

CREDIT CONTROL

FACT SHEET NO. 6 – NORTHERN IRELAND

When you are self-employed, it is very important to manage your income and outgoings carefully. For example, if your customers do not pay you on time, it can be difficult for your business to make a profit. When customers buy goods or services from you but pay for them at a later point, this is known as getting 'credit' from you. 'Credit control' is a term used to describe how your business:

- provides credit; **and**
- collects money from your customers.

Good 'credit control' procedures are very important to help make your business successful. This fact sheet makes some suggestions that will help you to set up good credit control procedures.

How can I set up good credit control procedures?

Customer credit application forms

When new customers request credit from you, ask them to complete an application form so that they provide the following information:

- The full name of their business, if they trade under any other name and details of who owns and runs the business (if they are self-employed).
- Their registration number (if they run a limited company).

- How much credit they want.
- Full details of who you can contact with questions about payment.
- Delivery and invoice addresses.
- Their bank account details including the account name, sort code and account number. This information can be helpful if you need to take action against the customer if they do not pay.
- You may wish to request at least two trade referees. These references will give you information about how well the customer pays other businesses for the goods and services they use. Use the sample letter at the end of this fact sheet to write to each of the trade referees.
- You may also wish to request consent for a credit reference check to be done. The credit check will give details of any county court judgments registered against the individual or their limited company and details of how long their business has been at its current address.
- You may ask for consent for bank references to be done. The bank will require this written permission from your customer before giving this type of reference to you. Also, you will usually need to pay the bank a fee. Bank references will be useful because you will be able to see if there have been any problems with the account (for example, the bank not paying cheques that the customer has written).

Remember

Check that your customer has completed the application form in full. The information it provides will help you to make a decision about whether to give them credit. You may also need to refer back to the information if your customer fails to pay.

Information

Further information on carrying out checks on potential customers can be found on the 'Pay on Time' website (payontime.co.uk).

You can also obtain copies of a limited company's accounts and other information from Companies House. This information can be downloaded online or you can pay a small fee to get it sent to you through the post. See the government's companies house website www.gov.uk/government/organisations/companies-house.

Agree terms and conditions

Ask your customer to agree to your full terms and conditions in writing before you supply goods and services to them. This will give you more protection if you need to chase payment from them in the future. Consider covering the following areas in your terms and conditions:

- The price of the goods and services you are providing.
- Delivery arrangements.
- The quality of goods and services that the customer can expect from you.
- Rules on how payment should be made.
- Your right to charge interest on late payments and to claim costs for recovering any debt your customer owes.

- Your right to record information with credit reference agencies about whether your customer pays on time.

Information

For contracts made on or after **16 March 2013**, there are new rules about how long your customers have to pay invoices. Where you do not include information about how payment should be made, the law sets a standard period of **30 days** if your customer is a public authority. If your customer is not a public authority, the law sets a standard period of **60 days**. For contracts made before **16 March 2013**, where you do not include information about how payment should be made, the law sets a standard period of **30 days** for all your customers.

What disputes may arise about payment?

Some examples of possible disputes that your customers may raise about paying their debts are listed below:

"I didn't receive the goods"

Make sure you get signed delivery notes from customers. Alternatively, get another type of written confirmation that the goods have been received (for example a confirmation letter or fax). If you need to take court action to deal with the dispute, these documents can be used to support your case.

"Your contract was not with me"

Make sure you know exactly who you are doing business with. If you are dealing with a limited company, it is very important to get its name exactly right. If you are dealing with a sole trader or a partnership, it is important to know

the names of the owner or the partners of the business. If certain technical details are wrong, this can sometimes make it difficult to successfully take court action to recover a debt.

“I didn’t order the goods”

Always get a written order from your customer, even if it is a short letter, email or fax, to prove that they ordered the goods or services in question. These documents can be used to help support your case if you need to take court action to recover a debt.

