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From: Linda Oliver, PFD Sp Proj  
Date: 25 August 1998

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**MEMORANDA (WITH SUPPORTING PAPERS) FOR SECRETARY OF STATE ON  
BA/POCL**

Further to my note of yesterday, Sarah's draft memoranda are not yet ready for circulation. They are now likely to be sent to you late tomorrow morning, *for comment by close that day*.

In view of this I attach (for comment on the same timescales) two of the supporting information notes for memorandum 2:

- implementing the decision
- moving to ACT (an accompanying plan and graph, with questions faxed separately).

All other supporting notes will follow tomorrow. We are sorry for the delay.

Linda Oliver

GRO



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### Moving towards 100% ACT

DSS Activity in event of cancellation includes two elements:

- withdrawal of card [see separate note on 'Implementing the Decision']
- development of detailed strategy for increase in payments by ACT [see below]

Elements covered in this note:

- case for ACT (section A)
- where DSS are now (section B)
- timescales assumed in HMT working group report, and external influences (section C)
- issues to address (section D)
- note on periodicity (section E)

### A Case for ACT:

An ACT-based system for paying benefits has long been the method favoured by DSS, on grounds of: reducing opportunities for fraud; achieving full reconciliation of accounts for nearly £100 billion benefit expenditure; and, reducing administration costs.

The main drivers for change fall into three headings:

- *financial:*

- ACT is vastly cheaper than all other methods of payment, including the payment card - reaching virtually 100% ACT could deliver £0.4bn a year in running costs savings
- An ACT-based transaction at present costs less than 2p, in contrast to 47p for each order book foil that is cashed and 78p for each Girocheque. **[DQ: COBAP can we say we are "paying nearly 30% of customers for less than 1% of total cost of all payments"?)**

- *social exclusion:*

- Combining a move to ACT with the extension of access to banking could be a powerful dual track approach to financial exclusion

- *modernisation:*

- ACT is modern, and is the most popular arrangement for employers paying wages and occupational pensions (indeed it is often compulsory)
- ACT is a simpler and more efficient method of payment. For example, ACT is more responsive to changes in benefit entitlement - avoiding the expense (including overpayments) involved in recalling order books **[DQ: COBAP ]**



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- [DQ: Carole Souter - can\should we make a point here re Better Government objectives?]
- [DQ: Ruth: grateful for a line on international comparisons in this context?]

#### **B** **Where DSS are now**

- DSS pays £77bn per year to 26m customers (in 1bn transactions)
- almost 30% of benefit payments are now made by ACT
- [x% of claimants have access to banks accounts [DQ: Ruth Calder ]
- DSS does not actively promote ACT (hangover of previous government's agreement with POCL )
- ACT is available for all benefits except Social Fund and Guardians Allowance [but..periodicity]

#### **C** **Timescales for increased ACT take-up (as assumed in HMT Working Group report):**

- Promote voluntary ACT from April 2000
- Compulsory ACT migration: from October 2001 to October 2004
- Assume that POCL develop simple banking facilities from October 2001.

Current estimates of volumes predict that ACT payments could reach [50% by [ ] and 70% by end 2003, with 99% of payments converted by the end 2004. [DQ: Stuart Riley\Hilary Manning - can you please confirm, and check this is consistent with plan\graph]

Timescales will be influenced to some extent by the public acceptance of the changes. People may accept, and even welcome, a change to an ACT-based method of payment, provided it is designed to continue to meet customer requirements; and is able to offer increased location choice and access to banking, with the potential accompanying advantages eg. discounts on utility payments by direct debits.

The involvement of banks and POCL may also influence the rate at which change can be introduced. Seeking to align significant increases in ACT take-up with POCL's introduction of simple banking facilities could mean that initial date for promoting voluntary ACT is later than might otherwise be the case. However, taking POCL out of the equation could slow down voluntary take-up of ACT as customers choose to stick with methods of payment which allow encashment at the post Office. This in turn could well delay the move to compulsory ACT (or make it harder because greater numbers of customers will need to be converted) thus delaying achievement of virtually 100% ACT and the resultant savings.



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### D **Issues**

The following is not comprehensive but seeks to provide an overview of the major issues\activities:

#### **Project**

- DSS must establish a project team to scope in full the work programme, business case and management arrangements required to deliver ministers objectives. -- A migration strategy is required. This will need to: consider in detail the optimum way forward for moving to ACT; model the potential impact of any delays in POCL and\or the banking sector delivery of the changes required.

