

# sundry Debtors Procedures



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# 1 INTRODUCTION

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## 1.1 Purpose

- 1.1.1 The purpose of this document is to detail the policies and procedures for collection of Sundry Debtors, and includes Council policy on credit management.
- 1.1.2 The policy should be viewed in the context that delays in receipt of sums due to the Council are costly, both in terms of lost interest and the extra costs of administration.
- 1.1.3 All departments have the responsibility to recover as much of the income owed as possible, therefore, the principles outlined in this document should be incorporated into the working practices of each department. All officers involved have a duty to implement these procedures, which will be the subject of managerial and internal/external audit monitoring.

## 1.2 Policy Objectives

- 1.2.1 To maximise income, ensure prompt payment and minimise bad debt by
  - Issuing accounts accurately and timeously
  - Carefully managing credit
  - Delivering a sensitive and responsive service
  - Contacting customers as soon as they fall into arrears
  - Using effective follow up procedures and legal action where appropriate
  - Working in partnership with outside collection agencies
  - Being professional

## 1.3 Policy Statements

- 1.3.1 This documents provides statements on the following
  - Issuing accounts
  - Follow up procedure
  - Disputed accounts
  - Debtors “gone away”
  - Deceased debtors
  - Bankrupt/Sequestrated Debtors
  - Write Offs
  - Bad debt provision

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## 2 ISSUING INVOICES

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### 2.1 Introduction

- 2.1.1 The immediate and efficient issue of invoices (sometimes referred to as “sales invoices” or “debtor invoices”) and the prompt collection of sums due are essential to the operation of the Council.
- 2.1.2 Invoices are raised by the Council for supplies and services provided. e.g. Special Uplifts, Hire of Facilities, Rechargeable Repairs, Quarry Material Sales, etc.
- 2.1.3 All invoices must be processed via the Debtors System.
- 2.1.4 Invoices are generally keyed into the Debtors System by the service that raises the charges, although the Income and Recovery Section key some for Departments.

### 2.2 Process

- 2.2.1 Where possible, **payment in advance** of the provision of supplies and services is to be **actively encouraged at all times**, and particularly so where the person/firm are known bad payers or where the sums are considered to be uneconomical to pursue (see 2.2.3 below). In addition to cash and cheques, the Council can accept credit/debit card payments. As a reminder, at the moment payments are taken on line for Rent, Council Tax, Rates and outstanding invoices. There is also a facility for miscellaneous payments, which at the moment include Ferry tickets and black bags. This has proved very successful especially the ferry tickets, which is well used, and increasing all the time. The customer goes on line selects the product, i.e. Bressay ferry tickets and pay on line. An email is automatically produced and issued to Ferries who then send the tickets out. We are also using this for Bus tickets and Taxi Licenses. I would ask that you look at the system and give consideration to any products that could be added to it, if you go into the SIC web site and select payments and then Miscellaneous Income you will see how it works. All we need from you is a note of the product / service a GL code for the payment to be made into and whether it includes VAT. We would also need an email address for your office that would need to be checked daily, ICT are happy to set up new email addresses if required. There is also another facility called MOTO payments, which essentially gives anyone who might want to take a debit/credit card payment, to take it at their desk. For example if someone phones up to discuss an invoice raised by your office and then want to make payment, this can be taken there and then. I assumed that all staff who deal with the public and discuss invoices etc. would want to be set up for this. We have used it in Finance, for some time now and it adds a much more professional approach, than just trying to pass the caller onto someone else after they have agreed to make payment. I suspect it also brings in more money as although many callers say they will pay they then put down the phone and don't, but if staff says they can take the payment straight away they generally just make the payment. This system would also work for staff on receptions who may have the same discussions but face to face. Supplies and services should only be provided on credit on receipt of an official order in writing from the customer. The decision to extend credit to a customer must only be made by a Budget Responsible Officer, and the customer must be made aware in advance of the Council's payment terms (usually within 30 days of the invoice date, with any variance to be agreed with the Income and Recovery Manager). All

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orders should be acknowledged with confirmation of the Council's terms and conditions of supply.

