



Fezile Dabi

District Municipality

Debtors / Receivables Policy

DEFINITIONS:

Long-term receivables / debtors: is any debtor / receivable that is scheduled or projected for receipt in a period more than 12-month period.

Payment Arrangement: An agreement to pay an overdue account in instalments over a specified period of time.

Exchange transactions: Transactions that related to provision of goods and / or services by the municipality.

Interest: Means the applicable rate to be added or capitalized to the long-term debt or principal advanced loan amount.

Liability: Means the possible outflow of funds or resources from the municipality due to past event.

Repayment: Means interval payments of instalments on debts or loans.

Receivable: Means the possible inflow of funds or resources into the municipality due to the services rendered or loan advanced.

Non-Exchange transactions: Transactions where the municipality value from another municipality without directly giving approximate value in exchange.

1. OBJECTIVES

- a) To provide for measures and principles for managing accounts receivables (debtors).
- b) To outline the accounting treatment for outstanding debt.

2. LEGISLATIVE CONTEXT

Section 96 of Municipal Systems Act requires that the municipality must collect all money that is due and payable to it, subject to this Act and any other applicable legislation and for this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its tariff policies and complies with the provisions of this Act.

In terms of section 164(1)(c) of Municipal Finance Management Act, 56 of 2003 (MFMA), a municipality or a municipal municipality is prohibited from making / granting loans to three categories of borrowers:

- (i) councillors or officials of the municipality;
- (ii) directors or officials of the municipal municipality; and
- (iii) members of the public.

In terms of this policy, the Accounting Officer is required to take all reasonable steps to ensure that the municipality does not engage granting of loans as outlined by section 164(1)(c).

3. POLICY PRINCIPLES

- a) This policy is applicable to debtors through exchange and non-exchange transactions, but excludes debt / receivables emanating from the following types of transactions in a far as they are applicable to the municipality and are allowable under the provisions of MFMA:
 - Financial guarantee contracts / truncations (e.g home loan guarantees for employees);
 - Loan commitments made by the municipality;
- b) This policy must be read together with the Unauthorised, Irregular, Fruitless and Wasteful Expenditure Policy as well as Debt Impairment and Debt Write-Off Policy of the municipality.
- c) This policy should not be used to divest the municipality from its legislative responsibility to ensure that monies due are collected as and when they become due.

- d) All material adjustments in debtors' accounts shall require approval of the Chief Financial Officer.
- e) Similarly, any write-off of bad debts against long-term debtors shall require approval of the Council.

4. MEASURES TO PREVENT INCURRENCE / ESCALATION OF DEBT

- a) The municipality shall continuously review its revenue models and processes so as to identify areas that require improvement and ensure revenue sustainability.
- b) The municipality's revenue models shall therefore focus on maximizing collection of any debt, reducing inefficiency and costs, and reducing uncollectible debt.
- c) In order to achieve the above, measures shall therefore be put in place to ensure that the following critical elements of sustainability are continuously improved and implemented:
 - (i) Holding individually fully accountable to obligations that may results into debt recoverability;
 - (ii) Implementing strict controls over implementation of other policies that may incidentally give rise to debt (e.g bursary policy)
 - (iii) Prevent Unauthorized, Irregular, Fruitless and Wasteful Expenditure
- d) As part of the annual strategic and business planning process, a holistic approach shall therefore be implemented to ensure that all the above mentioned critical elements are considered and simultaneously incorporated in the strategic and annual performance plans.

5. IDENTIFICATION, RECOGNITION AND MEASUREMENT OF DIFFERENT CATEGORIES OF RECEIVABLES

- a) In the context of this policy, receivables shall include the following:
 - (i) Contractual and Statutory Receivables arising from exchange transactions; and
 - (ii) Contractual and Statutory Receivables arising from non-exchange transactions.

