

Debt Collection for Childcare Settings



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Collecting Childcare fees can be a difficult and sensitive issue for providers. In the event of non payment, excluding a child can be a challenging, emotional step to take, with providers being all too aware of the potential impact on the children affected. What needs to remain paramount, however, is the sustainability of the setting and its ability to provide a high quality service. This information sheet will help provide tips on how to prevent a spiralling debt situation occurring in your setting. In many cases, clear policies and good communication with families can largely prevent debts arising or reaching unmanageable levels.

Understanding Why Debt Can Occur

Understanding how families find themselves in debt with fees can help providers develop effective policies and strategies. There are usually 3 main triggers which can create a debt situation. These are:

1. **Changing circumstances (divorce, redundancy, bereavement etc)**
2. **Poor money management**
3. **Spending behaviour**

Debt can slowly build up over time, or occur suddenly, for instance in the case of redundancy or illness. Debt can have a major personal impact, affecting relationships within and outside the family. Sometimes individuals keep the debt a secret from their partner or other family members, hoping it will resolve itself, or through not wanting to cause anguish to others. Childcare providers might discover this when approaching a parent who is not aware of financial problems of their partner, resulting, for instance, in bounced cheques.

In the case of families owing money to various businesses, they often expect a more understanding and lenient approach from a childcare provider, than for example, a commercial moneylender. Therefore childcare fees can be last on the list for families to commit funds to.

Understanding triggers of debt and its impact can help providers develop ways to work effectively with families. This benefits both the sustainability of the childcare setting and the family's own financial planning.

Whilst providers can be understanding in terms of personal debt, priority must be given to the sustainability of the childcare setting and its ability to provide high quality childcare. Encouraging a 'payment on time' culture when a child takes up a place in a setting is essential.

Creating and Encouraging a 'Payment On Time' culture

Providers can help parents manage their payments in very simple ways.

A simple and clear payment structure with clear policies and procedures

The first step in avoiding debt owed by families is to provide a clear and concise fee structure and policy. Fees must be set based on realistic occupancy forecasts and sound business planning. When a parent/carer signs a contract before a child takes up a place in a setting, there should be a paragraph in the contract which says the parent/carer agrees to pay fees on time. This combined with a clear Payment of Fees Policy can be a powerful way to prevent and/or minimise debt. A sample Payment of Fees policy is included at the end of this information sheet.

Effective invoicing systems and methods of payment

It is essential to ask for childcare fees in advance, ideally a month, but otherwise two weeks. That gives time for any late payments to be addressed. When a payment is late it must be addressed immediately.

Highlighting fees are late

Life today is often hectic and parents/carers often can overlook the fact that a payment is late, the following tips may help to highlight this:

1. Talking face to face diplomatically as soon as late payment arises is the best way to tackle what can sometimes be a difficult issue for both provider and customer.
2. Mark reminder invoices with a fluorescent debt sticker to highlight that payment is late.
3. Use a different coloured paper to print reminder invoices.

Using a local solicitor

Negotiate with your local solicitor to send a standard debt payment letter maybe an effective solution to late payment. It can be surprising how quickly people react to more 'official' requests for payment.

Advice about support with childcare costs, and sources of help with money management

Publicising the variety of help that is available to support childcare costs by the use of posters, newsletters and leaflets will help inform parents/carers.

Free information can be downloaded from the following website:

www.gov.uk/help-with-childcare-costs

Debt Recovery

If the unfortunate situation arises when a debt is not paid and all the stages of the fee payment policy have been addressed, a Debt Collection Agency can be used. When considering using a debt collection agency first make sure that they are members of the Credit Services Association (CSA). You can then be certain that you will be in control and your good reputation maintained. Members of the CSA adhere to a strict code of conduct with specific procedures and rules. Debt Collection Agencies work by engaging the person who owes the money (the debtor), they do not confront them. It is this collaborative approach that reaps better results and maintains the creditor/debtor relationship for the future. Unlike any other industry Debt Collection Agencies are only paid on results, so make sure you understand what you will owe them if a successful recovery of debt occurs. It is also worth considering that people who owe money expect to be chased by the organisation they owe money to. Human nature being what it is however, responds much quicker once a third party becomes involved. Somehow the debt then is seen as being much more 'serious' and the requirement to pay more 'urgent'. Using a Debt Collection Agency is a last resort but an important one to ensure a setting remains sustainable. Implementing a 'payment on time' culture with parents/carers as described in this information sheet will help to avoid a debt collection situation.

Sample Fee Payment Policy

(This is usually included in a contract which parents sign when their child is given a place at a setting)

In order to run a high quality childcare setting it is essential that fees are paid on time. Childcare fees are invoiced monthly and must be paid by 14th of each month, unless other arrangements have been made with management.

Childcare should be paid for in advance to secure the child's place and allow for staff planning in accordance with OFSTED regulations.

Any account falling into arrears will trigger the following procedure:

- If an account falls into arrears a reminder invoice will be issued to bring account up to date within seven days.
- If this fails a letter will be issued informing that if account is not paid in full by month ending the account arrears will be passed to a Debt Collection Agency and the child will be unable to attend nursery.
- Any child leaving the setting with outstanding fees will trigger the following procedure:
- In order to give a last opportunity to settle an account the parent / carer will be informed of the date that information will be passed to the Debt Collection Agency.
- If the account is not settled it is out the hands of the setting, and all payment plus any additional charges by the debt collection agency will have to be paid to them.
- (Setting Name) uses (debt recovery company name) as their Debt Collection Agency.

Sample Reminder Letter 1

Address

Date

Dear [insert name],

I enclose a copy of invoice number(s) xxxx which is/are overdue for payment.

The total amount outstanding is £

If you feel there is a discrepancy on the invoice please contact me as soon as possible by telephoning [insert number] otherwise I look forward to receiving your payment by return.

Yours faithfully,

Your Name

Your Job Title

Sample Reminder Letter 2

Address

Date

Dear [insert name],

Invoice Number (s) xxxxxxxxxxxxxxx

Overdue Amount £xxxx

Despite my previous reminder the above debt is still outstanding. Please note that unless payment is received by [insert date (suggest 7 days)] I will have no alternative but to consider whether the nursery can continue to offer a place to your child(ren).

Your continued inattention to this debt is likely to result in your account being passed to an outside agency for collection through the legal system. This will incur additional fees payable by you.

Yours faithfully,

Your Name

Your Job Title

Sample Reminder Letter 3

Address

Date

Dear [insert name],

Invoice Number (s) or child(ren) name xxxxxxxxxxxxxxxx

Overdue Amount £xxxx

Despite my previous reminder the above invoice is still outstanding.

We are a voluntary organisation with limited reserves and rely on prompt payment of invoices to ensure we can pay staff wages and provide the resources the children need and enjoy.

It is with regret that unless payment is received by [insert date (suggest 7 days)] we will not be able to offer your child(ren) a place from [insert date].

Yours faithfully,

Your Name

Your Job Title

