

# GREATER LETABA LOCAL MUNICIPALITY



## PRINCIPLES AND POLICY ON THE WRITING OFF OF IRRECOVERABLE DEBT

2025/2026

## TABLE OF CONTENTS

- 1 INTRODUCTION
- 2 PURPOSE OF THE POLICY
- 3 RESPONSIBILITY/ACCOUNTABILITY
- 4 POLICY PRICIPLES
- 5 CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITING  
OFF OF IRRECOVERABLE DEBT
- 6 DELEGATION TO WRITE OFF
- 7 SUSBEQUENT RECOVERY OF IRRECOVERABLE DEBT
- 8 ALLOWANCE FOR DOUBTFUL DEBT
- 9 PERFORMANCE MEASURES
- 10 IMPLEMENTATION AND REVIEW OF THIS POLICY

## 1 INTRODUCTION

To ensure that household consumers with no or lower income are not denied a reasonable service and that the Municipality is not financially burdened with non-payment of services, the Council of Greater Letaba Municipality have generated, approved and implemented an Indigent Policy.

Council is faced with a significant amount of outstanding debt and the continuous defaulting by certain consumers who can afford to pay for services. To deal with this, the Council also generated, approved and implemented a Credit Control and Debt Collection Policy.

Despite strict enforcement of the above policies, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt. To allow this the approved Credit Control and Debt Collection Policy, inter alia, stipulated that:-

- The Municipal Manager must establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the municipality.
- Council should adopt and implement a write off policy to formalise the processes for writing off such debts.

## **2 PURPOSE OF THE POLICY**

- 2.1 The purpose of this policy is to ensure that the principles and procedures for writing off irrecoverable debt are formalised.
- 2.2 To set clear guidelines in respect of the following:
- Determining the amount of bad debt to be written off;
  - Approval of balances to be written off.

### **3. RESPONSIBILITY / ACCOUNTABILITY**

3.1 The Chief Financial Officer has the following responsibilities:

- 3.1.1 Overall management of all balances owing to the Municipality on a monthly basis;
- 3.1.2 Ensure that the books of account of the Municipality is updated on a daily basis;
- 3.1.3 Ensure that all general ledger accounts of the Municipality is reconciled to supporting systems and registers at the end of each month in accordance to the reporting structure of the Municipality;
- 3.1.4 Debt and credit control management;
- 3.1.5 Implementing of debt collection procedures to recover balances owing to the Municipality;
- 3.1.6 Report to the Municipal Manager on balances that are irrecoverable.

3.2 The Accounting Officer has the following responsibilities:

- 3.2.1 Ensure that cost effective and efficient measures are implemented on a monthly basis to collect balances owing to the Municipality;
- 3.2.2 Scrutinise list of irrecoverable debt and generating a report to Council with reasons for the write-off of irrecoverable debt.

3.3 Council has the following responsibilities:

- 3.3.1 Adopt and approve the Policy on Writing Off of irrecoverable debt;
- 3.3.2 Approve all irrecoverable debt for write-off as reported on by the Accounting Officer as irrecoverable.

#### **4 POLICY PRINCIPLES**

- 4.1 The following are the guiding principles in implementing the Policy on Writing Off of Irrecoverable Debt:-
- 4.1.1 The policy has been compiled in accordance with the Local Government Municipal Finance Management Act (MFMA), 2003, Local Government Municipal Systems Act (MSA), 2000, as amended and other related legislation.
- 4.1.2 Before any debt is written off it must be proved that the debt has become irrecoverable. To ensure that recommendations for write off are consistent and accurate, irrecoverable debt will be defined as debt where:-
- The tracing of the debtors is unsuccessful; and
  - All reasonable steps were taken by the officials to recover the debt.
- 4.1.3 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 remote, a write off should be considered.
- 4.1.4 Time value 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 to avoid debt reaching the stage of becoming too expensive to recover.
- 4.1.5 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.
- 4.1.6 Debt can only be written off if the required provision exists in the Municipality's annual budget or provision is made in the adjustment budget.

**5. CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITING OFF AS IRRECOVERABLE DEBT**

**5.1 Approved Indigent Household Consumers in terms of the Municipality's Indigent Policy**

5.1.1 Registration as an indigent household, the arrears on the account of the applicant will be written off upon council approval.