5.1 Receivables arising from contractual obligations (Non-Statutory Receivables)

- a) Receivables arising from contractual rights to which the municipality is a party shall initially be recognised using trade date accounting (i.e date at which the transaction was entered into) and measured at amortised costs.

- b) Receivables that do not contain a significant financing component (i.e the expected term of receivable is less than one year) shall be measured at the transaction price.
- c) This category of receivables shall be subject to impairment review annually at the end of June.

5.2 Receivables arising from legislation or supporting regulations (Statutory Receivables)

- a) The municipality shall recognise statutory receivables as follows:
 - (i) If the transaction is an exchange transaction, receivable(s) shall be measured at the fair value of the consideration receivable.
 - (ii) If the transaction is a non-exchange transaction, receivable(s) shall be measured at the transaction amount (i.e amount of increase in the net assets recognised by the municipality);
 - (iii) If the transaction cannot be recognised and measured according to (i) and (ii) above and is not within the scope of a particular relevant GRAP standard, then the receivable is recognised when the definition of an asset in terms of GRAP standards is met.
- b) Statutory receivables shall subsequently be measured at cost to reflect any:
 - (i) Interest or other charges that may have accrued on the receivable (where applicable)
 - (ii) Impairment losses; and
 - (iii) Amounts derecognised

6. INTEREST

In instances where interest is charged on receivable or group of receivables, the following principles shall apply:

- a) The same interest calculation formula shall be used for both long-term and short-term receivables. However, interest that remains unpaid shall typically be added to the principal amount and compounded monthly.
- b) Interest shall be calculated at the rates determined by Council from time to time. The Council shall also have the discretion not to charge interest on certain categories of receivables (e.g a portion of long-term debt that is under arrangement to payable by instalments).
- c) Where a receivable or group of receivables is impaired, the municipality will continue to accrue for any normal interest or other charges due to the municipality were this is in accordance with the applicable legislation, regulation or council decision or policy.
- d) Interest on statutory receivables shall be calculated using the nominal rate.

7. ARRANGEMENT TO PAY DEBT BY INSTALMENTS

- a) In cases where arrangements are entered into with the debtor to pay a debt (accumulated account) in instalments, such arrangements shall be administered in accordance with the provision of a repayment agreement that will be entered into with the Council.
- b) The repayment period may not be longer than thirty six months, unless otherwise provided for by Council.
- c) However, the principal debt together with interest, debt collection costs and commission shall become due and payable immediately in the event of any of the following:
 - (i) The insolvency of the debtor or any of them;
 - (ii) The debtor or any of them committing act of insolvency;
 - (iii) The debtor or any of them being place under administration;
 - (iv) Any payment due in terms of the arrangement agreement not being made on due dates;
 - (v) The debtor on anyone of them not making payment of any further or future amounts that may be accrued to the municipality for the account of the debtors;
 - (vi) Termination of employment by the official concerned.
- d) Only the Council shall have the discretion to depart from any of the above conditions.

8. DERECOGNITION OF RECEIVABLES FROM THE ACCOUNTING BOOKS

- a) Derecognition of receivables (contractual and statutory) from the accounting books of the municipality may be applicable to a particular receivable of a group of receivables only when:
 - (i) The rights to the cash flows from the receivable have expired, are settled or waived;
 - (ii) The municipality transfer to another party substantially all the risk and rewards of ownership of the debt / receivable.
 - (iii) On derecognition of debt / receivable in its entirety, the difference between the carrying amount and the sum of the consideration received shall be recognised in surplus or deficit.

9. REPORTING AND DISCLOSURE OF RECEIVABLES

- a) Receivables shall be accounted for and disclosed as non-current assets in the financial statements of the municipality and shall include principal debt and interest where interest is applicable.

- b) Reporting and disclosures relating to receivables must comply with all the requirements of the Municipal Finance Management Act and the applicable GRAP standards, and be given in sufficient detail in the municipality's financial statements to enable the effect of the receivables on the financial statements to be understood.

10. REVIEW AND APPROVAL

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.