



# **London Borough of Sutton**

## **Corporate Debt Recovery Policy**

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Document Owner: Accounts Receivable Manager, Resources Directorate

# **LONDON BOROUGH OF SUTTON CORPORATE DEBT RECOVERY POLICY**

## **1 Objective**

The Council's debt recovery policy has the following objective:

*"In order to maximise income for the provision of services, the London Borough of Sutton will collect all debt owing to it promptly, effectively, efficiently and economically, while ensuring fair treatment to all debtors."*

## **2 Framework**

This policy document sets out the Debt Recovery Policy for the Council to ensure that all sundry debts and income of the Authority are managed, administered and collected in an efficient and cost effective manner.

To achieve its goal of being an efficient and effective Council, the London Borough of Sutton will:

- Collect all debt owing to it promptly, effectively, efficiently, and economically.
- Comply with ethical best practice, and legislative requirements, appropriate to each individual debt, or debtor.

The effective management and collection of debt is an essential contributor to the Council's financial resource, and maximises income available to provide services.

## **3 Purpose**

The purpose of this policy is to provide clear guidance for all Council Officers on the recording, reporting, recovery and monitoring of income.

All Service Units must follow this procedure to ensure that the Council maximises the collection of debts and income in the most efficient and cost effective manner.

## **4 Roles and Responsibilities**

### ***Strategic Director - Resources***

The Strategic Director - Resources is the Council's Chief Financial Officer in accordance with Part VIII of the Local Government Finance Act 1988, and Section 151 Officer in accordance with the Local Government Finance Act 1972.

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The Strategic Director Resources is responsible for the organisation and supervision of all income arrangements, which includes proper accounting, management reporting, and collection arrangements. To achieve this, the Strategic Director Resources assigns responsibility to the Assistant Directors of the individual Unit whose service provision gives rise to the debt or potential income with appropriate support provided by Business Advice & Support staff as agreed with the Assistant Director of Finance. The Accounts Receivable Manager will be responsible for collection and accounting for income.

Debts relating to Housing rents and associated services are managed on behalf of the Council by Sutton Housing Partnership (SHP). A detailed procedure is maintained by SHP and proposed write offs are based on this policy as reviewed by appropriate managers. Write offs put forward by SHP management should be submitted to the Head of Finance Operations and Residents Support for review who will forward and obtain approval from the Strategic Director - Resources.

### ***Assistant Directors and Accounts Receivable Manager***

The Assistant Directors will agree and document with the Assistant Director of Finance the appropriate responsibility for raising invoices and for liaising with the corporate Accounts Receivable Team to assist them in monitoring income, pursuing debts and reporting.

The Accounts Receivable Team will work to clearly defined income collection targets.

The Assistant Directors and the Accounts Receivable Manager must ensure all officers receive appropriate training on the use of the Council's financial information systems. The training must be relevant for the work undertaken and include regular refresher training.

The creation of the Shared Finance Service Accounts Receivable Team assists in maintaining the necessary separation of invoicing / pursuit of payment duties from the actual receipt of monies. All managers should be aware of the need to keep these two roles separate and consult with the Accounts Receivable Manager and Chief Internal Auditor should there be any concerns.

### **Service Managers**

All Service Managers must make arrangements for income to be accounted for correctly within the Council's financial accounts, and make an appropriate annual provision for bad debts.

The Accounts Receivable Manager must ensure there are proper accounting and reporting procedures for amounts invoiced, income received, and aged debt analysis. The Head of Finance Operations and Residents Support will regularly attend Finance meetings to report on these issues and obtain feedback.

## 5 Raising Invoices

All invoices raised must be properly supported by documentary evidence that supports the debt.

Assistant Directors or Service Managers must ensure the Council is not breaching legislation by levying a charge for a service, or by pursuing recovery of sums arising from a service provision. VAT at the prevailing rate should be included as appropriate. Details of dealing with VAT relief in relation to Bad Debts are set out in Appendix A.

Officers must use the most appropriate method of collecting each type of income, ensuring effectiveness, efficiency and economy. All methodologies should be documented.

Where practical and legally allowable, and efficient, advance payment should be requested for all services, or by the debtor signing a direct debit agreement form before the provision of service. This minimises the financial risk to the Council. Advice can be obtained from the Accounts Receivable Manager

Unless obliged to contractually, for example peppercorn rents, officers must not raise an invoice for a debt less than £50 as it is uneconomic. Officers are encouraged to collect income of less than £50 in other ways, such as payment in advance. In some service areas, where the individual amounts charged are very small, it may be that the only solution is to raise invoices. In such cases it is acceptable to accumulate charges (perhaps charges for a few weeks), until the total sum billable exceeds the £50 minimum limit.