5.1.2 Any new arrears accumulated by the debtor (i.e. any amounts in excess of the indigent allowance for free basic services) whilst registered as an indigent consumer, will not qualify to be written off and must be dealt with strictly in accordance with the Municipality's Credit Control and Debt Collection Policy and the Indigent Consumer Policy.

**5.2 Balances on final accounts too small to recover considering the cost for recovery**

5.2.1 Where final accounts have been submitted and paid by the respective consumer and the remaining balance after finalisation of any final readings and other administrative costs results in a balance of one hundred rand (R50) or less, such account must be forwarded once to the consumer for payment.

5.2.2 Where such account is not paid by the respective consumer within a period of sixty (60) days such amounts will automatically be written off subject to the provisions of paragraph 8.4 (delegations to the Chief Financial Officer) below.

**5.3 Insolvency of the Debtor and Insolvent Deceased Estates**

5.3.1 Where a debtor becomes insolvent the Municipality must ensure that a creditor's claim is timeously registered. Any amount not being recovered due to insufficient funds or if there is a risk of a contribution being made to an insolvent estate must, after notification, be written off subject to the provisions of paragraph 8 below.

5.3.2 In case of death of the debtor a creditor's claim must be timeously registered against the deceased's estate. Any amount not being recovered due to insufficient funds or if there is a risk of a contribution being made to a deceased estate must, after notification, be written off subject to the provisions of paragraph 6 below.

5.3.3 In case of death or insolvency of the debtor where claim was not registered due to the municipality not being notified of the event, the beneficiary of the insolvent debtor or of the deceased, will be liable for the amount due, provided that there are sufficient funds to make a contribution from the estate. The Municipality's Legal Department to assist in such cases.

## **5.4 Untraceable Debtors**

- 5.4.1 Where for any reason the forward address of a debtor becomes untraceable or the debtor becomes untraceable from the current address, such account may be handed over to a collection agent for recovery of the debt. The collection agent will be paid an all-inclusive collection fee as negotiated and approved by Council of the amount that was actually collected. The Terms of Reference for such collection agent must include the appointment of a tracing agent to locate the debtor. Should a debtor be untraceable, the collection agent must report to the Municipality on the actions that were taken to attempt to trace the debtor.
- 5.4.2 Any amount owed by a debtor that has become untraceable for 12 months must, after notification, be written off or sold to a debt collection agency at a discount decided by the Council.
- 5.4.3 Debt written off in the above instances will automatically result in the debtor being reported to the credit bureau by the Municipality.

## **5.5 Other debtor balances that are not recoverable**

- 5.5.1 Any cases that fall outside the above mentioned criteria should be submitted to the Accounting Officer for further consideration and approval for write-off.

## **5.6 Special Arrangements in order to obtain a Clearance Certificate**

- 5.6.1 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. The previous owner is liable for payment of any outstanding balance. It is the responsibility of the new owner to ensure that all outstanding balances are settled by the previous owner.
- 5.6.2 Where such circumstances may prevail the prospective new owner may apply to the Municipality for relief of such outstanding debt or a portion thereof.
- 5.6.3 Upon receiving, such application must be submitted to the committee for consideration. In reviewing such application, the committee must ensure that:-
- All reasonable measures have already been taken to recover the outstanding amount from the current debtor;
  - The prospective buyer of the property is not in a financial position to settle the outstanding amount before a clearance certificate is issued;
  - It is not in the interest of the municipality and/ or the community to withhold a clearance certificate before the outstanding debt is fully paid.



**5.7 Special Incentives introduced by Council for Household Consumers in terms of the Credit Control and Debt Collection Policy**

5.7.1 Notwithstanding the Municipality's Credit Control and Debt Collection 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:-

- The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;
- The written agreement has to be signed on behalf of the Municipality by a duly authorised officer; and
- The current monthly amount must be paid in full over a period not exceeding twelve months.

5.7.2 In order to determine monthly instalments, a comprehensive statement of assets and liabilities and income and expenditure, must be provided by the debtor and reviewed by a finance official. To ensure the continuous payment of such arrangement the amount determined must be affordable to the consumer taking into account that payment of the monthly current account is a prerequisite for concluding an arrangement.

