

CABINET

13 October 2015

Title: Payment by Instalments	
Report of the Cabinet Member for Finance	
Open Report	For decision
Wards Affected: All	Key Decision: Yes
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Accountable Director: Jonathan Bunt, Strategic Director, Finance & Investment	
Summary This report sets out the Council's position in respect of offering residents the ability to pay by instalments for goods and services received. The report analyses the potential services that could be subject to payment by instalments, the administrative costs of providing this facility, and the impact on income collection.	
Recommendation(s) The Cabinet is recommended to: (i) Note the content of this report and agree to introduce a payment by instalments policy; (ii) Agree the services that a payment by instalments policy will apply to as set out in paragraph 3.5; (iii) Agree that the policy shall only apply to Barking and Dagenham residents; (iv) Agree to the options as set out in paragraph 4.5 of this report; (v) Note the financial implications arising from introducing this policy; (vi) Note that the appropriate amendments shall be made to the Council's Financial Regulations and Rules (Part 4, Chapter 2 of the Council Constitution) to reflect the new arrangements and reported to the Assembly for information; (vii) Agree to review the policy after one year of its introduction to assess the impact on the Council's income, bad debt provision and the cost effectiveness of the policy.	
Reason The ability to offer the Council's residents the ability to pay for services by instalments	

supports the Council's Policy aim of ensuring a well run organisation, delivering its statutory duties through offering residents increased choice on how to pay for goods and services.

1 Background

- 1.1 The Council currently does not offer residents the ability to pay for goods and services by instalments under a standard policy. For a number of services, payment is often taken up front, prior to the goods or services being delivered. In some instances, the Council's accounts receivable team will set up instalment plans if the resident faces difficulties in repayment of their debt.
- 1.2 Historically, the Council operated a payment by instalments policy for dropped kerbs. However, this policy was withdrawn after some residents failed to pay after the first few instalments, leading to the current prepayment policy for certain services.
- 1.3 At present, the Council operates approximately 950 payment by instalment plans. These have been set up as a result of customers falling into financial hardship and being unable to repay the monies owed to the Council.
- 1.4 This report assesses the services where payment by instalments can be offered as an option and the associated financial implications.

2 Options for payments by instalments

- 2.1 There are a number of options to consider before a decision can be made regarding a payment by instalments policy.
- 2.2 Consideration needs to be given to the following:
 - Which services the policy should apply to and who the policy should apply to;
 - The minimum qualifying value for the policy;
 - The percentage of prepayment required and the number of payment instalments to maximise collection of income;
 - The proposed administration charge to offset the additional set up, monitoring and review costs;
 - The proposed charge to mitigate the impact on the cash flow and the percentage of income collected;
 - The impact on the Council's provision for bad debts and write offs.
- 2.3 The payment by instalments policy is expected to operate on a full cost recovery basis to ensure that the Council incurs no additional costs by operating this facility.

3 Services in scope of the policy

- 3.1 The 2015/16 budget for fees and charges is approximately £40m. The income is generated from a range of services including but not limited to adult social care, nursery fees, use of recreational facilities, parking and licensing.
- 3.2 For services that are supplied weekly or monthly, the cost of administration to

create/monitor payment plans would be significant and impractical.

- 3.3 Therefore, it is proposed that payment plans are offered to only residents of the borough, for those wishing to pay for one-off services, increasing consumer choice over how services are paid for, and improve accessibility to Council services.
- 3.4 To minimise risk to the Council's income collection and cash flow, it is proposed to apply the policy to a limited number of services initially so the impact can be assessed over a period of time prior to wider roll out across all services deemed suitable.
- 3.5 The services that have been identified as suitable for payment by instalments are funerals, hire of halls, registrars, dropped kerbs and hire of pitches. At present, an instalment facility is already offered for hall and pitch hire, however it is proposed to standardise the policy so instalment plans are offered on a consistent basis for the services identified.
- 3.6 In order to estimate the level of demand and to assess the potential impact on the cost of collection, an analysis has been carried out on the services above to assess the value and volume of the transactions based on bandings of £500. These figures have been used to model assumptions in this report.

Value range*	Number	Value
£0 - £499	3,126	£344,561
£500 - £999	381	£265,104
£1,000 - £1,499	69	£79,887
£1,500 - £1,999	35	£59,864
£2,000 - £2,499	43	£94,956
£2,500+	66	£450,539
Total	3,720	£1,294,911

- 3.7 The table illustrates that 84% of the transactions are below £500 and form 27% of the total value. The remaining 16% of the transactions over £500 form 73% of the value and amounts to over £950,000. There are 213 invoices over £1,000 and total £685,000 and form 53% of the total value.

