



CODE OF PRACTICE FOR INCOME MANAGEMENT

Somerset County Council

(May 2015)

CODE OF GOOD PRACTICE FOR INCOME COLLECTION

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Foreword

In these particularly difficult times maximising and effectively managing our income is vital to mitigate unwanted and difficult spending decisions. It also enables us to deploy our resources to maximum beneficial effect.

Collecting monies promptly and efficiently reduces workloads and allows income to be deployed to services promptly. Ineffective debt management commonly leads to debt more than 3 months old running at over 25% of the total outstanding. Good debt management in accord with clear processes and instructions can reduce the debt level to a single figure percentage.

Good income management under this Code of Practice will deliver improvements through the application of a tried and tested set of procedures for the sale of Somerset County Council's goods and services.

The code will help services maximise the cost-effectiveness of the Council's goods and services by:

- **Defining the collection function**
- **Maximising sales and cash flow**
- **Securing prompt payment within agreed terms**
- **Enhancing collection levels**
- **Enhancing procedures thus reducing the risk of bad debt**

This code reflects the instruction and guidance of the Finance Service Senior Management Team and accords with SCC's Financial Regulations and Internal Audit requirements.

Should you have any questions, comments or suggestions for improvement, please contact Martin Gerrish (Strategic Manager - Financial Governance), 01823-355303; mgerrish@somerset.gov.uk or Sharon Campbell (Strategic Manager, Finance Controls and Standards), 01823 355482 sacampbell@somerset.gov.uk.

1. Introduction

The following procedures will assist you in collecting monies due to the Council. It is important to remember that this is public money and the faster it is collected the faster it can be deployed to provide Public Services.

When reading this code it is important to bear in mind the following key principles:

- Wherever possible payment should be obtained either prior to, or at the time of provision of goods or services and without recourse to raising invoices.
- When an invoice does have to be raised the details need to be accurate and complete within the invoice and agreed with the customer.
- The invoice is raised in a timely manner.
- The service or goods provided fully meet all relevant professional, ethical and environmental standards.
- The cost of services has been fully identified; and
- The cost of services is fully recovered.
- Early and proactive follow up of debt will allow disputes to be identified early and reduce the risk of income not being collected

The code is set out in discrete sections dealing with the various stages of income collection.

Whilst it is anticipated that these procedures will be suitable for most services and debts there may be some officially approved service specific variations to these procedures. If so these will be listed in appendices once approval has been sought and granted by the appropriate Finance Service Strategic Manager.

This code provides the framework within which finance system specific guidance, (usually in the form of quick reference guides accessed via the intranet) operates. It does not replace such guides.

2. Roles and responsibilities

It is important that the generation and collection of income is a seamless process with clearly defined roles and responsibilities for all those involved. These roles and responsibilities are defined as follows:

Members: on the advice of the Director of Finance and Performance, set policy and oversee performance (reported quarterly via the Audit Committee).

Director of Finance and Performance: Ensures sound finance standards are set and provides good and effective central systems and procedures to achieve the council aims. With the Finance Service Management team, agrees targets, monitors service performance and provide periodic reports to Members, agrees roles and responsibilities of Corporate Income Group (CIG), approves the write off of large debts and arbitrates in cases of disputed internal debts.

Finance Senior Management Team: Act as senior representatives on the Corporate Income Group (CIG). Provide professional advice and guidance to services. Agree service targets and review service performance.

Corporate Income Group (CIG): Acting under the direction of the Director of Finance and Performance it sets standards for services via Code of Practice (CoP), agrees targets with Service Managers and their finance staff and services, reviews and reports performance against targets, agrees procedures and system developments, oversees work of the User Group.

User Group: Consisting of key practitioners. Reviews and enhances procedures and systems and advises CIG accordingly, shares and encourages good practices, provides training and support to debt recovery staff.

Business Support staff / Debtors Clerks and the Finance Service: provide focal point for service managers, provide members for User Group, raise invoices, collect and follow up debt, liaise with service managers ensuring correct procedures are followed, review Sales office performance report to CIG.

3. Charging for Goods and services

Charges are usually made in response to a request for goods/services. When dealing with companies and public bodies it is advisable to obtain an official order, or equivalent signed agreement, before supplying the goods or services.

