

MODIMOLLE- MOOKGOPHONG LOCAL MUNICIPALITY



POLICY ON PROVISION FOR DOUBTFUL DEBT AND WRITING OFF OF IRRECOVERABLE DEBT

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1 INTRODUCTION

- 1.1 This policy provides guidelines on treatment of the impairment and write-off of debtors.
- 2.2 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.
- 1.2 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.
- 1.3 Despite strict enforcement of the previous policies, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt and Council is required by IAS 39 to determine possible debt impairment. Provision should therefore be made for this impairment. To allow this, the Credit Control Policy, Par 9, inter alia, stipulated that:-
- 1.3.1 The Municipal Manager must ensure that all avenues are utilised to collect the municipality's debt. There are certain circumstances that allow for the valid termination of debt collection procedures, such as:-
- The insolvency of the debtor, whose estate has insufficient funds;
 - A balance being too small to recover, for economic reasons, considering the cost of recovery;
 - Indigent household who have no assets which can be sold for recovery of debt to municipality; or indigents who do have assets (e.g. RDP houses);
 - Any debtors' account whose cost to recover is more than the assets of that debtor;
 - A deceased debtor who has no assets to recover the debt; and
 - Where Council deems that a customer or groups of customers are unable to pay for services rendered.
- 1.3.2 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."
- 1.4 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."

1.5 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 OBJECTIVES OF THE POLICY

2.1 The objectives of this policy are:

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

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

3 IMPAIRMENT OF DEBTORS

Applicable accounting standards

GRAP 104 Financial Instruments sets out the requirements and guidelines for the impairment of financial assets subsequently carried at amortised cost.

GRAP 104.46 “All financial assets measured at amortised cost, or cost, are subject to an impairment review...”

GRAP 104.57 “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 amortised cost) and paragraph .64 (for financial assets carried at cost) to determine the amount of any impairment loss. “

GRAP 104.58 “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.”

GRAP 104.61 “If there is objective evidence that an impairment loss on financial assets measured at amortised 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 recognised in surplus or deficit.”

GRAP 104.62 “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. 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.

Methodology

1. Timing of Assessment

The municipality will assess at the end of each reporting date whether there is objective evidence that a receivable account or group of receivable accounts is impaired.

2. Evidence of Impairment

The following accounts are specifically excluded from impairment testing:

1. Receivable accounts with a combined credit balance at reporting date;
2. Receivable accounts where the combined balance at reporting date is zero;
3. Receivable accounts where the municipality is the owner; and
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. Any one of the following events is considered to provide objective evidence that a receivable account or group of receivable accounts could be impaired.

1. Where the last payment date by the customer was before 1 May of each year;
2. Accounts handed over to debt collectors and/or power of attorney;
3. All accounts indicated as in-active accounts on the system;
4. When accounts have been formally presented to the CFO or Mayoral Committee for write off; and
5. All accounts with balances outstanding 90 days and longer as these accounts are considered to be past due

3. Individually Significant Receivables

Consumer receivables with outstanding balances, per service are considered material and will be assessed individually for evidence of impairment. Impairment is done per service. The total is given as a reference. For sundry receivables management will assess on an annual basis which accounts are considered to be individually material. These accounts will be assessed individually for evidence of impairment.

4. Risk Categories

Customers are grouped according to their payment history.

All receivables are categorised into one of three risk categories. These categories are as follows:

Group 1 (Low Risk)- Customers who made at least 12 payments during the financial period under review. This group also includes Government and Municipal debtors which are considered to be low risk as per the Municipality's impairment policy

Group 2 (Medium Risk)- Debtors who made some (less than 12) payments during the financial period under review. Includes mostly Business, Farmers, Other.

Group 3 (High Risk)- Debtors who made no payments during the financial period under review. Include mostly domestic accounts.

The allocation of receivables into the different risk categories are reviewed annually.

Consumer receivables

The following receivables are specifically identified as being low risk receivables due to their nature and past payment history:

1. Government receivables

2. Staff
3. Public services
4. Provincial
5. National
6. Educational
7. State

The remainder of the consumer receivables are assessed individually based on the expected future cash flow.

5. Calculation and Recognition of Impairment

The impairment loss is calculated as the difference between the carrying values at reporting date less the present value of expected future cash flows.

