

PREM 19/365

PART 1

MT

Confidential Filing

Rayner study on arrangements for paying social security benefits.

SOCIAL SERVICES

Part 1:  
November 1979

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| <del>13.3.80</del> |      | <del>19.8.80</del>  |      |             |      |             |      |
| <del>17.3.80</del> |      | <del>3.9.80</del>   |      |             |      |             |      |
| <del>18.3.80</del> |      | <del>30.9.80</del>  |      |             |      |             |      |
| <del>21.3.80</del> |      | <del>8.10.80</del>  |      |             |      |             |      |
| <del>28.3.80</del> |      | <del>14.10.80</del> |      |             |      |             |      |
| <del>14.4.80</del> |      | <del>16.10.80</del> |      |             |      |             |      |
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PREM 19/365

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Related File : Rayner  
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PART 1 ends:-

MAP to PM 30.9.80

PART 2 begins:-

S/S N. Ireland to S/S D+SS 8.10.80

*Social Services*PRIME MINISTER

Ministers will shortly be settling the form of the consultation paper on arrangements for paying social security benefits. I attach a copy of a letter from Patrick Jenkin with which he circulates a draft to colleagues.

The main outstanding issue is on a fortnightly payment of retirement pensions. Compulsion has already been ruled out, as you made clear some months ago. Mr. Jenkin wants this decision to apply not only to present pensioners but also to future pensioners, although the Treasury and Sir Derek Rayner believe that fortnightly payment for future pensioners could be introduced with no exclusions.

The aim is to publish the consultation document by mid-November.

The expected savings (page 9) are now set at £40m, 1980/81 prices, by 1987/88. The review team had suggested savings of up to £50m. at 1979 prices by the same date.

*MA*

30 September 1980

*mt*



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MA

DEPARTMENT OF HEALTH & SOCIAL SECURITY  
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

J F Holliday Esq  
Private Secretary to the  
Home Secretary  
Home Office  
50 Queen Anne's Gate  
London  
SW1

29 September 1980

Dear John

ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

My Secretary of State wrote to yours on 26 September.

Unfortunately there was a mistake in the penultimate sentence of the penultimate paragraph. The sentence should read "..... If possible I would like to agree the Command Paper by correspondence before the next meeting of H Committee but if that is not possible I hope that we can settle the matter at that meeting."  
I enclose a revised page for you to insert.

I am copying this letter to the Prime Minister, the Lord President, the Secretary of State for Industry, all members of H Committee, Sir Derek Rayner and Sir Robert Armstrong.

Yours ever

Mary McVerry

MARY MCVERRY  
Private Secretary

Enc.

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this would be for Keith Joseph to organise these consultations as soon as we have agreed the text of the Command Paper; and I am writing separately to him about this. I would of course be ready to participate fully in any such consultations if this would be helpful.

You will see from the opening paragraph of the Command Paper that I propose to publish the DHSS Rayner study in full as an annex. The Departments concerned have copies of that study so I have not circulated the document again. However if there are any colleagues without a copy my Private Office will arrange for one to be sent to them.

On timing I think our aim should be to publish the Command Paper by the middle of November. This would be consistent with our promise to the Chairman of the Social Services Committee to try to produce a response in the Autumn. Publication in November will mean trying to agree the text by the middle of October. If possible I would like to agree the Command Paper by correspondence before the next meeting of H Committee but if that is not possible I hope that we can settle the matter at that meeting. Consultations with the Post Office and the National Federation of Sub-Postmasters could then take place at the end of October or early in November.

I am copying this letter to the Prime Minister, the Lord President, the Secretary of State for Industry, all members of H Committee, Sir Derek Rayner and Sir Robert Armstrong.

*Yours sincerely*

*Mary Molyneux*

Approved by the Secretary of State  
and signed in his absence



MAP has no  
Comments

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Alexander Fleming House, Elephant & Castle, London SE1 6BY

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*From the Secretary of State for Social Services*

The Rt Hon William Whitelaw CH MC MP  
Secretary of State for the  
Home Department  
Home Office  
50 Queen Anne's Gate  
London  
SW1

26 September 1980

*Dear Home Secretary*

ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

Lynda Chalker's letter of 19 August to Keith Joseph indicated that we were aiming to circulate to colleagues on H Committee by the end of September a draft response to the report by the Social Services Committee and a statement of the Government's views on the DHSS Rayner study. I enclose a draft Command Paper which I suggest that we aim to publish as early as possible in November.

