

CODE OF PRACTICE FOR INCOME MANAGEMENT

Somerset County Council

(November 2017 - Issued)

CODE OF GOOD PRACTICE FOR INCOME COLLECTION

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STATUS OF THE CODE

The Director of the Finance and Performance issues guidance to underpin Financial Regulations which Members, Officers and others acting on behalf of the authority are required to follow.

The Income Code of Practice is guidance issued under Financial Regulations, and is therefore mandatory in the collection of monies owed to Somerset County Council. Contravention of the Code is therefore a serious matter and could lead to disciplinary proceedings.

The Senior Leadership Team is responsible for ensuring that all Officers in their service areas are aware of their responsibilities under Financial Regulations and other internal regulatory documents, and that they comply with them.

Only where prior agreed exceptions to the Code are explicitly noted below can these requirements be waived.

Approximately £100 million of income is raised on the Accounts Receivable system each year. Collection of this money owed to the County Council is an essential part of the overall financial resources available to provide services. Prompt action in accordance with this Code will maximise the income collected, reduce the administrative time and cost of carry, and ensure that debts do not have to be written off.

The correct documentation (forms, templates and letters) for debt recovery purposes must be used at all times. It is not acceptable, unless specifically stated within the Code, for any service to use alternative documentation as this reduces the efficiency of legal debt recovery. Documents can be found on the SAPNAV site, via the Finance website or through the Accounts Receivable Team.

Section 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 remember and always comply with the following key principles:

- Wherever possible payment must be obtained either prior to, or at the time of provision of goods or services and without recourse to raising invoices.
- An accurate record of the charge that will be applied/record of contract must be kept and maintained.
- 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.
- Debts are managed in strict accordance with the timetable as set out in Appendix 1 to this Code, including the prompt referral to Legal Services for further action.
- Debts are followed up quickly and proactively to ensure that disputes are identified early and the risk of income not being collected is reduced.
- At all stages of the debt recovery process, adequate notes are kept on SAP as to the progress and actions undertaken to recover the money.

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

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

- Defining roles in the collection function
- Maximising sales income and improving cash flow
- Securing prompt payment within agreed terms
- Enhancing collection levels and thus reducing the risk of bad debts
- Ensuring that the County Council has the necessary information to win legal cases to recover money owed should this prove necessary.

This code is **mandatory**. It is anticipated that these procedures will be suitable for most services and debts, but there may be some officially approved service specific variations to these procedures. These are detailed in Appendix 8. If you do not have an officially approved service specific variation, then your service must adhere to all aspects of this Code.

Should you have any questions, comments or suggestions for improvement, please contact Martin Gerrish (Strategic Manager - Financial Governance), 01823-355303; mgerrish@somerset.gov.uk, the Legal Debt Recovery Officer, an Exchequer Team Leader or Steve Rose (Exchequer Manager), 01823 357609

Section 2. Roles and responsibilities

Officers who have the SAP role to **raise invoices** must have undertaken acceptable training from either the Accounts Receivable Team or an Accounts Receivable user delegated from the Team. Invoice raisers must ensure that a number of checks are performed on the invoice before it is raised. This may be something that the invoice raiser does themselves or it may be done by another officer if the invoice raiser is simply entering payment request details onto SAP. Such checks are to ensure that the debt is valid, and that there is suitable back-up information available in the event of a legal dispute.

For reporting purposes, SAP assigns debts to Sales Offices. It is the responsibility of the **Budget Holder(s)** who are expecting to receive the income into their budget to ensure:-

- i) There is at least one **Debt Chaser** nominated for each of their Sales Offices, (depending on the nature of the income that is being collected);
- ii) That the Debt Chaser is in an appropriate position within the service or Business Support to chase debt, or within Finance, or assists the Accounts Receivable Team in chasing debts.
- iii) That the Debt Chaser has had appropriate training from the Accounts Receivable Team, and that they are aware of the requirements of the Code of Practice;
- iv) That the Debt Chaser has the appropriate knowledge of the service and the debts to be effective in their role.
- v) That the Debt Chaser maintains an audit trail on SAP of their debt recovery actions.
- vi) That the Debt Chaser takes responsibility for all actions on debts prior to referral to the Legal Debt Recovery Officer.
- vii) That the Debt Chaser ensures that suitable notes are included on SAP as to the progress and actions taken to recover the money.
- viii) That the Debt Chaser ensures a suitable handover of the debt to the Legal Debt Recovery Officer once this point in the timetable in Appendix 1 is reached.

It is entirely acceptable that the Debt Chaser is also the officer that raises the invoices for payment, but not essential. This will depend on the staffing structures in the individual services.

The **Accounts Receivable Team** will be responsible for:-

- i) Maintaining the list of Debt Chasers nominated for each Sales Office.
- ii) Maintaining the list of Authorised Officers, who are able to carry out certain tasks for each Sales Office, such as writing off of larger debts and agreeing non-standard payment installment plans.
- iii) Providing training and guidance to those raising invoices, Debt Chasers, Finance Officers and services with regard to both required and best practice in using the Accounts Receivable system
- iv) Recommending and issuing of new guidance and procedures with regards to the raising and pursuit of debt on behalf of the Director of Finance and Performance.

