

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

**1. INTRODUCTION**

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.

Despite strict enforcement of the above policies, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt. To allow this the approved credit control policy, inter alia, stipulated that:-

**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 is formalised.

**3. RESPONSIBILITY / ACCOUNTABILITY**

- 3.1 The Council has the overall responsibility for laying down 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 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 are consistent and accurate, irrecoverable debt will be defined as:-

- 4.1.2.1 All reasonable steps, at the discretion of the appointed write off committee, 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.
- 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 without any interruption whatsoever to avoid debt to reach 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 put in a suspense account.
- 5.1.2 This balance will remain in a suspense account for a minimum period of six months. If the debtor's indigent status remains unchanged after this period, the outstanding amount will automatically be submitted to the committee for ratification to be written off.

5.1.3 Any new arrears accumulated by the debtor 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.

## **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 submitted to the committee for ratification to be written off.

## **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, automatically be submitted to the committee for ratification to be written off.

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, automatically be submitted to the committee for ratification to be written off.

5.3.3 Debt written off in paragraph 5.3.1 will automatically result in the debtor being blacklisted by the municipality.

## **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 tracing agent for possible tracing of such debtor. Any tracing arrangement must be done on a “no trace – no charge” basis and that the trace will be guaranteed for a thirty day period.
- 5.4.2 Where it is not possible for the tracing agent to trace the debtor within the specified period agreed upon the case must be handed over to another tracing agent under the same principles set out in paragraph 5.4.1 above.
- 5.4.3 Before any invoice from a tracing agent is settled the Municipality must be furnished with a report on the actions taken by the tracing agent.
- 5.4.4 Any amount owed by a debtor that has become untraceable must, after notification, automatically be submitted to the committee for ratification to be written off.
- 5.4.5 Debt written off in the above instances will automatically result in the debtor being blacklisted by the municipality.

## **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. However where a property is sold in sale of execution or in other exceptional cases it might be possible that such a property may have accumulated such a significant outstanding balance over a period of time that it may not be within the ability of the new owner to pay such an amount in order to obtain a clearance certificate.
- 5.5.2 Where such circumstances may prevail the prospective new owner may apply to the Municipality for relief of such outstanding debt or a portion thereof. Such application must be accompanied by at least the following support documentation:-
- 5.5.2.1 A copy of the Deed of Sale.
- 5.5.2.2 Cancellation figures issued by the financial institution.

- 5.5.2.3 A detailed statement signed by the transferring attorney regarding to the finances available.
- 5.5.3 Upon receiving, such application must be submitted to the committee for consideration. In reviewing such application, the committee must ensure that:-
  - 5.5.3.1 All reasonable measures have already been taken to recover the outstanding amount from the current debtor.
- 5.5.4 To facilitate compliance with section 118 of the Municipal Systems Act, all applications to write off debt outstanding for a period of less than two years in terms of paragraph 5.5.1 above must be submitted to Council for approval despite any delegations provided for in paragraphs 6.1.

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

- 5.6.1 In terms of 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 installments;
  - 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 In order to determine monthly installments, a comprehensive statement of assets and liabilities and income and expenditure, must be provided by 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.

## **6. APPROVAL OF ANY DEBT TO BE WRITTEN OFF**

- 6.1 The council delegate the Executive Committee to consider/ approve the writing off of debt in terms of the provisions of this policy as set out in paragraph 5 above.
- 6.2 The Municipal Manager will report monthly to Executive Committee about the debts to be written off.
- 6.3 The Chief Financial Officer will recommend the Municipal Manager on all debt to be written off.

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

- 7.1 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.