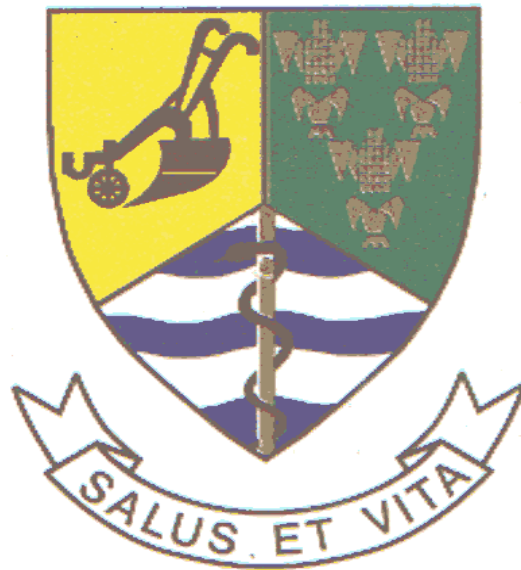


BELA-BELA MUNICIPALITY



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

2016 -2017

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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 10, 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, paragraph 10 of the policy on debt write off 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;

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- 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. LEGISLATIVE FRAMEWORK

The principles in this policy are derived from, and guided by, the following three key pieces of legislation regulating the setting of budget related policies as well municipal finances:

- Municipal Finance Management Act 56 of 2003;
- Municipal Systems Act xx of 2000; and
- Municipal Property Rates Act 6 of 2004).

4. IMPAIRMENT OF DEBTORS

Consumer debtors, long term receivables and other debtors are stated at cost less provision for bad debt. Provision for impairment is made on an individual basis or based on expected payment.

In accordance with IAS 39, an objective assessment of financial assets is made at year end to determine possible impairment. Impairment loss is recognised as an expense in the Statement of Financial Performance.

4.1 Consumer debtors

Consumer debtors are evaluated at the end of the reporting date and impaired as follows per the individual debtor's credit risk profile as required by the National Treasury.

4.2. Sundry Deposits

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

4.3 Sundry Debtors

Sundry debtors are classified as financial instruments with debit balances at year end. Sundry debtors are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

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5. RESPONSIBILITY / ACCOUNTABILITY

The Council has the overall responsibility for adopting and approving the Provision for Bad Debts and Writing Off of Irrecoverable Debt while the Mayor has responsibility on oversight for implementation.

6. WRITE-OFF OF DOUBTFUL DEBTORS

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

6.1.1 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.

6.1.2 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:-

6.1.2.1 Where the tracing of the debtors is unsuccessful; and

6.1.2.2 All reasonable steps, at the discretion of the appointed write off committee, were taken by the officials to recover the debt.

6.1.3 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.

6.1.4 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.

6.1.5 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.

6.1.6 Debt can only be written off if the required provision exists in the Municipality's budget and/ or reserves.

7. CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITING OFF OF IRRECOVERABLE DEBT

7.1 **Approved Indigent Household Consumers in terms of the Municipality's Indigent Policy**

7.1.1 Upon approval for registration as an indigent household consumer, the debtor's interest on the arrear amount will be written off.

7.1.2 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

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be written off and must be dealt with strictly in accordance with the Municipality's Credit Control Policy and Indigent Household Policy.

7.2 Balances too small to recover considering the cost for recovery

7.2.1 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.

7.2.2 Where such account is not paid by the respective consumer within a period of sixty (60) days such amounts will automatically be written off.

7.3 Insolvency of the Debtor and Insolvent Deceased Estates

7.3.1 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.

7.3.2 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.

7.4 Untraceable Debtors

7.4.1 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.

7.4.2 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.

7.4.3 Debt written off in the above instances will automatically result in the debtor being reported to the credit bureau by the Municipality.

7.5 Special Arrangements in order to obtain a Clearance Certificate

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7.5.1 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.

7.6 Special Incentives introduced by Council for Household Consumers in terms of the Approved Revenue Enhancement Strategy

7.6.1 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:-

7.6.1.1 The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;

7.6.1.2 The current monthly amount must be paid in full; and

7.6.1.3 The written agreement has to be signed on behalf of the Municipality by a duly authorised officer.

7.6.2 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.

7.6.3 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 Bela Bela Municipality may resolve to implement special incentives to address the arrear debt.

8. ESTABLISHMENT OF A COMMITTEE TO MONITOR ANY DEBT TO BE WRITTEN OFF

8.1 Council will establish and appoint a Committee to monitor the implementation of this Policy.

8.2 The Committee will consist of the following members:-

8.2.1. The Municipal Manager (Chairperson).

8.2.2. Chief Financial Officer (Alternative Chairperson).

8.2.3. Member of the Executive Committee.

8.2.4 Divisional Manager: Revenue

8.2.5. One member of the Portfolio Committee for Finance to be nominated by the Portfolio Committee for Finance.

8.2.6 Other members nominated by the Accounting Officer

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- 8.3. The above Committee will meet at least quarterly to receive and review a report from the Chief Financial Officer containing full details of any actions taken by officials with respect to this Policy, and to consider any circumstances not covered by this Policy.
- 8.4. The quorum for the Committee shall be 50% of the members plus one.
- 8.5. Formal minutes of Committee meetings must be prepared and submitted to Council.
- 8.6. The Chief Financial Officer will, after thorough review of any applications in terms of this Policy, **be delegated to write off any amounts to the maximum of:**
- 8.6.1. in the case of a household consumer an amount of R10,000 (excluding interest and penalties) per submission;
- 8.6.2. in the case of a business consumer an amount of R20,000 (excluding interest and penalties) per submission; and
- 8.6.3. any amount in excess of the delegation provided for in paragraph 9.6.1 and 9.6.2 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 any amounts to the maximum of:-
- 8.6.4. in the case of a household consumer an amount of R20,000 (excluding interest and penalties) per submission; and
- 8.6.5. in the case of a business consumer an amount of R50,000 (excluding interest and penalties) per submission.
- 8.7. Any amount in excess of the delegation provided for in paragraph 9.6.4 and 9.6.5 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.

9. DELEGATED POWERS ON WRITING OFF INTEREST AND PENALTIES ON RECOVERABLE DEBTS

- 9.1 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;
- 9.1.1 in the case of a household consumer an amount of R10 000 per submission;
- 9.1.2 in the case of a business consumer an amount of R20 000 per submission; and
- 9.1.3 any amount in excess of the delegation provided for in paragraph 10.1.1 and 10.1.2 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:

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- 9.1.4. in the case of a household consumer an amount of R20,000 per submission; and
- 9.1.5 in the case of a business consumer an amount of R50,000 per submission.

9.2 Any amount in excess of the delegation provided for in paragraph 9.1.1 to 9.1.5 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.

10. 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 9.6.1 to 9.6.7 above.

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

11. IMPLEMENTATION AND REVIEW OF THIS POLICY

11.1 This revised policy shall be implemented once approved by Council for the 2016/17 financial year. All future submissions for the writing off of debt must be considered in accordance with this policy.