“The goods were faulty”

If your customer does not pay an invoice on time, send out letters to chase up payment. Ask the customer to explain any complaint they have and to describe any faults that they have found with the goods or services that you have provided. If they are given opportunities to do this and fail to do so, any complaints made later are not likely to be as strong.

You could ask customers to sign and confirm that items are in good order when they are delivered. You could also state in your terms and conditions that they should tell you in writing about any complaints or shortages within a certain time scale after receiving the goods.

“Under the terms of the contract, I do not have to pay you”

Make sure that you have a set of terms and conditions that protect you and which enable you to ask for early and full payment of an invoice. You could print the terms and conditions on the reverse of your order form. Ask the customer to sign to say that they

confirm that they agree with these terms and conditions when the goods are delivered.

How can I deal with unpaid invoices?

There are different steps that you can take to help you chase up unpaid invoices. Set aside time on a regular basis to take these steps.

- Write to the customer after the time for payment has gone by. Ask for full payment within a set period (for example, **seven days**).
- Write to the customer again after the set period has gone by if payment is not received. Tell them that a final reminder will be sent if they do not pay within a further couple of days. You may also decide to tell the customer that their account is frozen and that no further credit will be given until the amount owed has been paid.
- Consider whether you will charge interest and compensation even if there is nothing about this in the contract you have with them. See the website www.payontime.co.uk for advice on this or **phone us for advice**.
- Court guidelines state that a ‘final reminder’ or ‘final demand’ should be sent to the customer. This should give them at least **14 days** from when they receive your letter to pay before further action is taken. Use the sample letter at the end of this fact sheet.
- If your customer responds to your letter by raising a dispute about the debt, there are other court procedures and timescales that you should follow. **Phone us for advice**.



Advice

Ask your customer if they are experiencing financial difficulties. If they are, you

could consider accepting payment by instalments.

If these steps are not successful, consider taking further action. See the next section 'What further action can I take?'

Advice

Make a record of any telephone calls that you make. Also, keep a copy of each letter you send. This will be useful if you do take court action in the future.

What further action can I take?

Solicitors and debt collection agencies

You could consider using a third party to act on your behalf to recover the debt. This could be a solicitor or a company that specialises in collecting debts (known as a debt collection agency).

The **advantages** of using a debt collection agency are likely to be:

- their fees are low compared to solicitors;
- they can usually deal with matters such as serving legal documents, tracing customers, getting legal status reports and so on;
- they can usually deal with all aspects of taking court action.

The **disadvantages** of using a debt collection agency are likely to be:

- their staff may not be legally trained;
- they will charge you for their services; **and**
- they usually only deal with undisputed debts.

The **advantages** of using a solicitor are likely to be:

- their staff will be legally trained;
- they have expertise in dealing with disputed debts and coming to agreements with customers; **and**
- they will only use legal action to recover debts so this may help you to collect debts quickly.

The **disadvantages** of using a solicitor are likely to be:

- they will usually instruct an agent to serve legal documents, trace customers, obtain legal status reports and so on. They could charge you more for doing this;
- they will not usually visit your customer; **and**
- their fees are high compared to debt collection agencies. It is a good idea to agree their fees in advance.

Information

If you take legal action against someone, this does not necessarily mean that you will be paid. See the next section 'court claims' for more information.

Court claims

You could ask the county court to confirm that your customer owes you money. This is done by making a 'claim' and the county court is where most claims are issued.

There are three different courts then which have a different claim limit:

Small claims court

The small claims court is used for simple cases where up to £3,000 of debt is owed. Examples of where the small claims court is used include consumer claims, faulty goods, goods not supplied, recovery of goods or money and breach of contract.

If your claim is for a fixed amount that is below £3,000, you may be able to start a claim via the internet using the NI Court Service small claims online at <http://www.courtsni.gov.uk/> or **phone us for advice**.

County court

The county court is used in cases where £3,000 to £15,000 is owed.

