DEBT MANAGEMENT POLICY

UMZIMVUBU
LOCAL MUNICIPALITY

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1. INTRODUCTION

The Council of Umzimvubu 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 give 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:

- to ensure any long outstanding debt is evaluated in order to determine the possibility of realizing such income as revenue.
- to ensure that where it is evident that a particular debt cannot be turned into a revenue such debt be procedurally regarded as irrecoverable.
- to ensure that the Council of the municipality makes enough provision for bad debts in the budget.
- to ensure that outstanding monies which have been outstanding for a long time 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 of bad debts and the provision for doubtful debt.

5. OBJECTIVES

The objectives of this policy are to provide for:

- the identification of bad debts during the course of the financial year.
- the writing off of bad debts at least three months before the end of the financial year.
- the proper delegation of powers to the chief financial officer to write off bad debts up to a certain amount.
- the 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 with others so that at the latest by April every year the report should serve before the Council in order to write off the irrecoverable debts.

7. WRITING OFF OF IRRECOVERABLE DEBTS

Where debts are identified as being irrecoverable, the process of writing off will be treated as follows:

7.1 Criteria for Irrecoverable debt

Debt will only be considered as irrecoverable if it complies with the following criteria:

(a) all reasonable notifications and cost effective legal avenues have been exhausted to recover a specific outstanding amount; or

(b) any amount equal to or less than R500.00 or as determined by Council from time to time, will be considered too small, after having followed basic checks, to warrant further endeavours to collect it can be written off without submission to Council; or

(c) the cost to recover the debt does not warrant further action; or

(d) the amount outstanding is the residue after payment of a dividend in the rand from an insolvent estate; or

(i) there is a danger of a contribution;

(ii) no dividend will accrue to creditors; or

(e) a deceased estate has no liquid assets to cover the outstanding amount following the final distribution of the estate; or

(i)where the estate has not been reported to the Master and there are no assets of value to attach; or

(f) it has been proven that the debt has prescribed; or

(g) the debtor is untraceable or cannot be identified so as to proceed with further action; or

(i) the debtor has emigrated leaving no assets of value to cost effectively recover
Councils claims; or

(h) it is not possible to prove the debt outstanding; or

(i)a court has ruled that the claim is not recoverable; or

(i) the outstanding amount is due to an irreconcilable administrative error by the Municipality; or

with immediate effect and any other action as per any legislation or policy that applies to such tampering and/or bypassing will be instituted;

(ii) should the Municipal Manager become aware that the focus of the organization has

changed, or its financial position has improved or its registration as a non-profit organization or public benefit organization has lapsed or terminated within three years after the arrears were written-off, such arrears will become payable with immediate effect.

7.2 Amounts equal to or lower than amounts delegated to the Chief Financial Officer (CFO) by Council resolution from time to time

The CFO must prepare a report within the delegated powers of the CFO containing the following:

- consumer details;
- irrecoverable amount broken down by service;
- details on credit and debt collection processes followed to recover the debt;
- reasons that led to debt being identified as being irrecoverable;
- confirmation that all available avenues to recover debt have been exchanged; and
- confirmation that further actions would be fruitless and not cost effective

The report of the Revenue Accountant must be scrutinized by the Assistant Manager Revenue and Debt Collection and recommended the writing off to the CFO for consideration.

Upon approval by the CFO, the credit control section will draw a Umzimvubu cheque against the debt impairment provision vote in the income and expenditure ledger and process it against the relevant debtors account.

The CFO must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to the budget office by no later than 20 July of each year to be retained for audit purposes.

7.3 Amounts exceeding the CFO delegated authority

The CFO must prepare a report in excess of the CFO delegated powers containing the following:

- consumer details;
- irrecoverable amount broken down per service;
- details on credit and debt collection processes followed to recover the debt;
- reasons that led to debt being identified as being irrecoverable;
- confirmation that all available avenues to recover debt have been exchanged; and
- confirmation that further actions would be fruitless and not cost effective.

The report of the Accountant must be scrutinized by the Assistant Manager Revenue and Debt Collection : Treasury Office and recommend the writing off to the Executive Committee for consideration. The final report to the Executive Committee must be signed off by the CFO.

Upon approval by the Executive Committee, the credit control section will draw a Umzimvubu cheque against the debt impairment provision votes in the income and expenditure ledger and process it against the relevant debtors account.

The CFO must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to the budget office by no later than 20 July of each year to be retained for audit purposes.

7.4 Specific debt write offs

The CFO may submit a report to the Executive Committee from time to time for specific uncollectable debt transactions such as:

- liquidations in terms of section 89 of the Insolvency Act, Act 24 of 1936;
- erven brought back by Council;
- outstanding debts that are older than two (2) years that cannot be recovered during the transfer of immovable property as in terms of section 118 (1)(b) of the Systems Act, Act 32 of 2000; and/or
- for a specific debt category

The report for specific debt write offs must contain the following:

- customer details;
- reason for specific debt write offs;
- amount to be written off broken down per service; and
- confirmation that further actions would be fruitless and not cost effective.

The report of the CFO must be scrutinized by the Assistant Manager Revenue and Debt Collection : Treasury Office and recommend the writing off to the Executive Committee for consideration. The final report to the Executive Committee must be signed off by the CFO. Upon approval by the Executive Committee, the credit control section will draw a Umzimvubu cheque against the debt impairment provision votes in the income and expenditure ledger and process it against the relevant debtors account.

The CFO must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to the budget office by no later than 20 July of each year to be retained for audit purposes.

8. RECOVERY OF IRRECOVERABLE DEBTS

Should there be a payment in respect of the account which has already been written off, such monies must be allocated to the specific vote number designed for the recovery of irrecoverable debts.

9. SUNDRY MATTERS

Council may from time to time implement an incentive scheme which may entitle writing off of certain debts.

10. IMPAIRMENT OF DEBTORS (PROVISION FOR DOUBTFUL DEBT)

Consumer and sundry debtors (receivables from exchange and non-exchange transactions), long term receivables and other debtors are stated at cost, less a provision for bad debt.

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

In the assessment for impairment the following methodology:

10.1 Debtors

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

- Non-payment percentage is determined for each debtor.
- Impairment amount is then determined based on non-payment percentage.
- Debtor with non-payment percentage of 13% and below are not impaired.
- All Government debtors' accounts shall not be impaired.

10.2 Traffic fines

Traffic fines debtors (receivables from non-exchange transactions), long term receivables and other debtors are stated at cost, less a provision for bad debt.

- Traffic fines shall be impaired based on average payment trends.

11. SHORT TITLE

This policy shall be called the Writing Off of Irrecoverable Debts and Impairment of Debtors Policy.

APPROVAL OF THE POLICY

The Municipal Council has approved this policy and amendments thereof.

AUTHENTICATION

The amendments of the policy and or the new policy was adopted by the Council on the 23/01/2020

As per Council Resolution number 215/19/20

Signed off

Mr. G.P.T. Nota

Municipal Manager

Cllr. N.F Ngonyolo

Speaker of the Council