

PROVISION FOR DOUBTFUL DEBTORS AND DEBTORS WRITE OFF

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| Item A-F (23-2018) CM 24/5/2018 | REVIEWED INTEGRATED DEVELOPMENT PLAN (IDP), MEDIUM - TERM REVENUE AND EXPENDITURE FRAME WORK (MTREF) AND BUILT ENVIRONMENT PERFORMANCE PLAN (BEPP): 2018/2019 TO 2020/2021 |
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Resolved:

5. **That** to guide the implementation of the municipality's annual budget, the Council of the City of Ekurhuleni **APPROVES** the policies as set out in the following Annexures of this document.

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| Annexure D1 | Medium-term Budget Policy Statement (reviewed) |
| Annexure D2 | Pricing Policy Statement (reviewed) |
| Annexure D3 | Property Rates Policy (reviewed) |
| Annexure D4 | Provision of Free Basic Electricity Policy (reviewed) & Provision of Free Basic Water Supply Services Policy (reviewed) |
| Annexure D5 | Waste Management Services Tariff Policy (reviewed) |
| Annexure D6 | Consumer Deposit Policy (reviewed) |
| Annexure D7 | Indigent Policy (reviewed) |
| Annexure D8 | Credit Control & Debt Collection Policy (reviewed) |
| Annexure D9 | Provision for Doubtful Debtors and Debtors Write Off (reviewed) |
| Annexure D10 | Budget Implementation and Monitoring Policy (reviewed) |
| Annexure D11 | Municipal Entity Financial Support Policy (reviewed) |
| Annexure D12 | Accounting Policy (reviewed) |
| Annexure D13 | Electricity Metering for Residential and business Customers (reviewed) |
| Annexure D14 | Policy for the Vending of Pre-Paid Electricity (reviewed) |
| Annexure D15 | Policy for Correction of Meter Reading and Billing Data (reviewed) |
| Annexure D16 | Electricity Tariff policy (reviewed) |
| Annexure D17 | Virement Policy (reviewed) |
| Annexure D18 | Consumer Agreement Policy (remains unchanged) |
| Annexure D19 | Supply Chain Management Policy (remains unchanged) |
| Annexure D20 | Treasury Policy (new – Consolidation of various policies) |
| Annexure D21 | Allocation for Grants-in-Aid Policy (new) |

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PROVISION FOR DOUBTFUL DEBT AND DEBT WRITE-OFF POLICY

1. APPLICATION AND SCOPE

The Provision for Doubtful Debt and Debt Write-Off Policy is applicable to the City of Ekurhuleni as well as to all of the municipal entities of the Metro, being:

- Brakpan Bus Company;
- East Rand Water Care Company; and
- Ekurhuleni Development Company, including Pharoe Park, Phase Two and Lethabong Housing Institute.

NOW THEREFORE the Council of the City of Ekurhuleni has adopted the Provision for Doubtful Debt and Debt Write-off Policy as set out hereunder –

2. OBJECTIVES OF POLICY

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

3. INTRODUCTION

The effective management of debtors include, amongst others, the following processes:

- Implementation/Maintenance of the appropriate ICT Systems and Business Processes;
- Accurate billing;
- Customer care and accounts enquiry management;
- Effective and timeous credit control;
- Impairment of debtors (Provision for Doubtful Debtors);
- Write-off of uncollectable debtors.

This policy provides guidelines on the treatment of the impairment and write-off of debtors.

4. IMPAIRMENT OF DEBTORS

Consumer debtors, long term receivables and other debtors are stated at cost less a provision for bad debts. The provision is made on an individual basis, or based on expected cash flows.

In accordance with IAS 39, an objective assessment of financial assets is made at financial year-end in order to determine possible impairment. Impairment loss is recognized as an expense in the Statement of Financial Performance.

Individual classes of loans and receivables are assessed for impairment using the following methodologies:

4.1 CONSUMER DEBTORS

Consumer Debtors are evaluated at each reporting date and impaired as follows:

| Category of Debtor | Percentage of debt regarded as collectable | Percentage of debt provided for as irrecoverable (ie Impairment Percentage) |
|---|--|--|
| Outstanding balance at beginning of reporting period - <ul style="list-style-type: none"> • no receipts during reporting period. • receipts during reporting period less than outstanding balance at beginning of reporting period. • receipts during reporting period in excess of outstanding balance at beginning of reporting period - <ul style="list-style-type: none"> ○ Debt ageing 90+ days ○ Debt ageing less than 90 days | Zero Zero 0-90 Days = 100% 100% | 100% 100% 90+ Days = 100% Zero |
| No Outstanding balance at beginning of reporting period - <ul style="list-style-type: none"> ○ Debt ageing 90+ days ○ Debt ageing less than 90 days | 0-90 Days = 100% 100% | 90+ Days = 100% less average payment collection rate over preceding 12 months Zero |
| Housing rental debtors <ul style="list-style-type: none"> • Debt ageing 90 days+ • Debt ageing 0-90 Days | Zero 100% | 100% Zero |