#### **Legislation**

- Secondary legislation will be necessary to make ACT the 'norm'. This will need to be the subject of consultation with the Social Security Advisory Committee (SSAC).
- Secondary legislation may also be required to alter current periodicity arrangements, for example, if benefit payment frequencies were altered [see [ ] below].
- It has been assumed that the banks will be willing players in achieving universal banking - with self-regulation rather than legislation being the way forward.

#### **Policy**

Detailed policy will be required on:

- Compulsion. Decisions will need to be taken on what, if any, exemptions will be allowed. Special cases (such as bankrupts and the homeless) may necessitate special arrangements
- Periodicity (the frequency with which benefits are paid). With the exception of JSA and IS, **[DQ COBAP: and IB new cases?]** ACT is not available on the same frequency as other methods of payments. For example, retirement pensioners receive order book payments weekly in advance, but ACT payments four-weekly in arrears. We know from research that this is a barrier to the voluntary take-up of ACT. **[DN; check consistent with plan] ; [DQ: COBAP, grateful for a view as to how far could we increase voluntary take-up without tackling?]** (see section E below)
- Universal banking (see separate information note). The extension of bank accounts to sections of the population currently without is required. For example, only just over 30% of IS customers have a bank account; there will also be decisions surrounding options for special cases. We will need to work with banks to advance in this area and to achieve universal banking in the timescales required.
- Access to cash. A range of issues need to be tackled including: access to the full benefit entitlement - Currently our customers receive cash benefit



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payments over PO counters to the exact penny whereas withdrawing cash from bank accounts tends to be via ATMs which are to the nearest £5 or £10; access to cash in general - cash points (23,000), bank/building society branches (12,300) , and cash-back facilities in supermarkets do not have the geographical reach that 19,000 Post Offices. If POCL develop banking facilities customers will be offered greater choice than ever before; access issues for women (particularly with child benefit) - if payments are made into an account to which they have no or limited access.

- Consultation: Ministers may wish to consider should policy development be informed by some form of consultation.

### ***Operations***

Operational arrangements and IT systems will need to be reviewed in order to ensure they support effective delivery of ACT from a customers' banking and DSS perspective; **DQ: Peter Crahan: how far can we ramp up vols without significant changes to the system?** The elements include:

- Migration strategy: to set out the optimum strategy for achieving virtually 1005 ACT taking into account the drive to deliver savings with the need for prudent risk management

- ACT fraud: although robust in terms of encashment fraud, any significant increase in ACT payments will require a fraud strategy and possibly new measures to ensure other fraud opportunities (eg. false claims?) are tackled. This may be tackled in part by increased personal contact with customers and strengthened procedures for reporting change of circumstances. **[DQ: Hilary Reynolds. grateful for views on this line].**[We assume that OBCS (or equivalent under option 3) is introduced in interim??]

- Training: experience suggest that staff tend to suggest order books and giros ahead of ACT. A key element of introducing change successfully would be staff awareness and training. In developing the operational strategy it will also be important to take account of the knowledge and views of front-line staff.

- IT systems and processes need to be improved, for example, to reduce the time it currently takes to set up ACT payments. Urgent payments are an issue: it takes 3 days between issue of a payment from DSS to availability in a customer's bank account. This is particularly important for IS and JSA claimants and will need to be addressed (both within DSS banking IT systems). Similarly, DSS Feeder Benefit Systems need to be standardised and data will need to be validated to minimise initial payment rejections **[DQ: Peter Crahan grateful if you could clarify the issue here and indicate the significance - we may wish to pair down this section]**

### ***Presentation and Publicity***

A publicity strategy for both voluntary and compulsory ACT will be required.

- Customer focused Activity might include: targeting of customer groups, initially using leaflets\posters\adverts\mailshots to raise awareness and to increase rate of voluntary take-up; a review of benefit claim forms, redesigning



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where necessary to make ACT the preferred choice; establishing an ACT Helpline for customers to call if they have any queries

- Opportunities to co-operate and co-ordinate with both Post Office and Banks' marketing activity will be sought.

- [DQ: anything else here?]



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### **E PERIODICITY: A MAJOR ISSUE FOR MOVING TO ACT**

1. For a variety of historical reasons, order books and giros tend to pay benefits weekly (or fortnightly) in advance, whereas ACT is only offered 4-weekly in arrears (except for IS, JSA and new Incapacity Benefit cases) **[DQ: COBAP - is this right?]**.
2. These arrangements are an important barrier to voluntary take-up of ACT. If left unchanged it could slow down take-up of voluntary ACT and could prove presentationally disastrous when moving to compulsory ACT. Hardship could be a very real issue - large numbers of customers being effectively 'forced' to move from weekly payments (in advance) to 4-weekly (in arrears) would experience a 'delay' to benefit payments.

