



ABSTRACT

This policy has been drawn up in terms of Section 3 of the Local Government: Municipal Property Rates Act, 2000 (Act 6 of 2004) and Lesedi Local Municipality's Rates By-Law

**PROVISION FOR DOUBTFUL DEBTORS AND DEBTORS WRITE-OFF
POLICY
2019-2020**

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PROVISION FOR DOUBTFUL DEBT AND DEBT WRITE-OFF POLICY

1. INTRODUCTION

The purpose of this document is to outline sound principles and practices to be adhered to in writing off debt of Lesedi Local Municipality.

This policy is the full and final debt write-off policy of Lesedi Local Municipality and must be adhered to by all Councillors, management, staff and officials of the Municipality. The policy will be subject to review from time to time based on changes arising from the legislation and council resolutions. Failure to comply with the policy will result in the institution of disciplinary proceedings against the parties involved.

2. BACKGROUND

This policy serves to assist management and officials of Lesedi Local Municipality to implement and maintain consistent, efficient and effective bad debt management principles. This policy will also assist management to run the municipality in a cost effective manner and yet achieving high levels of revenue collection. The policy also seeks to mitigate the risk of fraudulent writing off of fictitious bad debts.

LEGISLATIVE FRAMEWORK

Local Government: Municipal Finance Management Act, 2003

Local Government: Municipal Systems Act, 2000

Local Government: Municipal Property Rates Act, 2004

Local Government: Municipal Property Rates Policy, as reviewed annually

Constitution of the Republic of South Africa, 1996 as amended

Municipal Budget and Reporting Regulations, 2008

Prescriptive Act 68 of 1969 as amended

RELATIONSHIP WITH OTHER POLICIES

This policy needs to be read in conjunction with other relevant adopted policies of the municipality, including the following: e.g.:

- Credit Control and Debt Collection Policy (Section 6, 7, 8, 10, 11, 12 & 20)

- Indigent Management Policy (Section 10.10)
- Property Rates Policy (Section 9)
- Tariff Policy (Section 9 to 19)
- Cash Management and Investment Policy (Section 21)
- Budget Policy (Section 3.9)
- Funding Borrowings and Reserves Policy (Section 5.6 – 5.8)
- Insurance policy (entire policy)

3. OBJECTIVES OF POLICY

- To ensure that bad debt write-offs are authorized at appropriate levels.
- To ensure that only bona fide bad debts are written off.
- To ensure firmness in writing off bad debts.
- To ensure that debt collection is effective and efficient.
- To ensure that bad debts are kept within reasonable proportions.
- To ensure that the estimated loss resulting from bad debts is provided for during the same period that the income to which it is related is earned
- To ensure that the outstanding debtors appear in the monthly balance sheet at net realizable value, since the provision is deducted from the gross amount of the debtors.
- To ensure that debtors disclosed in the annual financial statements are stated at amounts that are deemed to be collectable.
- To ensure that uncollectable debt is written off within guidelines of existing policies and applicable legislation.

4. DEFINITIONS

“**Arrears**” includes collection charges and interest in respect of the principal amount in arrears;

“**Bad debt**” refers to an amount owed for which a period equivalent to 24 months has lapsed without any movement on that particular account.

“Billing” refers to proper formal notification (invoicing) on a statement to each customer of amounts levied for assessment rates and services and the net accumulated balance of the account;

“Council” refers to-

- a) a municipal council as referred to in section 157 of the Constitution
- b) Lesedi Local Municipality exercising a delegated power or carrying out an instruction, where any power in this policy has been delegated ,or sub delegated, or an instruction given as contemplated in section 59 of the Act;

“Credit control” refers to all functions relating to the collection of monies owed to the municipality by the rate payers and users of municipal services.

“Credit controller” refers to an official or person appointed by the Council to manage, inter-alia, the Council financial administration and debt collection of the Council’s debtors.

“Customer” refers to owner and or the consumer of the premises to which the council has agreed to supply or is actually supplying municipal services, or if there is no occupier, then the owner of the premises.

