



**POLICY ON PROVISION
FOR DOUBTFUL DEBT
AND
WRITE-OFF
OF IRRECOVERABLE DEBT**

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POLICY ON PROVISION FOR DOUBTFUL DEBT AND WRITE-OFF OF IRRECOVERABLE DEBT

1. DEFINITIONS

For the purposes of this policy the following definitions are applicable:

“Debt” - means an amount owing to the Municipality;

“Debtor” – means a person who owes the Municipality money for rates/services rendered;

“Accounting Officer” – the Municipal Manager appointed;

“Council” – means the council of the Municipality;

“Municipality” – means the Kai !Garib Municipality.

“First time” – means from the 2020 / 2021 financial year and onwards.

2. PURPOSE OF POLICY

- 2.1 This policy provides guidelines on treatment of the impairment and write-off of debtors.
- The policy seeks that household consumers with no or lower income are not denied a reasonable service and that the municipality is not financially burdened with non-payment of services.
- 2.2 Section 96 of the Local Government: Municipal Systems Act, 32 Of 2000, provides that a municipality must collect all money that is due and payable to it, subject to the provisions of that Act and other applicable legislation. The Council is faced with a significant amount of outstanding debt and the continuous defaulting by certain consumers who can afford to pay for services.
- 2.3 It is recognized, however, that circumstances may arise which may make the recovery of certain debts impossible, impractical or financially unfeasible, and that such debts may have to be written off.
- 2.4 The purpose of this policy is to provide a framework for:
- 2.4.1 limiting the circumstances contemplated in 2.3;
 - 2.4.2 determining, when such circumstances have arisen, whether to write- off any debts; and
 - 2.4.3 the procedures for writing off such debts.
- 2.5 The municipality will maintain audit trails in such an instance and document the reasons for the abandonment of the action or claim in respect of the debt.

2.6 In addition, the policy further stipulated that “Council must appoint a committee in terms of its delegations to review and **recommend to Council to approve all bad debt write off cases.**”

2.7 **The effective management of debtors include, amongst others, the following processes:**

- **Implementation/maintenance of the appropriate Information and Communication Technology (ICT) Systems and Business Processes;**
- **Accurate Billing;**
- **Customer Care and Accounts enquiry management;**
- **Effective and timeous Credit Control;**
- **Impairment of Debtors (Provision for Doubtful Debtors); and**
- **Write-off of uncollectable debtors.**

2.8 The objectives of this policy are:

2.8.1 To ensure that the debtors disclosed in the annual financial statements are stated at amounts that are deemed to be collectable; and

2.8.2 To ensure that uncollectable debt is written off within guidelines of applicable policies and legislation.

3. **IMPAIRMENT OF DEBTORS**

Consumer debtors, long term receivables and other debtors are stated at cost less provision for bad debt.

Provision for impairment is made on an individual basis or based on expected payment. In accordance with IAS 39, an objective assessment of financial assets is made at year end to determine possible impairment. Impairment loss is recognised as an expense in the Statement of Financial Performance.

3.1 Consumer debtors

Consumer debtors are evaluated at the end of the reporting date and impaired as follows:

| Category of debtor | Percentage of debt regarded as collectable | Percentage of debt provided for as irrecoverable (Impairment Percentage) |
|---|---|--|
| Credit balances | Zero | Zero |
| Inactive accounts | Zero | 100% |
| Registered indigents | Zero | 100% |
| Formal arrangement on arrear debt | Monthly instalment debt in respect of 24 months | 100% of balance of account less 24 months instalments |
| Date ageing less than 180 days | 100% | Zero |
| Date ageing between 181-360 days | 50% | 50% |
| Date ageing more than 360 days | Zero | 100% |
| Debt relating to Government (National, Provincial, Local and SOE's) | 100% | Zero |
| Debt relating to Businesses | 100% | Zero |

3.2 Sundry Deposits

Sundry deposits are assessed for impairment to ensure that no objective evidence exists that these deposits are irrecoverable.

3.3 Sundry Debtors

Sundry debtors are classified as financial instruments with debit balances at yearend. Sundry debtors are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

4. **RESPONSIBILITY / ACCOUNTABILITY**

The Council has the overall responsibility for adopting and approving the Provision for Bad Debts and Writing Off of Irrecoverable Debt.

5. **WRITE-OFF OF DOUBTFUL DEBTORS**

5.1 The following should be the guiding principles in implementing the Policy on Writing Off of Irrecoverable Debt:-

5.1.1 The policy is in accordance with the Local Government Municipal Finance Management Act 2003, Local Government Municipal System Act 2000, as amended and other related legislation.

- 5.1.2 Before any debt is written off it must be proven that the debt has become irrecoverable. To ensure that recommendations for write off are consistent and accurate, irrecoverable debt will be defined as:-
- 5.1.2.1 Where the tracing of the debtors is unsuccessful; and
 - 5.1.2.2 All reasonable steps, at the discretion of the appointed write off committee were taken by the officials to recover the debt.
- 5.1.3 Bad debt write offs must be considered in terms of cost benefit; when it becomes too costly to recover and the chances of collecting the debt are slim, a write off should be considered.
- 5.1.4 Time value of money is very important because the older the debt becomes, the more difficult and costly it becomes to collect. It is therefore imperative that a proper system of credit control is implemented and maintained to avoid debt reaching the stage of becoming too expensive to recover.
- 5.1.5 Differentiation must be made between those household consumers who cannot afford to pay for basic services and those who just do not want to pay for these services.
- 5.1.6 Debt can only be written off if the required provision exists in the Municipality's budget and/ or reserves.

6. CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITING-OFF OF IRRECOVERABLE DEBT

6.1 Approved Indigent Household Consumers in terms of the Municipality's Indigent Policy

- 6.1.1 Upon approval for registration as an applied indigent consumer, the debtor's outstanding services balance may be written off. The debt write off will be considered after the application is approved.
- 6.1.2 Debt owed by the deceased estate of the breadwinner of a registered indigent household shall be written off up to the date of the death of the owner.

6.2 Balances too small to recover considering the cost for recovery

- 6.2.1 Where final accounts have been submitted and paid by the respective consumer and the remaining balance after finalisation of any final readings and other administrative costs results in a balance of one hundred rand (R100) or less, such account must be forwarded once to the consumer for payment.
- 6.2.2 Where such account is not paid by the respective consumer within a period of ninety (90) days such amounts will automatically be written off.

6.3 **Insolvency of the Debtor and Insolvent Deceased Estates**

- 6.3.1 Where a debtor becomes insolvent the Municipality must ensure that a creditor's claim is timeously registered. Any amount not being recovered due to insufficient funds or if there is a risk of a contribution being made to an insolvent estate must, after notification, be written off.
- 6.3.2 In case of death of the debtor, a creditor's claim must be timeously registered against the deceased's estate. Any amount not being recovered due to insufficient funds or if there is a risk of a contribution being made to a deceased estate must, after notification, be written off.

6.4 **Untraceable Debtors**

- 6.4.1 Any amount owed by a debtor that has become untraceable or uneconomical to collect such arrears, may be written off.
- 6.4.2 Debt written off in the above instances will automatically result in the debtor being reported to the credit bureau by the Municipality.

6.5 **Prescription Act**

- 6.5.1 In terms of Section 11 of the Prescription Act, 1969 (Act 68 of 1969), the periods of prescription of debts are as follows:
- (i) **Thirty years** in respect of -
any debt secured by a mortgage bond;
any judgment debt;
any debt in respect of any taxation imposed or levied by or under any law; and any debt owed to the State in respect of any share of the profits, royalties or any similar consideration payable in respect of the right to mine minerals or other substances.
 - (ii) **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 (i) above.
 - (iii) **Six years** in respect of a debt arising from a bill of exchange or other negotiable **instrument** or from a notaries contract, unless a longer period applies in respect of the debt in question in terms of paragraph (i) or (ii) above.
 - (iv) **Three years** in respect of all other debts, save where an Act of Parliament provides otherwise.

6.5.2 The provisions of Prescription Act will apply to all services debt, excluding assessment rates. Applications and/ or claims for prescription from debtors will only be assessed if no formal credit control or legal actions have been instituted during prescription debt period.

6.5.3 Budget and Treasury officials will assess application in terms of prescribed requirements. If in compliance with Prescription Act, approval may be granted to write-off prescribed portion of the debt in terms of the delegations.

6.6 Special Arrangements in order to obtain a Clearance Certificate

6.6.1 In terms of legislation the Municipality will under normal circumstances not issue a Clearance Certificate on any property unless all outstanding amounts are paid to date, or alternatively payment of the current year and two years preceding the date of application for the certificate have been fully paid, and a guarantee by the attorney handling the property transfer is issued in favor of the Municipality for the balance of the debt.

6.7 Special Incentives introduced by Council for Household Consumers in terms of the Approved Revenue Enhancement Strategy

6.7.1 Notwithstanding the Municipality's Credit Control Policy a debtor may enter into a written agreement with the Municipality to repay any outstanding and due amount to the Municipality under the following conditions:

6.7.1.1 The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;

6.7.1.2 The current monthly amount must be paid in full; and

6.7.1.3 The written agreement has to be signed on behalf of the Municipality by a duly authorised officer.

6.7.2 Due to ineffective/ non implementation of credit control measures in the past, the majority of household consumers have accumulated significant arrear amounts and that these consumers are not in a position to pay of these arrear amounts in full together with their current monthly accounts. In order to improve the current payment levels from consumers the Council of Kai !Garib Municipality may resolve to implement special incentives to address the arrear debt.

6.8 Special Cases

From time to time, Special Circumstances may warrant a write off of debt. These special circumstances will be considered on its merits and will be at the discretion of the Municipal Council.

7. **DELEGATIONS FOR DEBT WRITE – OFF**

7.1 The recommended delegated levels for write off are as follows:

7.1.1 Manager Revenue - Account balance up to **R50, 000** in consultation with the Chief Financial Officer

7.1.2 Chief Financial Officer - Account balance up to **R100, 000** in consultation with the Municipal Manager

7.1.3 Account balance that is **R100, 001+** must be approved by the Municipal Council or its delegated authority.

7.1.4 All write offs as delegated above shall be reported to Council for noting

8. **DELEGATED POWERS ON WRITING OFF INTEREST AND PENALTIES ON RECOVERABLE DEBTS**

The Chief Financial Officer will, after thorough review of any applications in terms of this Policy, be delegated to write off interest and penalties, subject to full settlement of the account.

9. **BAD DEBTS RECOVERED**

The approval of Council for the write-off of any debt does not mean that actions to recover the money will be terminated, however, further actions will be instituted depending on the costs involved and if debt is recovered it will be recorded in the financial records of Council as recovered.

10. **IMPLEMENTATION AND REVIEW OF THIS POLICY**

10.1 This policy shall be implemented once approved by Council and applied to the current and 2 preceding financial years of the municipality's when compiling annual financial statements.

10.2 All future submissions for the writing off of debt must be considered in accordance with this policy.

10.3 In terms of section 17 (1) (e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.