

LEPELLE – NKUMPI MUNICIPALITY



APPROVED CREDIT CONTROL AND DEBT COLLECTION POLICY

2012 - 2013



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CREDIT CONTROL AND DEBT COLLECTION POLICY

1. INTRODUCTION

1.1 LEGISLATIVE REQUIREMENTS

- 1.1.1 The Debt Collection and Credit Control By – Laws have been gazetted in March 2008, Gazette No. 1454. The By – Laws were not implemented since the inception of the municipality resulting in a huge amount of outstanding consumer debt that council has to recover from consumers of services.
- 1.1.2 The continuous provision of municipal services to residents and communities also poses a risk of poor collection if there are no credit control and debt collection policies to assist council to execute its constitutional obligations in terms of Chapter 7 of the Constitution of the Republic of South Africa.
- 1.1.3 The policy will enable Council to collect all money that is due and payable to as set it is out in Municipal Systems Act , No. 32 of 2000.
- 1.1.4 The policy seeks to bring relief to consumers who have huge outstanding debts and have no income or are registered as indigents and are currently unable to pay for the outstanding debts

1.2 AIMS AND OBJECTIVES

- 1.2.1 To distinguish between those who can and cannot genuinely pay for services.
- 1.2.2 To get those who cannot pay for services to register with the municipality as indigents
- 1.2.3 To enable the municipality to determine and identify defaulters

LEGAL FRAMEWORK

- 2.1 This policy has been compiled in accordance with the Local Government- Municipal Systems Amendment Act (MSA), 2003, Act No 44 of 2003. The Council of the municipality, in adopting this policy on Credit Control and Debt Collection, recognizes its constitutional obligations as set out in Chapter 7 of the Constitution and Chapter 9 of the Municipal Systems Act, No 44 of 2003, to develop the local economy and to provide acceptable services to its residents.



2.2 Provision of Services

2.2.1 The Municipal Council must give priority to the basic needs of the community, promote the social and economical development of the community and ensure that all residents and communities in the municipality have access to at least the minimum level of basic municipal services in terms of section 152 (1) (b) and 153 (a) of the Constitution.

2.2.2 In terms of the MSA the municipal services provided to residents and communities in the Municipality must:-

- be within the municipality's financial and administrative capacity;
- be provided in a manner that –
 - is fair and equitable to all its residents and communities;
 - ensures the highest quality service at the lowest cost and the most economical use and allocation of available resources; and
 - is financially and environmentally sustainable; and
- regularly be reviewed with a view to upgrading, extension and improvement.

2.2.3 According to the MSA the phrase “financial sustainable”, in relation to the performance of a municipal service, means the performance of a municipal service in a matter that:-

- is likely to ensure that revenues from that service are sufficient to cover the cost of operating the service; and
- maintaining, repairing and replacing the physical assets used in the performance of service;
- is likely to ensure –
 - a reasonable surplus in the case of a service performed by the Municipality itself;
 - a reasonable profit, in the case of a service performed by a service provider, other than the Municipality itself;
- is likely to enable the Municipality or other service provider to obtain sufficient capital requirements for the performance of the service; and
- takes account of the current and anticipated future –
 - level and quality of that service;
 - demand for the service; and
 - ability and willingness of residents to pay for the service.



2.3 Credit Control and Debt Collection

2.3.1 The Municipal Council must ensure that all money that is due and payable to the Municipality is collected, subject to the provisions of the MSA.

2.3.2 For this purpose the Municipal Council must adopt, maintain and implement a credit control and debt collection policy consistent with its rates and tariff policies and complying with the provisions of the MSA.

2.3.3 The 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.

2.3.4 The Municipal Council must adopt by-laws to give effect to its credit control and debt collection policy, its implementation and enforcement.

3. PURPOSE

3.1 The purpose of this policy is to ensure that credit control forms part of the financial management system of the Lepelle – Nkumpi Municipality and ensure that the same procedures be followed for each individual case.

4. OBJECTIVES

4.1 Provide a framework within which the municipality can exercise its legislative authority with regard to credit control and debt collection.

4.2 Ensure that all monies due and payable to the municipality are collected and used to deliver municipal services in the best interest of the community and in a financially sustainable manner.

4.3 Set realistic targets for debt collection.

4.4 Outline credit control and debt collection policy procedures and mechanisms.

4.5 Provide a framework to link the municipal budget to Indigents Policy, Tariff Policy and the Writing off of Irrecoverable debt policy.