### **HMT WORKING GROUP REPORT**

3. The timescale for the introduction of ACT outlined in the HMT Working Group Report on the BA\POCL project assumed that the periodicity barrier would be removed prior to promotion of voluntary ACT in 2000.
4. The report also assumed, for the purposes of costings, that periodicity would be broadly programme cost neutral. The key aim here was to:
  - show DSS Ministers' way forward in the best light (ie not burdened with additional significant costs); and
  - protect DSS Ministers' freedom to make future, substantive, and separate, decisions in this area.

### **BROAD OPTIONS FOR CHANGE**

5. The aim of moving to an ACT-based system for the payment of benefits requires, at least, that the inequities between different methods of payments are ironed out. However, more extensive change could also be considered.
6. In the context of modernisation it may also seem sensible to consider standardising benefit payment periods. In the past DSS, and HMT, have tended to focus upon changing benefit periodicity, in particular changes to lengthen payment periods (ie. reduce periodicity). For example, making all mean-tested benefits payable fortnightly, with all non-means-tested benefits payable 4-weekly. In considering such a move there are two broad directions for change:
  - increase frequency of payments (ie. decrease the length of payment periods); and
  - decrease frequency of payments (ie. increase the length of payment periods).



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6. The focus on reducing periodicity has been driven by the scope for *one-off* programme savings, as well as for on-going administrative savings. This latter element is particularly relevant to a paper-based payments system and is less significant for an ACT-based system. **[DQ COBAP: is this last claim accurate?]**. Such an approach would inevitably be unpopular with claimants and would also draw criticism from [interested groups].
7. The general approach to developing options on this issue was discussed in June with the then Minister of State, Frank Field. His steer was that officials should consider options that reflect customer requirements. For example, options for increasing the frequency with which benefits are paid should also be on the table.
8. In light of this officials began to work on a new option, one that would leave benefit periodicity (as set by legislation) unchanged but would make ACT available on the same basis as other methods of payments. This work indicated that such an approach, although likely to be popular, could 'cost' the Department an estimated £50m -£700m in *one-off* programme expenditure (subject to the behavioural effects of customers selecting more frequent payments).
9. This 'cost' would result from bringing forward benefit expenditure rather than spending more than what is due under current entitlement rules. For example if current customers receiving Retirement Pension 4-weekly in arrears decide to change to weekly payments in advance the Department will have to fund the earlier payment of benefit.

### THE WAY FORWARD

10. Further work is needed in order to identify credible options that will support significant increase in ACT take-up. Part of this could be to look at options for phasing in any changes to periodicity where costs are attached (more frequent payment periods or ACT available on level playing field with giro and order books), as well as the potential resistance to ACT if its introduction was associated with moves to less frequent payments of benefit.
11. Subject to your views, officials are planning to undertake work with a view to providing you with options in order that a decision can be taken by Ministers early in the spring of 1999.



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**Draft Supporting Paper 4 : Implementation of Decision**

To: Sarah Graham

From: Vince Gaskell  
CAPS Programme Delivery Manager

Date: 21 August 1998

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**Issue: Implementation of Decision**

**Timing: Immediate**

1. I am responding to Linda Oliver's paper of 18 August requesting papers by close of play today. My remit was to produce Paper 4 which I have done in 2 parts:-
  - i) impact on Card Customers (Annex A attached)
  - ii) the forward position of the CAPS Programme (Annex B attached)
2. Happy to discuss if you wish or to receive queries or comments but I hope you will be able to include these in a paper to SOS.

**VINCE GASKELL**  
**CAPS Programme Delivery Manager**  
**Room B2506D**  
**GRO**  
**DSS Longbenton**



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### **Appendix A**

#### **Impact on Card Customers**

There are a series of operational steps to be taken, which will depend on whether ICL Pathway immediately withdraw co-operation, to ensure payment to customers is not interrupted and all monies are properly accounted for. These will involve BA staff at Child Benefit Centre manually altering the method of payment for card customers and returning them to order book.

Card customers will receive a letter telling them to collect any outstanding benefit, that their card will be cancelled and they will be issued with an order book to their home address. They will be given a help line number to call if they have any concerns. The only real threat to payment interruption would arise if ICL Pathway immediately withdrew cooperation; otherwise with a four to six week period of grace no customers should have their payments interrupted.

#### **Operational activity**

DSS would utilise existing contingency arrangements to identify the Child Benefit accounts for the 30,835 card customers (DN figure at 16 August 1998). A team of around 100 Child Benefit staff would be assembled and would take about a week to ten days to requisition order books and send letters to all card customers asking them to collect all outstanding benefit (currently there is around £450,000 in uncashed benefit at Post Offices and cashing benefit up to date will help significantly with accounting). This process will take 3-5 days to issue an order book to the customer's home address. Customers about to move to the card method of payment would be similarly identified and issued with a letter explaining the position and that they would continue with their current payment method.

