FETAKGOMO TUBATSE
LOCAL MUNICIPALITY

DEBT IMPAIRMENT POLICY

2021/2022

FETAKGOMO TUBATSE MUNICIPALITY

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1. INTRODUCTION

1.1. The debt impairment policy was previously part of the municipality's Credit control and debt collection policy, under Section 21 (Provision for Doubtful debts). This section of the Credit control and debt collection policy is therefore repealed and supplanted by this stand-alone policy on Debtor Impairment.

2. POLICY OBJECTIVES

2.1. The objectives of this document are to:

2.1.1. To set out a methodology for the impairment of receivables the municipality in line with the applicable accounting standards;

2.1.2. To ensure that sufficient allowance is made for the impairment of receivables in the financial statements;

2.1.3. Ensure that receivables disclosed in the financial statements are stated at amounts that are deemed collectable; and

2.1.4. To promote transparency as required by sections 215 and 216 of the Constitution when dealing with receivables and debt.

3. SCOPE

3.1. The methodology is applicable to all receivables subsequently measured at amortised cost. This includes the following line items as disclosed on the statement of financial position:

3.1.1. Consumer receivables;

3.1.2. Receivables from exchange transactions; and

3.1.3. Receivables from non-exchange transactions.

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4. DEFINITIONS AND ABBRETIATIONS

"Financial year"	means the period 1 July of one year to 30 June of the following year (both days included)
"GRAP"	means Generally Recognised Accounting Practices
"MFMA"	means Municipal Finance Management Act 56 of 2003
"Municipality"	means FetakgomoTubatse Local Municipality
"Reporting date"	means 30 June of each year

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5. **APPLICABLE ACCOUNTING STANDARDS**

5.1. GRAP 104 financial instruments sets out the requirements and guidelines for the impairment of financial assets subsequently carried at amortised cost. GRAP 104.46 "all financial assets measured at amortised cost, or cost, are subject to an impairment review..."

5.2. GRAP 104.57 "an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraphs .61 to .63 (for financial assets carried at amortised cost) and paragraph .64 (for financial assets carried at cost) to determine the amount of any impairment loss".

5.3. GRAP 104.58 "a financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated".

5.4. GRAP 104.61 "if there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit".

5.5. GRAP 104.62 "an entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (see paragraph .58). If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment".

5.6. GRAP 104.63 "If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that

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exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognized in surplus or deficit".

6. METHODOLOGY

6.1. In accordance with GRAP 104 (Financial Instruments), an objective assessment of financial assets is made at year end to determine possible impairment. Impairment loss is recognised as an expense in the Statement of Financial Performance. The determination of the impairment loss is guided by the following principles as per GRAP 104. The municipality assesses financial assets individually, when assets are individually significant, and individually or collectively for financial assets that are not individually significant. (Individual Debtors' balances that constitute at least 5 percent of the total debtors book are considered to be individually significant by the municipality).

6.2. Where no objective evidence of impairment exists for an individually assessed asset (whether individually significant or not), the municipality includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

6.3. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the collective assessment of impairment. As soon as information becomes available that specifically identifies losses on individually impaired assets in a group (that are collectively assessed for impairment), those assets are removed from the group and assessed individually for impairment.

6.4. For collective assessment of impairment, as indicated above, assets with similar credit risk characteristics are grouped together. The credit risk characteristics should be indicative of the debtors' ability to pay all amounts due according to the contractual terms.

6.5. The method used in determining the group of assets to be assessed for impairment, is a grading process that considers the:

6.5.1. Debtor type

6.5.2. Industry

6.5.3. Past due status (e.g. days/ months that the accounts are in arrears)

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6.6. Consumer debtors are evaluated at the end of the reporting date and impaired as follows:

6.6.1. Timing of Assessment

6.6.1.1. The Municipality will assess at the end of each reporting date whether there is objective evidence that a receivable account or group of receivable accounts is impaired.

6.6.2. Evidence of Impairment

6.6.2.1. Any one of the following events is considered to provide objective evidence that a receivable account or group of receivable accounts could be impaired:

(a) All receivables that have been placed under or applied for liquidation or sequestration;
(b) Indigent accounts;
(c) Inactive accounts;
(d) Accounts handed over to debt collectors and/or power of attorney;
(e) All accounts with balances outstanding 270 days and longer as these accounts are considered to be past due.

