



CREDIT CONTROL POLICY

Item 30/5

as approved by Council on
30 May 2012

SETSOTO MUNICIPALITY

CREDIT CONTROL AND DEBT COLLECTION POLICY

This section includes receipt of income from credit control policy and allocation of the indigent policy.

1. BACKGROUND

The present situation of increasing outstanding debtors is not acceptable. Continuation at this rate disqualifies the municipality as a going concern and will impede service delivery. Attention should therefore be directed at improving the recovery rate of the municipality's debtors. If this does not happen, the constitutional objective of providing basic services for human dignity will not be realised. The Municipal Systems Act 32, 2000 section 95 and Municipal Finance Management Act 56 of 2003 Section 64 apply.

1.1 Debt collection responsibility of municipalities

A Municipality:

- (a) Must collect all money that is due and payable to it, subject to this Act, and any other applicable legislation; and
- (b) For this purpose, 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. Municipal Systems Act, 32, 2000 and Municipal Finance Management Act 56 of 2003.

1.2 Contents of policy

1.2.1 A credit control and debt collection policy must provide for:

- (a) Credit control procedures and mechanisms;
- (b) Debt collection procedures and mechanisms;
- (c) Provision for indigent debtors that is consistent with its rates and tariff policies;
- (d) Realistic targets consistent with:
 - (i) General recognised accounting practices and collection ratios; and
 - (ii) The estimates of income set in the budget less an acceptable provision for bad debts.
- (e) Interest on arrears, where appropriate;
- (f) Extensions of time for payment of accounts;
- (g) Termination of services or the restriction of the provision of services when payments are in arrears.
- (h) Matters relating to authorised consumption of services, theft and damages; and
- (i) Any other matters that may be prescribed by regulation in terms of section 104.

1.2.2 Credit control and debt collection policy may differentiate between different categories of rate payers, users of services, debtors, taxes, services, services standards and other matters as long as the differentiation does not amount to unfair discrimination.

2. RESPONSIBILITY FOR CREDIT CONTROL

Collecting income is the responsibility of the Accounting Officer, in terms of the Local Government Structures Act 117 of 1998, and the Systems Act No. 32 of 2000, section 100 and Municipal Finance Management Act 56 of 2003 determines that:

- The Accounting Officer or service provider must:
 - (a) Implement and enforce the municipality's credit control and debt collection policy and any by-laws enacted in terms of section 98.
 - (b) In accordance with the credit control and debt collection policy and any such by-laws, established effective administrative mechanisms, processes and procedures to collect money that is due and payable to the municipality.
 - (c) At such intervals as may be determined by the council report the prescribed particulars to Finance Committee.
 - (d) That the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy.
 - (e) That revenue due to the municipality is calculated on a monthly basis.
 - (f) That accounts for municipal tax and charges for municipal services are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical.
 - (g) That all money received is promptly deposited in accordance with this Act into the municipality's primary bank account and where not practical, another account approved by council.
 - (h) That the municipality has and maintains a management, accounting and information system which –
 - recognises revenue when it is earned;
 - accounts for debtors; and
 - accounts for receipts of revenue;
 - (i) That the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed.
 - (j) That the municipality charges interest on arrears; except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework.
 - (k) That all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.

Local Government Municipal Systems Act

Section 96 further determines that:

A Municipality:

- (a) must collect all money that is due and payable to it, subject to this Act and any other applicable legislation and
- (b) for this purpose, 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 this Act.

It is clear therefore that the enforcement and application of credit control measures are the responsibility of the Accounting Officer from executing his responsibilities in this regard; he should report this to the Council.

3. STEPS TO BE TAKEN BEFORE EFFECTING DISCONNECTIONS

- 3.1 The Municipality should establish a reputable and efficient billing system to ensure that correct accounts are produced and rendered to all consumers on a regular monthly basis.
- 3.2 An effective and efficient distribution system should exist to ensure that all consumers receive their monthly accounts.
- 3.3 A sufficient number of pay-points should exist.
- 3.4 Councillors and Ward Committees should consult widely with their constituencies in order to encourage them to pay for services provided and to register as indigent.
- 3.5 Suspension of services and / or disconnections should be done within the ambit of legislation.

