



MAKANA

MUNICIPALITY | EASTERN CAPE

MASIPALA WASEMPUMAKOLONI

MUNISIPALITEIT | OOS-KAAP

...a great place to be

MAKANA LOCAL MUNICIPALITY

POLICY ON PROVISION

FOR DOUBTFUL DEBT

TABLE OF CONTENTS

- 1 DEFINITIONS
- 2 PURPOSE OF POLICY
- 3 IMPAIRMENT OF DEBTORS
- 4 RESPONSIBILITY/ACCOUNTABILITY

POLICY ON PROVISION FOR DOUBTFUL DEBT

1. DEFINITIONS

For the purposes of this policy the following definitions are applicable:

“Debt” - means an amount owing to the Municipality;

“Debtor” – means a person who owes the Municipality money for rates/services rendered;

“Accounting Officer” – the Municipal Manager appointed; **“Council”** – means the council of the Municipality; **“Municipality”** – means the Makana Municipality.

2. PURPOSE OF POLICY

2.1 This policy provides guidelines on treatment of the impairment of debtors.

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.

2.2 Section 96 of the Local Government: Municipal Systems Act, 32 Of 2000, provides that a municipality must collect all money that is due and payable to it, subject to the provisions of that Act and other applicable legislation. 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.

2.4 **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;**
- **Effective and timeous Credit Control;**
- **Impairment of Debtors (Provision for Doubtful Debtors);**

2.5 The objectives of this policy are:

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

3. 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.

3.1 Calculation of Impairment of Debtors

Impairment of debtors (Provision for doubtful debts) will be calculated as follows:

- The provision for bad debts will be calculated based on the receipts as a percentage of outstanding balance at year end per individual debtor
- The payment percentage is calculated using the payments for the period selected and dividing this by the total of the opening balance for the period plus all charges for the same period. This will default to 0% if the total payments is zero or a debit (receipt reversals are in excess of receipts); or if the total charges for the period is zero or a credit. This will default to 100% if the payments are in excess of the total charges for the period.
- The impairment amount is calculated by applying the inverse of the payment percentage (i.e. 100 - payment percentage) to the closing balance (i.e. if the payment percentage is 30%, then the impairment percentage will be 70% and the impairment amount will be 70% of the closing balance). This will default to zero if the closing balance is a credit.

4. RESPONSIBILITY / ACCOUNTABILITY

The Council has the overall responsibility for adopting and approving the Provision for Bad Debts Policy.

11. **IMPLEMENTATION**

This policy will be effective on the date of adoption by Council.
All future submissions for the writing off of debt must be considered in accordance with this policy.