Carrying amount as at reporting date – Present value of future expected cash flow = Impairment loss

The impairment loss is recognised in the general ledger in the following accounts:

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 DOUBTFULL DEBT

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

- 5.1 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.
- 5.2 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:-
 - 5.2.1 Where the tracing of the debtors is unsuccessful; and
 - 5.2.2 All reasonable steps, at the discretion of the appointed write off committee, were taken by the officials to recover the debt.
 - 5.2.2.1 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.
 - 5.2.2.2 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.
 - 5.2.3 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.
 - 5.2.4 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 indigent household consumer, the debtor's interest on the arrear amount will be written off.
- 6.1.2 Upon approval for registration as an indigent household consumer in the specific financial year, the indigent debtor's full outstanding amount will be written off.
- 6.1.3 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 Policy and Indigent Household Policy.

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 sixty (60) 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 Where for any reason the forward address of a debtor becomes untraceable or the debtor becomes untraceable from the current address, such account must be handed over to a collection agent for recovery of the debt. The collection agent will be paid an all-inclusive fee that will be negotiated. The Terms of Reference for such collection agent must include the appointment of a tracing agent to locate the debtor. Should a debtor be untraceable, the collection agent must report to the Municipality on the actions that were taken to attempt to trace the debtor.
- 6.4.2 Any amount owed by a debtor that has become untraceable must, after notification, be written off or sold to a debt collection agency at a discount.
- 6.4.3 Debt written off in the above instances will automatically result in the debtor being reported to the credit bureau by the Municipality.

6.5 SPECIAL ARRANGEMENTS IN ORDER TO OBTAIN A CLEARANCE CERTIFICATE

- 6.5.1 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 two years outstanding debt is made and a guarantee by the attorney handling the property transfer is issued in favour of the Municipality for the balance of the debt.

6.6 SPECIAL INCENTIVES INTRODUCED BY COUNCIL FOR HOUSEHOLD CONSUMERS IN TERMS OF THE APPROVED REVENUE ENHANCEMENT STRATEGY

- 6.6.1 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:-
- 6.6.1.1 The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;
 - 6.6.1.2 The current monthly amount must be paid in full; and
 - 6.6.1.3 The written agreement has to be signed on behalf of the Municipality by a duly authorised officer.

6.6.2 In order to determine monthly instalments, a comprehensive statement of assets and liabilities and income and expenditure, must be provided by the debtor and reviewed by a BTO official. To ensure the continuous payment of such arrangement the amount determined must be affordable to the consumer (i.e. amount not to exceed 25% of gross income), taking into account that payment of the monthly current account is a prerequisite for concluding an arrangement.

6.6.3 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 Modimolle Mookgophong Municipality may resolve to implement special incentives to address the arrear debt.

7 DELEGATED POWERS ON WRITING OFF INTEREST AND PENALTIES ON RECOVERABLE DEBTS

8.1 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 account**, to the maximum of;

8.1.1 in the case of a household consumer an amount of R10 000 per submission;

8.1.2 in the case of a business consumer an amount of R20 000 per submission; and

8.1.3 any amount in excess of the delegation provided for in paragraph 8.1.1 and 8.1.2 above must be submitted together with a recommendation to the Municipal Manager for consideration. The Municipal Manager will, after thorough review of any recommendation by the Chief Financial Officer and in terms of this Policy, be delegated to write off interest and penalties, **subject to full settlement of the account**, to the maximum of:

8.1.4. in the case of a household consumer an amount of R20,000 per submission; and

8.1.5 in the case of a business consumer an amount of R50,000 per submission.

8.2 Any amount in excess of the delegation provided for in paragraph 8.1.1 to 8.1.5 above may only be reviewed by the Committee to Monitor Debt to be written off and must be submitted together with a recommendation to Council for consideration.

8 APPLICATION OF PRESCRIPTION ACT

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 of three (3) years.

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 in paragraphs 7.6.1 to 7.6.5 above.

Reconciliation of the Provision of Doubtful Debtors Account must be prepared annually by the Chief Financial Officer and retained for audit purposes.

9 IMPLEMENTATION AND REVIEW OF THIS POLICY

10.1 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.

11. Commencement

This policy will be effective on the 1st July 2023.

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MUNICIPAL MANAGER