

# **LETSEMENG LOCAL MUNICIPALITY**



## **PROVISION FOR BAD DEBTS & WRITE OFF POLICY 2020-21**

## **1. INTRODUCTION**

- 1.1 This policy is to outline the procedure for providing for bad debts (the making of a bad debt provision) and the writing off of bad debts within Letsemeng Local Municipality.
- 1.2 Letsemeng Local Municipality is faced with a significant amount of outstanding debt and the continuous defaulting by certain consumers who can afford to pay services.
- 1.3 The Debt Collection and Credit Control By-Laws have been gazetted. The By-Laws have not been implemented as yet resulting in a huge amount of outstanding consumer debt that council might not be able to collect.
- 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 the outstanding debts.
- 1.5 The policy seeks that household consumers with no or lower income are not denied a reasonable service and that the municipality is not financially burdened with non-payment of service
- 1.6 The policy will enable Council to write off irrecoverable debt as recommended by the committee that will be established as in accordance to the provision of this draft policy, therefore lessening the costs of recovering the debt that is recoverable
- 1.7 The policy will enable Council to apply the principles of writing off of irrecoverable debt in circumstances and information submitted before Council wherein it is indicated that the debt will not be recovered.
- 1.8 The policy does not override the fact that the "Accounting Officer" must ensure that all avenues are utilized to collect the municipality's debt as stipulated in the Municipal Finance Management Act.
- 1.9 The policy seeks to ensure that Council follows all principles and procedures for recovering outstanding debt prior to writing off of debt.
- 1.10 The policy seeks to ensure that Council appoints a committee in terms of Sec 79 of Municipal Structures Act 117 of 1998 to review and

recommend to it the debt considered by the committee to be irrecoverable.

## **2. PURPOSE OF POLICY**

2.1 Section 96 of the Local Government Municipal Systems Act 32 of 2000 provides that a municipality must collect all money that is due and payable to it, subject to the provisions of that Act and other applicable legislation

2.2 The purpose of this policy is:

2.2.1 to provide the principles for writing off irrecoverable debt.

2.2.2 to ensure that recovery would not cause undue hardship to the debtor or his or her dependents.

2.2.3 to determine the circumstance leading to the write off of debts.

2.2.4 to provide framework for procedures for writing off of debts.

## **3. RESPONSIBILITY & ACCOUNTABILITY**

3.1 The Council has the overall responsibility for adopting and approving the Bad debts and Write - Off Policy.

3.2 Council has an oversight and monitoring role in the implementation and enforcement of the policy.

3.3 The Accounting Officer as the implementing authority must establish effective administrative mechanisms, procedures and processes to ensure the implementation of this policy.

## **4 PRINCIPLES TO WRITE OFF**

4.1 The following should be the guiding principles in implementing the Bad debt and Write-Off Policy

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. To ensure that recommendations for write off of debt are consistent and accurate, the following principles or a combination of some of them must be followed prior to any write off:

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4.1.2.1 Where the tracing of the debtors is unsuccessful

4.1.2.2 Where all debt collection procedures implemented to recover the debt were proven to be unsuccessful.

4.1.2.3 All reasonable steps, as the discretion of the appointed write off committee, were taken by the officials to recover the debt;

4.1.2.4 Recovery would cause undue hardships to the debtor or his or her dependents (The debtor or his or her dependents would be deprived of their minimum essential means of livelihood)

4.1.2.5 The Council cannot legally prove the claim, provided that such a write off must be followed by an investigation to circumstances which led to the failure to legally prove the claim.

4.1.2.6 The debtor has neither assets nor income.

4.1.2.7 The Council's claim against the insolvent estate that it is being administered as insolvent had been properly proved and the dividend of the creditors was insufficient to meet the debt;

4.1.2.8 It would be to the advantage of the municipality to effect a settlement of its claim or waive a claim.

4.1.2.9 Statutory requirements prevent debt from being claimed or recovered.

4.1.2.10 On account of a weak financial position of an estate, the danger exists that if the debt is proved, a contribution will have to be paid to the estate;

4.1.2.11 The debtor is deceased and there is no known estate.

4.1.2.12 The debtor is no longer a resident of South Africa, there are no apparent means of collecting the debt, and there is no evidence that the debtor has family or business concerns in South Africa that could lead to the debtor returning to South Africa.

4.1.2.13 The assets of the debtor or of the estate of the debtor are indispensable to the debtor's dependants or are of relatively little value.

