

General Debtors Management Policy

Reference Number: P49
Organisational Unit: Finance
Responsible Position: Manager Finance
Relevant Delegations: D94-D96
Date Adopted: 9 October, 2015 (146/2015)
Review Date: Every two years

Objectives:

To outline the principles and other key matters that Council's Officers must take into account when:

- Entering into transactions that create general debtors,
- When collecting those debts, and
- When reviewing the likelihood of collection, the need for providing for doubtful debts or the writing off of bad debts

Legislation:

Following legislation, terminology and references are applicable:

- Local Government Act – Part 10.6
- Local Government (Accounting) Regulations – Regulation 26 & 27
- Australian Accounting Standards

Scope:

To provide direction to Council's Officers when creating, collecting and providing for/writing off general debts owed to Council and to ensure Council manages those debts in such a way that it does not jeopardize the funding of its operations.

Policy:

Council commonly enters into transactions where payment is not received on provision of the goods and services. Thus Council provides credit to those parties from the time that the service or good is provided until they pay the full amount due (or Council decides to forgo the debt). During that time, Council must recognize those parties as debtors (also known as Accounts Receivable).

Credit is issued by way of invoice. An invoice can only be issued when Council is legally entitled to collect the debt.

Policy Statement

Standard Payment Terms

The Council's standard payment terms for general debtors are 30 Days from Date of Invoice.

Reference Checks

Council will allow the issuing of credit terms (creation of debtor accounts) without reference check for all commercial transactions where the total value is less than \$100.

Where the value resulting from a commercial transaction exceeds \$100, the following checks need to be undertaken before the issuing of a debtor's account and provision of Council services:

- **Lines of Credit < \$300 per Month** – Determine whether the debtor has previously used Council services or is a ratepayer and assess their payment history. If determined to have a poor payment history for services or rates, then credit should be assessed on a case-by-case basis with the service unit. If the debtor has not previously used Council services or is not a ratepayer then the service unit manager/supervisor needs to satisfy themselves of the debtors risk through reference checks.
- **Lines of Credit > \$300 per Month** – The service unit manager/supervisor needs to ensure the debtor completes Council’s credit request form. A credit limit equal to 2 months purchases will be initiated for a period of 6 months upon verification of credit references and application details. Should the demonstrated payment history of an approved debtor highlight slow or poor credit history during the first 6 to 12 months, credit status should be reviewed.

The Finance Manager will determine whether credit is provided to the potential debtor following assessment of the information gathered in the above two paragraphs.

Issuing of Debtor Invoices

The Accounts Receivable Officer will raise all invoices for service fees and charges in accordance with the Statement of Fees and Charges, as required to recover the cost of services rendered or to maintain/replace Council assets and for goods delivered.

Collection of Debts

Council will undertake all efforts to collect outstanding monies for all services rendered, works completed and good delivered.

The manager/supervisor that requests the creation of the debtor and that provides the service is responsible for ensuring that Council is legally entitled to collect the debt when the invoice is raised. Business units must not provide the service until credit reference checks are completed and the debtor has been created (except where credit reference checks are not required).

The Accounts Receivable Officer is responsible for debtor follow up and collection of outstanding debts and will liaise with manager/supervisors on outstanding debts.

The Accounts Receivable Officer is responsible for providing relevant business units with Aged Debtors Reports each month.

The process for collecting overdue debtors’ accounts is as follows:

- Stage 1** After the first 30 days, the business unit that raised the debt must make a reasonable attempt to collect the outstanding balance. The staff member must keep an accurate record of all action taken. The Accounts Receivable Officer will send the monthly statement to the debtor.
- Stage 2** After 60 days, details of the debt and all action taken to recover it must be referred to the Accounts Receivable Officer for further action. The Accounts Receivable Officer will send a standard letter that explains the particulars of the debt and invites contact and/or payment-in-full by a set date. The letter also warns that, if there is no satisfactory response from the debtor, the matter will be referred to Council’s debt collection agency and that legal action may be taken to recover the debt without further notice.



two ways :: one outcome

- Stage 3** After 90 days Council's debt collection agency will be instructed to send a Final Demand Letter in an attempt to prompt a response from the debtor.
- Stage 4** After approximately 15 working days Council's debt collection agency will refer unpaid debts back to Council for further instructions.
- Stage 5** At this stage Council must decide on the appropriate course of action. This may be a Field Call or a Complaint depending on the amount of the debt. The relevant department also may wish to have the option of writing off the debt.

Freeze Credit

The Accounts Receivable Officer is responsible for monitoring all outstanding debtor balances. Where debtors do not make payment within 90 days and do not contact the Accounts Receivable Officer to enter special payment arrangements, the Finance Manager is authorized to freeze the debtor's credit with Council. The business unit manager/supervisor is to be advised immediately and must ensure that no further services are provided to the debtor.

Services may be provided, and credit extended, where debtors with frozen accounts repay the amount outstanding in full and subject to an analysis of the credit.

Recognition of Debts for Provision or Write-Off

Council must assess the probability of collecting long outstanding debts and provide for the possibility of non-receipt of monies or writing off amounts as "Bad Debt". The Finance Manager will undertake this assessment.

The Finance Manager will liaise with each business unit manager/supervisor to determine the provision or write off of debt based on the following criteria:

- All General Debtors sent for debt collection will be reviewed to determine their likelihood of receipt and provided as Doubtful Debt if deemed by the agency as uncertain.

Doubtful debts will be raised against the service unit that provided the service. This will show as a cost that offsets their revenue in their budget.

Bad Debts will be recognised only after all collection procedures have been exhausted. All debt write-offs will adjust the debtor's account against the provision for doubtful debts.

Approval and Conditions for Writing-off Bad Debts

One of the following conditions must be satisfied before a debt can be regarded as irrecoverable:

- The debtor cannot be located;
- It is uneconomic to finalise recovery action due to the relatively small value of the debt and/or the potential costs of recovery;
- The medical, financial or domestic circumstances of a particular debtor at that time does not warrant the taking of recovery action or further recovery action; and
- Legal proceedings through the courts have proved, or on legal advice would prove, unsuccessful.
- The debtor is bankrupt, in receivership or in liquidation. Further action may be taken if funds subsequently become available.

The Chief Executive Officer will have the discretion to write off any single debtor with total amount of less than \$10,000. The Directors will have the discretion to write off any single debtor with total amount of less than \$5,000. Any instance where this discretion is exercised will form part of the Reports to Council / Finance Committee and will contain a summary of the number of invoices and amount of debt written off.

All information relating to the process undertaken by Council staff in attempting to collect this amount will be available upon request.

Where the value of a debt is greater than \$10,000 and it is considered to be a Bad Debt, Council will receive a report prepared by the Finance Manager as to the nature of the debt, all collection processes undertaken to recover outstanding monies and a recommendation to write off the value.

Subsequent collection of all amounts provided for as Doubtful Debts or written off as Bad Debt will be recognised as revenue in the year in which they are received.

Evaluation and review:

This policy will be reviewed every two years or as required by changing circumstances or changes in legislation.

Approval and Review History

Date	Comment
8 June 2012	(Finance & Audit Committee) ratified by Council 10 August 2012 (390/2012)
9 October 2015	Reviewed no changes recommended.