As a general principle, a local authority cannot provide services to the public unless these are part of its functions as a local authority. In these circumstances, it cannot charge unless there is a specific basis to do so (for example, libraries have to be specifically authorised to charge for videos and cannot charge for lending books). If you are proposing to charge for new or additional services and are unsure, get advice from your Finance Team first.

In all cases, written clarification must be made to the customer and written acceptance, received prior to commencing work or providing any goods/services (this can be by e-mail). *In all cases, supply of goods/services must recover, as a minimum, the full costs to the Council unless statute states differently.*

In some situations the service that you provide will be specific to the customer needs. However in other cases the service specification is part of the negotiation you have with your customer and will affect the price you set. For example, if a member of staff was being asked by another authority for advice it would be important to be clear what the advice was to be used for and whether, for example, the member of staff needed Indemnity Insurance, which would represent an additional cost. If you are in doubt advice can be provided by the Service Manager for Insurance (currently Hannah Franklin).

If a project is a one-off, it may be difficult to decide how long the project will take. In this case it is essential to agree to review the project at a given date.

If goods/services are to be supplied on a fixed price basis, the customer must be told in writing what the cost will be as soon as that information is available. If you do not know the charging levels for goods/services, you should consult your Strategic Finance Manager. Charging rates should be reviewed at least every twelve months and finance staff should be notified of all changes to charging rates. See also Section 5 (Fees and Charges Register) below

Situations may arise in which it will not be possible to estimate for certain additional costs when completing a quotation. If so, this must be made clear in the quotation and the customer's written acceptance obtained.

Before undertaking any additional works or supplying any supplementary goods/services, it is essential to obtain written authority from the customer, including acceptance of the additional costs involved.

If the service relates to a contribution, a formal written agreement must be obtained from the contributor (e-mail is acceptable). If the contribution is payable when the project has been completed, the invoice should be raised immediately following completion.

If the charge is to include Value Added Tax, this must be made clear to the customer. The customer's written acceptance of this charge must be obtained.

Advice on whether to charge VAT can be obtained from your Finance Manager.

Establish whether interim invoices are required, rather than one invoice at the end of the contract and ensure that written confirmation of the method of invoicing is received prior to provision of any goods/services. Where supply takes place over a prolonged period, stage payments are the preferred method; in order to maximise the Council's cash flow.

In a number of cases, customers dispute our charges, claiming that the invoice does not correspond with the requested service or the agreed charging method. In the absence of any written evidence of acceptance, such cases are unlikely to be collected and cannot be pursued through the Courts.

Ensure that the customer is kept informed of progress on all contracts.

4. Pricing of the Service

There are some services that the Council cannot legally charge for, and some services the Council legally must charge for. In some circumstances there are limits on charges or limits on increases from year to year.

When pricing your service you may wish to liaise with and seek advice from your finance service manager.

The price you charge will usually cover the *full* cost of the service. You may be asked to explain this charge and therefore you need to ensure that supporting documentation exists. The typical stages in costing a piece of work are as follows:

A) Calculate **Direct Staff** costs:

- Determine the **Total Time** spent on the project, including time spent on preparation, travelling and reporting on the project.
- Calculate the **Productive Staff Rate**. Firstly calculate the total cost of staff by taking salary plus Employers National Insurance, Pension Contributions and any other allowances paid. Divide this by productive hours of staff to give the rate. Productive hours are the total annual contracted hours less holiday entitlement, bank holidays, sick leave, training and administrative duties.
- Multiplying the **Total Time** spent on the project by the **Productive Staff Rate** to give you the direct staff cost.

B) Other **Direct Costs**:

- These are other costs that have arisen as a **direct** result of working on the project e.g. travels costs, material costs.

C) **Indirect Costs**:

- These are the overhead costs of your department. For example, if indirect costs account for 20% of your budget, that implies that for every 80p you spend on direct costs, you spend 20p (an extra 25%) on indirect costs. Therefore, the cost of any service is £1,250 for a service with £1,000 direct costs, plus any other elements. Indirect costs should also include a share of any relevant support service apportionments and capital charges even where these are charged “below the line”.
- An **Administration Fee** may also be added, commonly to cover the cost of raising the invoice or collating the relevant paper work. The administration fee should be charged as a flat rate and as above you may be asked to explain the charge and therefore you need to ensure that supporting documentation exists.

