

City of Johannesburg Council 2021-04-20

COJ : MAYORAL COMMITTEE 2021-04-14

GROUP FINANCE

38 PROPOSAL FOR A ONCE-OFF DEBT-WRITE OFF FOR THE REHABILITATION OF DEFAULTING DEBTORS – PHASE TWO (2)

1 STRATEGIC THRUST

Good Governance.
Financial Sustainability.

2 OBJECTIVE

The objective of this report is to seek Council approval for a second phase of the once-off debt write off for the rehabilitation of defaulting debtors (Debt Rehabilitation Programme – Phase Two). The program will focus primarily on the rehabilitation of residential, small businesses, churches and non-profit organizations.

3 BACKGROUND

(1) The Debt Rehabilitation Programme – Phase 1.

In May 2019, the City of Johannesburg's Metropolitan Council approved the Debt Rehabilitation Programme. The Programme aimed to rehabilitate defaulting customers while bringing their arrear City municipal accounts back into good standing.

Through this Programme, the City introduced a two-part write off process that would see an initial 50% of the capital debt (rates, refuse, water, sewer and electricity); 100% of interest charges on outstanding debt; and any other collection charges (i.e. disconnection fees, etc.) levied on written off on successful application.

The remaining 50% (balance) was to be written off incrementally over a period of three years. This was further dependent on:

- Customers keeping to their agreements to pay their current municipal accounts.
- Customers signing an AOD on debts below 90 days and keeping to this agreement.
- Customers allowing for routine water and electricity meter inspections.
- Customers allowing access to City meter readers access to their properties for the purpose of metre reading, device checks, and where applicable for the installation of a smart electricity prepaid, or the normalisation of a current prepaid.

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Qualifying municipal account holders who met these conditions will see their remaining municipal arrears being reduced by one third on an annual basis until the debt is completely written off in the third year.

(2) Qualifying Criteria for the Debt Rehabilitation Programme:

- The write off was only applicable to residential account holders;
- The account holder's account balance had to be in arrears for more than 90 days as at 30 June 2019;
- The combined gross income from all activities of the account holder/s and spouse must be between R4 750 and R22 000 per month; and
- The market value of the property and all properties owned by the applicant must not exceed R600 000.00.

(3) Public Participation and Communication:

The programme was launched and advertised on the City's Social Media platforms, Websites of COJ, via SMSs and public relations on radio and television. In addition public meetings were conducted to educate and get commentary on the programme. The following meetings and public activation campaigns were held:

| Date | Venue | Type of Activity |
|------------------|-----------------------------------|-------------------|
| 16 August 2019 | Eureka House – Wemmerpark | Community meeting |
| 17 August 2019 | Sophia | Community meeting |
| 19 August 2019 | Lenasia Civic Centre | Community meeting |
| 20 August 2019 | Eldorado Park | Community meeting |
| 20 August 2019 | Midrand Fire Station | Community meeting |
| 21 August 2019 | Danie Van Zyl Recreation Centre | Community meeting |
| 22 August 2019 | Rabie Ridge Community Hall | Community meeting |
| 22 August 2019 | Eneerdal Civic Centre | Community meeting |
| 24 August 2019 | Diepsloot Youth Hall | Community meeting |
| 24 August 2019 | Lord Khanyile Hall | Community meeting |
| 26 August 2019 | Dlamini Hall | Community meeting |
| 26 August 2019 | Protea Glen Library | Community meeting |
| 27 August 2019 | Diepkloof Hall | Community meeting |
| 28 August 2019 | Marlboro Community Centre | Community meeting |
| 28 August 2019 | Orange Farm Multi-purpose Centre | Community meeting |
| 31 August 2019 | Cosmo City Multipurpose Centre | Truck |
| 31 August 2019 | Roodepoort Civic Centre | Community meeting |
| 11 October 2019 | Joburg Theatre | Theatre |
| 13 October 2019 | Jabulani Civic theatre | Truck |
| 26 October 2019 | Protea Glen Mall | Truck |
| 26 October 2019 | Altrek Sport Centre | Community meeting |
| 26 October 2019 | Pan African Mall | Mall Amphitheatre |
| 28 October 2019 | Coronationville Recreation Centre | Community meeting |
| 12 November 2019 | Senoane Pick and pay mall | Truck |

