



Bela-Bela Local Municipality

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1. Purpose of the Document

- To set out a methodology for the impairment of receivables in line with GRAP 104 and IAS 39.
- To ensure a realistic provision or allowance is made annually in the budget for charges raised that cannot be collected.
- To ensure that debtors disclosed in the Annual Financial Statements are stated at amounts those deemed to be collectable.
- To promote transparency as required by sections 215 and 216 of the Constitution when dealing with receivables and debt.

2. Consumer Debtors

Consumer debtors will be evaluated at year end and impaired as follows:

| Category Of Debtors | Percentage recoverable | Percentage to Impair |
|--|------------------------|----------------------|
| Inactive accounts | Zero | 100% |
| Indigent accounts | Zero | 100% |
| Remaining Accounts will be assessed for impairment | | |

3. Impairment Assessment

The following types of risk scoring will be used in the impairment calculation:

- Type Risk Scoring
- Payment Risk Scoring

The Provision factor is then calculated by multiplying the total TYPE RISK with the total PAYMENT RISK and if the total is more than 10, then the full outstanding amount of the customer will be impaired.

- **Type Risk Scoring**

When completing the Type Risk report, the report calculations and scoring are based on the following information:

- Accounts Status
- Accounts Type
- Owner/Occupier type

- **Accounts Status**

For an active account the consumer will get a score of 0 (as the chances of retrieving debt from the active account is higher than an inactive account).

- **Owner/Occupier Type**

If the account is an occupier it gets a high score of 2 and if it's an owner its gets a score of 0, the reason will be that when the owner wants to sell the property he will be in need of a clearance certificate regarding his debt on the property.

- **Accounts Type**

The Commercial accounts and Government accounts including public entities are set at a risk of 1 – All other categories are set at a risk of 1.5 across.

The Total Type Risk = Status Risk Score + Own/Occ Type Risk Score + Account Type Risk Score

| ACCOUNT_STATUS | ACCOUNT_TYPE | OWNER/OCCUPIER_TYPE | ACCOUNT_STATU S_RISK_SCORE | OWNER/OCCUPI ER_TYPE_RISK | ACCOUNT_TYPE _RISK_SCORE |
|----------------|-----------------|---------------------|-------------------------------|------------------------------|-----------------------------|
| ACTIVE | COMMERCIAL | OCCUPIER | 0 | 2 | 1 |
| ACTIVE | COMMERCIAL | OWNER | 0 | 0 | 1 |
| ACTIVE | SASSA | OCCUPIER | 0 | 2 | 1 |
| ACTIVE | P/WORKS PROV | OWNER | 0 | 0 | 1 |

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| | | | | | |
|--------|-----------------------|----------|---|---|-----|
| ACTIVE | PUBLIC INFRASTR | OWNER | 0 | 0 | 1.5 |
| ACTIVE | RESIDENTI AL | OWNER | 0 | 0 | 1.5 |
| ACTIVE | RES- INDIGENT | OWNER | 0 | 0 | 1.5 |
| ACTIVE | RESIDENTI AL | OCCUPIER | 0 | 2 | 1.5 |
| ACTIVE | P/WORKS NTL | OWNER | 0 | 0 | 1 |
| ACTIVE | NON PROFIT ORG | OWNER | 0 | 0 | 1.5 |
| ACTIVE | RES- PENSIONE R | OWNER | 0 | 0 | 1.5 |
| ACTIVE | VACANT LAND | OWNER | 0 | 0 | 1.5 |
| ACTIVE | MUNICIPA L PROP | OWNER | 0 | 0 | 1.5 |
| ACTIVE | RES- PENSIONE R | OCCUPIER | 0 | 2 | 1.5 |
| ACTIVE | PRIVATE OPEN SP | OWNER | 0 | 0 | 1.5 |
| ACTIVE | RES- INDIGENT | OCCUPIER | 0 | 2 | 1.5 |
| ACTIVE | MUNICIPA L PROP | OCCUPIER | 0 | 2 | 1.5 |
| ACTIVE | VACANT LAND | OCCUPIER | 0 | 2 | 1.5 |
| ACTIVE | EDUCATIO N DEPT | OCCUPIER | 0 | 2 | 1 |
| ACTIVE | P/WORKS NTL | OCCUPIER | 0 | 2 | 1 |
| ACTIVE | HEALTH DEPT | OCCUPIER | 0 | 2 | 1 |
| ACTIVE | PLCS OF WORSHIP | OCCUPIER | 0 | 2 | 1.5 |
| ACTIVE | NON PROFIT ORG | OCCUPIER | 0 | 2 | 1.5 |
| ACTIVE | CORREC SERVICES | OCCUPIER | 0 | 2 | 1 |
| ACTIVE | PUBLIC INFRASTR | OCCUPIER | 0 | 2 | 1.5 |