If a charge is subject to a number of variable factors, (e.g. number of hours, number of square metres), the customer must be made aware in writing that actual costs will be charged.

Where appropriate, a written estimate must be provided, including a statement to the effect that the customer must acknowledge, in writing, acceptance of the charge.

Agreeing a price before you start a piece of work is appropriate if the service you will provide and the way you will provide it are clear. If you cannot accurately work out the costs in advance, it may be better to charge a set amount for each day's work you provide.

If the charge is to subject to VAT this needs to be made clear to the customer.

5. Fees and Charges Register

When a price has been developed for the provision of a service it needs to be recorded in the corporate Fees and Charges Register (FCR). This is a key document of SCC and is used as a tool to promote corporate ownership and *effective charging and collection of income*.

The register will be developed and maintained by a lead officer charged with coordinating the fees and charges register and ensuring sound collection practices are used for each charge.

Each line of the register is allocated an owner within the service and they, in conjunction with the Strategic Finance Manager will be responsible for reviewing the information annually and informing the lead officer accordingly.

The lead officer will develop an annual report to highlight the current position and inform key decisions regarding changes in fees and charges.

When developing and subsequently reviewing the FCR the lead officer may wish to seek advice from either the Finance Officer or Strategic Finance manager allocated to their service.

6. Extending credit and checking credit worthiness

Goods/services should only be supplied once you are satisfied of the customer's ability to pay. Wherever possible, an attempt should always be made to obtain payment in advance of or at the time of supply.

Before extending credit, services should ensure that the customer does not already have outstanding debts to the County Council or has had debts written off.

In the case of new customers the credit risk associated with the customer should be assessed prior to the agreement of orders in excess of £1,000.

If the anticipated contract value is between £1,000 and £5,000 it is advisable to undertake a credit management check for limited companies

Note also that it is possible to download the last submitted accounts of limited companies for finance staff to make an assessment - this is often cheaper than undertaking a credit worthiness check.

If the anticipated contract value is over £5,000 assessment of the customer's credit status *must* be made in advance.

If the credit check is being undertaken on a company you must obtain the full trading name of the company, their full address, and if it is a Limited Company their Company Registration Number.

Finance managers can carry out a company search to help assess credit worthiness. You will be asked for the following information:

- Company Name;
- Company Registration number;
- Company's registered address; and
- Code to charge search cost.

If the credit check is being undertaken on an individual you must obtain their permission, their full name and address and their date of birth. Such permission is often built into an agreement at the point customers are applying for specific services, a specific case in point being County Transport bus tickets.

When dealing with individual customers and clients it may not be appropriate to undertake formal credit worthiness check but some other form of financial assessment should be made.

Invoices should never be raised for amounts below £25.00. On receipt of a request for goods and services valued below £25.00 you should ask for payment in advance.

If credit is to be extended, ensure in advance that the customer is made aware of the County Council's payment terms (see below).

7. Obtaining customer agreement

When dealing with other public bodies and commercial enterprises it is wise to supply goods or services only after receipt of an official order or equivalent signed agreement; unless the service is provided as a default procedure with a nationally agreed rate.

A written agreement should cover all of the following:

- Service Specification;
- Price of the Service; and
- Terms of Payment

In the event of a dispute over the service written evidence of the terms of the agreement are needed, in order to pursue recovery of a debt through the courts.

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

When dealing with individual customers and clients it is wise to obtain a written agreement, such as a "Certificate of Undertaking", signed by the customer or their representative - this will provide supporting evidence should legal recovery action need to be undertaken.

8. Payment Terms

Remember the best method of obtaining payment is at the time of supply or with the order. This maximises cash flow and avoids the time and cost of raising invoices and administering debts.

When a decision has been made to extend credit to a customer it is essential to obtain payment promptly in order to maintain the cash flow to the authority. Staff time and direct costs will cause cash to leave the Council and this needs to be offset as soon as possible with cash back into the Council.

Somerset County Council has a long and sustained record of paying the vast majority of its suppliers promptly; it is therefore only reasonable to expect the same when we supply goods and services, especially as prompt payment for goods and services is enshrined within late payment legislation.

The Council's current payment terms are immediately on receipt of invoice and this is stated on the face of each invoice. This should be made clear to the customer prior to extending credit and supplying the goods or services.

