

**SOUTH DERBYSHIRE DISTRICT COUNCIL
SUNDRY DEBTOR CREDIT CONTROL POLICY**

1. INTRODUCTION

- 1.1 The Director of Corporate Services has responsibility, under Section 151 of The Local Government Act 1972, for the proper administration of the financial affairs of the Council. One such area of administration is that relating to Sundry Debtors and it is this that the Policy covers.
- 1.2 Financial procedural rules covering this area are to be found in Section 4, D2 (paragraphs D2.1 to D2.14) of the Council's Constitution. Timescales set out in the policy for payment terms, billing and account collection, together with performance reporting, are based on recommendations set out in best practice guidance issued by the Institute of Credit Management.

2. DEFINITION OF SUNDRY DEBTS

- 2.1 The Council charges and collects income from a diverse range of activities. Customers range from other public bodies, private businesses, through to individuals. Sundry debt does not include council tax, business rates collection and housing rents.
- 2.2 In addition, this policy does not apply to the recovery of housing benefit overpayments. These are subject to a separate policy and set of procedures.
- 2.3 The value of invoices raised can range significantly from a few pounds to many thousands of pounds, and therefore, taken together the value of all these sundry debts is considerable.

3. OBJECTIVES OF THE POLICY

- 3.1 The function and objectives of this Credit Policy are to protect the Council's investment in debtors, ensure a good overall control of debt, maximise cash flow and to provide a cost effective service. This is achieved by:
- Ensuring debtors are made aware of the Council's terms and conditions
 - Ensuring debtors, wherever possible satisfy the Council of their ability to pay
 - Raising invoices in a timely and accurate manner
 - Ensuring invoices raised are valid and reflect services provided
 - Raising invoices only if it is cost effective to do so
 - Ensuring customers pay in accordance with the agreed terms
 - Securing prompt payment and therefore minimising bad debts
 - Dealing with and resolving queries promptly
 - Offering efficient and flexible payment methods
 - Taking prompt and efficient recovery action
 - Terminating services for non-payment where appropriate
 - Having a robust and clear write-off policy
 - Controlling responsibilities and internal authority levels
 - Regular management reporting and performance measurement

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4. RESPONSIBILITY FOR THE POLICY

4.1 In broad terms, the relevant responsibilities are as follows:

- **The Council** - setting and approving the policy.
- **The Director of Corporate Services** - advising and providing guidance on setting the policy and ensuring that the policy is implemented.
- **The Head of Finance and Property Services** - overall management of the policy.
- **The Exchequer Manager** - day-to-day administration of the Policy through the Accounts Team in the Council's Finance Services Unit (defined as "Finance" in this Policy).
- **Customer, Legal and Property Services** - providing advice and support as necessary.
- **All other Council Departments** - applying the policy as appropriate.

5. RAISING AN INVOICE - GENERAL PRINCIPLES

5.1 A more commercial attitude should be adopted whereby fees and charges are obtained in advance or at the time of service provision. Where goods or services provided need to be paid for after this, then the Council offers credit facilities wherever it is considered prudent to do so.

5.2 However, the following points should be considered before raising an invoice:

- Fees and charges are payable in advance or at the time of using a facility or service, etc.
- It should not be used as a mechanism for negotiating sums due to the Council.
- They should not be raised for amounts less than £15.
The exception to this is licenses, rents and leases connected with occupying Council land and property.

6. CREDIT ASSESSMENTS

6.1 Due to the type of services and facilities the Council provides and the duties it is obliged to undertake, it is not possible or feasible to assess all the customers of the Council.

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- 6.2 However, there are certain areas of the Council's business where a credit check should be undertaken of potential customers before the service or facility is provided.
- 6.3 This is in relation to potential leaseholders of commercial and industrial property where a satisfactory bank and trade reference or other suitable credit check, should be obtained prior to a letting.
- 6.4 This is undertaken by the Property Services Unit in conjunction with the Council's lettings agent.

7. OPENING NEW ACCOUNTS

- 7.1 Due to the variety of services and facilities that the Council provides, it is the responsibility of each Department to ensure that all of the required details to raise an account are obtained from the customer. The required details are listed below.
- The identity of the customer, i.e. a PLC or Limited Company, sole trader, partnership, public body, voluntary organisation, club or society.
 - In the case of a limited company, the Registered Office address of the company and the address of the Company Secretary where invoices should be sent.
 - In the case of a partnership or sole trader, their full names and their trading name, together with their home and trading addresses.
 - In the case of members of the public or voluntary organisations, club or society, their full name, home address and status of the person in the organisation and written confirmation that they take personal responsibility for any invoice raised against the organisation, club or society.
 - In general, the invoice address if different, together with the contact details of where the invoice is to be sent.
- 7.2 These details should be obtained by the relevant Department prior to the provision of the service or use of a facility, etc. Where possible, the Department should obtain written confirmation from the customer stating they understand they will be responsible for full payment of the service or use of a facility prior to it being provided by the Council.
- 7.3 All details should be passed promptly to Finance who should ensure that there is no duplication or conflict with similar customers already set up.
- 7.4 At this time, Departments should make new customers aware of the Council's standard payment terms and refer any possible request to deviate from this to Finance.

