



DEPARTMENT OF SOCIAL DEVELOPMENT

DEBT MANAGEMENT AND RECOVERY POLICY

POLICY REGISTRATION NO: 02/2023

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DEFINITIONS AND TERMS

For the purpose of this policy, unless otherwise stated the following definitions are applicable:

Term	Definition
Assets	Is a resource controlled by the entity (Department) as a result of past events and from which future economic benefit or service potential are expected to flow to the entity (Department).
Audit Committee	Is a committee that is responsible to exercise oversight over the application of this policy
Bad debt	Is an amount due to the Department that is not collectable after a period of 3 years.
CFO	Means the Chief Financial Officer of the Eastern Cape Department of Social Development
Debt	Is an amount owed to the Eastern Cape Department of Social Development
Default	Means any payment that has become due and not yet paid
Debtors	Means someone, legal person or juristic person who owes the Eastern Cape Department of Social Development
Claim against an Estate or Insolvent Estate	Claim in respect of debts logged against the deceased or insolvent estates.
Contractual Agreement	Is an agreement between the Department and the debtor.
Financial year	Is a period from 1 April to 31 March
Fruitful and wasteful expenditure	Is an expenditure which was made in vain and would have been avoided had reasonable care been exercised.
Irregular Expenditure	Is an expenditure other than authorised expenditure incurred in contravention of or not in accordance with a requirement of any applicable legislation.
Liability	Means money or present obligation that is owed by the department
Letter of Demand	Is a letter requesting a debtor to accept liability and to settle the amount owed to the Department.
Monthly Reporting	Report done monthly on the movement of the debt account.
Mora interest	Is the interest charged when a payment is not made timeously
Mora Period	This a waiting period before interest may start to accrue.
Prescription	Is a legal principle in terms of which a debtor's liability to pay an outstanding debt is extinguished after the passing of prescribed time period (3 years).
Social Grant Debt	Is an amount fraudulently paid to an employee of the state from Social Assistance.
Supplier debt	Overpayment made to a supplier.
Write off debt	An amount of money that a department must write-off due to irrecoverable, hardship or prescription.

ACRONYMS

ACRONYMS	
CFO	Chief Financial Officer.
DORA	Division of the revenue act
HOD	Head of Department
MCS	Modified cash Standards
MEC	Member of the Executive Council
NPO	Non-Profit Organisation
OSD	Occupation Specific Dispensation
PFMA	Public Finance Management Act.
PSR	Public Service regulations

LEGISLATIVE FRAMEWORK

The following is the legislative framework underpinning this policy:

- 1) Public Finance Management Act 1 of 1999
- 2) Treasury Regulations of 2001
- 3) Public Service Act, 1994
- 4) Public Protector Act 23 of 1994
- 5) Division of Revenue Act 9 of 2021
- 6) Promotion of Access to Information Act 2 of 2000 (PAIA);
- 7) Promotion of Administrative Justice Act 3 of 2000 (PAJA);
- 8) Public Audit Act 25 of 2004; as amended by the Public Audit Amendment Act No 5 of 2018
- 9) Protection of Personal Information Act, 2013
- 10) Eastern Cape Department of Social Development Circular 3 of 2018 financial year
- 11) National Credit Act 34 of 2005
- 12) Consumer Protection Act 68 of 2008
- 13) Labour relations act 66 of 1995

PREAMBLE

The Department of Social Development is committed to the provisions of Section 38(1)(c)(i) of the PFMA places the onus on the Department to take effective and appropriate steps to collect all money due to the Department and Section 40(1) (a) of the PFMA requires the Department to keep full and proper records of the financial affairs of the Department in accordance with prescribed norms and standards.

The lack of adequate internal controls and systems have put a strain on the operations in the management of debts incurred by officials, debtors and external parties. The increase in the number of debts incurred by the various parties contained in the Departmental Debt Book has necessitated the review of the control environment of debt management to put in place a system of recovery for debts owed to the Department.

