basis for sound action by Municipal Officials in the execution of their daily duties with respect to financial management and control within the Municipality. The Municipal Manager and delegated officials remain accountable for the implementation and monitoring adherence to these policies and procedures

**Whereas** these policies are implemented within the hereunder mentioned:

### 1. Control Objectives

- i) All transactions made are completely and accurately recorded.
- ii) All recorded transactions are valid.
- iii) Rights / obligations of assets / liabilities are recorded.
- iv) All transactions are recorded at correct amount.
- v) All assets exist.
- vi) Credits granted are valid and recorded accurately.
- vii) Recorded transactions are processed properly.
- viii) Proper close off of accounting sub-systems has been achieved.
- ix) All transactions are properly and promptly recorded.
- x) Adequate provision for doubtful debts is made.
- xi) Basis of accounting used is consistent

**And whereas** the following control activities need to be incorporated in the financial management procedures:

1. An appropriate organizational structure is required to ensure that all financial activities occur in a structured manner. Clear accountability should be determined.
2. It is essential that segregation of the functions and or activities of *execution, approval, custodianship and review* should be achieved.
3. Procedures must clearly dictate physical controls and limitations placed on individuals to assist with segregation of duties to ensure appropriate control environment and safeguarding of assets.
4. All transactions must be approved and authorized by the appropriate responsible and delegated Municipal Official.

Be it therefore enacted in terms of the council resolution.

\_\_\_\_\_

**Honorable Mayor**

\_\_\_\_\_

**Date**

\_\_\_\_\_

**Municipal Manager**

\_\_\_\_\_

**Date**

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# Definitions

**Unless otherwise stated the hereunder shall mean the following:**

**“accounting officer”**

- (a) means the Municipal Manager appointed in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and being the head of administration and accounting officer in terms of section 60 of the Local Government: Municipal Systems Act 2000 (Act No.32 of 2000 )

**“approved budget”**, means an annual budget:-

- (a) approved by a municipal council, or  
(b) includes such an annual budget as revised by an adjustments budget in terms of Section 28 of the MFMA;

**“assets”** are resources controlled by the municipality as a result of past events and from which future economic benefit or services potential are expected to flow to the municipality.

**“basic municipal service”** means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

**Budget-** means forecast or estimates of revenue and expenditure that is necessary for the council to realize its objectives or budget is a financial program of the municipality for a specific period that consist of the following parts

- **Operating Budget**
  - Revenue part
  - Expenditure part
- **Capital Budget**
  - As per source of finance

**“budget year”** means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA;

**“chief financial officer”** means an officer of a municipality designated by the municipal manager in terms of section 80(2) (a) of the MFMA; to be administratively in charge of the budgetary and treasury functions.

**“councilor”**, means a member of a municipal council;

**“current year”** means the financial year, which has already commenced, but not yet ended;

**“delegation”**, in relation to a duty, includes an instruction or request to perform or to assist in performing the duty’

**“financial statements”**, means statements consisting of at least-

- (a) a statement of financial position;
- (b) a statement of financial performance;
- (c) a cash –flow statement;
- (d) any other statements that may be prescribed; and
- (e) any notes to these statements;

**“financial year”** means a twelve months period commencing on 1 July and ending on 30 June each year

**“indigent support ”** means support or relief rendered to deserving registered households in accordance with the Local Government Municipal Systems Act, 2000, Local Authorities Ordinance No. 20 of 1974 and other amending or related legislation.

**“local municipality”** has the meaning assigned to it in section1 of the Municipal System Act;

**“mayor”** means the councilor elected as the mayor of the municipality in terms of section 55 of the Municipal Structures Act;

**“municipal council”** or **“council”** means the council of a municipality referred to in section 18 of the Municipal Structures Act;

**“municipal entity”** has the meaning assigned to it in section 1 of the Municipal System Act (refer to the MSA for definition);

**“municipal tariff”** means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

**“municipality”-**

- (a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- (b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

**“National Treasury”** the National Treasury established by section 5 of the Public Finance Management Act

**“official”**, means-

- (a) an employee of a municipality or municipal entity;
- (b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

