



# **FETAKGOMO LOCAL MUNICIPALITY**

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

**This Policy is made in terms of Section 96 of the Municipal Systems Act, 2000 (Act 32 of 2000) And Fetakgomo Municipality: Credit Control and Debt Collection By- laws**

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## 1. PURPOSE

In order to sustain the local governance and continued service delivery, the collection of income levied on account statement submitted to debtors (Current accounts) must be realized within a turnover rate not exceeding 30 days. Payment of arrears must also be addressed sufficiently for the main categories of debtors in order to minimize arrear debtors.

## 2. DEFINITION

**Accounts** means the municipal accounts for services rendered, claims submitted, contractual obligations to the municipality and assessment rates or any other levied by the Municipality. If such accounts are not paid by the due date indicated on the statement, then they will be regarded as being in arrears. If no due date is indicated on an account, it will be in arrears if not paid within 30 Days after submission.

**Authorized Representative** means an employee, agent and/ or service provider appointed by the council and /or authorized by Council to represent and act on behalf of the Council.

**Chief Financial Officer** is the person appointed by Council to administer its finance.

**Clients or Customers** means those residents who make use of municipal services e.g. refuse removal services.

**Council** is the Municipal Council of Fetakgomo Local Municipality

**Debt collection** is the execution of functions necessary to collect unpaid income of the municipality, owed by clients who are debtors.

**Credit Control** is the limiting of further sales of services to debtors in arrears and the negotiation for payment in exchange for normalising further service delivery.

**Accounts** mean the municipal account for services rendered and for assessment rates levied by the municipality.

**Due date** means the date indicated on an account statement by which time payment of the amount on the statement is required.

**Residential household** means a debtor of whom the tariffs for all the levies for services and rates are household tariffs.

**MFMA** means Municipal Finance Management Act.

**MSA** means Municipal Systems Act.

**Indigent** means a debtor whose whole household has been evaluated in terms of the Indigence Policy and who is registered as being indigent.

### 3. PRINCIPLES

- a) Non-payment by debtors of their accounts has a direct negative impact on the Municipality's ability of service delivery to clients.
- b) Current levies not paid by the indicated due date are in arrears and all debtors with arrears are subject to credit control and debt collection measures. The right of access to services, and consumption thereof, can only be exercised by residents who are not in arrears on their municipal service accounts or who have arranged to pay their arrears in terms of this Policy.
- c) Various methods of payment by debtors as well as sufficiently convenient payment points are available.
- d) Interest on debt in arrears is levied monthly at the prime overdraft rate of the Municipality's banker as at 1 July of each year.
- e) Interest is levied on all arrears in excess of 60 days, subject to exceptions as per Council Resolution (*indigents*). Interest levied but not paid is included in the arrear amount of such a debtor.
- f) Credit Control measures are applied with pro active reminder or warning. Accounts statements are regarded as reminders of the arrears status of the account as well as stating the intention to take credit control measures.
- g) Payment received by the municipality from its debtor will in terms of section 102 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) be allocated at the discretion of the municipality against any amount owed by such a debtor to the municipality.
- h) Refusal by banks to honour payments by cheque or debt order is regarded as non-payment, upon which the relevant debtors are subject to credit control measures.
- i) Residential household debtors form a distinct group for whom the following special measures and exceptions apply:
- j) Any interest free arrangements for payment of arrears are intended to assist those debtors by making their current monthly accounts more affordable.
- k) All notifications served to the domicilia of client's state the reason/s for action taken as well as information as to how they can take corrective action to normalize the situation.