4. CREDIT CONTROL PRINCIPLES

Credit Control is the last step in ensuring payment for services rendered. Considering the level of unemployment and poverty, the enforcement of payment for services will be ineffective if it is not based on acceptable principles and if the ability to pay is not separated from indigents.

The following principles should be considered:

- 4.1 Enforcement is a local matter subject only to relevant legislation.
- 4.2 The Accounting Officer, who is entrusted with the execution of credit control measures, must report to Council.
- 4.3 Enforcement of the policy must be independent to ensure accountability.
- 4.4 Interest at the standard rate to be levied on all arrears accounts, except on the service charges accounts of indigent consumers.
- 4.5 Credit control measures must be understandable, uniform, fair and consistently applied.
- 4.6 Credit control must be effective, efficient and economical.
- 4.7 The measures must be sustainable in the long-term.
- 4.8 A proper indigent policy must be in place.
- 4.9 All new consumers (water & electricity) to pay a deposit as stipulated in the approved budget. The Chief Financial Officer may at any time determine if a deposit must be higher than the approved (budget) deposit.
- 4.10 All new developments should have meter services at inception if financially possible.
- 4.11 All possible income must be collected within budget cycle or financial year.
- 4.12 All arrears of the indigent consumers to be written off against provision for bad debt on registration and approval by Council.
- 4.13 When a clearance certificate is issued in terms of Municipal Systems Act Section 118 (1) (b) all the taxes and levies preceding the two year period be written off.

5. STAFF IMPLICATION

A dedicated structure be established with a credit control official in charge.

6. RESPONSIBILITIES

It is proposed that the Credit Control and Debt Collection Unit controls only a computer generated final letter of demand and a computer generated acknowledgement of debt (consented judgment and garnishing orders), in the process of making arrangements with consumers reacting to disconnections.

The Chief Financial Officer or Delegated official is responsible to produce a monthly updated report on disconnection and reconnections and report to the Accounting Officer. Reconnections should be paid immediately in cash.

The head of Technical Services is responsible to disconnect all consumers that appear on the disconnection list, and after payment has been received, reconnect consumers only on the instruction of the Chief Financial Officer or Delegated Official.

Owners should be informed on rented properties in case of defaulted consumers.

7. COLLECTION PROCEDURES

7.1 Arrangements for payment of arrear accounts can be made as follows:

- (a) Exemption is given on condition that;
 - (i) the consumer completes a pre-printed form to determine his/her income and expenditure and the monthly amount payable by the consumer.
 - (ii) the consumer signs an acknowledgement of debt (consented judgement and garnishing order).
- (b) The Accounting Officer or his delegate may allow a consumer to pay his current account, plus an additional 10% on arrears.
- (c) A debtor, who, without notifying the Accounting Office or his delegate, fails to comply with any of the above arrangements, is automatically excluded from the right to be reconsidered for a further extension. The Accounting Officer is not obliged to notify the debtor of the failure and the credit control process automatically continues and the phased disconnection process in respect of all services automatically starts.
- (d) If after continuation of services the debtor again applies for an arrangement, this may be considered by the Accounting Officer or his delegate. However, if services has been discontinued or restricted, such further arrangements will exclude the continuation of the service until full payment has been received by the Municipality.
- (e) Arrangements will automatically include the condition that any future monthly accounts are paid by the standard due date.
- (f) Consumers to supply proof of income and identity document.
- (g) Accounts that are not paid in full and of which arrangements have not been kept to, must be handed over for collection.

8. DISCONNECTION PROCEDURES

8.1 Electricity

Phase 1

If amount due for electricity is not paid by the due date (approximately 15th of each month), then the electricity supply is terminated by removing the pole fuse or any similar action. (1st line disconnection) and a letter is left at the premises explaining the phases (action) to follow if payment is not made within 48 hours.

Phase 2

During this phase a consumer comes into the office within 48 hours to pay the arrears and the disconnection / reconnection fee as stipulated in the council budget, plus the outstanding fee or as previously stipulated.

OR

During this phase a consumer comes into the office within 48 hours to make arrangements to pay off the arrears and pay a disconnection / connection fee as stipulated in the approved budget of the council.