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| Date | Venue | Type of Activity |
|------------------|----------------------------|-------------------|
| 12 November 2019 | East Bank Hall (Alexandra) | Community meeting |
| 13 November 2019 | Coronation Rec | Community meeting |
| 13 November 2019 | Everest Primary | Community meeting |
| 16 November 2019 | Savanna Centre, Protea | Truck |
| 23 November 2019 | Bernard Isaacs Primary | Community meeting |
| 23 November 2019 | Don Matten Centre | Truck |

The City further partnered with the Joburg Theatre to develop an industrial theatre skit, which was used to support a variety of public engagements. Second runner up of South Africa's Got Talent, Jackie the Sheep was used in 3 of the series of 12 videos. Videos of these engagements were created for and broadcast using the available City platforms.

(4) Public submissions and commentary:

During these public engagements, municipal account holders expressed concerns around the current criteria and made requested the City to consider:

- Increasing the stipulated R600 000.00 property value threshold
- Include small business, churches and nonprofit organizations
- Where a person earns more than twenty-two thousand rand (R22 000.00) and is in financial distress, must also be offered some relief
- Accounts that are managed by heirs but are still in the names of the deceased parents or family member must form part of program.
- Change the criteria for gross salary to net salary.
- Stop sending termination notices to residents
- How is the Council going to deal with Illegal squatter who are getting services for free?
- How do we treat multipurpose dwellings
- How does the City treat vacant land?

4 DEBT REHABILITATION PROGRAMME – PHASE ONE ANALYSIS

Based on the analysis done before the start of Phase one, the following table indicates the total number of customers who may have qualified for the programme.

Table 1" Summary analysis: Accounts that meet qualifying criteria

| Description | No of accounts | R'000 |
|--------------------------------|----------------|-----------|
| Expanded Social Package | 91 240 | 1 016 757 |
| Technical Limited Access Areas | 173 125 | 3 317 002 |
| Total | 264 365 | 4 333 759 |

Despite extensive communication and community consultation, The City only received 4 568 applications of which 4 016 were successful (refer to table below).

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Table 2, actual number of applications received and processed.

| Description | First Analysis in October 2019 for the period 1 September 2019 to 08 October 2019 | Second Analysis in January 2020 for the period 09 October 2019 to 30 November 2019 | Total |
|--|---|--|-----------------|
| Total received | 1 413 | 3 155 | 4 568 |
| Meet all criteria | 1 246 | 2 770 | 4 016 |
| Not link to a stand | 22 | | 22 |
| Not a residential account | 1 | 11 | 12 |
| Account that have no balance in the 90 days plus | 55 | | 55 |
| Value of stand exceeds R600 000 | 73 | 344 | 417 |
| Vacant land | 16 | 26 | 42 |
| Queries | | 1 | 1 |
| Sectional title | | 3 | 3 |
| Total debts at 30 June 2019 not be written off. 90 days less | R 4 629 502.45 | R11 610 094.02 | R16 239 596.47 |
| Total debts at 30 June 2019 to be written off. 90 days plus | R36 361 901.36 | R97 167 653.30 | R133 529 554.66 |
| 50 % initial write off | R18 180 950.68 | R48 583 826.65 | R66 764 777.33 |
| Amount to be written off on yearly basis if all customers keeps current payments | R6 060 316.89 | R16 194 608.88 | R22 254 925.77 |

The low turn-out meant that the City needed to re-asses the programme's criteria. As part of the City's review process, public comments were considered and the proposal for a Debt Rehabilitation Process – Phase Two was developed. The table below reflects the suggested solutions that aim to respond to public comment:

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Table 3, community engagements and comments.

