

# DANNHAUSER MUNICIPALITY



## DRAFT PROVISION FOR DOUBTFUL DEBTS AND DEBTS WRITE-OFF POLICY FOR 2025/26

## **PROVISION FOR DOUBTFUL DEBT AND DEBT WRITE-OFF POLICY**

### **1. INTRODUCTION**

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 provisions of that Act and other applicable legislation. The Council is faced with a significant amount of outstanding debt and the continuous defaulting by certain consumers who can afford to pay services.

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

### **2. LEGISLATIVE FRAMEWORK**

This policy is in accordance with the:

- a) Local Government: Municipal Finance Management Act, 2003
- b) Local Government: Municipal Systems Act, 2000
- c) Local Government: Municipal Property Rates Act, 2004
- d) Local Government: Municipal Property Rates Policy, as reviewed annually
- e) Constitution of the Republic of South Africa, 1996 as amended
- f) Municipal Budget and Reporting Regulations, 2008
- g) Prescriptive Act 68 of 1969 as amended

### **3. 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.:

- a) Credit Control and Debt Collection Policy
- b) Indigent Management Policy
- c) Property Rates Policy
- d) Tariff Policy
- e) Cash Management and Investment Policy
- f) Budget Policy
- g) Funding Borrowings and Reserves Policy
- h) Insurance policy

#### 4. OBJECTIVES OF POLICY

The objectives of this policy are to:

- a) Ensure that bad debt write-offs are authorized at appropriate levels.
- b) Ensure that only bona fide bad debts are written off.
- c) Ensure firmness in writing off bad debts.
- d) Ensure that debt collection is effective and efficient.
- e) Ensure that bad debts are kept within reasonable proportions.
- f) 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
- g) 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.
- h) Ensure that debtors disclosed in the annual financial statements are stated at amounts that are deemed to be collectable.
- i) Ensure that uncollectable debt is written off within guidelines of existing policies and applicable legislation.
- j) Assist management and officials of Dannhauser 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.

#### 5. DEFINITIONS

For the purpose of understanding and executing this policy, any word or expression to which a meaning has been assigned in the Act shall bear the same meaning in this Policy and unless the context indicate

**“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) Dannhauser 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

## **6. 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 yearend 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:

### **Methodology for impairment of receivables**

In terms of GRAP 104, all financial assets measured at amortised cost are subject to an impairment review.

#### **1. Timing of assessment**

The Municipality performs an assessment at the end of each reporting date to determine whether there is objective evidence that a receivable account or group of receivable accounts is impaired.

## **2. Indicators of impairment**

An assessment whether there is objective evidence that the receivable is impaired is performed at an individual account level as well as at group level. NB: Government accounts and accounts with credit balances are excluded from the assessment.

### **2.1 Assessment at an individual account level**

Any of the following events is considered to provide objective evidence that a receivable account could be impaired at an individual account level:

1. Account balance outstanding for 90+ days
2. Account's last payment date is on or before 31 March
3. Account is inactive
4. Account is handed over
5. Account owner is under liquidation
6. Account owner applied for sequestration
7. Account has take-on balance municipality unable to explain
8. Collection rate

**If any of the following exist in the account, then that account is not impaired:**

- 1. There is a formal debt settlement arrangement in place**
- 2. There is a payment made after year end**

### **2.2 Assessment at group level (collective assessment)**

2.2.1 Assessment at group level is determined with reference to the average collection rate.

- If the average collection rate is 95% and above, no impairment is provided for.
- If the average collection rate is below 95%, impairment is provided for.

2.2.2 Accounts are grouped based on the types of municipality's customers:

- Business
- Households
- Other

## **3. Calculation of impairment amount**

- The impairment is the difference between the carrying amount of the receivable and the present of estimated future cash flows discounted at the effective interest rate. The Present value is determined using the following information:

### 3.1 Expected repayment term (N)

- The expected repayment term is the collection period in days which is determined based on each customer's payment behaviour. The collection period is calculated as follows:  $(\text{Balance on the account} / \text{Billed annual amount on the account} \times 365)$ .

### 3.2 Collection rate

- The collection rate is used to determine the level of payments against the billings. The collection period is calculated as follows:  $\text{Gross Debtors Opening Balance} + \text{Billed Revenue incl. adjustments} - \text{Gross Debtors Closing Balance} - \text{Bad Debts Written Off} ) / \text{Billed Revenue} \times 100$
- The collection rate is used to determine the estimated future cash flows. For Individual assessment, the collection rate is determined for each customer and for Collective assessment, the average collection rate is determined for each group.