6.6.3. Calculation and Recognition of Impairment Loss

6.6.3.1. The impairment loss is calculated as the difference between the carrying value at reporting date less the present value of expected future cash flows:

Carrying Amount at reporting Date - Present Value of Future Expected Cashflows = Impairment Loss

6.6.3.2. The carrying amount (Expected Future Cash Flows) at reporting date is calculated as follows:

Gross carrying amount Less debtors to be impaired 100% (*Indigent debtors, Handed over Debtors, Debtors with balances 270 days and longer)*

6.6.3.3. The Discount Rate used is derived from the policy (prime plus 1%), average for the financial year.

6.6.3.4. The Expected Repayment Term is 30 days.

7. IMPLEMENTING STRATEGY

7.1. The Municipal manager shall submit a report on all debt impairments made under this policy to the Mayor every year.

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7.2. The Municipal Manager shall be responsible for the implementation and administration of this policy.

7.3. This policy will be effective on the date of adoption by Council.

8. EFFECTIVE DATE

8.1. This policy will be applied retrospectively.

9. POLICY EVALUATION AND REVIEW

9.1. In terms of section 17(1)(e) of the MFMA polices must be reviewed on an annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

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FETAKGOMO TUBATSE
LOCAL MUNICIPALITY

DRAFT POLICY AND PRINCIPLES ON THE WRITING OFF OF IRRECOVERABLE DEBT

2021/2022

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FETAKGOMO TUBATSE LOCAL MUNICIPALITY

PRINCIPLES AND POLICY ON THE WRITING OFF OF IRRECOVERABLE DEBT

1. INTRODUCTION

1.1 To ensure that household consumers with no or lower income are not denied a reasonable service and that the municipality is not financially burdened with non-payment of services, the Council of Fetakgomo Tubatse Municipality approved a revised Indigent Policy yearly together with the budget

1.2 However, the Council is faced with a significant amount of outstanding debt and the continuous defaulting by certain consumers who can afford to pay for services. The Council approved a revised Credit Control and Debt Collection Policy yearly together with the budget

1.3 Despite strict enforcement of the above policies, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt. To allow this the approved Credit Control Policy, inter alia, stipulated that:-

1.3.1 Par 5 (1) (c) - The Municipal Manager must establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the municipality.

1.4 In addition, the policy further stipulates that:-

1.4.1 Par 19 (2) - Council must appoint a committee in terms of its delegations to review and recommend to Council to approve all bad debt write off cases.

2. PURPOSE OF THE POLICY

2.1 The purpose of this policy is to ensure that the principles and procedures for writing off irrecoverable debt are formalised.

3. RESPONSIBILITY / ACCOUNTABILITY

3.1 The Council has the overall responsibility for adopting and approving the Policy on Writing Off of irrecoverable debt.

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4. POLICY PRINCIPLES

4.1 The following are the guiding principles in implementing the Policy on Writing Off of Irrecoverable Debt:-

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

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

4.1.2.1. Where the tracing of the debtors is unsuccessful; and

4.1.2.2. All reasonable steps, at the discretion of the appointed write off committee, were taken by the officials to recover the debt.

4.1.3 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.

4.1.4 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.

4.1.5 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.

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

5. CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITING OFF OF IRRECOVERABLE DEBT

5.1 Approved Indigent Household Consumers in terms of the Municipality's Indigent Policy.

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

5.1.2. 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 Credit Control Policy and Indigent Household Policy.

5.2 Balances too small to recover considering the cost for recovery

5.2.1 Where final accounts have been submitted and paid by the respective consumer and the remaining balance after finalisation 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.

5.2.2 **Where such account is not paid by the respective consumer within a period of hundred and twenty (120) days such amounts will automatically be written off subject to the provisions of Section 6.4 below**.

5.3 Insolvency of the Debtor and Insolvent Deceased Estates

5.3.1 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 6.4 and 6.5 below.

5.3.2 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 6.4 and 6.5 below.

5.4 Untraceable Debtors

5.4.1 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 10% 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.

5.4.2 **Any amount owed by a debtor that has become untraceable must, after notification, be written off**

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

5.5 Special Arrangements in order to obtain a Clearance Certificate

5.5.1 In terms of legislation the Municipality will under normal circumstances not issue a clearance certificate on any property unless all outstanding amounts are paid to date. However due to the possible inefficiency of the Municipality to implement its credit control policy it might be possible that such a property may have accumulated such a significant outstanding balance over a period of time that it may not be within the ability of the new owner to pay such an amount in order to obtain a clearance certificate.