The Businessworld or Northgate system will be used to raise invoices (and subsequent reminder letters), using approved Council Stationery/media.

All invoices will bear contact details for the issuing department in case of queries.

Debtors should receive a brief explanation of why the Council requests payment. This should, preferably be within the invoice text or as an enclosure if this is not possible.

Officers must ensure the invoice is raised within five working days of delivering the service or goods or of the commencement of the period where service covers a period of time. Officers must ensure that invoices are raised promptly. Where the invoice is for a single supply of goods or services and payment in advance is not feasible, the invoice should be raised within this guideline.

Where a continuing supply is involved invoices should be issued periodically, within five working days of the end of each period or, if payment in advance is appropriate, five working days in advance of the end of each period. The timing of invoices needs to take account of the Council's legal obligations under relevant legislation. In the case of accumulated invoices these should be raised, as far as possible, within 5 days of the last service date being charged.

## **6 Terms and Conditions**

Terms and conditions are designed to protect the rights of the Council, limit potential liabilities and provide some degree of security for the recovery of the debt.

Before providing requested goods or services to a company, which amount to more than £10,000, officers must carry out a credit check and/or a company search through the Financial Planning Team.

All invoices must request payment within 30 days, unless the service can specify less, and should never exceed this, unless contracts supersede this.

Terms and Conditions should include details of acceptable payment methods, payment terms, reference to our statutory right to claim interest on late payment and compensation for debt recovery costs (Late Payment of Commercial Debts Regulations 2002, as amended and supplemented by the Late Payment of Commercial Debts (Amendment) Regulations 2018) where applicable.

Where instalment arrangements are permitted, an administrative charge may be added at the discretion of the Assistant Director.

## **7 Methods of Payment**

The Council's preferred method of payment is Direct Debit. However, this does not prohibit accepting payment by other methods.

Apart from Direct Debit, the Council accepts a range of payment types as appropriate to the debt type, and size. These include cash, cheque, credit and debit cards, standing orders and other electronic banking methods, such as online internet banking and touch tone telephone payments.

Customers may request an instalment arrangement, even when they are not generally available. The Accounts Receivable Team will consider each request fully, the instalment amount offered, frequency of the payments, and the likelihood of a customer meeting the arrangement and apply the Council's general terms in each case. If the Accounts Receivable Team is unable to accept an instalment arrangement the officer must give a clear explanation of this to the customer. The emphasis will be put upon Direct Debit arrangements when agreeing such arrangements.

All debts should be paid in full by the due date. Therefore, if officers agree to an arrangement and the customer defaults, without having made contact with the Accounts Receivable team in advance, the balance becomes due and payable immediately.

## **8 Collection**

The collection of income in respect of invoices raised must follow a standard course,

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which fully documents the efforts made to settle the debt.

- The service or appropriate team will raise the debt in the first instance.
- If no payment is received within stated terms, the Accounts Receivable Team will commence its recovery procedure which begins with a first stage reminder letter giving a further 7 days notice.
- For vulnerable clients debts, there is a discretion to send a second reminder.
- This will be followed with either a telephone call or email to negotiate settlement, arranged by the Accounts Receivable Team.
- Where permitted the provision of further services will be ceased immediately.
- If no payment is received after a further 7 days, a final demand, as appropriate for the level of debt, will be sent.

All action taken, calls made and all conversations will be fully documented by the Accounts Receivable Team on Businessworld.

Refer to section 13 for recovery actions.

### **9 Reminder Letters**

The Accounts Receivable Team will utilise the Businessworld system to produce all reminder letters within the time scales laid out in this policy.

Standardised reminder letters will be generated.

The final stage letter will advise the customer of further enforcement action, refer to any statutory interest, which the debtor is liable to pay, and the daily rate it will accumulate from the date of the letter.

### **10 Disputed Invoices**

Each invoice will bear the contact details of both the service originator and the Accounts Receivable Team. However, the service originator of the invoice should remain identifiable to help in resolving any initial problems or queries, as only the generating group will hold enough information to resolve some initial queries.

All invoices that are disputed will be flagged, as not requiring further action at this time, on the appropriate debtor system.

The Accounts Receivable Team will add an appropriate complaint code to the flagged invoice, along with a note of explanation. The issuing department will retain responsibility for query resolution at this stage and use the credit note facility if appropriate (see below).