4 Analysis of the proposed options

4.1 Minimum qualifying value

- 4.1.1 Based on the analysis above, it has been proposed to set the minimum qualifying value for one-off goods and services at £500, which will impact on £950,000 of the total income for these goods/services already invoiced. The exact volumes are difficult to quantify at this point as services such as dropped kerb currently operate on the basis of prepayment.

4.2 Percentage of upfront payment and number of instalments

- 4.2.1 In order to reduce the impact of income collection, it is proposed that the service

user pays an initial payment towards the overall cost. The initial payment also demonstrates an ability of the service user to be able to maintain the monthly instalments.

4.2.2 For invoices between £500 - £999, an initial payment of £150 will be required. For invoices over £1,000, an initial payment of £250 will be required.

4.2.3 The proposed time period the Council would offer payment plans over would be between 6 months and up to a year. Any payment plans offered beyond a year would become extremely difficult to enforce, minimising the Council's ability to effectively collect the income.

4.2.4 To facilitate prompt payment of the monthly instalments, the service users offered a payment plan will also be encouraged to set up direct debits. Directs debits are the most cost effective and efficient form of collecting income, with the lowest transactional cost. It is recommended that all service users who take advantage of payment by instalment plans must pay via direct debit.

4.3 **Proposed administration charge and additional set up costs**

4.3.1 There will be administrative costs involved in setting up individual payment plans. Each payment plan will require an account to be set up on the system, an assessment of the individual's income and expenditure, monthly invoices to be issued, monthly monitoring of the account and debt enforcement action taken. It is estimated that an additional 0.5 scale 6 officer at a cost of c£17,500 will be required to set up, administer, monitor and enforce these debts.

4.3.2 In order to offset the additional costs incurred, to be consistent with the Council's policy on achieving full cost recovery, it is proposed that a one off administration charge is applied to each instalment plan set up of £35.

4.3.3 Based on 500 payments plans a year, the level of income generated will cover the additional administration cost of £17,500. The volumes will need to be monitored to ascertain whether the additional cost is being fully recovered or whether demand is such than additional administrative capacity is required.

4.4 **Potential impact on cash flow/income collection/ Charge for the facility**

4.4.1 To minimise the impact on the Council's cash flow, a charge of 1.5% will be applied to all payment plans. This charge is based on what the Council can generate through investing its money. This charge will be reviewed annually, and will be set based on the potential loss of investment income to the Council.

4.4.2 The charge applied should also take into account of the current collection rates of general income. The current collection rate is c95%, therefore an additional 5% charge should be applied to the payment plans.

4.4.3 Due to reasons above, it is proposed that these payment plans will incur a charge of 6.5% to cover the potential bad debt provision and to neutralise the impact of cash flow loss to the Council. This is, again, consistent with the Council's policy on ensuring it recovers all costs it incurs in offering this policy.

4.5 To summarise the above, the recommended options are:

- Minimum qualifying value - £500
- Upfront payment - £150 for invoices between £500 to £999; £250 for invoices over £1,000
- The number of instalments/months for repayment – maximum of 12 months
- The level of administration charge per payment plan - £35
- The cost of facility is 6.5%

4.6 To illustrate the impact of the options, an example has been drawn up showing the cost of a service without a payment plan, and the cost of a service with a payment plan. Therefore, two prices will apply for these services – the price for a single payment and a price to those paying by instalments.

Illustration of the financial impact of a payment plan

Service/Cost/Charge	Financial impact
Dropped kerb	£1,000 paid upfront
If paid by instalments:	
Cost of dropped kerb	£1,000
Admin and processing fee	£35
Charge for cash flow loss 1.5%	£15
Bad debt provision	£50
Cost of dropped kerb	£1,100
Difference between upfront payment and payment by instalments	£100

5 Debt collection and enforcement action

5.1 In line with the Council’s standard debt collection policy, enforcement action will start within 21 days after the invoice was issued.

5.2 To ease the administrative burden of these payment plans, if one instalment “fails” for any reason, the resident will have one chance to rectify this and pay the instalment within 21 days of the due date. The second time the instalment fails will lead to the entire plan being cancelled and at that point, the whole amount will become due.

5.3 The service user will be sent two reminders and a claim form. If the debt still hasn’t been settled after the two reminders and the debt is over £300, the Accounts Receivable department will issue a County Court Judgement. The cost of issuing a County Court Judgement is £45 and this cost will be applied to service user’s account and increase the amount they owe to the Council.