When drawing up agreements or contracts with customers a clause covering penalty interest for overdue payment should be included in the contract. If payment is late, we have a statutory right in relation to the provision of goods or services to claim interest under Late Payment Legislation on debts when:

- The invoice is more than 30 days old when dealing with public bodies
- The invoice is more than 60 days old when dealing with businesses

Interest is currently set at a standard fee according to the size of the debt plus interest at 8% above the bank of England base rate for the length of time that the debt is overdue.

We can also claim compensation for reasonable costs incurred during the recovery process.

Although at present we rarely claim interest under the Late Payment legislation we are perfectly entitled to do so and it is useful to remind less than reasonable debtors that we will invoke the act if payment is not forthcoming within a specified timeframe.

9. Raising Invoices

If payment can be secured before goods or services are supplied, then this should be done.

Invoices should not be raised for amounts below £25. On receipt of a request for goods/services valued below £25 you should ask for cash/cheque/credit or debit card payment in advance or on delivery.

It is important to note that services are credited with the income at the point that the invoice is raised. Whilst this enables them to use the income accordingly it can lead services to forget that the money has yet to be collected. If they are not actively involved in the subsequent collection process there is a danger that a debt may eventually have to be written off as uncollectable. When this happens the income is removed from the service with an adverse effect upon their budget. It is therefore in all our interests to ensure that we invoice correctly.

And we make collection of income easy for ourselves and the customer if we ensure:

- The invoice is correctly and fully addressed.
- The invoice quotes the customer's purchase order number if supplied or an appropriate other reference (such as a contract reference) that helps the customer identify the charge.
- The customer is expecting the invoice and knows that payment is now due.
- The invoice shows the full details of the charge, details of goods or services provided and VAT (where appropriate).

All invoices should be raised within 1 week of the provision of service and not later than 30 days after supply. VAT legislation requires a VAT invoice to be provided within that time. Failure to comply can result in HMRC imposing penalties.

It is important to note that it is inappropriate to raise invoices for speculative or un-agreed charges or to raise invoices far in advance of expected payment dates.

If you do not have on-line access to the financial system, or you are not interfacing with the system, a standard invoice request form needs to be completed and sent to the officer assigned to raising invoices for the service.

Normally invoices will be raised on-line on the financial system. They will be automatically printed and dispatched the following day by second-class post, or you can arrange for them to be returned to you, to enclose with a letter to the customer.

10. Raising Credit notes

It is important to differentiate between the writing-off and cancellation of debts.

If an invoice has been raised in error, or there is a need to reduce the invoice value if, for example, part of the goods or service has not been provided then a credit note must be used and issued to the customer.

If a debt cannot be collected e.g. because of insolvency, the write-off process must be followed (see later). **Under no circumstances should a credit note be raised to cancel a *valid* outstanding debt.**

If an invoice has been raised incorrectly or in error, it must be cancelled as soon as possible with a credit note. If the mistake or error affects only a part of the invoice, payment should be obtained for this and a credit note issued for the remainder.

The credit note should clearly state why it is being raised and credit note requests must be authorised by an approved officer as per the list of approvers

In line with Audit recommendations all departments must be able to provide adequate documentation or information to support the credit note. This should include any correspondence to and from the debtor relating to reduction or cancellation in the charge. If the credit note has simply been raised to cancel an error in the raising of the invoice, the person who made the error should attach an explanation to support the credit note request. Supporting documentation should be added to SAP; eg copies of any e-mail correspondence and/or scanned paper authorisation.

11. Managing debts

All service and finance staff must recognise the importance of recovering outstanding debts as promptly and quickly as possible and managers must ensure that appropriate resources and time are devoted to this activity.

As a debt approaches the three month stage it becomes more difficult to collect and it is essential to identify debts in their early stages and devote time to following them up. The timetable in Appendix 1 is designed to minimise debts that pass this mark.

It is also important that regular customers know from experience that we will always follow up outstanding invoices quickly. *Customers should never believe that they can avoid paying.*

Appendix 1 shows the standard debt management timetable that must be followed for all types of external debt unless formal approval has been sought and given by the Strategic Manager - Financial Governance

By following the timetable and procedures, collection times will be improved and staff time and effort will be reduced. *Inserting additional steps in the process, or procrastinating over action only serves to lengthen the process and delay payment.*

If payment is still outstanding after 21 to 23 days a reminder letter is sent to the customer requesting payment within 7 days.

