MTUBATUBA LOCAL MUNICIPALITY

CREDIT IMPAIRMENT POLICY
2017/2018

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.

Council accepts and acknowledges its Constitutional duties towards the community of the Mtubatuba Local Municipality.

Council further acknowledges that in order to deliver services in a sustainable manner, that revenue collection be managed in terms of Councils Debt Collection and Credit Control Policy having due regard of its limited financial resources and the need to manage cash flows.

Council therefore accepts its duty to prepare financial statements that truly reflects the financial position of the Municipality. The Council of the municipality in adopting this policy on "basis for determining and recognition of credit impairment" recognises its responsibilities as set out in chapter 9 of the Local Government Municipal Systems Act, Act 32 of 2000 as amended.

2. Scope

The Provision for Doubtful Debt and Debt Write-Off Policy is applicable to trade and other receivables as reflected on the Mtubatuba Local Municipality debt's books. Amongst others the following is included:

- Rates Debtors;
- Refuse Debtors;
- Security Debtors; and
- Sundry Debtors

The policy, as amended, will be effective as from 1 July 2016.

3. Objectives of the 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.
- To ensure fair presentation and appropriate accounting of treatment for credit impairment.

4. Debts & Credit Risk Management

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

- Implementation / Maintenance of the appropriate ICT Systems and BusinessProcesses.
- 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.

5. Accounting Policy Municipality's Financial Assets

Initial recognition

In line with the requirements of GRAP 104 the municipality recognises a financial asset in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. The Municipality recognises financial assets using trade date accounting.

Accounting Classification – Consumers debtors and other receivables

*In terms of the municipality accounting policy; the municipality classifies its consumer debtors and other receivables as "**Financial instruments at amortised cost**" in line with the provisions of paragraph 14 of GRAP 104.*

Initial Measurement of the Financial Assets

In line with paragraph 36 of GRAP 104 the municipality recognizes these financial assets initially, at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent Measurement of the Financial Assets

In line with GRAP 104 the municipality measures its consumer debtors and other receivables at amortized cost and the assets are subjected to an impairment review in accordance. The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the municipality determines the amount of any impairment loss.

6. Impairment of Consumer Debtors & Other Receivables

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 GRAP 104, the municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the municipality determines the amount of any impairment loss in the Statement of Financial Performance.**

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‗loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment, since it may have been the combined effect of several events that did so. Losses expected as a result of future events, no matter how likely, are not recognized. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;

c) the lender, for economic or legal reasons relating to the borrower‘s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d) it is probable that the borrower will enter sequestration or other financial reorganization;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

    i. adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or
    ii. national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, or adverse changes in market conditions that affect the borrowers in the group).

The Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor‘s credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in surplus or deficit.

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

6.1 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 (i.e. Impairment Percentage)
Credit balances	Zero	Zero
In-active accounts	Zero	100%
Hand-over accounts to panel of debt collectors, legal hand-overs and clearance handover	Zero	100%
Approved Indigents	Zero	100%
Debt ageing 90+days	10%	90%
Debt ageing 60+days	50%	50%
Debt ageing less than 60 days	100%	Zero

6.2 Sundry Deposits

Sundry Debtors are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

7. 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:

a) The Income Managers identifying irrecoverable debts shall prepare report detailing the following:
   - 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.

b) The report of the Income Manager must be scrutinized by the Chief Finance Officer and his recommendation must be documented in the report. The CFO must prepare a formal report and the report should be submitted to the Council for consideration and approval.

c) The 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 Director Income and retained for audit purposes.

7.1 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 CFO, a formal report must be submitted to the Council for consideration and approval.

7.2 Debt associated with ownership of property (Rates and Refuse accounts)

Debt raised by Council for the services rendered to registered owners of the property/land i.e. Assessment rates, Refuse removal will not be written-off except when the property is disposed off in the liquidation process and the proceeds do not cover the outstanding debt, the balance can then be written-off as irrecoverable.