- v) Policing the use of Accounts Receivable functions such as “Debts On Hold”, the appropriateness and timeliness of write-offs, and the effective use of audit notes made on the system.
- vi) Distributing to Debt Chasers monthly reports detailing the outstanding debts for Sales Offices that they are responsible for.
- vii) Ensuring that the latest documents and templates that are in use for debt collection are available on the Finance website and are regularly reviewed.
- viii) Ensuring that any non-compliance with the Code is identified, raised with the necessary officers, and escalated to management if appropriate.
- ix) Act as the Debt Chaser for certain, pre-agreed Sales Offices

The **Legal Debt Recovery Officer** will be responsible for:-

- i) Reviewing on a regular basis the supporting documentation that is used to support the raising of invoices, and advising on necessary improvements to ensure that the debt is capable of recovery through legal means should this prove necessary. (This is particularly relevant when dealing with individuals and sole traders, where the Pre-Action Protocol applies and the requirements placed on the County Council to go to Court to recover debts are much higher).
- ii) Taking over responsibility for all debt collection when they have reached the handover points in the timetable as set out in Appendix 1.
- iii) Making decisions as to the most appropriate method(s) for the recovery of each debt, and ensuring that all such actions are undertaken.
- iv) Informing the service when, in his or her professional opinion, the debt is not legally recoverable and has to be written off.

The **Strategic Finance Manager – Governance, ECI and Corporate Services** will be responsible for:-

- i) Reporting the performance on debt collection, outstanding debts, trends and legislative changes to Audit Committee (in detail) and Cabinet on a quarterly basis.
- ii) Reporting to the Finance Management Team when the performance on debts is out of tolerance and when corrective action is required.
- iii) Ensuring that the Income Code of Practice is reviewed at least annually for any improvements in best practice and local systems.
- iv) Ensuring that the latest Income Code of Practice is available on the Finance website.

Section 3. Charging for Goods and services

Charges are usually made in response to a request for goods or services. As a general principle, a local authority cannot provide goods or services 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, please get advice from your Finance and/or Legal teams first.

Before providing goods or services, it is essential that we obtain and retain sufficient information that could later be relied upon in Court, should this be necessary.

It is essential that we obtain an official order, or equivalent signed or electronic agreement, prior to the commencement of work or the provision of services. (In a small minority of cases, this may not be appropriate, such as where the service is provided in line with a nationally agreed fee rate).

Wherever possible, written confirmation must be made to the customer and where possible written confirmation must be received prior to commencing work or providing any goods or services. A written agreement should cover all of the following:

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

All documentation must be maintained for our records.

This is particularly important when dealing with private individuals and sole traders, (as opposed to companies and other local authorities), where the evidence requirements to commence legal proceedings are significantly higher. As a minimum to send a Letter of Claim in these circumstances, the Courts will require us to demonstrate:-

- i) The amount of the debt;
- ii) Where the debt arises from an oral agreement, who made the agreement, what was agreed (including, as far as possible what words were used) and when and where it was agreed;
- iii) Where the debt arises from a written agreement, the date of the agreement, the parties to it and the fact that a copy of the written agreement can be requested from the creditor

Failure to obtain any written confirmation for provision of goods or services will prevent effective debt recovery on behalf of your service.

For detailed guidance and queries as to what is appropriate documentation to support debt collection, please contact the Legal Debt Recovery Officer.

Section 4. Pricing the services

The price to charge for providing our services will be determined by one of the following criteria (in strict order):-

- i) Prices that are set nationally for the provision of certain services, where we have no option but to charge these rates.
- ii) Prices that have been determined by local political decisions as to how much to charge service users.
- iii) Prices that fully recover our costs of providing the service, including a suitable apportionment of corporate overheads.
- iv) Prices that fully cover our direct costs of providing the services and make a contribution to corporate overheads. (This should only be considered in certain exceptional circumstances, such as where we are in a competitive environment and where we would lose the income by seeking a higher price. This also might be suitable where we are in a partnership agreement and where contributions towards a collective project have been agreed).

For guidance and support where the service is considering pricing the service according to iii) or iv) above, it is essential that you contact your Financial Manager to ensure that you have included all the necessary direct costs and overheads, and that you have priced the service appropriately.

Professional Indemnity insurance is in place at Somerset County Council for any work carried out for outside organisations. If the service that you are seeking to charge for contains advice or design for any external organisation, it is essential that you contact the Insurance Team through insurance@somerset.gov.uk for our insurance information and for guidance. It may be necessary to consider adding insurance costs into your prices.

If you do not know the current charging levels for goods/services, you should consult your Strategic Finance Manager. Charging rates should be reviewed at least every twelve months, and relevant staff should be notified of all changes to charging rates.

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 or 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 also must be made clear to the customer. Advice on whether to charge VAT can be obtained from your Finance Manager.

Section 5. Extending credit and checking credit worthiness

The standard position of the County Council, (endorsed by our Audit Committee), is that **wherever possible payment must be obtained either prior to, or at the time of provision of goods or services and without recourse to raising invoices.**

However, it is accepted that there will be some circumstances where it is necessary to raise invoice in order to provide a service and generate income. Such examples would include but are not limited to:-

- i) Where we are directed under a national scheme, or a formal Decision under the County Council's decision-making process.
- ii) Where the costs might be prohibitive for individuals to accommodate in a single payment, and therefore is a barrier to their receiving the service and us generating income. In these circumstances, it would be appropriate to spread the payments over a reasonable period of time. (A good example is the County Ticket scheme, where direct debit payments are monthly over the academic year that students can travel).
- iii) Where we are bidding for work in a competitive situation, and where we have to agree to invoice the customer in order secure the work.
- iv) Where we are operating under the terms of a partnership or grant agreement, where the Terms and Conditions dictate.

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

In addition, **invoices should never be raised for amounts below £25.00**, because this is extremely uneconomic to raise and to recover the debt. On receipt of a request for goods and services valued below £25.00 you should ask for payment in advance.

Goods or services should only be supplied once you are satisfied of the customer's ability to pay. This is particular important when dealing with new customers. If you are considering whether or not to carry out a credit check, please contact your Finance Manager to discuss.