OR

During this phase a consumer does not react within 48 hours and a final letter of demand is issued, followed by summons 7 days later and the fully legal process to be followed.

Phase 3

During this phase, consumers that were disconnected, i.e. on the first line disconnection and that have not reacted within 48 hours are followed up to determine whether or not they have reconnected themselves. If found that a consumer has in fact reconnected the electricity supply, then a second line disconnection is done whereby the metering equipment is removed and the electrical wiring is disconnected.

The following fees are payable before the electricity supply can be re-connected:

- Reconnection fee as stipulated in the approved budget
- Full arrears amount in respect of all services and property rates.

Phase 4

During this phase follow-up are done monthly on second-line disconnections. If it is found that a consumer has once again illegally re-connect to the electricity supply, then a third-line disconnection is done whereby the overhead or underground electricity cabling is removed.

The following fees are payable, prior to electricity can be re-connected:

- Reconnection fee as stipulated in the approved budget + R500.00,
- Full arrears amount in respect of all services and property rates.

8.2 Water

Phase 1

If amount due for water is not paid on or before the due date, then restriction equipment must be inserted in the water supply, (1st line disconnection) reducing the water flow to trickle and a letter is left at the premises explaining the phases (action) to follow if payment is not made within 7 days.

Phase 2

During this phase a consumer comes into the office within 7 days to pay the full arrears where after the restriction is removed by the technical department.

OR

During this phase a consumer comes into the office within 7 days to make arrangements to pay the full arrears and pay the reconnection fee for the removal of the restriction. The restriction will then be removed by the technical department.

OR

During this phase a consumer does not react within 7 days and a final letter of demand is issued, followed by a summons 7 days later and the fully legal process to be followed.

Phase 3

During this phase addresses where restrictors were installed and consumers did not respond within 7 days, are followed up weekly to determine whether or not they have reconnected themselves by removing the restrictors. If found that a consumer has reconnected the water by removing restrictors, then a second line disconnection is done whereby the water meter is removed and piping is plugged.

The following fees are payable prior to the water supply and water meter being re-installed:

- Full arrears amount in respect of all services and property rates and
- Reconnection fees

Phase 4

During this phase follow-ups are done monthly at addresses where second-line disconnections were done and payment has not yet been made. If it is found that a consumer has illegally re-connected to the municipal the water supply, then a third-line disconnection is done whereby the water piping is removed up to the municipal main water line (pipe).

The following fees are payable, prior to water supply being re-installed:

- Reconnection fees and
- Full arrears amount in respect of all services and property rates.

As far as the credit control measures are concerned, council reserves the right to the consumer as a package as such that no services can be paid in part or portion since the services are inter twined or inter linked and are determined by the credit control policy. A consumer has the right to make arrangements to pay his account to the council.

8.3 Property Rates tax

The property tax should be paid according to Municipal Property Rates Act 6 of 2004 and it is payable by the owner monthly or annually.

The following procedures could be followed by Credit Control and Debt Collection in the case where disconnections and restrictions are not practical or already enforced.

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|--------------|--|
| By due date: | Make a call to the consumer explain what the account is in respect of and ask for payment. |
| 30 Days: | Make a call to consumer explain that the account is in arrears for 30 days and ask politely for payment to be made. Get a date on which consumer promises to pay, if consumer fails to pay by that date, make a second call and follow it up with a letter. |
| 60 Days: | Basically the same as above is done, except that a consumer is approached in a more serious tone. In most cases of rates, the consumer is notified of outstanding amounts both by telephone call and or letter; people normally make arrangements at this point. If a debtor refuses to or not pay at all, on rates, then the account is handed over to an attorney or collection agency. The consumer responds easier to this type of situation, because he/she is afraid of losing property. |
| 90 Days: | This account is now practically in most drastic phase and serious attention need to be given to collections. The consumer needs to be called telephonically and |

explained that the account is in arrears for ±90 days or more. Any questions that a consumer has pertaining to the particular account should be encouraged. If the consumer promises to pay a week after the initial phone call then the council staff, should ensure that he keeps close tabs on that account to see if payment has been received. If the consumer deviates from payment, the letter he/she should be handed over to the attorney and this can prevent council from more risk and bad debts.