**“past financial year”** means the financial year preceding the current year;

**“property, plant and equipment”** are tangible assets that:-

are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

**“quarter”** means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

**“recoverable amount”** is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

**“service delivery and budget implementation plan”** means a detailed plan approved by the executive mayor of a municipality in terms of section 53(l) (c) (ii) of the MFMA for implementing the municipality’s delivery of municipal services and its annual budget, and which must indicate-

- (a) projections for each month of-
  - (i) revenue to be collected, by source; and
  - (ii) operational and capital expenditure, by vote;
- (b) service delivery targets and performance indicators for each quarter; and
- (c) any other matters that may be prescribed, and includes any revisions of such plan by the executive mayor in terms of section 54(1)(c) of the MFMA;

**“standard of generally recognized accounting practice”**, means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board

## **CREDIT CONTROL AND DEBT COLLECTION POLICY**

### **1. Objective: Constitutional Obligations**

The council of the municipality, in adopting this policy on credit control and debt collection, recognizes its constitutional obligations to develop the local economy and to provide acceptable services to its residents. The principles applicable to this policy are mainly derived from chapter nine (9) of the Municipal Systems Act no. 32 of 2000. It simultaneously acknowledges that it cannot fulfill these constitutional obligations unless it exacts payment for the services which it provides and for the taxes which it legitimately levies- in full from those residents who can afford to pay, and in accordance with its indigence relief measures for those who have registered as indigents in terms of the council's approved indigence management policy.

### **2. Customer care and management**

In relation to the levying of rates and other taxes by a municipality and the charging of fees for municipal services, a municipality must, within its financial and administrative capacity:

- (a) establish a sound customer management system that aims to create positive and reciprocal relationship between persons liable for these payments and the municipality, and where applicable, a service provider;
- (b) establish mechanisms for users of services and ratepayers to give feedback to the municipality or other service provider regarding the quality of the services and the performance of the service provider;
- (c) take reasonable steps to ensure that users of services are informed of the costs involved in service provision the reasons for the payment of service fees, and the manner in which monies raised from the service are utilised:
- (d) where the consumption of services has to be measured, take reasonable steps to ensure that the consumption by individual users of services is measured through accurate and verifiable metering systems:
- (e) ensure that persons liable for payments receive regular and accurate accounts that indicate the basis for calculating the amounts due;
- (f) provide accessible mechanisms for those persons to query or verify accounts and metered consumption, and appeal procedures which allow such persons to receive prompt redress for inaccurate accounts;
- (g) provide accessible mechanisms for dealing with complaints from such persons, together with prompt replies and corrective action by the municipality;
- (h) provide mechanisms to monitor the response time and efficiency in complying with paragraph (g);

- (i) provide accessible pay points and other mechanisms for settling accounts or for making pre-payments for services.

### **3. Debt collection responsibility of municipalities**

A municipality—

- (a) must collect all money that is due and payable to it, subject to this Act and any other applicable legislation; and
- (b) for this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its rates and tariff policies and complies with the provisions of this Act.

### **4. Contents of policy**

**(I)** A credit control and debt collection policy must provide for-

- (a) credit control procedures and mechanisms;
- (b) debt collection procedures and mechanisms;
- (c) provision for indigent debtors that is consistent with its rates and tariff policies and any national policy on indigents;
- (d) realistic targets consistent with-
  - (i) general recognised accounting: practices and collection ratios;
  - (ii) the estimates of income set in the budget less an acceptable provision for bad debts:
- (e) interest on arrears, where appropriate;
- (f) extensions of time for payment of accounts;
- (h) termination of services or the restriction of the provision of services when payments are in arrears;
- (i) matters relating to unauthorised consumption of services, theft and damages; and
- (j) any other matters that may be prescribed by regulation in terms of section 104.

**(II)** a credit control and debt collection policy may-differentiate between different categories of ratepayers, users of services, debtors, taxes, services, service standards and other matters as long as the differentiation does not amount to unfair discrimination.

