

NKETOANA LOCAL MUNICIPALITY

PRINCIPLES AND POLICY ON WRITING OFF OF IRRECOVERABLE DEBT, UNALLOCATED REVENUE & IMPAIRMENT



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PRINCIPLES AND POLICY ON THE WRITING OFF OF IRRECOVERABLE DEBT

1. INTRODUCTION

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.

Despite strict enforcement of the above policies, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt.

2. PURPOSE OF THE POLICY

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

3. RESPONSIBILITY / ACCOUNTABILITY

The Council has the overall responsibility for laying down the Policy on Writing Off of Irrecoverable Debt & Impairment. The approval for the writing off of debt is split into two components:

- Specified
This relates to debt where specific criteria is supplied such as the rebate % on payments, indigent arrears, rebates on rates when paid for the year in advance, etc. In these circumstances it do not have to be presented to Council again for approval.
- Un-specified
This relates to all other debt where the conditions/criteria has not been specified in advance. All these cases must be supplied to Council for approval as it will fall outside the boundaries of the approved guidelines/criteria as set by Council.

4. POLICY PRINCIPLES

The following should be the guiding principles in implementing the Policy on Writing Off of Irrecoverable Debt & Impairment:-

- 4.1 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.
- 4.2 Before any debt is written off it must be proved that the debt has become irrecoverable or the write off approved by Council. To ensure that recommendations for write off are consistent and accurate, irrecoverable debt will be defined as all reasonable steps were taken to recover the debt.
- 4.3 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.

- 4.4 Timely recovery 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 without any interruption whatsoever to avoid debt to reach the stage of becoming too expensive to recover.
- 4.5 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.
- 4.6 Indigent write offs and other approved write offs/rebates will be done in accordance with the prescribed requirements/conditions/criteria and as such is exempted from the above.
- 4.7 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 to date of approval is written off as at the date of application taking into consideration the billing cycle for the specific month.
- 5.1.2 In a case where the indigent consumer exceeds the subsidized usage of services the said access debt must be paid by him/her. Failure to adhere to this, the consumer/owner authorizes the Council to implement any possible measures to limit consumption to the approved volume in future.

5.2 Balances too small to recover considering the cost for recovery

- 5.2.1 Where debt remain after any final readings, application of possible deposits and other administrative costs were completed such an account must be made inactive. Should a balance of five hundred rand (R500) or less remain on such an account, the following process must be followed:
 - 5.2.1.1 Confirm that the debtor has no other account with the Council. Should another account(s) exist, the total debt of all possible accounts must be managed together and managed via the Credit Control and Debt Collection Policy/By-law.
 - 5.2.1.2 The said account must be submitted to the customer at least once.
 - 5.2.1.3 A final notice must be issued to the customer.
- 5.2.2 Where such account is not paid/collected it must be administered under the approved policies.

5.3 Insolvency of the Owner and Insolvent Deceased Estates

- 5.3.1 Where an owner becomes insolvent the Municipality must ensure that it is clearly indicated at the auction of the debtor's estate that there are outstanding debt and that it must be made part of the conditions of sale that the arrears must be paid in order to obtain a clearance certificate for transfer of ownership. In this instance the debtor must be blacklisted.

- 5.3.2 In case of a deceased debtor with an insolvent estate, the debt of the debtor be written off.
- 5.3.3 Council must not register a claim against an insolvent estate as it might lead to Council being held liable for costs should the estate not have sufficient funds. Council must however, as indicated above, notify the relevant parties on their request that there are outstanding debt which will have to be paid before a clearance certificate for the transfer of the property can be issued.

5.4 Untraceable Debtors

- 5.4.1 Where for any reason the debtor cannot be traced at the current or forwarding address or through any other contact details supplied, the debtor becomes untraceable. In these cases it must be considered to hand it over to a recognized tracing agent for possible tracing should circumstances allow.
- 5.4.2 Before any invoice from a tracing agent is settled the Municipality must be furnished with a written report on the actions taken by the tracing agent.
- 5.4.3 Any amount owed by a debtor that has become untraceable must be written off.
- 5.4.4 Debt written off in the above instances will automatically result in the debtor being blacklisted 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. Legislation stipulate that only the two year's debt prior to application for a clearance certificate may be included in the clearance certificate request which could result in outstanding debt not being collected via the clearance certificate process.
- 5.5.2 When such a request is submitted the CFO must, without delay, determine whether any related debt has prescribed. Property rates expires after thirty (30) years and all other debt after three (3) years. Terms and conditions apply in this regard. Prescribed debt must be written off before clearance figures are supplied.
- 5.5.3 Once a request for clearance figures is received insisting on only paying for the past 2 years it must be determined whether any approved rebates/reductions of Council will cover the shortfall on the debt.
- 5.5.4 Should a shortfall exist, the applicant must be notified in writing that an immediate application for a claim against the funds of the transaction will be submitted to the Council's attorneys for a court application to freeze all funds related to the transacting(s) and that the costs will be for the account of the applicant.
- 5.5.5 Should the applicant persist, an urgent instruction must be given to the Council's attorneys to proceed with the application for a court order. The attorneys will obtain an immediate court order to freeze all funds of the transaction until all debt have been cleared with the Council. The Council's attorneys will claim their costs in this regard from the applicant/transferring attorney.