If an invoice is flagged:

- a) a reason for the dispute should be clearly defined.
- b) every effort to resolve, should be made, at the earliest opportunity
- c) any obstacles to partial or full payment should be explored and resolved.

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The aim should be to resolve disputes within one week. Where this is not possible, close monitoring should follow with the objective of resolving within 21 days.

All flagged invoices should be reviewed regularly by the Accounts Receivable Team and identified in the aged debt reporting.

### **11 Credit Notes**

Credit notes will be raised by the service or appropriate team, and be properly supported by documentary evidence that validates the reason for reducing or cancelling a previous amount invoiced.

A credit note must be issued to cancel an incorrect invoice, before re-invoicing correctly.

A credit note must only be applied to, or reduce the balance of, the invoice it was raised against.

A credit note must not be used as a method to write off debt, as it is primarily a means of adjusting the value of a debt for valid and agreed reasons, whereas to write off a debt is subject to a detailed process as set out below

### **12 Returned Invoices**

All invoices returned by Royal Mail stating 'gone away' or 'addressee not known' should have the following action taken:

- 1 The Accounts Receivable Team will flag the invoice and note the reason in Businessworld (or other debtor system).
- 2 The Accounts Receivable Team will refer the invoice back to the originating service immediately for advice on a forwarding address or other helpful information.
- 3 The originating service must stop the provision of service immediately, where this is appropriate and allowable.
- 4 The Accounts Receivable Team will consider referring debts over £50 to a Tracing Agent.

If, subsequently, no forwarding or alternate address is found, the invoice should be written off under the write-off procedure (see section 15).

### **13 Recovery Action**

The Council can, and will, exercise its statutory entitlement to interest and compensation for debt recovery costs under the Late Payment of Commercial Debts Regulations 2002, as amended and supplemented by the Late Payment of Commercial Debts (Amendment) Regulations 2018, if payment does not meet our agreed Terms and Conditions.



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If, after exhausting all the reminder stages the debt remains outstanding, officers of the Accounts Receivable team in liaison with the issuing departments, must decide if the debt requires further enforcement action, consulting with the Accounts Receivable Manager and recording the reasons on Businessworld.

If the total value of the customer's debt(s) is less than £100 and it is considered by the Accounts Receivable Manager uneconomic to pursue further, the invoice will be flagged on the Businessworld system awaiting write off.

For all other debts over £100, the following action may apply:

- 1 Refer the debt to a Debt Collection Agent.
- 2 If still uncollected, consider the referral of the debt to the South London Legal Partnership (SLLP), if within pre-agreed limits, with an instruction to obtain a secure charge over the property where applicable. For other debts, follow the write-off process.
- 3 If the agent and/or SLLP return the debt as "unable to collect all options exhausted", the Accounts Receivable Manager will instigate the procedure to write-off the debt.

All referrals for Recovery Action will be formally documented on Businessworld and monitored by the Accounts Receivable Team, to ensure the debt is actively pursued. The Accounts Receivable Manager will formally report on these.

All debts passed to a Debt Collection Agent must be reconciled on a monthly or quarterly (minimum) basis. Where an account is returned by the Agent the recovery record and system record must be updated to reflect this.

Where a case has been passed to an Agent for collection and a direct payment is received, the Accounts Receivable Team will ensure the Agency is notified.

All referrals for Recovery Action will be recorded on financial systems to allow monthly monitoring of Bad Debt provisions ensuring they are adequate.

### **14 Bad Debt Provision**

Finance managers in conjunction with Service Managers must ensure there is adequate provision for Bad Debts, in accordance with CIPFA<sup>1</sup> Code of Practice on Local Authority Accounting in United Kingdom – A Statement of Recommended Practice.

Finance Managers must ensure that for every major type of debt there is an identifiable bad debt provision, fully documented in Businessworld.

The Accounts Receivable team will ensure that, where there is little or no likelihood of receiving payment, the invoice is flagged as a potential bad debt. If income is received, the Team will 'un-park' the invoice and revert to original status.

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<sup>1</sup> Chartered Institute of Public Finance and Accountancy

## 15 Writing Debts Off

All debts of the Council will be actioned in accordance with its Financial Regulations. If the debt remains unpaid, after exhausting all appropriate recovery methods, the debt should be written off. All requests to write off debts up to the value of £100,000 require the approval of the Strategic Director - Resources.

It would normally be expected that debts to be written off would be:

- Cumulative debts under £100, where no payment has been received within six months of sending the final demand.
- All debts where a Debt Collection Agent advises they unable to collect and all options are exhausted - in these circumstances the Accounts Receivable Manager will deem it not cost-effective to pursue.
- All debts where SLLP advises the debt is irrecoverable or that legal action is unlikely to be cost effective.