### **5. By-laws to give effect to policy**

- (1) A municipal council must adopt by-laws to give effect to the municipality's credit control and debt collection policy, its implementation and enforcement.
- (2) By-laws in terms of subsection (1) may differentiate between different categories of ratepayers, users of services, debtors, taxes, services, service standards and other

### **6. Supervisory authority**

**(I)** A municipality's executive committee or executive mayor or, if a municipality does not have an executive committee or executive mayor, the municipal council itself or a committee appointed by it, as the supervisory authority must—

- (a) oversee and monitor—
  - (i) the implementation and enforcement of the municipality’s credit control and debt collection policy and any by-laws enacted in terms of section 98; and
  - (ii) the performance of the municipal manager in implementing the policy and any by-laws;
- (b) when necessary, evaluate or review the policy and any by-laws, or the implementation of the policy and any such by-laws, in order to improve efficiency of its credit control and debt collection mechanisms, processes and procedures; and
- (c) at such intervals as may be determined by the council report to a meeting of the council, except when the council itself performs the duties mentioned in paragraphs (a) and (b).

**7. Implementing authority**

The municipal manager or service provider must—

- (a) implement and enforce the municipality’s credit control and debt collection policy and any by-laws enacted in terms of section 98 of municipal system’s Act;
- (b) in accordance with the credit control and debt collection policy and any such by-laws, establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the municipality; and
- (c) at such intervals as may be determined by the council report the prescribed particulars to a meeting of the supervisory authority referred to in section 99 of the municipal system’s Act.

**8. Municipality’s right of access to premises**

The occupier of premises in a municipality must give an authorised representative of the municipality or of a service provider access at all reasonable hours to the premises in order to read, inspect, install or repair any meter or service connection for reticulation, or to disconnect, stop or restrict the provision of any service amounts.

**(l)** A municipality may—

- (a) consolidate any separate accounts of persons liable for payments to the municipality;
- (b) credit a payment by such a person against any account of that person; and
- (c) implement any of the debt collection and credit control measures provided for any arrears on any of the accounts of such a person.

**9. Agreements with employers**

A municipality may—

- (a) with the consent of a person liable to the municipality for the payment of rates or other taxes, or fees for municipal services, enter into an agreement with that person’s employer to deduct from the salary or wages of that person—
  - (i) any outstanding amounts due by that person to the municipality; or
  - (ii) such regular monthly amounts as may be agreed: and ~

- (b) provide special incentives for—
  - (i) employers to enter into such agreements; and
  - (ii) employees to consent to such agreements.

**10. Expected Future Payment Levels**

- a. In terms of the budget approved by the council, and in accordance with commonly accepted best practice, this municipality will have to strive to its utmost to ensure that payment levels for the present and future financial years, in respect of all amounts legitimately owing to the municipality –that is, inclusive of the balance of the monthly accounts payable by registered indigents- are maintained at an annual average of at least 95%.
- b. It is generally accepted by council that payment levels averaging below 95% per Month is untenable, and is a certain forerunner of financial disaster for this municipality. Even with payment levels of 95% it means that the council will annually have to provide on its expenses budget a contribution to bad debts of 5% of the aggregate revenues legitimately owing to Mhlontlo Municipality- a contribution that is made at the direct cost of improved service delivery and developmental projects.
- c. The only solution to the ongoing problem of non-payment by residents who can afford their monthly commitments to the municipality is to introduce a two fold approach, to promulgate credit control and debt collection by-laws which deal stringently with defaulters, but at the same time-through the formal political structures of the municipality, and in the administration’s general dealings with the public- to make the community aware of its legal obligations towards the municipality, and to emphasize the negative consequences for all if non-payment continues. The municipality’s ward committees are particularly charged with this responsibility.

**11. Notice of Default**

- a. The Accounting Officer shall in 7(seven) calendar days after each monthly due date for payment of municipal accounts for property rates and /or service charges, dispatch to every defaulting account holder, that is, every account holder who as at the date of the notice has not paid the monthly account in full or has not made an acceptable arrangement with the municipal manager for partial or late payment, a notice stating that unless full payment is received or an acceptable arrangement made with the municipal manager for partial or late payment, the account of the debtor to the property to which the account in arrears relates shall be handed

over for collection 14(fourteen) calendar days after the date of the notice concerned.