- 5.5.6 Should exceptional circumstances occur and it is not be possible to clear the matter in accordance with the above the prospective new owner may apply to the Municipality for relief of such outstanding debt or a portion thereof. Such application must be accompanied by at least the following support documentation:-
- 5.2.2.1 A certified copy of the Deed of Sale.
 - 5.2.2.2 Cancellation figures issued by the financial and/or administrative institution.
 - 5.2.2.3 A detailed SAPS declaration signed by the transferring attorney regarding the finances available.
- 5.5.7 Upon receiving the above, such application must be submitted to CFO for consideration. In reviewing such application, the CFO must ensure that all reasonable measures have already been taken to recover the outstanding amount from the current debtor, that the purchase price is market related, etc.
- 5.5.8 To facilitate compliance with section 118 of the Municipal Systems Act, all applications to write off debt outstanding for a period of less than two years in terms of the paragraph above must be submitted to the Council for approval, irrespective of powers delegated. No certificate will be issued before Council approval has not been minuted.

5.6 Special Incentives introduced by Council for Household Consumers in terms of the Approved Revenue Enhancement Strategy

- 5.6.1 In terms of 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 account must be paid in full, including the current interest billed on arrears; and
 - 5.6.1.3 The written agreement has to be signed by all relevant parties and on behalf of the Municipality by a duly authorised officer.
- 5.6.2 The Council has approved an incentive for a rebate on old debt from a prescribed period and a prescribed percentage (%). The prescribed period is currently 1 July 2014 and the approved percentage is 50%. The latter will remain effective until otherwise approved by Council. The related journals for the incentive of a rebate amount in relation to actual payments made by the debtor on outstanding debt must be reviewed/authorized by at least two senior officials in the Finance Department.

6. OTHER CONDITIONS FOR DEBT TO BE WRITTEN OFF

Other cases whereby debt can be written off:

- 6.1 When the cost to recover the debt will exceed the debt amount
- 6.2 It has been proven that the debt has prescribed.
- 6.3 Where Council expropriates any property
- 6.4 Where it is not possible to proof the debt outstanding

7. APPROVAL OF ANY DEBT TO BE WRITTEN OFF

- 7.1 Any debt written of in accordance with any of the approved policies of Council will deemed to be approved by Council as in accordance with applicable legislation.
- 7.2 Any debt to be written off outside the parameters of any of the approved policies will only be effected once Council approval is obtained.
- 7.3 All write-offs must be properly filed and reconciled for control and audit purposes.

8. UNALLOCATED DEPOSITS

The municipality experience instances where deposits are made into the bank accounts of the institution without any supporting reference to enable the institution to allocate the said deposit correctly. The financial institution of the municipality indicated that they cannot assist the institution in this regard. This creates the scenario where no supporting documentation are available to substantiate the unallocated deposits. It is thus hereby approved that the unallocated deposit accounts be cleared at the end of each financial year whereby the unallocated opening balance portion of the year that are being closed of be cleared against the appropriation account. This will thus create the scenario that if year 2 are being closed off, that the unallocated portion of the closing balance of year 1 (or opening balance of year 2) that has not been cleared during year 2, will be cleared against the appropriation account. At any given stage there will not be any unallocated deposit balance older than two financial years (year 2 that is closed down and year 3 that is the current year). No provision will be required for possible claims due to the above.

9. DEBT IMPAIRMENT AND UN-COLLECTABILITY OF FINANCIAL ASSETS

At the end of each reporting period, Nketoana Local municipality assess whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on a financial asset has occurred, the loss is recognised in surplus or deficit.

Objective evidence that a financial asset or group of assets is impaired can be as a result of the occurrence of one or more of the following events:

- Significant financial difficulty experienced by the borrower/debtor;
- Delays in payments (including interest payments) or failure to pay/defaults;
- For economic or legal reasons, allowing disadvantaged customers who are experiencing financial difficulties to pay as and when they can. The entity would not otherwise have considered this concession. For example, allowing disadvantaged customers to pay their account when they can due to the fact the water it supplies to the customer is a basic human right;
- It is probable that the borrower/debtor will enter sequestration (bankruptcy) or other financial reorganisation;
- Observable data, for example historical data, indicating that there is a decrease in the estimated future cash flows that will be received (which can be measured reliably), from a group of financial assets (financial assets with similar credit risk characteristics grouped together) since the initial recognition of those assets. The

decrease may not yet be identified for the individual financial assets in the group. These can include:

- the payment status of borrowers/debtors in the group has deteriorated (e.g. an increased number of delayed payments); or Financial instruments Carried at fair value Change in fair value = gain or loss Recognise in surplus or deficit Carried at amortised cost or cost Gain or loss recognised when derecognised, impaired , or through amortisation process
- national or local economic conditions that are in line with non-payments in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers/debtors, or adverse changes in market conditions that affect the borrowers/debtors in the group).

Once Nketoana Local municipality has concluded that there is objective evidence of an impairment loss, Nketoana Local municipality will measure and record any impairment losses that arise in its financial statements. GRAP 104 contains specific guidance for assessing and measuring impairment losses for assets carried at amortised cost.

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

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.

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. The method used in determining the group of assets to be assessed for impairment, can include the evaluation of credit risk or a grading process that considers the:

- asset type;
- industry;
- geographical location;
- collateral (e.g. guarantee) type;
- past due status (e.g. days/months that the accounts are in arrears);
- etc.

10. IMPLEMENTATION AND REVIEW OF THIS POLICY

Write-Off/Impairment Policy. 2019/2020
Nketoana Local Municipality

This policy was approved by Council (Item .../05 dated ... May 2019) and shall remain effective until approved otherwise. All future submissions for the writing off of debt must be considered in accordance with this and other related policies.