

MAKANA LOCAL MUNICIPALITY



**THE PROVISION OF IMPAIRMENTS TO DEBTORS, AND THE WRITING OFF OF
IRRECOVERABLE DEBT**

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MAKANA LOCAL MUNICIPALITY

PRINCIPLES AND POLICY ON THE WRITING OFF OF IRRECOVERABLE DEBT

1. Introduction

1.1. The Council of Makana Local Municipality resolves in terms of section 97(1)(d)(ii) of the Local Government: Municipal Systems Act (No 32 of 2000 as amended), read in conjunction with the provisions of section 64(f) of the Local Government Municipal Finance Management Act (No 56 of 2003) to adopt a policy on the impairment of debtors, and to regulate the writing off debts deemed irrecoverable.

2. Purpose of Policy

2.1. To ensure the progressive re-alignment of the budgeting framework, through ensuring that the annual budget is funded from inter alia realistically anticipated revenues to be collected, in compliance with the provisions of section 18(2) of the Local Government: Municipal Finance Management Act (No 56 of 2003); to regularise a framework for the impairment of debtors in compliance with Generally Recognised Accounting Practices, and to establish principles and procedures for the writing off of debts deemed irrecoverable, and matters connected therewith.

3. Objectives

3.1. The objectives of the policy are to provide for:

- 3.1.1. Fair statement of accounts receivable, long-term debtors and other debtors;
- 3.1.2. Framework for the identification of irrecoverable debts;
- 3.1.3. Delegations framework for the write-off of irrecoverable debts;
- 3.1.4. Framework for the introduction of ad hoc incentive schemes.

4. Impairment of Debtors

4.1. Impairment of financial assets

- 4.1.1. In accordance with the adopted accounting policy, consumer debtors (accounts receivable from exchange and non-exchange transactions), long term receivables and other debtors are stated at cost, less a provision for bad debts.
- 4.1.2. A financial asset or a group of financial assets are impaired, and impairment losses are incurred if, and only if, this is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that a loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

4.2. Timing of assessment

- 4.2.1. The Municipality will assess at the end of each reporting date whether this is objective evidence that accounts receivable are impaired

4.3. Evidence of impairment

- 4.3.1. Objective evidence of a potential impairment will be recognised when one of the following events occur during a reporting period:
- 4.3.1.1. Where a debtor has been classified as an indigent;
 - 4.3.1.2. Where no payments have been recorded against a specific consumer account for the duration of the financial year to which a reporting period relates (delinquent debtors);
 - 4.3.1.3. Where intermittent payments are recorded against a specific consumer account consumers under financial distress);
 - 4.3.1.4. Accounts that have been handed over to a debtor collector/ attorney for specialised recovery;
 - 4.3.1.5. Consumer accounts with arrears 90 days and greater outstanding as at the reporting date.

4.4. Calculation and recognition of impairment losses

- 4.4.1. The impairment loss on accounts receivable will be calculated by multiplying an individual debtors outstanding balance as at the reporting date, less subsequent receipts(July) by a weighted risk factor. (risk assessment is conducted per individual account, and is defined based on actual receipts received relative to each individual debtor, and any other trait which in management's professional judgement need apply which may impact on the recoverability of a debt).
- 4.4.2. For purposes of this assessment all government related debts, and accounts other than government related accounts with credit balances as the reporting date, shall be excluded.
- 4.4.3. Receipts in July (following reporting date) are considered in the calculation to moderate the impairment of debtors who settle their accounts subsequent to year end. These receipts provide more information about the debtor's intention and ability to pay at year end.
- 4.4.4. Gross carrying value of impairments by service type are evaluated against the individual provisions for doubt debts held at the reporting period, net increases/ decreases(contributions) per service type are accounted for within the statement of financial performance.

4.5. Risk Categorisation

- 4.5.1. All debtors shall be classified into key risk categories based on their respective payment history and any other relevant trait as management may define, for purposes of this policy the following primary risk categories are defined; management discretion may be applied to further enhance the categorisation of risk within the upper and lower thresholds established:
- 4.5.1.1. High Risk (100% impairment loss recognised);
 - 4.5.1.2. Medium Risk (50% impairment loss recognised);
 - 4.5.1.3. Low Risk (10 % impairment loss recognised);

4.5.2. Risk Matrix

Group	Risk Factor (% impaired)
Indigent Consumers	High
Accounts with no payments received in the past 12 months	High
Accounts with partial payments received in the past 12 months	Medium
Accounts subject to formal repayment arrangements	Low
Accounts with balances outstanding less than 60 days	Low