Finance Managers can carry out a company (or individual) 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.

Finance Mangers can download the last submitted accounts of limited companies for finance staff to make an additional assessment if they consider that it is required.

If the credit check is being undertaken on an individual in advance of the provision of service you must obtain their permission, their full name, 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.

Credit checks can also be carried out prior to the issue of Court Proceedings (by the Legal Debt Recovery Officer (LDRO)) in accordance with Section 35 of the Data Protection Act, in order to prevent public funds being spent on the attempted recovery of funds, where success is not likely. If you believe a check is required please seek the advice of the LDRO.

There are other safeguards that must also be considered before deciding to extend credit to an organisation or individual:-

- i) Before extending credit, services should ensure that the customer does not already have significant outstanding debts to the County Council, or has had debts written off previously by checking SAP records.
- ii) Particularly if we are supplying goods or services over an extended period of time, stage or interim payments should be agreed with the customer, preferably through the setting up of a direct debit. Ensure that written confirmation of the method of invoicing is received prior to provision of any goods or services. This will both maximise the County Council's cashflow, and also reduce the amount outstanding at any one point.

Section 6. Payment Terms

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

Our immediate payment terms are set to try and minimise any loss through cashflow when we have extended credit to a customer, to ensure that debts are collected promptly and with the minimum staff time required.

When chasing debts, customers should also be reminded that they were notified of the payment terms.

When drawing up written 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. Unless we have a specific agreement within the contract, a debt becomes "late" after 30 days from public bodies and 60 days from businesses from:-

- the customer receiving the invoice; or
- when we provide the goods or service (if this is later).

If it becomes necessary for Court Proceedings to be issued, interest must be charged. Unless we have a specified interest rate in the contract, 'statutory interest' is 8% plus the Bank of England base rate, and added to the debt at the date of issue.

There is also a statutory right to charge a business a fixed sum for the cost of recovering a late commercial payment on top of claiming interest from it:-

Amount of debt	Fixed sum chargeable
Up to £999.99	£40
£1,000 to £9,999.99	£70
£10,000 or more	£100

In the event that a debt becomes "late", Somerset County Council's contractual position is that the above interest charges are added to the account. A decision to waive interest charges can be made by the Debt Chaser or Budget Holder, but this can only be for a legitimate reason such as actual hardship, harming of future relationships and potential future income from the customer, or a genuine misunderstanding about the payment. The Accounts Receivable Team will review waivers and determine their appropriateness.

The daily "statutory interest" rate will also be used when Judgment is entered, when additional interest is added to the balance for the days between the date of issue and the date of the request for Judgment. Fixed Solicitors costs, as set by HM Courts & Tribunals Service (HMCTS), are also added to the debtors balance outstanding at each stage of Court action, along with the recharge of any Court Fees paid out by SCC. In no circumstances will any costs incurred under legal debt recovery means be waived.

Section 7. Raising Invoices

Invoices should never be raised for amounts below £25.00, because this is extremely uneconomic to raise and to recover the debt. On receipt of a request for goods and services valued below £25.00 you should ask for payment in advance. Payments can be through cash, cheque, BACS in advance or on service delivery

It is critical that the invoice raised is correct to ensure prompt collection and avoid delay through customer queries. This includes:-

- The invoice is correctly and fully addressed and detailed in the description.
- 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).

Payment methods are set out on the reverse of the invoice.

All invoices should be raised within 1 week of the provision of service, unless this is explicitly different in any relevant Terms and Conditions. **All invoices must be raised 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.

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 relevant officer (usually in Business Support) assigned to raising invoices for the service.

Invoices should not be raised speculatively or for charges that are not enforceable or not agreed with the customer. It is also not acceptable to raise invoices far in advance of expected or agreed payment due dates, other than for debts to accrue in care cases. (To do this for other debts will distort performance information reported to members).

Section 8. 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 below). **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. Credit notes can only be released by an officer who has the necessary SAP access rights. (Steve Rose, Exchequer Manager can approve additional officers to have SAP access to release credit notes if required and appropriate).

In line with audit recommendations and best practice 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; e.g. copies of any e-mail correspondence and/or scanned paper authorisation.

Section 9. Print to Post

Synertec provide Somerset County Council with a 'print to post' solution for printing Accounts Receivable documents, the documents print at an office based in Bristol. This provides a cost effective solution for the printing of Somerset County Council's and Somerset County Council Pension Fund's invoices, credit notes, reminders and direct debit letters.

In extenuating circumstances invoices and credit notes can be returned to the requesting service. If required an email should be sent to the Accounts Receivable Team (accountsreceivable@somerset.gov.uk) before 2pm on the same day that the invoice was raised on SAP.

NOTE: Accounts Receivable are unable to control any technical faults (i.e. failure of emails) or human error (i.e. transposing of invoice numbers) that may occur. There is also a reliance on the postal service to return invoices efficiently.

It is therefore suggested that if invoices need extra documentation or covering letters sent with them, that a letter is sent beforehand to advise the that invoice will follow shortly after. Only in extremely unusual circumstances should a service ever request non-despatch documents, as this is not cost effective. Accounts Receivable will police instances of non-despatch documents required by services.

Invoices that need to be directed to an individual not named on the customer account should have the individuals name included on the header text of the invoice.

Section 10. Managing debts

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

The longer it takes to collect debts, the greater cashflow costs the County Council will incur and the greater staff time and effort will be expended in the process, and the less likely recovery becomes.

It is also important that customers know that we will always follow up outstanding invoices quickly. Customers should never be under the impression that they can delay or avoid paying altogether.