#### **4. CREDIT CONTROL MEASURES**

##### **a) Demand for payment**

- **Warning Letters**
  - ✓ Municipality will issue warning letters to the consumers once their accounts is 90 day outstanding ,and the account of the consumer will be debited with the cost of such remainder at the approved tariff of the Municipality;
  - ✓ Warning letter will be hand-delivered to the debtors' s physical address;
  - ✓ This reminder clearly states that a period of 14 days is allowed for payment and arrangement for payment;
  
- **FINAL DEMAND LETTER**
  - ✓ Final demand letter will be issued once the consumer have failed to comply with the arrange requirement and the account of the consumer will be debited with the cost of such remainder at the approved tariff of the Municipality;
  - ✓ Final demand letter will be hand-delivered to the debtors' s physical address;

##### **b) APPROVAL OF BUILDING PALNS**

Before any building plans pertaining to the alteration, improvement or erection of the building or structures on a property can be considered for approval or any permission to proceed with such construction can be given, all arrears associated with the relevant property are to be paid.

##### **c) SUPPLIERS OF GOODS AND SERVICES TO THE MUNICIPALITY**

All suppliers of goods and services to the Municipality are required to provide proof that all their accounts are paid in full upon application for the registration as vendors and every six months where applicable.

Prior the payment of services providers' municipality will ensure that any outstanding debt is deducted from the supplies payment.

##### **d) CLEARANCE CERTIFICATES**

Before any property can be transferred from one owner to another, all arrears are payable, where after the Chief Financial Officer issues a certificate to that effect, No transfer can take place without such a certificate.

##### **e) PROOF OF RESIDENCE**

No proof of residence will be issued to resident who owe municipal rates and taxes.

**f) Permission to occupy**

Permission to occupy will be granted upon the payment of outstanding debts if there is any.

**5. DEBT COLLECTION MEASURES**

**5.1 External legal process:**

5.2.1 The process for debt collection of any portion or category of the debtor book may be outsourced to collection agents by Municipal Manger or Chief Financial Officer. Any cost that arises from such actions will be recovered from the debtors.

The following principles will apply to agreements with debt collectors.

- Council may, when any consumer is 120 days in arrears and no agreement has been entered into between the consumer and the Municipality, commence handing over the consumer to the debt collectors.
- The “ no success on fee” will be agreed between the Council and debt collectors
- The fees on success will be agreed between the Council and debt collectors and no additional cost will be levied by the debt collectors on the consumers’ accounts.
- The account may be taken over from debt collectors if no progress is made to recover the debt at no additional cost to the Council within the period agreed upon by both parties,
- Council will establish procedures and code of conduct with these outside parties.
- Complete records will be kept of all the steps taken to collect arrears and these records will be available to the Municipality,
- All the legal costs of this process are for the account of the consumer and will be recovered from debtors by debt collectors.
- Individual consumer accounts are protected and are not the subject of public information,
- Consumer will be informed of the powers and duties of such debt collectors and their responsibilities including their responsibility to observe agreed codes of conduct,
- Any agreement concluded with debt collectors shall include a clause whereby breaches of the code by them will see the contract terminated,
- Any cash or a bank guaranteed cheque for the full outstanding balance reflected on the account shall be deemed acceptable payment before a customer’s particulars are removed from any adverse credit listing. In the case of default judgments entered into against consumers, the consumers, the consumer shall at its own cost appoint in attorney to set aside the judgment, after payment of the full outstanding balance has been made to Council.

## 5.2 Irrecoverable debts.

- All the irrecoverable debts will be dealt with in terms of municipal bad-debts policy.
- Municipality will provide for accounting bad-debts provision for all the outstanding accounts over 120 days at the end of the financial year.
- The requirement of GRAP 9 will be taken into account when dealing with accounting provision for bad-debts.

## 5.4. CLIENT CARE

- a) Clients may lodge appeals on the accuracy of accounts at the Income Section. Whilst such an appeal is not solved, no credit control measures are taken for that amount. Other levies on the account, which do not form part of such an appeal, are however still payable and are not included in the extension for payment.
- b) The following arrangement for payment can be made at the Budget and Treasury revenue section Control after credit control measures are taken.
  - Full settlement of the amount for which action was taken
  - Partial settlement of preferably 60% of the arrear amount, but no less than the most recent current account and entering into a repayment contract with the Chief Financial Officer for monthly payment of the balance over a period not exceeding 6 months. This may in the discretion of the Chief Financial Officer, be extended to a maximum of 12 months in cases of special merit.

