

# LEKWA LOCAL MUNICIPALITY



## **FINAL BAD DEBT WRITE OFF POLICY 2025/2026**

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## **1. Introduction**

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.

The effective management of debtors includes, amongst others, the following processes:

- 1.1 Implementation/Maintenance of the appropriate ICT Systems and Business Processes.
- 1.2 Accurate billing.
- 1.3 Customer care and accounts enquiry management.
- 1.4 Effective and time-consuming credit control.
- 1.5 Impairment of debtors (Provision for Doubtful Debtors);
- 1.6 Write-off of uncollectable debtors.

This policy provides guidelines on the treatment of the impairment and write-off of debtors.

## **2. Application and Scope of Policy**

- 2.1 The policy shall apply to consumer debtors, long term receivables and all other debtors.

### **3. Objectives of Policy**

- 3.1 To ensure that debtors disclosed in the annual financial statements are stated at amounts that are deemed to be collectable.
- 3.2 To ensure that uncollectable debt is written off within guidelines of existing policies and applicable legislation.
- 3.3 The purpose of this document is further to:
  - 3.3.1 To set out a methodology for the impairment of receivables in line with the applicable accounting standards.
  - 3.3.2 To ensure that sufficient allowance is made for the impairment of receivables in the financial statements.
  - 3.3.3 Ensure that receivables disclosed in the financial statements are stated at amounts that are deemed collectable; and
  - 3.3.4 To promote transparency as required by sections 215 and 216 of the Constitution when dealing with receivables and debt.

### **4. Exclusions**

The following accounts are specifically excluded from impairment testing:

- 4.1 Receivable accounts with a combined credit balance at reporting date.
- 4.2 Receivable accounts where the combined balance at reporting date is zero.
- 4.3 Receivable accounts where the Municipality is the owner; and
- 4.4 Receivable accounts that have no balance outstanding longer than 30 days at reporting date as these accounts are considered not to be past due

### **5 Discounting and the Levying on Arrears**

- 5.1 Impairment and provision for bad debt shall only be discounted on accounts as per GRAP 104 guidelines.
- 5.2 Discounting will be applied based on the Municipality' promulgated interest rate on arrear account.

## 6 Debt Impairment.

Consumer debtors, long term receivables and other debtors are stated at cost less a provision for bad debts. The provision is made on an individual basis or based on expected cash flows.

### **GRAP 104 Financial Instruments issued October 2009**

Paragraph .57 states:

- .46 *“All financial assets measured at amortized cost, or cost, are subject to an impairment review...”*
- .57 *“An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraphs .61 to .63 (for financial assets carried at amortized cost) and paragraph .64 (for financial assets carried at cost) to determine the amount of any impairment loss”*
- .58 *“A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.”*

Furthermore, Paragraph .61 states:

- .61 *“If there is objective evidence that an impairment loss on financial assets measured at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in surplus or deficit.”*
- .62 *“An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (see paragraph .58). If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in*

*a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.”*

The following are considered when provision is made for doubtful debt:

The Municipality allocates a SCORE based on the account's ageing, account status, account type and whether it's an owner or occupier – 2 being the max score on each and 10 being the max total score and the higher the score the provision for bad debt.

### **6.1 Active and Inactive STATUS of Accounts**

- If the account is inactive the STATUS score gets a 2 and if the account is active, it gets a zero score.

### **6.2 Owner TYPE risk status**

- If the account is an occupier, it gets a high score of 2 and if it's an owner account it gets a zero because when the owner wants to sell he needs a clearance certificate and the municipality will be able to retrieve the debt.

### **6.3 Account/Consumer Type status**

- The last score is based on your Account Type Category – Government and Provincial accounts get a zero score because you should be able settle the government accounts debt. All other account type debtors are allocated a scoring of between 0 and 1.5.
- The following are the account type categories that are already implemented in the municipal financial management

Block Flats -1.25  
Business -0.4  
Butchery /Abattoirs - 0.4  
Church -0.4  
Council -0  
Doctor/ Surgery- 0.4  
Farms -0  
Filling Stations etc -0.4  
Funeral Directo 0.4  
Government - 0  
Hotel/Lodge/Guest Houses - 0.4  
Mines/Factories 0  
Pbo -0.4  
Private Schools - 0.4  
Psi -0.4  
Residential -1.25  
Restaurants - 0.4  
Schools 1.5

Shopping Centre -0.4  
Shops Cafes - 0.4  
Tavern / Pubs- 0.4

#### **6.4 Account Ageing Status**

- Lastly you allocate a score depending on whether the account has outstanding balances in 30days, 60days, 90days, 120days etc. and the older the debt the higher the score.