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|--------|-------------------------|----------|---|---|-----|
| ACTIVE | P/WORKS PROV | OCCUPIER | 0 | 2 | 1 |
| ACTIVE | PRIVATE EST-RES | OWNER | 0 | 0 | 1.5 |
| ACTIVE | AGRICULT URAL | OCCUPIER | 0 | 2 | 1.5 |
| ACTIVE | FARM-RES | OCCUPIER | 0 | 2 | 1.5 |
| ACTIVE | PLCS OF WORSHIP | OWNER | 0 | 0 | 1.5 |
| ACTIVE | AGRICULT URAL | OWNER | 0 | 0 | 1.5 |
| ACTIVE | FARM-RES | OWNER | 0 | 0 | 1.5 |
| ACTIVE | PRIVATE EST-RES | OCCUPIER | 0 | 2 | 1.5 |
| ACTIVE | FARMSRES _PENSIO | OWNER | 0 | 0 | 1.5 |
| ACTIVE | SASSA | OWNER | 0 | 0 | 1 |
| ACTIVE | PUBLIC OPEN SPA | OWNER | 0 | 0 | 1.5 |
| ACTIVE | EDUCATIO N DEPT | OWNER | 0 | 0 | 1 |
| ACTIVE | TOWN- PROP DEV | OWNER | 0 | 0 | 1.5 |
| ACTIVE | TOWN- PROP DEV | OCCUPIER | 0 | 2 | 1.5 |
| ACTIVE | PROTECTE D AREAS | OWNER | 0 | 0 | 1.5 |
| ACTIVE | FARMSRES _PENSIO | OCCUPIER | 0 | 2 | 1.5 |
| ACTIVE | FARM- COMMERC IAL | OCCUPIER | 0 | 2 | 1 |
| ACTIVE | FARM- COMMERC IAL | OWNER | 0 | 0 | 1 |
| ACTIVE | RURAL DEVELOP M | OWNER | 0 | 0 | 1 |
| ACTIVE | RURAL DEVELOP M | OCCUPIER | 0 | 2 | 1 |
| ACTIVE | LAND REFORME D | OWNER | 0 | 0 | 1.5 |
| ACTIVE | PROTECTE D AREAS | OCCUPIER | 0 | 2 | 1.5 |

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|--------|------------|-------|---|---|-----|
| ACTIVE | FARM-OTHER | OWNER | 0 | 0 | 1.5 |
|--------|------------|-------|---|---|-----|

Impairment Payment Risk

The impairment payment risk report is based on the ageing of the customer account. The longer outstanding the higher the risk factor. For example, if the customer account is outstanding for 30 days the factor will be significantly lower than a customer's account which is 120 days outstanding.

The following risk factors will be applied according to the ageing of the customer account:

| | | | | | |
|---------------------------------|----------------------------|----------------------------|------------------------------|-------------------------------|-------------------------------------|
| Up to 30 Day Factor (0-30 days) | 60 Day Factor (31-60 days) | 90 Day Factor (61-90 days) | 120 Day Factor (91-120 days) | 150 Day Factor (121-150 days) | 180 Day Factor (151 days and above) |
| 0 | 0 | 0.5 | 0.75 | 0.75 | 3.7 |

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.

Explanation of how the calculation works:

Let us assume the customer scored the following for each report:

- A) Type risk = (Status Risk + Account Type Risk + Owner/Occupier type Risk)
 Type Risk = (0 + 1.5 + 2)
 Type Risk = 3,5

- B) Payment Risk = (30days + 60days + 90days + 120days + 150days + 180days)
 Payment Risk = (0 + 0 + 0.5 + 0.75 + 0.75 + 3.7)
 Payment Risk = 5.7

- C) Provision Factor = Type Risk x Payment Risk
 Provision Factor = 3.5 x 5.7
 Provision Factor = 19.95

D) Provision for Bad Debt

The provision is based on the calculation performed in (C). All accounts above 10 gets impaired 100% then in the calculation shown above the customer's account will be impaired on the full outstanding amount. If the calculation in (C) was less than 10, then the outstanding amount will be calculated on a percentage basis. For example, if the provision factor was 3.75 then only 37.50% of the outstanding balance will be determined as provision for bad debt.