If the debt is over £5,000 in value and remains unpaid after 28-35 days the relevant debtor's clerk must telephone the customer to ascertain a payment date. If a date is not forthcoming, or the invoice is disputed or there is some other delay the relevant budget holder should be immediately informed and a note placed on SAP.

All debts that remain outstanding after 35-42 days should be passed to the relevant budget holder to agree a plan of action to recover the debt over the next 14 days.

If no meaningful recovery plan has been forthcoming at days 49-56 the debt *must* be referred to the legal debt recovery officer. Where appropriate an initial 'letter before action' is sent to the debtor. Additional action will be agreed between the recovery officer and budget holder / service if the LBA fails.

If a customer queries or disputes an invoice, it must be referred to the invoice originator straight away. If only part of the invoice is in dispute, payment should be obtained for the undisputed part whilst negotiations continue. In addition further recovery action should be suspended and the system annotated accordingly.

When an individual claims to have difficulty in being able to repay their debts they should be treated with sensitivity and given time to discuss their situation in confidence.

It may be necessary to refer the customer to an independent advice agency e.g. Citizens Advice. A statement from an independent advice agency can be taken into

account when action to recover the outstanding amount is considered, as this will show the overall level of debt and not just the amount owed to us.

A repayment plan will need to be agreed with them. Advice obtained from independent advice agencies should be taken into account when doing this. Instalments should be considered as a way of agreeing realistic repayments, without the need for more serious recovery action. See the section below for guidance on payment by instalments.

If agreement cannot be reached the debt will need to be referred to the legal debt recovery officer.

It is important to ensure that details of all correspondence with the customer, both written and verbal are recorded for future reference. These will be valuable if court proceedings are necessary. Similarly all actions and outcomes should be summaries on the system. Where appropriate attachments (copies of correspondence and emails for example) should also be recorded and appended to SAP

12. Performance monitoring

Debt Management is important to the Council, therefore members, senior finance and service managers must be kept aware of the size and nature of debt levels for which they are responsible, on a regular basis. Debts written off represent a real cost and senior managers need to be part of the debt management process before this stage is reached.

Debtor's clerks and finance staff have the ability to produce reports on a regular basis to help them manage their workloads and prioritise their actions.

In addition monthly performance reports are produced for each service that shows the total value of debt outstanding by age and the value and age of debts within their service. These reports are used to produce summary information for Members on a monthly and quarterly basis.

Performance targets are set and monitored for outstanding debts at the strategic and service level to ensure problem areas are identified and to provide a means of measuring improvement.

Although there are a variety of ways of monitoring and measuring performance, at the moment SCC use two key indicators of the "health" of debt:

- The total value of external debt outstanding excluding specific types of debt (debts to accrue and insurance and third party claims).
- The age of debt within particular age bands, with particular regard to debt more than 90 days old.

In addition the amount written off as uncollectable is recorded each year and the number and value of debts referred to the legal debt recovery officer is recorded.

13. Payment by Instalments

It is SCC policy is to obtain the payment in full immediately, but in certain circumstances a customer can be allowed to pay by instalments. (Transporting Somerset has separate arrangements with their customers to pay by Direct Debit instalments for certain services.) Payment by instalments is only acceptable either because the customer is unable to settle the debt in full immediately or instalment plans are the agreed norm within specific services - a case in point being the (annual) County (transport) ticket for students.

It may be necessary to refer the customer to an independent advice agency e.g. The Money Advice Service or Citizens Advice. A statement from an independent advice agency can be taken into account when action to recover the outstanding amount is considered, as this will show the overall level of debt and not just the amount owed to us.

Consideration will need to be given to the size of the instalment and the repayment period and a statement from an advice service can be of great help.

As a general rule the debt should be recovered over a period of no more than six months. In exceptional circumstances, and only if approval is obtained from the designated senior manager, more time can be offered e.g. 12 – 18 months.

The instalment offer needs to be for a realistic amount. Do not accept an initial offer if it appears inappropriate, but seek further advice from the designated senior manager. He/she should review proposals for the amount of the instalment, prior to agreement, particularly if the proposal falls outside the recommended guidelines. The legal debt recovery officer can also be contacted for advice.