For the 2021/2022 financial year, 75% of Out of Service Debts or ex-employees are not recovered from employees resigned and/or retired while still owing the Department. Their debts could not be claimed on gratuity or pension fund due to shortage of employee benefits and Government Employee Pension Fund refusing to deduct the amount owed. The Debts from subsidized NGOs as a result of incorrect payments, constitute 20% of the debt account which are disputed and thus causing further delays in effecting repayment. The In-service debt of 60% is due to incapacity leave not approved or partially approved, overpayments made on employee's benefits from erroneous calculations or lost or damaged assets, leading to incorrect payments granted to officials

This policy therefore aims to regulate processes of debt management including fulfilling the requirements of the Public Finance Management Act. This will ensure consistent and coherent processes for managing and recovering of outstanding debts including guidelines for the writing off irrecoverable debts.

2. PURPOSE

The policy is intended to provide guidance on the management of Departmental debts by providing effective and appropriate steps to collect all money due to the Department including amounts received in part payments.

3. OBJECTIVES

- a) To provide guidance and framework on the recording and recovery of the amount owed by debtors to the Department.
- b) To provide steps to be followed when debts are recovered in instalments.
- c) Provide steps to be followed when writing off debts.

- d) To include a culture of accountability and responsibility on the management of Departmental resources.
- e) A climate more conducive for internal controls and risk management; and
- f) To establish proper controls associated with ownership and safeguarding of assets.

4. SCOPE OF APPLICABILITY

This policy is applicable to all Departmental officials and Suppliers i.e. NGOs, Suppliers, Social Grant Debtors, In-service (employees) and Out of Service debts (Ex-employees) of the Department of Social Development.

5. PRINCIPLES AND VALUES

The following are the principles and values underpinning this policy:

- a) **Accountability:** Acceptance of responsibility and accountability on the resources of the Department.
- b) **Integrity:** our actions and decisions must be in the interest of the Department.
- c) **Discipline:** the practice of officials to handle Departmental resources with respect.
- d) **Ensure sound financial management:** All debts shall be reported and recorded in the Departmental books as soon as they are identified.
- e) **Proper maintenance of Debts and Recovery:** The debtors must be notified of the amount owed, statements showing movement in their debt accounts should be posted, where necessary the debt must be handed over to legal for further actions.
- f) **Acceptance of Responsibility and Accountability:** All officials are accountable for making decisions that are in line with the achievement of the objectives of this policy.
- g) **Honesty:** All officials must report all debts in a timeous manner.

6. POLICY PROVISIONS

6.1 DEBT TYPES

Generically, the following types of debt may occur:

- a) Where the Department has suffered a loss or damage through the act (error, misuse or flouting of the legislation) by an official (Whether or not the person is an employee of the Department);
- b) Where a salary, wages or allowance was erroneously paid to an employee;
- c) When an official's notch was increased without following correct procedures or processes;
- d) Where an official is or was appointed not in accordance to legislation;
- e) Where an asset was lost or damaged;
- f) Where an individual/in-service debt/out of service debt or a supplier is in breach of contract; and
- g) Where an erroneous or overpayment was made to a creditor, institution or private body.

6.2 INSERVICE DEBTS

- a) If an employee has been erroneously paid due to deficiencies in internal controls within the Department, the Manager of the unit in question must report the error in writing to the Debt unit and provide all necessary supporting documentation with immediate effect or
- b) If an employee has lost or damaged a movable asset it must be reported in terms of the movable asset loss control policy, and that official must report the incident in writing to asset management.
- c) The Department must follow all the necessary investigations as detailed in the movable loss control policy.
- d) Asset management unit must report all asset related debt to Debt Management Unit for the recording, recovering and reporting of such debt in the books of the Department.
- e) Asset management unit must provide debt management unit with the copy of the signed investigation report by the Accounting Officer, with all necessary supporting documentation.
- f) Asset management must inform the official of the outcomes of the investigation and must provide a copy of the signed correspondence to Debt Management unit.
- g) Debt Management Unit is responsible to record the above-mentioned cases to the system within 7 working days.
- h) The debtor must be notified within 30 working days of receipt of the above correspondence.
- i) The Debtor must be given 14 days' allowance to respond.
- j) The Department must issue a reminder letter within 7 working days to the Debtor if no response is received from the above.
- k) The Department must implement the deduction if no response is received from the Debtor.
- l) If the debtor is disputing the Debt, the matter will be referred to the relevant unit for further investigation.
- m) If the debtor is hostile, the matter must be referred to Legal Services for further Action.
- n) If the amount is more than R1 500 the official may arrange to pay in installments within a period of twelve months or if more the official must request an approval from the Accounting Officer.
- o) Expenditure Management (salary administration) must be informed to deduct the money from the employee's salary, after 30 days of no response, and
- p) If there are still investigations on process, the Department must withhold any pending payments due to the Debtor until all process has been finalized.