5.7.3 Due to ineffective implementation of credit control measures in the past, certain household consumers may have accumulated significant arrear amounts and these consumers are not in a position to pay off these arrear amounts in full together with their current monthly accounts. In order to improve the current payment levels from consumers the Municipality has resolved to implement special incentives to address the arrear debt as detailed in this policy.

5.7.4 To encourage consumers to pay off arrear debt Council will enter into a once-off arrangement, with a household consumer only, to pay off his/ her arrear debt over a period of time in terms of specific incentives. The main aim of this agreement will be to promote full payment of the current account and to address the arrears on a consistent basis.

5.7.5 Writing off any debt in terms of such an agreement will be strictly in accordance with the provisions set out in the Municipality's Credit Control and Debt Collection Policy.

5.7.6 Levying of interest on arrear accounts should be immediately suspended upon completion of a debt agreement. This will allow debtors to see progress on their accounts as continued payments will reflect a decrease on the balance.

- 5.7.7 As long as the agreement is honoured no further interest will be added. However, in case of default the suspended amount will be reversed and interest will again be levied from the date of default.
- 5.7.8 Where a debtor pays 50% or more on the principal portion of his/her arrear account or settles the principal portion of the arrear account in full through a once-off payment, all interest penalties on arrear amounts will be written off immediately.
- 5.7.9 Where arrangements are made to pay off the principal portion of the arrear amount in instalments, such instalments should be determined on the outstanding amount excluding arrear interest. Such an arrangement should be honoured for at least a six-month consecutive period where-after interest on arrear amounts will be written off on a monthly basis. This arrangement will imply that upon payment of the final instalment all interest on arrear amounts will have been written off.
- 5.7.10 Where debtors fail to honour their arrangements without prior consultation interest will be reinstated and added to the original debt amount.
- 5.7.11 The arrangement referred to in paragraph 5.7.4 may be extended to other Poverty Alleviation and Job Creation Strategies that the Municipality may implement. Such strategies may include:-
- The casual/contract employment of a debtor in a particular Municipal project (i.e. refuse collection, road maintenance, verge cutting etc.);
  - A 50% cash payment to the debtor and 50% payment that will be credited against the debtor's arrear account;
  - The accounting treatment shall be that the project or programme will be debited (charged) full 100% as this will be the input cost of the labour (100% cost paid out as 50% cash paid to the debtor and 50% credited against the debtor's arrear account as though it were a cash payment).
- 5.7.12 The purpose of the above strategy/arrangement is to instil a sense of pride to the customers of the Municipality that cannot pay off their arrears, whilst extending services delivery, creating jobs and alleviating poverty and at the same time reducing the Debtors Book and enhance the financial viability and image of the Municipality.

## **6 DELEGATIONS TO WRITE OFF DEBT**

- 6.1 The Chief Financial Officer will compile a list write-offs to be taken to council for approval of the write offs., after thorough review of any applications in terms of this Policy, be delegated to write off any amounts to the maximum of:-
  - 6.1.1 In the case of a household consumer an amount of R2,000 (Excluding interest and penalties) per submission; and
  - 6.1.2 In the case of a business consumer an amount of R3, 000. (Excluding interest and penalties) per submission.
- 6.2 Any amount in excess of the delegation provided for in paragraph 6.1 above must be submitted together with a recommendation to the Municipal Manager for consideration. The Municipal Manager will, after thorough review of any recommendation by the Chief Financial Officer and in terms of this Policy, be delegated to write off any amounts to the maximum of:-
  - 6.2.1 In the case of a household consumer an amount of R5,000 (excluding interest and penalties) per submission; and
  - 6.2.2 In the case of a business consumer an amount of R10,000 (excluding interest and penalties) per submission.
- 6.3 Any amount in excess of the delegation provided for in paragraph 6.2 above must be submitted together with a recommendation to Council for consideration and approval.
- 6.4 Council to condone all write-offs approved by the Chief Financial Officer and Municipal Manager within one month (30 days) from such debt being approved for write-off by the Chief Financial Officer or Municipal Manager. The Chief Financial officer can approve write-off of long overdue balances to a maximum limit of R 100.
- 6.5 All amounts to be written off in terms of paragraphs 6.1 to 6.4 above must be considered individually and each case on its own merits and be approved by Council.