If your case is straightforward, you could prepare the claim, present the case and handle the enforcement on your own. But you may wish to seek advice from a solicitor. You should note that:

- legal aid is not usually available for debt recovery
- legal costs aren't normally recoverable.

High court

The High Court is used for complex cases and all cases over £15,000.

You must have a solicitor to represent you for a case to be heard in the High Court. You should therefore seek a solicitor specialising in debt recovery. If you have trouble in finding a solicitor or would like further information, **phone us for advice**.

Information

Even once a claim has been issued it is not too late to sort out the dispute with the customer through some form of alternative dispute resolution and so avoid further court action.

Whichever course of legal action you choose, you must send a final warning letter to the customer before you begin court action. It is advisable to send the letter using a signed-for delivery service so the customer can't deny receiving it.

See the previous section 'How can I deal with unpaid invoices?' for best practice in dealing with debt recovery.

Before taking court action, consider whether it is likely to be successful in getting your money back. For example, if your customer does not have any assets or spare income, court proceedings may not help you to get paid as quickly as you would like. Also, think about whether there is any possible defence to your claim. When someone has a defence, it means that they have reasons to dispute owing all or part of what you have claimed. If you do not consider these things, taking court action could mean spending further time and money that you cannot recover.

Bankruptcy or winding up petitions

If you are owed **£750** or more, you could consider petitioning for your customer's bankruptcy. A bankruptcy order would mean that any assets or property that your customer owns could be sold to help pay off the debts they owe. You would first need to issue a 'statutory demand'. This is a demand for money drawn up in a set format.

There are high fees to pay to make someone bankrupt. Therefore, it is important to know

what assets your customer has and if there are other debts they owe.

This will help you to decide if you are likely to recover your money by taking this type of action. If your customer runs a limited company, the process is known as presenting a 'winding up petition'.

There are different rules about this process. If you are considering this option, **phone us for advice.**

Remember

A good credit control system can help to reduce the number of disputes you have with customers. It will also help to reduce the number of debts that arise. This will help you to run your business successfully.

Remember: You can always contact us for advice about any difficulty you have in dealing with your debts. Advice and information for businesses in NI is provided by Business Debtline working in partnership with Advice NI.

Freephone 0800 0838 018 Websites www.businessdebtline.org www.adviceni.net

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Debt still outstanding after reminders - sample letter

Use this letter to ask a customer to pay the money that they owe you before taking court action against them. Put your business letterhead at the top of the letter.

(Your business address)

To: _____

Date: _____

Dear Sir/Madam

Account No: _____

Overdue amount: £ _____

I am/we are writing to you because your payment for invoice number(s) **[insert invoice number(s)]** is now **[insert number]** days overdue. You have not raised any queries about your account, so I/we assume that the balance you owe is not disputed. I/we have enclosed a copy of the unpaid invoice(s).

Unless payment is received by **[insert a date at least 14 days after your customer should receive your letter]**, I/we will have no alternative but to take legal action to recover the money you owe. If you allow this to happen, court costs will be added to the debt. Credit reference agency records may show that you have a court judgment against you and this may affect your ability to get further credit.

If you would like to discuss options to repay what you owe, please contact me/us within 14 days of receiving this letter.

I/we look forward to hearing from you.

Yours faithfully

(Your signature & Name)

(Your

Company)

Request for a trade reference - sample letter

Use this letter to request a reference from a trade referee. Put your business letterhead at the top of the letter.

(Your business address)

To: _____

Date: _____

Dear Sir/Madam

Re: [insert company name]

I/we have received an application for a credit account from the above named company. Your name has been given as a referee. Therefore, I/we would be grateful if you could answer the following questions.

- How long has the customer traded with you? _____
- What are your terms of payment? _____ days
- Does the customer generally pay within the time required? YES/NO
- Would you consider the customer to be a good credit risk? YES/NO

Please add any other comments you feel are relevant below.

Once you have completed this form please return it in the envelope provided.

Thank you for your assistance.

Yours faithfully

(Your signature & Name)

(Your

Company)