

VICTOR KHANYE LOCAL MUNICIPALITY

2015/2016 BUDGET RELATED POLICY

DEBT COLLECTION AND CREDIT CONTROL POLICY



# VICTOR KHANYE

LOCAL MUNICIPALITY – PLAASLIKE MUNISIPALITEIT

## CREDIT CONTROL POLICY

Policy Number:	Approved by Council:
Resolution No:	Review Date:



## 1. PREAMBLE

Whereas section 96(a) of Local Government: Municipal Systems Act, act no 32 of 2000, obliges a council to collect all money that is due and payable to it, subject to the act and any other applicable legislation

And Whereas section 96(b) of the Local Government: Municipal Systems Act, act no 32 of 2000, provides that a council must 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.

## 2. SCOPE OF APPLICATION

This policy applies within the Victor Khanye Local Municipality on each and every account issued by the municipality as well as any debt that has to be collected by the municipality. This policies includes all the ratepayers and all users of services for which a tariff is levied in terms of council's tariff policy.

## 3. PURPOSE

This policy has been compiled as required in terms of Section 97 of the Local Government: Municipal Systems Act 32 of 2000 (hereinafter referred to as the Act) and is designed to provide for credit control and debt collection procedures and mechanisms. It also aims to ensure that the Municipality's approach to debt recovery is sensitive, transparent and is equitably applied throughout the Municipality's geographic area with the objectives of sustainable service delivery, which contributes towards the fulfillment of the following constitutional mandate as required by Section 152 (1) & (2) of Act no 108 of 1996 (Constitution of the Republic of South Africa).

1. (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.
2. A Municipality must strive, within its financial and administrative capacity to achieve the above-mentioned objectives.

#### 4. DEFINITION

**Account:-**

Any account rendered for municipal taxes, services and other charges. This includes charges raised as a result of damages to Municipal property.

**Act:-**

Means the local government: Municipal System act, act no.32 of 2000

**Arrears:-**

Any amount due, owing payable in respect of municipal services not paid by due date.

**Consolidated account:-**

A monthly account reflecting municipal service fees, charges, surcharges on fees, property rates and other municipal taxes, levies and duties and all consolidations in terms of Section 102 of the Act

**Council:-**

Means the Victor Khanye Local Municipality, a municipal council as referred to in chapter 7 of the Constitution of the Republic of South Africa, act no 108 of 1996.

**Customer:-**

Means any person to whom a service is rendered and levied or charged in terms of the tariff structure of the council.

**Defaulter:-**

Any customer in arrears.

**Deemed owner:-**

Means a person, who is not the registered owner of the property, in occupation of such property by virtue of the Black Administration Act.

**Employer:-**

Means an employer as defined in paragraph 1 of the seventh schedule of the Income tax act, act no 58 of 1962;

**Occupier:-**

Includes any person in actual occupation of premises without regard to the title under which they occupy, if any;

**Owner:-**

In relation to premises means the person, natural or legal, who from time to time is registered as such in a deeds registry as defined in the Deeds Registries act, act no 47 of 1937.

**Person:-**

Means any natural person, local government body or similar authority, a company or close corporation incorporated under any law, a body of persons whether incorporated or not, a statutory body, a public utility body, voluntary association or a trust.

**Service:-**

Means any service rendered by the council, in respect of which an account may be rendered, excluding any service rendered by the council as an agent for another principal.

**Standard rate of interest:-**

Means the interest rate as determined by the council from time to time.

**Debtors:-**

A person who owes the municipality money for services consumed and to whom an account was rendered.

**Debtor's socio-economic status:-**

It is the situation within which a debtor is perceived to be living in, which will assist in assessing how much income does the debtor generate thus how much can the debtor be able to pay for arrears.

**Indigent:-**

A person who is needy and further more who generates no income or generates income which is so minimal that he can't make a worthwhile contribution towards the payment of municipal services.

