

# **NYANDENI LOCAL MUNICIPALITY**

**2020/21**



## **FINAL BAD DEBTS POLICY**

# NYANDENI BAD DEBTS AND WRITE OFF POLICY

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## 1. PREAMBLE

The Municipal Finance Management Act (MFMA) Act 56 of 2003, aims to modernize budget and financial management practices in municipality in order to maximize the capacity of the municipality to deliver services to all residents, customers and users. It also give effect to the principles of transparency as required by sections 215 and 216 of the constitution.

The Council of the municipality in adopting this policy on writing off bad debts recognizes its responsibilities as set out in chapter 9 of the Local Government Municipal Systems Act, Act 32 of 2000 as amended.

## 2. 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 services rendered;

**“Accounting Officer”** – the Municipal Manager appointed in terms of Section 82 of the Municipal Structures Act, 1998 (Act No. 117 of 1998);

**“Council”** – means the council of the Municipality;

## 3. OBJECTIVES OF THE POLICY

The vision of the policy is to ensure that the debtors of the municipal Council are not over stated in the books of the Council:

- to ensure any long outstanding debt is evaluated in order to determine the possibility of realizing such income as revenue.
- to ensure that where it is evident that a particular debt cannot be turned into a revenue such debt be procedurally regarded as irrecoverable.
- to ensure that the Council of the municipality makes enough provision for bad debts in the budget.
- to ensure that outstanding monies which have been outstanding for a long time after all attempts have been made in terms of recovering them should then be written off.

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## 4. IDENTIFICATION OF IRRECOVERABLE DEBTS

When the municipality identifies customers whose debts appear to be irrecoverable even after the whole credit control and debt collection process has been followed in terms of trying to obtain payment, then such accounts should be regarded as irrecoverable.

Once the debt is regarded as irrecoverable during the course of the year it must be grouped with others so that at the latest by April every year the report should serve before the Council in order to write off the irrecoverable debts.

## 5. WRITING OFF OF IRRECOVERABLE DEBTS

Where debts are identified as being irrecoverable, the process of writing off will be treated as follows:

## 6. CRITERIA FOR IRRECOVERABLE DEBT

Debt will only be considered as irrecoverable if it complies with the following criteria:

- (a) all reasonable notifications and cost effective legal avenues have been exhausted to recover a specific outstanding amount; or
- (b) any amount equal to or less than R400.00 or as determined by Council from time to time, will be considered too small, after having followed basic checks, to warrant further endeavors to collect it can be written off without submission to Council; or
- (c) the cost to recover the debt does not warrant further action; or
- (e) a deceased estate has no liquid assets to cover the outstanding amount following the final distribution of the estate; or
  - ⦿ where the estate has not been reported to the Master and there are no assets of value to attach; or
- (f) it has been proven that the debt has prescribed; or
- (g) the debtor is untraceable or cannot be identified so as to proceed with further action; or
- (i) the debtor has emigrated leaving no assets of value to cost effectively recover Councils claims; or
- (h) it is not possible to prove the debt outstanding; or
- (j) a court has ruled that the claim is not recoverable; or
- (i) the outstanding amount is due to an irreconcilable administrative error by the Municipality; or

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## 7. SPECIFIC DEBT WRITE OFFS

The CFO may submit a report to the Executive Committee from time to time for specific uncollectable debt transactions such as:

- liquidations in terms of section 89 of the Insolvency Act, Act 24 of 1936;
- erven brought back by Council;
- outstanding debts that are older than two (2) years that cannot be recovered during the transfer of immovable property as in terms of section 118 (1)(b) of the Systems Act, Act 32 of 2000; and/or
- for a specific debt category

The report for specific debt write offs must contain the following:

- customer details;
- reason for specific debt write offs;
- amount to be written off broken down per service; and
- confirmation that further actions would be fruitless and not cost effective.

## 8. RECOVERY OF IRRECOVERABLE DEBTS

Should there be a payment in respect of the account which has already been written off, such monies must be allocated to the specific vote number designed for the recovery of irrecoverable debts.

## 9. SUNDRY MATTERS

Council may from time to time implement an incentive scheme which may entitle writing off of certain debts.

## 10. IMPAIRMENT OF DEBTORS (PROVISION FOR DOUBTFUL DEBT)

Consumer debtors (accounts receivable), long term receivables and other debtors are stated at cost, less a provision for bad debt.

Significant financial difficulties of the debtor and default or delinquency in payments or all debt outstanding for more than 150 days are considered indicators to determine that debtors are impaired.

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Impairment of debtors (provision for doubtful debt) is recognised as an expense in the statement of financial performance. When an under recovery occurs during the financial year an additional contribution for impairment is made at year end.

In the assessment for impairment the following methodology:

## 11. SUNDRY DEBTORS

Sundry debtors may be assessed individually for impairment when necessary to ensure that no evidence exists that these debtors are recoverable.

## 12. COMMUNICATION PROCESS

- This policy shall be published onto the Municipality's website.
- This policy shall be presented to the community in the ratepayers meetings
- The municipality will at its own cost make this policy brochure available to the community. Any amendments may be communicated in a newsletter from time to time.

## 13. REVIEW OF THE POLICY

This Bad Debts Policy shall be reviewed on an annual basis. This policy is effective immediately after its adoption by the Council of Nyandeni Local Municipality.

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