5. PRINCIPLES

- 5.1 The council is responsible for policy making, while it is the responsibility of the implementing authority to execute these policies.
- 5.2 All customers must complete service agreements forms formally requesting the municipality to connect them to service supply lines.
- 5.3 A copy of the municipal credit control , debt collection and customer care policy and by – laws must be handed to every customer on request.
- 5.4 Billing is to be accurate, timeous and understandable.
- 5.5 The customer is entitled to an efficient , effective and reasonable respond to queries , and should suffer no disadvantage during the processing of a reasonable query.
- 5.6 Enforcement of payment must be prompt, consistent and effective.
- 5.7 Fraud or criminality will lead to heavy penalties.
- 5.8 All costs incurred by the Council relating to the Credit Control and debt collection process shall be recovered from the customer
- 5.9 New applications for services will be subject to prescribed credit information and outstanding amounts may be transferred to a new account.
- 5.10 Interest may be charged on overdue accounts at the rate determined by council from time to time.
- 5.11 Customers can make arrangements with the council to repay overdue amounts.
- 5.12 Indigents will be identified and supported.
- 5.13 The policy must be implemented with equity , fairness and consistency.

RESPONSIBILITY FOR CREDIT CONTROL

6.1 Supervisory Authority

6.2

6.1.1 In terms of the MSA section 91 , the Executive Committee must:-

Oversee and monitor-

- the implementation and enforcement of the Municipality credit control and debt collection policy and any by-laws enacted; and
- When necessary evaluate, review or adapt the policy and any by-laws, or the implementation of the policy and any by-laws, in order to improve efficiency of its credit control and debt collection mechanisms, processes and procedures. Report to every scheduled meeting of the Council.



6.2 Implementing Authority

6.2.1 In terms of the MSA the Municipal Manager must:-

- implement and enforce the Municipality's credit control and debt collection policy and any by-laws enacted in terms of the Municipal Systems Act;
- 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

Report the prescribed particulars monthly to a meeting of the supervising authority.

6.3 Unsatisfactory Levels of Indebtedness

The responsibility of Councillors is also determined in the MSA as set out below.

6.3.1 If the level of indebtedness in a particular ward or part of the Municipality exceeds 20% of the amount billed/accounts receivable during a specific month, the supervisory authority (Executive Committee) must, without delay, advise the Councillor for that ward.

6.3.2 The level of indebtedness shall be determined by Council from time to time in the Annual Budget resolutions.

6.3.3 The Councillor concerned:-

Must , within a month , after having realised that the level of indebtedness has exceeded the acceptable norm , convene a community meeting and report the matter to the meeting for discussion and advice; and may make any appropriate recommendations to the supervisory authority.



7. FINANCIAL MATTERS

7.1 Service Agreement

7.1.1 Before supplying of a service, a consumer must enter into a contract of agreement and such contract should provide for a deposit to be paid as security.

- Such contract shall set out the conditions on which services are provided and shall require the consumer to note the contents of the municipality's credit control and debt collection policy, (A copy of the policy will be provided to such consumer upon request.) The consumer shall note the provision of the Municipal Systems Act in regards to the municipality right of access to property.
- When the consumer is not the owner of the property to which the services are to be provided, a properly executed letter from the owner, or authorised agent, indicating that the consumer is the lawful occupant of the property shall be attached to the service contract.

7.1.2 Individuals and businesses with lease agreements to lease properties from the municipality and Government departments will be allowed to open an account in the name of the lessee of the property.

7.1.3 The registered owner of an immovable property in respect of which application for the provision of municipal services has been made shall, at least ten days prior to the date on which the services are required to be connected, enter into a written agreement with the Municipality in accordance with the prescribed form.

7.1.4 The municipality may, upon the written request of the registered owner of an immovable property, enter into a written agreement with both the registered owner and occupier of the immovable property in respect of which application for the provision of municipal services has been made. The agreement shall be in accordance with the prescribed form as indicated above.

7.2 Liability for Payment

7.2.1 The owner will, subject to par 7.2.2 below, be liable for payment of the municipal account for the provision of municipal services entered into in terms of the written agreement mentioned in par 7.1.4 above.

7.2.2 The occupier, if a person other than the owner, will be liable for payment of the municipal account for the provision of municipal services entered into in terms of the written agreement mentioned in par 7.2.1 above.

7.2.3 The occupier will remain liable for payment in terms of par 7.2.2 above, up to and including the date which the occupier terminates the Service Agreement as indicate in the Notice of Termination of Services, whether the occupier was in actual occupation



of the property or premises during the currency of the Service Agreement or otherwise.

7.2.4 Nothing contained in this policy will prohibit the Council to collect payment of any amount from the owner or any other person, in terms of applicable legislation.

7.2.5 The Municipal Manager may consolidate separate municipal accounts, or portions thereof, of persons liable for payment to the Council.