**Illegal tempering:-**

It is the unauthorized handling of municipal infrastructural assets, with the intention to distort information that can be accessed from such machinery or with the intention to consume services in a fraudulent manner.

**Level 1 cut-off:-**

The electricity supply to the property will be discontinued at the meter box and a seal will be installed. In respect of water supply a washer will be installed in the supply pipe to reduce the supply to a minimum basic supply of not more than six kiloliter per month. A notice to this effect will be delivered to the property requesting the occupier to contact the debt collection unit in order to



make arrangements for the payment of the outstanding amount. Arrangements for longer than 12 months should be approved by the Municipal Manager.

**Level 2 cut-off:-**

The electricity supply to the property will be discontinued at the pole outside the property and a seal will be installed. In respect of water supply a washer or a pre-paid water meter will be installed to reduce the supply to a minimum basic supply of not more than six kiloliter per month and a locking device will be installed over the main tap to ensure limited supply. A notice to this effect will be delivered to the property requesting the occupier to pay the outstanding amount in full before the supply to the property will be restored.

## **5. OBJECTIVES OF THE POLICY**

The objectives of this policy are to:

- 5.1 Ensure that all monies due and payable to the municipality are collected;
- 5.2 Provide for credit control procedures and mechanisms and debt collection procedures and mechanisms;
- 5.3 Provides for indigents in a way that is consistent with rates and tariff policies and any national policy on indigents subject to the indigent Policy of the municipality.
- 5.4 Set realistic targets consistent with generally recognized accounting practices and collection ratios and the estimates of income set in the budget less an acceptable provision for bad debts;
- 5.5 Provide for the interest charge on arrears, where appropriate; and provide for extension of time for payment of an account;
- 5.6 Provide for disconnection of services or the restriction of the provision of services when payment are in arrears; and also provide for matters relating to unauthorized consumption of services, theft and damage;

Victor Khanye Local Municipality would like to give priority to the basic needs of the municipality, promote the development of the local community, ensure that all members of the municipality have access to at least the minimum level of basic municipal service, which are equitable, accessible, and are provided in an economically & environmentally sustainable manner.

This policy aims to stimulate and maintain cost recovery measures in the provision of services so that the level, standard and quality of municipal services can be reviewed and improved over a period of time.

## 6. CREDIT CONTROL MEASURES

Debtors are expected to pay amounts owed to the municipality according to the terms of payment that have been agreed upon by the debtor and the municipality.

Accounts must be paid on the due date indicated on the statements issued or on the tax invoice as determined by Council.

### 6.1 Registration

Residential – the Municipality will endeavor to register **owners only** for services on their properties.

- Tenant registrations currently in place will continue until the tenant vacates, the account is closed or the Municipality cancels the contract of the tenant in default in terms of clause

Business – the Municipality will continue to register tenants for services.

Government – the Municipality will continue to register tenants for services. The respective Government Departments shall be held liable for the debts on their property.

Sundry accounts – The customer must provide the Municipality with a Municipal account number or rate account number. If the customer does not have an existing Municipal account, then a new account must be created.

The Municipality shall whenever possible, combine any separate accounts of persons who are liable for payment to the Municipality, into one consolidated account.

No registrations or additions to the customer database can be processed unless legal documentation acceptable to the Chief Financial Officer has been produced in each instance.

If there is an outstanding debt on the property, this debt must be settled in full, or suitable payment arrangements must be made by the owner of the property, before any customer / owner is registered for services.



Customers who fail to register and who illegally consumer services will be subjected to such administrative, civil or criminal action as the Municipality deems appropriate.

Where the purpose for or extent to which any municipal service used is changed the onus and obligation is on the customer / owner to advise the Municipality of such change.

## **6.2 Deposits payable**

A deposit, as determined by council from time to time, will be charged before a new connection to electricity or water supply is made. In respect of indigent users, no deposit will be levied if such indigent user is registered in terms of council's indigent policy.

