



## **ALFRED NZO DISTRICT MUNICIPALITY**

### **CREDIT CONTROL AND DEBT COLLECTION POLICY**

Approved by:

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## 1. Introduction

The Municipal Finance Management Act (MFMA), Act 56 of 2003, aims to modernize budget and financial management practices in municipalities in order to maximize the capacity of a municipality to deliver services to all residents, customers and users. It also gives effect to the principle of transparency as required by sections 215 and 216 of the Constitution. The Council of the municipality, in adopting this policy on credit control and debt collection, recognizes its constitutional obligations as set out in Chapter 7 of the Constitution and Chapter 9 of the Municipal Systems Act, Act No. 32 of 2000, to develop the local economy and to provide acceptable services to its residents. It simultaneously acknowledges that it cannot fulfill these constitutional obligations unless it exacts payment for the services which it provides and for the taxes which it legitimately levies in full from those residents who can afford to pay, and in accordance with its indigence relief measures for those who have registered as indigents in terms of the Council's approved indigent support policy.

### 1. Aims and Objectives

This policy and claims to set down principles for the implementation and enforcement of credit control and collection of all collectable debt.

The objectives of this policy are to provide for:

- Credit control procedures and mechanisms.
- Debt collection procedures and mechanisms.
- Relief to indigent householders that is consistent with the municipality's policy on indigent support and free basic services.
- The termination or restriction of services when payments are in arrear.
- Procedures relating to unauthorized consumption of services, theft and damages.
- Guidelines and procedures for the rendering of accounts.

### 2. Legal Framework

Section 96 of the Municipal Systems Act, Act 32 of 2000 determines the following:-

#### **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.**

3. Roles and responsibilities

- ❖ It is the duty of Council to oversee and monitor the process of credit control.
- ❖ The Municipal Manager is responsible for implementing and enforcing the mechanisms that facilitate the credit control processes.
  
- ❖ He/she is also required to provide Council with monthly reports on the debtors.
  
- ❖ The Councilors are to receive information on the payment rates and the names of non payers in their respective wards. From this information, they are required to find out the reasons for non-payment and encourage those consumers to pay. Monthly targets are to be set for each ward in order to increase the collection rate per ward.
  
- ❖ The communication of the collection policy to the community is the joint responsibility of the Councilors and the Municipal Manager.
  
- ❖ The Executive Committee or a committee designated by and from Council with sufficient delegated authority is responsible and should review the performance of the Municipality in improving the efficiency of the credit control and revenue and debt collection services.
  
- ❖ This committee should comprise of the Municipal Manager, the Mayor and one Councilor.
  
- ❖ No Councilor is allowed to influence either the Municipal Manager or any municipal official not to enforce an obligation in terms of the Act and by-laws, and if found guilty, may lose his/her Council position.

**PART A: CREDIT CONTROL PROCEDURES**

4. Definition and purpose

Credit control is the process whereby a local government institution ensures collection of revenue from water and sanitation any other fees levied for services rendered, where there are amounts due after the final date of payment set by the institution. As Alfred Nzo District Municipality is the appointed Water Services Authority for example, they are responsible for the effective control of credit

extended for water service provision subject to the conditions as they are set out in this document. The purpose of this policy is to ensure that credit control forms an integral part of the financial systems of the municipality, and to ensure that the same procedures are followed for each individual case.

### **5.1 Credit control principles**

The following are the underlying principles for the development and implementation of the credit control procedures:

- ❑ Enforcement is the responsibility of the Water Services Provider, and as the WSP for the district, this responsibility lies with Alfred Nzo District Municipality.
- ❑ The municipal manager who is entrusted with the determination and execution of credit control measures must report to the Council.
- ❑ Credit control measures and procedures must be understandable, uniform, fair and consistently applied.
- ❑ Credit control procedures must be effective, efficient and economical.
- ❑ The procedures employed must be sustainable in the long term.
- ❑ An indigent support policy must be developed in parallel to ensure that the circumstances afflicting the poor are accommodated.

