The 3 Minute OTP
Municipal Debt Risk Guide

A Guide for Estate Agents, Conveyancers, Sellers & Purchasers

The Hidden Municipal Debt Risk Most Property Professionals Miss

Most property transactions proceed on a simple assumption:

"The seller obtains a Rates Clearance Certificate, pays what is required, and the property transfers."

Unfortunately, that assumption is often incorrect.

Across South Africa, many Offer to Purchase (OTP) agreements contain vague or outdated municipal debt clauses that fail to address one of the biggest risks in property transfer.

The result?

-Transfers are delayed.
-Commissions are affected.
-Purchasers encounter unexpected problems.

-Sellers remain exposed to municipal debt they believed had been dealt with.

-The problem usually begins long before transfer.
It starts with the OTP.

The Misunderstood Clearance Certificate

Many people assume that a municipal Clearance Certificate confirms that all municipal debt relating to a property has been settled.

It does not.

A Clearance Certificate issued in terms of Section 118(1) of the Municipal Systems Act generally confirms compliance with a limited statutory requirement.

It is not proof that every municipal debt linked to the property has been paid.

This distinction is critical.

Because when OTPs merely state:

"*The seller shall obtain a Clearance Certificate*"

The agreement may leave significant gaps regarding responsibility for historic municipal debt.

Concerned About High Clearance Figures?

Municipal Debt Specialist (MDS) provides independent assessments of municipal clearance figures to identify:

✓ High or incorrect charges
✓ Billing anomalies
✓ Legal reductions
✓ Hidden transfer risks
✓ Risks to all parties

MUNICIPAL DEBT SPECIALIST
A Livanos Group Companies

No Upfront Fees | No Savings, No Charge
No Risk Obligation Free
The Authority on Section 118 in South Africa

Why This Matters

When municipal debt issues arise, the consequences often affect every party involved in the transaction.

Sellers

- Unexpected municipal claims
- Delays in receiving sale proceeds
- Ongoing debt exposure

Purchasers

- Service-related disputes
- Unexpected financial demands
- Expensive legal processes

Estate Agents

- Delayed commission payments
- Frustrated clients
- Reputational risk

Conveyancers

- Increased pressure during transfer
- Additional compliance challenges
- Potential professional exposure

Banks and Bridging Finance Providers

- Delays in transaction completion
- Increased statutory financial risk
- Loss of revenue

The reality is simple:
When municipal debt has not been properly investigated, everyone becomes vulnerable.

Full Article on our website

www.municipaldebt.co.za/news-updates

SCAN ME



The Risk Starts in the OTP

Many people assume municipal debt problems begin at the municipality.

In practice, they often begin much earlier.

They begin when the Offer to Purchase fails to clearly define:

- Who is responsible for all municipal debt
- What debt must be settled before transfer
- How disputed debt will be handled
- What verification processes must take place
- Vague clauses create uncertainty.

Clear clauses create protection.



The Bare Minimum TRAP



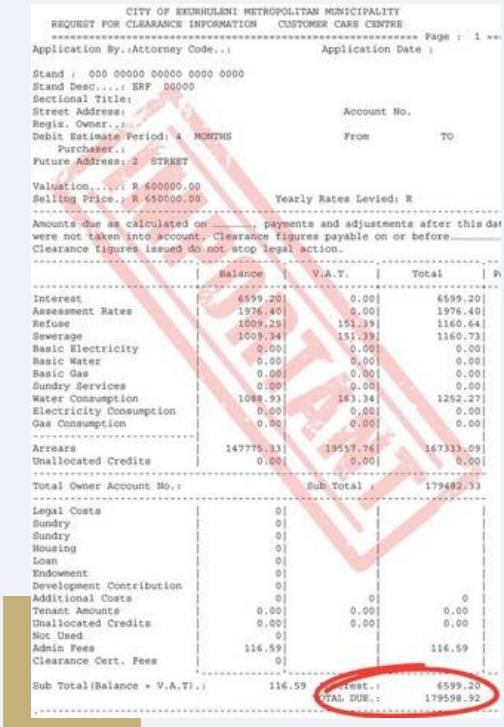
A growing trend has emerged in the property industry

Transactions are sometimes structured around obtaining only the minimum figures required for clearance purposes.

This approach may create the impression that all risks have been addressed when, in reality, significant issues may still exist.

Municipal debt does not disappear simply because a Clearance Certificate has been issued.

Property professionals should therefore avoid relying solely on minimum compliance assumptions.



CITY OF EKURHULENI METROPOLITAN MUNICIPALITY
REQUEST FOR CLEARANCE INFORMATION CUSTOMER CARE CENTRE

Application By.:Attorney Code..: Application Date :

Stand : 000 00000 00000 0000 0000
Stand Desc....: ERF 00000
Sectional Title:
Street Address: Account No.
Regis. Owner..:
Debit Estimate Period: 4 MONTHS From TO
Purchaser.:
Future Address: 2 STRKET

Valuation.....: R 600000.00
Selling Price.: R 650000.00 Yearly Rates Levied: R

Amounts due as calculated on payments and adjustments after this da
were not taken into account. Clearance figures payable on or before
Clearance figures issued do not stop legal action.

	Balance	V.A.T.	Total
Interest	6599.20	0.00	6599.20
Assessment Rates	1976.40	0.00	1976.40
Refuse	1009.25	151.39	1160.64
Sewerage	1009.34	151.39	1160.73
Basic Electricity	0.00	0.00	0.00
Basic Water	0.00	0.00	0.00
Basic Gas	0.00	0.00	0.00
Sundry Services	0.00	0.00	0.00
Water Consumption	1088.93	163.34	1252.27
Electricity Consumption	0.00	0.00	0.00
Gas Consumption	0.00	0.00	0.00
Arrears	147775.33	19557.76	167333.09
Unallocated Credits	0.00	0.00	0.00
Total Owner Account No.:		Sub Total :	179482.33
Legal Costs	0		
Sundry	0		
Sundry	0		
Housing	0		
Loan	0		
Endowment	0		
Development Contribution	0		
Additional Costs	0	0	0
Tenant Amounts	0.00	0.00	0.00
Unallocated Credits	0.00	0.00	0.00
Not Used	0		
Admin Fees	116.59		116.59
Clearance Cert. Fees	0		
Sub Total(Balance + V.A.T.).:	116.59	Interest.:	6599.20
		TAL DUE.:	179598.92

What Good Practice Looks Like

A well-drafted OTP should:

- Clearly distinguish between Clearance Certificate requirements and full debt settlement obligations
- Require proper investigation of municipal accounts where appropriate by an accredited specialist
- Ensure all parties understand their responsibilities
- Promote lawful, transparent resolution of municipal disputes
- Reduce the risk of surprises before and after transfer

Before Transfer Ask These 5 Questions:

Before proceeding, consider:

- Have all municipal charges been properly investigated?
- Does the OTP clearly deal with municipal debt?
- Are there any disputed charges?
- Has the debt been independently reviewed where necessary?
- Is anyone relying solely on Clearance Certificate figures?

If any of these questions cannot be answered confidently, further investigation may be required.

Final Thought

A municipal debt problem is far **easier to prevent than to fix.**

The most effective place to manage risk is not at transfer. It is at the Offer to Purchase stage. A properly structured OTP protects sellers, purchasers, estate agents, conveyancers, banks, and finance providers alike. Because in property transfers:

The risk does not begin at the municipality. It begins in the OTP.

MUNICIPAL DEBT SPECIALIST

THE AUTHORITY ON SECTION 118

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Constitutional Court
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Website

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Use your phone camera to scan QR code

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