In terms of the provisions of GRAP standard AG125, the above-mentioned "Percentage of debt provided for as irrecoverable" will be reviewed and adjusted at the Statement of Financial Position date on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows will be reviewed to reduce any differences between loss estimates and actual loss experience.

4.2 SUNDRY DEPOSITS

Sundry deposits are assessed for impairment to ensure that no objective evidence exists that these deposits are irrecoverable.

4.3 SUNDRY DEBTORS

Sundry debtors are those Suspense Control Accounts classified as financial instruments with debit balances as at year-end. Sundry debtors are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

5. WRITE-OFF OF DOUBTFUL DEBTORS

Where debts are identified as being irrecoverable (in periods subsequent to debtors being impaired), the process of write-off will be treated as follows:

5.1 AMOUNTS EQUAL TO OR LOWER THAN AMOUNTS DELEGATED TO THE CHIEF FINANCIAL OFFICER BY COUNCIL FROM TIME TO TIME

Report of irrecoverable debtors detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, details on credit and debt collection processes followed to recover the debt and confirmation that all available avenues to recover the debt have been exhausted and that further actions would be fruitless and not cost effective must be submitted to Divisional Head Revenue.

Report containing recommendations of Divisional Head Revenue must be presented to the Chief Financial Officer for consideration.

Requests approved by the CFO will be processed against the relevant debtors account and reflected as debit against Bad Debt Provision.

Reconciliation of Provision for Doubtful Debtors Account must be prepared annually by the Divisional Head Revenue and retained for audit purposes.

5.2 AMOUNTS EXCEEDING THE CFO'S DELEGATED AUTHORITY

Report of irrecoverable debtors detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, details on credit and debt collection processes followed to recover the debt and confirmation that all available avenues to recover the debt have been exhausted and that further actions would be fruitless and not cost effective must be submitted to Divisional Head Revenue.

Report containing recommendations of Divisional Head Revenue must be presented to the Chief Financial Officer for consideration.

If approved by the Chief Financial Officer, a formal report must be submitted to the Finance Oversight Committee, Mayoral Committee and Council for consideration.

Approvals granted by Council must be processed against the relevant debtors account and reflected as debit against bad debt provision in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors Account must be prepared annually by the Divisional Head Revenue and retained for audit purposes.

5.3 APPLICATION OF PRESCRIPTION ACT

The provisions of Prescription Act will apply to all services debt, excluding assessment rates. Applications and/or claims for prescription from debtors will only be assessed if no formal credit control or legal actions have been instituted during prescription debt period of three (3) years.

Income manager will assess application in terms of prescribed requirements. If in compliance with Prescription Act, report of irrecoverable debts detailing the nature of the underlying debt, conditions that led to the debt being identified as being prescribed, details on credit and debt collection processes followed to recover the debt and confirmation that debt has prescribed must be submitted to Divisional Head Revenue for consideration and approval.

Approvals granted must be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors Account must be prepared annually by the Divisional Head Revenue and retained for audit purposes.

5.4 SPECIFIC DEBT-WRITE-OFF INCENTIVES.

Divisional Head Revenue to identify and investigate specific uncollectable debt categories. Report with full details as to the reasons for categorized debt write-off to be submitted to council for approval.

Approvals granted must be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors Account must be prepared annually by the Divisional Head Revenue and retained for audit purposes.

5.5 OTHER WRITE-OFFS.

Department/Entity identify deemed irrecoverable debts and prepare report detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, details on credit and debt collection processes followed to recover the debt and confirmation that all available avenues to recover the debt have been exhausted.

If approved by the Chief Financial Officer, formal report must be submitted to the Finance Oversight Committee, Mayoral Committee and Council for consideration.

5.6 COUNCIL APPROVED WRITE-OFF SCHEMES.

Council approved incentives or debt write-off schemes must be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

Incentives or debt write-offs to be processed to individual qualifying debtors accounts for the duration of scheme.