- 2.2.2 Before providing a supply or service on credit initial checks must be made in the Debtors System to see if there are currently any outstanding debts for that customer, as part of assessing the customer's ability to pay. Where there are grounds for uncertainty, Income and Recovery (Nigel Wright, Charlotte House, ext. 4621) can assess customer history Where credit amounts are substantial Financial Accountancy (Derek Hughson, Montfield, ext. 4606) may be able to obtain a range of credit reference and status reports, with costs chargeable against the enquirer's budgets). If there is going to be an ongoing charge an email should be sent to Income and Recovery asking whether there is any outstanding debt to the Council.
- 2.2.3 The level of credit offered should be appropriate to the assessment of the customer's ability to pay and the nature of the supply and/or service requested. Where an assessment is favourable, for example the customer's account history shows payments are made timeously then credit can be offered.
- 2.2.4 Generally invoices should only be issued for sums that are considered **economical to pursue**. **Invoices** should **not** be raised for sums below £30 unless it is not possible to obtain payment in advance. There is an expectation that you look at the available payment options for advance payments and these efforts should be documented. Payment options are changing all the time, see 2.2.1 and the Income and Recovery manager can advise on these options. Staff should have due regard that sums below £150 are not considered economical to pursue via legal action. The raising of invoices (which entails the provision of credit) should be minimised as far as possible.
- 2.2.5 All debt, including small sums, must be collected, but done in an efficient and effective manner.
- 2.2.6 All invoices must be issued **promptly**, either in advance or within a short time of the service being provided, to ensure compliance with VAT Regulations, and to ensure that all details are properly recorded and actioned.
- 2.2.7 Departments are required to ensure that all invoices issued are for sums **properly due only**. There have been invoices raised in the past where there has been no legal right to raise the invoice. If there is any doubt over the legality of the invoice this should be discussed with your line manager, who may wish to discuss with Legal Services.

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**2.2.8 The following specific provisions apply to business accounts who request credit. Credit should not be automatic and the procedures in 2.2.2 and 2.2.3 should be followed.**

**2.2.8.1 Business Accounts**

2.2.8.1.1 Credit shall be strictly 30 days. The Income and Recovery Manager will set an appropriate credit limit of £500, £1,000, £2,500, and £5,000 with a maximum limit of £10,000 on current accounts. The Income and Recovery Manager will decide on an appropriate figure after considering the recent credit history of the account. Any new accounts will have a limit applied following a recommended figure by a Budget Responsible Officer in the Department requesting credit facilities.

2.2.8.1.2 If, at any time, there are overdue invoices on an account, which are still overdue after the business has been contacted by the Income and Recovery Section or no suitable payment arrangement has been agreed, credit facilities will be removed by the Income and Recovery Manager or the Revenues Manager in his absence. There may be occasions where this will not apply, due to queries on invoices, cash in transit or local community issues, this will all be part of the decision process.

2.2.8.1.3 Once credit has been withdrawn, it will not be reinstated until the account has been brought up to date. The Income and Recovery Manager may decide at this stage that a credit check is required. The cost of this would be met by the business concerned.

2.2.8.1.4 If a business goes over its credit limit the account will be checked. If they have overdue invoices 2.2.9.2.2 will apply. If there has been a sudden rise in business, the department raising the invoices will be contacted and a decision made taking their information into account. This information and the decision made will be recorded in the debtor account.

2.2.8.1.5 A report will be produced on a weekly basis that will highlight any business over their credit limit. It is acknowledged that some accounts will, on occasion, have a higher balance on their account for short periods and some for longer periods. But keeping the credit limit low will result in them being checked on a weekly basis and managers should take this into account when recommending a credit figure.

**2.2.8.2 Ferries:**

2.2.8.2.1 In respect of Ferries a minimum credit limit of £600 a year should be applied. This will be monitored by ferries and credit facilities removed if this minimum isn't reached.

**2.2.8.3 Scord Quarry:**

2.2.8.3.1 Credit shall be strictly 30 days with a maximum of £50,000, with breach of either time limit or amount leading to possible withdrawal of credit by the Income and Recovery Manager or the Revenues Manager in his absence, which will be in line with the procedures detailed in 2.2.9.2.4.

