

**Direct Debit Charges and Arrangement Fees - Draft Executive Report****Recommendations**

- 1. Approve the extension of the administration charges relating to arrangements made to pay Council Tax and Business Rates; building on the success of the charges introduced in the previous year to arrangements made after a customer is summonsed, by applying the £12 administration fee to all arrangements made, whether pre or post summons;**
- 2. Approve the provision to waive the charges for Direct Debit failures and Arrangements completely for those deemed as financially vulnerable.**

**Background**

3. Fees for direct debit failures and arrangements post summons were introduced to cover the administration costs last year. If a customer's direct debit fails due to insufficient funds, they are charged £12. If they are summonsed to court and then decide to make an arrangement to pay their debt over a time period that suits them, they are charged an arrangement fee of £12. However, the current charging approach enables all customers struggling to pay to contact the council and make an arrangement to pay off their council tax or business rate arrears prior to any summons process, thereby encouraging their proactive management of their debt. Arrangements made at this early stage are not charged for, the administrative costs being borne by the Council, and a large number of customers, 12000 a year; (over 1 in 6 local tax payers) make these pre-summons, free, arrangements. Where a customer can't pay, instead of won't pay, the current process allows the council to show discretion in levying charges. Obviously the costs of council tax and business rate administration are shared by all council tax payers.
4. As agreed at Overview and Scrutiny Board, on the introduction of the current charges last year, a full and comprehensive review of the process has been undertaken.
5. These proposals are being brought forward as a result of that review, building on the success of the charges introduced in reducing direct debit failures and developing the fees structure that encourages earlier settlement of debt while covering the Councils administrative costs without reducing the protection for the financially vulnerable.
6. The changes being proposed will continue to help low income working families; these are those that have to pay some council tax but are struggling to pay as their household costs continue to rise. They will also protect other financially vulnerable groups e.g. those who receive any level of Council Tax Benefit (to become Council Tax Support from April 2013).
7. Council Tax Collection rates appear to be on track for an all time high of 96.5% despite a double dip recession

**The current position**

8. The current charging process is to raise a charge of £12 on a customer account when:
  - A direct debit has failed due to insufficient funds or;
  - For an arrangement after a court summons. When a liability order has been obtained at court this enables the council to make an attachment to benefits or earnings to recover the arrears directly from benefits or the customers wages.

9. The current process is estimated to collect in 2012/13:
- £20,000 in direct debit admin fees;
  - £44,000 in arrangement admin fees.
10. With regard to direct debit failures:
- The number of direct debit failures is lower in numbers than previous years and this is seen as a positive impact of the process;
  - If an issue is raised by a customer who is usually a regular payer but they have for some reason run into financial problems on a particular payment date, the Council has the ability to use its discretion and waive the charge;
  - When customers are charged for a direct debit failure for insufficient funds, there is a general acceptance from customers that the Council has to recover its costs;
  - Since the introduction of charges for direct debit failures, there has been no negative impact on the number of people choosing to pay by direct debit, (in fact the number of Direct Debit payers has risen and on track to over achieve on the target for 12/13);
  - There have been no complaints resulting from the process;
  - The conclusion of the review is that the charge on direct debit payers has made a positive impact on collection rates with no impact on customers who make a regular commitment to pay.
11. With regard to post summons arrangement fee charges:
- Customers who have got to this stage in the recovery process and attended court are clearly in difficulty settling their debts. There is no evidence to suggest the charging of an admin fee for an arrangement at this stage is having any effect on customer behaviour as this is a minor expense compared to the money owed;
  - The Council normally recovers payment through an attachment to earnings or attachments to benefits order so the charge is spread over a period of time that suits the customer;
  - Approximately 3,000 charges are raised for post summons arrangements each year and this helps the Council recover its administration costs.;
  - The total cost of administration including staff time to send out reminder and summons letters is estimated to be £15 per action. If the process was changed to encourage up to 3,000 customers to settle earlier removing the need to send out reminder and summons letters, this could potentially save another £45,000 in administration costs. From the experience gained from the introduction of charges customer behaviour is expected to follow this pattern when charges are introduced at this earlier stage.
12. Overall the review notes, charges were introduced to encourage customers to settle their debts sooner and to cover the Councils actual costs of administration of direct debits and arrangements. The review concludes:
- Income from admin fees is less than expected and this is a positive outcome because it is evidence that the process has changed customer behaviour;
  - The process has had no negative impact on the continuing uptake of direct debits as a method of payment. This has increased from 64.5% in April to 65.2% by September and is on track to achieve an all time high of 66% by the end of year. This is an increase of over 1,300 new direct debit payers;
  - Council Tax Collection rates appear to be on track for an all time high of 96.5% despite a double dip recession which indicates the process has made a positive contribution to collection.