7.2.6 A deposit as approved by council becomes payable immediately when the account is opened or within twenty one (21) days from the date on which the consumer is notified thereof.

7.2.7 A copy of the identity document, marriage certificate and drivers license must be submitted with the Service Agreement.

7.3 Juristic Person

7.3.1 Should the occupier be a juristic person, the following will apply:-

- (a) If the occupier is a Company registered in term of the Companies Act, 1973, Act no 61 of 1973, the Directors of such Company shall agree to be jointly and severally liable for payment in terms of the Service Agreement, if the Company fails to make such payment.
- (b) If the occupier is a Closed Corporation registered in terms of the Closed Corporation Act, 1984, Act no 69 of 1984, the Members shall agree to be jointly and severally liable for payment in terms of the Service Agreement, if the Closed Corporation fails to make such payment.
- (c) If the occupier is an Association with legal persona, the Members of the Association shall agree to be jointly and severally liable for payment in terms of the Service Agreement, if the Association fails to make such payment.

7.3.2 Any Service Agreement signed by a person on behalf of a legal person in par 7.3.1 above must be accompanied by a resolution authorising such person to sign on behalf of the legal person.

7.4 Control over Deposits of Security

7.4.1 The deposit to be paid must be an amount not less than a sum equal to one month's service levies or a minimum amount determined by Council from time to time.

7.4.2 The Chief Financial Officer may before entering into a Service Agreement with a customer, or at any time thereafter, if deemed necessary, make such credit rating enquiries with other municipalities and/ or a credit bureau.

7.4.3 Should the Chief Financial Officer determine that the customer poses a payment risk to the Council, the Chief Financial Officer may determine a consumer deposit reflecting such payment risk.



- 7.4.4 Should the customer wish to appeal against a decision of the Chief Financial Officer in terms of par 7.4.3 above, the customer may submit an appeal and reasons in writing to the Municipal Manager, within twenty one (21) days from the date on which the customer is notified of the determination of the Chief Financial Officer meant in par 7.4.3 above.
- 7.4.5 The Municipal Manager must consider the appeal within six weeks from the date of the appeal and must notify the customer of his/ her decision within a reasonable time thereafter.
- 7.4.6 After the disconnection of services by the Municipality, an increased deposit of a sum equal to two month's service levies may automatically be required in addition to a reconnection fee.
- 7.4.7 Where the services are not readily available and the Municipality must incur additional costs to provide such services, the Municipality may require bank guarantees for the provision of municipal services.
- 7.4.8 Deposits received must be reviewed annually and a register should be maintained. The total sum of deposits received shall constitute a short-term liability in the books of the Municipality. No interest shall accrue in favour of the depositors thereof upon termination of the debtor's agreement with the Municipality. The deposit will first be offset against any outstanding balance (if any) and then be refunded without interest to the customer.



7.5 Rendering of Accounts

7.5.1 Although the Municipality must render an account for the amount due by a debtor, failure thereof shall not relieve a debtor of the obligation to pay the amount.

7.5.2 Accounts will be delivered to all consumer/ratepayers fourteen (14) days before the due date of payment, 07th of every month.

7.5.3 Accounts to ratepayers and users of municipal services must contain at least the following particulars:-

- The name of the Municipality.
- The name of the ratepayer/ user of the service.
- The service levies or rates in question.
- The period allowed for the payment of services and rates.
- The land and address in respect of which the payment is required.
- Any discount for early or prompt payment (if applicable).

7.5.4 The Municipal Account shall reflect amounts due for the following:-

- Basic Water Charge.
 - Water consumption
 - Refuse Removal.
 - Sewerage Service
 - Property Rates.
 - Other charges, levies and taxes.
 - Any Arrear Amount Due.
 - Interest on Arrear Amounts.
 - Collection Charges or Legal Costs.
 - The Amount of any Increase in a Consumer Deposit.
 - Unit price and number of units consumed in relation to water consumption
 - The total amount payable
 - The date on or before which payment must be made.

7.6 Actions to Secure Payment

7.6.1 The Municipality and service providers may, in addition to the normal civil legal procedures to secure payment of accounts that are in arrears, take the following action to secure payment for municipal rates and services:-

- Restriction of the provisions of water services in accordance with the relevant legislation.