5. Identification of irrecoverable debts

- 5.1. Pursuant of section 64 of the Local Government: Municipal Finance Management Act (No 56 of 2003), the Accounting Officer is mandated to take all reasonable steps to ensure that the municipality has an effective revenue collection system consistent with the provisions of section 95 of the Local Government: Municipal Systems Act(No 32 of 2000,as amended), and the Municipality’s credit control and debt collection policy.
- 5.2. The Municipal Manager is therefore mandated to establish effective administrative mechanisms, processes and procedures to collect all money that is due and payable to the Municipality.
- 5.3. In the discharge of the fiduciary responsibilities conferred on the Accounting Officer, the Municipal Manager must ensure that all recourses available in law, and that defined in terms of the credit control and debt collection policy are fully utilised for the recovery of all outstanding debts; noticeably in the discharge of these responsibilities the Municipality will be conflicted with changes in the legal standing and socio-economic profile of individual debtors, which may result in collectable debts subsequently being classified as irrecoverable debts.
- 5.4. To regularise the administration and management of irrecoverable debts, necessitates that the Municipality pronounce on a policy on the writing off of irrecoverable debts, and define the circumstances that allows for the valid termination of debt collection procedures as contemplated in section 109(2) of the Local Government: Municipal Systems Act (No 32 of 2000).
- 5.5. The valid termination of debt collection procedures as contemplated in section 109(2) of the Systems Act may be considered under the following circumstances:

5.5.1. Approved Indigent Household Consumers in terms of the Municipality’s Indigent policy

- 5.5.1.1. Upon approval for registration as an indigent household consumer, the debtor’s full outstanding balance as at the date of approval;
- 5.5.1.2. Any new arrears accumulated by the debtor (i.e. any amounts in excess of the indigent allowance for free basic services) whilst registered as an indigent consumer, will not qualify to be written off and must be dealt with strictly in accordance with the Municipality’s Credit Control and Debt Collection Policy and the Indigent Consumer Policy.

5.5.2. Prescription of debts

- 5.5.2.1. Service-related debts that remain outstanding for periods in excess of three years, and have not had prescription interrupted in compliance with the act shall be deemed to have prescribed, and accordingly written off in compliance with the Prescriptions Act 68 of 1969;

5.5.3. Balances too small to recover considering the cost for recovery

- 5.5.3.1. 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 final account/ reminder must be forwarded once to the consumer for payment, after which an account will qualify for write off.

5.5.4. Insolvency of the Debtor and Insolvent Deceased Estates

- 5.5.4.1. Where a debtor becomes insolvent/liquidated 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/liquidated estate must, after notification, be written off;
- 5.5.4.2. 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.

5.5.5. Untraceable Debtors

- 5.5.5.1. Where for any reason the forwarding address of a debtor becomes untraceable or the debtor becomes untraceable from the current address, such account must be subjected to a credit bureau search. Should a trace result return a negative report -debtor untraceable, the collection agent must report to the Municipality on the actions that were taken to attempt to trace the debtor;
- 5.5.5.2. Any amount owed by a debtor that has become untraceable must, after notification, be written off;
- 5.5.5.3. Post write off, Council may through a tender offering authorise a sale of all debts written off;
- 5.5.5.4. Debt written off in the above instances will automatically result in the debtor being reported to the credit bureau by the Municipality.

5.5.6. Special indulgence

- 5.5.6.1. Notwithstanding any provision of this policy, council reserves the right to pronounce on the writing off on debts associated with any grouping of customers who are deemed unable to pay for services rendered.

5.5.7. Inactive accounts

- 5.5.7.1 All accounts with credit balance due to adjustments will be deemed prescribed and allocated to accumulated surplus account.

5.5.8. Audit Trail

- 5.5.8.1. The Municipality must maintain clear audit trails, with appropriate source evidence as may be necessary to justify courses of action, and document the reasons for the abandonment of the actions or claims in respect of all debt written off in terms of this policy.

6. Committee to monitor debts to be written off

- 6.1. Council will appoint the Standing Committee on Finance to monitor the implementation of this policy;
- 6.2. The above Committee will meet at least quarterly to receive and review reports prepared by the Office of the Chief Financial Officer;
- 6.2.1. Report prepared for the committee is to contain inter alia:
- 6.2.1.1. Full particulars of the consumer;
 - 6.2.1.2. Irrecoverable debts categorised by service;
 - 6.2.1.3. Particulars of the Legal standing of the consumer;
 - 6.2.1.4. Reason for the applications;
 - 6.2.1.5. Confirmation of all actions brought against the debtor in compliance with credit control and debt collection policy;
 - 6.2.1.6. Confirmation that further actions would be tantamount to fruitless and wasteful expenditure.
- 6.2.2. Matters verified by the committee are to be reported quarterly to Council for necessary approval, after which the Budget and Treasury Office is authorised to effective the write down applications;
- 6.2.3. All debts authorised for write down may only be authorised subject to confirmation that sufficient resources are held within the impairment provision to meet the anticipated cost associated with the write down;
- 6.2.4. The quorum for the Committee shall be 50% of the members, plus one;
- 6.2.5. Formal minutes of Committee meetings must be prepared and submitted to Council.

7. Special incentives introduced by Council in terms of the credit control and debt collection policy

- 7.1. The Municipality may approve the implementation of debt incentive schemes pursuant of the credit control and debt collection policy for residential customers, agricultural, churches, NPO's and commercial entities, applying necessary criteria and procedures within which identified debts of participants to a scheme may be written off in exchange for prompt and timeous payments of future accounts rendered by the Municipality.

8. Implementation and review of this policy

- 8.1. This policy shall be implemented once approved by Council. All future submissions for the writing off of debt must be considered in accordance with this policy;
- 8.2. 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.