



## **BAD DEBT (IMPAIREMENT) POLICY**

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## 1. DEFINITIONS

***For the purpose of this policy, the wording or any expression used has the same meaning as contained in the Act, except where clearly indicated otherwise and means the following:***

**“Debt”** – means an obligation in money and/or services due and owing to the municipality;

**“Debtor”** – means a person, natural or juristic, who owes a debt to the municipality and who may be compelled to pay in terms of a claim or demand by the municipality;

**“The Municipality”** means the Amajuba District Municipality

**“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;

**“Irrecoverable debt”** - means the debt which in terms of this policy meets the criteria for writing off

## 2. PURPOSE OF POLICY

2.1 Section 96 of the Local Government: Municipal Systems Act, 32 of 2000 provides that a municipality must collect all money that is due and payable to it, subject to the provision of that Act and other applicable legislation.

2.2 It is recognized, however, that circumstances may arise which may make the recovery of certain debts impossible, impractical or financially unfeasible, and that such debts may have to be impaired

### 3. 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.

Impairment of debtors (provision for doubtful debt) is recognized 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.

### 4. Debtors

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

<u>Category debt</u>	<u>Percentage of debt provided as Irrecoverable</u>
Credit balances	Zero
In-active accounts	Zero
Hand over accounts to debt collectors	100%
Hand over accounts to power of attorneys	100%
Approved indigents	100%
Formal arrangement on arrear debt	Zero
Debt ageing more than 150 days	100%
Debt ageing less than 150 days	Zero
Debt relating to Government	Zero
Debt relating to Businesses	Zero

## **5. Sundry debtors**

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

## **6. Writing- Off bad debt**

The purpose of this policy is to ensure that the principles and procedures for writing-off irrecoverable debts are formalized.

## **7. Responsibility / Accountability**

The Council has the overall responsibility for adopting and approving the Policy and Principles on Writing-off of Irrecoverable Debt.

## **8. Policy and Principles**

8.1 The following are the guiding principles in implementing the Policy on Writing-off of Irrecoverable Debt –

8.1.1 The policy is in accordance with the Local Government Municipal Finance Management Act 2003, Local Government Municipal System Act 2000, as amended and other related legislation.

8.1.2 Before any debt is written off it must be proved that the debt has become irrecoverable. To ensure that recommendations for writing- off are consistent and accurate, irrecoverable debt will be defined as -

- (a) Where the tracing of the debtors is unsuccessful; and
- (b) All reasonable steps, at the discretion of the appointed write off committee, were taken by the officials to recover the debt.

8.1.3 Bad debt write offs must be considered in terms of cost benefit; when it becomes too costly to recover and the chances of collecting the debt are slim, a write off should be considered.

8.1.4 Time value of money is very important because the older the debt becomes, the more difficult and costly it becomes to collect. It is therefore imperative that a proper system of credit control is implemented and maintained to avoid debt reaching the stage of becoming too expensive to recover.

8.1.5 Differentiation must be made between those household consumers who cannot afford to pay for basic services and those who just do not want to pay for these services.

8.1.6 Debt can only be written off if the required provision for bad debts exists in the Municipality's budget and/or reserves.

## **9. CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITING OFF OF IRRECOVERABLE DEBT**

### **9.1 Approved Indigent Household Consumers in terms of the Municipality's Indigent Policy**

9.1.1 Upon approval for registration as an indigent household consumer, the debtor's outstanding balance as at the date of approval is written off.

9.1.2 Any new arrears accumulated by the debtor (i.e. any amounts in excess of the indigent allowance for free basic services) whilst registered as an indigent consumer, will not qualify to be written off and must be dealt with strictly in accordance with the Municipality's Customer Care, Credit Control, Debt Collection and Indigent Support Policy. This will apply only to registered indigents who have conventional meters for the supply of water as well as the excess rates payable on the market value of a residential property that are not exempted from paying rates in terms of the Property Rates Policy of Council.

## **9.2 Balances too small to recover considering the cost for recovery**

9.2.1 Where final accounts have been submitted and paid by the respective consumer and the remaining balance after finalization of any final readings and other administrative costs results in a balance of one thousand rand (R1 000) or less or the amount determined by Council from time to time during the budget approval process, such amount must be written off with the proviso that -

(a) When the balance amounts to R200 or less or the amount determined by Council from time to time during the budget approval process; the account must be forwarded once to the consumer for payment;

(b) When the balance amounts to R500 or less or the amount determined by Council from time to time during the budget approval process; the account be forwarded once to the consumer with a follow-up reminder for payment;

(c) When the balance amounts to R1 000 or less or the amount determined by Council from time to time during the budget approval process; the account must be forwarded once to the consumer with a follow-up reminder and a final reminder for payment.

9.2.2 Where such account is not paid by the respective consumer within a period of ninety (90) days such amounts will automatically be written off subject to the provisions of Section 9.4 below.

## **9.3 Insolvency of the Debtor and Insolvent Deceased Estates**

9.3.1 Where a debtor becomes insolvent the Municipality must ensure that a creditor's claim is timeously registered.

9.3.2 In case of death of the debtor a creditor's claim must be timeously registered against the deceased's estate.

## 9.4 Untraceable Debtors

9.4.1 Where for any reason the forward address of a debtor becomes untraceable or the debtor becomes untraceable from the current address, such account must be handed over to a collection agent for recovery of the debt. The collection agent will be paid an all-inclusive fee of not more than 20% of the amount that was collected. The Terms of Reference for such collection agent must include the appointment of a tracing agent to locate the debtor. Should a debtor be untraceable, the collection agent must report to the Municipality on the actions that were taken to attempt to trace the debtor.

9.4.2 Any amount owed by a debtor that has become untraceable must be written off or sold to a debt collection agency at a discount.

9.4.3 Debt written off in the above instances will automatically result in the debtor being reported to the credit bureau by the Municipality.

## 10. Implementation and review of this policy

10.1 This policy shall be implemented. All future submissions for the writing off of debt must be considered in accordance with this policy.

## 11 POLICY ADOPTION

14.1 This Policy has been considered and approved by the **COUNCIL OF AMAJUBA DISTRICT MUNICIPALITY** as follows:

Resolution No: **C :30/05/2017**

**Approval Date: 30 MAY 2017**



