

MORETELE LOCAL MUNICIPALITY



DRAFT DEBT IMPAIRMENT POLICY 2026-2027

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1. PURPOSE

1.1. The purpose of this policy document is:

- 1.1.1. To set out a methodology for the impairment of receivables in line with the applicable accounting standards;
- 1.1.2. To ensure that sufficient provision is made for the impairment of receivables in the annual financial statements;
- 1.1.3. To ensure that receivables disclosed in the annual financial statements are stated at amounts that are deemed collectable; and
- 1.1.4. To promote transparency as required by sections 215 and 216 of the Constitution when dealing with debtors and debt.

2. BACKGROUND

2.1. The policy is applicable to all receivables subsequently measured at amortised cost. This includes the following line items as disclosed on the statement of financial position:

- 2.1.1. Consumer debtors;
- 2.1.2. Receivables from exchange transactions; and
- 2.1.3. Receivables from non-exchange transactions.

3. DEFINITIONS AND ABBREVIATIONS

“**CFO**” means Chief Financial Officer

“**Financial year**” means the period 1 July of one year to 30 June of the following year (both days included)

“**GRAP**” means Generally Recognised Accounting Practices

“**MFMA**” means Municipal Finance Management Act 56 of 2003

“**Municipality**” means Moretele Local Municipality

“**Reporting date**” means 30 June of each year

4. APPLICABLE ACCOUNTING STANDARDS

GRAP 104 Financial Instruments sets out the requirements and guidelines for the impairment of financial assets subsequently carried at amortised cost.

GRAP 104.46 *“All financial assets measured at amortised cost, or cost, are subject to an impairment review...”*

GRAP 104.57 *“An entity shall assess 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 entity shall apply paragraphs .61 to .63 (for financial assets carried at amortised cost) and paragraph .64 (for financial assets carried at cost) to determine the amount of any impairment loss. “*

GRAP 104.58 *“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.”*

GRAP 104.62 *“An entity 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 (see paragraph .58). If an entity 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.”*

5. METHODOLOGY

5.1 Timing Of Assessment

5.1.1. The Municipality will assess at the end of each reporting date whether there is objective evidence that receivable accounts are impaired.

5.2 Evidence of Impairment

5.2.1. The following accounts are specifically excluded from impairment testing:

I. Receivable accounts with an overall credit balance at reporting date;

5.2.2. Any one of the following events are considered to provide objective evidence that a receivable account or group of receivable accounts could be impaired.

I. Where there are no payments from the customer during the financial year (per the Debtors report).

- II. Where debtors have been classified as 'abeyance' (indigent debtors)
- III. Accounts handed over to debt collectors.
- IV. All accounts with balances outstanding over 60 days

5.3 Calculation and recognition of Impairment Loss

5.3.1. 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 recognised are not included in a collective assessment of impairment.

5.3.2. The impairment is assessed at the end of each reporting period whether there is any objective evidence that a debtor or group of debtors is impaired. If any such evidence exists, the municipality shall apply the paragraph below to determine the amount of any impairment loss.

5.3.3. If there is objective evidence that an impairment loss on debtors measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the debtor's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the debtor's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.

5.3.4. Impairment = Present Value of the expected cashflow.

5.3.5. The value of impairment recognised in the statement of financial performance may differ depending on whether additional amounts have been written off during the year.

5.4 Risk Categories

Debtors were given a risk category based on their payment history and other relevant traits as follows:

INDICATOR	RESIDENTIAL	BUSINESS	GOVERNMENT	INDIGENTS
Aging between 0-30 days outstanding	3	5	5	0
Aging between 31-60 days outstanding	3	4	5	0
Aging between 61-90 days outstanding	2	3	4	0
Aging between 91-120 days outstanding	1	2	3	0
Aging between 121-365 days outstanding	0	1	3	0
Aging more than 365 days outstanding	0	0	2	0
Payment received in 12 Months	0	0		0
No payment receive in 12 Months	0	0	0	0
	9	15	22	0

RISK FACTOR	SCORE MATRIX	PAYMENT EXPECTED
Very High risk	0	0%
High risk	+5	10%
Medium risk	+10	40%
Low risk	+15	70%

Very low risk

+20

90%

5.5. Effective interest rate

5.5.1. The original effective interest rate cannot be used due to the balance of the receivables account representing a series of individual transactions throughout the period. As a practical expedient the R208 government bond rate (redemption date 2021) of 6.75% is used as the risk-free rate. This is in line with GRAP 104 Financial Instruments Application Guidance par AG85. As the risk increases, an adjustment of 0.50% per increase in risk is made. This rate will be reviewed annually.

5.5.2. Source

- I. GRAP 104 Financial Instruments
- II. GRAP 104 Application Guide
- III. National Treasury Accounting Guidelines GRAP 104 Financial Instruments

6. APPROVAL AND IMPLEMENTATION OF METHODOLOGY

6.1. This methodology shall be implemented once approved by council; it will be implemented retrospectively.

Section:	Budget and Treasury Office
Approval date by council:	