## **6 Factors affecting the implementation of an effective credit control system**

- A lack of administrative capacity to implement credit control within the municipality.
- The existence of poor and inefficient accounting systems adopted by some municipalities, resulting in inaccurate financial reports and incorrect statements.
- Failure to put an indigent policy in place.
- Insufficient customer pay points established.
- A lack of political support and commitment from councilors.

- A lack of financial resources throughout the payment collection system.

## 7 Key elements of the credit control policy

### 7.1 Metering

Service metering is the determination of the amount of service rendered to each consumer in each category. This may vary from flat rates, such metered consumption of water to deemed consumption such as sewerage.

### 7.2 Billing

This refers to the process of preparing and presenting a claim or invoice to each consumer which is based on the quantity of service which is consumed by, and delivered to the consumer in a specified time.

### 7.3 Arrear collection

This is more commonly referred to as credit control in local government, and is the process of recovering outstanding amounts from customers by taking the necessary steps and actions which include among others, interruption of services, litigation and attachment of assets.

## 8 Services Agreements

Before the supply of a service, a consumer must enter into a contract of agreement with the Council. In applying for the water services the guidelines as set out in chapter 3(1), sub-section 14 of the municipality's Water and Sanitation Services by-laws should be followed to ensure uniformity. Here provision is also made for special agreements for water services chapter 3(1) sub-section 15

## 9 Deposits

- ✓ The service level agreement should provide for a deposit or bank guarantee to be paid as security. It will not be expected of owners of property to pay such a deposit.
- ✓ The deposit should be equal to two months average consumption and the basic charge, per ward, for each applicable service.
- ✓ The deposit should be paid on signing the new services agreement.
- ✓ When services are terminated due to non-payment, the deposit will be reviewed and might be increased at the discretion of the Chief Financial Officer.

- ✓ Deposits received will be reviewed annually and a deposit register will be maintained.
- ✓ The total sum of deposits received shall constitute a short-term liability in the books of the municipality. No interest shall accrue in favour of the depositors thereof.
- ✓ Upon termination of the debtors' agreement with the Council the deposit shall first be offset against the outstanding balance (if any) and the balance of the deposit if any will be refunded to the consumer.

## 10 Obligation to measure

The Council will ensure that every Municipal service provided to a consumer can either be metered, estimated or allocated at regular intervals and will establish a charge or tariff for the service.

## 11 Rendering of accounts

- The Council will render an account for the amount due by a debtor on a monthly basis.
- The account will reflect as follows:
  - a) Details of the consumption for a certain period of each service either by measuring, estimating or allocation.
  - b) The amount due in terms of consumption.
  - c) Other amount due such as arrear amounts and any interest on arrears.
- Failure of the Council to render an account shall not relieve a debtor of the obligation to pay the account.
- The account may also include information such as, payment methods, places and approved agents where payments can be made.

## 12 Final date of payment

The invoice/account must state the final date of payment, which must not be more than 14 days after date of the invoice.

### 13 Account in arrears

#### Reading of meters

- It is recommended that all meters must be read between the 06<sup>th</sup> of and the 17<sup>th</sup> of the month.
- Distribution of accounts must be sent to consumers by approximately the 12<sup>th</sup> of the month.

#### Due date for payments

- Accounts are payable when levied and the final payment date will be as reflected on the account issued.

#### Amounts in arrears

- All amounts not received on the final payment date will be assumed to be in arrears.

#### Amounts not paid on due date

- All accounts not paid on the due date and for which no arrangements for extensions have not been made services will be terminated on the cut-off date.
- If the amount is not paid within seven (7) calendar days, the water supply may be restricted.

#### Utilization of deposit

- The account will be closed after a further seven (7) days and the deposit held will be utilized.

#### Opening of a new account

- After the account was closed and the deposit utilised, the full amount due must be paid before a new agreement can be entered into and the necessary deposits paid. This should also be subjected to offering to the consumer the opportunity of enlisting with the indigent support and free basic services.

#### Final notice and legal action

- Should an active account remain outstanding for a period of fourteen (14) days a final notice will be sent to the ratepayer/consumer wherein they will be given another period of fourteen (14) days to pay the outstanding amount or make acceptable arrangements for settling the account.