6.3 OUT OF SERVICE DEBTS

- a) In cases where an employee has given notice to resign, retire from the service or the official is dismissed, a debt clearance(Z102) form must be circulated before the official leaves the department to ensure that the employee is not in any way indebted to the Department.
- b) The responsible supervisor must inform Human Resource Administration to take necessary action (Terminate the official) on the system.
- c) If the official owes the Department, the Employee or Supervisor or Human Resource management or the unit that has made the overpayment must report the debt within 7days to Debt management unit.
- d) Debt Management Unit is responsible to record the above-mentioned cases to the system within 7 working days.

- e) The debtor must be notified within 30 working days of receipt of the above correspondence.
- f) The Debtor must be given 14 days' allowance to respond.
- g) The Department must issue a reminder letter within 7 working days to the Debtor if no response is received from the above.
- h) If the debtor is hostile, the matter must be referred to Legal Services for further Action.
- i) If the amount is more than R1 500 the official may arrange to pay in installments within a period of twelve months or if more the official must request an approval from the Accounting Officer.
- j) Expenditure Management (salary administration) must be informed to deduct the money from the employee's salary, after 30 days of no response, and
- k) If there are still investigations on process, the Department must withhold any pending payments due to the Debtor until all process has been finalized.
- l) If the debtor has acknowledged the debt, the Department must deduct the debt from the employee's leave gratuity or pension benefit in terms of sec 21(3)(c) of the Government Employees Pension Fund Act of 1996 within 30 days.
- m) If no response is received or if no payment is received the debt must be handed over within 60 days to Legal Services for further actions.

5.4 SUPPLIERS

- a) If a supplier has been erroneously paid due to deficiencies in internal controls within the Department, the Manager of the unit concerned must inform Debt unit with immediate effect.
- b) The Debt Unit must record the debt against the supplier who has benefited.
- c) Debt Management Unit is responsible to record the above-mentioned cases to the system within 7 working days.
- d) The supplier must be notified within 30 working days of receipt of the above correspondence.
- e) The supplier must be given 14 days' allowance to respond.
- f) The Department must issue a reminder letter within 7 working days to the Debtor if no response is received from the above.
- g) If the supplier is hostile, the matter must be referred to Legal Services for further Action.
- h) If the amount is more than R25 000 the supplier may arrange to pay in installments within a period of twelve months or if more, the supplier must request an approval from the Accounting Officer.
- i) Expenditure Management unit must be informed to deduct the money from the supplier, after 30 days of no response or if the supplier has arranged, and
- j) If there are still investigations on process, the Department must withhold any pending payments due to the supplier until all process has been finalized.
- k) Debts must be recovered as a once-off or within the period of twelve months where approval has been granted by the Accounting Officer.
- l) Debt must be set-off against any outstanding payments. This applies in cases where a Supplier / NGO rendering services for the Department; the debt will be recovered from the amount due to the Debtor for the services rendered.

6.5 BREACH OF CONTRACT

- a) All social assistance, bursaries, suppliers or employees not rendering services in terms of the contracts/performance agreements/work plans will be dealt with in terms of section 80 of the Public Financial Management Act which requires a uniform interest

rate applicable to loans granted out of a Revenue Fund; and a uniform interest rate applicable to all other debts which must be paid into a Revenue Fund.