The draft has been prepared in consultation with officials in the main Departments concerned including Sir Derek Rayner's office. It attempts to meet most of the views expressed but there is one major issue on which I have felt it necessary to take a different view from the Treasury and Sir Derek Rayner. This is the difficult issue of fortnightly payment of retirement pensions and some other benefits; and it might help if I summarised the position that we have reached so far on this matter.

The Post Office Counter Services Study Group (POCSSG) Report examined the impact on Post Office revenues of three possible changes in DHSS arrangements for paying benefits:

Option A - paying benefits by automated credit transfer (ACT);

Option B - paying benefits by ACT, paying child benefit four-weekly (subject to certain exceptions) and paying other new beneficiaries fortnightly; and

Option C - paying benefits by ACT and paying new beneficiaries only child benefit four-weekly and other benefits fortnightly.



Option B produced the greatest loss in Post Office revenue but the POCSSG report suggested that this would not damage the post office network because of the growth of other counter business, particularly if the law was changed to enable the Post Office to take on non-banking work for other customers in both the public and private sectors. Keith Joseph's letter of 8 August indicated his agreement to making the necessary legislative changes to the Post Office Act in the next session; and Lynda Chalker's letter of 19 August suggested that we would aim to prepare the draft Command Paper on the basis of Option B. However on reflection, I think we would raise a further storm - particularly in the rural areas - if we announced now our intention of paying retirement pensioners fortnightly, even if we did this for new pensioners from a date in the future. The pledges that the Prime Minister and I gave on this issue earlier in the year made it clear that existing pensioners would not be compelled to change their payment arrangements and could continue with weekly payment through post offices if they wished. I think that the general public interpreted these pledges as relating to retirement pensions generally for the foreseeable future. In my view announcing now a change to fortnightly payment of retirement pensions would be seen by many, including the sub-postmasters, as an act of bad faith on the part of the Government. Moreover fortnightly payment of pensions and most other benefits would make it more difficult to reassure the sub-postmasters that they would not lose financially overall from the proposed DHSS changes even with the legislative amendment that Keith Joseph is going to make. My conclusion therefore is that we have to accept that we cannot announce now a change to fortnightly payment of retirement pensions, even for new beneficiaries at some future date.

If we adopt this stance on retirement pensions then I regard it as a logical consequence that we do not change other similar benefits over to fortnightly payment on a compulsory basis. The exception would be child benefit which is different in kind from other benefits. I have therefore incorporated in the draft Command Paper the proposal that child benefit should be paid on a four-weekly basis as proposed in the DHSS Rayner study except that two additional groups of beneficiaries should have the right to retain weekly payment of benefit if they wish.

Apart from the issue of fortnightly payment of benefits I doubt if colleagues are likely to take any great exception to other parts of the draft Command Paper. I recognise that there may be slight differences of view on the appropriate emphasis to be given to 'cushioning' the smallest sub-post offices against adverse consequences of the DHSS changes. However I have tried (in paragraph 29) to strike a reasonable balance between reassurance and imprudent commitment to long-term subsidy.

The draft Command paper seeks to achieve a tone that is a blend of the authoritative and the consultative. It must inevitably have considerable 'green' edges because of the commitments on consultations that we gave earlier in the year. It would clearly be wrong to have outside consultations on the text of the document in advance of publication but I believe that many colleagues will feel that we would be wise to discuss our proposals informally with the Post Office and the National Federation of Sub-Postmasters in advance of publication. I think that the best way forward on

this would be for Keith Joseph to organise these consultations as soon as we have agreed the text of the Command Paper; and I am writing separately to him about this. I would of course be ready to participate fully in any such consultations if this would be helpful.

You will see from the opening paragraph of the Command Paper that I propose to publish the DHSS Rayner study in full as an annex. The Departments concerned have copies of that study so I have not circulated the document again. However if there are any colleagues without a copy my Private Office will arrange for one to be sent to them.