## **7      SUBSEQUENT RECOVERY OF IRRECOVERABLE DEBT**

7.1      Where consumers pay for debt that has already been written off by the Municipality the following processes must be followed:

7.1.1    A receipt must be issued in respect of the amount received;

7.1.2    The amount received must be allocated to the relevant bad debt recovered general ledger account.

## YEAR – END PROVISION FOR DOUBTFUL DEBTS

The following assumption for calculation of the provision/ impairment of debtors will be applied:

GRAP 19 Paragraph 15 – Definitions state the following,  
 “Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.”

GRAP 19 paragraph 21 states that, A provision shall be recognized when:

- (a) An entity has a present obligation (legal or constructive) as a result of a past event;
- (b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- (c) A reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision shall be recognized.

### Methodology

According to Approved amendment on: Debtors Impairment and write off Policy:

- 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 360 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 terms of paragraph 62 of GRAP 104, Financial Instruments: An entity assesses whether objective evidence of impairment exist individually for financial assets that are individually significant.

### Calculation for impairment of debtors will be as follows:

The following assumption for calculation of the provision/ impairment of debtors will be applied:

- To determine the amount of provision, a payment rate was assigned to each individual debtor taking into account payment patterns in order to ensure that each debtor is fairly assessed.
- This was done in line with the policy of the municipality.
- Where a payment was not made at all 100% provision was calculated.
- Where payments were made the payment rate was determined by expressing the payments amount as a percentage of the debt before taking into account the payments, and the difference between 100% and the payment rate becomes the non-payment rate that is used as the basis for the provision.

- Government receivables are excluded from the calculation of provision of doubtful debt as it is deemed unlikely that they will not pay, excluding debtors with credit balances.

- The following criteria will further be used per individual debtor:

**Extract from the policy:**

**(a) Historical review**

- i. **Likely payers** - All debtors, regardless of age or amount, who have made payments during each of the three payment periods/months prior to the effective date of provision, will be categorised as **debtors likely to pay** and no provision for bad debts will be made on these accounts.
- ii. **Possible payers** – All debtors, regardless of age or amount, who have made at least one payment within the three payment periods/months prior to the effective date of provision, will be categorised as **possible payers** and no provision for bad debts will be made on these accounts.
- iii. **Likely not to pay** – All debtors, regardless of age or amount, who have not made any payments during any of the three payment periods/months prior to the effective date of provision, will be categorised as **debtors unlikely to pay** and the full amount of the outstanding debt will be provided under the provision for bad debts.

**(b) Current review**

- i. **Likely payers** – All debtors, regardless of the categorization under the historical review, who have made payments during each of the payment periods/months after the effective date of provision, will be categorised as **debtors likely to pay** and no provision for bad debts will be made on these accounts.
- ii. **Possible payers** – All debtors previously categorised under A or B, who has made payments during any of the payment periods/months after the effective date of provision, will be

categorised as **possible payers** and no provision for bad debts will be made on these accounts.



- iii. **Likely not to pay (1)** – All debtors previously categorised under C, who have not made payments during each of the payment periods/months after the effective date of provision, will still be categorised as **debtors unlikely to pay** and the full amount outstanding on their accounts will be provided under the provision for bad debts.

**Likely not to pay (2)** – All debtors previously categorised under A or B, who has made no payments during any of the payment periods/months after the effective date of provision, will also be categorised as **debtors unlikely to pay** and the full amount outstanding on their accounts will be provided under the provision for bad debts