### 3.3 Expected future cash flows (FV)

#### 3.3.1 Expected future cash flows - Individual assessment

- In order to determine the future cash flows, first the analysis of impairment is determined based on:
  - the indicators of impairment.
  - whether there is a settlement arrangement with the customer."
  - whether there is a payment on or after 31 March.
- If there is an indicator of impairment and there is no settlement arrangement. then the debtor is considered impaired and the future cash flow is determined as follows:  $(\text{Outstanding balance} \times \text{Collection rate})$ .

#### 3.3.2 Expected future cash flows - Collective assessment

- All debtors that did not have indicators of impairment during the performance of Individual assessment are assessed for impairment collectively with other debtors with similar risk characteristics. The indicator for impairment for Collective assessment is considered to be a collection rate that is less than 95%. The future cash flows is determined for each group:

- Business
- Households
- Other

### **3.4 Discount rate (R)**

- The effective interest rate would not need to be determined where short term receivables with no stated interest rate (which is usually measured at the original invoice amount). Therefore the discount rate used by the municipality is the rate as determined in the government gazette which is 9.75%. The discount rate is divided by 365 in order to get a daily rate.

### **3.5 Payment (PMT)**

- The PMT is zero.

## **7. 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:

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

Revenue Accountant 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.

### **7.2. 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:



Revenue Accountant 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.

### **7.3. 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. otherwise, the following will be applicable: –

**“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.

***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*

Revenue Accountant 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.

**8. BAD DEBT MANAGEMENT**

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

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

## 9. DEBT WRITE OFF GUIDELINES

Before any debt is written off it must be proved that the debt has become irrecoverable. To ensure that recommendations for write off of debt are consistent and accurate, the following principles or a combination of some of them must be followed prior to any write off:

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

- a) Recovery is uneconomic or not cost effective.
- b) Debtors falling within debts that must be written-off as in terms of indigent and other policies as approved by council.
- c) All applicable actions as contained in the approved Credit Control and Debt Collection Policy of Dannhauser Local Municipality must have been executed/implemented before any debt, owed to the municipality for any reason whatsoever will be considered for writing-off. However, in special cases where the requirements in terms of the municipality's Credit Control and Debt Collection Policy were impossible/impractical to implement, the administration must motivate such write-off.
- d) Only specific delegated officials can authorize writing-off of debts. (Detailed under Section 10 of this policy document)
- e) 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.
- f) The Council cannot legally prove the claim, provided that such a write-off must be followed by an investigation to circumstances which led to the failure to legally prove the claim.
- g) The debtor has neither assets nor income;
- h) Bad debt write offs must be considered in terms of cost – benefit analysis; meaning when it becomes too costly to recover and the chances of collecting the debt are slim, a write off should be considered.
- i) The debtor is no longer a resident in the Republic of South Africa, and there are no apparent means of collecting the debt, and there is no evidence that the debtor has family or business concerns in South Africa that could lead to the debtor.
- j) 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.
- k) 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.

- l) Outstanding balances of debtors falling within the Indigent category will be written-off in line with Indigent Management Policy subject to confirmation of indigence.

## **10. CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITE-OFF**

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

10.1.1 Upon approval for registration as an indigent household consumer, the debtor's interest on the arrear amount will be written off and the outstanding balance on his/her municipal services account will be handed over to the appointed committee for review and possible write off.

10.1.2 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 Debt Collection and Credit Control Policy and Indigent Household Policy.

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

10.2.1 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 hundred rand (R100) or less, such account must be forwarded once to the consumer for payment

10.2.2 Where such account is not paid by the respective consumer within a period of sixty (60) days such amounts will automatically be written off subject to the provisions of Section 9. (h) above.

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

10.3.1 Where a debtor becomes insolvent the Municipality must ensure that a creditor's claim is timeously registered. Any amount not being recovered due to insufficient funds or if there is a risk of a contribution being made to an insolvent estate must, after notification, be written off subject to the provisions of Section 9. (i) above.

10.3.2 In case of death of the debtor a creditor's claim must be timeously registered against the deceased's estate. Any amount not being recovered due to insufficient funds or if there is a risk of a contribution being made to a deceased estate must, after notification, be written off subject to the provisions of Sections 9. (c) above.

## **10.4 Untraceable Debtors**

10.4.1 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 on an attorney client scale relating to matters of debt collection. 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. The municipality should be responsible to pay the tracing agent.