7.7 Dishonoured Payments

- 7.7.1 Where the bank later dishonours any payments made to the Municipality, the Municipality may levy such costs and administration fees against an account of the defaulting debtor in terms of the Municipality's tariff provisions.
- 7.7.2 Any dishonoured payment in par 4.7.1 above due to insufficient funds with the financial institution on which it is drawn, will be sufficient grounds for a review of the credit rating of the customer in terms of par 7.4.2 and 7.4.3 above.
- 4.7.3 The Chief Financial Officer may determine not to accept a cheque or other negotiable instrument as payment from a customer, other than a cheque or negotiable instrument on which payment is guaranteed by the financial institution on which it is drawn, should a payment or previous payment by the customer has been dishonoured as meant in par 7.7.1 above.

7.8 Cost to Remind Debtors of Arrears

- 7.8.1 For any action taken in demanding payment from the debtor or reminding the debtor, by means of telephone, fax, email, letter or otherwise, that his/her payments are due, a penalty fee will be levied against the account of the debtor in terms of the municipality's tariff provisions.

7.9 Disconnection Fees

- 7.9.1 Where any service is disconnected as a result of non-compliance with these regulations by the customer, the Municipality shall be entitled to levy and recover the disconnection fee as determined by the Municipality from time to time from the user of the services.

7.9 Legal Fees

- 7.9.1 All legal costs, including attorney-and-own-client costs incurred in the recovery of amounts in arrears shall be levied against the arrears account of the debtor.
- 7.9.2 The Council may levy and recover such collection charges not included in par 7.8.1 above.

7.10 Interest Charges

- 7.10.1 Interest will be charged on any amount due and in arrears in accordance with the relevant legislation.



7.12 Payment of Accounts

7.12.1 The Municipality may:-

- Consolidate any separate accounts of persons liable for payments to the Municipality;
- Credit any payment by such a person against any account of that person; and
- Implement any of the debt collection and credit control measures provided for in these regulations in relation to any arrears on any of the accounts of such a person.

7.12.2 When payment is received from a debtor, the principle of current account first will be followed and consumer accounts credited as such. Credits will be allocated as follow:-

- Refuse removal
- Property Rates
- Water Basic Charge
- Water Consumption
- Sewerage Services
- Arrears
- Interest

7.13 Power to Restrict or Disconnect Supply of Services

7.13.1 The Municipality may restrict the supply of water or discontinue any other service to any premises whenever a user of any service:-

- Fails to make full payment on the due date or fails to make acceptable arrangements for the repayment of any amount for services, rates or taxes;
- Fails to comply with a condition of supply imposed by the municipality;
- Obstructs the efficient supply of water or any other municipal services to another customer;
- Bypasses or tampers with or attempts to bypass or tamper with any metering equipment of the municipality;
- Causes a situation which in the opinion of the municipality is dangerous or a contravention of relevant legislation;
- Is placed under provisional sequestration, liquidation or judicial management, or commits an act of insolvency in terms of the Insolvency Act no 24 of 1936; and
- If an administration order is granted in terms of section 74 of the Magistrates Court Act, 1944 (Act 32 of 1944) in respect of such user.



7.13.2 Water services of defaulters will be restricted within five (5) working days after the monthly due date.

7.13.3 Notices will only be distributed with the discontinuation of services.

7.13.4 Notices will be distributed to National and Provincial Departments, who will be given twenty one (30) days to settle accounts in arrear, failing which services will be discontinued without any further notice.

7.13.5 The Municipality shall reconnect and or restore full levels of supply of any of the restricted or discontinued services only after the full amount outstanding and due, including the costs of such disconnection and reconnection, if any, have been paid in full or any other condition or conditions of this Credit Control Policy as it may deem fit have been complied with.

7.13.6 The right to restrict, disconnect or terminate service due to non-payment shall be in respect of any service rendered by the Municipality and shall prevail notwithstanding the fact that payment has been made in respect of any specific service and shall prevail notwithstanding the fact that the person who entered into agreement for supply of services with the municipality and the owner are different entities or persons, as the case may be.

7.14 Disputes and Payments during Disputes

7.14.1 A dispute must be submitted in writing to the Municipal Manager prior to the final due date for payment of the contested amount. Such dispute must contain details of the specific item(s) on the account, which are subject to dispute with full reasons.

7.14.2 Should any dispute arise as to the amount owing by an owner in respect of municipal services the owner shall, notwithstanding such dispute, proceed to make regular minimum payments based on the calculation of the average municipal debits for the preceding three months prior to the arising of the dispute and taking into account interest as well as the annual amendments of tariffs of the Municipality.

7.15 Full and Final Settlement of an Amount

7.15.1 Where the exact amount due and payable to the Municipality has not been paid in full, any lesser amount tendered to and accepted by a municipal employee, except the Municipal Manager and/or his/her fully authorised delegate, shall not be deemed to be in final settlement of such an amount.