- b. The Accounting Officer shall recommend to the executive on interest to be charged on arrear accounts at 5% per annum.
- c. Expenses in respect of the handover and notices thereof shall be borne by the account holder.

## **12. Arrangements for Payment of Arrear Account**

- a. The Municipal Manager shall have discretionary power to allowing a defaulting account holder to make arrangements for the payment of arrear account/s.
- b. Each defaulting account holders shall be allowed a period as determined by a minimum of 10% of gross earnings within which to pay an arrear account, together with the interest raised (if any) by such an account, and it shall be a condition for the conclusion of any arrangement that the account holder is bound to pay every current municipal account in full and on time during the period over which such arrangement extends.
- c. If an account holder breaches any material term of an arrangement, the balance of the arrear account, together with the balance of interest raised on such account, shall immediately become and payable to the municipality, and if the account holder defaults on such payment, the municipal manager shall forthwith hand such account over for collection as envisaged in part 8.
- d. An account holder who has breached an arrangement as set out above shall not be allowed to make any further arrangements for the payment of arrear accounts, but shall be proceeded against, after the dispatch of the initial notice of default as envisaged in part 3 and failure by the account holder to pay the arrear account, together with interest raised on such arrears as required in terms of such notice, as though such account holder had breached a material term of an arrangement.

## **13. Service Contract**

A service contract shall henceforth be entered into with the municipality for each property to which the municipality is expected to provide all or any of the refuse collection:

Such contract shall set out the conditions on which services are provided and shall require the signatory to note contents of the municipality's credit control and debt collection policy, a copy of which shall be provided to such signatory, as well as the provisions of the Municipal Systems Act in regard to the municipality's right of access to property.

Where the signatory is not the owner of the property to which the services are to be provided, a properly executed letter from such owner indicating that the signatory is the lawful occupant of the property shall be attached to the service contract.

Current consumers and users of the municipality's services who have not entered into a service contract as envisaged above, must do so within 6 months from the date on which the by-laws to implement the present policy are published, and failure to do so shall be considered as a default equivalent to non-payment in terms of 3 above.

#### **14. Payment of Deposits**

Whenever a service contract is entered into in terms of 7 hereunder, the signatory shall lodge a cash deposit with the municipality as determined by council from time to time.

#### **15. Allocation of Part-Payments and Appropriation of Deposits**

- a. If the account holder pays only part of any municipal account due, the Municipal Manager shall allocate such payment as follows:-
  - i. Firstly, to any unpaid charges levied by the municipality in respect of unacceptable cheques, notices, legal expenses reinstatements of services in respect of the account or property concerned;
  - ii. Secondly, to any unpaid interest raised on the account;
  - iii. Thirdly; to any unpaid refuse collection charges;
  - iv. Fourthly, to any unpaid property rates; and
- b. This sequence of allocation shall be followed notwithstanding any instructions to the contrary given by the account holder.

#### **16. Queries by Account Holders**

- a. In the event of an account holder reasonably querying any item/s in his/her monthly municipal account, no action shall be taken against the account holder as contemplated in part 3 provided the account holder has paid by the due date an amount equal to the monthly average monetary value of the three most recent unqueried accounts in respect of the service under query, as well as all unqueried balances on such account, and provided further such query is made in writing by the account holder or is recorded in writing by the Municipal Manager on behalf of the account holder on or before the due date for the payment of the relevant account.
- b. Any query raised by an account holder in the circumstances contemplated in part

14 below shall not constitute a reasonable query for the purpose of the present paragraph.

### **17. Dishonored and other Unacceptable Cheques**

if an account holder tenders a cheque which is subsequently dishonored by or is found to be unacceptable to the account holder's bankers, the Municipal Manager shall – in addition to taking the steps contemplated in this policy against defaulting account holders- charge such account holder the penalty charge for unacceptable cheques, as determined by the council from time to time, and such charge shall rank equally with the costs and expenses incurred by the municipality for purposes of determining the sequence of allocations and appropriations contemplated in part 12.