5.4 To minimise the level of non collection and an adverse impact on income, it is recommended that service users who default on payment instalments or fail to pay for their services should be refused future services until their debts have been settled in full. This policy will only apply to services outlined in this report.

5.5 The additional 0.5 scale 6 employee required for the administration of the payment

plans will cover the cost of monitoring and enforcing these debts.

6 Impact on income collection

- 6.1 The charge applicable for the payments by instalments policy assumes a 5% collection loss and also a 1.5% cash flow loss to the Council. As this policy will operate on a full cost recovery basis to the Council, the charges will apply to those wishing to spread the cost of their payment over a maximum 12 months basis.
- 6.2 For general income, the Council is currently collecting 95% of income billed. In order to assess the impact on income collection, it is assumed that c£1,000,000 of fees and charges could be subject to this policy. A 5% loss of collection on £1m equates to broadly £50,000 which will be recovered through the 5% charge for bad debt cover.
- 6.3 There are risks that if the collection rate falls below 95%, the Council will no longer be operating on a full cost recovery basis. If the collection rate fell to 92.5%, there will be a loss of income of £25,000 per annum.
- 6.4 The intention is that the bad debt provision charge will offset against the loss of collection. However, if the debts are not collectable, it is unlikely that the additional charges will be recouped.
- 6.5 The level of income collected will also impact on the level of bad debt provision required, which will also be an additional cost to the general fund.

7 Recommendations

- 7.1 In order to implement a payments by instalments policy for goods and services specified above – pitch hire, hall hire, registrars, funerals and dropped kerbs, Members are recommended to agree the charges set out in section 4.5 of this report in order to operate a scheme that reflects a full cost recovery basis for the Council.

8 Financial Implications

Implications completed by: Carl Tomlinson, Group Finance Manager

- 8.1 This report proposes a number of options for the payment by instalments policy.
- 8.2 Although the charges attempt to fully recover the cost of administration to the Council, the impact on the Council's income will depend on the actual collection rates for these debts. Based on the above charges, the Council is assuming a non collection rate of 5% and the charge has been set to reflect this. In broad terms, each 1% of debt not collected will create an income shortfall of £10,000. The Council's existing policy is to create a bad debt provision of 100% of all debts over a year old. This will create a further charge to the general fund and reduce the total income collected.
- 8.3 It is difficult to assess with certainty what the demand will be for this facility. Modelling undertaken has set the charges for the model to operate on a full cost recovery basis, however, this will need to be closely monitored to assess the

volumes/demand levels, the collection rates, the cash flow loss and the cost of administration.

- 8.4 To minimise the risk of income loss to the Council, the impact on the Council's income collection and bad debt provision will be assessed within 9 to 12 months a further paper brought back to Cabinet.

9 Legal Implications

Implications completed by: Dr. Paul Feild, Senior Governance Lawyer

- 9.1 The Council holds a fiduciary duty to the ratepayers and the government to make sure money is spent wisely and to recover debts owed to it. If requests for payment are not complied with then the Council seeks to recover money owed to it by way of court action once all other options are exhausted
- 9.2 The measures outlined in this report present a way forward to enable residents and service users' greater opportunities to access paid-for goods and services and widen access by making such items affordable. By increasing affordability it is likely to have an effect in reducing debts owed to the Council.
- 9.3 While potentially there could be some risk of people taking on liabilities they will have difficulty making payment with this is true in all walks of life. These measures will enable people to better manage their personal finances and increase their choices, furthermore such arrangement may have an additional positive effect, that there will be less need to resort to excessive high interest charging borrowing from example pay-day load companies.

10 Other Implications

- 10.1 **Risk Management** - The principal risk from the introduction of this policy is in relation to the non or partial collection of any monies due to the Council. This is principally mitigated by the measures outlined within the report, e.g. a provision for non collection built in as part of the cost of paying by instalments and a defined process for the cancellation of plans in the event of missed instalments.
- 10.2 **Staffing** - If implemented, this will create an additional part time role within Elevate East London. This will be reviewed after an initial period to establish whether the role needs to be substantiated and at what proportion of a full time equivalent role.
- 10.3 **Contractual Issues** - The introduction of this policy will need to be reflected as a variation to the contract with Elevate East London via a Council change notice, in particular to agree the additional staffing resource.
- 10.4 **Corporate Policy and Customer Impact** - The introduction of this policy will have a positive benefit for residents of the Borough by providing them the option to pay large invoices over an agreed period of time rather than in a single payment.

Public Background Papers Used in the Preparation of the Report: None

List of appendices: None