7.15.3 The provisions above shall prevail notwithstanding the fact that such lesser payment was tendered and/or accepted in full settlement.

7.15.4 The Chief Financial Officer and/or his/her delegate shall consent to the acceptance of such a lesser amount in writing.



7.16 Arrangements to Pay Outstanding and Due Amount in Consecutive Installments

7.16.1 One of the key objectives of debt collection is to encourage debtors to start paying their monthly accounts in full. In addition it is also necessary to ensure that arrear debt is addressed. The current average balances on consumer accounts necessitates that innovative ideas be implemented to encourage consumers to pay off their arrears. At the same time it is also of utmost importance that regular payers not be discouraged through the implementation of any possible incentives.

7.16.2 The main aim of an agreement will be to promote full payment of the current account and to address the arrears on a consistent basis. 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.

7.16.3 In order to determine monthly instalments, a comprehensive statement of assets and liabilities of the debtor must be compiled 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.

7.17. Interest on Arrears

7.17.1 Implementation of the following principles **(as a once off initiative)** could also enhance the success of debt collection to a great extent:-

- 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.
- As long as the agreement is honoured no further interest will be added. However, in case of defaulting the suspended amount will be reversed and interest will again be levied from date of default.
- Where arrangements are made to pay off 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.

- Where debtors fail to honour their arrangements without prior consultation interest will be reinstated and added to the original debt amount.

7.18 Reconnection of Services

The Municipal Manager or his delegate shall authorise the reconnection of services or reinstatement of service delivery only after satisfactory payment or arrangement for payment has been made according to the Municipality's Credit Control Policy.

7.19 Deductions from Salaries and Allowances

It is the policy of Council that Councillors and officials will set an example to the community. In this regard, Councillors must sign a debit order against their allowances and officials against their salaries for the monthly payment of consumer accounts.



8 PERSONNEL AND FINANCIAL IMPLICATIONS

8.1 Where a credit control and debt collection function does not exist, this implies that a dedicated structure be established with a credit control officer in charge. In view of the fact that credit control and debt collection must always be able to operate in isolation to any customer management service, it is imperative that a staff establishment for this function be implemented.

8.2 The establishment of a credit control and debt collection division will have to be financed from the operating budget, which will have an incremental impact on the budget. However, this will be offset by improved cash inflow as a result of an efficient collection system.

9 FRAUD, TAMPERING AND OTHER CRIMINAL ACTIVITY

9.1 Any person, who undertakes or allow or causes any other person to undertake an illegal connection, will be guilty of an offence.

9.2 A customer who becomes aware of an illegal connection of the water supply to a property or premises owned by or occupied by such or another customer, must immediately notify the Council thereof his/her identity will be protected, a compensation of R250 will be offered upon verification of the claim by the Manager Technical Service. Municipal officials and councillors are exempted from remuneration with regard to reporting illegal connections as this form part of their obligations.

9.3 The Council will immediately disconnect any illegal connection and remove any wiring, piping or other equipment or installation relating to an illegal connection.

9.4 In the event of illegal connection, the municipality may allow a defaulter to enter into acknowledgement of debt. In case the defaulter refuses, the municipality must institute legal and civil claims.

9.5 The Municipality may not supply water to a customer who is found guilty of/or if it is admitted that fraud, theft or any other criminal action involving the use of these services existed, until the total costs, penalties, other fees and tariffs and rates due to the municipality have been paid in full.

10 AGENTS, ATTORNEYS AND OTHER COLLECTION AGENTS

10.1 All external agents acting on behalf of the Municipality are to be named, together with their details and contact information. Likewise, all agents are to be supplied with a copy of the credit control measures.



- 10.2 Clear instructions to agents and other arrangements must be explained for the customers' benefit. Under no circumstances may agents negotiate terms, extend payment periods or accept cash on behalf of municipality, unless specifically instructed in writing to do so. The agent, on request by consumers, must produce this instruction.
- 10.3 The costs to the Municipality and to the debtor must be detailed for each stage of the credit control measures and for all possible actions. The liability for the costs of legal action and other credit control actions must as far as is legally possible be for the account of the debtor.

11 DEBT COLLECTION

11.1 Abandonment of Claims

The Municipal Manager must ensure that all avenues are utilised to collect the municipality's debt.

There are certain circumstances that allow for the valid termination of debt collection procedures as contemplated in section 109(2) of the Systems Act, 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.

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.

11.2 Writing off Bad Debt

- 11.2.1 Council must appoint a committee in terms of its delegations to review and recommend to Council to approve all bad debt write off cases.

13 IMPLEMENTATION AND REVIEW OF THIS POLICY

- a. This policy shall be implemented once approved by Council.