4.1.2.14 When the debts as prescribed in terms of section 11 of the Prescription Act 68 of 1969.

4.1.3 Bad debts write offs must be considered in terms of cost-benefit analysis: meaning when it becomes too costly to recover and the chances of collecting the debts are slim, a write off should be considered.

4.1.4 Debt can only be written off if the required provision exists in the Municipality's budget and or reserves.

## **5. CATERGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITE - OFF**

### **5.1 Approved Indigent Household Consumers in terms of the municipality's Indigent & Subsidy Policy.**

5.1.1 Upon approval of registration as an indigent household consumer, the debtors' interest on the arrear amount will be written off and the outstanding balance on his/her municipal services account will be handed over to the appointed committee for review and possible write off.

5.1.2 Any new arrears accumulated by the debtor (i.e. any amounts in excess of the indigent allowance for free basic services) whilst registered as an indigent consumer, will not qualify to be written off and must be dealt with strictly in accordance with the Municipality's Debt Collection and Credit Control Policy and Indigent & Subsidy Policy.

### **5.2 Balances too small to recover considering the cost for recovery**

5.2.1 Where final accounts have been submitted and paid by the respective consumer and the remaining balance after finalization of any final readings and other administrative costs results in a balance of one hundred rand (R100) or less, such account must be forwarded once to the consumer for payment.

5.2.2 Where such account is not paid by the respective consumer within a period of sixty (60) days such amounts will automatically be written off subject to the provision of Sec 5.4 below

### **5.3 Insolvency of the Debtor and Insolvent Deceased Estates**

5.3.1 Where a debtor becomes insolvent the municipality must ensure that a creditor's claim is timeously registered. Any amount being not being recovered due to insufficient funds or if there is a risk of a contributing being made to an insolvent estate must after notification, be written off subject to the provision of section 5.4 & 5.5 below.

### **5.4 Untraceable Debtors**

5.4.1 Where for any reason the forward address of a debtor becomes untraceable or the debtor becomes untraceable from the current address, such account must be handed over to collection agent for the recovery of debt. The collection agent will be paid on an attorney client scale relating to matters of

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debt collection. The Terms of Reference for such collection agent must include the appointment of a tracing agent to locate the debtor. Should a debtor be untraceable, the collecting agent must report to the Municipality on the actions that were taken to attempt to trace the debtor. The municipality should be responsible to pay the tracing agent.

5.4.2 Any amount owed by a debtor that has become untraceable must, after notification, be written off or sold to a debt collection agency at a discount which will be determined by Council from time to time.

5.4.3 Debt written off in the above instances will automatically result in the debtor being reported to the credit bureau by the municipality.

### **5.5 Special arrangements in order to obtain a Tax Clearance Certificate**

5.5.1 In terms of legislation the Municipality will under normal circumstances not issue a Tax Clearance Certificate on any property unless all outstanding amounts are paid to date, or alternatively payment of the current two years outstanding debts is made and a guarantee by the attorney handling the property transfer is issued in favour of the Municipality for the balance of debt.

5.5.2 Section 118 of the Municipal Systems Act No 32 of 2000 determines the following regarding **Restraint of transfer of Property:**

118 (1) A registrar of deeds or other registration officer of immovable property may not register the transfer of property except on production to that registration officer of a prescribed certificate-

a) Issued by the municipality in which that property is situated: and

b) Which certifies that all amounts due in connection with that property for municipal service fees, surcharges on fees, property rates and other municipal taxes, levies and duties the two years preceding the date of application for the date of application for the certificate have been fully paid.

(2) In the case of a transfer of immovable property by a trustee of an insolvent Estate, the provisions of this section are subject to section 89 of the Insolvency Act. 1936 (Act No. 24 of 1936

(3) An amount due for municipal services fees, surcharges on fees, property rates and other municipal taxes, levies and duties is a charge upon the property in connection with which the amount is owing and enjoys preference over any mortgage bond registered against the property.

5.5.3 Council must certify that all municipal charges during the two years preceding the date of the application for the clearance certificate have been paid fully.

