UMZIMVUBU LOCAL MUNICIPALITY

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CREDIT CONTROL AND DEBT COLLECTION POLICY

PREAMBLE

In terms of Section 152 (1) of the Constitution of the RSA, 1996 (Act 108 of 1996), hereinafter referred to as "the Constitution" states that the objects of local government are:

(a) to provide democratic and accountable government for local communities;
(b) to ensure the provision of services to communities in a sustainable manner;
(c) to promote social and economic development;
(d) to promote a safe and healthy environment;
(e) to encourage the involvement of communities and community organizations in the matters of local government.

Section 152 (2) of the Constitution stipulates that a municipality must strive within its financial and administrative capacity to achieve the objectives as set out above.

In terms of Section 153 (a) of the Constitution, the developmental duties of the municipality is to:

(a) Structure and manage its administration, budgeting and planning process to give priority to the basic needs of the community, and to promote the social and economic needs of the community.

Section 96 (a) of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), hereinafter referred to as the "Systems Act", obliges the Umzimvubu Local Municipality to collect all monies that is due and payable to it, subject to the provisions of that Act and other applicable legislation.

Section 96 (b) of the Systems Act requires the Umzimvubu Local Municipality to adopt, maintain and implement a credit control and debt collection policy, which is consistent with its rates and tariff policies, and complies with the provisions of the Act.

Section 97 (1) of the Systems Act stipulates what a credit control and debt collection policy must provide for, and

Section 98 (1) (2) of the Systems Act obliges the Umzimvubu Local Municipality to adopt by-laws to give effect to the policy.

2. OBJECTIVES OF THIS POLICY

This policy serves to assist management and officials of Umzimvubu Local Municipality to implement and maintain consistent, efficient and effective controls over their revenue receiving or income department in order to achieve and maintain high levels of revenue collection.

The objectives of this policy therefore are to:-

a. ensure that all money due and payable to Umzimvubu Local Municipality in respect of rates, fees for services, surcharges on such fees, charges, tariffs, interest which has accrued on any amounts due and any collection charges are collected efficiently and promptly;
b. provide for credit control procedures and mechanisms and debt collection procedures and mechanisms;
c. Provide for indigent debtors;
d. Provide for the setting of realistic targets consistent with generally recognised practices and collection ratios and also the estimates of income set in the annual budget of Umzimvubu Local Municipality
e. Provide for interest on overdue accounts;
f. Provide for collection charges on the payment of any overdue amount;
g. Provide for extension of time for the payment of overdue amounts;
h. subject to the principles provided for in this Policy, use innovative, cost effective, effective, efficient and appropriate methods to collect as much of the debt in the shortest possible time without any interference in the process;
i. promote a culture of good payment habits amongst debtors and instil a sense of responsibility towards the payment of accounts and reducing municipal debt;
j. effectively and efficient deal with defaulters in accordance with the terms and conditions of this policy

3. PRINCIPLIES

The following principles should be considered;

1. Enforcement of this policy is a local matter only to relevant legislation
2. Credit control and debt collection policy must be understandable, uniform and implemented with equity, fairness and consistency;
3. This policy must be effective, efficient and economical
4. Billing must be accurate, timeous and understandable
5. Debt and arrangements to repay debt will be treated holistically, but different repayment periods or methods may be determined for different types of services, debtors or arrears within the general rule that the repayment should take into consideration the financial capacity of the debtor.
6. The consumers are entitled to reasonable access to pay points and to a variety of reliable payment methods
7. The consumers are entitled to efficient, effective and reasonable responses to enquiries and appeals, and should suffer no disadvantages during the process of such request
8. Debtors may be referred to 3rd party debt collection agencies and may be placed on the National Credit Rating List
9. If an account is not paid by the due date, interest will be charged on overdue accounts.
10. All legal costs, including attorney and own client costs incurred in the recovery of arrears, shall be levied against the debtors account
11. Consumers that meet the council's indigent criteria must be identified and supported.
12. Debtors found to have misrepresented themselves in order to benefit from any of the Municipality's relief or any benefit will be deemed to have committed an offence and remedial measures will be taken in a manner as determined by the Council from time to time, and all relief or benefits that have been received, will be reversed

4. RENDERING OF ACCOUNTS

The municipality shall render a regular account for the amount owing by a debtor for rates, fees and service charges but failure by the municipality to render such accounts shall not absolve the debtor of his obligation to pay for rates, fees and/or services received.