Appendix 1 shows the standard debt management timetable that **must be followed for all types of external debt** unless formal approval has been given by a Financial Manager, as per the Authorisation List, or the Legal Debt Recovery Officer. This timetable is designed to minimise the time between the debt being raised and its collection. It is also designed to maximise the possibility of the debt eventually being collected. By following the timetable and procedures, collection times will be improved and staff time and effort will be reduced. Appendix 2 shows the debt recovery flowchart in a schematic form.

If payment is still outstanding after 14 days a system reminder is sent to the customer, requesting payment within 7 days.

Depending on the nature of the debt, telephone calls can be beneficial and effective in chasing payment of overdue invoices. However, with smaller debts or individual customers, depending on how the debt originated a telephone call may not be appropriate if a relationship is not already established, i.e. with an overpayment of salary, HR Admin & Payroll and Accounts Receivable will not likely have a sufficient relationship with the customer whereby using the telephone number from their staff record can be deemed appropriate. However, with an Adult Social Care debt, there will most likely be a Social Worker still allocated (unless involvement has ceased) who has a sufficient relationship to phone to discuss the matter, or discuss it at their next scheduled visit to the client.

Additionally, when communicating with individual debtors, if the matter at a later stage went to Court Proceedings level and we were required to evidence the reasonable efforts made to recover the funds and resolve the matter without unnecessary Court involvement, a telephone call is more difficult to document. As such, a note of the content of all telephone calls (date, contact name and brief description) must be made and added to SAP, whether it is an outgoing call to the debtor from SCC or incoming in response a chaser letter or Letter Before Action.

If it seems likely that the debt will be disputed, due either to its nature or if the customer has a history of being difficult or a bad payer, email or postal correspondence should always be used in the first instance to allow a comprehensive audit (and if necessary, evidence) trail to be compiled. However if a telephone call is taken from the customer a more comprehensive SAP record of the conversation should be recorded.

If the debt is over £100 in value and remains unpaid after 23-28 days, the relevant debt chaser should telephone the customer (if the debtor is a company or the service has an appropriate relationship with the individual customer) to ascertain a payment date. If a date is not forthcoming or the invoice is disputed, the relevant Service Manager should be immediately informed and a note placed on SAP while resolution is sought.

If a phone call is not relevant, due either to the debt being under £100, or the nature of the relationship between the service and the customer, the debt chaser must chase via letter or email, advising that payment of the invoice is overdue and that payment should be forwarded within no more than 7 days.

If the debt remains outstanding after 35-42 days, the debt chaser must refer the matter to the Legal Debt Recovery Officer for a Letter Before Action (LBA) if the value exceeds £100 (see section 15). This letter will advise the customer that if payment is not received within 14 days, Court Proceedings will be issued against them without further notice. The letter will also reference additional fees, costs and interest that will be added to the debt, and asks that if payment is being withheld for whatever reason, or the debtor needs to discuss the option of payment by instalments, they should contact us immediately.

If no meaningful recovery plan has been forthcoming as a result of the Letter Before Action **(49-56 days), the debt must be referred in its entirety to the Legal Debt Recovery Officer for legal enforcement action.**

The Legal Debt Recovery Officer will consider alternative options for legal enforcement of the debt, considering for example knowledge of the debtor's finances from credit checks (see section 5. **Extending credit and checking credit worthiness**), or knowledge of the debtor's financial circumstances due to the nature of the debt (i.e. Adult Social Care debtors who have been subject to a FAB Assessment). Action will be advised by the Legal Debt Recovery Officer to the budget holder and service, and authorisation will be sought from the referring client at each stage where further costs are incurred and added to the debtors balance.

If, at any stage of the recovery process, a customer queries or disputes an invoice, it must be referred to the debt chaser straight away. If only part of the invoice is in dispute, payment should be obtained for the undisputed part whilst negotiations continue, and further recovery action for the disputed portion of the invoice should be suspended and SAP annotated accordingly (See section **14. Disputed invoices**).

When an individual claims to have difficulty in being able to repay their debt they should be treated with sensitivity and given time to discuss their situation in confidence. If they claim to be suffering severe financial hardship, it is appropriate to refer the customer to an independent advice agency e.g. Citizens Advice Bureau or Step Change Debt Charity for assistance. Appendix 6 is the Pre-Action Protocol that must be followed when dealing with legal debt recovery for an individual or sole trader. The Courts will absolutely expect the Protocol to be followed

If the debtor is willing to pay, but merely claims they are unable to in full, a repayment plan will need to be agreed with them. Information obtained from

independent advice agencies, if applicable, should be taken into account when negotiating an instalment plan, and instalments should be considered as a way of agreeing realistic repayments without the need for more serious recovery action. See section **13. Payment by Instalments** for guidance on negotiating instalment plans. If an agreement cannot be reached the debt will need to be referred to the Legal Debt Recovery Officer.

Details of all correspondence with the customer, throughout the debt management process (both written and verbal) must be recorded in SAP for future reference. These will be essential if court proceedings are necessary. Where appropriate attachments (copies of correspondence and emails for example) should also be recorded and appended to SAP.

Section 11. Dunning Blocks

A dunning block can be placed on an invoice to prevent any reminders being issued to the customer. There are acceptable reasons why a dunning block can be applied to an invoice. **When applying a dunning block, it can only be for an acceptable reason from the list of options below.** If none of these apply, a dunning block must not be placed. (N.B. The process by which dunning is run will automatically prevent Debts To Accrue from being included).

When placing a dunning block on an account, you must add a note to SAP providing an explanation as to why the dunning block has been applied along with your initials and date. If applicable, please also state when the hold can be removed.