The discretion of the Chief Financial Officer is exercised within the following parameters:

- If no partial settlement is possible immediately, it can be extended to the end of that month or included in the monthly repayment contract.
  - Monthly repayment contract can be made interest free under the following circumstances:
    - If a client never received an account due to an incorrect postal address as a result of an administrative error.
    - If a financial correction to a residential household account is made for any reason and the client request an arrangement for payment of the debt.
- c) The monthly payment period can in cases of special merit extended beyond 6 months but not to more than 12 months. The extension period must reflect a balance between the Council's best financial interest as well as the client's request.
  - d) Residential household who prove to experience difficulty in affording a 6 month repayment period for their arrears can apply to repay their arrears interest free over a period not exceeding 12 months to make a more affordable arrangement. This

arrangement must be paid monthly together with the current account and will immediately cease if the debtor defaults.

- e) Extension for normal full payment of a current account which has no arrears balance, can be made until the end of a month or the next salary payment date of an employed client.
- f) Breaching of repayment contracts is regarded as a violation of this policy and will lead to legal procedures for the collection of arrears.
- g) Settlement offers for full and final payment of arrear amount can be considered and granted by the Chief Financial Officer subject to the following conditions:
- h) Not more than the arrear interest levies on the account, or a portion thereof, can be granted as a credit against such an account, if it is in the best financial interest of the Municipality.
- i) Out of Court settlement offers by debtors against whom legal action is pending can be considered after consultation with the Municipality's Legal Counsel, if it is in the best financial interest of the Municipality.

## 6.2 Inactive Accounts

- Amounts outstanding less than R1000.00, These debts are written off as bad debts after a final demand has been issued, as collection cost does not warrant proceeding with further legal action.
- Amount outstanding greater than R1000.00, these debts are referred to the Legal Division for summoning and further legal action if the levy payer has not reacted to the final demand for payment. To be removed as all the debts write off will be dealt as per the policy.

## 6.3 Levy Inspection:

- Identify arrears accounts (older than 60 days) during routine sweeping action and verify levy information.
- Identify non-registered levy payers and ensure that they are duly registered.

## 6.4 Summoned Accounts:

- Summoned accounts of which the warrant of execution is returned "Nulla Bona" are listed for writing the arrears off as bad-debt as there were no assets that could be attached.

## 7.1 Sundry Debtors

- If sundry debtors are in arrears, a final demand for payment within 14 days is submitted to them,
- If there is no response after the final demand, the matter is handed over to the credit control for further collection action.
- Where there is a response for arrangements, a payment based on a percentage of the outstanding debt has to be made and an interest free arrangement for the balance over a period not exceeding 24 months depending on the amount outstanding and what the debtor can afford. Only exceptional cases will arrangements exceeding 24 months since most of sundry debtors are cases where the service is provided once off. In the exceptional cases, the period of an arrangement agreement will be extended to more than 24 months up to a maximum of 60 months.
- In case of payment not being received as agreed, the matter is handed over to the credit collectors for further collection action.
- The minimum amount for an account to be handed over to the debt collectors is **R300.00**.

