EMALAHLENI LOCAL MUNICIPALITY

DEBT IMPAIRMENT POLICY

Date Adopted :

Date Revised :

Date of Implementation:

TABLE OF CONTENTS

1. INTRODUCTION

The Council of Emalahleni 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 to maximize the capacity of the municipality to deliver services to all residents, customers, and users. It also gives 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 debt impairment recognises 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 overstated in the books of the Council:

(i) To ensure any long outstanding debt is evaluated in order to determine the possibility of realizing such income as revenue.

(ii) To ensure that where it is evident that a particular debt cannot be turned into a revenue such debt be procedurally regarded as irrecoverable.

(iii) To ensure that the Council of the municipality makes enough provision for bad debts in the budget.

(iv) To ensure that outstanding monies which have been outstanding for a longtime 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 bad debts and the provision for doubtful debt.

5. OBJECTIVES

The objectives of this policy are to provide for:

(i) The identification of bad debts during the course of the financial year.

(ii) (ii) The writing off of bad debts at least three months before the end of the financial year.

(iii) (iii) The proper delegation of powers to the chief financial officer to write off bad debts up to a certain amount and proper provision for doubtful debt.

To ensure that receivables from exchange transactions and receivables from non-exchange transactions are disclosed in the annual financial statements at amounts that are deemed collectable.

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 for write off as irrecoverable debts.

7. 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 Impairment of debtors (provision for doubtful debt) is recognized as an expense in the statement of financial performance. In case of Traffic fine Grap 108 number 25 be used for Impairment of traffic fines.

7.1. Principles for assessment of impairment provision and uncollectibility of debt

a) In order to determine the impairment provision, an assessment should be conducted annually at reporting date (i.e. June), to determine whether there is any indication that a receivable or group of receivables has been impaired.

b) A receivable (debtor) or group of receivables (debtors) shall be considered to be impaired if there is an objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the receivable / receivables and that the loss event has an impact on the estimated future cash flows of the receivable or group of receivables that can be reliably estimated.

c) A receivable shall be assessed for impairment individually when such receivable is individually significant and alternatively receivables shall be assessed as a group.

d) Where no objective evidence of impairment exists for individually assessed receivable or group of receivables, the municipality shall include a receivable or receivables in a group of other financial assets with similar credit risk characteristics and collectively assess them for impairment.

e) Receivable(s) that are individually assessed for impairment and for which an impairment loss is recognised is(are) not included in the collective assessment of impairment.

Where a receivable or group of receivables is impaired, the municipality will continue to accrue for any normal interest or other charges due to the municipality were this is in accordance with the applicable legislation, regulation or council decision or policy.

8. DEBTORS IMPAIRMENT METHODOLOGIES

Based on management's knowledge and past trends, debtors will be allocated to risk categories based on the following criteria:

Criteria	**Risk category**
a) Indigent debtors	High
b) Debtors handed over	High
c) Residential Debtors	High
d) Debtors tabled before council after year end for write off	High
e) Business and commercial debtors	Medium
f) Government Debtors	Low
g) Debtors with payment agreements	Medium
h) Debtors with no movement on their balance since prior year	High
i) Debtors in liquidation or sequestration	Not applicable
j) Account with Credit balance	Not applicable
k) Accounts with balances only between current and 60 days	Low
l) Remaining debtors	Medium

The expected repayment amount/percentage

Risk category	**Term in days**	**Expected repayment**

Low	0 days - 60 days	60.00%
Medium	60 days - 90 days	50.00%
High	90 days - 150 days	25.00%
High	>150	0.00%

In determining the impairment provision, the receivables shall firstly be categorised and information relating to the following observable factors or events shall be accumulated, considered and evaluated in order to assess collectability of a receivable or groups of receivables:

(i) Significant financial difficulty of the debtors;

(ii) (ii) A breach of agreement, such as default on delinquency in interest or principal payments;

(iii) The municipality, for economic or legal reasons relating to the debtor's financial difficulty, granting the debtor a concession that the municipality would not consider;

(iv) It is possible that the debtor will enter sequestration or other financial reorganisations;

(v) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of receivables since the initial recognition of those receivable(s); although the decrease cannot yet be identified with the individual receivable in the group, including:

- Adverse changes in the payment status of the debtor in the group (e.g an increased number of delayed payments) or;
- National or local economic conditions that correlated with defaults on the receivables in the group (e.g adverse changes in market conditions that affect the debtors in a group).

(vi) In some cases, the above observable data or events required to estimate the amount of impairment loss on a financial asset may be limited or no longer fully relevant to current circumstances, e.g when a debtor is in financial difficulties and there is limited available historical data relating to similar debtors. In such cases, the municipality shall use its experience judgment to estimate the amount of any impairment loss. Similarly, the municipality shall use its experienced judgement to adjust observable data for a group of receivables to reflect the current circumstances.

Based on the observable factors above, the municipality shall calculate the provision for impairment or uncollectibility of a debt by considering the cash shortfalls it would incur in various default scenarios for prescribed future periods using a formula prescribed on the accounting policy.

Any previously recognised impairment provision must be revised when the expected timing or similar amount of the cash flow to be collected changes.

9. **REVIEW AND AMENDMENT OF THE POLICY**

The council has the discretionary power to amend any clause, stipulation or tariff embodied in this policy in the interest of all parties concerned at the annual budgetary review of council policies.

10. **EFFECTIVE DATE OF THE POLICY**

The policy shall be effective on date of approval by Council.

Signed by Municipal Manager and Speaker

VC MAKEDAMA MUNICIPAL MANAGER	30/06/2021 Date	CLLR DS KALOLO HON. SPEAKER