In cases where a service provider is already connected to council's supply without a deposit paid, such services will continue until the connection is registered into the name of a new service debtor. However, council will encourage service debtors to pay a deposit if they are already connected.

A separate deposit register must be maintained and reconciled on an annual basis. Deposits should be paid in cash, however in the instances of a bulk services consumer a bank guarantee in favor of council can be presented and safe guarded by council until the services are terminated.

When a deposit giver terminate his/her municipal services, all amounts outstanding must be paid or recovered before the deposit, or the remainder part thereof, can be reimbursed to the deposit giver.

## **6.3 Interest Payable**

Interest will be levied on all outstanding amounts, not fully paid by the due date, on the municipal account.

Interest will be levied in accordance to the standard rate of interest as determined by council from time to time. Council may approve a standard rate of interest which is linked to the bank prime interest rate. In the absence of a council resolution, the rate of interest will be prime+2%.

## **6.4 Responsibility for amounts due**

In terms of Section 118 (3) of the Act an amount due for municipal service fees, surcharge 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.



Accordingly, all such Municipal debts shall be payable by the owner of such property without prejudice to any claim which the Municipality may have against any other person.

The municipality reserves the right to cancel a contract with the customer in default and register the owner only for services on the property.

No new services will be permitted on a property until debts on the property are paid, or suitable arrangements made to pay such debts.

Where the property is owned by more than one person, each such person shall be liable jointly and severally, the one paying the other to the absolved, for all Municipal debts charged on the property.

Except for property rates, owners shall be held jointly and severally liable, the one paying the other to be absolved, with their tenants who are registered as customers, for debts on their property.

Directors of Companies, members of Close Corporation and Trustees of Trusts shall sign personal surety ships with the Municipality when opening service accounts. If they are unable to sign the personal surety then a deposit equivalent to twice the usual deposit shall apply.

- For so long as a tenant or an occupier occupies a property in respect of which arrears are owing, or an agent acts for an owner in respect of whose property arrears are owing, then the Municipality may recover from such tenant, occupier or agent such monies as are owing by the tenant, occupier or agent to the owner, as payment of the arrears owing by such owner.
- The Municipality may recover the amount in whole or in part despite any contractual obligation to the contrary on the tenant / occupier / agent.
- The amount the Municipality may recover from the tenant, occupier or agent is limited to the amount of the rent or other money due and payable, but not yet paid by the tenant, occupier or agent.
- Should the tenant, occupier and / or agent refuse to pay as above, to the Municipality, the services of the tenant, occupier and / or agent may be disconnected.

Should any dispute arise as to the amount owing, the customer shall pay all amounts which are not subject to the dispute.

Pre-paid meters shall not be installed until all outstanding debt has been paid in full, subject to clause 6.5 hereto.

The owner of the property may be held liable for tampering with the electricity metering equipment or the water metering equipment on the property as well as charges that arise therefrom.

#### **6.5 Allocation of payments**

Payments from debtors will be allocated in priority sequence as follows to the various municipal services:

- Property tax
- Refuse services
- Sewerage services
- Other miscellaneous charges
- Water supply
- Electricity supply

#### **6.6 Payments on municipal accounts via the pre-paid electricity system**

Council will maintain a 50/50 allocation system on the purchase of pre-paid electricity. In respect hereof council will maintain a process whereby the financial system will verify if any amounts are outstanding on the municipal account of a debtor tendering an amount for the purchase of pre-paid electricity. If such a debtor owes council monies, consumer must pay his 30 days account in full before water can be purchased. 50% of the amount tendered for electricity purchase will be allocated to the outstanding municipal account of the property. Electricity to the value of the remaining 50% will be issued to the debtor.

The allocation will be disclosed on the pre-paid note issued to the debtor as well as on the monthly municipal account sent to the said debtor.

The abovementioned verification process will test for any amounts outstanding on the account, regardless of the fact if it is in arrears or a current debt. This process will be electronically maintained and no arrangements made by any debtor will override this process. All payments received via this process will be allocated in accordance to the priority set under paragraph 6.5.

