

FINANCIAL SERVICES POLICIES

POLICY ON THE WRITING-OFF OF IRRECOVERABLE DEBT



BREEDDE VALLEY
MUNICIPALITY • MUNISIPALITEIT • UMASIPALA

2025/2026 FINANCIAL YEAR

A caring valley of excellence.

Table of Contents

<u>1. INTRODUCTION.....</u>	<u>1</u>
<u>2. PURPOSE OF THE POLICY</u>	<u>1</u>
<u>3. RESPOSNSIBILITY/ ACCOUNTABILT</u>	<u>2</u>
<u>4. POLICY PRINCIPLES</u>	<u>2</u>
<u>5. CATEGORIES OF DEBTORS THAT MAY QUALIFY</u>	<u>2</u>
<u>6. DELEGATIONS TO WRITE OFF DEBT</u>	<u>5</u>
<u>7. IMPLEMENTATION AND REVIEW OF THIS POLICY</u>	<u>5</u>
<u>8. SHORT TITLE</u>	<u>5</u>

1. INTRODUCTION

- 1.1. To ensure that household consumers with no or lower income are not denied a reasonable basic service and that the Municipality is not financially burdened with non-payment of these basic services. The Council of Breede Valley Municipality approved policies on property rates, tariffs, credit control and debt collection, and indigent support.
- 1.2. 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 compilation of a financial plan is a core component of an Integrated Development Plan (IDP). The envisaged timeframe allocations for a long term financial plan are:
 - 1.2.1. The Municipal Manager must establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the Municipality.
- 1.3. The Municipal Manager must ensure that all avenues are utilised to collect the municipality's debt. However, for various reasons there will always be bad debt cases that needs to be catered for through a policy on the writing-off of irrecoverable debt for circumstances that allows for the valid termination of debt collection procedures as contemplated in section 109(2) of the Local Government: Municipal Systems Act (No 32 of 2000), such as:
 - 1.3.1. The insolvency of a debtor whose estate has insufficient funds;
 - 1.3.2. A balance being too small to recover, for economic reasons, considering the cost of recovery; and
 - 1.3.3. Where Council deems that a customer or group of customers are unable to pay for services rendered.
- 1.4. The municipality will have to maintain audit trials in such instances where bad debt is written off and document the reasons for the abandonment of the actions or claims in respect of the bad debt.

2. PURPOSE OF THE POLICY

The municipality will have to maintain audit trials in such instances where bad debt is written off and document the reasons for the abandonment of the actions or claims in respect of the bad debt.

3. RESPOSNSIBILITY/ ACCOUNTABILT

The Council has the overall responsibility for adopting and approving the Policy on Writing-off of irrecoverable debt.

4. POLICY PRINCIPLES

4.1. The following are guiding principles in implementing the Policy on Writing Off of Irrecoverable Debt Policy.

- 4.1.1. The policy was compiled in accordance with the Local Government Municipal Finance Management Act (No 56 of 2003), and the Local Government Municipal Systems Act, (No 32 of 2000), as amended and other related legislation.
- 4.1.2. Before any debt is written off it must be proven 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:
 - 4.1.2.1. The tracing of the debtors is unsuccessful, and
 - 4.1.2.2. All reasonable steps, including legal processes were taken by the officials to recover the debt, or-
 - 4.1.2.3. Any debt defined by Council at their discretion as irrecoverable.
- 4.1.3. Bad debt written off must be considered in terms of cost benefit, when it becomes too costly to recover and the chances of collecting the debt are very slow, 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 (indigent households) 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 budget and/or reserves.

5. CATEGORIES OF DEBTORS THAT MAY QUALIFY

5.1. Indigent Households

- 5.1.1. Upon approval for registration as an indigent household consumer, the debtor's arrear outstanding balance as at 30 June ~~2025-will~~ of each financial year may be written off, except for fines. A verification process will be done pre-approval.

Formatted: Not Highlight

- 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.

5.2. Small balances

- 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 (R100) 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 consumers within a period of sixty (60) days such accounts will automatically be written-off subject to the provisions of paragraph [6.16-4](#) (delegations to the Chief Financial Officer) below.