- b) The responsible supervisor must inform Human Resource or contract management or any relevant unit to take necessary actions.
- c) If the official or supplier has breached a contract, the Supervisor of the relevant unit must investigate and report the debt within 7 days to Debt management unit.
- d) Debt Management Unit is responsible to record the above-mentioned case to the system within 7 working days.
- e) The debtor must be notified within 30 working days of receipt of the above correspondence.
- f) The Debtor must be given 14 days' allowance to respond.
- g) The Department must issue a reminder letter within 7 working days to the Debtor if no response is received from the above.
- h) If the debtor is hostile, the matter must be referred to Legal Services for further Action.
- i) If the amount is more than R15 000 the supplier or official may arrange to pay in installments within a period of twelve months or if more the official must request an approval from the Accounting Officer.
- j) Debt must be set-off against any outstanding payments. This applies in cases where a Supplier / NGO rendering services for the Department; the debt will be recovered from the amount due to the Debtor for the services rendered.
- k) Expenditure Management (salary administration) must be informed to deduct the money from the employee's salary, after 30 days of no response, and
- l) If there are still investigations on process, the Department must withhold any pending payments due to the Debtor until all process has been finalized.
- m) The Department must implement the deduction on any amount due to the Debtor.
- n) Debts must be recovered as a once-off or within the period of twelve months where approval has been granted by the Accounting Officer.

6.6 ACKNOWLEDGEMENT OF DEBT BY A DEBTOR

6.6.1 Debt acknowledgement:

Where the debtor responded and agreed to settle the debt by means of instalments, the responsible official must:

- a) Implement the deductions.
- b) If no positive response is received from the debtor after 30 days, a first reminder must be sent to the debtor giving him/her 14 days to respond.
- c) If still no response is received a 2nd reminder must be sent within 7 working days.
 - i. If no response received after a 2nd reminder, the debt must be handed over to Legal or debt collector for debt recovery.

6.7 DEBTORS' STATEMENTS

- a) The responsible official must ensure that all debtors' statements are forwarded to the debtors on a quarterly basis.
- b) The statements must be delivered through Post Office/or hand delivered/or email.

6.8 RECOVERY OF DEBT

- a) All debts must be recovered as required in terms of this policy and any applicable documents issued by Treasury or Department of Public Service and Administration.
- b) When a debt becomes known the debtor shall be informed within 14 days and;

- c) If no response is received a reminder letter shall be sent within 7 days.
- d) Debts that are recovered in monthly instalments on Persal, shall commence as from the 1st pay-day after the debtor has been informed of such debt

6.9 INTEREST PAYABLE ON DEBTS TO THE DEPARTMENT

- a) Interest must be charged on the interest rate determined by the Minister of Finance in terms of section 80 of the PFMA Act.
- b) Except for the following cases no interest must be charged on debt owing by in-service debtor.
 - a. Wrongly granted remuneration, as defined in section 38 of the Public Service Act 1994 where the person concerned has left the employ of the Department, or where the monetary advantage resulted from his or her own fraudulent action.
 - b. Loss and/or damage which originates as a result of circumstances where or the intentional causing of losses or damage were present, or where the person concerned has left the employment of the Department.
 - c. A debt has arisen due to breach of contract where the contract states that the breach is subject to interest, e.g. bursary and housing guarantee agreements.
- c) Debtors who are not in the employ of the Department, are to be recovered with interest at a rate as determined by the Minister in terms of section 80 (1) (b) of the PFMA Act of 1999, with the exception of the following categories of debt, which are to be recovered without interest.
- d) Overpayment of amounts paid to a debtor for social and unemployment benefits.

6.10 INTEREST CALCULATION

- a) Interest must be calculated on the diminishing balance method and may not be capitalized, nor may it exceed the original capital amount.

6.11 TRACING OF DEBTORS

If the debtor's address is not known, the Department must take all reasonable steps to trace the debtor. A reasonable effort to trace the debtor will include, but is not limited to the following:

- a) All the information available in Departmental files (such as personal information, housing, leave, salary etc.) to locate the debtor;
- b) Utilizing the telephone directory for the last town or city in which the debtor lived to locate the debtor and/or his/her relatives and
- c) Contacting all relevant Institutions or persons in order to locate the debtor
 - i. Department of Home Affairs,
 - ii. South African Policing Service
 - iii. South African Revenue Services
 - iv. Department of State Expenditure: Pension Administration
 - v. Officials and/or colleagues at the debtor's last place of employment

6.12 REFUND OF CREDIT BALANCES

The Department must refund all credit balances on debtor's account or offset it against another debt owing to the Department.