| Community request | Suggested solution |
|---|---|
| Increasing the stipulated R600 000.00 property value threshold | The new proposal is that the property value be increased to one million, five hundred thousand Rand (R1 500 000.00). This amount is based on detailed modelling of property market values in relation to total outstanding debt. |
| Include small business, churches and nonprofit organizations | Include small businesses, churches and non-profit organisations with audited annual gross revenue not exceeding three million rand (R3 000 000.00). Note: According to National Small Business Amendment Act of 2004 the maximum turnover in small businesses must not exceed thirteen million rand (R13 000 000). |
| Where a person earns more than twenty-two thousand rand (R22 000.00) and is in financial distress, must also be offered some relief | Possible solution for all persons earning more than twenty-two thousand rand (R22 000.00). Where the gross monthly income is: <ul style="list-style-type: none"> • Between twenty-two thousand and one rand and thirty thousand rand (R22 001 to R30 000) – 30% write-off of the debt above 90 days shall be offered; all interest and penalty charges shall be reversed. • Between thirty thousand and one rand and forty thousand rand (R30 001 to R40 000) – 20% write-off of the debt above 90 days will be offered; all interest and penalty charges shall be reversed; • Between forty thousand rand and fifty thousand rand (R40 001 to R50 000) – 10% write-off of the debt above 90 days will be offered; all interest and penalty charges shall be reversed; • Above fifty thousand rand (R50 001) all charges (e.g. disconnection fees) and interest will be reversed. |
| Accounts that are managed by heirs but are still in the names of the deceased parents or family member must form part of program. | Where the property is registered in the name of a deceased person, the current occupier must submit a signed affidavit or statements not more than three months old from lender indicating that he or she is the occupier of the property together with the death certificate. A letter of authority from the master's office shall also be accepted. |
| Change the criteria for gross salary to net salary. | Proposal remains with gross income. |
| Stop sending termination notices to residents | Once the customer has been approved in the program, termination notices will be stopped on |

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| Community request | Suggested solution |
|---|---|
| | condition that the customer continues to pay the current amount. |
| How is the Council going to deal with Illegal squatter who are getting services for free? | The City council has approved a Programme for the formalisation of informal settlements. This will include installation of meters for services supplied. |
| How do we treat multipurpose dwellings | In a case of multipurpose dwelling where the property is used only for residential, the total value of the property will be divided by the number of units to get the value of each unit. In case of the multipurpose used combined for business and residential, the square meterage of residents and business will be used to determine the value of each unit and each business unit. |
| How does the City treat Vacant land? | Vacant land is treated as an investment and therefore will not benefit from the program. |

Due to COVID-19 several municipal account holders who qualified in the Debt Rehabilitation - Phase 1 did not pay their current accounts and therefore were not meeting next the qualifying criteria of "pay your current account to get the additional yearly write off over the next three years". It is hereby recommended that these municipal account holders be given a second chance of paying their account within three months after the approval of this report.

5 DEBT REHABILITATION PROGRAMME

Given the community feedback and the turnout in numbers from phase one, the City is now requesting Council approval for a second phase of the once-off debt write off for the rehabilitation of defaulting debtors (Debt Rehabilitation Programme – Phase Two). The program will focus primarily on the rehabilitation of residential, small businesses, churches and non-profit organizations.

(1) SUGGESTED QUALIFYING CRITERIA

The qualifying criterion for Phase two, which has considered community consultations during phase one as well as additional modelling of the debtor's book done by the City is set out below.

Table 4, qualifying criterion for phase two

| No. | Qualifying criteria |
|-------|---|
| (i) | Write-off will only be applicable to residential, small business, churches and non-profit organization. |
| (ii) | The account holder's balance must be in arrears for more than 90 days as at 31 December 2020. |
| (iii) | 1. The combined gross income from all activities of the residential account |