Accounts must show the following:

- If measured, details of consumption for the period being charged and the amount due;
- If flat rate, the amount due in terms of services rendered;
- The amount due for other services rendered;
- Other amounts due;
- The amounts due;
- The amount due for property tax
- The final date for payment of amount due, which shall not be more than 14 days from date of invoice.

5. CREDIT CONTROL PROCEDURE

1. Rates and Services

The following provisions apply to rates and services:

(i) Monthly accounts will be issued to all property owners/consumers.

All subdivided properties that are not registered at the deeds office will be billed to the main owner until a clear sale agreement with clear ownership details of the new owner have been submitted. Also, for the Municipality to bill tenants instead of the owner, a clear lease agreement must be submitted to the Municipality .These charges shall be payable within 14 days after the last day of each month in which such account was rendered. The fourteen day period needs to be adopted by the Council and promulgated in the Provincial Gazette. Until such time the status quo will remain.

(ii) Interest will be raised on payments received after the due date, at 10% per annum.

(iii) Reminder letters, notices and sms's will be issued to the consumers of the amounts owed to the municipality for a period more than 30 days.

(iv) The Chief Finance Officer shall in 7(seven) calendar days after each monthly due date for payment of municipal accounts for property rates and /or service charges, dispatch to every defaulting account holder, that is, every account holder who as at the date of the notice has not paid the monthly account in full or has not made an acceptable arrangement with the municipal manager for partial or late payment, a notice stating that unless full payment is received or an acceptable arrangement made with the municipal manager for partial or late payment, the account of the debtor to the property to which the account in arrears relates shall be handed over for collection 14(fourteen) calendar days after the date of the notice concerned.

(v) Final demands will be issued to defaulters outstanding for a period exceeding 90 days. Failure to respond to the Final Demand by the due date (21 days) will result in Legal Action.

(vi) **Legal Action –** If the defaulter fails to adhere to the conditions of the Final Demand, a copy thereof will be handed to the credit control clerk (responsible official) who will institute legal proceeding for the recovery of debt, interest, administration and legal cost.

(vii) A **RM2** summons document will be compiled and submitted to Court for endorsement. Thereafter, the legal documents are handed to the Messenger of the Court for service on the defaulters. Defaulters are allowed five days, after the summons has been served upon them to settle the debt.

(viii) Failure to respond the summons will result in an Application for Default Judgement being applied for with the Court. This results in blacklisting of the defaulter. Thereafter, a Warrant of Execution is compiled and submitted to the Court for endorsement and handed to the Sheriff who in execution of the Warrant, attaches goods to the value of the debt to be sold by Public Action.

(ix) Expenses in respect of the handover and notices thereof shall be borne by the account holder

(x) **Clearance Certificates-** All monies including any estimated amounts

for the duration of the validation period of a certificate in terms of section 118, of the Systems Act, or Section 89 of the Insolvency Act, 24 of 1936, are for the purpose of Section 118, deemed to be due and must be paid in full prior the issuing of any clearance certificate. Upon sale in execution of immovable property, the purchaser shall be responsible for payment of all costs and charges necessary to effect transfer including conveyancing costs, rates, taxes and other like charges necessary to procure a rates clearance certificate. Transfer of property from one owner to another does not extinguish the security created by section 118 (3) of Municipal Systems Act.

(xi) The owner of the property, if he/she is subdividing his/her plot, must first clear up his/her account before the subdivision can take place and clearance certificate issued for the subdivision.

(xii) The Municipality shall not conduct any business activity with or provide any service to any persons / company who are/is in arrears with municipal accounts except as provided for in legislation or arrangement should be made by such person that the Council may deduct a certain percentage from his/her payment.