The Accounts Receivable Team will carry out dunning reviews at least quarterly to ensure that accounts are not left on hold unnecessarily. Services and debt chasers must respond quickly to these reviews and provide updates and reasons as necessary.

A – Invoice in Dispute See Text: This should be used when there is a genuine ongoing query or dispute on the account. The text should set out the service, the nature of the dispute, the officers involved in resolving the dispute

It is possible that the date that the dunning block can be removed is not known, (if you are awaiting a response or more information), but this cannot be a reason to hold the dunning block indefinitely.

B – Referred to Legal: This reason is only to be used by Accounts Receivable Team or the Legal Debt Recovery Officer and only once debt is with formally handed over for legal enforcement.

D – Deceased: This should be used once we have received official confirmation that the customer has died from the service.

F – Pending Write Off: This is used when approval has been given from the budget holder to write the balance off, or when the Legal Debt Recovery Officer has agreed that there is no prospect of collection.

The procedures for debt write-offs are in section 17 below. Write offs must be approved by an appropriate officer as set out in this Code Of Practice, and must be done promptly.

N – Salary Deduction: This is used when an invoice is being cleared by salary deductions.

P – Referred for Letter Before Action (LBA): To be used when passing to the Accounts Receivable Team for gathering the necessary information to create a Letter Before Action, prior to sending this information to the Legal Debt Recovery Officer.

Section 12. Performance monitoring

Debt management is an important performance indicator of the County Council's financial position. It is important that this is reported on regularly to the appropriate officers for corrective action to be taken, and for senior managers and members to take assurance that the controls in place are being adhered to and debt is being collected promptly and fully.

The following debt management reports are required to be produced regularly:-

Monthly:-

Report	Produced By	Recipient	Reason
All outstanding transactions by Sales Office and service	Accounts Receivable Team from SAP	1. Debt chasers and services 2. Nominated Finance officers within teams	1. Debt chasers and services – to aid in forthcoming debt recovery and to track performance 2. Finance officers – to compile reports for the Finance scorecard (monthly).
Summary value of debts by service and age (bands)	Nominated Finance Officers	Strategic Finance Manager – ECI, Governance and Corporate Services	To identify key performance issues and to report to FMT and services as necessary.

Quarterly:-

Report	Produced By	Recipient	Reason
Summary value of debts by service and age (bands), with corresponding figures for the previous financial year.	Nominated Finance Officer within ECI Finance Team	Chief Accountant	Inclusion in quarterly summary budget monitoring for Cabinet.
Detailed debt report including summary value of debts by service with age (bands), average time to pay, debts over 90 days old and details of larger debts outstanding.	Strategic Finance Manager – ECI, Governance and Corporate Services and nominated Finance Officer within ECI Finance Team.	Audit Committee	Governance role.

Annually:-

Report	Produced By	Recipient	Reason
Annual level of write-offs and the reasons	Legal Debt Recovery Officer	Strategic Finance Manager – ECI, Governance and Corporate Services	Inclusion in annual summary debt report to Audit Committee

The key performance indicators that must be reported to and tracked by management are:-

- i) The percentage of outstanding debt over 90 days old (excluding debts to accrue and rechargeables). This indicator will be reviewed once the impact of the Pre-Action Protocol can be reliably estimated.
- ii) The overall percentage of debt collected and written off in each financial year from the net debt raised on the Accounts Receivable system.
- iii) The average number of days for payment to be received by month.

Section 13. Payment by Instalments

It is SCC policy is to obtain the payment in full immediately, but in certain circumstances it may be appropriate for a customer to pay by instalments. Payment by instalments is only acceptable when the customer is genuinely unable to settle the debt in full immediately, (or where this is set out in national guidelines or local political decisions), or in the case of agreed schemes such as County Ticket for students.

The need or payment by instalments is much more likely to occur (and be acceptable under this Code of Practice) **when the customer is an individual or sole trader, rather than a business. Where this is the case, it is important to take note of the Pre-Action Protocol** in Appendix 6. The Protocol encourages the creditor (County Council) to try and reach agreement for the debt to be paid by instalments, based on the debtor's income and expenditure. It is essential that this Protocol be followed and for every effort be made to reach a mutually acceptable agreement. Points worth noting are:-

- i) If we do not agree to the debtor's proposal for repayment of the debt, we are required to give the debtor reasons in writing. If we do get to Court proceedings, these reasons would form part of the evidence.
- ii) If we do reach an agreement concerning the repayment of the debt, the Protocol states that we "should not start court proceedings while the debtor complies with the agreement" and would have to start the whole process again if we wanted to increase the instalments. (This is a key reason why the agreed instalments should not be too low – see below).

It may be necessary to refer individuals in particular to an independent advice agency e.g. Citizens Advice Bureau or StepChange Debt Charity, if they have not already done so themselves. A statement from an independent advice agency should be taken into account when action to recover the outstanding amount is considered, as this will show the overall level of the customer's debt, and not just the amount owed to us. When secured debts such as loans, credit cards and hire purchase/finance feature as creditors, these will always take priority when a payment offer is being negotiated on the debtor's behalf, and this would be replicated should the matter reach Court.

If the debtor is not engaging with a debt advice and management service, and their claimed ability to repay is minimal or their offer seems disproportionately small, an Income and Expenditure form (Appendix 3) should be sent out to the debtor for them to complete and return to us. This will allow us to make the same level of assessment as we would had the information come directly from a debt advice/management service, and will allow us to counter offer if applicable.

This form has been collated from those used by both Debt Advice Services and HMCTS when responding to a claim, and whilst it is not a legally binding agreement it should cause debtors to think more carefully about making false or exaggerated claims with regards to their financial circumstances, as this document could be submitted to Court at a later date if it becomes necessary.