#### **6.7 Payments on municipal accounts via the pre-paid water demand management system**

Council will maintain a 50/50 allocation system on the purchase of pre-paid water on the water demand management system. In respect hereof council will maintain a process whereby the financial system will verify if any amounts are outstanding on the municipal account of a debtor tendering an amount for



the purchase of pre-paid water. If such a debtor owes council monies, consumer must pay his 30 days account in full before water can be purchased. 50% of the amount tendered for water purchase will be allocated to the outstanding municipal account of the property. Water to the value of the remaining 50% will be issued to the debtor.

The allocation will be disclosed on the pre-paid note issued to the debtor as well as on the monthly municipal account send to the said debtor.

The abovementioned verification process will test for any amounts outstanding on the account, regardless of the fact if it is in arrears or a current debt. This process will be electronically maintained and no arrangements made by any debtor will override this process. All payments received via this process will be allocated in accordance to the priority set under paragraph 6.5.

### **6.8 Debt collection process**

The debt collection process will be maintained by the Debt Collection Unit and will be under the supervision of the Assistant Manager (Revenue services).

In respect of the collection of debts owed to the municipality the following process will be followed:

1. All water and electricity meters will be read on a monthly basis and captured on the financial system before the monthly billing cycle. Meters are read and captured manually however the use of electronically systems need to be encourage with the aim to reduce human error to the minimum. Exception reports to be generated to detect incorrect readings and corrections to be made.
2. Billing cycle to be performed after all meter readings are captured. Data submitted to service provider for the posting of municipal accounts.
3. Due date for payment of municipal account indicated on the tax invoice send to debtors.
4. The following facilities to be maintained for the payment of municipal accounts:
  - a. Cashier points at Delmas, Botleng and Sundra Library,
  - b. EFT payments direct into the bank primary bank account,
  - c. Debit order system maintained by the municipality through a separate secondary bank account,
  - d. Direct deposits into the bank account at any Standard Bank branch.

If the account is not paid by the due date it will be handed over to the debt collection unit to recover the arrear debt.

### **6.9 Arrear debt collection**

If a municipal account is not paid on the due date a final notice will be delivered or posted to the arrear debtor. The final notice will contain a notice that the debtor may arrange to pay the outstanding balance off in terms of the credit control policy. A further period of seven (7) days are allowed to settle the outstanding amount. The account of the debtor is debited with the cost of such final notice at the approved tariff of council.

After the notice is issued and the time frame has lapsed the following process commence:

- (i) If the debtor pays the account in full no further action is necessary.
- (ii) If the debtor cannot pay the account in full an agreement (an acknowledgement of debt) can be entered into. An arrangement, to pay the outstanding debt, between council and the debtor is agreed on.
- (iii) The monthly installment for residential users must be determined according to the debtor's social economic status, provided that the minimum monthly payment shall be the current account plus the agreed on installment for the outstanding account. For debtors, other than private households, the extension for the payment of arrears will only be allowed after a substantial amount is paid upfront on the arrears. The amount to be determined by the Chief Financial Officer or a senior official in the Revenue Section being the Assistant Manager, Accountant or the senior person in the debt collection unit. All payments received will first be allocated towards the current account and only thereafter the remaining amount will be allocated to the oldest outstanding debt.
- (iv) Only debtors with positive proof of identity or an authorized agent with a power of attorney will be allowed to make arrangements to pay. All arrangements will be monitored by the debt collection unit to ensure that debtors honor their arrangements. Debtors whom dishonored their arrangement will be dealt with as per paragraph (vi) hereunder.
- (v) The interest on outstanding amounts will be applicable at the standard interest rate as determined by council, being prime rate plus 2%. The outstanding accounts of households registered in terms of council's Indigent policy will not be charged with interest.
- (vi) Defaults on arrangements will result in appropriate measures being taken by council including but not limited to the cancellation of installments, the restriction or disconnection of the supply of water and/or electricity or the discontinuance of any other service to the premises. In the absence of reaction on the final notice referred to above, the electricity supply to the property of the debtor is discontinued (level 1 cut-off). A notice is



delivered at the property of the debtor to notify him/her that the cost of the level 1 cut-off, will be charged against his/her account.