6.13 PROVISION FOR BAD DEBTS.

- a) The Department shall have a detailed report of the "Debtors Age Analysis" highlighting debtors that may be doubtful (e.g. the debts older than 3 years, deceased, untraceable, etc.).
- b) Debtors that fall into the category of greater than 2 years from the date of creation without movement are assumed to be potentially doubtful, unless evidence proves otherwise.
- c) The responsible official must record all workings that substantiate the amount of provision for bad debts.
- d) The Chief Financial Officer must approve the Provision for Bad Debts at the end of each financial year.
- e) The Provision for Bad Debts must be disclosed in the Annual Financial Statements at each financial year end as per the requirements of the financial reporting framework guide.
- f) All debts above three years have prescribed and must be considered under 6.14 write off bad debts.

6.14 WRITE OFF BAD DEBTS

- a) Upon determination that the debt is irrecoverable, recommendations to write off the debt must be made to the Accounting Officer or delegated official.
- b) One or a combination of the following reasons may be cited as motivation in the submission requesting such a write off:
 - i. All reasonable steps must have been taken to recover the debt;
 - ii. Recovery of the debt must be uneconomical;
 - iii. The recovery of the debt must cause undue hardship to the debtor;
 - iv. It must be to the advantage of the Department to waive the claim;
- c) The debt is irrecoverable due to:
 - i. The debtor has no assets nor income;
 - ii. All reasonable efforts to trace the debtor have failed;
 - iii. The Department's claims against an insolvent estate or an estate that is being administered as insolvent;
 - iv. The Department cannot legally prove the claim or the origin of the debt due to insufficient supporting documents; or
 - v. Debt prescription.

6.15 GENERAL

- a) **Contractual agreements**
 - i. If interest has been arranged by means of an agreement such as a study contract, housing guarantee's etc., interest starts to accumulate on the day that payment is due. The Department must have issued a letter of demand to the Debtor for the amount owed. No mora interest is applicable until the Debtor is made aware of the debt in terms of the condition of the agreement.
- b) **Monthly reporting**
 - i. Management reports must be provided to the Chief Financial Officer on a monthly basis concerning the status of all debtors of the Department.
 - ii. Any request for Accounting Officer's approval to write off debt must be submitted for recommendation to the Chief Financial Officer.
- c) **Claims against an estate or insolvent estate**

- i. In the case of a claim against an estate or insolvent estate the case must immediately be referred to the State Attorney for finalization.

6.16 NON-COMPLIANCE AND RECORD KEEPING

- a) If there is any suspicious activity regarding non-compliance with internal control directives, management must notify the relevant manager for further action.
- b) It is the responsibility of the Department to ensure that all the supporting documents e.g. debtors files are properly maintained and any explanations relating to Department debtors are given during the audit or any investigation conducted.
- c) It is the responsibility of each employee of the Department to ensure that any debt that arises within his/her sphere of work is accounted for. Failure to comply may result in disciplinary steps being taken including recovery of any loss to the state from the employee concerned.

7. APPROVING AUTHORITY

The Accounting Officer and Member of Executive Council (MEC) shall approve this policy.

8. EXCEPTIONS

There are no exceptions nor exemptions to the provision herein this policy.

9. ADMINISTRATION OF THE POLICY

The administration of this policy shall be vested on the Head of Department who shall ensure that every employee adhere to the provisions of this policy.

10. ACCOUNTABILITIES AND RESPONSIBILITIES

Member of the Executive Council

- a. The Member of the Executive Council shall be responsible for providing political oversight and guidance on the management of debts
- b. The Member of the Executive Council shall be responsible for approving the policy.

Accounting Officer

- a. The Accounting officer shall be responsible for the implementation of the policy in line with the Public Finance Management Act
- b. The Accounting officer shall be responsible approving the policy in line with the Public Finance Management Act
- c. All the debts to be written off must be approved by the Accounting Officer.

Chief Financial Officer

- a. The Chief Financial Officer shall present a monthly report to the Top management on the movement of debts.

- b. The Chief Financial Officer shall be responsible for managing the extended recovery of debtors or overpayments in instalments;
- c. The Chief Financial officer shall make recommendations to the Accounting Office on all debts to be written off.