### 14 Extension of payment

The council of the WSP, being Alfred Nzo District Municipality, must provide the basis upon which it will grant an extension of payment of a water services account by a consumer. It is anticipated that when this policy is implemented, there will be a number of water service customers who are in arrears. The following are guidelines that may be followed to eliminate these arrears:

- If the overdue amount has been in arrears longer than 12 months, a minimum down payment of 50% of the arrears must be made and the repayment period of the balance may not exceed 12 months
- If the overdue amount has been in arrears less than 12 months, a minimum down payment of 25% of the arrears must be made and the repayment period of the balance may not exceed 6 months
- Each consumer is required to make an application for an extension of payment and enters into an acknowledgement of debt which is duly completed and signed by both the consumer concerned and a representative of the WSP
- While the process of extended payment for arrears is being undertaken, all current water service accounts must be settled in full on or before the final date of payment
- Should a consumer fail to adhere to the terms and conditions of an extension of payment arrangement, the full amount becomes immediately payable and the credit control process is further initiated
- The chief financial officer of the WSP may grant extended payment periods and request lower down payments than stipulated in cases where he/she considers the circumstances to be warranted. Such a variation must be reported to and ratified by the Council of the municipality
- An efficient administration process is required to control payments where extended payment arrangements have been made for arrears. This may include the maintenance of an *arrangement for payment register* by a dedicated official who has to monitor it for any defaulters on a continuous basis
- It must be noted that where extension of payment is arranged with consumers, a reserve for the purpose of funding amounts due in terms of such extended payment agreements must be established. Such a reserve must be created annually, setting aside in the revenue estimates of the municipality an amount of not more than 5% of the municipality's operating income. It must also be noted that the aggregate of the arrears for which

extended payment agreements have been concluded may not exceed the dedicated reserve provided for.

## 15 Interest on arrears

- Interest charges are raised on arrear amounts which appear on the municipal accounts.
- The interest rate is determined by Council and is reviewed from time to time.
- A 10% administrative charge shall be levied on arrear rates where the municipality has instituted legal action to recover an outstanding amount.
- Arrears outstanding on business levy accounts are subject to the interest rate specified in terms of the applicable legislation.

## 16 Right of appeal

- An appeal must be submitted in writing to the Municipal Manager prior to the final due date for payment of the contested amount, and must contain full details of the specific item(s) on the account which is the subject of appeal, with full reasons.
- If there is a query to the billing process, the consumer is required to pay the average of the three months' account before they can submit their query. The debtor will be required to pay for all other services that do not form part of the query.
- The consumer will not be required to pay the average if their complaint is service related, i.e. if they are not receiving the service. Should, however, it be discovered that the consumer is in fact receiving the service, the service will be disconnected with immediate effect.
- The Municipal Manager is to ensure that all appeals are investigated within 7 (seven) days of the date of the query.

- If it is discovered that the amount billed by the Council is correct, the consumer will be liable to pay the difference of the average amount and the actual amount required and also for any costs incurred in respect of testing meters, etc.
- If it is discovered that the consumer is correct, the Council is liable to pay the costs of the account and the consumer will be credited with these costs of the account.

## 17 Adjudication of appeal

- If the appeal is in respect of a metered consumption, the metered instrument must be tested, within 14 days of lodging an appeal to establish the accuracy thereof.
- The Municipal Manager will inform the debtor in writing of the results of the test of the instrument, and of any adjustment to the amount due, together with the costs of the test for which the debtor will be liable if no error could be found with the instrument. If a faulty meter or instrument is revealed, the Council will bear the costs thereof.

## 18 Right of access

Municipal officials have the right of access to any property occupied by a consumer for the purposes of reading or inspecting meters or connections or to disconnect, discontinue or restrict the supply of a service and for the evaluation of the property. This right of access is reinforced by Section 101 of the Municipal Systems Act, Act 32 of 2000

## **PART B: DEBT COLLECTION PROCEDURES**

### 19 Arrear message on account

- ❖ When a monthly account is in arrears, the next account will clearly highlight an appropriate reminder message.
- ❖ Customers will be required to enter into an agreement with the Council for the payment of outstanding debts at the commencement of this policy.
- ❖ On balances that have been outstanding for more than 3 (three) years, the customer is required to pay 30% immediately to the Council, and the

balance of the outstanding amount over a period of 24 (twenty four) months, together with the current service charges.