On timing I think our aim should be to publish the Command Paper by the middle of November. This would be consistent with our promise to the Chairman of the Social Services Committee to try to produce a response in the Autumn. Publication in November will mean trying to agree the text by the middle of October. If possible I would like to agree the Command Paper by correspondence before the meeting of H Committee arranged for 14/15 October but if that is not possible I hope that we can settle the matter at that meeting. Consultations with the Post Office and the National Federation of Sub-Postmasters could then take place at the end of October or early in November.

I am copying this letter to the Prime Minister, the Lord President, the Secretary of State for Industry, all members of H Committee, Sir Derek Rayner and Sir Robert Armstrong.

*Yours sincerely*

*Mary McHenry*

Approved by the Secretary of State  
and signed in his absence

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26 SEP 1980



ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

INTRODUCTION

1. This document is the Government's response to the First Report from the Social Services Committee (Session 1979-80) on the arrangements for paying social security benefits (other than unemployment benefit); and to the recommendations by a team of officials which reviewed the subject earlier. It also describes the arrangements for consultations on the Government's proposals. The Social Services Committee's report was published on 4 June 1980 and the review team's report is published as Annex II.

BACKGROUND

2. The Government is committed to examining the efficiency of the public sector and to reducing administrative costs. Sir Derek Rayner was appointed by the Prime Minister to advise the Government in this area. As part of this process each Minister in charge of a Department, in consultation with Sir Derek Rayner, selects projects for study by teams of officials. The recommendations go to the Minister for decision. The Department of Health and Social Security's first study of this kind was a review of the arrangements for paying social security benefits.

3. Most social security payments are made by weekly orders issued in order-books and cashed over post office counters. Some 1,000 million social security payments are made each year at a cost now well in excess of £300 million (at current prices): over a half of this amount is paid to the Post Office. There has been a growing demand for social security payments to be made directly into bank accounts - reflecting the trend to payment of monthly salaries and occupational pensions in this way. Some 90% of unemployed people are now paid fortnightly. The present arrangements for other benefits are long-established and the time is ripe for review.

4. The DHSS review was carried out in the second half of 1979 and the results presented to Ministers towards the end of that year. Before the Government had had time to consider the full implications of the review team's proposals the possibility of changes became public knowledge and led to concern about possible

financial and other difficulties for pensioners and about the possibility of wide-spread closure of sub-post offices. The Government has made it clear that any changes which led to significant closures of sub-post offices would be wholly inconsistent with its aim of sustaining local communities. The Prime Minister told the House of Commons on 28 February 1980 that if they wished retirement pensioners could continue to have their pensions paid weekly through a post office. This assurance was repeated by the Secretary of State for Social Services to the Social Services Committee on 12 March. The Secretary of State has said that changes will not be made until the review had been published; that there will be wide consultations on the proposals; and that there will be no decision to proceed without a full debate in the House of Commons.

#### FACTORS AFFECTING CHANGE

5. The main consideration in making any change in the arrangements for paying benefits must always be the interests of beneficiaries. The Government is particularly concerned to protect those with limited resources whose weekly benefit payment is their lifeline. Fortnightly payment of benefits to the unemployed has been shown to work satisfactorily for most people; but the Government believes that supplementary benefit should continue to be paid weekly and that vulnerable groups should have a right to weekly payment of child benefit if they wish (see paragraph 17).
6. In general however, the steady growth of cashless systems of money transmission and of the payment of wages at less frequent intervals than weekly and by methods other than cash, bring advantages to society as a whole, in security, speed and efficiency. For employers the costs and risks involved in handing out weekly pay packets are reduced. For recipients, <sup>cashless systems</sup> reduce the time spent in travel and queuing, and reduce the risk of theft. The Government recognises that many prefer to have cash in hand but believes that it should encourage a switch to different payment methods where these lead to a more efficient use of resources and save public expenditure. The payment of social security benefits is one area where, subject to protecting those most vulnerable, it can and should act. It is confident that the benefits of cashless systems of payment will come to be more widely appreciated.
7. The Government wants a system of paying benefits which meets the wishes and needs of beneficiaries; takes account of the need to maintain an adequate sub-post office network; provides better value for the taxpayer; and is more in tune with society in the 1980s. It considers that the proposals set out in paragraphs 8-22 strike a reasonable balance between these objectives. In formulating its proposals the Government has taken into account the views expressed by Members of Parliament, local authorities, various organisations including the