1.3 Service Contract

- A service contract shall henceforth be entered into with the municipality for each property to which the municipality is expected to provide all or any of the following services:
    a) Refuse collection
- Such contract shall set out the conditions on which services are provided and shall require the signatory to note contents of the municipality's credit control and debt collection policy, a copy of which shall be provided to such signatory, as well as the provisions of the Municipal Systems Act in regard to the municipality's right of access to property.
- Where the signatory is not the owner of the property to which the services are to be provided, a properly executed letter from such owner indicating that the signatory is the lawful occupant of the property shall be attached to the service contract.
- Current consumers and users of the municipality's services who have not entered into a service contract as envisaged below, must do so within 6 months from the date on which the by-laws to implement the present policy are published, and failure to do so

shall be considered as a default equivalent to non-payment in terms of below in notice of default.

2. Arrangements for Payment of Arrear Account

- The Municipal Manager shall have discretionary power to allowing a defaulting account holder to make arrangements for the payment of arrear account/s.
- Each defaulting account holders shall be allowed a period as determined by a minimum of 10% of gross earnings within which to pay an arrear account, together with the interest raised (if any) by such an account, and it shall be a condition for the conclusion of any arrangement that the account holder is bound to pay every current municipal account in full and on time during the period over which such arrangement extends.
- If an account holder breaches any material term of an arrangement, the balance of the arrear account, together with the balance of interest raised on such account, shall immediately become and payable to the municipality, and if the account holder defaults on such payment, the municipal manager shall forthwith hand such account over for collection as envisaged in part below in queries by account holders.
- An account holder who has breached an arrangement as set out above shall not be allowed to make any further arrangements for the payment of arrear accounts, but shall be proceeded against, after the dispatch of the initial notice of default as envisaged in part 5 and failure by the account holder to pay the arrear account, together with interest raised on such arrears as required in terms of such notice, as though such account holder had breached a material term of an arrangement.
- Arrangement to pay arrear account balances will be considered for Industrial, Business, Tenants and School accounts but limited from three to six months period. This also applies to churches and non-profit organizations, with only actual service charges being billed, Payment extension for the current account may not be allowed.
- Proposals for arrangement to pay arrear account balances will be considered, provided the following conditions are met:

    - An appropriate initial down payment of the arrear amount is payable on conclusion of the arrangement and is based on the following:
    - Net salary range earned by the consumer:

      R 1 000 – R 2 999 10 % of the outstanding debt

      R 3 000 – R 5 999 15 %

R 6 000 – R 8 999 20 %
R 9 000 – R 12 999 30 %
R 13 000 – R 15 999 35 %
R 16 000 – R 20 999 40 %
R 21 000 – R 25 999 45 %
R 26 000 and above 50 %

- The salary advice as well as proof of the initial down payment must be attached to all arrangement, which have been concluded, in order for the agreed arrangement to be implemented.
- The debtor agrees to honour in full the current account while simultaneously reducing the arrears.
- The municipality may allow a period of payment in excess of 3 months for the payment of arrears, but not exceeding a period of 12 months, if special circumstances, which the customer could not reasonably have prevented, warrant a longer period of payment.
- Documentary proof of any special circumstances, as contemplated in the paragraph above must be furnished by a customer on request by the Council.
- Acknowledgement of debt and arrangement agreement forms must be completed fully and signed by the customer himself/herself and all documents required must be submitted before the arrangement can be approved.
- The total arrear amount which is subject to the agreed arrangement will cease to attract interest if the arrangement is honoured. If, however, the arrangement is dishonoured, interest will be levied and the whole outstanding amount becomes due and payable.
- Special arrangements on arrears are treated as a once-off opportunity to account holders who have fallen into arrears. Individuals who did not honor a previous agreement will therefore not be considered for a new agreement, unless exceptional circumstances are found to have existed.
- Agreements may be concluded with customers who respond only after being handed over to attorneys for collection. The costs resulting from the legal process are added to the existing arrears on the account and an initial payment of at least one quarter to one third of the total outstanding amount is required to be paid.
- An acknowledgement of debt and arrangement agreement must be concluded per property.

- Customers who are indebted to the municipality for rates and services and wish to submit building plans for approval will first have to make an arrangement to pay off their arrears before such plans can be approved.
- Only bank guaranteed cheques or cash payments for such rates and services will be accepted.
- Unallocated/Unknown receipts will be allocated to income after three months.

