

Our Ref: Debt Payment Incentive Scheme

Date: 22/01/2020

MANGAUNG METROPOLITAN MUNICIPALITY DEBT INCENTIVE SCHEME

1. EXECUTIVE SUMMARY

As a measure to improve cash flow in the municipality, the municipality from time to time will run a debt incentive scheme as a method of collection of outstanding arrears from consumers. A Debt incentive scheme is a scheme designed to entice consumers to settle their outstanding accounts at a lower amount than the current total outstanding debt of the consumer.

The report is specific to Mangaung only.

2. LEGAL REQUIREMENTS

In terms of Section 96 of the Local Government: Municipal Systems Act, 2000, 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.

In terms of Section 10(1,2,3) and 11(d) of the Prescription Act No. 68 of 1969, a debt shall be extinguished by prescription after the lapse of the period which in terms of the relevant law applies in respect of the prescription of such debt.

In this case, the prescribed period as per Section 11(d) is three years.

The Municipal Finance Management Act, 2003, (hereinafter referred to as "the MFMA") stipulates in section 64 that an accounting officer of a Municipality is responsible for the management of the revenue of the municipality and must take all reasonable steps to ensure-

- a) 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; "

The Municipality has an approved Debt collection and Credit control policy and is legislated by the stipulation of section of the Local Government Ordinance, No. 8 of 1962, which reads as follows:

The amounts that cannot be written off, except with the approval of the Administrator (read Member of the Executive Committee as delegated by the Premier) refers to :

- (a) money (which) has been improperly paid or a charge has been improperly incurred or a payment or charge is not duly vouched by a council; or
- (b) a deficiency has occurred in collecting, accounting for, receiving, issuing or preserving of money or other property of or under the control of a council, or for which a council is responsible.

In terms of the Prescription Act, 1969 (Act No. 68 of 1969), a debt prescribes when payment thereof has not been demanded within certain periods of prescription. The municipality cannot legally enforce payment of a debt once the prescribed period has elapsed.

- The period of prescription is interrupted and prescription begins to run anew if-
- (a) payment of the debt is demanded by a registered letter of demand, for which proof of receipt has been obtained;
 - (b) payment of the debt is demanded by the issue and service of summons;
 - (c) the debtor acknowledges the liability; and/or
 - (d) the debtor commences payment of the debt.

Section 11 of the Prescription Act, 1969 (Act 68 of 1969) specifies the periods of prescription of debts as follows:

- (a) Thirty years in respect of-
 - (i) any debt secured by a mortgage bond;
 - (ii) any judgement debt;
 - (iii) any debt in respect of any taxation imposed or levied by or under any law; and
 - (iv) any debt owed to the State in respect of any share of profits, royalties or any similar consideration payable in respect of the right to mine minerals or other substances.
- (b) Fifteen years in respect of any debt owed to the State and arising out of an advance or loan of money or a sale or lease of land by the State to the debtor, unless a longer period applies in respect of the debt in question in terms of paragraph (a) above.
- (c) Six years in respect of a debt arising from a bill of exchange or other negotiable instrument or from a notarial contract, unless a longer period applies in respect of the debt in question in terms of paragraph (a) and (b) above.
- (d) Three years in respect of all other debts, save where an Act of Parliament provides otherwise.

3. DELEGATED AUTHORITY

Council

4. POLICY

Credit Control and Debt Collection Policy
Tariff structure for water

5. SUGGESTED DEBT INCENTIVE SCHEME FOR CONSUMERS

The following debt incentive scheme is suggested for consumers as noted below:

Group of Debtors	Method of Debt incentive scheme – Cash basis (Full settlement)	Method of Debt incentive scheme – Arrangement basis
Residential consumers	For all residential consumers, a discount of 50% will be given with respect to all debt older than 2 years from the time of application of the debt incentive scheme. A prepaid water meter may be installed after concluding agreement.	For all residential consumers, a discount of 20% will be given with respect to all debt older than 2 years from the time of application of the debt incentive scheme. A prepaid water meter may be installed after concluding agreement.
Schools	For all schools, a discount of R1 will be given for every R1 owed by the schools; therefore, a 50% discount will be given for all debt older than 2 years from the time of application of the debt incentive scheme. A prepaid water meter may be installed after concluding agreement.	For all schools, a discount of 20% will be given with respect to all debt older than 2 years from the time of application of the debt incentive scheme. A prepaid water meter may be installed after concluding agreement.
Churches and other NGO's (Not-for-profit entities)	For all these entities, a discount of 50% will also be given with respect to all debt older than 2 years from the time of application of the debt incentive scheme. A prepaid water meter may be installed after concluding agreement.	For all these entities, a discount of 20% will also be given with respect to all debt older than 2 years from the time of application of the debt incentive scheme. A prepaid water meter may be installed after concluding agreement.

Exemptions:

- Any customers who applied for clearance or will apply for clearance during the period of **6 months** thereafter, WILL NOT be able to qualify for any of the incentives on offer through this scheme;
- However in circumstances where clearances are issued where the property is not sold e.g. where a couple is divorcing and they need clearance to remove their spouses name, they may still apply for the debt incentive scheme;

- A period of a minimum of 6 months must have passed from applying for the debt incentive scheme before the customer may apply for clearances while still having the benefit of the scheme;
- Customers will only be able to benefit once from the scheme once implemented or any previous debt incentives schemes implemented by council;
- An assessment may be performed by the debt collection officials regarding the period of the payment for arrangements for all consumers. Any period exceeding 6 (six) months for businesses and 12 (twelve) months for all other indicated consumers will however require approval of the Chief Financial Officer for his consideration;
- No debt incentive scheme will be applied to any consumers if:
 - o A formal settlement agreement/arrangement has not been concluded;
 - o There was any default on an arrangement concluded.

6. FINANCIAL IMPLICATIONS

When comparing the total potential impact of the proposed debt incentive scheme, the total potential incentive given is approximately 22.31% of all debt for residential customers (R 587 793 684), 12.57% for schools (R 26 031 940) and 18.30% for churches (R 2 487 553) if all customers used the incentive on the cash method; For businesses the impact is expected to be 7.32% (R 83 607 473). Total potential impact could be as much as R 699 920 650 assuming all consumers make use of this incentive scheme.

7. STAFF IMPLICATIONS

Internal Staff and Debt Collectors.

8. RECOMMENDATIONS

- 1) That Council approve the debt incentive scheme for consumers for immediate effective implementation and to be in place until 31 May 2020;
- 2) The following categories and percentages to be approved in line with debt incentive scheme:

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Submitted by:



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Recommended by:



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Approved by:



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Executive Mayor

Ratified by:



Adv M Mofokeng
EXCO Representative