Proposed instalment plans must not be agreed with the customer until approval has been obtained from either the relevant Finance Service Manager or the Finance Strategic Manager.

Sometimes a proposal may appear to be unrealistic. Reasons for this might be the smallness and frequency of the repayments, the age of the customer and the length of the plan. In such cases the Finance Service Manager may consider accepting a lesser sum in settlement if paid within a much shorter time-frame.

Overpayments of salary debts should be recovered over the same period of time in which the overpayment occurred if the person is still an employee. In exceptional circumstances the repayment can be considered over a longer period, but approval must be obtained from the designated senior manager. If the member of staff is about to leave the salary overpayment should be recovered in full prior to departure or from the final salary payment.

Direct Debit is always the preferred method of payment for instalment plans. If a debtor is unable to pay or will not agree to repayment by Direct Debit then other forms of payment can be considered.

Instalment payments must be monitored closely and prompt action taken if a payment is missed.

If a direct debit instalment is not collected (because of a lack of funds or cancellation of the DD) a system reminder letter will be sent informing the customer that failure to maintain payments in accordance with the instalment plan will result in the plan being cancelled and the full balance becoming due immediately.

14. Disputed invoices

A disputed invoice is one that the customer has queried, or refuses to pay all or part of for a given reason.

On occasions when a customer queries an invoice, it is vital to ensure that you have a method in place to acknowledge, investigate and reply to that query quickly, so that delay in the payment of the outstanding amount is avoided. Whatever the reason for the query, the onus is firmly upon SCC to resolve the problem fast; otherwise the customer will feel perfectly justified in withholding payment of all or part of the relevant amount until we respond to them.

If a customer queries or disputes an invoice, it must be referred to the invoice originator within 24 hours and the system noted accordingly.

If only part of the invoice is in dispute, payment should be obtained for the undisputed part whilst negotiations continue. In addition further recovery action should be suspended and the system annotated accordingly. On the assumption that the query or complaint does not relate to the entire balance due, you should remind your customer in writing (letter or email) that there is still a balance owing which is not in any way connected with the queries raised. This should be personally addressed to the person raising the query and should remind your customer of the balance due. The effect of this correspondence is twofold - it gives the customer a sense of receiving an additional prompt efficient service and it gives little or no leeway for delay or non-payment of balances that are properly due.

The following is a suggested timeframe for action on disputes

Type of dispute	Resolution timeframe (working days)
Copy invoice or credit note required	1 day
Invoice raised in error and requires cancellation Incorrect detail	3 days
Incorrect invoice value	Cancellation of incorrect invoice and reissue of new invoice 3 days
Inadequate or incomplete service provided	7 days
Contractual problems	21 days

Queries not resolved within agreed timescales must be reported to appropriate Strategic Finance Manager for action. The SFM, in conjunction with the relevant service manager should consider whether

- An agreed amount of additional time is given to resolve the dispute.
- Whether legal action should commence.
- Whether a credit note should be raised.
- Whether write off action should be undertaken.

15. Referring for legal recovery action

Once the normal recovery procedures have failed, the debt should be referred to the legal debt recovery officer.

The sooner a case is referred the more chance there is of recovering the monies owed - generally speaking there is no benefit in undertaking long and drawn out dialogue with the debtor prior to referral .

Prior to referral, Accounts Payable should be checked to determine whether they are also owed money by the County Council to enable one amount to be offset against the other. If this action is not possible the debt should be referred to the legal debt recovery officer for further recovery action.

Debts under £50 can be referred to the legal debt recovery officer for a 'Letter before Action", which often proves effective. However, because of the cost formal recovery action through the courts will not normally be taken for amounts under £50. In such cases the debt will be referred back to the service for write off.

When referring the debt please include with the following information:

- Customer Number
- Customer Name
- Invoice(s) Number(s)
- Amount(s) Outstanding(s) and
- Details of all correspondence to date and any other specific details i.e. national insurance number / change of address etc

Within three days of receipt of the debt, a 'letter before action' will be sent to the customer and if after 21 days there has not been a response, proceedings will be commenced as appropriate. Note that referring a large number of debts in bulk at one time will adversely affect this timetable so it is best to forward items "little and often".