**2.2.8.4 Sullom Voe Harbour:**

2.2.8.4.1 Credit reference and status checks should be carried out annually by Financial Accountancy (Derek Hughson, Montfield, ext. 4606) on behalf of Port Operations on all shipping agents doing business on behalf of

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customer vessels using the Port of Sullom Voe (currently OBC Shipping Ltd., and Graypen UK Port Agency Services).

2.2.8.4.2 Invoices to shipping agents in respect of Sullom Voe traffic are issued on 7 day credit terms.

## 2.3 Invoice Details

2.3.1 All invoices are required to detail the following mandatory fields:-

- Title
- Forename
- Surname
- Address
- Contact Name
- Contact Telephone Number
- Credit Limit (for business accounts only)

2.3.2 Departments should insist on the minimum level of personal details before giving credit, employer, bank account details etc. These details should be entered on the “new master file entry form”(appendix 1). They can then be utilised to contact debtors regarding outstanding invoices

2.3.3 Full details of the service provided must be included in the invoice, and should include

- Service provided
- Date(s) service provided
- Any further details in support of the service provided

2.3.4 Incomplete details delay the payment of an invoice and add to the administrative overheads.

2.3.5 Name and phone number of the appropriate departmental contact must be included so that queries can be resolved.

2.3.6 It is important when inputting invoices to ensure a consistent and correct approach is followed for the VAT element. If there is any uncertainty about the correct treatment guidance should be sought from the Council’s designated VAT officer at Finance, presently Derek Hughson at Montfield (ext 4606).

**2.3.7 Departments are required to keep appropriate supporting records and documents in respect of each transaction. These are essential for court proceedings. These should be provided to Legal Services on request. Without appropriate records it may not be possible to recover the debt.**

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## 2.4 Credit Notes

- 2.4.1 An employee who is independent of the person raising the account and who is a nominated senior officer of the authority must authorise the issue of a credit note/invoice cancellation.
- 2.4.2 **Departments are required to keep appropriate supporting records and documents in respect of each credit note/invoice cancellation.**

## 2.5 System Security

- 2.5.1 As a matter of system security and as a requirement of audit, no member of staff should attempt to update or change data held within the Debtors System with information pertaining to a family member, close friend or other members of staff.
- 2.5.2 A request must be made to the relevant supervisor who will complete the required amendment to the Debtors System.
- 2.5.3 Non-compliance with this requirement will be treated as a serious breach of policy.

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## 3 FOLLOW UP PROCEDURE

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### 3.1 Introduction

- 3.1.1 All debtor accounts will be updated within one working day of the payment being processed in the Cash Receiving System.
- 3.1.2 **It should be noted that at this point that if a debt is written off, procedures as explained at 8.2.3 of this document, will be actioned. The Debtor account will be switched off making it impossible to raise invoices.**

### 3.2 Payment Policy

- 3.2.1 Debtors should be given reasonable time to make payment. The policy, as stated on the invoice, is that payment is due within 30 days of issue.
- 3.2.2 Where an invoice remains unpaid after the due date, debtors are given a **first reminder** allowing a further 14 days to make payment (appendix 2).
- 3.2.3 Where an invoice remains unpaid after the issue of the first reminder, the debtor will be issued with a **final reminder** (appendix 3). The Income and Recovery Section will also contact them. If no appropriate response to letters and contacts their credit facilities will be removed and the case passed to Legal. Departments will be advised, by email, when credit has been removed.

### 3.3 Instalments

- 3.3.1 Where the debtor is unable to settle in full by the due date, arrangement can be made between the debtor and the Income and Recovery Section to make payment by instalments.
- 3.3.2 A schedule will be agreed with the debtor. If they fail to adhere to the schedule they will be contacted either by telephone or with a Broken Instalment letter, but regular failure will result in action as in 3.2.3.
- 3.3.3 In all cases the repayment period will be for the shortest term possible.

### 3.4 Legal Action

- 3.4.1 The process for debtor accounts passed to Legal depends on the value of the debtor account and the cumulative value of all invoices outstanding for that particular debtor. The processes are explained in the following two sections.