5.3. Insolvent 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 must be written off subject to the provisions of paragraph [6.6](#) 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 must be written off subject to the provisions of paragraph [6.6](#) below.

5.4. Untraceable Debtors

- 5.4.1. Where for any reason the forwarded address of a debtor becomes untraceable or the debtor becomes untraceable from the current address, such account must be handed over to a collection agent for recovery of the debt (Paragraph [5.25-2](#) cases excluded). The collection agent will be paid an allinclusive fee of not more than 20% 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 debtor that has become untraceable must be written off.
- 5.4.3. Debt written off in the above instances (paragraph [5.4.25.4.2](#)) will automatically result in the debtor being reported to the credit bureau by the Municipality.

5.5. Clearance Certificate

- 5.5.1. In terms of section 118 of the Local Government: Municipal Systems Act a Municipality may not issue a clearance certificate on any property unless all outstanding amounts that become due during the two years preceding the date of application are paid to date. However, outstanding debt older than two years have accumulated over a period of time and it may not be within the ability of the current owner or prospective new owner to pay such an amount in order to obtain a clearance certificate.
- 5.5.2. Where such circumstances may prevail the current owner or the prospective new owner may apply to the Municipality for relief of such outstanding debt or a portion thereof.
- 5.5.3. Where such circumstances may prevail the current owner or the prospective new owner may apply to the Municipality for relief of such outstanding debt or a portion thereof. In reviewing such application, the Municipal Manager must ensure that:
 - 5.5.3.1. All reasonable measures have already been taken to recover the outstanding amount from the current debtor.
 - 5.5.3.2. The prospective buyer of the property is not in a financial position to settle the outstanding amount before a clearance certificate is issued.
 - 5.5.3.3. 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.

5.6. Special Incentives for government departments and schools

- 5.6.1. Any incentive arrangement and amount to be written-off for this category of consumers will be forwarded to the Executive Mayor for consideration.
- 5.6.2. The Executive Mayor will have the discretion and the delegated powers to resolve on any amount to the maximum of R500 000 to be written-off. Any amount in excess of this should be taken to Council for consideration.

5.7. Irrecoverable debt not catered for in the policy

- 5.7.1. Should there be any irrecoverable debt cases that the administration cannot dispose of in terms of this policy, particulars of the irrecoverable debt cases shall be submitted to the Executive Mayor for consideration.
- 5.7.2. The Executive Mayor will have the discretion and the delegated powers to resolve on any amount to a maximum of R500 000 to be written-off in these instances. Any amount in excess of this should be taken to Council for consideration.

6. DELEGATIONS TO WRITE OFF DEBT

6.1. The Chief Financial Officer will, 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 case of a household consumer, church, welfare organisation and sporting body an amount of R10 000 (excluding interest and penalties) per submission; and
- 6.1.2. In the case of a business consumer an amount of R20 000 (excluding interest and penalties) per submission.

6.2. Any amount in excess of the delegation provided for in paragraph 6.16-4 above must be submitted together with a recommendation to the Municipal Manager for consideration. The Municipal Manager will, after a 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, church, welfare organization and sporting body an amount of R300 000 (excluding interest and penalties) per submission; and
- 6.2.2. In the case of a business consumer an amount of R300 000 (excluding interest and penalties) per submission.

6.3. Any amount in excess of the delegation provided for in paragraph 6.26-2 above must be submitted together with recommendation to Executive Mayor for consideration to a maximum of R500 000.

6.4. All amounts to be written off in terms of paragraphs 6.16-4 to 6.36-3 above must be considered individually and on each case's own merits.

6.5. Detailed reports for all the write-offs as per paragraph 66 must be submitted to the Executive Mayor.

6.6. Amounts that are in excess of the delegations above must submitted to Council for consideration.

7. IMPLEMENTATION AND REVIEW OF THIS POLICY

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.

8. SHORT TITLE

This Policy is the Writing-Off of Irrecoverable Debt of Breede Valley Municipality.