National Federation of Sub-Postmasters and members of the public. With the full co-operation and participation of the Post Office, an examination has been made of the consequences for Post Office finances and the network of crown and sub-offices of possible changes in the payment of social security benefits. The conclusions reached by the Government following this examination are set out in paragraphs 25-29. The Government's determination to ensure the continuance of an adequate sub-post office network is fully reflected in its proposals. It is satisfied that its proposals will benefit the taxpayer and beneficiaries without damaging the sub-post office network.

#### THE GOVERNMENT'S PROPOSALS

##### Direct crediting of benefits to bank accounts

8. Both the Select Committee and the review team favoured strongly the payment of benefits direct into bank accounts by automated credit transfer (ACT) for those people who preferred this method of payment. Both reports point to the increased use of bank accounts and credit transfer facilities generally.
9. The Government, like its predecessor, is in favour of offering payment of benefits by ACT into bank accounts, including those with National Girobank, Trustee Savings Banks and building societies. Market research carried out by DHSS indicates that sufficient beneficiaries would choose payment by ACT to justify the introduction of this method. Present estimates suggest that about 3.5 million beneficiaries would choose payment by ACT if it was available to them: this figure would include about 2 million mothers receiving child benefit; about 1.2 million retirement and widows pensioners; and about 0.3 million other beneficiaries, mainly war pensioners. Although more staff are likely to be required to make payments by ACT (because with ACT some of the adjustments of payment that have to be made when, for example, a claimant's family increases require more staff than with payment by order book) the extra staffing costs will be more than offset by the reduction in Post Office encashment charges.
10. The Government proposes therefore to offer payment by ACT from the middle of 1982 onwards to most beneficiaries who want it but there would be no

question of anybody being compelled to use this method. As direct crediting could be undertaken only where the benefit is paid by computer, for the time being the method will have to be restricted to retirement and widows pensions, child benefit and some disablement benefits. Special considerations apply to unemployment benefit because assumptions about its duration are particularly difficult to make and further consideration will need to be given to the longer-term scope for paying benefits to the unemployed by ACT.

11. The Social Services Committee recommended that as an inducement to payment by ACT benefits should be paid two weeks in advance and two weeks in arrears. It cited Holland as an example of this type of arrangement but in fact the Netherlands pays only retirement benefit on that basis: family benefits are paid 13 weeks in arrears. Although the Committee's proposal might encourage more people to choose payment by ACT, it would cost in excess of £50 million in the first year. Avoidable expenditure on this scale could not be contemplated at the present. Most of those who choose payment by ACT will be pensioners now paid by crossed order, who already accept payment mainly in arrears, and mothers receiving child benefit, which in most cases is a contribution to the family budget suitable for payment in arrears, rather than a weekly lifeline. The Government proposes therefore that when payment by ACT is chosen, it should be made at four-weekly intervals in arrears.

#### Retirement Pensioners and Widows

12. The team of officials recommended that retirement pensions and widows pensions, now paid weekly, should be paid fortnightly except for people at present aged 80 or over and those on supplementary benefit who wished to be paid weekly. The Social Services Committee did not make a recommendation about the payment of these benefits.

13. The Government has no intention of withdrawing from retirement pensioners or widows the choice of receiving their pension weekly at a post office. However many pensioners are not wedded to this method of payment; and many would prefer to be paid through a bank and would be willing to receive their payments less often than weekly. This is particularly likely to be the case among many younger pensioners and those reaching retirement age during the next decade. Many of these people have been used to monthly payment of their salary through a bank and their occupational pensions will be paid in the same way. Apart from

E i r e this country is unique among EEC countries in paying retirement pensions as frequently as once a week.

14. In the longer-term the Government hopes that more pensioners and widows will move away from weekly payment of their pensions but it would not want to compel anybody to do this. Instead it prefers over the next two years to develop 3 main payment choices for pensioners:

- weekly by order book
- 4-weekly by direct credit to a bank account
- quarterly by direct credit to a bank account.

