JOE MOROLONG LOCAL MUNICIPALITY

RE UNGWELWA ROTLHE

DRAFT
BAD DEBT WRITE-OFF
POLICY

10.03.2026

MUNICIPAL BAD DEBT WRITE-OFF POLICY

LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003

TABLE OF CONTENTS

1. Preamble

The Council of **Joe Morolong Local Municipality** resolves to adopt the following as the policy on writing off the bad debts as irrecoverable. Writing off bad debts allows the Council to reclaim VAT output declared and ensures that the level of debtors is not overstated in the Council's financial statements.

The Council of the municipality in adopting this policy on writing off bad debts recognizes its responsibilities as set out in Chapter 9 of the Local Government Municipal Systems Act, Act 32 of 2000 as amended.

2. Objectives

The objective of this Policy is to set out the factors that may be considered by Joe Morolong Local Municipality in:

- Determining irrecoverable or bad debt and to outline procedures for writing off such irrecoverable or bad debt.
- To provide the identification of bad debts during the course of the financial year.
- The writing off of bad debts at least before or at the end of the financial year.

3. Reason for write off of Bad Debt.

Debt owed to the Municipality will be regarded as irrecoverable or bad and written off in the following instances:

3.1 The consumer is untraceable

The Municipality must take all reasonable steps to trace the debtor and collect the debt owed to the municipality. A reasonable effort to trace the debtor will include, but is not limited to, the following:

a) Utilising all available information on the municipality's records;
b) Utilising the telephone directory to locate the debtor; and
c) Contacting the following institutions or persons in order to locate the debtor:
   - The Department of Home Affairs;
   - The South African Revenue Service;
   - Officials and/or colleagues at the debtor's last place of employment.

The Municipal Manager shall consider all other economically viable avenues for debt recovery, including the use of tracing agents. This shall be for debts above R15 000.

If the debtor cannot be traced after all reasonable steps have been taken, a submission shall be made to council requesting a write-off of the debt.

The submission must highlight all steps taken to trace the debtor and must show that it would be uneconomical to take any further step.

3.2 Insolvent estate

- The consumer is insolvent (bankrupt) if his/her liabilities exceed his/her assets and upon sequestration, a trustee is appointed by a High Court to take control of the insolvent estate.
- The Municipality's claim against an insolvent estate or an estate that is being administered as insolvent cannot be paid if there are no liquid assets in the insolvent estate to cover the debt.
- However, part payment of the debt will be recovered
- Only the portion that may be irrecoverable will be written off

3.3 Debt that cannot be proved.

Debt for which no source documentation is available to substantiate or prove the claim, the Municipal Manager must have satisfied him/her that all reasonable steps have been taken to locate the source document.

3.3.1 Disputes that relates to consumption services untraced.

Where disputes have been lodged against the bill of the municipality in respect of water or electricity meter that cannot be validated. Any debt that will remain after recalculation of the correct or acceptable bill must be written off.

4. Procedure for writing off Bad Debt.

A submission must be made to Council requesting the write-off of the debt.

The submission must contain the following information:

a) the name, address, amount and relevant particulars of the debt;
b) the nature of the debt and the date incurred;
c) an outline of measures taken to collect the debt;

d) reason(s) why the debt is deemed to be irrecoverable or bad;
e) Period of the debt and / or date(s) of invoice,
f) recommendation that the debt be written off;
g) the vote or account classification against which the write-off must be charged.

All debts written off must be disclosed in the Municipality's Annual Financial Statements.

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

- Each case will be considered on its merits,
- Except for bulk write off that may be approved by council.
- Each request will be supported by relevant documentation,
- Each case will receive authorization from the appropriate authorized officer (CFO) and / or member of the Bad debt/ Revenue committee where applicable in accordance with the policy.
- Appropriate records of all authorized write offs will be maintained and reviewed periodically against live caseload.

Limits and types of write off that requires approval by CFO/MM/Council

- Authorization from CFO for write off up to a limit of R50 000
- Authorization from MM for write off up to a limit of R50 001 till R100 000
- Authorization from Council for write off up to a limit above R100 001

FURTHER WRITE-OFF CRITERIA

Each case needs to be considered on its own merits, but there are a number of reasons for a debt being passed for write-off as summarized below:

- **Not cost effective to recover** - the amount outstanding is not cost effective

to pursue (de minimis). Collection costs would outweigh the amount recovered.

