LAINGSBURG MUNICIPALITY

POLICY ON PROVISION FOR BAD DEBTS AND BAD DEBTS WRITE-OFF

APPROVED BY COUNCIL

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1. Application and Scope

The Policy on Provision for Bad Debts and Bad Debts Write-off is applicable to Laingsburg Municipality and is effective as from 1 July 2023.

2. Legislative requirement

The Municipal Finance Management Act

Section 64 of the Municipal Finance Management Act, Act No 56 of 2003 (MFMA), sets out the responsibilities of the municipality's Accounting Officer and requires that the municipality has and maintains a management, accounting and information system which accounts for debtors; and that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed.

3. Objectives of Policy

The objectives of this policy are to:

a. Ensure that debtors disclosed in the annual financial statements are stated at amounts that are deemed to be collectable;
b. Ensure that sufficient provision is made for doubtful debts;
c. Ensure that debt deemed not to be collectable is written off within guidelines of existing policies and applicable legislation;
d. Promote transparency as required by sections 215 and 216 of the Constitution (1996) when dealing with debtors and debt.

4. Introduction

The Municipal Finance Management Act (MFMA) 56 of 2003 aims to modernise and improve budget and financial management practises in local government in order to maximise the capacity of local government to deliver services to all its residents.

In adopting this policy, Laingsburg Municipality recognises its responsibilities as set out in Chapter 9 of the Local Government Systems Act (MSA) 32 of 2000 as amended.

The policy aims to assist and provide guidelines for effective management of debtors in the sense:

- that long outstanding debt is evaluated to determine the possibility of actually realising such debt;
- of ensuring that the municipality provides sufficiently in the budget for bad debt;
- of ensuring that where it is evident that a particular debt cannot be turned into a revenue such debt be procedurally regarded as irrecoverable;
- that, after exhausting all avenues of recovering debt, outstanding monies be written off as irrecoverable.

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 (significant and other debtors) and on a group basis (debtors with similar credit risk characteristics) and based on the remaining expected cash flows.

In accordance with GRAP 104 - Financial instruments, an objective assessment of debtors is made at each financial year-end to determine the need for possible impairment. Significant financial difficulties of a debtor or defaulting of all payments for a period of more than 90 days are considered indicators for impairment of debtors.

The impairment loss is measured as the difference between:

- The debtor’s carrying value at reporting date; and
- The present value (PV) of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the debtor's original effective interest rate.

The present value is the discounted amount calculated by using:

- Expected number of days, after reporting date, that the municipality expects to recover the debt (n);
- Discount rate (i);
- Expected cash flows (PMT(s)).

The impairment loss will be equal to the difference between the debtor's balance at reporting date as per debtors' age analysis and the calculated present value.

The impairment loss is accounted for through the use of an allowance general ledger account (Provision for Bad Debts) and the expenditure (Bad Debts Provision) through the Statement of Financial Performance.

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Consumer debtors, long term receivables and other debtors are assessed for impairment using the following criteria:

CATEGORY OF DEBTOR	PERCENTAGE OF DEBT REGARDED AS RECOVERABLE	IMPAIRMENT PERCENTAGE (PROVIDED FOR AS IRRECOVERABLE)
Credit Balances	N/A	0%
In-active accounts	0%	100%
Accounts handed over to debt collectors or attorneys, excluding debt as referred to in S118, MSA.	0%	100%
Approved Indigent households	0%	100%
Debt for which formal payment arrangements have been made, but is in default for 60 days plus.	0%	100%
Debt ageing more than 90 days	0%	100%
Debt ageing less than 90 days	100%	0%

When raising a provision for bad debts, the CFO will pass the following journal entry:

Promun Code	Promun Description	Debit	Credit
65-525-215-7800	Prov – Bad Debt		Rxxxxx
13-131-135-0300	Bad Debt Provision (Rates)	Rxxxxx	
17-171-135-0300	Bad Debt Provision (Housing)	Rxxxxx	
20-201-135-0300	Bad Debt Provision (Waste Management)	Rxxxxx	
21-211-135-0300	Bad Debt Provision (Waste Water Management)	Rxxxxx	
22-222-135-0300	Bad Debt Provision (Water)	Rxxxxx	
23-231-135-0300	Bad Debt Provision (Electricity)	Rxxxxx	

Review process

The schedule of the calculation must be reviewed and authorised by the Chief Financial Officer.

The methodology and assumptions used for estimating future cash flows must be reviewed regularly by the Chief Financial Officer to reduce any differences between loss estimates and actual loss experience.

6. Debt write-off

Debt outstanding for more than 90 days may be regarded as irrecoverable, but only after council is satisfied that all legal avenues to recover the debt has been exhausted.

Other categories of debt that may be regarded as irrecoverable include:

- Liquidations in terms of section 89 of the Insolvency Act, 24 of 1936;
- Erven purchased back by the municipality;
- Outstanding debts older than two years that cannot be recovered during the transfer of ownership of immovable property as per section 118 of the MSA.

When debts have been identified as being irrecoverable, the process of write-off will be as follows:

a. The Chief Financial Officer (CFO) will submit a report to the Municipal Manager (MM) containing the following details:
    i. Consumer details;
    ii. The amount regarded as irrecoverable, broken down by service;
    iii. Details of the credit control and debt collection processes followed in attempting to recover the debt;
    iv. Reasons that led to the debt becoming irrecoverable;
    v. Confirmation that all legal avenues of collecting the debt have been exhausted; and
    vi. Confirmation that further debt recovery attempts would be fruitless and uneconomical.
b. The MM will scrutinise the report and together with his recommendation that the debt be written off, submit it to council for approval. Only council may approve of debts being written off.
c. Council will consider the report and MM recommendation and resolve whether the debt should be written off or not.
d. Upon council approval of the debt being written off, the CFO will pass the following journal entry, which must include a detail description and reference to the relevant council resolution:

Promun Code	Promun Description	Debit	Credit
65-525-215-7800	Prov – Bad Debt	Rxxxxx	
Individual Debtor Consumer Accounts	Consumer Accounts		Rxxxxx

7. Recovery of debts already written off

Should there be any payment received in respect of any debt already written off, such receipt must be allocated to the Income Account, “Recovery of Debts W/off” (Promun Code 13-131-570-4626).

8. Indigent Households

Households who qualify for indigent subsidy, total arrears of services and interest will be written off, when qualified.

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9. Sundry Matters

In addition to provisions made in this policy for debt write-offs, Council may from time to time approve and implement an incentive scheme which may entail writing off of certain debts.

10.Short Title

This policy will be known as the Bad Debts Policy