It would still be open to those people choosing the first method to cash their order book foils less frequently than once a week - as they can do now. The second and third methods would replace as quickly as possible the present arrangements whereby a crossed order is sent to a pensioner every 4 or 13 weeks. This would save the pensioner having to go to a bank to pay<sup>in</sup> the order. However no pensioner would be compelled to use a particular payment method and existing pensioners would not have to alter their present method of payment unless they chose to do so.

15. It is a major administrative exercise to offer new payment arrangements to nearly 9 million retirement pensioners. The changeover will be smoother and the transitional administrative costs will be less if it is phased over a period. The Government proposes therefore that from mid-1982 onwards new pensioners and existing pensioners paid by crossed order would be offered the choice of payment direct into a bank account by ACT. This payment method will be offered to other existing pensioners from the end of 1982 onwards.



## Child Benefit

16. The review team recommended that child benefit should be paid 4-weekly except for those on supplementary benefit or family income supplement who wished to be paid weekly. The Select Committee on the other hand recommended that for the time being child benefit should continue to be available weekly unless the beneficiary asked for payments to be credited to a bank account. The Select Committee was of the opinion that the number of families needing weekly payment was greater than the review team suggested; and it drew attention to the increasing importance of child benefit when the general level of benefits was being subjected to more critical scrutiny.

17. The Government recognises that there are some families for whom weekly payment of child benefit is essential particularly those who use it for inescapable weekly housekeeping commitments. It agrees with the Select Committee that there may be families other than those receiving supplementary benefit or family income supplement who should be able to choose weekly payment of child benefit. It proposes therefore to extend the range of choice recommended by the review team. In addition to families receiving supplementary benefit and family income supplement, the Government considers that the choice of weekly payment of child benefit should also be retained by parents receiving the additional child benefit for one-parent families and by families with four or more children at the time any change to monthly payment takes place.

18. However the Government believes that for many other families child benefit is a much less vital source of regular income. Unlike a pension child benefit is not the main source of income for a household and the period for which it is paid need not be so closely related to the pattern of household budgeting for most recipients. Child benefit is often used for intermittent purchases such as children's clothing and larger items of household equipment. The review team showed that less than half of families cash their child benefit weekly but these mothers still have to be provided with order-books containing weekly foils for which Post Office encashment charges are higher than if a single payment was made for a higher amount.

19. No other country in Europe pays its family benefits as frequently as the United Kingdom as the following table shows:

| <u>Monthly payment</u>                                    | <u>Quarterly payment</u> |
|---|--------------------------|
| Belgium   | Denmark                  |
| Eire  | Netherlands              |
| France  |                          |
| Italy   |                          |
| Luxembourg  |                          |
| West Germany (except those people<br>paid every 2 months) |                          |

There would be a considerable saving in administrative costs borne by the taxpayer if unnecessary weekly payments of child benefit could be eliminated. In the future many mothers are likely to choose payment of their child benefit direct into a bank account by ACT (which cannot be organised more frequently than every 4 weeks).

20. The Government believes that for most families payment of child benefit every four weeks would be generally acceptable. Market research carried out by the review team supports this view. However before making such a change the Government considers that mothers in the more vulnerable groups of families mentioned in paragraph 17 should be given the choice of retaining weekly payment of their child benefit. The Government thinks that 1982 would be an appropriate point at which to switch to four-weekly payment of child benefit for most mothers - either direct to a bank account by ACT or by order books with foils cashable every 4 weeks at a post office. However before introducing

this change the Government wishes to consult widely and to listen to the views of individuals and organisations concerned with the welfare of families with children.

#### Other Benefits

21. In its Report the Select Committee said (paragraph 25) "DHSS may wish to explore further the possibility of moving towards periodical payments for some of the smaller volume benefits if, and only if, it can be established that this would be generally acceptable to claimants". The review team recommended that those benefits should be paid fortnightly. The Government regards it as doubtful that these benefits (non-contributory invalidity pension, housewives non-contributory invalidity pension, invalidity benefit, industrial disablement and death benefits, maternity allowance, attendance allowance and invalid care allowance etc) need always to be made available on a weekly basis. There may well be a need for weekly payment where supplementary benefit is in <sup>payment</sup> but for many other people less frequent payment is unlikely to cause hardship and would reduce administrative costs. The same considerations apply to war pensions and widows allowance but there is no reason to disturb the present arrangements for mobility allowance which is already paid four-weekly. However the Government does not think it appropriate to compel people to change to less frequent payment.

