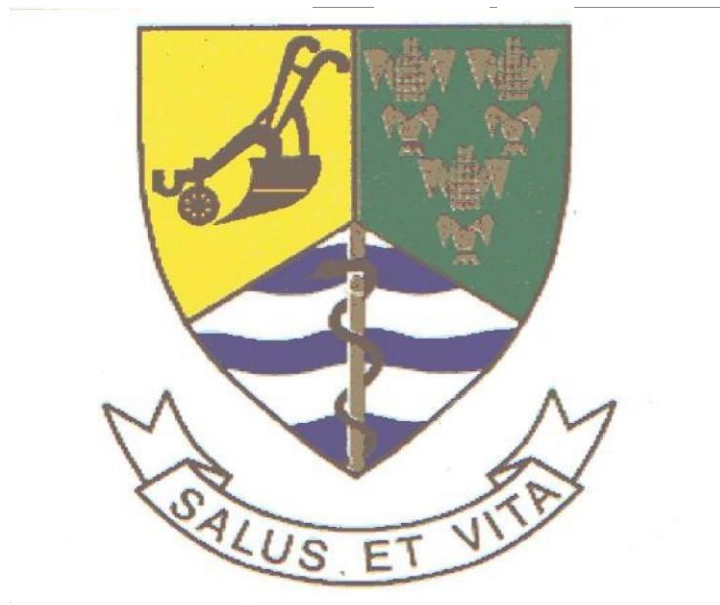


# **BELA-BELA MUNICIPALITY**



## **POLICY ON PROVISION FOR DOUBTFUL DEBT AND WRITING OFF OF IRRECOVERABLE DEBT FINAL 2025-2026**

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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 cannot 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 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 32 of 2000; and
- Municipal Property Rates Act 6 of 2004.

## 4. IMPAIRMENT OF DEBTORS

- 4.1 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.

### 4.2 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.

## 5. RESPONSIBILITY / ACCOUNTABILITY

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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 DEBT

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 council, 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 Support Policy.

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7.1.1 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.

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 thirty (30) days such amounts will automatically qualify to 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 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.

7.4.2 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**

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

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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.

7.6.1.4 Agreement on outstanding amount will be regarded as an interest free arrangement if consumer does not default on the agreement.

**8 INCENTIVE SCHEME**

8.1. 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;**

8.1.1. In the case of a household consumer an amount of R10 000 (excluding interest and penalties) per submission;

8.1.2. In the case of a business consumer an amount of R20 000 (excluding interest and penalties) 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 any amounts to the maximum of:-

8.1.4. In the case of a household consumer an amount of R20 000 (excluding interest and penalties) per submission; and

8.1.5. In the case of a business consumer an amount of R50 000 (excluding interest and penalties) per submission.

8.2. In addition to the above-mentioned delegation powers, The Chief Financial

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Officer will, after thorough review of any applications in terms of this Policy, **be delegated to write off any amounts to the maximum of;**

8.2.1. In the case of property rates payer with no services an amount of R250 000 per submission.

8.2.2. Any amount in excess of the delegation provided for in paragraph 8.2.1 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**

8.2.3. In the case of property rates payer with no services an amount of R500 000 per submission

8.3. Approved indigents accounts will only be written off upon council approval.

9. DELEGATED POWERS ON WRITING OFF INTEREST AND PENALTIES ON IRRECOVERABLE 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 9.1.1 and 9.1.2 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:

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.

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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 8.1 to 9.1 above.

11. Provision for doubtful Debts Methodology

11.1 Consumer Debtors Methodology

Calculation of the Provision for Doubtful Debt must be prepared annually by the Chief Financial Officer and retained for audit purposes. The calculation must be performed as per the Provision for bad debt guide of the Council.

11.2 Traffic Fines Methodology

Determination of impairment amount for traffic fines:

That the outstanding debt on traffic fines be impaired using the average uncollected percentage of the last two preceding financial years plus the financial year under review.

12. IMPLEMENTATION AND REVIEW OF THIS POLICY

12.1 This revised policy shall be implemented once approved by Council for the 2026/2027 financial year. All future submissions for the writing off of debt must be considered in accordance with this policy.