- **Claimant deceased** - the customer is deceased and there are insufficient funds in the estate with which to discharge the debt.
- **Claimant absconded** - the customer is gone away and tracing proves unsuccessful
- **Bankruptcy** - the debtor is the subject of insolvency proceedings and so recovery action is not allowed
- **Ill health** - severe health considerations
- **Undue hardship** - where the recovery of the debt will cause undue hardship
- **All avenues exhausted** - where the recovery process has been exhausted and there are no realistic prospects for recovery.
- Write off on incorrect charges by the Council

Any cases that fall outside of these criteria should be submitted to the Chief Financial Officer for further consideration for approval.

- Registered destitute and indigents accounts in arrears to be written-off in full including property rates once the required documentation is completed and approved by Council. Any property sold within 12 months after the write-off is granted the full amount to be recovered from sale. Any default on account after the write-off, the credit control and debt collection processes to follow without further notice.
- Registered destitute and indigents who submitted building plans after the write-off is granted the full amount will be reversed.

Incentive for customers: -

From **1 July 2026 to 30 June 2027**, qualifying customers can benefit from **a 50% municipal debt write-off**, along with **100% interest and fee waivers**.

The programme applies to **residential customers, pensioners, small and large businesses, faith-based organisations, NPOs, and community institutions** that meet the qualifying criteria.

This incentive is valid for the full financial year i.e. **July 2026 till June 2027**

5. 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 designed for the recovery of irrecoverable debts.

6. Impairment of Debtors (Provision for Doubtful Debt)

Consumer debtors (accounts receivable), long term receivables and other debtors are stated at cost, less a provision for doubtful debt.

In the assessment for impairment the following is a summary of the methodologies are applied:

METHODOLOGY

6.1 Timing of assessment

The municipality will assess at the end of each reporting date whether there is objective evidence that a receivable account or group of receivable accounts is impaired. The last day of each financial year is the reporting date for the municipality, being 30 June.

6.2 Impairment exclusions

The following accounts are specifically excluded from the assessment for impairment:

- Receivable accounts with a total credit balance at reporting date;

6.3 Calculation and recognition of impairment loss

1.3.1 Individual debtor assessment

The Municipality considers debtors that exceed 5% of the debtors' book to be individually significant and such debtors will be assesses individually for impairment. If no debtor exceeds the 5% threshold, then all the debtors will be included in the same population.

1.3.2 Grouping of Debtors

Debtors are grouped according to their risk profile. The risk profile is as per the table below

Category	Classification	Recoverability
Less than 50% collection ratio	High Risk	Collection rate
Between 50% and 75% collection ratio	Medium Risk	Collection rate
Between 75.01% and 100% collection ratio (Excluding Fully Recoverable Accounts as per Assumptions Table)	Low Risk	100%

Risk Categories (High, Low, Medium) are based on the collection rates of the year under review (Financial year being audited)

1.3.3 Expected Cash Flows

Expected cashflows are calculated by multiplying the average collection rate (over a 2-year period) by the individual debtor balance as at 30 June (end of reporting period). Assumptions are detailed in the table below.

Recoverability (collection) % is based on the average collection rate of the current and prior year (2 years)

Category	**Classification**	**Initial Recoverability**
Person	Residential	Collection Rate Per table
Closed Corporation	Business	Collection Rate Per table
Trust	Business	Collection Rate Per table
Partnership	Farms	Collection Rate Per table
Church	Churches	Collection Rate Per table
Trust		Collection Rate Per table
Institution		Collection Rate Per table
Company	PBO	Collection Rate Per table
Government (Including Departments and schools)	Municipal	Fully Recoverable
Councillors	Domestic	Fully Recoverable
Municipal Staff	Domestic	Fully Recoverable
Joe Morolong Local Municipality Accounts		Impair 100%

1.3.4 Impairment Amount

Impairment amount is calculated as the difference between the carrying amount and the expected cashflows.

7. Short Title

This policy is called Bad Debt Write-Off Policy of the **Joe Morolong Local Municipality.**

8. Review of This Policy

This policy must be reviewed on annual basis to take into account developments of legislation governing financial management in local government as well as accounting standards.

Signed by: ___________________

Boipelo Motlhaping
Municipal Manager