All customer involved would be given a help line number which would put them in touch with a team based in Newcastle Upon Tyne staffed by a combination of expert Child Benefit and CAPS staff.

Should ICL Pathway withdraw support to card method of payment with immediate effect it is possible that some customers might experience a brief interruption in payment. This is a consequence of the 3-5 days it takes to requisition an order book and get it to the customer. Work is in hand to ensure this risk is minimised and that any customers so affected would be issued with an urgent girocheque. In addition there is a small risk that some customers may receive duplicate payments of Child Benefit if some encashment data is not returned by ICL Pathway.

If Pathway do cooperate and do not withdraw their service immediately, a clear cut off date will be required to ensure DSS, POCL and ICL Pathway understand the liability for Authorised Payments within the ICL Pathway systems. This will protect the Accounting Officer from duplicate payments should customers attend a Post Office and a Sub-Postmaster and ICL Pathway allow encashment after the cut-off date.

#### **Impact on Card Customers**

The impact on card customers should be minimal. The main handling issue will be around the changed method of payment. Assuming the operational activity outlined above secures their payment the only inconvenience will a change of method of payment for the second time in 12 months, for some it will be the second time in a few weeks (order book to card and back again). There will be a degree of uncertainty caused by the change and worries that payment will be interrupted; this is the rationale behind the help line approach.

#### **Conclusion**

- measures are available and plans made to support returning card customers to order books.
- impact on BA Child Benefit customers can be minimised.



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### **Appendix B**

#### **Forward Position of the CAPS Programme**

##### **Summary**

The systems delivered by the CAPS Programme will continue to add value in business terms and could readily be enhanced to support Ministers' policy on ACT.

##### **CAPS Programme**

The withdrawal of the card method of payment has a significant impact for the CAPS Programme but much of its business value will be retained. The next few paragraphs give a high level view of the systems involved and what the impact will be on each.

##### **Personal Details Computer System (PDCS)**

This system aims to convert all benefit customer details into a single account accessible at all BA locations (as well as around 1400 ES Job Centres for JSA purposes, War Pensions Agency and SSA(NI)). Currently there are 9,285,271 (DN figure at 16 August) accounts on PDCS representing all Child Benefit and almost all Income Support customers (DN all by 7 September). The system is being used by 42,000 BA staff. The next benefit to migrate will be JSA starting in October. None of the business benefits of this migration and conversion activity will be lost as a result of the cancellation of the card contract.

Independent of this review work associated with the card contract Officials have been looking at the potential of PDCS beyond the original business requirement. In particular, thinking has focused on how access to a single customer account of consistent personal details can support Active Modern Service. As well as CAPS' role as a bridge to the Shared Strategic Infrastructure in terms of its technical platform and the clean up activity on customer data.

##### **Customer Payment Computer System (CPCS)**

This system currently supports the card method of payment and is intended to eventually hold all payment data for benefit customers in order to provide a full customer payment account. Withdrawal of the card will change the development plans for this system and effort could be quickly diverted to capturing all payment information and adjusting the system to handle ACT. However other options would also need to be explored to assess whether CPCS or some other means offered the best route to delivering payment by ACT.

##### **Programme Accounting Computer System (PACS)**

This system holds individual transaction level data for all benefit payments. One of the main aims of this system is to support reconciliation and settlement with the Post Office. In the case of the withdrawal of cards this will not happen in the same way.

Plans are in place to achieve full reconciliation on girocheques, payable orders and ACT. Reconciliation activity on JSA girocheques is already highlighting £700k per month in duplicate payments. Additionally, PACS supports the Third Party Payments system and from 31 August will have debt accounting capability. Therefore this system would continue in operation and continue to add value in improved accounting for programme expenditure.

##### **Financial Controls System (FCS)**

This system scans for authorised payments sent to ICL Pathway, adds them up and is then used to match with the Pathway record of payments received in order to assure the integrity of the interface. Withdrawal of the card method of payment would render this system



obsolete. It has, however, proven our ability to pass programme expenditure electronically and keep that in balance across an interface into a private sector suppliers' system and there has been the minimum of investment in it to date.

### **Conclusion**

- work on PDCS will continue with an emphasis on support to Active Modern Service and the ACCORD procurement
- PACS will continue with some revision needed to its plans but it will continue to add value in improving accounting for programme expenditure.
- work on CPCS could continue on other payment data and be refocussed on developing support for ACT in the case of either option to withdraw subject to an analysis of other possible options for the delivery of payment by ACT.