5. QUERIES BY ACCOUNT HOLDERS

a. In the event of an account holder reasonably querying any item/s in his/her monthly municipal account, no action shall be taken against the account holder as contemplated in part notice of default above provided the account holder has paid by the due date an amount equal to the monthly average monetary value of the three most recent un-queried accounts in respect of the service under query, as well as all un-queried balances on such account, and provided further such query is made in writing by the account holder or is recorded in writing by the Municipal Manager on behalf of the account holder on or before the due date for the payment of the relevant account i.e. notwithstanding any query on any account the account must still be paid, in terms of the provisions contained in this policy, pending the outcome of the query.

b. Any query raised by an account holder in the circumstances contemplated in part interest on arrears and other penalty charges below shall not constitute a reasonable query for the purpose of the present paragraph.

6. INTEREST ON ARREARS AND OTHER PENALTY CHARGES

a. Normal Terms: All categories of consumers are required to effect payment of their rates and services accounts on or before the due date advised on account statements.

b. As a guide to the Municipal Manager interest shall be charged on all arrear accounts at 10% per annum.

8. METHODS FOR DEBT RECOVERY

Umzimvubu Local Municipality will apply the following means in an effort to collect all monies due and payable to it:

- Current charges must be paid in full.

- The debtor may be required to prove levels of income and must agree to a monthly payment toward arrears on such debtors ability to pay based on such debtors liquidity if the Municipality so requires.
- Arrangement for payment of arrears should be made as follows but only after an acknowledgement of Debt (the agreement), has been signed by the debtor who should provide positive proof of identity or an authorized agent with Power of Attorney.
- The agreement must be completed entailing details of all arrangements for paying off arrear account as set out below. A copy of the agreement must be handed to the client and a copy filed in the debtor's file by the Finance Manager.

8.1 If the overdue balance contains amounts which have been outstanding for longer than 12 months-the first payment shall be a minimum of fifty percent (50%), of the total overdue balance as an initial payment. The Finance Manager shall decide on an arrangement to settle the balance in equal instalments over a maximum period of twelve months. Should the extent of the amount owing be such that repayment cannot be effected as set out above, the matter shall be referred to the Executive Committee of the council with a recommendation from the Finance Committee for an extended period on condition that the recommended period does not exceed 36 months,

8.2 If the overdue balance contains amounts which have been outstanding for less than 12 months-the first payment shall be a minimum of twenty five percent (25%), of the total overdue balance as an initial payment. The Finance Manager shall decide on the arrangement to settle the balance in equal instalments over a maximum period of six (6) months;

8.3 The first payment (initial payment) to be made after the signing of the agreement shall be made within 30 days, Services will not be reconnected until payment is received. Agreement will lapse if first payment is not received within 30 days.

8.4 No interest will be charged on arrear amount from the time the agreement is entered into provided that the agreement is honoured by the debtor.

8.5 The Finance manager when notified by a debtor of his failure to comply with the arrangement shall consider the merit of the debtor's circumstances in reviewing the arrangement. This could result in either an extension of the period of repayment; or increase the monthly repayments to maintain the repayment period, or temporarily freeze repayments until the debtor's circumstances improve provided the debtor keeps the Finance Manager informed on a monthly to month basis of his circumstances. The

Finance Manager in conjunction with the Municipal Manager shall either consider freezing further services or allowing the services to continue for a limited period to be agreed upon depending upon the circumstances.

8.6 A written agreement will be signed with the service providers that do business with the Municipality, that owe municipality for rates and services, to pay in part or in full the debt owed to the Municipality using an agreed amount on the invoice that is payable to them. Note that Persons that qualify for indigent status under the criteria detailed in Umzimvubu Local Municipality's Indigent Policy Document are not subject to any credit control and debt collection procedures.

8.7 Any of the above arrangements will automatically include the condition that all future monthly accounts are paid by the debtor on due date except in case of merit which will be at the discretion of the Finance Manager.

8.8 A debtor who fails to comply with any of the above arrangements without notifying the Finance Manager, automatically forfeits the benefit of the arrangement made and shall have his/her services discontinued with immediate effect and will be dealt with. A "refer to drawer" Cheque shall be regarded as a failure to comply.