“Debtors” refers to a person owing an amount of money to the municipality for a reason other than through the provision of municipal services or a person worth/ or a person with an active consumer account

“Debt collection” refers to the debt recovery process and includes sanctions (warning, disconnection, adverse credit rating, legal process and/or eviction, etc) to be applied in the event of non-payment of accounts.

“Defaulter” refers to those persons owing the Council in respect of taxes and/or service charges for a period of more than 45 (forty five) days from the date of the account.

“Disconnection” means interrupting the supply of water or electricity to a debtor as a consequence of ignoring a Final Demand for payment.

“Due date” refers to the final date of payment as shown on the account.

“Inactive account” refers to an account in which there have not been any transaction for an extended period of time;

“Indigents” refers to a household who cannot afford to make a full monetary contribution towards municipal charges for basic services and rates & taxes as determined by the Council

“Interest” constitutes a levy equal to service levies and is calculated at a rate determined by the Council on all services levies in arrears.

“Municipal account” shall include levies or charges in respect of the following services and /or taxes:

- a) electricity consumption based on a meter reading or estimated consumption, or availability fees;
- b) water consumption based on a meter or unmetered reading or estimated consumption or availability fees;
- c) refuse removal and disposal;
- d) sewerage services or sewer availability fees;
- e) rates;
- f) interest, and
- g) miscellaneous and sundry fees and collection charges;

“Municipal Councillor” refers to a member of a municipal council

“Municipal official” refers to an official or an employee of the municipality

“Municipal services” refers to those services, rates and taxes reflected on the municipal account for which payment is required by the Council, as more fully defined in the Act.

“Prescriptive” refers to a debt which is extinguished after the lapse (passing) of a time period

5. IMPAIRMENT OF DEBTORS

Consumer debtors, long term receivables and other debtors are stated at cost less a provision for bad debts. The provision is made on an individual basis or, based on expected cash flows. In accordance with IAS 39, an objective assessment of financial assets is made at financial year-end in order to determine possible impairment. Impairment loss is recognized as an expense in the Statement of Financial Performance.

Individual classes of loans and receivables are assessed for impairment using the following methodologies:

5.1 Consumer Debtors

Consumer Debtors are evaluated at each reporting date and impaired as follows:

Category of debtor	Percentage of debt regarded as collectable	Percentage of debt provided for as Irrecoverable (i.e. Impairment Percentage)
Credit balance	Zero	Zero
In-active accounts	Zero	100%
Hand-over accounts to a debt collector, legal hand-overs	Average payment collection rate over in respect of debt collection over preceding 12 months	100% less average payment collection in respect of debt collection over preceding 12 months
Clearance handover (Debt outside Section 118)	Zero	100%
Approved indigents	Zero	100%
No payments received during preceding 6 months	Zero	100%
Formal arrangements debt in excess of 30 days	Monthly instalment debt in respect of 12 months	100% of balance of accounts less 12 monthly instalments
Disconnection of services in excess of 6 times during preceding 12 months	Zero	100%
Debt ageing 1080+ days (36 months)	Zero	100%
Debt ageing between 1080 and 180 days	Average payment collection rate over preceding 12 months	100% less average payment collection rate over preceding 12 months
Debt ageing less 180 days	100%	Zero
Business and government accounts	100%	Zero

6. WRITE OFF OF DOUBTFUL DEBTORS

Where debts are identified as being irrecoverable (in periods subsequent to debtors being impaired), the process of write-off will be treated as follows:

6.1. Amounts equal to or lower than amounts delegated to the Chief Financial Officer by Council from time to time

Manager Income or Accountant identifying irrecoverable debtors within the delegated powers of the Chief Financial Officer (CFO) must prepare a report for the attention of the CFO detailing the nature of the underlying debt, conditions that led to the debt being identified as being

irrecoverable, details on credit and debt collection processes followed to recover the debt and confirmation that all available avenues to recover the debt have been exhausted and that further actions would be fruitless and not cost effective.

Requests approved by the Chief Financial Officer (CFO) will be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger. Reconciliation of the Provision for Doubtful Debtors Account must be prepared annually and retained for audit purposes.

