



UMDONI LOCAL MUNICIPALITY

2025-2026

**BAD DEBT WRITE-OFF
&
IMPAIRMENT OF DEBTS POLICY**

INDEX

CONTENTS

1. Introduction	4
2. Preamble	4
3. Vision	4
4. Statement	5
5. Objectives	5
6. Writing Off of Irrecoverable Debts	5
7. Specific Write Offs	6
8. Recovery of Irrecoverable Debts	6
9. Sundry Matters	7
10. Impairment of Debtors (Provision For Doubtful Debtors)	7
11. Identification of Irrecoverable Debts	7-8
12. Sundry Debtors	9
13. Sale of Immovable Property	9
14. Short Title	9

1. Introduction

The Council of uMdoni 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 section 64 (f) of Local Government: Finance Management Act, to adopt the following policy on writing off the bad debts as irrecoverable and impairment of debtors.

2. Preamble

The Municipal Finance Management Act (MFMA), Act 56 of 2003, aims to modernize budget and financial management practices in municipalities in order to maximize the capacity of municipalities to deliver services to all residents, customers and users. It also gives effect to the principle of transparency as required by section 215 and 216 of the Constitution of the Republic of South Africa. The Council of the municipality in adopting this policy on writing off of 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 financial registers of the Council through the following:

- Any long outstanding debt is evaluated in order to determine the possibility and the likelihood of realizing such debt as revenue.
- Where it is evident that a particular debt cannot be turned into revenue such debt be procedurally regarded as irrecoverable.
- The Council of the municipality makes enough provision for bad debts in the budget.
- Outstanding debts which have been outstanding for longer period after all attempts in terms of Credit Control and Debt Collection policy have been carried out, and still no payments are received, then should be profiled and be written off if deemed irrecoverable.

4. Statement

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

5. Objectives

The objectives of this policy are as follows:

- Identification of doubtful debt for the year under review (current financial year)
- The writing off of bad debts identified in during the previous financial year, before the end of the year under review, at least one month before the end of the financial year, (for the purpose of this policy part of the month shall be deemed the full month).
- The proper delegation of powers to the Chief Financial Officer of writing off bad debt as stated in the Credit Control and Debt Collection Policy.
- Proper provision of doubtful debts.

6. Writing off of irrecoverable debts

Where debts have been identified as irrecoverable the process to be followed for write off is as follows:

The Chief Financial Officer must prepare a list of all these debts showing the following:

- Consumer details
- Irrecoverable amount broken down by service
- Details of procedures followed to recover the debt. (Which in the case of amounts less than R 1000.00 it would be confirmation whether a final demand was sent or not, as according to credit control and debt collection policy accounts owing less than R 1000.00 may not be handed over as it is not financially viable). However, with regards to amounts above R 1000.00, confirmation of hand over must be given and any other relevant documentation

- After this list has been completed, an item to the Executive Committee of Council must be submitted to obtain a Council Resolution to write off these debts.
- Reasons for identifying amounts as irrecoverable must be stated.
- Once Council resolution has been obtained, the Income section must draw journals to write off these amounts against the bad debt reserve fund.

7. Specific write offs

The Chief Financial Officer may submit a report to Council from time to time for specific uncollectable debt transactions such as:

- Liquidations in terms section 89 of the Insolvency Act, Act 24 of 1936,
- Immovable properties bought back by Council
- A specific debt category, and or
- Penalties accrued.

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

- Full customer details,
- Reasons for each specific write off
- Amount to be written off must be broken down per service, and
- Details of procedures already exhausted in attempts to recover the outstanding amount.

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 designated for the recovery of irrecoverable debts.

9. Sundry Matters

Council may from time to time implement an incentive scheme which may entitle debtors to a write off, as may be determined by Council.

10. Impairment of debtors (Provision for doubtful debtors)

Accounts receivables are stated in the Annual Financial Statements at the value of billing to consumers/ratepayers, less deduction for discounts given for rebates granted less a provision for doubtful debts.

Provision for doubtful debts is made, based on review of all accounts outstanding for a period that exceed 90 days at the financial year end. Contributions to the provision are calculated on a specific debt basis as at the reporting date of the year under review. Impairment of debtors (provision for doubtful debt) is recognized as an expense in the statement of financial performance. When under recovery occurs during the financial year an additional contribution for impairment is made at year end.

11. Identification of irrecoverable debts

When the municipality identifies customers whose debts appear to be irrecoverable even after the whole credit control and debt collection procedures have been followed in attempts to obtain payments, then such debts should be regarded as irrecoverable. This exercise is done on an individual basis per debtor, and circumstances vary from debtor to debtor. The write off for rates for any property owner is assessed differently from services rendered.

The Prescription Act (para 11) stated hereunder will be considered in the recognition of irrecoverable debt:

Paragraph 11: Periods of prescription of debts

The periods of prescription of debts shall be the following:

- (a) thirty years in respect of -*
 - (i) any debt secured by mortgage bond;*
 - (ii) any judgment debt;*
 - (iii) any debt in respect of any taxation imposed or levied by or under any law;*
 - (iv) any debt owed to the State in respect of any share of the profits, royalties or any similar consideration payable in respect of the right to mine minerals or other substances;*

- b) fifteen years in respect of any debt owed to the State and arising out of an advance or loan of money or a sale or lease of land by the State to the debtor, unless a longer period applies in respect of the debt in question in terms of paragraph (a);*
- (c) six years in respect of a debt arising from a bill of exchange or other negotiable instrument or from a notarial contract, unless a longer period applies in respect of the debt in question in terms of paragraph (a) or (b);*
- (d) save where an Act of Parliament provides otherwise, three years in respect of any other debt.*

When identifying irrecoverable debts, special focus is applied to the following categories of debtors, although debtor profiling is done for all outstanding debts for a period exceeding 90 days at the reporting date.

☐ Indigent customers with outstanding accounts.	100% excluding rates
☐ Final accounts with outstanding amounts, if all Credit Control and Debt Collection procedures have been exhausted).	100% excluding rates
☐ Handed over customers not making any payments	100% of interest on rates
☐ Handed over customers making irregular payments	100% of interest on rates
☐ Customers' accounts with balances less than R 500.00	100% excluding rates
☐ Pensioners' accounts over 150 days	100% excluding rates
☐ Un-finalized estates accounts over 150 days	100% excluding rates
☐ Child headed families' accounts	100% excluding rates
☐ Tenants' accounts not finalized over 150 days	Refer to handed over accounts
☐ In-active accounts with outstanding balances.	100%

NB: write off will only be applicable on rates after 30 years in terms of the Prescription Act

12. Sundry debtors

- ☐ Sundry debtors may be assessed individually like any other debt for impairment, to establish whether any evidence exists that they are not recoverable.

13. Sale of immovable property

- ☐ To be dealt with in accordance with the terms of each Sale Agreement.

14. Short title

- ☐ This Policy shall be called the Bad Debts Write Off and Impairment of Debts Policy.

Date of adoption:

The Council of the Umdoni Local Municipality resolves to adopt the following as the official Bad Debt Write-Off & Impairment of Debts Policy of the Umdoni Local Municipality.

This Policy has been considered and approved by the Council of the Umdoni Local Municipality as follows:

- Resolution No: C11.4 / May-25
- Approval Date: 27 May 2025