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8. PAYMENT TERMS

- 8.1 The Council's standard terms require payments to be made within 7 days for consumer debtors and 21 days for commercial debtors. Payment should be made by the due date on the invoice. Any deviation from these standard terms needs to be approved by the Head of Finance and Property Services.
- 8.2 Payment by instalments is considered if requested. This applies mainly to the on-going provision of services with an associated quarterly or annual charge. These relate to commercial waste collection (annual charge) and the supply of Piper Lifelines (quarterly charge).
- 8.3 In such circumstances, payment must be received by each due date in the agreed instalment plan.

9. BILLING

- 9.1 All invoices should be raised centrally in Finance using the Council's main financial management system. To aid efficient debt collection and prompt settlement, Departmental requests to raise bills should be within 2 days of the service/facility provision. Invoices should be raised and sent to customers within 7 days of the service/facility provision by Finance.
- 9.2 Again, any deviation from this needs to be approved by the Head of Finance and Property Services. An exception is for rechargeable works where the exact cost of the service may not be known nor evidenced immediately. However, in any case, an invoice should be raised within 2 weeks of completing the works.
- 9.3 The content (narrative) on the invoice request should be concise but of sufficient clarity to ensure that the customer fully understands the bill. This must include nature of service, date, periods of time, location, full contact details and a purchase order number (if applicable).
- 9.4 Invoice requests from departments must therefore clearly state all these details including the name of the person liable to the debt in the case of sole traders.
- 9.5 The bill ultimately raised should show clearly the Council's terms and conditions, including the payment terms with the relevant due date and methods of payment.

10. METHODS OF PAYMENT

- 10.1 The Council's preferred method of payment is in electronic form and this is encouraged as much as possible. Consequently, payments can be made via the Internet, automated telephone and by Direct Debit. Other forms of payment accepted by the Council are as follows:

- Credit and Debit cards (in person)

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- Giro Bank
- At a Post Office and other Pay Points
- Cash and Cheques

11. ACCOUNT CONTROL

- 11.1 The Council aims to be more proactive in the collection of sums due from its major non-consumer debtors. This involves liaison with these debtors on a regular basis.
- 11.2 This is achieved by follow up contact, by telephone within 5 days of the despatch of the bill. This is to ensure that the customer is satisfied with the services or goods supplied. In addition, it helps to identify any possible issues that could lead to a dispute and resolve them before the payment date.
- 11.3 Adopting a more pro-active approach to the collection of sums due to the Council and ensuring follow up contact after the issuing of the invoice ensures the payment of larger sums within the terms of this Policy.
- 11.4 The Council tends to operate a reactive approach to more minor/consumer debts. The split between major and minor is made according to relevant techniques (Pareto analysis).
- 11.5 This analysis is undertaken by the Exchequer Manager and the subsequent follow-up is undertaken by the Council's Customer Services function.

12. ACCOUNT COLLECTION

- 12.1 Where an account is not settled by the due date, based on best practice guidance, the following process shall apply.
- 7 days overdue - a reminder letter is sent.
 - 14 days overdue - a final demand is sent.
 - 21 days overdue - a notice of legal proceedings is sent.
 - 28 days overdue - legal proceedings commence.
- 12.2 The cycle can be changed depending on specific circumstances. The timescale should not be increased only reduced or a stage eliminated if the debtor is considered to be a high risk.
- 12.3 This process is co-ordinated by the Exchequer Manager and supported by the Council's Legal Services Unit, where necessary for undefended matters. In relation to defended matters only, these matters are referred to Legal Services when it becomes evident that the matter is to be defended by the debtor.