- ❖ On balances that have been outstanding for less than 3 (three) years the consumer is required to pay 15% immediately to the Council and the balance of the amount over a 12 (twelve) month together with the service charges.
- ❖ If the agreements are not complied with, the legal process which will result in attachment of the property will be instituted.

## 20 Water

- Water customers who accumulate arrears in excess of a determined value as determined by the chief financial officer from time to time are subject to the limitation of their water supply.
- Failure to pay the outstanding arrears as highlighted on the monthly account or to conclude a credit agreement for these arrears within the specified period will result in the supply of the water being reduced to a basic service level.
- Confirmation of tampering or self connection will result in the removal of the entire water connection. The water supply will only be re-instated on payment of the entire debt in full plus the payment for a new connection and a revised deposit amount.

## 21 Unauthorized consumption, theft, damages and penalties

As the unauthorized consumption, theft and damage to municipal property, for example, meters, have become more and more a problem, severe penalties will be implemented.

- The By-Laws of the Council define what constitutes unauthorized consumption of services, connections or reconnections, tempering or theft of meter, equipment or reticulation network and fraudulent activity in connection with the supply of services, and must provide that such activity constitutes an offence.
- Where any of the conduct described above is detected, supply to the debtor will be immediately terminated.

- The debtor will be responsible for all charges in respect of the deemed or calculated consumption on a basis determined in the By-Laws of the Council.
- The debtor will also be responsible for pre-determined penalties. And such penalties will be in addition to any penalties imposed by a court arising in the conviction of a debtor of an offense.

## 22 Disconnections

Disconnections are to take place in 3 days after the due date of payment. The Municipal Manager is to supply the Ward Councilor with a disconnection list for their respective wards. Reconnection will only take place once all arrear accounts have been paid in full or arrangements have been made, in terms of this policy, to repay the arrears. The fee to reconnect is a tariff set by the Council.

## 23 Legal action

Legal steps may be taken to collect arrears such as in the following cases;

- Where cut-off action yielded no satisfactory result;
- Where no cut off action is possible due to the nature of the services for which the account has been rendered
- Where the arrears are older than 90 days

A pre-investigation into the account and debtor details is carried out before the preparation of a summons. The data of an appointed Credit Bureau is utilized. Telephonic contact is made with the debtor before summons is issued to curb costs. Guidelines, as tabulated, are recommended to be set and reviewed at least on an annual basis to ensure that they remain relevant:

<b>DEBT VALUE RAND</b>	<b>RECOVERY ACTION</b>
Up to R500	Send final notice, if no response is received from the customer, submit to credit bureau.
from R501 to R1000	Proceed with the issue of summons should the debtor appear to be of sufficient financial stature.
From R1000 onwards	Assess the likely financial stature of the debtor, incur tracing costs where

	appropriate and proceed along the legal route reviewing at each stage whether it is viable to continue incurring costs.
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## 24 Paying off of debt

The council will ensure that proper administration systems exist to control payments where arrangements have been made to pay off debt.

## 25 Continuous defaults

If a debtor fails to comply with the terms of any agreement providing for an extension of time for payment, then the total of all amounts due including interest and cost shall immediately become payable without further notice to the debtor.

## 26 Extended payment periods

At the commencement of this policy, if the overdue amount is outstanding for longer than 12 months, a minimum down-payment of 50% shall be payable and the repayment period shall not exceed 12 months.

- ✓ If the overdue balance is outstanding for less than 12 months, a minimum down-payment of 25% is required and the balance to be paid over a period not exceeding 6 months.
- ✓ The debtor should request such arrangement at a rate determined by Council per annum and shall agree to the conditions attached thereto. Administration fees will be payable by the debtor.
- ✓ If the conditions as agreed to, are not adhered to, normal credit control procedure will be implemented.
- ✓ When a debtor applies for further extension/arrangement, services will be discontinued until final payment is received.
- ✓ All future current accounts must be paid on the due date.