Value	Timescale		
	2 - 6 Months	7 - 12 Months	12 Months+
Under £100.00	✓	Approval to be sought from officers listed below *	Approval to be sought from officers listed below *
Over £100.00	✓	✓	Approval to be sought from officers listed below *

*The following officers (only) have authority to agree an extended timescale for payments by instalments, and their approval must be sought before any such agreement can be made with the customer:-

Finance Strategic or Service Manager for the service in question
 Chief Accountant
 Exchequer Manager
 Accounts Receivable Team Leader
 Legal Debt Recovery Officer

The instalment offer needs to be for a realistic amount per month, with the **expectation that the debt will normally be recovered in a maximum of 12 months**. Debt chasers should not accept an initial offer if it appears too low, officers listed above and they should always review proposals for the amount of the instalment, prior to any agreement. The Legal Debt Recovery Officer should also be contacted for advice, particularly in the case of an individual.

When negotiating an instalment plan, often a debtor will ask what we are prepared to accept before making an offer of their own. If they are not forthcoming with an offer without input from us, you should divide the amount outstanding by 6 or 12 (depending if the debt value is under or over £100.00) and use this as the **absolute minimum instalment rate** we would be prepared to accept. Affordability must be considered, and if the customer claims to be unable to meet this rate, at this stage the income and expenditure form as detailed above should be sent out, and a mutually agreeable rate negotiated upon receipt of the completed document.

In no circumstances is it acceptable for a service or Debt Chaser to agree a “local” agreement to pay instalments, and a formal repayment plan must be set up on SAP. Notes of the agreement must also be included on SAP.

Sometimes a proposal, even when based on income and expenditure information, may appear to be unrealistic. Reasons for this might be the value and frequency of the repayments and the length of the plan. In such cases the officers listed above may consider accepting a lesser sum in settlement if paid within a much shorter time-frame.

Overpayment of salary debts should generally 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 should be negotiated in line with the guidelines on the previous page. 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 or BACS/Standing Order 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 or BACS/Standing Order then other forms of payment can be considered. Instalment payments must be monitored closely and prompt action taken if a payment is missed.

If an instalment plan is in place, and an instalment is late or not collected a system reminder is sent informing the customer that we are aware the instalment is overdue. The reminder states that they are required to contact the "above" office to resolve the matter and avoid legal action being taken. Note that if the customers direct debit defaults twice the instalment plan will be cancelled, meaning the value of the debt will be due in full immediately and action will be taken by the Legal Debt Recovery Officer.

Section 14. Disputed invoices

A disputed invoice is one that the customer has genuinely queried, or refuses to pay all or part of for a given reason. **If only part of the invoice is in dispute, payment should be obtained for the undisputed part whilst negotiations continue.** If the query or complaint does not relate to the entire balance due, you should advise your customer in writing (letter or email) that there is still a balance owing which is in no way connected to the queries raised, and that payment of the undisputed portion of the invoice(s) is due immediately.

In the case of a genuine dispute, further recovery action should be suspended and SAP annotated accordingly (see Dunning Blocks).

It is essential that any genuine dispute or query is resolved promptly, 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 genuinely queries or disputes an invoice, it must be referred to the relevant debt chaser within 24 hours, and notes added to SAP accordingly.

The following is the **required timeframe for action on disputes**:-

Type of dispute	Resolution timeframe (working days)
Copy invoice or credit note required	3 days
Invoice raised in error and requires cancellation	3-5 days
Incorrect invoice value	Request for credit note for full or part value raised within 3-5 days
Inadequate or incomplete service provided	7-10 days
Contractual problems	21 days

If it is not possible to resolve the dispute within the above timescale, the matter must be reported to the appropriate Finance Manager or Accounts Receivable Team Leader or Legal Debt Recovery Officer for action. In conjunction with the relevant service manager, they will decide whether:-

- An agreed amount of additional time is given to resolve the dispute and a note, with relevant dunning block, placed on SAP accordingly.
- Whether legal action should commence.
- Whether a credit note should be raised.
- Whether write off action should be undertaken.

Section 15. Referring for legal recovery action

If the recovery procedures have not resulted in a payment being received in accordance with the timetable set out in Appendix 1 and Appendix 2, the debt must be referred to the Legal Debt Recovery Officer. The only circumstances where a debt is not to be referred to the Legal Debt Recovery Officer are when this has been explicitly agreed by the relevant Finance Manager on the Authorisation List, or the Legal Debt Recovery Officer, the Exchequer Manager or the Accounts Receivable Team Leader).

The sooner a case is referred the more chance there is of recovering the monies owed - typically there is no benefit in undertaking long and drawn out dialogue with the debtor prior to referral, unless there is a dispute over the nature of the debt that the Legal Debt Recovery Officer cannot assist with or would be required to refer back to the service.

The first stage of referral is for a Letter Before Action (LBA). A Letter Before Action (or Letter of Claim under the Pre-Action Protocol) is a mandatory stage in the debt recovery process. The only circumstances where this will not be sent is where the matter is particularly contentious or complex, and Legal Debt Recovery Action or Finance Manager on the Authorisation List agree that a Letter Before Action is not sufficient to detail the particular circumstances.

If a Letter Before Action is not successful, then the debt chaser and service must:-

- i) Check Accounts Payable prior to referral, to determine whether they are also owed money by the County Council to enable one amount to be offset against the other.
- ii) Write off any debt with a value less than £100, in accordance with the guidance below. (Debts with a value of less than £100 should not be referred to the Legal Debt Recovery Officer, unless there is a particular reason that the service wishes proceedings to be issued, i.e. if the debtor has previous history of poor payment or it is known that future invoices will need to be raised. The LDRO will need to be advised of why the service believe it to be necessary to pursue debts under £100, and will advise if this is indeed appropriate at the time).
- iii) Complete the referral form in Appendix 5, if necessary with assistance from the Accounts Receivable Team.