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| No. | Qualifying criteria |
|-----|--|
| | holder/s and spouse must be between four thousand seven hundred and fifty rand (R4750) and twenty-two thousand rand (R22 000) per month. |
| | 2. Where the monthly gross income from all activities of the residential account holder/s is more than twenty-two thousand rand (R22 000.00), only a percentage of the debt above 90 days shall be written off condition that the account holder/s settles that account in full. The scale to be used will be: |
| | 2.1. Monthly gross income from all activities of between twenty-two thousand and one rand and thirty thousand rand (R22 001 to R30 000) – 30% write-off of the debt above 90 days shall be offered; all interest and penalty charges shall be reversed; |
| | 2.2. Monthly gross income from all activities of between thirty thousand and one rand and forty thousand rand (R30 001 to R40 000) – 20% write-off of the debt above 90 days will be offered; all interest and penalty charges shall be reversed; |
| | 2.3. Between forty thousand rand and fifty thousand rand (R40 001 to R50 000) – 10% write-off of the debt above 90 days will be offered; all interest and penalty charges shall be reversed; |
| | 2.4. Above fifty thousand rand (R50 001) all charges (e.g. disconnection fees) and interest will be reversed. |
| | 3. The latest audited annual financial statements for Small businesses, churches and nonprofit organization proving that turnover does not exceed three million rand (R3 000 000) and six months bank statements at the date of submission of the application. |
| | 4. The market value of the property and all properties owned by the applicant (excluding business, churches and nonprofit organizations) must not exceed one million five hundred thousand rand (R1 500 000) based on City of Johannesburg evaluation. |

(2) Projected balance of the debtor's book to qualify for potential write-off.

During phase two, it is estimated that the City will write off more than ten billion for all accounts that are 90 days plus as detailed in the table below:

Table 5, debtors book projection before the phase two.

| Contract Account Class | Nr Acc's | Balance 31122020 | 0 to 30 Days | 31 to 60 Days | 61 to 90 Days | 91 to 180 Days | 181 to 365 Days | Above 365 Days |
|------------------------|----------------|------------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|-----------------------|
| Agricultural | 276 | R26,032,736 | R619,231 | R615,370 | R462,029 | R1,486,161 | R2,589,371 | R20,260,573 |
| Business | 16,103 | R1,159,805,838 | R43,704,442 | R40,798,263 | R30,030,351 | R107,233,225 | R159,327,376 | R778,712,182 |
| Mining | 8 | R163,676 | R5,570 | R11,757 | R2,969 | R4,431 | R10,187 | R128,762 |
| Mixed | 276 | R31,557,521 | R639,169 | R792,270 | R590,204 | R3,662,077 | R3,571,602 | R22,302,198 |
| Other | 2,087 | R137,962,547 | R7,011,014 | R8,600,765 | R4,786,769 | R15,927,070 | R17,113,686 | R84,523,242 |
| Residential | 325,247 | R11,788,910,421 | R448,293,471 | R472,347,987 | R382,353,707 | R1,236,748,804 | R1,782,458,498 | R7,466,707,954 |
| Total | 343,997 | R13,144,432,739 | R500,272,897 | R523,166,413 | R418,226,030 | R1,365,061,767 | R1,965,070,720 | R8,372,634,912 |

Note: All the above accounts are below R1 500 000.

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(3) ADMINISTRATIVE REQUIREMENTS:

Table 6. The table reflects the administrative requirements for this program.

| No. | Administrative requirements |
|--------|--|
| (i) | The account holder can apply at any customer service center of the City or any online channel made available by the City. |
| (ii) | The account holder must have a valid South African identity document or a document that confirms the legal residence in South Africa. |
| (iii) | The account holder must produce the latest copy of their municipal account/s |
| (iv) | Proof of income for the account holder and spouse. |
| (v) | Certified bank statement, for all accounts held by the account holder and spouse, for a period of three months before the submission of the application. |
| (vi) | The account holder must complete the application form, in the case of deceased estates, the person in position of the Letter of Authority from the Master of the Court's office. |
| (vii) | The account holder and his/her spouse must give the City permission to perform a background check through a reputable credit bureau. |
| (viii) | The account holder must provide meter numbers and meter readings of all meters on their properties. Account holders must provide pictures of the metering devices which clearly identify: <ul style="list-style-type: none"> • the location of the device; • the reading on the device; and • the meter number. |
| (ix) | The account holder must sign the debt rehabilitation programme agreement. |
| (x) | The City reserves the right to cancel the agreement and reinstate debt written-off should it be discovered that the account holder provided the City with falsified information |
| (xi) | Small businesses, churches and NGOs/Non-profit organisations must submit audited financial statements and six months bank statements. |