Once a debt has been transferred to the legal debt recovery officer all queries from customers concerning the debt should be referred to them. During this time agreements should not be reached with customers by service departments.

Any requests for further information by the recovery officer must be answered by the service within 7 working days, delaying being likely to prejudice further legal action including court proceedings.

Should the legal debt recovery officer consider a debt to be irrecoverable the service will be advised accordingly. In such cases the debt *must* be written off unless the Strategic Finance Manager deems other avenues of recovery can be utilised.

16. Insolvency

Be aware of your customers' financial position. Always consider requesting payment in advance and/or obtaining a credit check before extending credit.

If you become aware that a company or individual is entering receivership or is to about to become insolvent, notify the service and Accounts Receivable team in SW1 immediately and provide any additional information that you have available (e.g. name of insolvency practitioner, or liquidator). This is to ensure that:

- Accounts Payable is checked to determine whether the debtor is due to receive payment by SCC. If so it may be possible to offset the money they owe against the money we are due to pay them.
- The supplier is placed on hold whilst trading with the company or individual is reviewed;
- The liability of the Council is known;
- Our debts are recorded by the appointed Administrator or Insolvency Practitioner via a Proof of Debt form.
- an attempt is made to recover all monies and progress chase the case to secure any dividend due;
- VAT is reclaimed according to HMRC rules.

Irrecoverable sums will need to be written off at the earliest opportunity. Even if there is a prospect of some sort of dividend (usually at a rate of a few pence in the pound) being paid in the future the debt should still be written off. The AR team will continue to monitor the case and ensure any such dividend is credited to the service when payment is received.

17. Un-collectable debt and write off procedures

Debts should be written off either because it is uneconomic to pursue the debt further or where there is no likelihood of payment.

Service managers and the SWOne AR team may write off debt to the value of £5 on any one invoice if it is uneconomic to continue recovery action or for housekeeping purposes e.g. where a debtor has inadvertently underpaid by a small amount.

All other write-offs must be authorised as follows

£1,000 and Under (inclusive of VAT)	Approval of Strategic Finance Manager
Over £1,000 (inclusive of VAT)	Approval of Strategic Finance Manager using delegated powers from the Section 151 Officer (the Finance and Performance Director)

All requests for write-off must be supported with full details as to the reason for write-off. A record of debts written-off needs to be maintained.

In no circumstances should a credit note be raised to write off the debt.

For debts over £1000 a debt write-off over £1,000 form must be completed by the service and then authorised by the relevant Strategic Finance Manager in consultation with the section 151 Officer as necessary.

The form is then returned, approved or otherwise to enable you to maintain a record of write-offs.

All write-offs should be processed within 14 days of the decision being taken.

The VAT element of the bad debt can be reclaimed from HMRC 6 months after the date that the invoice was due (and up to 4 years and 6 months after). The person responsible for processing write-offs for your service needs to be informed to ensure that this is done.

18. Receiving payments

It is important that monies received should be allocated and accounted for as promptly as possible. Failure to do so can result in complaints from the public, payments being made twice and cause an administrative cost and loss of goodwill to the Council.

Should a customer offer to pay by cheque advise them that the cheque must be made payable to Somerset County Council and sent to the Cashiers section in County Hall.

Often a customer may call at a local office and offer payment. If so all money should be recorded in a cashbook at the point of receipt, most likely to be the reception. If a receipt has been issued (using a SCC receipt book) the receipt number should be recorded in the cashbook.

Such payments must be banked intact or passed to the Cashiers Section in County Hall without delay. If you are in an area office, you should pay them into your local branch of NatWest Bank using a bank paying-in book. Any money received must be banked as soon as possible. Any cash or cheques not banked must be held securely.

It is essential that the Cashier has sufficient information to allocate these amounts and therefore should be provided with a coded remittance advice, BACS remittance or similar without delay

If payment is received in respect of an invoice, *it is essential to record the invoice number clearly in the bank paying-in book or inward remittance book* and not just your financial code. If just the financial code is provided the debt will remain outstanding. Customers may then receive reminder letters for invoices which they have paid.

If you are based in County Hall you need to pass the payments to the Cashier's office together with a completed bank paying in slip. The paying in slip requires that all cash be broken down and cash itself needs to be counted and be separately bagged.

