

**MSUKALIGWA LOCAL MUNICIPALITY**



**PROVISION FOR DEBT IMPAIRMENT & WRITE-OFF POLICY**

**1 JULY 2026 – 30 JUNE 2027**

## **1. INTRODUCTION**

The Council of Msukaligwa 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.

The Municipal Finance Management Act, Act 56 of 2003 states that the municipality must manage its revenue by ensuring a proper system of internal control exists in respect of debtors and revenue.

The municipality must budget for realistic anticipated revenue less an acceptable provision for bad debts.

The policy aims to ensure that debtors are disclosed in the annual financial statements at the amounts deemed to be collectable and uncollectable debt is written off within the guidelines of existing policies and applicable legislation.

By adopting this policy clear guidelines are set on the treatment of the impairment of debtors and write-off of debtors.

## **1. 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 affect 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 recognises its responsibilities as set out in chapter 9 of the Local Government Municipal Systems Act, Act 32 of 2000 as amended.

## **2. 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 realising 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.

## **3. STATEMENT**

This policy aims to set down principles for the implementation of the writing off of bad debts and the provision for doubtful debt.

#### 4. 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.
  
- Ensure any long outstanding debt is evaluated in order to determine the possibility of realizing such income as revenue.
- Ensure that where it is evident that a particular debt cannot be turned into a revenue such debt be procedurally regarded as irrecoverable.
- Ensure that the Council of the municipality makes enough provision for bad debts in the budget.
- 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.

#### 5. IDENTIFICATION OF IRRECOVERABLE DEBTS

5.1 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.

5.2 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.

5.3 Debt can be regarded as irrecoverable under the following circumstances:-

##### 5.3.1 General

5.3.1.1 Debt that was subjected to all the debt collection procedures provided for in this policy and still was unsuccessful to collect the debt and where the debt collection process had to be abandoned.

5.3.1.2 Debt of which the cost to collect debt has exceeded the debt amount.

5.3.1.3 Debt of indigent debtors that cannot be collected after the implementation of the debt collection procedures applicable to indigent consumers provided for in this policy.

5.3.1.4 Small amount debt which the cost to collect the debt is more than the debt amount.

5.3.1.5 **Certify that no other foreseeable possibility exists in the recovery of such debt.**

##### 5.3.2 Debt of deceased estates-

5.3.2.1 Claims must have been submitted to the estate of the deceased;

5.3.2.2 The executor of the estate advised Council in writing that there are no funds in the estate, and if the heir is employed he will be fully liable for the outstanding

debt.

**5.3.3 Debt of debtors who have emigrated-**

5.3.3.1 Debt collection procedures must have been implemented;

5.3.3.2 Council was informed by a reliable source that the debtor had emigrated.

**5.3.4 Debt that has prescribed-**

5.3.4.1 Debt collection procedures must have been implemented;

5.3.4.2 Debt must be older than three years;

5.3.4.3 Debt must comply with the provisions of section 10 Chapter III of the Prescription Act No 68 of 1969.

**5.3.5 Debt of insolvent estates-**

5.3.5.1 Debt collection procedures must have been implemented;

5.3.5.2 Claims must have been submitted to the liquidators of the insolvent estate;

5.3.5.3 The liquidators of the insolvent estate must advise Council in writing that there are no funds in the estate.

5.3.5.4 Council received dividends on the amount owing and was advised that the estate had been finalized and there will be no further dividends forthcoming;

**6.3.6 Debt of Indigent Households**

6.3.6.1 Approved indigent debtors who qualify and remain with indigent status for more than two years, with the balances transferred to an abeyance account may be written off after obtaining a council resolution.

6.3.6.2 Any debt accrued, in excess of the discounted monthly levies, will be recoverable in terms of the credit control policy.

**6. WRITING OFF OF IRRECOVERABLE DEBTS**

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

**6.1 Amounts equal to or lower than amounts delegated to the Chief Financial Officer (CFO) by Council resolution from time to time (R 100 at the time of the policy adoption)**

6.1.1 The Income Manager 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 exhausted;
- and
- confirmation that further actions would be fruitless and not cost effective.

6.1.2 The Income Manager must recommended the writing off to the CFO for consideration.

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

6.1.4 The Income Manager 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.

## **6.2 Amounts exceeding the CFO delegated authority**

6.2.1 The Income Manager 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 exhausted; and
- confirmation that further actions would be fruitless and not cost effective.

6.2.2 The report of the Income Manager must recommend the writing off to the Mayoral Committee for consideration. The final report to the Mayoral Committee must be signed off by the CFO.

6.2.3 Upon approval by the Council, the credit control section will draw a Msukaligwa Municipality journal against the debt impairment provision votes in the income and expenditure ledger and process it against the relevant debtors account.

## **6.3 Specific debt write offs**

6.3.1 The Income Manager may submit a report to the Mayoral 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;
  - even 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.

6.3.2 The report of the Income Manager must recommend the writing off to the Mayoral Committee for consideration. The final report to the Mayoral Committee must be signed off by the CFO. Upon approval by the Council, the credit control section will draw a Msukaligwa Municipality journal against the debt impairment provision votes in the income and expenditure ledger and process it against the relevant debtors

account.

#### 6.4 Reconciliation of debt impairment accounts/votes

7.4.1 The Income Manager 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. 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.

#### 8. INCENTIVES

8.1 Council may implement the following incentive scheme which may entitle writing off of certain debts.

(a) Council will write-off 50% of outstanding debt before the **July each year** billing run that a household customer accrued. The household account holder will pay off the other 50% of the outstanding debt.

(b) Council will write off 30% of the outstanding debt before **July each year** billing run for Business debtors. The business account holder will pay the other 70% of the outstanding debt.

