LEKWA LOCAL MUNICIPALITY
BUDGET RELATED POLICY

WRITING OFF OF BAD DEBTS AND THE IMPAIRMENT OF DEBTORS POLICY

1. INTRODUCTION

The Council of Lekwa Local Municipality resolves in terms of section 97 (1)(d)(ii) of the Local Government : Municipal Systems Act, Act 32 of 2000 as amended and the Local Government Municipal Finance Management Act section 64 (f) to adopt the following as the policy on writing off the bad debts as irrecoverable and the impairment of debtors.

2. PREAMBLE

The Municipal Finance Management Act (MFMA) Act 56 of 2003, aims to modernize budget and financial management practices in municipality in order to maximize the capacity of the municipality to deliver services to all residents, customers and users. It also give affect to the principles of transparency as required by sections 215 and 216 of the constitution.

The Council of the municipality in adopting this policy on writing off bad debts recognises its responsibilities as set out in chapter 9 of the Local Government Municipal Systems Act, Act 32 of 2000 as amended.

3. VISION

The vision of the policy is to ensure that the debtors of the municipal Council are not over stated in the books of the Council:

- to ensure any long outstanding debt is evaluated in order to determine the possibility of realising such income as revenue.
- to ensure that where it is evident that a particular debt cannot be turned into a revenue such debt be procedurally regarded as irrecoverable.
- to ensure that the Council of the municipality makes enough provision for bad debts in the budget.
- to ensure that outstanding monies which have been outstanding for a long time after all attempts have been made in terms of recovering them should then be written off.

4. STATEMENT

This policy aims to set down principles for the implementation of the writing off of bad debts and the provision for doubtful debt.

5. OBJECTIVES

The objectives of this policy are to provide for:

- the identification of bad debts during the course of the financial year.
- the writing off of bad debts at least three months before the end of the financial year.
- the proper delegation of powers to the chief financial officer to write off bad debts up to a certain amount.
- the proper provision for doubtful debt.

6. IDENTIFICATION OF IRRECOVERABLE DEBTS

6.1 When the municipality identifies customers whose debts appear to be irrecoverable even after the whole credit control and debt collection process has been followed in terms of trying to obtain payment, then such accounts should be regarded as irrecoverable.

6.2 Once the debt is regarded as irrecoverable during the course of the year it must be grouped with others so that at the latest by April every year the report should serve before the Council in order to write off the irrecoverable debts.

6.3 Debt can be regarded as irrecoverable under the following circumstances:-

6.3.1 Debt that was subjected to all the debt collection procedures provided for in this policy and still was unsuccessful to collect the debt and where the debt collection process had to be abandoned.
6.3.2 Debt of which the cost to collect debt has exceeded the debt amount.
6.3.3 Debt of indigent debtors that cannot be collected after the implementation of the debt collection procedures applicable to indigent consumers provided for in this policy.
6.3.4 Small amount debt which the cost to collect the debt is more than the debt amount.

6.3.5 **Debt of deceased estates-**

6.3.5.1 Claims must have been submitted to the estate if the deceased;

6.3.5.2 The executor of the estate advised Council in writing that there are no funds in the estate, and if the heir is employed he will be fully liable for the outstanding debt.

6.3.6 **Debt of debtors who have emigrated-**

6.3.6.1 Debt collection procedures must have been implemented;
6.3.6.2 Council was informed by a reliable source that the debtor had emigrated.

6.3.7 **Debt that has prescribed-**

6.3.7.1 Debt collection procedures must have been implemented;
6.3.7.2 Debt must be older than three years;
6.3.7.3 Debt must comply with the provisions of section 10 Chapter III of the Prescription Act No 68 of 1969.

6.3.8 **Debt of insolvent estates-**

6.3.8.1 Debt collection procedures must have been implemented;
6.3.8.2 Claims must have been submitted to the liquidators of the insolvent estate;
6.3.8.3 The liquidators of the insolvent estate must advise Council in writing that there are no funds in the estate, and if the heir is employed he must be fully liable for the outstanding debt;
6.3.8.4 Council received dividends on the amount owing and was advised that the estate had been finalized and there will be no further dividends forthcoming;
6.3.8.5 The annual Revenue Budget will include an amount to provide for the amount to be written off.

6.3.9 **Debt of Indigent Households**

a) 6.3.9.1 Upon first time registration as an indigent household the arrear debt of the indigent household may be written off within the discretion of the council.
6.3.9.2 Any debt accrued, after this write off, in excess of the indigent thresholds will be recoverable in terms of the credit control policy.