.The Council offers the following payment methods to customers:

- Over the phone by using a Debit/Credit card through Somerset Direct
- Via the Internet using Debit/Credit card
- Cheques or Postal Orders made payable to 'Somerset County Council'
- At any branch of Nat West Bank
- At the customers bank
- Through Giro bank
- At the Cashiers Office, Finance, County Hall
- At any Post Office (although some no longer accept cheques)
- By BACS
- At Local Hubs
- By Direct Debit

Appendix 1: Standard debt management timetable

No of Days (since issue of invoice)	Action
1	Request for invoice to be raised received. It should be examined critically for accuracy and completeness prior to raising the invoice and queried as appropriate. Invoice raised (our terms state payment is due immediately)
21-23	Reminder issued allowing 7 days for payment. (Additional 7 days to allow for any payment received to be banked and appear on the system).
28-35 days	For all debts with a value of £5k+ the debtors clerk should contact the customer to ascertain a payment date. If a date is not forthcoming, or the invoice is disputed or there is some other delay the relevant service manager should be immediately informed. <i>Place a note on the system of the actions and outcomes.</i>
35-42	All debts still outstanding should be passed to the relevant Budget Holder to agree a plan of action to recover the debt over the next 14 days. If no effective plan is forthcoming the debt should be referred to the legal debt recovery officer for further action. <i>Place a note on the system of the actions and outcomes.</i>
49-56	Debt referred to the legal debt recovery officer. Where appropriate an initial 'letter before action' is sent to the debtor. Additional action will be agreed between legal team and budget holder / service if the LBA fails

Details of all interaction with the customer and service should be recorded on the system for future reference.

Appendix 2: Telephone calls to customers

Remember - phoning to remind that payment is outstanding is easily the most effective collection method.

Telephone calls, when used with skill, cannot be ignored and are a persuasive means of chasing overdue amounts. The person telephoning should have replies ready for the usual excuses for non-payment.

Always chase early. A polite call or email can often pre-empt a payment problem. (Whilst it's often used as an excuse, some cheques actually do get lost in the post). Being proactive will help build relationships with your customers' accounts department.

Phone major accounts in advance of due dates to ensure payments are in process, in time to solve problems before your deadline. Phone all other accounts, working down the list by size of debt, according to time available. DEAL WITH ALL LARGE DEBTS BEFORE TELEPHONING SMALL DEBTS.

When contacting your debtors by telephone, it is important to observe the following:

Be systematic – incorporate phone calls into your collection strategy. A good strategy will timetable appropriate dates for issuing invoices, making phone calls and issuing reminders.

Be prepared – check that the information relating to the outstanding debt is correct, and that the information is readily available when making the call, i.e. the account number, the invoice date and the balance due. Be courteous – remember that every contact your company makes with your customer can add to your existing relationship. A professional but friendly approach can earn your debtor's respect and cement loyalty.

Checklist:

- Ensure that you have the right person with whom to deal.
- Do not be too informal, as this might imply a lack of professionalism.
- Do not be aggressive or threatening, a courteous, helpful and dispassionate manner is more effective.
- Consider making the call at the beginning of the working day.
- Ensure that the customer agrees the amount and timing of the payment. Be prepared to discuss payment options and if the customer is ready to pay by credit or debit card pass them through to Somerset Direct.
- If the customer needs to discuss payment by instalments or disputes the invoice either ask them to email confirming the situation or record sufficient detail so that you can discuss the case with the relevant service manager.
- Agree and confirm the action in writing with the customer and place an appropriate note on the system.

You *may* find this telephone collection sheet useful as it sets out and prioritises the key information, which you should have to hand when contacting a debtor by telephone, and provides space to log responses.

CUSTOMER REVIEW FORM			
Date			
Name of Reviewer			
Service Contact and Instructions			
Customer Name			
Customer Account Number			
	Date	Invoice Number	
Outstanding Invoice Details			
Total Amount Outstanding			
Number of Debts Outstanding			
Oldest Debt Outstanding			
Customer Average Time To Pay			
Details of any Disputed Invoices			
Customer Contact and Telephone Number			
Details of Telephone Calls	Date	Time	Response
1.			
2.			
3.			
4.			
Notes/Action Taken To Date			
B/F Date			