

# **CITY OF MATLOSANA**



## **PROVISION FOR DEBT IMPAIRMENT POLICY 2024/2025**

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### **PURPOSE**

To ensure that sufficient provision for bad debt is provided for. The Municipal Finance Management Act, Act 56 of 2003, as amended 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 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. This is to ensure that sufficient provision for bad debt is provided for.

### **1. OBJECTIVES**

The objectives of this policy are to:

- 1.1. ensure any long outstanding debt is evaluated in order to determine the possibility of realizing such income as revenue.
- 1.2. ensure that where it is evident that a particular debt cannot be turned into a revenue such debt be procedurally regarded as irrecoverable.
- 1.3. ensure that the Council of the municipality makes enough provision for bad debts in the budget.
- 1.4. 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.
- 1.5. ensure the identification of bad debts during the course of the financial year.

- 1.6. provide guidelines on the writing off of bad debts at least three months before the end of the financial year.
- 1.7. ensure the proper delegation of powers to the chief financial officer to write off bad debts up to a certain amount.

**2. A provision shall be recognized when:**

- 2.1. An entity has a present obligation (legal or constructive) as a result of a past event,
- 2.2. It is possible that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and
- 2.3. A reasonable reliable estimate can be made of the amount of the obligation

If these conditions are not met, no provision shall be recognized.

**3. ROLE CLARIFICATION**

The Municipal Manager as an Accounting Officer remains the overseeing authority over all the provisions made on behalf of Council.

The Chief Financial Officer must perform the provision management functions as prescribed in Section 97(d)(ii) of the Local Government Municipal Systems Act 2000 as amended and the delegation authority of the Council as prescribed in Section 82 of the Municipal Finance Management act, 2003 (Act 56 of 2003) as amended.

**4. DELEGATIONS**

The Chief Financial Officer may delegate the provisions responsibility to either his deputy or the provisions responsibility to either his deputy or the assistant managers as prescribed in Section 82 of the Municipal Finance Management Act, 2003 (Act 56 of 2003).

## 5. ADMINISTRATION

### Consumer Debtors

Annual provision for bad debt on consumer debtors shall be done by the Budget and Treasury Office and provided for as follows:

- 5.1. Debtors who have not paid in the last twelve months are impaired in full.
- 5.2. Debtors who have paid in the last twelve months but paid an amount less than what they owe at year end will be assessed as follows:
  - a) High risk – if the amount paid is less than 33% of the total debt as at year end, and the projected recovery rate is 16%
  - b) Medium risk- if the amount paid is less than 66% but more than 33% of the total debt as at year end, and the projected recovery rate is 49%
  - c) Low risk – if the amount paid is less than 100% but more than 66% of the total debt as at year end, and the projected recovery rate is 83%.
  - d) The estimated projected cash flows are discounted at a rate linked to prime.

5.1. Provision for bad debt shall be provided for the following services:

- 5.1.1.1. electricity basic charges
- 5.1.1.2. electricity consumption,
- 5.1.1.3. housing rentals and instalments
- 5.1.1.4. interest and/or surcharges
- 5.1.1.5. miscellaneous and sundry charges
- 5.1.1.6. property rates,
- 5.1.1.7. refuse removal,
- 5.1.1.8. sewerage services (Basic and Additional Charges)
- 5.1.1.9. water basic charges
- 5.1.1.10. water consumption,

## **6. RECORDS AND REPORTS**

- 6.1. The Chief Financial Officer or the delegated official must keep all provisions transactions in accordance with General Recognized Accounting Practices.
- 6.2. The Chief Financial Officer or the delegated official must report to the Accounting Officer / Municipal Manager the provisions portfolio in a prescribed form as required by the Municipal Regulation and must review and adjust the provisions with the adjustment budget