6.2. Amounts exceeding the CFO's delegated authority

The process for the consideration of write-off of debts in respect of amounts in excess of Chief Financial Officer delegated authority must be dealt with as follows:

Manager Income or Accountant identifying irrecoverable debts in excess of Chief Financial Officer delegations and prepare report detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, details on credit and debt collection processes followed to recover the debt and confirmation that all available avenues to recover the debt have been exhausted and that further actions would be fruitless and not cost effective.

If approved by the Chief Financial Officer, a formal report must be submitted to the Finance Portfolio Committee, Mayoral Committee and Council for consideration. Approvals granted by council must be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

6.3. 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.

Extract of the Prescriptive Act

Chapter III – Prescription of debts

Section 10 -Extinction of debts by prescription

(1) Subject to the provisions of this Chapter and of Chapter IV, a debt shall be extinguished by prescription after the lapse of the period which in terms of the relevant law applies in respect of the prescription of such debt.

(2) By the prescription of a principal debt a subsidiary debt which arose from such principal debt shall also be extinguished by prescription.

(3) Notwithstanding the provisions of subsections (1) and (2), payment by the debtor of a debt after it has been extinguished by prescription in terms of either of the said subsections, shall be regarded as payment of a debt

Section 11 -Periods of prescription of debts

The periods of prescription of debts shall be the following:

(d) save where an Act of Parliament provides otherwise, three years in respect of any other debt.

Manager Income will assess application in terms of prescribed requirements. In compliance with Prescription act, approval may be granted to write-off prescribed portion of debt.

Approvals granted must be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

7. BAD DEBT MANAGEMENT

The Lesedi Local Municipality management strives to manage the level to which the municipality is exposed to the risk of bad debts through the following ways;

- Requesting deposit payments that adequately address exposure risk
- Reviewing deposits
- Monthly monitoring of accounts to ensure early identification of accounts with late or erratic payment patterns
- Follow up of all accounts in arrears
- Issue letters of warning to Municipal employees that fall into arrears on their accounts for municipal services

- The Municipality will institute action as detailed in their Credit Control and Debt Collection Policy to recover debts owing before they are categorized for write off

8. DEBT WRITE OFF GUIDELINES

Debts are to be written-off after council is convinced of the following:

- Recovery is uneconomic or not cost effective.
- Debtors falling within debts that must be written-off as in terms of indigent and other policies as approved by council.
- Only specific delegated officials can authorize writing-off of debts. (Detailed under Section 10 of this policy document)
- All collection efforts and actions should be exhausted before an account is considered for write-off and also if there has been no movement on the account for at least a period of 24 months
- No debt should be written off in case where there is still movement in the account and no disconnection instruction has been given by management.
- A report of all bad accounts or accounts in continuous arrears detailing debtors' name, amount outstanding, interest charged and period for which debt has been outstanding should be made available to Chief Finance Officer and Municipal Manager monthly and council on quarterly basis.
- Outstanding balances of debtors falling within the Indigent category will be written-off in line with Indigent Management Policy subject to confirmation of indigence.

