

INTSIKA YETHU LOCAL MUNICIPALITY



POLICY AND PRINCIPLES ON THE WRITING OFF OF IRRECOVERABLE DEBT

**INTSIKA YETHU LOCAL MUNICIPALITY
PRINCIPLES AND POLICY ON THE WRITING OFF OF IRRECOVERABLE DEBT**

1. INTRODUCTION

- 1.1 To ensure 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 services.
- 1.2 However, 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. At the very same meeting the Council also confirmed the Credit Control and Debt Collection Policy, dated 30 may 2021, to deal with these consumers.
- 1.3 The Municipal Manager must ensure that all avenues are utilised to collect the municipality's debt. However, despite strict enforcement of the above policies, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt. - There are certain circumstances that allow for the valid termination of debt collection procedures. Examples of such circumstances are as follow:-
- 1.3.1 The insolvency of the debtor, whose estate has insufficient funds.
 - 1.3.2 A balance being too small to recover, for economic reasons, considering the cost of recovery.
 - 1.3.3 Where Council deems that a customer or groups of customers are unable to pay for services rendered.
- 1.4 The municipality must 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 are formalised.

3. RESPONSIBILITY / ACCOUNTABILITY

- 3.1 The Council has the overall responsibility for adopting and approving the Policy on Writing Off of Irrecoverable Debt.

4. POLICY PRINCIPLES

- 4.1 The following should be the guiding principles in implementing the Policy on Writing Off of Irrecoverable Debt:-
- 4.1.1 The policy is in accordance with the Local Government: Municipal Finance Management Act 56 of 2003, Local Government: Municipal System Act 32 of 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 are consistent and accurate, irrecoverable debt will be defined as:-
 - 4.1.2.1 Where the tracing of the debtors is unsuccessful; and

- 4.1.3 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.
- 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. 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 household consumers 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.

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

5.1 Approved Indigent Household Consumers in terms of the Municipality's Indigent Policy

- 5.1.1 Upon approval for registration as an indigent household consumer, the debtor's outstanding balance to date of approval is written 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 Credit Control Policy and Indigent Household 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 finalisation 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 provisions of Section 6.4 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 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, be written off subject to the provisions of Section 6.4 and 6.5 below.
- 5.3.2 In case of death of the debtor a creditor's claim must be timeously registered against the deceased's estate. 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, be written off subject to the provisions of Sections 6.4 and 6.5 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 a collection agent for recovery of the debt. The collection agent will be paid an all-inclusive fee of not more than 10% of the amount that was collected. 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 collection agent must report to the Municipality on the actions that were taken to attempt to trace the debtor.

- 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.

5.5 Special Arrangements in order to obtain a Clearance Certificate

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

5.6 Special Incentives introduced by Council for certain Category of Consumers in terms of the Approved Debtors Incentive Scheme Policy

- 5.6.1 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:-

- 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 authorised officer.

- 5.6.2 Due to ineffective/ non implementation of credit control measures in the past, the majority of 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 consumers the Council of INTSIKA YETHU Municipality resolved to implement special incentives to address the arrear debt.

- 5.6.3 To encourage consumers to pay off arrear debt Council will enter into a **once-off arrangement**, with certain consumers as per incentive scheme, to pay off his/ her arrear debt over a period of time in terms of specific incentives. 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.

- 5.6.4 In terms of this arrangement: - The write of debtors balance will be implemented as per Council approved debtor's incentive scheme policy.

6. PRINCIPLES OF DEBT WRITE OFF IN LINE WITH GRAP REQUIREMENTS

The municipality at the end of the financial reporting period shall assess whether there is any objective evidence that the financial asset (debtors) or group thereof is impaired. If any such evidence exists, the municipality shall apply to impair the debtors in accordance to GRAP 104.57 thus enabling the municipality to determine the amount of any impairment loss. Additionally, the municipality will also review debts that have prescribed after applying all avenues to recover outstanding debts in line with the municipal debt and credit control policy approved by Council.

7. 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.