30 Days - Maximum 0.50  
60 Days – Maximum 0.50  
90 Days – Maximum 0.50  
120 Days – Maximum 0.75  
150 Days – Maximum 0.75  
180+ Days – Maximum 3.70

- The profiling of clients' debts also considers the arrear status of each clients' accounts.
- The principle is that the more in arrear the account is the higher the risk of collection of such debt. More provision for impairment is made on debt relatively as the debt becomes more in arrears

#### **6.5 Totals Scoring**

- The Total Type Risk = Status Risk Score + Account Type Risk Score + Owner/Occupier Type Risk Score
- Total Payment Risk = the payment risk scoring added together
- The Provision factor is then the 2 risks multiplied together to get the % which is applied to the outstanding balance.

The Provision factor is calculated by multiplying the total TYPE RISK with the total PAYMENT risk and if it's more than 10 then it impairs the full outstanding amount

#### **6.6 Sundry Deposits**

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

#### **6.7 Sundry Debtors**

- Sundry debtors are those Suspense Control Accounts classified as financial instruments with debit balances as at year-end. Sundry

debtors are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

## **7 Write-Off Of Doubtful Debtors**

The Council will consider writing off bad debts –

Only after all reasonable steps have been taken to recover the debt in accordance with this policy, and the Council has convinced itself that:

- (i) recovery of the debt would be uneconomical; or
- (ii) recovery would cause undue hardship to the customer or his/her dependants; or
- (iii) it would be to the advantage of the Council to effect a settlement of its claim or to waive a claim.

The debt to be written off as determined in (a) above will only be effected:

- (i) in terms of council policy; or
- (ii) in terms of legislation; or
- (iii) in terms of regulations issued.

### **7.1 Metered and Utility Services Debt.**

Debt owed to Council due to consumed metered services, i.e. Water and Electricity consumption and all other utility services will be regarded as irrecoverable in the following instances:

- 7.1.1 Where the consumer is untraceable.
- 7.1.2 If the debt has prescribed in terms of Prescription Act.
- 7.1.3 Insolvent/Liquidated estates.
- 7.1.4 Decreased Estates with no funds available for distribution.

### **7.2 Sundry Debt.**

Debt owed to Council arising from auxiliary services rendered by Council will be regarded as irrecoverable in the following instances:

- 7.2.1 Where the debtor is untraceable.



7.2.2 If the debt has prescribed.

7.2.3 Insolvent/Liquidated estates

7.2.4 Deceased Estates with no funds available for distribution

## **8 Steps To Be Taken Before Writing-Off Debt.**

- 9.1 Before any debt can be written-off, debtors must be screened and verified.
- 9.2 All the applicable actions as contained in the approved Credit and Debt collection policy of the Council should have been executed / implemented. However, there will be special cases where the Credit and Debt collection policy will not be implemented and replaced by other available administrative procedures.

## **9 Indigent Household.**

This policy deals with all write-offs excluding the Indigent household write-offs which will continue to be sanctioned under the approved Council Indigent household policy.

## **10 Specific Debt-Write-Off Incentives.**

The Chief Financial Officer or nominee to identify and investigate specific uncollectable debt categories. Report with full details as to the reasons for categorized debt write-off to be submitted to council for approval.

Approvals granted must be processed against the relevant debtors account and reflected as debit against Bad Debt Account in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors and Bad Debt Account must be prepared annually by the Manager: Debtors and retained for audit purposes.

## **11 Interest.**

Interest levied on accounts as a result of an error from Council's side will be written off or reversed. This will include all interest levied against erroneous billing on accounts.

Interest in accounts may also be written off as guided by an Approved Council resolution, this includes but not limited to any policy as promulgated.

The Chief Financial Officer or nominee may approve such a write off as it complies with an approved policy.

## **12 Council Approved Write-Off Schemes.**

Council approved incentives or debt write-off schemes must be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

Incentives or debt write-offs to be processed to individual qualifying debtors accounts for the duration of scheme.

## **13. Application Of Prescription Act**

The provisions of the 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 of three (3) years.

Relevant Manager will assess application in terms of prescribed requirements. If in compliance with Prescription Act, report of irrecoverable debts detailing the nature of the underlying debt, conditions that led to the debt being identified as being prescribed, details on credit and debt collection processes followed to recover the debt and confirmation that debt has prescribed must be submitted to Chief Financial Officer or his Nominee for consideration and approval.

Approvals granted must be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors and Bad Debt Accounts must be prepared annually by the director income and retained for audit purposes

## 14 Effective Date

The policy shall be effective from 1 July 2024

<b>Policy:</b> <i>BAD DEBT WRITE OFF POLICY</i>	<b>Effective Date:</b>
<b>Approved:</b>	<b>Review Date:</b>

Notwithstanding the review date herein, this policy shall remain effective until such time approved otherwise by council and may be reviewed on an earlier date if necessary.

## 15 Annexure A



Credit Risk Matrix  
impairment.xlsx