22. The Government considers that in principle these other benefits should be treated in the same way as retirement and widows pensions. This would mean, in general, giving people receiving these benefits the choice of weekly payment by order book or four-weekly payment direct into a bank account by ACT. War pensioners would retain their option to be paid quarterly although normally this would be by the more convenient method of ACT rather than crossed order in the future. The Government proposes to offer people receiving these benefits the new choice of payment arrangements from the middle of 1982 onwards.

#### Other changes to reduce DHSS administrative costs

23. The review team recommended a number of areas where administrative savings could be made through simplification and greater consistency. The Select Committee recommended that work on these smaller-scale changes should go ahead.

The Government proposes to introduce most of the changes and hopes to achieve almost 80% of the savings identified by the review team in respect of these smaller changes. The changes are outlined briefly in Annex I.

#### REDUCING THE COST OF ADMINISTERING SOCIAL SECURITY

24. The Government's proposals will achieve a significant reduction in taxpayers money spent on administering social security. These savings will only build up to near their full amount about 5 years after implementation. Even then the actual savings will depend on whether individuals voluntarily choose to be paid ~~for directly~~ by ACT direct into their bank accounts. On the basis of the information available to it the Government estimates that by the end of 1987/88 DHSS administrative costs are likely to be reduced annually by about the following amounts:

|  | £ million (at 1980-81 prices) |
|--|-------------------------------|
| (i) Improved administrative procedures and services to the public.   | 13                            |
| (ii) Payment of benefits by ACT for those who choose this method (on the assumption that about 3.5 million people will have chosen this method). | 12                            |
| (iii) Payment of child benefit 4-weekly (with certain exceptions - see paragraph 16).  | 15                            |
| Total  | <hr/> £40 million <hr/>       |

These figures are not directly comparable with the estimates made by the review team which were prepared on different assumptions and were at Autumn 1978 prices.

## IMPLICATIONS FOR THE POST OFFICE OF THE GOVERNMENT'S PROPOSALS

25. The Government is committed to maintaining an adequate sub-post office network and it has given the most careful consideration to the implications of its proposals for this network. Several factors need to be weighed in assessing the impact of the Government's proposals on post offices: the starting dates for changes and the speed of change; the likely growth of post office business among existing users of counter services other than DHSS; and the scope for generating additional counter business from new users. The Government [has discussed] its proposals with the Post Office [and the National Federation of Sub-Postmasters]. It is confident that the changes in the volume of counter business resulting from its proposals should not damage the post office network or pose unmanageable problems for the Post Office in safeguarding that network in the future providing the Post Office is allowed to take on a wider range of counter business as the Social Services Committee recommended. This will mean amending the Post Office Act 1969 which limits the business that the Post Office can conduct over its counters to central and local government and area health authorities, unless this business is undertaken as a banking transaction through National Girobank. The Government has decided therefore to seek to amend the law so that the Post Office can undertake counter business for a wider range of customers in both the public and private sectors. It will be proposing this change in the next session of Parliament as part of the British Telecommunications Bill which will divide the present Post Office into two separate organisations.

26. The extent to which the Post Office is able to take advantage of this legislative change will depend to a great extent on the competitiveness of its prices and its marketing skill. However after discussion with the Post Office the Government is satisfied that it would not be unreasonable to look for growth in total counter business of up to 10% (over existing levels) with about 5 years of the new powers coming into effect. On top of this existing <sup>public sector</sup> users of the Post Office anticipate that their counter business will increase by about 3% over the next 5 years.