(4) DEBT REHABILITATION COMMITTEE

In order to ensure that there is adequate controls and review over the process, a debt rehabilitation committee must be established, with the appropriate delegations. The members of the debt rehabilitation committee must include the following:

| Department /Municipal Entity | Office Bearer |
|---|--|
| Office of the Group Chief Financial Officer | GCFO or delegated official |
| Revenue Shared Services Center | Group Head or delegated official |
| City Power | Managing Director or delegated authority |
| Johannesburg Water | Managing Director or delegated authority |
| Pikitup | Managing Director or delegated authority |
| Property Branch | Group Head or Delegated Officials |

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- (a) The Debt Rehabilitation Committee shall be responsible for:
- the processing of applications received against criterion set out in this report;
 - approval and processing of the rehabilitation write-offs as per conditions set out in this report;
 - monthly monitoring and reporting of customers adherence to the terms and conditions set out in this report; and
 - keeping of records for all transactions processed for audit and quality assurance.
- (b) The Directorate Credit Control Management shall provide the secretariat function to the debt rehabilitation committee.

(5) The debt rehabilitation program write-off process

The write off process has been broken down into two separate phases (except in income more than R22 000) that will enable the City to provide relief to the customers as well as rehabilitate the customer. The phases are:

(a) Initial Debt relief write-off process (Debt Rehabilitation- Phase One)

| Step | Process | Write-off action |
|------|--|---|
| 1 | Customer details validation credit worthiness assessment | Approved or Declined application |
| 2 | Perform first write off once all qualification and administrative requirements have been met | (i) 50% of capital debt above 90 days |
| | | (ii) 100 % interest and sundry debt |
| | | (iii) Set an interest and credit control flag for twelve months; this is conditional to the customer paying their current municipal bill for twelve months from initial write-off |

(b) Reviewed Rehabilitation debt relief write-off process (Debt Rehabilitation- Phase Two)

This phase provides for the rehabilitation of the customer which provides for the further debt-write-off.

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| No. | Qualifying criteria | Write-off action |
|-------|---|--|
| (i) | Current account must be kept update to date for twelve months from date of initial write-off | Annual debt-write off in terms of the balance owing for the next three financial years (50% remaining balance) |
| (ii) | Customer must be consistently vending on prepaid water and electricity for twelve months after initial write off. | |
| (iii) | Customer must allow access to property as and when required for twelve months after initial write-off | |
| (iv) | Update details when as and when these changes. | |

(6) Registration period.

The registration period for this process will end three (3) months after the approval of the report by the Council.

(7) Other matters

The City reserves the right to conduct a full financial assessment of all income and assets of the applicant. Should the applicant be found to be misrepresenting themselves, the City will re-instate the debt and institute immediate termination of services.

Should the property be sold in this period, any remaining debt owing on the property will become due and payable in terms of the normal clearance processes.

Should the account holder tamper with the City's infrastructure, the debt will be reinstated, and services terminated, and normal process will be followed by the City to recover loss incurred.

6 POLICY IMPLICATIONS

This framework is proposed in terms of the Credit Control and Debt Collection Policy of the City and the By-laws. Section 17.1 states "The City has discretion to write off debts if it is deemed irrecoverable"

7 FINANCIAL IMPLICATIONS

As at change to balance as at 31 December 2020, a total of three hundred and forty three thousand and nine hundred and ninety seven (343, 997) customers with the total book value of R13 144 432 739 had their properties valued less than R1 500 000.00.

The projected write off all debts that are 90 days plus R11 702 767 398. The program will ease the debt burden for qualifying customers and provides a basis for the rehabilitation of debtors over the next three years; the City will benefit improved collections and liquidity.