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13. DISPUTED INVOICES

- 13.1 Where a customer disputes an invoice, Finance shall refer the matter to the Department that originated the request for an invoice. It is the responsibility of that Department to resolve the issue of the dispute.
- 13.2 At all times, the Department that originated the request for an invoice must keep Finance informed of the status of the dispute and whether the collection of debt should be suspended or re-commenced by Finance. This will ensure that the collection cycle is managed appropriately by Finance.
- 13.3 To help customer service and efficient debt collection, all disputes should be resolved as quickly as possible. Where an incorrect charge to a customer has been made by the Department that originated the request for an invoice, or the address provided for the invoice was incorrect, the Department must inform Finance within 3 days of discovering the error and provide instructions as to how the matter is to be resolved.
- 13.4 Where the dispute relates to a charge of sub standard work, goods not received or service not provided, then these may normally take longer to resolve.
- 13.5 However, they should never be left unresolved and it is the responsibility of departmental managers providing the service, to review on a regular basis any disputes under their responsibility and bring to a conclusion as soon as possible.
- 13.6 In any event, in accordance with best practice guidance, all disputes should be resolved within 28 days. After this time, it is expected that the account is either paid or recovery action recommended. If a credit note is subsequently raised, this is charged back to the relevant departmental cost centre.
- 13.7 A dispute is not resolved unless it meets one of the following conditions:
- Customer is correct and gets full credit
 - Customer is partly correct and gets partial credit and agreed
 - Customer is incorrect and accepts the charge
 - Customer is not correct but does not accept the situation and the Council is prepared to commence legal proceedings.

14. CREDIT NOTES

- 14.1 Some invoices raised may ultimately be incorrect and require cancelling or the charge reduced. This could arise from a customer dispute or be identified internally.
- 14.2 Where a corresponding credit note is required, the relevant service area should authorise Finance to deal with this by completing a Credit Note Request Form, setting out a brief explanation of why the change is required.

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15. SANCTIONS

- 15.1 Where an account remains unpaid and is not subject to dispute or any other agreement regarding its status, then cancellation of the service provided or future access to a facility, etc. should be seriously considered.
- 15.2 This should be reviewed before legal proceedings are commenced and is decision for the service department following advice and guidance from the Head of Legal and Democratic Services and Head of Finance and Property Services.
- 15.3 Each case should be considered on its own merits.

16. ACCOUNTS SUBJECT TO LITIGATION

- 16.1 All unpaid accounts over £150 in value, which become overdue after 28 days are subject to potential recovery through the courts. This is the decision of the Service Department after taking advice from Legal and Finance Services.
- 16.2 The Department should consider whether cancellation of the service is possible. In addition, a credit check is undertaken to further determine whether it will be cost-effective to pursue the debt in this way.
- 16.3 It is the responsibility of the service department to ensure that it has the necessary supporting evidence. Unless the instructing Department makes sufficient evidence available, then it may not be possible for legal action to be initiated.

17. DEBT FOR WRITE OFF

- 17.1 Where all forms of recovery on outstanding debt have been exhausted and/or it is considered that the debt is no longer economic to pursue, it should be written off. Depending on the limit set out in the Council's financial procedural rules, this is subject to approval of the Director of Corporate Services or the Finance and Management Committee.
- 17.2 Where the debt has been subject to litigation, Finance, in conjunction with Legal Services, should discuss whether the debt is reasonably recoverable and future action to be taken in respect of the matter.
- 17.3 The Exchequer Manager should review outstanding debt on a quarterly basis with the aim of identifying any uncollectible debt sitting on the Council's ledger for an indefinite period.
- 17.4 Debt written off does not preclude arrangements for pursuing and accepting payment at a later date. Therefore, the Department that originated the request for an invoice should retain all relevant paperwork.

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18. INSOLVENCY

- 18.1 Where the Council is aware or notified of a customer falling into receivership or liquidation, etc. then Finance should be made aware immediately. Subsequently, finance should liaise with Revenues to determine whether a receiver or liquidator has been appointed.
- 18.2 Under no circumstances should a service or facility be provided to a company that is in receivership or any individual who is in the process of being declared bankrupt. Suitable checks on Companies who have voluntary agreements that allow them to continue trading should be made. A Company Search should be made at Companies House to elicit the relevant information.
- 18.3 Similar rules should apply to individuals who are attempting to clear debts under voluntary arrangements. Advice should be sought from Legal and checks made through Finance.
- 18.4 Where notification is received that a debtor has absconded without providing a forwarding address, then a trace facility is available. Advice should be sought from Finance who will weigh up the cost of doing a trace against the size of the debt.
- 18.5 The Council is likely to become a low rated creditor in any insolvency proceedings. Therefore, such debts should be written off as soon as a proof of debt has been lodged.

19. PERFORMANCE MEASUREMENT AND MANAGEMENT REPORTING

- 19.1 The following performance information should be compiled
- Aged Debt Analysis (13 month comparison)
 - Analysis of Credit Notes by Reason
 - Ageing of Outstanding Disputes
 - Days Revenue Outstanding (DRO or Debtor Days)
- 19.2 This information should be produced by the Exchequer Manager for the Head of Finance on a monthly basis. Information should be reported quarterly to the Finance and Management Committee alongside some narrative to explain the figures, trends, actions required, etc.
- 19.3 The main benchmark is the Council's own past performance and trends, etc and these are the indicators on which improvement should be based. However, wherever possible, comparisons are made with other local authorities and local government generally, through published information or benchmarking clubs, etc.