



KAROO HOOGLAND MUNICIPALITY

WRITE OFF POLICY

2015/16



KAROO HOOGLAND LOCAL MUNICIPALITY
PRINCIPLES AND POLICY ON THE WRITING OFF OF IRRECOVERABLE DEBT

1. INTRODUCTION

- 1.1 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 services.
- 1.2 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.
- 1.3 Despite strict enforcement of the previous policies, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt. To allow this, the draft Credit Control Policy, inter alia, stipulated that:-
- 1.3.1 “Par 9.1.1 - The Municipal Manager must ensure that all avenues are utilised to collect the municipality’s debt.
- 1.3.2 Par 9.1.2 - There are certain circumstances that allow for the valid termination of debt collection procedures, 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.
- 1.3.3 Par 9.1.3 - Where Council deems that a customer or groups of customers are unable to pay for services rendered.
- 1.3.4 Par 9.1.4 - 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.”
- 1.4 In addition, the policy further stipulated that:-
- 1.4.1 “Par 9.2.1 - Council must appoint a committee in terms of its delegations to review and recommend to Council to approve all bad debt write off cases.”



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.
- 2.2 To provide for rationalization of the municipality's debtors accounts and financial records by writing off bad debts that are irrecoverable.

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 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 Before any debt may be written-off, all the applicable actions and/or procedures as are contained in the approved Credit Control and Debt Collection policy of Council should have been executed/implemented
 - 4.1.2.2 Where the tracing of the debtors is unsuccessful; and
 - 4.1.2.3 All reasonable steps, at the discretion of the appointed write off committee, were taken by the officials to recover the debt.
 - 4.1.2.4 In cases where the Debt Collection and Credit Control policy is not relevant and applicable, other available administrative procedures and, if appropriate, legal action must be considered and utilized for collection of 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 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 Consumers in terms of the Municipality's Indigent Policy

- 5.1.1 Upon approval for registration as an indigent household consumer, the debtor's interest on the arrear amount will be 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 Policy. However should there be any outstanding debt by the end of the financial year the municipality should review the status of the Indigents and submit the total report of outstanding to council to write off.



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 5% 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.

5.4.3 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 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 Household Consumers in terms of the Approved Revenue Enhancement Strategy

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 In order to determine monthly instalments, 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 (i.e. amount not to exceed 25% of gross income), taking into account that payment of the monthly current account is a prerequisite for concluding an arrangement.

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 consumers the Council of Karoo Hoogland Local Municipality may resolve to implement special incentives to address the arrear debt older than 3 years. The incentive will be attended to in line with write off limitation. The incentive can consider on the following bases:

- 5.6.3.1.1 That any incentive offered is done on the bases of a payment, and not at zero offers.
- 5.6.3.1.2 That a debtor pays 50% of the total costs excluding interests, other collection charges, rates and taxes, the debtor may receive 50% based on Council resolution within specified period as determined by Council.
- 5.6.3.1.3 That 3 years arrears can be determined first and then if the arrears exceed the recent balance 50% may apply in line with 5.6.3.1.2
- 5.6.3.1.4 If the recent arrears exceed the 3 years, then 3 years may be the incentive amounts, and in line with 5.6.3.1.2
- 5.6.3.1.5 Whenever practical a manager responsible for incentives may use the interest as an incentive as offer for a write off.
- 5.6.3.1.6 Any calculation of write off shall exclude interest, collection charges, rates and taxes, except if municipal manager or Chief financial officer by delegation can offer incentive inclusive based on various:
 - That are stated in section 5.1 to 5.4 above
 - That the debtor was an indigent and/ they are debtors for all practical reasons that cannot afford at all due limitation of their salary.



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

- 6.1 Council will establish and appoint a Committee to monitor the implementation of this Policy.
- 6.2 The Committee will consist of the following members:-
 - 6.2.1 Chief Financial Officer (Alternative Chairperson).
 - 6.2.2 Revenue and Debt Collection Section
 - 6.2.3 One member of the Portfolio Committee for Finance to be nominated by the Portfolio Committee for Finance.
- 6.3 The above Committee will meet at least once a year to receive and review a report from the Chief Financial Officer containing full details of any actions taken by officials with respect to this Policy, and to consider any circumstances not covered by this Policy.
 - 6.3.1 The quorum for the Committee shall be 50% of the members plus one.
 - 6.3.2 Formal minutes of Committee meetings must be prepared and submitted to Council.
- 6.4 The Chief Financial Officer will, after thorough review of any applications in terms of this Policy, be delegated to write off any amounts to the maximum of:-
 - 6.4.1 In the case of a household consumer an amount of R10,000 (excluding interest and penalties) per submission; and
 - 6.4.2 In the case of a business consumer an amount of R20,000 (excluding interest and penalties) per submission.
- 6.5 Any amount in excess of the delegation provided for in paragraph 6.4 above must be submitted together with a recommendation to the Municipal Manager for consideration. The Municipal Manager will, after thorough review of any recommendation by the Chief Financial Officer and in terms of this Policy, be delegated to write off any amounts to the maximum of:-
 - 6.5.1 in the case of a household consumer an amount of R20,000 (excluding interest and penalties) per submission; and
 - 6.5.2 in the case of a business consumer an amount of R50,000 (excluding interest and penalties) per submission.



- 6.6 Any amount in excess of the delegation provided for in paragraph 6.5 above may only be reviewed by the Committee and must be submitted together with a recommendation to Council for consideration.
- 6.7 All amounts to be written off in terms of Section 6.4 and Section 6.5 above must be considered individually and each case on its own merits must be separately reported on a monthly basis to the Finance Portfolio Committee for noting.

7. Administration and Management

- 7.1 The Chief Financial Officer and the Revenue and Debt Collection Official must maintain a register of debts that have been written off which will be available for presentation to the Audit Committee. The register will record the details of the debt, the authority for writing it off and any subsequent action to reinstate and recover.
- 7.2 To prevent unauthorised journal entries relating to bad debts, access to both the cash receipt function and the bad debts recording function are to be restricted with no journal adjustments to take place on the debtors' module without specific approval by the CFO.
- 7.3 In order to provide further assurance of the validity of the accounting information of the debtors accounts, an independent reconciliation between approved adjustments and actual adjustment should be performed every time after approval and processing of Bad Debts Written Off journal entries.
- 7.4 The Chief Financial Officer will perform a monthly analytical review of debtors' accounts to ensure that bad debts are written off in a timely manner.

8. PROVISION FOR BAD DEBTS

When providing for bad debts in an annual budget consideration should be given to any doubt as to the collectability of debts and the potential of a current debt to deteriorate and become bad.



9. POTENTIAL RISK OF NON-COMPLIANCE

Failure to adhere to the provisions of this policy may lead to either one or more of the following scenarios:

- 9.1 Steps would be taken to recover debtors with insignificant account balances, where costs of recovery including manpower, postage and collection agent fees outweigh any possible benefit that could be obtained in return;
- 9.2 Unauthorised writing off of bad debts;
- 9.3 Lack of proper internal controls systems and segregation of duties could hide the fact by making false bad debt journal entries;
- 9.4 Failure to write off bad debts could trigger audit queries; and
- 9.5 Debtors could be overstated due to insufficient provision for bad debts.

10. IMPLEMENTATION AND REVIEW OF THIS POLICY

- 10.1 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. This policy should be reviewed annually for amendments if any.