## 7.2 PROPERTY RENTALS AND SALES

- If no payment has been received before the end of the month, a reminder for payment is printed on the following month statement, indicating that if payment is not received within 14 days, the municipality will proceed with the collection.
- Arrangements for payments of arrears by debtors of lease/sales agreements may not exceed a period of 24 months. On average, tenants do not stay in municipal owned house for longer than four, therefore arrangements over an extended period increases the risk of not recovering the debts.
- For all accounts that are more than 90 days in arrears a payment demand notice is served, advising debtors to either pay or to make arrangements for payment within 14 days at the relevant Finance office.
- If the payment demand has not been responded upon, a final demand is issued. At this stage the outstanding amount is greater than 4 times the monthly levy.
- If the debtors do not respond within 14 days, the account is handed over for collection and /or cancellation of the agreement by the Legal Division. The Legal Division can negotiate affordable arrangement agreements for payment with such debtors. On compliance to such arrangements will lead to the eventual eviction of such tenant.
- Upon making arrangements with debtors, they are informed that the monthly arrangement amount must be paid in addition to the monthly levy.

## 8. RELATED MATTERS

### 8.1 .1 Duties and Functions of Council;

- To approve a budget consistent with the needs of communities, ratepayers and residents.
- To impose rates and taxes and to determine service charges, fees and penalties to finance the budget.



- To provide sufficient funds to give access to basic services for the poor and enable the application of indigent policy.
- To set an improvement target for debt collection, in line with acceptable accounting ration.
- To maintain a provision for bad-debts in line with the payment record of the community, ratepayers and residents.
- To approve a reporting framework for credit control and debt collection.
- To consider and approve by-law to give effect to the Council's policy.
- To set performance targets and monitor the performance of the Municipal Manager regarding credit control and debt collections.
- To revise the budget should Council's targets for credit control and debt collection not be met.
- To take appropriate action against councilors, officials and agents who do not execute council policies and by-laws.
- To delegate the required authorities to monitor and execute the collection policy to the Municipal Manager and Chief Financial Officer respectively.
- To provide sufficient capacity for effective credit control and dent collection.

#### 8.1.2 Duties and Functions of Mayor.

- To oversee and monitor the implementation and enforcement of this policy and by –laws enacted to give effect to the policy.
- To monitor performance of the Municipal Manager in implementing the policy and by-law.
- To, when necessary, have the policy and by-law evaluated and reviewed in order to improve the efficiency of Council's credit control and debt collection procedures, mechanisms and process.
- To report to council

#### 8.1.3 Duties and function of Municipal Manager

- To implement customer care management.
- To implement council's collection policy
- To determine credit control measures
- To provide different payment methods.
- To raises penalties for defaults
- To appropriate payment received.
- To determine control procedures.
- To collect outstanding debts.
- To bill customers
- To maintain an appropriate accounting systems.
- To demand payments on due dates.
- To determine work procedures for public relations, arrangement, disconnections of servies, summonses, attachment of assets, sale in execution, write off of debts, sundry consumers and legal processes.
- To set performance target for staff.
- To delegate certain functions to Chief Financial Officer.
- To report to Budget and Treasury portfolio committee.

- To appoint staff to execute council's policy and by law in accordance with policy.

#### 8.1.4 Duties and Functions of communities, ratepayers and residents.

- To fulfill certain responsibilities, as brought about by the privilege and right to use and enjoy public facilities and municipal services.
- To pay services fees, rates on property and other tariffs, levies and duties imposed by the Municipality.
- To observe the mechanisms and processes of the municipality in exercising their rights.
- To allow municipal officials reasonable access to their property to execute municipal functions.
- To comply with the by-law and other legislation of the municipality.
- To refrain from tempering with municipal service installation and property or from interfering with any process in the delivery of services.

#### 8.1.5 Duties and Functions of Ward Councillors and political parties.

- To hold regular ward meetings, at least twice a year, to inform the local community of at least the costs of service provision, the reason for payment of services charges and taxes and the manner in which money received by the municipality is utilized.
- To adhere to and convey council policies to residents and ratepayers.
- To adhere to council's code of conduct for councillors

### 8.2 REPORTING AND PERFORMANCE EVALUATION

#### 8.2.1 REPORTING

8.2.1.1 The Chief Financial Officer shall report monthly to the Municipal Manager in a suitable format to enable the Municipal Manager to report to the mayor as supervisory authority in terms of section 99 of the Systems Act, read with section 100c. This report shall contain particulars on cash collection statistics, showing high-level debt recovery information (numbers of customers, arrangements, payment rate and growth or reduction of arrear debt). Where possible, the statistics should be divided into business, domestic, government and other such divisions.

