

MERAFONG CITY LOCAL MUNICIPALITY



DEBT WRITE OFF POLICY 2022/2023

INTRODUCTION

The purpose of this document is to outline sound principles and practices to be adhered to in writing off debt of Merafong City Local Municipality.

This policy is the full and final debt write-off policy of Merafong City Local Municipality and must be adhered to by all Councilors, management, staff and officials of the Municipality. The policy will be subject to review from time to time based on changes arising from the legislation and council resolutions. Failure to comply with the policy will result in the institution of disciplinary proceedings against the parties involved.

1. BACKGROUND

This policy serves to assist management and officials of Merafong City Local Municipality to implement and maintain consistent, efficient and effective bad debt management principles. This policy will also assist management to run the municipality in a cost effective manner and yet achieving high levels of revenue collection. The policy also seeks to mitigate the risk of fraudulent writing off of fictitious bad debts.

2. PURPOSE

- To ensure that bad debt write-offs are authorized at appropriate levels.
- To ensure that only bona fide bad debts are written off.
- To ensure firmness in writing off bad debts.
- To ensure that debt collection is effective and efficient.
- To ensure that bad debts are kept within reasonable proportions.
- To ensure that the estimated loss resulting from bad debts is provided for during the same period that the income to which it is related is earned
- To ensure that the outstanding debtors appear in the monthly balance sheet at net realizable value, since the provision is deducted from the gross amount of the debtors.
- To ensure that debtors disclosed in the annual financial statements are stated at amounts that are deemed to be collectable.
- To ensure that uncollectable debt is written off within guidelines of existing policies and applicable legislation.

3. LEGAL CONTEXT

The policy aims to give effect to the requirements and stipulations of –

- The Municipal Finance Management Act 56 of 2003 (MFMA);
- Treasury regulations issued in terms of the MFMA
- The Municipal Systems Act 32 of 2000.
- Generally Recognized Accounting Practice (GRAP)

4. DEFINITIONS

“**bad debt**” refers to an amount owed for which a period equivalent to 24 months has lapsed without there having been any movement on that particular account.

“**debtors**” refers to the individuals who owe the municipality for services rendered.

“**debt collection**” refers to the debt recovery process and includes sanctions (warning, disconnection, adverse credit rating, legal process and/or eviction, etc) to be applied in the event of non-payment of accounts.

“**disconnection**” means interrupting the supply of water or electricity to a debtor as a consequence of ignoring a Final Demand for payment.

“**due date**” refers to the final date of payment as shown on the account.

“**Indigents**” refers to those individuals/households, who due to a number of factors are unable to make monetary contributions towards their basic services, and whose total monthly gross is less than 2 times the prevailing government monthly pension payout.

“**Arrangement**” means a written agreement entered into between the Municipality and the debtor where specific repayment parameters are agreed to. Such arrangement does not constitute a credit facility envisaged in terms of section 8(3) of the National Credit Act but is deemed to be Incidental Credit as envisaged in terms of section 4(6)(b) read with section 5(2) and (3) of the National Credit Act

“Impairment” describes a reduction in the value of a company **asset**, either fixed or intangible, so as to reflect a decline in the quality, quantity, or market value of the **asset**.

5. IMPAIRMENT OF DEBTORS

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. In accordance with GRAP 104, an objective assessment of financial assets is made at financial year-end in order to determine possible impairment. Impairment loss is recognized as an expense in the Statement of Financial Performance. The following debtors are excluded in the calculation of bad debt:

1. Government accounts
2. Municipal accounts
3. Debtors with arrangements

Individual classes of loans and receivables are assessed for impairment using the following methodologies:

5.1. Consumer Debtors

Consumer Debtors are evaluated at each reporting date and impaired as follows:

Category of debtor	Percentage of debt regarded as collectable	Percentage of Debt provided for as Irrecoverable (i.e. Impairment Percentage)
Credit balances	Zero	Zero
In-active accounts	Zero	100%
Hand-over accounts to panel of debt collectors, legal hand-overs and clearance handover (Debt outside Section 118 of the MPRA)	Zero	100%
Approved indigents	Zero	100%
No payment received	Zero	100% based on non-

during preceding 60 days		payment per area
Formal arrangement debt in excess of 30 day's	Zero	Zero
Debt ageing 60 Days +	Zero	100%

6. WRITE-OFF OF DOUBTFUL DEBTORS

Where debts are identified as being irrecoverable (in periods subsequent to debtors being impaired), the process of write-off will be treated as follows:

6.1. Amounts equal to or lower than amounts delegated to the Accounting Officer by Council from time to time

Manager Revenue or Accountant identifying irrecoverable debtors within the delegated powers of the Accounting Officer must prepare a report for the attention of the Accounting Officer detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, details on credit and debt collection processes followed to recover the debt and confirmation that all available avenues to recover the debt have been exhausted and that further actions would be fruitless and not cost effective.

Requests approved by the Accounting Officer will 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 Account must be prepared annually and retained for audit purposes.

6.2. Amounts exceeding the Accounting Officers delegated authority

The process for the consideration of write-off of debts in respect of amounts in excess of Accounting Officer delegated authority must be dealt with as follows:

Manager Revenue or Accountant identifying irrecoverable debts in excess of Accounting Officer delegations and prepare report detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, details on credit and debt collection processes followed to recover the

debt and confirmation that all available avenues to recover the debt have been exhausted and that further actions would be fruitless and not cost effective.

If approved by the CFO and Accounting Officer, a formal report must be submitted to the Finance Portfolio Committee, Mayoral Committee and Council for consideration. Approvals granted by council must be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

6.3. 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.

Manager Revenue will assess application in terms of prescribed requirements. In compliance with Prescription act, approval may be granted to write-off prescribed portion of debt.

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

7. BAD DEBT MANAGEMENT

The Merafong City Local Municipality management strives to manage the level to which the municipality is exposed to the risk of bad debts through the following ways;

- Requesting deposit payments that adequately address exposure risk
- Reviewing deposits
- Monthly monitoring of accounts to ensure early identification of accounts with late or erratic payment patterns
- Follow up of all accounts in arrears
- Issue letters of warning to Municipal employees that fall into arrears on their accounts for municipal services

- The Municipality will institute action as detailed in their Credit control policy in a bid to recover debts owing before they are categorized for write off

8. DEBT WRITE OFF GUIDELINES

Debts are to be written-off subsequent to the following:

- Recovery is uneconomic or not cost effective.
- Debtors falling within debts that must be written-off as in terms of indigent and other policies as approved by council.
- Employees of the Municipality that fall into arrears on their account pertaining to Municipality services shall have such debt recovered from their salaries
- Manager Revenue in conjunction with Human Resources shall notify such employees in writing of the steps that the Municipality will take to recover the debt
- Only specific delegated officials can authorize writing-off of debts. (Detailed under Section 8 of this policy document)
- All collection efforts and actions should be exhausted before an account is considered for write-off and also if the debt is deemed irrecoverable or debt has prescribed in terms of the Prescription Act and the debtor has been liquidated.
- No debt should be written off in case where there is still movement in the account and no disconnection instruction has been given by management.
- A report of all bad accounts or accounts in continuous arrears detailing debtors' name, amount outstanding, interest charged and period for which debt has been outstanding should be made available to Chief Finance Officer and Municipal Manager monthly and council at least quarterly.
- Outstanding balances of debtors falling within the Indigent category will be written-off annually subject to confirmation of indigency.

9. LEVELS OF AUTHORITY

The following table details the various municipalities' officials that have authority instituted upon them to write off bad debts as well as the various limits within their authorized powers

Value of debt owed to the Municipality	Action required of the Municipal official	Authority required for debt write-off (Municipal Official)
R0.00 – R10 000	Add to list of bad debts Institute legal action	Accounting Officer
Above R10 000	Add to list of bad debts Institute legal action	Municipal Council