## Goals and Objectives

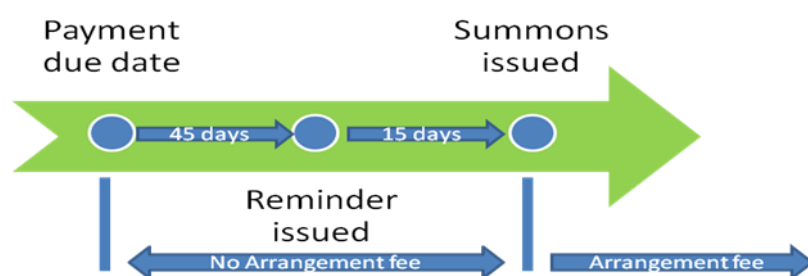
13. The objectives of the income service (supported by the charging regime) is to:

- Encourage switch to the cheaper payment channel of direct debit to avoid missed payments;
- Encourage the settlement of debt;
- Cover all payment failure administration costs;
- Protect the financially vulnerable and encourage better personal financial management.

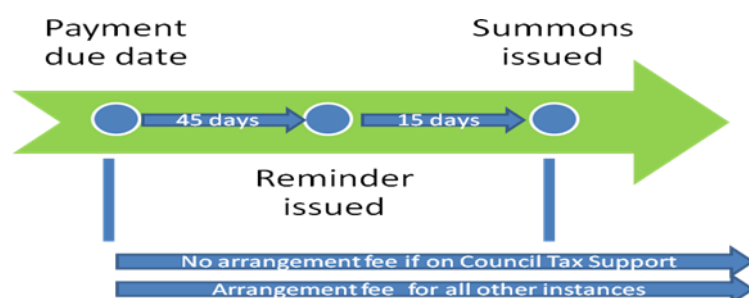
## Proposal

14. For the purposes of this report the financially vulnerable are identified as being in receipt of Council Tax Benefit / Council Tax Support or for business rate payers those organisations receiving Discretionary Rate Relief. The following options to the current charging process have been considered in this report:

15. Option 1 – Do nothing and keep current charges. While this process has been very successful at reducing direct debit failures, it is possible in option 2 below to make a minor change in the process and reduce administration costs while helping working families on low incomes. The current charging timeline for a person who has not missed a payment before is depicted in the diagram below:



16. Option 2 – Charge for all arrangements made except for those who are financially vulnerable. Those not working are already protected as they are not liable for Council Tax. This change is designed to help low income working families. From the consultation that occurred this autumn on the Council Tax Support Scheme, analysis of the feedback received highlighted that it is those working families that are on low incomes that need the most support as they are liable for payment of some Council Tax and are suffering increasing household costs. To enable them to make work pay the following process change is proposed:



17. The table in Appendix 1 describes the advantages and disadvantages of each option considered.
18. Option 1 leaves the current successful arrangements in place with officers using discretion on charging if a customer makes their financial difficulties known to the Council at the time.
19. Option 2. This option proposes to means test the application of charges across DD's and all arrangements. If the customer is in receipt of council tax benefit / support, a charge for a missed direct debit or setting up an arrangement (post or pre-summons) would not be levied. This process change continues to encourage the financially vulnerable to contact the Council for advice early without fear of increasing their liability. For the remainder of customers, it is proposed that arrangements would still be available, but at a cost of £12. This charge will potentially encourage more customers to take up direct debit payments as an alternative payment method to avoid missing a payment, or settle their debt immediately instead of making an arrangement and being charged. The change supports the ambition of the Council Tax Support Scheme to make work pay by supporting those working on low incomes while charging those who can pay but, decide to put off payment.