7. WRITING OFF OF IRRECOVERABLE DEBTS

Where debts are identified as being irrecoverable, the process of writing off will be treated as follows:

7.1 Amounts equal to or lower than amounts delegated to the Chief Financial Officer (CFO) by Council resolution from time to time(R 100 at the time of the policy adoption)

The Income Manager must prepare a report within the delegated powers of the CFO containing the following:

- consumer details;
- irrecoverable amount broken down by service;
- details on credit and debt collection processes followed to recover the debt;
- reasons that led to debt being identified as being irrecoverable;
- confirmation that all available avenues to recover debt have been exchanged; and
- confirmation that further actions would be fruitless and not cost effective.

The report of the Income Manager must be scrutinized by the Budget and Treasury Manager and recommended the writing off to the CFO for consideration.

Upon approval by the CFO, the credit control section will draw a Lekwa Municipality journal against the debt impairment provision vote in the income and expenditure ledger and process it against the relevant debtors account.

The Income Manager must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to the budget office by no later than 20 July of each year to be retained for audit purposes.

7.2 Amounts exceeding the CFO delegated authority

The Income Manager must prepare a report in excess of the CFO delegated powers containing the following:

- consumer details;
- irrecoverable amount broken down per service;
- details on credit and debt collection processes followed to recover the debt;
- reasons that led to debt being identified as being irrecoverable;
- confirmation that all available avenues to recover debt have been exchanged; and
- confirmation that further actions would be fruitless and not cost effective.

The report of the Income Manager must be scrutinized by the Budget and Treasury Manager and recommend the writing off to the Mayoral Committee for consideration. The final report to the Mayoral Committee must be signed off by the CFO.

Upon approval by the Council, the credit control section will draw a Lekwa Municipality journal against the debt impairment provision votes in the income and expenditure ledger and process it against the relevant debtors account.

The Income Manager must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to the budget office by no later than 20 July of each year to be retained for audit purposes.

7.3 Specific debt write offs

The Income Manager may submit a report to the Mayoral Committee from time to time for specific uncollectable debt transactions such as:

- liquidations in terms of section 89 of the Insolvency Act, Act 24 of 1936;
- erven brought back by Council;
- outstanding debts that are older than two (2) years that cannot be recovered during the transfer of immovable property as in terms of section 118 (1)(b) of the Systems Act, Act 32 of 2000; and/or
- for a specific debt category
- The report for specific debt write offs must contain the following:
- customer details;
- reason for specific debt write offs;
- amount to be written off broken down per service; and
- confirmation that further actions would be fruitless and not cost effective.

The report of the Income Manager must be scrutinized by the Budget and Treasury Manager and recommend the writing off to the Mayoral Committee for consideration. The final report to the Mayoral Committee must be signed off by the CFO. Upon approval by the Council, the credit control section will draw a Lekwa Municipality journal against the debt impairment provision votes in the income and expenditure ledger and process it against the relevant debtors account.

The Income Manager must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to the budget office by no later than 20 July of each year to be retained for audit purposes.

8. **RECOVERY OF IRRECOVERABLE DEBTS**

Should there be a payment in respect of the account which has already been written off, such monies must be allocated to the specific vote number designed for the recovery of irrecoverable debts.

9. **SUNDRY MATTERS**

Council may from time to time implement an incentive scheme which may entitle writing off of certain debts.

10. IMPAIRMENT OF DEBTORS (PROVISION FOR DOUBTFUL DEBT)

Consumer debtors (accounts receivable), long term receivables and other debtors are stated at cost, less a provision for bad debt.

Significant financial difficulties of the debtor and default or delinquency in payments or all debt outstanding for more than 150 days are considered indicators to determine that debtors are impaired.

Impairment of debtors (provision for doubtful debt) is recognized as an expense in the statement of financial performance. When an under recovery occurs during the financial year an additional contribution for impairment is made at year end.

In the assessment for impairment the following methodologies:

10.1 Debtors

Debtors are evaluated at each reporting date and impaired on their payment ratio which can be defined as the sum of the debtor's total payment for the year divided by the debtor's total billing for the year.
Any payment ratio less than 100% will lead to a provision for a bad debt.

10.2 Sundry debtors

Sundry debtors may be assessed individually for impairment when necessary to ensure that no evidence exists that these debtors are irrecoverable should the process in 10.1 not be sufficient.

10.3 Sale of erven

Loans were given at a low interest rate of 7,5% per annum to encourage development through the sale of erven since the inception of the MFMA no new loans are granted. These debtor accounts may be assessed individually to establish whether evidence exists for impairment that these debtors are irrecoverable.

11. SHORT TITLE

This policy shall be called the Writing Off of Irrecoverable Debts and Impairment of Debtors Policy.