### 3.5 Debtor Accounts Less Than £150

- 3.5.1 Debtor accounts less than £100: debtors will be contacted, where possible, before being referred for write off.
- 3.5.2 Account less than £150 and over £100: passed to Legal Services and they send a further letter.
- 3.5.3 If the debtor account remains outstanding after the Legal letter, they should not remain within the Debtors System and will be referred for write off.

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### 3.6 Debtor Accounts More Than £150

- 3.6.1 If the value of a debtor account (i.e. the cumulative total of all invoices outstanding for that particular debtor) are greater than £150, Legal Services will commence legal proceedings when appropriate.
- 3.6.2 If there is little likelihood of recovery after the legal process has been completed, immediate steps will be taken to refer the debtor account(s) for write off.

### 3.7 Refunds

- 3.7.1 Credit balances are identified weekly and, after being checked, are refunded or transferred to other debts owed to the Council by that Debtor.

### 3.8 Offsetting

- 3.8.1 If staff becomes aware that an overdue outstanding debtor is in the process of receiving money from the Council, steps can be commenced to offset the **money owed by them** against the **money owed to them**.
- 3.8.2 This process can only be executed by the Income and Recovery Section.
- 3.8.3 If this situation arises the Income and Recovery Section should be informed immediately as there are various checks that require to be completed before the process can begin.
- 3.8.4 This process cannot apply to Housing Benefit payments.
- 3.8.5 If this situation arises please contact the Income and Recovery Section immediately.

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## 4 DISPUTED INVOICES

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### 4.1 Introduction

- 4.1.1 Prompt query resolution is an essential part of having an effective debt collection system. The longer a debt remains unpaid the greater the risk that it will never be paid.
- 4.1.2 This statement should be viewed in the context that, as stated in 2.3.6, **departments are required to keep appropriate supporting records and documents in respect of each transaction.**

### 4.2 Process

- 4.2.1 The process for putting an invoice under query is explained in the Integra instructions and should be closely followed.
- 4.2.2 Invoices will be suspended for a maximum of 28 days.
- 4.2.3 It is acknowledged however that there may be a need to suspend invoices for longer than 28 days, but this should be minimised as far as possible. The onus is on the querying department to contact the Income and Recovery Section once the query is due to cease. Failure to do this may result in the Debtor receiving a reminder letter when you do not want this to be sent. Should the query require to be held for a further period of time, an email should be sent to the Income and Recovery section stating why and for how long.
- 4.2.4 The Income and Recovery Section will regularly review suspended invoices. **Remember – You should never release a query, you must complete the relevant form and forward to Income and Recovery.**
- 4.2.5 As stated in 2.3.6 and again in 4.1.2, and this applies to all correspondence with debtors, **Departments are required to keep appropriate supporting records and documents in respect of each transaction. These are essential for court proceedings. These should be provided to Legal Services on request. Without appropriate records it may not be possible to recover the debt.**

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## 5 DEBTORS – GONE AWAY

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### 5.1 Introduction

- 5.1.1 This statement deals with the undelivered documents returned by the Royal Mail to the Income and Recovery Section marked “**gone away**”, “**not known at this address**”, etc.

### 5.2 Process

- 5.2.1 When notification is received by the Income and Recovery Section from the Royal Mail this will be recorded in the Debtors System.
- 5.2.2 The Income and Recovery Section will attempt to obtain a forwarding address. If no address is found the debtor account will be referred for write off.
- 5.2.3 No invoices for under £150 should be raised without a forwarding address. The Income and Recovery section should be advised that the invoice has been raised along with any information, which may assist in them finding an address. It is essential that these invoices are raised as soon as possible so that information is still available.
- 5.2.4 If invoices are raised, for any amount, where no forwarding address is provided or found a credit note will be raised debiting the appropriate raising department’s ledger codes.**

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## 6 DECEASED DEBTORS

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### 6.1 Introduction

- 6.1.1 This section states the policy to be followed on the notification that a debtor is deceased.