## 27 Writing off arrears

- > Where the amount is not collectable and judgment has not been granted, the debt will be listed on the National Credit Bureau's database, and the debtor will remain listed for period of 3 (three) years.
- > In the case where judgment was taken, such case will be recorded for a period of 5 (five) years.

### Incentive Scheme:

An incentive scheme for consumers who paid their accounts in full by the due date is may be implemented i.e. 10% discount on settlement of the account.

## Annexure A

### **LITIGATION PROCEDURES (SIMPLIFIED), IN TERMS OF THE MAGISTRATES COURT ACT 32 OF 1944 (AS AMENDED), HEREIN AFTER REFERRED TO AS "THE ACT"**

#### 1. Letter of demand

Letters of demand shall be produced "in house" by the debt collection section of the municipality and delivered for payment within 14 days from the date of the letter, to the domicilium citandi et executandi of all consumers with amounts in arrears.

***All the costs of litigation are to be debited to the amount of the consumer concerned.***

#### 2. Arrangement for extension of payment

In terms of section 57 of the Act, a person may acknowledge and undertake to pay any debt in installments or otherwise. This in turn empowers the municipality to obtain judgment and an emoluments attachment order against the consumer, without having issued summons, provided that a registered letter of demand and a letter of acceptance by the supplier of such acknowledgement and undertaking has been forwarded to the consumer.

#### 3. Summons

After the expiry of the 14 days (or other determined period) of the letter of demand for payment, the consumer fails or neglects to pay, or make suitable arrangements in terms of section 2 above, the municipality issues summons.

Once the summons documentation is complete, it is to be checked and signed by a delegated credit control official on the municipality's behalf. A file must be opened for each matter containing copies of every process and correspondence.

A revenue stamp is affixed to the original summons, signed by the delegated credit control officer (who must be a Commissioner of Oaths) where after it is taken to the Clerk of the Court to be signed and issued with a case number.

The sheriff of the magistrate's court will be responsible to serve the summons on the defendant. The sheriff will then return the original summons with a document (in terms of section 9 of the Act) which is referred to as the "return of service" stating whether and in which manner the summons was served or not.

Should the matter be defended within the prescribed period, the plaintiff having signed and received a copy of such notice, all relevant documentation is handed to an attorney for further action.

#### 4. Default judgment

When a matter is undefended within 5 days of the issue of summons, an application for default judgment is made. The application is prepared and the original summons and return of service is attached to the application and taken to the Clerk of the court in order to obtain judgment by the magistrate. Once default judgment is obtained from the magistrate, the original documentation is filed at Court by the Council's appointed attorney, and a duplicate of the judgment returned to the plaintiff

#### 5. Warrant of execution

Documentation may be prepared simultaneously with default judgment in order to save time and this document is also the returned to the plaintiff.

#### 6. Attachment

Sufficient copies of the warrant of execution are to be attached to the original for service on each defendant by the sheriff. The sheriff serves and attaches

movable property and the plaintiff is provided with a return of service and inventory of goods attached, or returns a “Nulla Bona” service.

A notice to remove attached property is then given to the sheriff, who will then remove and store movable goods on request. If goods sold in execution do not cover the amount owed, a “Nulla Bona” return on the warrant of execution of movable property is received.

In the case of immovable property, sufficient copies of the warrant of execution, describing the immovable property, are to be attached to the original document for service by the sheriff on the Registrar of Deeds, the bondholder, local authority and defendant(s) of such attachment of immovable property after which the sheriff will supply a return of service

## 7. Sale in execution

### Movable property

- Notice of the date of sale is prepared with and submitted to the sheriff 3 weeks prior to the date of sale.
- Should the goods attached exceed the stipulated amount currently stipulated in the Act, a notice of sale in execution must be published in the press.

### Immovable property

- Notice of the date of the sale is prepared in conjunction with the sheriff and published in the press.

## 8. Section 65 proceedings

Once a default judgment has been obtained and a warrant of execution produces a “Nulla Bona” return of service, and a Deeds search reveals that the defendant owns no immovable property, proceeding with section 65 of the Act by sending a registered notice in terms of section 65, notifying the defendant of the intended financial enquiry in Court.