- (vii) With regards to properties where electricity is not supplied by council and in the absence of the required reaction as mentioned above in respect of the final notice, the water supply to the property is restricted by the installation of a trickier washer which will only allow access to the basic water supply being six kiloliter per month.
- (viii) Once the debtor enters into a payment arrangement with council or pay his account in full the service to the property will be restored.
- (ix) In the circumstances of no further reaction from the debtor after the services were restricted to the property, the debt collection unit will, via the field workers, revisit the property after 14 days to ensure that the service is still discontinued. If it is found that the property is reconnected, a tamperproof disconnection, (level 2 cut-off) will be performed to ensure a more tamperproof disconnection. The cost hereof will be charged against the account of the debtor.
- (x) In the case of a level 2 cut-off the services to the property will only be restored once the arrear account is paid in full.
- (xi) If consecutive follow-up actions due to no reaction by the debtor reveal that a disconnection has been tampered with, another level 2 disconnection, will take place in the case of electricity, or the installation of a trickier in the case of water, are done. The account of the debtor is once again charged with the cost of these actions and the legal steps are taken to collect arrears where the cut-off actions yielded not satisfactory results.
- (xii) Accounts which are less than R3,000, will not be handed over for legal action due to the legal costs exceeding the capital amount. All legal and related costs will be charged to the account of the property debtor. Legal actions will not be instituted against households registered in terms of council's Indigent policy.
- (xiii) In circumstances when a property owner intends to sell his/her property and applies for a clearance certificate in terms of Section 118 of the Systems Act, No 32 of 2000, such property owner will be liable for the payment of all outstanding amounts on the same property for the preceding two years, regardless of the fact if it is his/her own debts or those of a tenant or any other occupier of the property. A clearance certificate, certifying that all outstanding amounts for the immediate past two years in respect of a property are paid in full, will only be issued by

the municipality once proof of such payment can be presented by the registered owner of the property.

## 7. CUSTOMER CARE AND MANAGEMENT

Councilors are responsible for policy making and officials are responsible for executing policies which will be agreed upon within council, so that they can be implemented and supported by councilors and officials equally. There will be a report on areas of weakness identified and achievement gained.

- Consumers will be treated according to the Batho Pele Principles – Consultation, access, value for money, openness and transparency, accountability, redress, courteous, be supplied with all the necessary information. Various forms of communication with the community within the municipal area will be created and utilized.
- There will be means of communicating with the community about the level of services that they will be receiving, the cost involved in the provision of the service, the reason for the payment of the service fees and the manner in which monies raised from service are used.
- Consumers/users will be provided with different mechanisms to measure the performance, and to provide feedback to the municipality about the type of service received including its quality and value for money. (The mechanisms will be stated in the municipality's communication strategy).

The consumers will also be informed about the system, which will be used for measuring and billing, their consumption of various services in an accurate and verifiable manner.

### Communication Strategy

The community will at all times be made aware of the Credit Control and Debt Collection measures that council is implementing through various means which, are possible and accessible to the existing and potential debtors of the municipality

- (a) Considering the fact that the Municipality is legally compelled to implement its credit control and debt collection policy, ward committees may be requested to submit positive executable proposals to support the matter, and make it more acceptable to the community.



- (b) That the Municipal Manager could be requested to draw-up a notice regarding the Policy, and or that the policy be published in Public Places and be distributed to all households in the Municipality's area of jurisdiction

### **Disputed Amounts**

If a user has a dispute with regard to his/her account, such dispute should be presented in writing, arrangement could be made, (an official could write for those who can't) and will be investigated by the assigned Municipal official, in the meantime, the user may postpone the payment on that part/portion of the account which is under dispute, however, the remainder part of the account must be paid on due date. Should it be discovered that the fault lie with the Municipality, the user's account will be corrected, however, if the fault lies with the user, the user will be liable to pay the outstanding amount, plus a service fee, if applicable, as well as interest which might have been accumulated.