## 8.1 Consumer Debtors

- 8.1.1 Consumer Debtors are evaluated at each reporting date. Consideration must be given as to whether objective evidence of impairment exists.
- 8.1.2 In calculating the year-end provision for doubtful debt balance the same method of calculation must be used that was utilised in the prior period's calculations.
- 8.1.3 Consideration for specific classes/groups of debtors:
- Individually debtors – the Municipality should identify individual debtors and assess them separately for indication of impairment. Should it be determined that the recoverability of the debtor is doubtful, the extent thereof should be determined and an appropriate allowance for doubtful debts raised.
  - The Municipality debtor – the Municipality should bill itself for services rendered and credit itself at year end. Therefore all such balances should be zero at year end.
- 8.1.4 The following assumption for calculation of the provision/ impairment of debtors will be applied as per GRAP:
- Provision for impairment is determined using, a “**payment rate**” assigned to each individual debtor considering payment patterns in order to ensure that each debtor is fairly assessed.
  - Where payments were made the payment rate is determined by expressing the payments amount as a percentage of the debt, and the difference between 100% and the payment rate becomes the non-payment rate (Provision rate) that is used as the basis for the provision.

- Where a payment was not made at all during the year 100% provision will be provided for.
- Where the account is inactive and no payment was received a 100% provision will be made.
- Debtors with credit balances are excluded from the provision for doubtful debts calculations.

## 8.2 Traffic Fines

The provision will be determined using the "**payment rate**". This methodology is consistent to prior years.

## 8.3 Sundry Debtors

Sundry Debtors are those other than trade debtors. Sundry debtors are assessed individually for impairment to ensure that there is no objective evidence to indicate that these debtors are irrecoverable.

## 8.4 Creating a provision for doubtful debts

- 8.4.1 The allowance for doubtful debts raised should only be to the extent that the Municipality has sufficient accumulated surplus and reserves.
- 8.4.2 The Municipality must annually budget for an adjustment for the provision for doubtful debt balance.
- 8.4.3 The provision for doubtful debts should be revised quarterly to take into account new or changed circumstances. Once the allowance is determined by Municipal Manager, it is recorded in a separate account in the accounting records of the Municipality.
- 8.4.4 By approving the annual year-end financial statements is it deemed that Council has approved the adjustment to the provision for bad debt total.

## **9 IRRECOVERABLE DEBTS: WRITE-OFF**

### **9.1 Details of debt to be written off:**

The following information needs to be provided for each debt upon submission to authorize the write-off:

- Debtor's name;
- Debtor's address;
- Debtor's account number;
- Steps taken to collect the debt with supporting proof;
- Reason(s) why the debt is uncollectable;
- Description of debt period outstanding;
- Amount to be written off;
- Rationale for the write off.

### **9.2 Supporting documentation must be retained and available that clearly indicate:**

- 9.2.1 Steps taken to recover arrears;
- 9.2.2 Evidence to support the write off;
- 9.2.3 Debtor payment and recovery history;
- 9.2.4 Details of tracing and enquires carried out.

### **9.3 In considering a debt for write off the following conditions will apply:**

- 9.3.1 Each case will be considered individually on its merits, except for bulk write off that may only be approved by Council;
- 9.3.2 Each request will be supported by relevant documentation,
- 9.3.3 Each case will receive authorization from the appropriate authorized officer and / or member in accordance with this policy.
- 9.3.4 Appropriate records of all authorized write offs will be maintained and reviewed every month and be available for audit purposes.

#### **9.4 Timing of approval**

- 9.4.1 The debt write-off process should be performed and documented on a quarterly basis.
- 9.4.2 All final reports must be submitted to the Council for approval at least one month before the end of the financial year. This will allow Council sufficient time to review all supporting documentation and will ensure that there is sufficient time for write-offs to be captured in the accounting records of the Municipality.

#### **9.5 Write-off reconciliation**

- 9.5.1 A reconciliation of the debtor's age analysis should be performed by the Manager: Revenue after the approved write-offs are captured on the financial system;
- 9.5.2 The age analysis used to make the initial assessment must be compared to the new age analysis after the approved changes have been made.
- 9.5.3 The difference should be the debt that was written off and should agree to the list that has been approved.
- 9.5.4 Any variance that does not agree to the debt write off should be investigated and explained.
- 9.5.5 The reconciliation should be reviewed by the Chief Financial Officer.

**10 IMPLEMENTATION AND REVIEW OF THIS POLICY**

- 10.1 This policy shall be implemented once approved by Council. All future submissions for the writing off of debt must be considered in accordance with this policy.
- 10.2 In terms of section 17 (1) (e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.



**Municipal Manager  
Sewape M.O**

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