The Accounts Receivable Manager will prepare a list of debts to be written off at the end of each quarter in a schedule for approval by the relevant Assistant Director which details the value of each debt, age, action taken, and the reason for write-off request. Assistant Directors must decide, and instruct the Accounts Receivable Manager, if they require more frequent reporting of bad debts.

An Assistant Director must approve any requests for write-off within seven days of receipt. If the Assistant Director requires further explanation they must re-refer the request to the Team within seven days.

The Team will remove the debt(s) in question from the schedule, and re-submit the write-offs for approval and signature by the relevant Assistant Director.

The schedule should then be signed off by the Strategic Director, Resources.

In accordance with the Council's Financial Regulations (15.5), write off of all single debts with a value greater than £100,000 must be approved by the Executive, on the recommendation of the Strategic Director – Resources.

Once appropriate authorisation has been received, the invoices will be removed from the Businessworld record by the Accounts Receivable Team and charged against the appropriate bad debt provision. All such requests to be actioned within seven days of receipt.

The debtor remains liable to pay. Therefore, if the debt has been written off and a further instalment is received, the income must be credited to the appropriate bad debt code. The debt should be reinstated for the balance outstanding and accountancy to amend the cumulative bad debts.

VAT must be reclaimed in accordance with existing procedures, see attached Appendix A

### Reasons for Bad Debt Write Off

Absconded or Unable to Trace

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Bankruptcy  
Appealed  
Complaint Upheld  
Compassionate  
Deceased  
Statute barred  
Uneconomic  
Unable to collect - Debt Collection Agent  
Unable to collect - Legal Services.

### **16 Contact Telephone Numbers as at October 2020**

Richard Simpson	Strategic Director, Resources	705051
Victoria Goddard	Assistant Director, Shared Finance Service	704652
Michael Mackie	Head of Finance Operations and Resident Support	705375
Malcolm McGregor	Accounts Receivable Manager	705161

**BAD DEBT RELIEF VAT REQUIREMENTS****Conditions for Bad Debt Relief**

1. Sutton is entitled to a refund of VAT from HM Revenue & Customer (HMRC) on a bad debt, if:
  - a) Goods/Services have been supplied, and VAT has been accounted for and paid to HMRC (as output tax), but no payment (or only a part payment) has been received;
  - b) The amount has, or is, about to be written off in the accounts;
  - c) Six months have elapsed from the later of the date supply and the time when payment was due.
  - d) The debt has not been sold or handed to a factoring company
2. The claim must be made within three years and six months of the later of:
  - a) The date the payment was due to Sutton; and
  - b) The date of supply.
3. The amount of refund claimable will depend on whether any payment or part payment has been made.

**Procedures for Claiming a Refund**

4. For each debt we must keep (and be prepared to produce) a record (preferably a VAT invoice) showing:
  - a) The amount of VAT chargeable;
  - b) The VAT period in which the VAT chargeable was accounted for and paid to Customs;
  - c) The date and number of any invoice issued, or where there is no invoice, information that identifies the time, nature and amount of the supply together with the customer's name and address;
  - d) The outstanding amount, net of VAT, to which the claim relates;
  - e) The amount of the VAT being claimed;
  - f) The VAT period in which the claim is made.
5. When a debt is written off, the amounts must be transferred to a single account (VAT refunds for Bad Debts (check code with Systems) in order for Financial Strategy to recover the VAT from HMRC.
6. The documents must be retained for a period of four years from the date of making the claim.

## **Part Payments**

7. Where part payment has been received for an invoice, then a refund can be claimed on balance of VAT unpaid. Each part payment is taken to mean VAT inclusive i.e. invoice raised for £100 + £20.00 VAT. If payment received is £100, this comprises £83.34 net and £16.66 VAT. Therefore, bad debt relief of £3.34 (£20.00 less £16.66) can be reclaimed.

Note that from 4 January 2011 the standard rate of VAT is 20%.

8. Where part payment has been received for a series of invoice, then the payment is attributed to the earliest invoices first (unless the payment is for a specific invoice).

## **Non-VAT Registered Customers**

9. No notification needs to be sent to customers who are not registered for VAT.

## **General**

10. Before carrying out this procedure, it would be advisable to contact the Financial Services Accountant to make sure the correct procedure is being adopted.
11. Should payment be received from a customer at sometime after the bad debt relief has been paid over to Sutton, then the amount recovered from HMRC must be refunded.