Directors

- a. Directors shall be responsible for providing information sharing sessions on the provisions of the Debt Management Policy
- b. Directors shall ensure the implementation of the provision of this policy with their area of operation.

Officials:

- a. All official shall ensure strict adherence and compliance to the provisions of the policy within their area of operations.

Debtors:

- a) All debtors shall ensure strict adherence and compliance to the provisions of the policy within their area of operations
- b) All Debtors shall ensure successful recovery of debt owed to the Department within the stipulated timeframes.

Supervisors:

- a. All supervisors must report all debts identified under their area of responsibility.
- b. All supervisors shall monitor the implementation of this policy within their area of operations.

Asset Management Unit

- a) Asset management must ensure that all reported assets are investigated in line with movable asset loss policy.
- b) Asset Management must refer all lost or damaged assets wherein the official was found to be liable for the loss or damaged asset to Debt Management.

Debt Management Unit

- a. The Director: Debt Management shall review the monthly reports.
- b. Debt Management must record the transaction in the system, follow up the debt.
- c. The Department of Social Development must have a Debtors Management Section within the existing Finance Section, which will deal specifically with;
 - I. Keeping individual units informed on any legislation, notice, and regulation, directive and circular relevant to the administration and management of staff debtor;

- II. Debt Management unit must be accountable and responsible to review instalment recoveries every six (6) months;
- III. The Manager and the Assistant Manager are responsible to monitor and assess debt recoveries, ensuring all deductions implemented have the required approval and are reasonable;
- IV. Debt Management unit must engage the services of the Legal Services for further actions;
- V. The Manager is responsible to compile a schedule of all debts to be written off together with a motivation memorandum and submit for the recommendations of the Director and the Chief Financial Officer and approval to the Accounting Officer;
- VI. Debt Unit is required to compile a reconciliation and age analysis of debtors on a monthly basis.

11. EFFECTIVE DATE OF THE POLICY

This policy shall be implemented with effect from the date of approval by the Member of the Executive Council and Head of Department.

12. IMPLEMENTATION OF THE POLICY

- A) Ensure effective and efficient debt recovery administration.
- B) Receive report of incidents /debts occurred from various sections (i.e. payments, salaries, human resource) with supporting documents.
- C) Compile debt take-on forms.
- D) Capture the debt into financial system.
- E) Ensure that debtors are charged interest at a prescribed rate.
- F) Notify debtors in writing indicating the nature and extent of debt.
- G) Open files for each debtor and ensure proper filling is in order.
- H) Maintain proper accounts and records for all debtors.
- I) Liaise with salaries section on debts to be deducted on persal.
- J) Attends to queries from internal and external debtors.
- K) Clearing debt suspense account when debt is recovered.
- L) Clearing of credit balances on debt account on a monthly basis.
- M) Capture on-line journals.
- N) Compile reconciliation and age analysis of debtors on a monthly basis.
- O) Checking and reviewing of status for each debtors file.
- P) Motivate long outstanding debts without movement (more than 3 years old) for provision of doubtful debts.
- Q) Compile list of debts to be written off and submit motivation letter to the head of department for approval.

13. MONITORING MECHANISMS

The monitoring of the policy shall be carried out through the following mechanism:

- a) Monthly reconciliation of debtors shall be compiled in line with this policy.
- b) Debtors' age analysis shall be included in the interim and Annual Financial Statement.

- c) The Director Financial systems and accounting services shall be responsible for continuous administration and monitoring of this policy and any inputs or amendments of this policy document can be directed to him or her in writing.

14. ENFORCEMENT

Non-adherence to this policy constitutes a misconduct and must be dealt with in accordance with the public service regulation.

15. POLICY REVIEW

This policy will be reviewed whenever a need arises e.g. a change in legislation or national mandate has been given or otherwise after 3 years from the date of approval.

16. POLICY APPROVAL

Recommended/ Not Recommended




DATE: 30/08/2023

M MACHEMBA

ACCOUNTING OFFICER

DEPARTMENT OF SOCIAL DEVELOPMENT

Approved/ Not Approved



DATE: 14/08/2023

Ms. N FANTA

MEMBER OF THE EXECUTIVE COUNCIL

DEPARTMENT OF SOCIAL DEVELOPMENT