8.9 No person will be allowed to enter into a second agreement if the first agreement was dishonoured

8.10 The Finance Manager is not obliged to notify the debtor of the failure to comply.

8.11 Should a debtor not settle his/her account in full, after having made the arrangements, fail to comply with the arrangements, Council shall take all necessary legal steps to recover amount owing including such as attachment of the debtor's assets as per the litigation Procedure In terms of the Magistrate's Court Act No. 32 of 1944 (as amended) and/or listing with credit bureau.

9. MUNICIPAL EMPLOYEES AND COUNCILLORS

- S10 of Schedule 2 of the Systems Act states that "a staff member of a municipality may not be in arrears to the municipality for rates and service charges for a period longer than 3 months, and a municipality may deduct any outstanding amounts from the staff member's salary after this period."
- Schedule 1, item 12A of the Systems Act states that "a Councillor of the Municipality may not be more than 3 months in arrears for municipal services fees, surcharges fees on fees, rates or any other municipal taxes, levies and duties levied by the Municipality. Notwithstanding any other procedure, method

3 month period has elapsed.

- Manager Income/Credit Control in conjunction with Human Resources Department shall notify such employees and councillors in writing of the steps that the Municipality will take to recover the debt.
- The policy shall apply to all employees irrespective of their level or position within the Municipality.

10. Claim on Rental for Payment of Assessment Rates and Service Levies in Arrears

1) The Municipality may attach the rental or any other payments due to debtors who are in arrears with their municipal accounts:

10.1.1 If any debt levied in respect of a property is unpaid by the owner of the property the Municipal Manager may recover the amount in whole or in part from a tenant or occupier of the property, despite any contractual obligation to the contrary on the tenant or occupier.

10.1.2 The Municipal Manager may recover an amount only after a written notice has been served on the tenant or occupier; and

10.1.3 The amount the Municipal Manager may recover from the tenant or occupier of a property is limited to the amount of the rent or other money due and payable, but not yet paid, by the tenant or occupier to the owner of the property; and

10.1.4 Any amount the Municipal Manager recovers from the tenant or occupier of the property must be set off by the tenant or occupier against any money owed by the tenant or occupier to the owner; and

10.1.4 The tenant or occupier of the property must, on request by the Municipal Manager, furnish the Municipal Manager with a written statement specifying all payments to be made by the tenant or occupier to the owner of property for rent or other money payable on the property during a period determined by the Municipal Manager.

10.1.5 The Municipal Manager may recover the amount due for debt on a property in whole or in part from the agent of the registered owner, if this is more convenient for the Municipal Manager

10.1.6 The Municipal Manager may recover the amount due for debt from the agent of the registered owner only after a written notice has been served on the agent, and

10.1.7 The amount the Municipal Manager may recover from the agent is limited to the amount of any rent or other money received by the agent on behalf of the registered owner less any commission due to the agent; and

10.1.8 The agent must, on request by the Municipal Manager, furnish the Municipal

Manager with a written statement specifying all payments for rent on the property and any other money received by the agent on behalf of the owner during a period determined by the Municipal Manager.

11. INDIGENTS

Indigents are defined as those people, who due to a number of factors, are unable to make a full monetary contribution towards basic services.

Typical examples are, pensioners, students, unemployed, disabled persons etc.

Municipalities are expected to institute an indigent support policy that will on an individual basis, subsidize those who are unable to pay the full charges for the services rendered to them provided they have applied for the relief and are approved in terms of the Municipality's Indigent Register.

12. Incentives for prompt payment

- During the budget process Council may, to encourage prompt payment and/or to reward regular payers, consider from time to time incentives for the prompt payment of accounts or payment by debit or stop order.
- The cost associated with the incentive scheme, if introduced, will be reflected in annual budgets as additional expenditure.

Authority	Signature	Date
HOD Approval		
MM Approval		
Council Approval		
Date of next review		

APPROVAL OF THE POLICY

The Municipal Council has approved this policy and amendments thereof.

AUTHENTICATION

The amendments of the policy and or the new policy was adopted by the Council on the .....

As per Council Resolution number .....

Signed off

Mr. G.P.T. Nota	**Cllr. N.F Ngonyolo**
Municipal Manager	**Speaker of the Council**