



**"People's power in action"**

# **POLICY AND PRINCIPLES ON THE WRITING OFF OF IRRECOVERABLE DEBT**

Approved by Council on:

Resolution Number:

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## **1. INTRODUCTION**

- 1.1 The policy seeks that account holders with no income 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, 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.
  - Where Council deems that a customer or groups of customers are unable to pay for services rendered.
- 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.”

## **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 and unclaimed credit balances are formalised.

## **3. RESPONSIBILITY / ACCOUNTABILITY**

- 3.1 The Council has the overall responsibility for adopting and approving the Policy on Writing off of accounts.

## **4. POLICY PRINCIPLES**

- 4.1 The following should be the guiding principles in implementing the Policy on Writing off of accounts:-
  - 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 or unclaimed for a period longer than 3 years. 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
  - 4.1.2.1 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 slim, a write off should be considered. The Municipal Manager or the Chief Financial Officer must review and present write off reports as prepared by the Revenue Manager to Council for consideration and approval.
- 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. And the longer credit balances are left un-refunded, the more liability the municipality will have. 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 account holders 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, except for credit balances.

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

- 5.1 The approved account holder shall remain responsible for any outstanding amount at the date of application as well as for further charges thereon. The arrears on the accounts of households approved as indigent will be suspended until such time as the status of the approved account holder has changed. Interest shall not accrue on arrear amounts from the date of suspension. Total or partial arrears may be considered for write-off by Municipal Council in terms of the policy.

## **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 of  $\leq$  R1 000, such account must be considered for a possible write-off and the account closed accordingly.

6.2 The Municipal manager or Chief Financial Officer will, after thorough review of any applications in terms of this policy be delegated to write-off any amounts to the maximum of R100 000 per account at any time during a financial year. No Council resolution/approval will be necessary in this regard.

## **7. INSOLVENCY OF THE DEBTOR AND INSOLVENT DECEASED ESTATES**

7.1 Where a debtor becomes insolvent the Municipality will ensure that a creditor's claim is registered, if the municipality knew in time about insolvency status of the debtor. 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 is received by the municipality, be written off.

7.2 The Municipal Manager or the Chief Financial Officer is delegated as per this policy to represent/negotiate in the interest of the municipality a claim against an insolvent debtor/estate as deemed appropriate under the circumstances.

7.3 In case of death of the debtor a creditor's claim must be timeously registered against the deceased's estate, unless if the municipality did not know of such death. 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 is received by the municipality, be written off.

## **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 dealt with in terms of debt collection and credit control policy.

8.2 Any amount owed by a debtor that has become untraceable and is proven to be irrecoverable, must be written off.

8.3 In terms of Prescription Act 68 of 1969, the period of prescription of debts shall be three years in respect of any debt except property rates, which will be thirty years.

## **9. SPECIAL INCENTIVES INTRODUCED BY MUNICIPAL COUNCIL**

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 may be handed over to the account holder;

9.2 In order to determine monthly instalments, a comprehensive statement of income and expenditure, may be required from 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 Moqhaka Local Municipality may resolve to implement special incentives to address the arrear debt.

9.4 There will be incentives attended to in line with write off limitation. The incentive will be considered and a once-off discount will be given to the account holders settling their accounts which are older than 90 days as follows:

- Discount of 10% for settlement of debt between R 3 000 to R 15 000
- Discount of 20% for settlement of debt between R 15 001 and R 30 000
- Discount of 30% for settlement of debt between R 30 001 and R 50 000
- Discount of 40% for settlement of debt between R 50 001 and R 150 000
- Discount of 50% for settlement of debt between R 150 001 and more

Whenever practical, the Chief Financial Officer or the Revenue Manager may use the interest as an incentive for a write off or additional to the incentive amount.

These incentives do not apply to –

- Government;
- Indigents; and
- Properties and stands on sale.

The Chief Financial Officer or the Revenue Manager may grant permission for incentives on exceptional cases.

Interest will be charged on overdue active accounts at prime plus 1% from 01 July of each financial year and will be applicable for the entire financial year. Interest rate hikes or reductions effected by the Reserve / Central Bank during the financial year will not affect this rate in the same financial year.

#### **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 may be reviewed annually for amendments if any.

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