When referring the debt please include the following information to support the referral form (in Appendix 5):

- Customer Number
- Customer Name
- Invoice Number(s)
- Amount(s) Outstanding
- Copies of all correspondence to date (including invoice) and any other specific details i.e. national insurance number, D.O.B
- A signed copy of the agreement/contract under which the debt is owed/proof of how the debt originated (i.e. termination of employment form along with

payslips showing salary payments past the date of employment termination in the case of overpayment of salaries).

Once the debt is referred it becomes the responsibility of the Legal Debt Recovery Officer to determine how (or if) to recover the debt.

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 or debt chasers unless the Legal Debt Recovery Officer is unavailable and the matter requires urgent attention. In such circumstances the services should refer any queries to an Exchequer Team Leader, who has the necessary delegated authority from the Legal Debt Recovery Officer to negotiate instalment plans in their absence

The Legal Debt Recovery Officer will review the paperwork to ascertain whether the debt is a) enforceable and b) if the paperwork provided is sufficient or if more information is required. Any queries will be referred back to the service at this time, and the debt chaser and service need to respond in a timely manner. If Court Proceedings have already been issued, failure to respond in an appropriate time frame may result in Court fees being incurred by SCC for non-compliance to deadlines, which the service will be charged directly.

As a Letter Before Action will have already been sent to the customer at the point of referral, and a reasonable period of time to allow payment or response has passed (21 days), the **default position will be to commence proceedings** against business and other bodies and to follow the Pre-Action Protocol to move towards proceedings against individuals.

If, for whatever reason, the Legal Debt Recovery Officer does not feel this is the most appropriate course of action, they will refer back to the service with advice on how to proceed and request according instructions.

Note that referring a large number of debts in bulk at one time will adversely affect the Legal Debt Recovery Officer's workload so it is best to forward matters "little and often".

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.

Section 16. Insolvency

Be aware of your customers' financial position. Payment must always be obtained in advance of service provision wherever possible. Where this is not possible, consider obtaining a credit check before extending credit if there is any doubt about the customer's ability to pay.

If you become aware that a company or individual is entering receivership or is about to become insolvent, notify all services who provide services for the company and individual, and also notify Accounts Receivable 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 the County Council. 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 immediately. Even if there is a prospect of some sort of dividend 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 or write off SAP codes when payment is received.

Section 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 because all recovery options have been exhausted, or the debt is unenforceable, (usually when the supporting information is insufficient to commence legal proceedings).

Accounts Receivable 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 one of the designated approvers from the authorisation list
Over £1,000 (inclusive of VAT)	Approval of one of the Finance Service Managers from the authorisation list

All requests for write-off must be supported with full details as to the reason for write-off. A record of debts written-off and the reasons will be maintained by the Accounts Receivable Team. The current template for debt write-off requests can be found here:- <http://intranet.somerset.gov.uk/sapnav/useful-forms/>

In no circumstances should a credit note be raised to write off a 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 or Service Finance Manager. The form is then returned, approved or otherwise to enable you to maintain a record of write-offs.

All write-offs must be processed and sent to Accounts Receivable within 10 working days of the decision being taken. Failure to complete the necessary paperwork within this timescale, will lead to the invoice(s) and income continuing to appear on the aged debt report and budget monitoring reports. Accounts Receivable will police the time taken to write debts off, and will ask the service and debt chaser to provide an explanation as to why this has not been done when the decision has been made. Repeated failures to write-off debts in a timely manner, could lead to this being escalated through the relevant Service or Strategic Finance, and ultimately the Director for Finance and Performance as necessary.

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.

Section 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 and reputational damage if debt recovery activities continue when a payment has already been received. It can also result in some payments being made twice and having to be refunded.

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.

For all cash handling and payment requirements, please speak to the Accounts Receivable Team, or consult the Cash Handling Guidelines.

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 via E-payments
- 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 Under £100	Action £100.01 - £4999.99	Action £5000+
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)	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)	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)
14-16	Reminder issued allowing 7 days for payment. (Additional 7 days to allow for any payment received to be banked and appear on the system).	Reminder issued allowing 7 days for payment. (Additional 7 days to allow for any payment received to be banked and appear on the system).	Reminder issued allowing 7 days for payment. (Additional 7 days to allow for any payment received to be banked and appear on the system).
23-28 days	7 day letter (to include copy invoice)	7 day letter (to include copy invoice)/phone call to customer, where appropriate	Phone call to customer (where appropriate). 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.
35-42	Write Off (subject to account check) – Accounts Receivable to make any necessary adjustments for debts under 6 months old where VAT cannot be claimed until this time.	If no effective plan has taken place the debt should be referred to the Legal Debt Recovery Officer for further action. In accordance with Section 15. Debt referred to the Legal Debt Recovery Officer.	If no effective plan has taken place the debt should be referred to the Legal Debt Recovery Officer for further action. In accordance with Section 15. Debt referred to the Legal Debt Recovery Officer.
		Letter Before Action sent by Legal Debt Recovery Officer. The Legal Debt Recovery Officer will determine what legal action will be undertaken if the LBA does not result in payment. The service and the budget holder will be consulted, particularly where additional costs would be incurred.	Letter Before Action sent by Legal Debt Recovery Officer. The Legal Debt Recovery Officer will determine what legal action will be undertaken if the LBA does not result in payment. The service and the budget holder will be consulted, particularly where additional costs would be incurred.