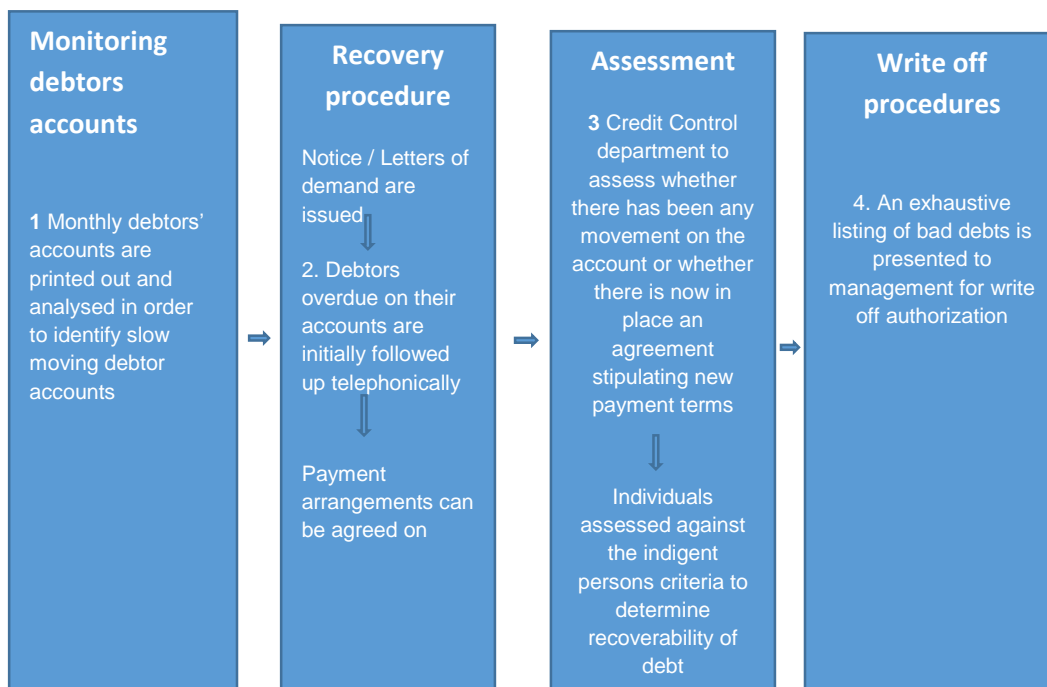
9. ACCOUNTS IN ARREARS FOR COUNCILLORS AND EMPLOYEES

- Councillors and Employees of the Municipality that fall into arrears on their account pertaining to Municipality services shall have such debt recovered from their salaries in line with Schedule 1 section 12A and schedule 2 section 10 of the Municipal Systems Act which stipulates that 'a Councillor and a staff member of a municipality may not be in arrears to the municipality for rates and service charges for a period longer than three months, and a municipality may deduct any outstanding amount from Councillors and staff member's salary after this period'.
- Manager Income in conjunction with Human Resources shall notify such Councillors and Employees in writing of the steps that the Municipality will take to recover the debt

10. LEVELS OF AUTHORITY

The following table details the various municipalities' officials that have authority instituted upon them to write off bad debts as well as the various limits within their authorized powers.

Value of debt owed to the municipality	Action required of the municipal official	Authority required for write off (Municipal Official)
R1.00 – R2999	Add to list of bad debts after all collection efforts other than legal have failed	Manager Income and Chief Financial Officer
Amount less than R3000 for inactive accounts	Add to list of bad debts after Issuing a final demand	Manager Income and Chief Financial Officer
R3000– R10 000	Add to list of bad debts Institute legal action	Manager Income and Chief Financial Officer
R10 001- R50 000	Add to list of bad debts Institute legal action	Chief Financial Officer and Municipal Manager
R50 001 +	Add to list of bad debts Institute legal action Black listing	Municipal Manager Executive Mayor Council



<p>1. The Credit control department should maintain strict controls over their debtors book</p>	<p>2. The credit control department is responsible for debt follow- ups Unrecoverable bad debts with significant amounts are handed over for litigation Where payment arrangement has been agreed on this has to be communicated to debt collection and credit control department Payment arrangements with major debtors should be communicated to the income manager to enable her to accurately estimate future income streams</p>	<p>3. Assessment will be conducted on the following basis; a. individuals will be assessed against their ability to pay. b. Where an individual is found to qualify for indigent status, their debt is written off in terms of indigent and other policies as approved by council. c. Assessment of progress made in respect to the agreed payment terms is made. d. Debtors on schedule with their payments are removed from the potential bad debt listing, but are however kept under strict monitoring</p>	<p>4 Debts are written off in accordance with Lesedi Local Municipality's authorization levels as stipulated below: Manager Income R1.00 – R1 000 Manager Income & Chief Finance Officer R1 001 – R10 000 Municipal Manager & Chief Finance Officer R10 001 – R500 000 Municipal Manager, Executive Mayor & Council R500 000+</p>
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