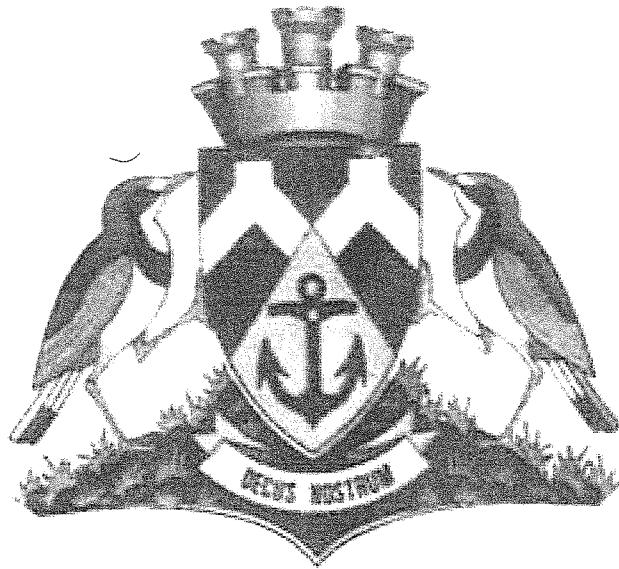


OVERBERG DISTRICT MUNICIPALITY



POLICY FOR THE CALCULATION OF PROVISION FOR BAD DEBTS

1. PURPOSE OF POLICY

The purpose of the policy is to –

- a. provide guidelines for the calculation of provision for bad debt;

2. DEFINITIONS

In this policy –

“**Accounting Officer**” means the Municipal Manager acting in his or her capacity as accounting officer of the Municipality;

“**Chief Financial Officer**” means the Chief Financial Officer acting in his or her capacity as the Head of the finance department of the Municipality

“**Council**” means mean the Council of the Municipality;

“**Current assets**” comprise debtors, cash, inventories and the short-term portions of investments and long-term debtors of the Municipality;

“**Current liabilities**” consist of creditors, bank overdrafts and the short-term portion of long-term loans [liabilities] of the Municipality;

“**Net operating capital**” means the difference between current assets and current liabilities of the Municipality;

“**Unfunded funds, reserves and provisions**” mean those funds, reserves and provisions not represented by cash.

3. MANAGEMENT OF BAD DEBTS

- a. The accounting officer must make an annual contribution to the bad debts provision in the operating budget of the Municipality.
- b. The total bad debts provision of the Municipality must be equal to $A + B + C$, where –
 - i. A is equal to 50% of all debts outstanding for longer than 120 days;
 - ii. B is equal to 20% of all debts outstanding for between 91 days and 120 days; and

iii. C is equal to 10% of all debts outstanding for between 61 days and 90 days.

Special consideration to be given to debtors with payment arrangements.

- c. If the total provision for bad debts as required in terms of subparagraph 3(b) exceeds ten percent (10%) of the operating budget of the Municipality, the accounting officer must submit a report to the Council in which he or she must report on how the net current assets of the Municipality are managed and therein pay special attention to –
- i. the debtors turnover rate, inventories and creditors;
 - ii. credit management and debt collection; and
 - iii. the bank overdraft.
- d. The Council may approve the writing-off of bad debts as per the Bad Debt Write-Off Policy.

4. DELEGATION OF POWER

The accounting officer may delegate his/her responsibilities in terms of this policy to the Chief Financial Officer of the Municipality.