### **18. Interest on Arrears and Other Penalty Charges**

- a. As a guide to the Municipal Manager interest shall be charged on all arrear accounts at 5% per annum.
- b. For purposes of determining arrear amounts, all amounts unpaid including interest previously raised and penalty-charges, but excluding value added tax, shall be taken into account.
- c. In considering each annual budget the council shall review the adequacy of its interest charges, and shall determine the following for the financial year concerned:-
  - i. Charges for notices of default
  - ii. Penalty charges for dishonored cheques

### **19. Indigence Management**

In regard to the payments expected from indigents, and the credit control and debt collection actions contemplated in respect of such residents, this policy must be read in conjunction with the municipality's approved policy on indigence management.

### **20. Uncollectible Arrears**

- a. The effective implementation of the present policy also implies a realistic review of the municipality's debtor book at the conclusion of each financial year. The Municipal manager shall as soon as possible quarterly present to the council a report indicating the amount of the arrears which it is believed is uncollectible, together with the reasons for this conclusion.
- b. The council shall then approve the write off of such arrears, if it is satisfied with the reasons provided in the here under enshrined way.

## 21. BAD DEBT WRITE –OFF

### Introduction

Collection of revenues is vital to the long –term financial viability of any municipality .For this purpose appropriate mechanisms must be maintained. This document serves to assist management and employees of Mhlontlo Local Municipality to implement and maintain consistent, effective and efficient bad debt management principles in a cost effective manner.

### Purpose of bad debt

The purpose of the bad debt write-off policy is to ensure the following:

- (a) Collection of debt remains costs effective
- (b) A write-off authorized at appropriate levels within the council and its functionaries

#### 21.1 Write-off of bad debts

- a) The Municipal Manager shall recommend the writing off of Bad debts and may only be written off after the Municipal Manager has satisfied council:
  - aa) Recovery of the debt would be uneconomical
  - bb) Recovery would cause undue hardship to the debtor  
or  
his/her dependents, or
  - cc) It would be an advantage to the municipality to effect settlement of its claim or to waive the claim
- b) The CFO should keep and maintain a *debt written off list* which should be referred to before opening new accounts.
- c) Any amounts outstanding must be recovered from applicants, in line with the credit and collection policy, before an account is opened.
- d) All collection actions should be exhausted before an account is considered for write-off. Debts should only be considered for write off if there has been no movement on the account for at least 2 years.
- e) The CFO shall ascertain the reasonableness and permissibility that all debtors whose accounts are written off are listed with credit bureaus

## **21. 2. PROVISION FOR BAD DEBTS**

- a. The municipality is required to provide for doubtful debts if there is a reason to believe that the debts might not be recovered.
- b. Basis for determination of debt impairment should be as follows:  
The impairment of consumer debtors and other trade receivables exists predominantly due to the possibility that these debts will not be recovered. Receivables are assessed individually and grouped together where applicable at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

In determining this allowance estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile. The Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

In determining the recoverability of a rates assessment debtor and other receivables from non-exchange transactions, the municipality considers any change in the credit quality of the rates assessment debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. The municipality also assumes that for government related debtors they will be fully be recovered. Accordingly, the management believes that there is no further credit provision required in excess of the debtor's impairment.

## **21.3 Arrears Which Have Arisen Prior To the Adoption of the Present Policy**

- a. The council shall separately consider arrears which arose prior to the adoption of the present policy, and shall advise account holders of their respective obligations in regard to such arrears.
- b. In determining such obligations, the council shall regard to the quantum of such arrears, to the period over which the default occurred, and to whether the account holder concerned has registered as an indigent in terms of the municipality's policy on indigence management.

- c. The council shall further consider an incentive scheme which will appropriately encourage account holders to settle all or stated percentage of these arrears.

**21.4 Bad Debts Recovered.**

The approval of Council for the write-off of any debt does not mean that actions to recover the money will be terminated, however, further actions will be instituted depending on the costs involved and if debt is recovered it will be recorded in the financial records of Council as bad debts recovered (income). Where there were costs (including but not limited to legal costs) incurred to recover bad debts, such costs will netted off against the recovered amount

**22.** This policy has been approved by the Municipality in terms of Council resolution number:CON-204-14/15dated 29 May 2015 and takes effect on July 2015, but in certain circumstances can be implemented retrospectively.