## 20. Financial Impact of Option 2

The changes proposed in Option 2 support low income working families as they would be exempt from arrangement and DD charges. Those with no income receive a full discount on their Council Tax and therefore do not come into consideration. Last year 18%, (2,160 people) of those making arrangements, were claimants on council tax benefit. These people would continue to approach the council and make arrangements to pay their debt without fear of a charge. It is estimated that 3,000 customers to avoid charges will settle early instead of paying a charge for an arrangement, as suggested in paragraph 10 above, this would save £45,000 in recovery costs. This leaves approximately 6,000 people who would chose to continue to make arrangements and pay a £12 charge raising an additional £72,000 income. The costs to Customer Services in raising this charge are estimated to be in the region of £4,500 per annum. This is all summarised in the table below:

### Financial Impact

Item	Amount Charged	Admin Saving	Description
2160 low income working families making arrangements on council tax benefit or Council Tax Support	£0	£0	No charge levied as the process has been designed to support these people.
3000 people choosing to pay immediately after a DD failure or receiving a demand and contacting the council	£0	£45,000	Behaviour change to avoid charges. Reduced recovery processes. Funding reduction already factored into next years budget.
6000 arrangement charges	£72,000	£0	People selecting to make an arrangement and defer payment over a financial year.
Customer Services new administration costs		-£4,500	Time taken by Customer Services to make a charge for chargeable arrangements.
Total	£72,000	-£4,500	Net £67,500

## 21. Recommendation

Officers recommend that option 2 is implemented immediately as this protects the financially vulnerable low income working families and makes it more attractive to them to set up Direct Debits, but also distinguishes between those who can pay so that they cover the administration costs to the authority (and the wider tax payer) of setting up arrangements’.

## Key Risks of Option 2

Risk	Mitigation
Customers not happy with new arrangement fee	<ul style="list-style-type: none"><li>• Train customer services staff.</li><li>• Communications plan to explain the financially vulnerable are protected.</li><li>• Member bulletin to enable local support from Members.</li><li>• Voluntary organisations briefed.</li></ul>
Disproportionate effect on some debtors	<ul style="list-style-type: none"><li>• Advice given to customers in difficulty.</li><li>• Fees waived for the financially vulnerable</li></ul>
Potential decrease in summons income	<ul style="list-style-type: none"><li>• No mitigation is required as this is a benefit to customers as they will avoid court costs.</li></ul>

## Consultations

22. Formal consultation on the replacement of Council Tax Benefit with Council Tax Support was undertaken between the 6<sup>th</sup> August and the 5<sup>th</sup> October. Feedback from this consultation has influenced the development of these proposals to protect low income working families An IIA for Council Tax Support has been completed to assess the impact and will be reviewed post implementation after 6 months.

## Appendices attached:

23. Appendix 1 - Table of proposals

## Background Papers:

24. There are no background papers to this report.

## IMPLICATIONS

		Clearance – agreed by:
Legal	There are no direct legal implications to the report	
Finance	Detailed in the main body of the report	
<b>Integrated Impact Assessment (IIA) – Key Points</b>		
Equalities/ Cohesion/ Inclusion (Social Justice)	An IIA for Council Tax Support has been completed and will be reviewed six months after implementation of the scheme.	
Environment	There are no direct environmental implications to the report	
Health	There are no direct health implications to the report	
Community Safety	No impact.	
Staffing	No impact	
Other	No impact	

## APPENDIX 1

Option	Objectives Met	Advantages	Disadvantages	Financial Impact
1: Stay as existing	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>No encouragement to pay earlier</li> <li>Financially vulnerable not protected</li> <li>Less income generated</li> <li>Collection figures remain at current levels</li> </ul>	Lost opportunity to deliver an additional £67,000
2: Charge for all arrangements.	<ul style="list-style-type: none"> <li>Encourage switch to the cheaper payment channel of direct debit to avoid missed payments.</li> <li>Encourage earlier settlement of debt.</li> <li>Cover all payment failure administration costs.</li> </ul>	<ul style="list-style-type: none"> <li>Protects the financially vulnerable.</li> <li>Reduces potential debt of customers who are least likely to have the ability to pay</li> <li>Encourages customers to pay earlier rather than make an arrangement</li> <li>Generates additional income</li> <li>Improves collection rates</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>	£67,500