10.4.2 Any amount owed by a debtor that has become untraceable must, after notification, be written off or sold to a debt collection agency at a discount which will be determined by Council from time to time.

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

## **11. ACCOUNTS IN ARREARS FOR COUNCILLORS AND EMPLOYEES**

- a) 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'.
- b) Revenue Accountant 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

## **12. 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.

| <b>Value of debt owed to the municipality</b> | <b>Action required of the municipal official</b>                                   | <b>Authority required for write off (Municipal Official)</b> |
|---|--|--|
| R1.00 – R2999                                 | Add to list of bad debts after all Collection efforts other than legal have failed | Revenue Accountant and Chief Financial Officer               |
| Amount less than R3000 for inactive accounts  | Add to list of bad debts after Issuing a final demand                              | Revenue Accountant and Chief Financial Officer               |
| R3000 – R10 000                               | Add to list of bad debts<br>Institute legal action                                 | Revenue Accountant and Chief Financial Officer               |
| R10 001- R500 000                             | Add to list of bad debts<br>Institute legal action                                 | Chief Financial Officer and Municipal Manager                |
| R500 001 +                                    | Add to list of bad debts<br>Institute legal action<br>Blacklisting                 | Municipal Manager<br>Executive Mayor<br>Council              |

| <b>Monitoring debtors accounts</b>  | <b>Monitoring debtors accounts</b>  | <b>Monitoring debtors accounts</b>  | <b>Monitoring debtors accounts</b>  |
|---|---|---|---|
| 1 Monthly debtors' accounts are printed out and analysed in order to identify slow moving debtor accounts | 1 Monthly debtors' accounts are printed out and analysed in order to identify slow moving debtor accounts   | 1 Monthly debtors' accounts are printed out and analysed in order to identify slow moving debtor accounts   | 1 Monthly debtors' accounts are printed out and analysed in order to identify slow moving debtor accounts   |
| <b>1.</b> The Credit control department should maintain strict controls over their debtors book           | <b>2.</b> The credit department is responsible for debt follow- ups<br>Unrecoverable bad debts with significant amounts are handed over for litigation<br>Where payment arrangement has been agreed on this has to be communicated to | <b>3.</b> Assessment will be conducted on the following basis;<br>a. individuals will be assessed against their ability to pay.<br>b. Where an individual is found to qualify for indigent status, their debt is written off in terms of indigent and other | <b>4</b> Debts are written off in accordance with Dannhauser. Municipality's authorization levels as stipulated below:<br>Revenue Accountant & Chief Financial Officer<br>R1.00 – R2999,<br>Revenue Accountant & Chief Financial Officer<br>R3000 - R10 000 |

|  |  |  |  |
|--|--|--|--|
|  | debt collection and credit control department<br>Payment arrangements with major debtors should be communicated to the income manager to enable her to accurately estimate future income streams | policies as approved by council.<br>c. Assessment of progress made in respect to the agreed payment terms is made. Debtors on schedule with their payments are removed from the potential bad debt listing, but are however kept under strict monitoring | Municipal Manager & Chief Finance Officer<br>R10 001 – R500 000<br>Municipal Manager, Executive Mayor & Council<br>R500 000+ |
|--|--|--|--|

### 13. BAD DEBTS RECOVERED

13.1 Bad debts recovered after having been written-off will be treated in terms of the municipality's Cash Management Policy.

13.2 The approval of Council for the write-off of any debt does not mean that actions to recover the debt will be terminated. Conditionally, further actions may be instituted, depending on the costs involved. Should the debt be recovered, it will accordingly be recorded in the financial records of Council.

### 14. COMPLIANCE AND ENFORCEMENT

- a. This policy is the full and final debt write-off policy of Dannhauser Municipality and must be adhered to by all Councillors, management, 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.
- b. Violation of or non-compliance with this Policy may give a just cause of disciplinary steps to be taken against the parties involved.
- c. It will be the responsibility of Chief Financial Officer to enforce compliance with this Policy.

**15. EFFECTIVE DATE**

The Policy shall come to effect upon approval by Council of Dannhauser Local Municipality.

This policy superseded any other Bad Debts and Write-off Policy issued previously.

**15. POLICY ADOPTION**

This policy has been considered and approved by the Council of **DANNHAUSER LOCAL**

**MUNICIPALITY** on this..... day of .....2025 and will be implemented as from 01 JULY 2025.