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- 5.5.4 The amount due for municipal charge enjoys preference over any mortgage bond registered against the property.
- 5.5.5 The owner is required that before a rates clearance certificate is issued that Municipal charges during the two years preceding the date of application for the certificate have been fully paid.
- 5.5.6 A judgment must be obtained for debt older than two years to instruct the conveyancing attorney to deduct the amount due to Council from the proceeds of the Sales of the property.
- 5.5.7 Where property is sold in sale of execution the Sheriff must be informed of the amount due to Council and the Sheriff will have to deduct the amount due from the proceeds of the sales of the property due to the preference municipal charges enjoys over the mortgage bond registered against the property.
- 5.5.8 The implementing authority must design a form for arrangements of guarantees with the attorneys handling the property transfer. The form must be attached to the policy as addendum

**5.6 Special Incentives introduced by Council for Household Consumers in terms of the Approved Revenue Enhancement Strategy**

- 5.6.1 Notwithstanding the Municipality's Debt Collection and 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:
  - 5.6.1.1 The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;
  - 5.6.1.2 The current monthly amount must be paid in full; and
  - 5.6.1.3 The written agreement has to be signed on behalf of the Municipality by a duly authorized officer. Such authorization must be in writing and given by the Accounting Officer
- 5.6.2 In order to determine monthly instalments, customers have been categorized as follows:
  - 5.6.2.1 Indigent customer (Gross household income of less than R4 000 per month as prescribed in the Municipal Indigent & Subsidy Policy).
  - 5.6.2.2 Non domestic (excludes Government Departments)
  - 5.6.2.3 Government Departments.

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The Council must follow the arrangements methods of paying of municipal services as stipulated in the Debt Collection Procedure Manual of the municipality, also as in accordance to the categorization of customers stipulated in 5.6.2 of this draft policy.

- 5.6.3 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 of these arrear amounts in full together with their current monthly accounts. In order to improve the current payment levels from consumer the Council of Letsemeng Local Municipality may resolve to implement special incentives to address the arrear debt.

**6. ESTABLISHMENT OF A COMMITTEE TO MINOR ANY DEBT TO BE WRITTEN OFF**

- 6.1 Council will establish and appoint a "Debt Write Off Committee" in terms of Section 79 of the Municipal Structures Act 117 of 1998, to monitor the implementation of this Policy.
- 6.2 The above Committee will meet at least quarterly to receive and review a report from the Accounting Officer containing full details of any actions taken by officials with respect to this Policy and to consider any circumstance not covered by this Policy.
- 6.3 The Committee can advise Council on embarking on Debt Incentive Scheme that is to be reviewed annually.
- 6.4. The quorum for the Committee shall be 50% if the members plus one.
- 6.5. Formal minutes of Committee meetings must be prepared and submitted to Council.

**7 DELEGATION OF WRITE- OFFS TO THE ACCOUNTING OFFICER**

- 7.1 The Accounting Officer will, after thorough review of any applicants in terms of this Policy, be delegated to write off any amounts to the maximum of:-
- 7.1.2 in the case of a household consumer an amount of R100.00 (excluding interest and penalties) per submission; and
- 7.1.3 In the case of a business consumer an amount of R200.00( excluding interest and penalties) per submission
- 7.2 Any amount in excess of the delegation provided for in paragraph above must be submitted together with a recommendation from the Accounting Officer to the committee for consideration. The committee will, after thorough review of any recommendation by Accounting



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Officer and in terms of this Policy, make recommendations to Council to write off any amounts to the maximum of :-

- 7.3 All amounts to be written off in terms of Section 8.4 and below must be considered individually and each case on its own merits must be separately reported to the Committee.

**8 PROVISION FOR BAD DEBTS**

- 8.1 The system will consider the current consumer debtors after any payments received in the first month of the next financial year has been taken into account.
- 8.2 The total balance of accounts with a handed over portion in considered bad debts after any payment received in the first month of the new financial year has been deducted
- 8.3 The municipality has to make provision for the debts that re identified as being irrecoverable. However, the municipality must ensure that all the means applicable to recover the debts as outlines in the Debt and Credit Control Policy are utilized.
- 8.4 Provision for bad debts on municipal accounts will therefore be calculated as follows:
- 8.4.1 Up to 90 days debt is not be considered bad
  - 8.4.2 91-120 days 25% of the debt is considered bad
  - 8.4.3 121-365 days 50% of the debt is considered bad
  - 8.4.4 365 days 100% of the debt is considered bad

**9. IMPLEMENTATION AND REVIEW OF THIS POLICY**

- 9.1 This policy shall be implemented once approved by Council. All future submissions for the writing off of debts must be considered in accordance with this policy
- 9.2 This policy may be reviewed on an annual basis and be tabled to Council for approval

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10. **Adoption of Policy**

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Municipal Manager  
LETSEMENG LOCAL MUNICIPALITY

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Date

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Mayor  
LETSEMENG LOCAL MUNICIPALITY

\_\_\_\_\_  
Date

COUNCIL RESOLUTION NUMBER.....