### 6.2 Process

- 6.2.1 Any notification received that a debtor is deceased requires to be confirmed in writing by the person notifying the Council.
- 6.2.2 The Debtors System will be updated with the information received and an account forwarded to the Executor/Executrix of the will.
- 6.2.3 If the deceased person left an estate of nil value and there are no testamentary writings then you should obtain a letter from the deceased person's solicitor confirming this. The Account will be referred for write off
- 6.2.4 Where there is no will but there is an estate the situation alters slightly in that an executor will have to be appointed. If there is a will then there will be an executor appointed, that person is the executor nominate. If there is no will then an executor dative will be appointed and that will usually be the nearest relative. In the latter case a solicitor will usually be appointed to administer the estate and can confirm appointment of an executor dative by exhibiting the Confirmation.
- 6.2.5 A temporary stop will be entered onto the debtor account, preventing any further invoices being keyed onto the system. The Income and Recovery section can override this should any further invoices need to be keyed on.
- 6.2.6 No further reminder letters should be sent on this debtor account. Any further correspondence should be done with ad-hoc letters, or telephone contact.

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## **7 BANKRUPT/SEQUESTERED DEBTORS**

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### **7.1 Introduction**

- 7.1.1 This section deals with the process to be followed when notification is received informing the Council that a debtor has been declared bankrupt/sequestered.

### **7.2 Process**

- 7.2.1 All notification received that a debtor has been declared bankrupt/sequestered must be passed to the Income and Recovery Section.
- 7.2.2 The Income and Recovery Section will amend the debtor account once supporting evidence has been received, letter from the liquidator, etc.
- 7.2.3 A claim for the debt outstanding is prepared and submitted to the Liquidator/Accountant in Bankruptcy/Trustee by Legal. Only invoices raised before sequestration date are liable for inclusion in claim. All invoices raised after the date of the expiry of the period of sequestration/trust deed are liable for normal recovery.
- 7.2.4 The trustee will inform us what the dividend/payment will be and at this point the debtor account balance will be referred for write off.

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## **8 WRITE OFF**

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### **8.1 Introduction**

- 8.1.1 Write offs shall be in accordance with paragraph 4.5 of the Council's Financial Regulations, and shall be made against the Bad Debt Provision referred to in 9. below.
- 8.1.2 The Income and Recovery Manager has delegated authority to write off debtor accounts on behalf of the Head of Finance with balances under £1000.

### **8.2 Process**

- 8.2.1 The process in place is that all debtor accounts are periodically perused by the Income and Recovery Manager and a decision is made as to whether the debt should be written off.
- 8.2.2 Any debtor accounts write-offs over £1000 will be reported to the Full Council.
- 8.2.3 If a Debtor has a debtor account written off, their credit facilities will be withdrawn, and a permanent stop will be entered onto their account.
- 8.2.4 Even though the debt has been written off, if the Debtor's situation changes the Income and Recovery Section will still take action to recover the debt.

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## **9 BAD DEBT PROVISION**

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### **9.1 Introduction**

- 9.1.1 Departments should remember, as stated in 1.1.3, that it is their responsibility to recover as much of the income owed as possible, as timeously as possible.

### **9.2 Process**

- 9.2.1 At the end of the each financial year the Income and Recovery Section will prepare a statement on the Bad Debt Provision.
- 9.2.2 This involves analysing all outstanding debtor accounts and estimating the prospect of the recovery of that debt.
- 9.2.3 The result of this exercise is either a decrease or more likely an increase in the Bad Debt Provision.

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## 10 GLOSSARY

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### 10.1 Introduction

- 10.1.1 Below are definitions of some of the terms used in relation to Sundry Debtors Procedures, for clarification.
- 10.1.2 **Debtor:** a customer given credit (i.e. charged by invoice for supplies or services and given a period of time in which to pay).
- 10.1.3 **Debtor account:** the sum of all transactions (invoices and payments) made by an individual debtor.
- 10.1.4 **Invoice (sometimes referred to as a “Sales Invoice” or a “Debtor Invoice”:** the document raised and sent to a debtor to record their liability to pay for a particular transaction.