NB: Notes should be added to customer accounts for all actions taken place

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

APPENDIX 2: DEBT RECOVERY PROCESS MAP

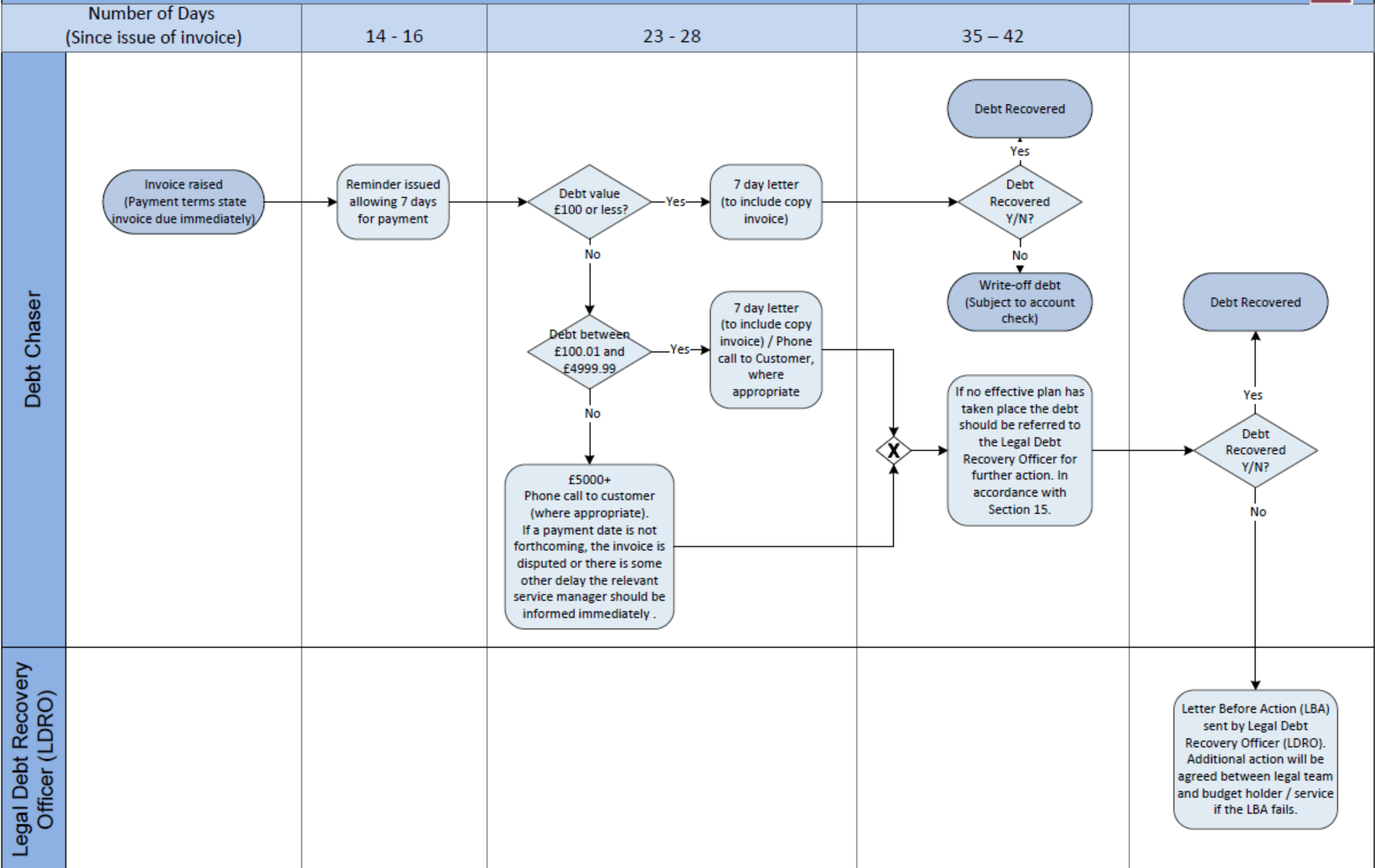
SCC Debt Recovery Process

Process Owner: Accounts Receivable – Finance & Performance

Author: RC

Version: 2.2

Last Update: 19/06/2017



APPENDIX 3 : INCOME AND EXPENDITURE FORM



Appendix 3 Income
and Expenditure Form

APPENDIX 4 : 7 DAY LETTER



Appendix 4 7 Day
Letter SCC.docx

APPENDIX 5 : REFERRAL TO LEGAL FORM



Appendix 5 Referral
to Legal for LBA.xlsx

APPENDIX 6 : PRE-ACTION PROTOCOL



Appendix 6 Pre
Action Protocol for DeIncome and Expendit



Appendix 6 PAP

APPENDIX 7 : LEGAL DEBT RECOVERY ACTION FLOWCHART



Appendix 7 Legal
Debt Recovery Flowc

APPENDIX 8: OFFICIALLY APPROVED SERVICE SPECIFIC EXEMPTIONS

Process	Description
Standard (type 1)	All Sales Offices / services not mentioned below.
Exception type 2	Overpayment of salaries. Current employees will have a repayment plan as part of future salary payments. Ex-employees are chased through Payroll with a reminder and then a straight referral to legal. (Also includes Cycle Saver/Home Computer/Car Loan schemes).
Exception type 3	Blue Book schools – similar to Standard procedures, but approval must be sought from the service to chase debt.
Exception type 4	Third Party Claims – longer process due to legal work.
Exception type 5	County Farms (Agricultural Holdings Act tenants only, where the terms of the tenancy give 60 days to pay).

For the avoidance of doubt, the following are no longer approved exemptions:-

Accounts Payable duplicate payments
Highways claims and rechargeables
Dillington House