

# CHIEF ALBERT LUTHULI MUNICIPALITY



## DRAFT DEBT IMPAIRMENT POLICY

2019/20

**CONTROL SHEET**

<i>Policy Number</i>	
Policy Name	Impairment Debt Policy
Policy Status	New Policy
Date of last Approval	May 2018
Policy review / Development	Policy to be considered
Date of next review	This policy shall remain effective until such time approved otherwise by Council and may be reviewed whenever it is necessary to align it with changes of relevant legislation or operations
Purpose	<ul style="list-style-type: none"> <li>• This policy aims to set down principles for the implementation of the writing off bad debts and the provision for doubtful debt.</li> </ul>
Aims and objectives	<ul style="list-style-type: none"> <li>• The policy objective is to provide for the identification and writing off of bad debts during the course of the financial year</li> </ul>
Policy custodian	Chief Financial Officer
Related Policies and Legislations	<ul style="list-style-type: none"> <li>• <i>National Treasury Regulations</i></li> <li>• <i>Municipal Financial Management Act</i></li> </ul>
Approving authority	Council
Applicability	This policy applies to the all customers of the municipality
Amendments to the Policy	None
Policy Benchmark and References	Emankhazeni Local Municipality
Stakeholders Consulted	CALM Finance department
Accountability	The Municipal Manager is accountable for the proper implementation of this policy in terms of the Systems Act.

## **INTRODUCTION**

The Council of Chief Albert Luthuli Local Municipality resolves in terms of section 97

(1)(d)(ii) Of the Local Government: Municipal Systems Act, Act 32 of 2000 as amended and the Local Government Municipal Finance Management Act section 64 (f) to adopt the following as the policy on writing off the bad debts as irrecoverable and the impairment of debtors.

## **2. 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 gives 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.

## **3. VISION**

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:

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

## **4. STATEMENT**

This policy aims to set down principles for the implementation of the writing off bad debts and the provision for doubtful debt.

## **5. OBJECTIVES**

The objectives of this policy are to provide for:

- (i) The identification of bad debts during the course of the financial year.
- (ii) The writing off of bad debts at least three months before the end of the financial year.

- (iii) The proper delegation of powers to the chief financial officer to write off bad debts up to a certain amount and proper provision for doubtful debt.

**6. 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 for write off as irrecoverable debts.

**7. 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

Impairment of debtors (provision for doubtful debt) is recognized as an expense in the statement of financial performance. In case of Traffic fine Grap 108 number 25 be used for Impairment of traffic fines.

**8. Debtors Impairment Methodologies**

Based on management’s knowledge and past trends, debtors will be allocated to risk categories based on the following criteria:

<b>Criteria</b>	<b>Risk category</b>
<i>a) Indigent debtors</i>	High
<i>b) Debtors handed over</i>	High
<i>c) Debtors tabled before council after year end for write off</i>	High
<i>d) Debtors with payment agreements</i>	Medium
<i>e) Debtors with no movement on their balance since prior year</i>	High
<i>f) Debtors in liquidation or sequestration</i>	Not applicable
<i>g) Account with Credit balance</i>	Not applicable
<i>h) Accounts with balances only between current and 60 days</i>	Low
<i>i) Remaining debtors</i>	Medium

### The expected repayment amount/percentage

Risk category	Term in days	Expected repayment
Low	0 days - 60 days	80.00%
Medium	60 days - 90 days	50.00%
High	90 days - 150 days	25.00%
High	>150	0.00%

Weighted-average risk-free rate for the year	<a href="http://www.investing.com/rates-bonds/south-africa-10-year-bond-yield-streaming-chart">http://www.investing.com/rates-bonds/south-africa-10-year-bond-yield-streaming-chart</a> <a href="http://www.investing.com/rates-bonds/south-africa-10-year-bond-yield-streaming-chart">http://www.investing.com/rates-bonds/south-africa-10-year-bond-yield-streaming-chart</a>		
<b>Debtor Categories (per management)</b>	Risk premium		
High Risk	1.25%		
Medium Risk	0.75%		
Low Risk	0.25%		
<b>Code</b>	<b>Description</b>	<b>Risk</b>	<b>Classification</b>
I	Individuals	H	Residential
A	Section 21	M	Business
S	Institution	L	Government
G	GOVERNMENT	L	Government
C	COMPANY	M	Business
B	Close Corporation	M	Business
P	Partnership	M	Government
T	TRUSTS	M	Residential
K	CHURCHS	M	Business
IA	INDIGENTS APPROVED	H	Residential
M	Municipality	L	Business
F	FARMS	M	Business

### 9. Enforcement/Implementation

This policy was approved by the municipal council in terms of resolution no. CL..... /05/2019. Gives effect from 1<sup>st</sup> of July 2019