8.2.1. The household customer and Business consumers who cannot afford to pay as per above incentive, the customer will pay back the arrears incentive over the period of one year.

8.2.2. Should the customer default to the above arrangement, the council will cancel the incentive and the original outstanding amount will become due and payable and Council may institute legal action for the recovery thereof.

8.2.3 The incentive will not be applicable to Government or school debtors

**8.2.4 The municipality can from time to time decide on an incentive scheme or schemes that will have the purpose to decrease the outstanding debts to the municipality and depending on available funds. This will only be done to the situation. This policy cannot dictate such incentives schemes.**

#### 9. 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 30 days are considered indicators to determine that debtors are impaired.

Impairment of debtors (provision for doubtful debt) is recognized 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 methodologies are applied:

### **9.1 Debtors**

Debtors are evaluated at each reporting date and impaired on their payment ratio which can be defined as the sum of the debtor's total payment for the year divided by the debtor's total billing for the year.

Any payment ratio less than 100% will lead to a provision for a bad debt.

**Any debt that is written off shall be done in accordance with GRAP (Generally Recognized Accounting Practices).**

### **9.2 Sundry debtors**

Sundry debtors may be assessed individually for impairment when necessary to ensure that no evidence exists that these debtors are irrecoverable should the process in 10.1 not be sufficient.

### **9.3 Sale of erven**

Loans were given at a low interest rate of as determine by South African reserve bank per annum to encourage development through the sale of erven since the inception of the MFMA no new loans are granted. These debtor accounts may be assessed individually to establish whether evidence exists for impairment that these debtors are irrecoverable.

### **9.4. Write off of advance payments received after a period of 12 months**

**At the end of each financial year, after confirmation of the CFO per memorandum to the Manager Revenue, that all advance payments received per the municipality bank statement, which could not be allocated to a consumer account at the end of 12 months, be written back to the accumulated surplus of the municipality as part of the year end preparation notes.**

**That a register of such write-offs be kept annually and accumulatively in order to reverse any transaction written off, if a consumer per request submit proof of payment to the Manager Revenue, if in dispute.**

### **9.5. Assumptions used in the calculation of the provision for impairment.**

The following assumptions were applied during the calculation of the provision for impairment:

1. Government debtors
  - 1.1. All government debt are excluded from the provision calculation.
2. Indigent debtors
  - 2.1. Due to the economic situation in the Msukaligwa Local Municipality boundaries, all debtors classified as indigent debtors have been provided in full. This is based on the fact that a significant amount of indigent debt has been written-off in the financial years of the municipality.
3. Residential / household debtors  
In order to evaluate the residential / household debtors and to calculate the provision for impairment for this

category of debtors, the following assessments were made:

3.1. Ageing of oldest debt: the following points were allocated –

Ageing (oldest debt)	Points allocated
0 – 90 days	4 points
91 – 180 days	3 points
181 – 360 days	2 points
361 – 720 days	1 point
Over 720 days	0 points

The oldest debt of the debtor should be determined first, the ageing point is then allocated to entire debtor balance type using the above table.

When applying the points to the debtor it is not done per age category. I.e. Each age category does not get its own point. The ageing point is assigned to the entire debtor balance type based on the oldest debt for that debtor balance type.

3.2. Non-payments: a detailed list of all debtors that made no payments during the year were obtained. The following point allocation was made:

- If no payments have been made, this score supersedes the ageing score.

Description	Points allocated
Payments made	4 points
No payments made	0 points

3.3. Based

on the total points accumulated, the following impairment percentage was allocated to the individual debtor:

- Therefore, a debtor may have an interim score of 0-8 (8 if they have made payment and are in current).
- Consumer that are on 6 to 8 point are regarded as good payers and their debt would be current or less than 90 days
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Points allocated	Impairment %
0 points	100%
1 point	90%
2 points	80%

3 points	60%
4 points	40%
5 points	20%
6 – 8 points	0%

4. Business / industrial debtors

In order to evaluate the business / industrial debtors and to calculate the provision for impairment for this category of debtors, the following assessments were made:

4.1. Ageing of oldest debt: the following points were allocated –

Ageing (oldest debt)	Points allocated
0 – 90 days	4 points
91 – 180 days	3 points
181 – 360 days	2 points
361 – 720 days	1 point
Over 720 days	0 points

The  
then

using the above table.

When applying the points to the debtor it is not done per age category. I.e. Each age category does not get its own point. The ageing point is assigned to the entire debtor balance type based on the oldest debt for that debtor balance type.

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4.3. Based on the total points accumulated, the following impairment percentage was allocated to the individual debtor:

- If no payments have been made, this score supersedes the ageing score.
- Consumer that are on 6 to 8 point are regarded as good payers and their debt would be current or less than 90 days

<b>Grading</b>	<b>Points allocated</b>	<b>Impairment %</b>
High risk	0 points	100%
High risk	1 point	90%
High risk	2 points	80%
High risk	3 points	60%
Medium risk	4 points	40%
Medium risk	5 points	20%
Low risk	6 – 8 points	0%

Management assesses its creditors based on payment trends and consider probability if the debtor has a potential to pay services as the become due. Debtors on high risk are those graded above 50% and who would have scored 0 to 3 points and those graded below are those on medium to low risk that would have score 4 to 8 points. This is the best estimated management had to come up with to provide for the impairment.

5. It is furthermore important to note that all debtors with credit balances were specifically excluded from the impairment calculation.

**12. SHORT TITLE**

**This policy shall be call the Writing Off of Irrecoverable Debts, advance payments and Impairment of Debtors Policy.**

<b>Effective date</b>	<b>01 July 2026</b>
<b>Council resolutions no</b>	<b>LM 1084/05/2026</b>
<b>MUNICIPAL MANAGER</b>	