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| Revenue Projection Calculations | | | |
|--|---------------|------------------|------------------|
| | | 4.50% | |
| Current Monthly Billing | R 500,272,897 | | |
| | | Plus 4,5% - CPIX | Plus 4,5% - CPIX |
| | | | |
| Projection of Write Off Revenue Payments | 2020/2021 | 2021 - 2022 | 2022 - 2023 |
| | | | |
| Yearly Projection | N/A | R 6,273,422,134 | R 6,555,726,130 |

The revenue projection calculations shown above will improve collection by almost R6 billion for the coming three years, should customers adhere to the monthly payment on the current billing. Strict credit control actions, monitoring and evaluation on the qualified customers will be followed and reported monthly.

8 COMMUNICATION IMPLICATIONS

In terms of the above programme the following marketing campaigns will be run:

| No. | Name | Objective |
|-------|--|---|
| (i) | Educational campaign about the write off | Inform residents about the campaign |
| (ii) | Meter inspections as and when required | Inform residents about the timing of the meter audits |
| (iii) | Industrial Theatre | Inform residents about the campaign |

Additional campaigns will be run as and when the need arise.

9 LEGAL AND CONSTITUTIONAL IMPLICATIONS

Section 96 of the Local Government Municipal System Act, 32 of 2000, provides that a Municipality must collect all monies that are due and payable to it, subject to the provision of that Act and other applicable legislation.

Section 97 of the Local Government Municipal Systems Act, 32 of 2000 does make provision for bad debts where circumstances arise which may make the recovery of certain debts impossible, impractical or financially unfeasible, and such debts may have to be written off in order to improve efficiency of its credit control and debt collection mechanisms.

10 OTHER DEPARTMENTS AND BODIES CONSULTED

The consulted stakeholders are reflected below:

Legal Department
City Power
Property Branch

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Johannesburg Water
Pikitup

IT IS RECOMMENDED

That the framework for the Debt Rehabilitation Programme – Phase Two be approved as follows:

- 1 That the increase in the property value threshold from six hundred thousand Rand (R600 000.00) to one million five hundred thousand rand (R1 500 000.00) based on City of Johannesburg municipal valuation value.**
 - (1) That, where the property is registered as a trust or body corporate used for residential purpose, the value of each property unit will be determined by dividing the total value of the whole property by the number of units.**
 - (2) That the inclusion of small businesses, churches and non-profit organisations with audited annual gross revenue not exceeding three million rand (R3 000 000.00)**
 - (3) That where the monthly gross income from all activities from the residential account holder/s is more than twenty-two thousand rand (R22 000.00), a write-off be offered on condition that the account holder settles the account in full as follows:**
 - (a) Monthly gross income from all activities of between twenty-two thousand and one rand and thirty thousand rand (R22 001 to R30 000) – 30% write-off of the debt above 90 days shall be offered; all interest and penalty charges shall be reversed;**
 - (b) Monthly gross income from all activities of between thirty thousand and one rand and forty thousand rand (R30 001 to R40 000) – 20% write-off of the debt above 90 days will be offered; all interest and penalty charges shall be reversed;**
 - (c) Between forty thousand rand and fifty thousand rand (R40 001 to R50 000) – 10% write-off of the debt above 90 days will be offered; all interest and penalty charges shall be reversed;**
 - (d) Above fifty thousand rand (R50 001) all charges (e.g. disconnection fees) and interest will be reversed.**
 - (4) That, where the property is registered to the deceased person, the current occupier will qualify for the Program, on condition that he or she submit;**

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- (a) a signed affidavit or statements not more than three months old from lender indicating that he or she is the occupier of the property or a signed affidavit from all the sibling indicating that he or she is the occupier of the property. These affidavits must be accompanied by the dearth certificate; or
 - (b) a letter of authority from the master's office in the name of the occupier.
- (5) That, where the property is registered as mixed used with business and residential, the square meter of each business and residential will be used to determine the square meterage of each unit. The percentage of each unit will be multiplied by total City of Johannesburg evaluation of the property.

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