### **Account collection agreements**

The municipality may enter into account collection agreements for the payment of services with various employers or agents who will act on behalf of council to recover outstanding amounts.

## **8. CREATION OF A DATA BASE**

- (1) Credit control and debt collection starts when the customer applies for municipal Services and every customer must complete an application form.
- (2) The application form will be used to get credit information on customers. It will also assist with the identification of those who qualify for indigence support and those who should only have access to restricted consumption, such as prepaid meters.
- (3) The application form will be a binding contract between the council and the customer and will inform the customer of the conditions on which the service is rendered.
- (4) A copy of the application form, the conditions on which the service is rendered, the council's credit control and debt collection policy and the

credit control and debt collection by-law will be handed to every customer who might request it from time to time.

## **9. CREDIT CONTROL & DEBT COLLECTION PROCEDURES AND MECHANISMS**

- (1) Reasonable access to pay points and various forms of payment will be provided.
- (2) Enforcement of payment will be prompt, consistent and cost-effective.
- (3) Criminal conduct will result in prosecution in court.
- (4) Non-payment by debtors of their accounts has a direct negative impact on the ability of service delivery to other consumers.
- (5) Current account levied not paid by the indicated due date are in arrears and all debtors with arrears are subject to credit control measures.
- (6) Credit control measures are applied with pro-active reminder or warning. Account statements are regarded as reminders of the arrears status of the account as well as stating the intention to take credit control measures.
- (7) No metered services can continue to be delivered to any unknown consumer, who is not registered with the municipality as a consumer.
- (8) Refusal by banks to honour payments by cheque or debit order is regarded as non-payment, upon which the relevant debtors are subject to credit control measures as well as the payment of the approved tariff.
- (9) Client who make no further use of any service but still owe an amount, are inactive debtors who, after the submission of a second inactive account statement to their latest known postal addresses are handed for legal action or alternative Credit Control and Debt Collection procedures.

## **10. IRRECOVERABLE DEBTS**

With the exclusion of approved indigent applicants, outstanding amounts of debtors be submitted from time to time to Council for considering the writing off thereof should circumstances requires it. With each submission to council, the circumstances will also be reported to council for consideration.



Should money be received from debtor after the debtor's account was written off then the amount should be paid into the Provision for Bad Debts.

#### **11. INDIGENT CONSUMERS**

There is an indigent policy, which will provide guidance as to how indigent consumers will be dealt with in more detail.

Households are subsidized with 6kl of water and 50kWh electricity per month. Should this be exceeded the debtor will be held liable for the account.

The subsidy for the indigents will be funded from the equitable share / intergovernmental grant.

Electricity as well as the water consumption in excess of 6kl will be levied separately on the municipal account if applicable.

#### **12. DISCOUNT SERVICES**

From time-to-time the municipality will issue announcements on the categories of people deserving discount.

#### **13. ILLEGAL TAMPERING AND DISCONNECTION**

Should a meter of a consumer / user be found to be tampered with, a **penalty** will apply according to the amount approved by Council in the tariff structure. A new meter will only be installed after the payment has been made in full or acceptable arrangements have been made. The penalty must be paid in full and no arrangements may be made for the payment of the penalties.

If a consumer tampers with the supply of electricity/water, the supply will be terminated and the consumer will receive a notice about the illegal connection, and that his/her action constitutes a criminal offence.

#### **14. RIGHT OF ACCESS**

The municipality has the right of access to premises (at reasonable times) to read, inspect, install, disconnects, restrict the provision of services, and repair service connections for reticulation.

#### **15. INCOME TARGETS**

Income as set in the budget less on acceptable provision for bad debt.