8.2.1.2 If in the opinion of the Chief Financial Officer, Council will not achieve cash receipt income equivalent to the income projected in the annual budget as approved by Council, the Chief Financial Officer will report this with motivation to the Municipal Manager who will, if he agrees with Chief Financial Officer, immediately move for revision of the budget according to realistically realizable income level.

8.2.1.3 The Mayor as Supervisory Authority shall, at intervals of 3 months, report to Council as contemplated in section 99(c) of the Systems Act.

## 8.2.2 PERFORMANCE EVALUATION

### 8.2.2.1 Income Collection Targets.

- ✓ Council shall create targets to reduce outstanding debtors in line with performance agreements.

### 8.2.2.2 Customer Service Targets

Council shall create target that will include:

- ✓ Response time to consumer queries.
- ✓ Accuracy of accounts to customer

### 8.2.2.3 Administrative Performance

- ✓ Cost efficiency of debt collection.
- ✓ Accuracy and prompt availability of geographical information data.
- ✓ Efficient archiving of all documentation.

8.2.2.3 Council will a mechanism wherein these target are assessed, Council's performance is evaluated and remedial steps taken.

## 8.3 COMMUNICATION

### OBJECTIVE

To focus on the client's need, to enhance payment for service and to create a positive and co-operative relationship between the persons responsible for the payment for services received ,and the Municipality, being the service provider.

- Council's collection policy will be available in English and where appropriate in local language, and will be made available by general publication and on a specific request at customer care facilities.
- Ward councilors will be required to hold regular ward meeting, at which customers care and debt issues will be included as an agenda item.

## 8.4 ACCOUNTS AND BILLING

- ✓ Customers will for each property receive an understandable and accurate invoice from the Municipality.
- ✓ Accounts will be rendered monthly in cycles of approximately 30 days at the address last recorded with the Municipality.

- ✓ It is the customer's responsibility to ensure timeous payment in the event of accounts not received or received late.
- ✓ Settlement or due date is within 21 days after the invoice has been issued every month.
- ✓ Where account is not settled in full, any lesser amount tendered and accepted shall not be deemed to be full and final settlement of such an account.
- ✓ Any part payment of an outstanding amount in full and final settlement will only be valid once the written acceptance of the CFO or his/her delegated authority has been obtained.
- ✓ Discretion in terms of negotiable amounts as per this policy is delegated to the CFO with the right to sub-delegate.
- ✓ At all times the most financially beneficial arrangement to council must be entered into whilst still retaining the principle of this policy.
- ✓ Where any payment made to the municipality or its authorized agents by negotiable instruments is later dishonored by the bank, the municipality or its authorized agents:
  1. May recover the bank charges incurred relating to dishonored negotiable instruments against the account of the customer by charging an administration fee as determined by Council from time to time.
  2. Shall regard such an event as default on payment;
  3. May refuse to accept further cheques from the drawer or beneficiary.
  4. May place the matter on the national adverse credit listing;
  5. May institute legal action which may include criminal charges against the offender.
- ✓ The Municipality or its authorized agent must, if administratively possible, issue a duplicate account to the customer on request.

#### **8.6. INCENTIVE FOR PROMPT PAYMENT**

- ✓ The Council may, to encourage prompt payment and /or to reward regular payers considering from time to time incentive for the prompt payment of accounts or payment by debit order.
- ✓ Such incentive schemes, if introduced, will be reflected in annual budgets as additional expenditure.

#### **8.7 RIGHT OF ACCESS TO PREMISES**

- ✓ The owner or occupier of property is to allow an authorized representative of the Municipality to access at all reasonable hours to the property.