



## Credit control

Fact sheet no. BDL08 EW Credit control

October 2017

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.

Use this fact sheet to:

- set up good credit control procedures;
- find out about dealing with disputes;
- understand late payment law; and
- see what further action you can take if you have not been paid.

The sample letters mentioned in this fact sheet can be filled in on our [website](#).

## 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.
- 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. See the sample letter [Request for a trade reference](#).



- Consent for a credit reference check to be done. The credit check will give details of any county court judgments (CCJs) registered against the individual or their limited company and details of how long their business has been at its current address.
- 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).

## Further checks

There are a number of organisations who will assess companies for you, to help you decide whether to give them credit (for example Dun & Bradstreet, Equifax and Experian). See **Useful contacts** at the end of this fact sheet.

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. Go to [www.gov.uk](http://www.gov.uk) and search for Companies House.

### Information:

INFO

#### Credit checks

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

### Remember:



#### checking the application

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 to the information if your customer fails to pay.

## Agree terms and conditions

Ask your customer to agree to your 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:

INFO

### new rules for invoices

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.

## Disputes about payment

Some examples of possible disputes that your customers may raise about paying their debts are listed below. We have given some tips on how these disputes can be avoided.

### “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 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 within a certain time after receiving the goods from you.



## "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 agree with these terms and conditions when the goods are delivered.

## Dealing 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 payment within a set period (for example, **14 days**). See the sample letter [Debt still outstanding after reminders](#).
- 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 within a further couple of days if they do not pay. 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 under the **Late Payment of Commercial Debts (Interest) Act 1998**. This can be charged on a debt owed by another business to you, even if there is nothing about this in the contract you have with them. See the website [payontime.co.uk](http://payontime.co.uk). If the **Late Payment of Commercial Debts (Interest) Act 1998** does not apply, there may be other legislation which allows you to charge interest. **Contact us for advice.**
- If you want to make a court claim against an individual or a sole trader, and there isn't a specific pre-action protocol which applies, you will need to follow the [pre-action protocol for debt claims](#).
- If your customer responds to your letter by raising a dispute about the debt, the timescales that you should follow may be different. **Contact us for advice.**

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

### Extra advice:



#### Is your customer struggling?

Ask your customer if they are experiencing financial difficulties. If they are, you could consider accepting payment by instalments.

### Extra advice:



#### record keeping

Keep 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.



## Further action

### 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 firm of solicitors 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 will visit your customer's premises and discuss payment if requested; and
- 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; 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 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:

INFO

#### is legal action worth it?

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

### County court claims

You could ask the County Court to confirm that your customer owes you money. This is done by making a 'claim' in the County Court.

- There are set costs that you have to pay to do this.
- Your customer could admit or dispute the claim. If they dispute it, there will usually be a hearing to decide the case.



- If you are successful in taking this action, a county court judgment will be made against your customer. This is a court order which states what is owed and how the debt should be paid back (for example, by instalments).
- If your customer still does not pay, you can take different types of action to get your money back. This is known as 'enforcing' the debt.

Before taking this type of 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, a county court judgment 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 county court action could mean spending further time and money that you cannot recover for a long time.

**See our fact sheet:**  
**Claims in the county court.**



## Bankruptcy or winding up petitions

If you are owed **£5,000** 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, **contact us for advice**.

### Remember:



#### why you need credit control

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.

**See our fact sheet:**  
**Bankruptcy.**



## Useful contacts

### Companies House

Phone: 0303 123 4500

[www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

### Dun & Bradstreet

Phone: 0800 001 234

Email: [ukenquiries@dnb.com](mailto:ukenquiries@dnb.com)

[www.dnb.co.uk](http://www.dnb.co.uk)

### Equifax Ltd

For seeking information about other businesses.

Phone: 0800 014 2955

[www.equifax.co.uk](http://www.equifax.co.uk)

### Experian

Phone: 0844 481 9914

[www.experian.co.uk](http://www.experian.co.uk)

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We have over 20 years' experience of helping people just like you.

We are the only small business debt advice charity operating in the UK.



## Equifax Ltd

For seeking information about individuals.

Phone: 0845 603 6772

[www.equifax.co.uk](http://www.equifax.co.uk)

## Pay on Time

Email: [support@payontime.co.uk](mailto:support@payontime.co.uk)

[www.payontime.co.uk](http://www.payontime.co.uk)

**MONEY**  
ADVICE TRUST



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