5.5.2 Where such circumstances may prevail the prospective new owner may apply to the Municipality for relief of such outstanding debt or a portion thereof.

5.5.3 Upon receiving, such application must be submitted to the committee for consideration. In reviewing such application, the committee must ensure that:-

5.5.3.1 All reasonable measures have already been taken to recover the outstanding amount from the current debtor.

5.5.3.2 The prospective buyer of the property is not in a financial position to settle the outstanding amount before a clearance certificate is issued.

5.5.3.3 It is not in the interest of the municipality and/ or the community to withhold a clearance certificate before the outstanding debt is fully paid.

5.6 Special Incentives introduced by Council for Household Consumers in terms of the Credit Control and Debt Collection Policy

5.6.1 Notwithstanding the Municipality's Credit Control Policy a debtor may enter into a written agreement with the Municipality to repay any outstanding and due amount to the Municipality under the following conditions:-

5.6.1.1 The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;

5.6.1.2 The current monthly amount must be paid in full; and

5.6.1.3 The written agreement has to be signed on behalf of the Municipality by a duly authorised officer.

5.6.2 In order to determine monthly instalments, a comprehensive statement of assets and liabilities and income and expenditure, must be provided by the debtor and reviewed by a finance official. To ensure the continuous payment of such arrangement the amount determined must be affordable to the consumer (i.e. amount not to exceed 25% of gross income), taking into account that payment of the monthly current account is a prerequisite for concluding an arrangement.

5.6.3 Due to ineffective implementation of credit control measures in the past, the majority of household consumers have accumulated significant arrear amounts and that these consumers are not in a position to pay off these arrear amounts in full together with their current monthly accounts. In order to improve the current payment levels from consumers the Municipality has resolved to implement special incentives to address the arrear debt.

5.6.4 To encourage consumers to pay off arrear debt Council will write off all outstanding interest at that time on condition that the outstanding capital amount be settled in full

5.6.5 Writing off any debt in terms of such an agreement will be strictly in accordance with the provisions set out in the Municipality's Credit Control and Debt Collection Policy.

5.6.7 As long as the agreement is honoured no further interest will be added. However, in case of default the suspended amount will be reversed and interest will again be levied from the date of default.

5.6.8 Where a debtor pays 100% of the principal portion of his/her arrear account or settles the principal portion of the arrear account in full through a once-off payment, all interest penalties on arrear amounts will be written off immediately.

5.6.9 Where arrangements are made to pay off the principal portion of the arrear amount in instalments, such instalments should be determined on the outstanding amount excluding arrear interest. This arrangement will imply that upon payment of the final instalment all interest on arrear amounts will have been written off.

5.6.10 Where debtors fail to honour their arrangements without prior consultation interest will be reinstated and added to the original debt amount.

5.6.11 The arrangement referred to in paragraph 6.6.5 may be extended to other Poverty Alleviation & Job Creation Strategies that the Municipality may implement. Such strategies may include:-

5.6.11.1 The casual/contract employment of a debtor in a particular Municipal project (i.e. refuse collection, road maintenance, verge cutting etc.)

5.6.11.2 A 50% cash payment to the debtor and 50% payment that will be credited against the debtor's arrear account.

5.6.11.3 The accounting treatment shall be that the project or programme will be debited (charged) full 100% as this will be the input cost of the labour (100% cost paid out as 50% cash paid to the debtor and 50% credited against the debtor's arrear account as though it were a cash payment).

5.6.12 The purpose of the above strategy/arrangement is to instil a sense of pride to the customers of the Municipality that cannot pay off their arrears, whilst extending services delivery, creating jobs, and alleviating poverty, and at the same time reducing the Debtors Book and enhance the financial status and image of the Municipality.

5.6.13 Any amount to be written off in terms of paragraph 6.6 above must be subject to the provision of Section 7.4 and 7.5 below.

6. MONITORING OF ANY DEBT TO BE WRITTEN OFF

Debts to be written off shall be submitted to Council for approval

6.1 Council will establish and appoint a Committee to monitor the implementation of this Policy.

7. IMPLEMENTATION AND REVIEW OF THIS POLICY

7.1 This policy shall be implemented once approved by Council. All future submissions for the writing off of debt must be considered in accordance with this policy.

02-06-2021