27. There is also scope in the future for greater use of National Girobank in the payment of social security benefits as the Social Services Committee recommended. The extent to which this potential scope is realised will depend on their capacity to handle large increases in the number of personal accounts and on their commercial policy. However the Government would like to see such

a development and will be encouraging National Girobank to grasp the commercial opportunities presented by the wider choice available to individuals for the payment of their social security benefits. Preliminary discussions have already taken place with National Girobank about establishing a small pilot project on the payment of retirement pensions into a Girobank account for a group of people willing to participate in this experiment. There will be further discussions with the Post Office and National Girobank to explore the full scope for new arrangements in the future.

28. The Government believes that the proposed change in the Post Office Act and the consequential growth in counter business from existing users will enable the post office network to cope with the proposed reduction in DHSS business. Counter business from new and existing customers could well grow by about 13% over 5 years or so compared with a reduction of about [5]% in counter business over the same period from DHSS under the Government's proposals. Put another way although DHSS would be spending just over £25 million (in today's prices) less on Post Office counter charges by 1987-88, other users would be spending substantially more by this date, perhaps as much as £60 million more (in today's prices). Moreover some of the lost DHSS business will be transferred to National Girobank. Overall this should mean that the incomes of sub-postmasters are fully protected in real terms over the coming years. However the Government intends to take special steps to guard against the possibility that some of the smallest sub-post offices would not participate in the general growth of business.

29. Sub-postmasters are in general reimbursed for the amount of work they perform, except that the smallest sub-post offices receive a minimum scale of payment regardless of their volume of business. The number and location of both Crown offices and sub-post offices are subject to change for reasons quite separate from deliberate changes in policy by departments or other responsible for providing counter business opportunities, eg population shifts and changes in shopping habits. Over the period 1970-80 sub-post offices declined in number by about 8% (to 21,056) and Crown offices by about 9% (to 1,571). The Government and Post Office consider that the present size of the sub-post office network is about right, and intend that it should be maintained at about its present level. If the proposed changes in social security payment arrangements seem likely to reduce the number of sub-post offices the Government would consider making payments for a limited period to enable individual sub-post offices to adjust to a new trading situation.

One possibility that the Government is considering is the establishment of a fund from which special payments could be made by the Post Office. The Government will be discussing this idea further with the Post Office but it will want to ensure that public expenditure is not used to subsidise shops that would have had to close irrespective of any changes in the arrangements for paying social security benefits.

#### CONSULTATIONS

30. The Government has discussed its proposals with the Post Office [and the National Federation of Sub-Postmasters] and has taken into account the views expressed. It will now initiate more detailed discussions with these two bodies as well as with representatives of DHSS staff and beneficiaries and with the banking community. Some proposals such as the frequency of paying child benefit will require more consultation than some other aspects on which there is already much general agreement.

31. The Government will give careful consideration to any ideas that emerge in these discussions for modifying the implementation of its proposals. It will also, as it indicated earlier in the year (see paragraph 4), arrange for a full debate of its proposals in the House of Commons if this is wanted. The Government would be glad to have comments on its proposals from individuals or organisations and any such comments should be sent to DHSS, room 105, Ray House, 6/16 St Andrew's Street, London EC4A 3AD before the end of 1980.

#### CONCLUSION

32. Arrangements for paying social security benefits have not changed for over 30 years during which methods of paying wages and salaries have altered considerably. Most other advanced countries pay benefits monthly or even less frequently, often through banks. The Government is convinced that there is considerable scope for changing the frequency of paying benefits for some people and that new payment methods should be offered. It wants to make a start with more up-to-date and efficient arrangements for paying benefits from 1982 onwards by switching (with some exceptions) to four-weekly payment of child benefit; and starting to offer the facility for paying benefit by ACT direct into bank accounts for those who want it. Before 1982 it

will start to make the smaller administrative changes within DHSS set out in Annex I. The changes proposed by the Government will reduce the annual cost to DHSS of paying social security benefits by about £40 million (at current prices) by 1987/88. The Government is confident that these proposals will not damage the sub-post office network. It would be glad to have views on these proposals and will be initiating discussions with major interests as quickly as possible.

ANNEX I

CHANGES TO PROCEDURES IN DEPARTMENT OF HEALTH AND SOCIAL SECURITY

The more detailed recommendations made by the review team for making administrative savings in the Department of Health and Social Security are set out below with the Government's response.

Order-books to be sent direct to most people's home addresses

1. This proposal would create additional work which would need some 130 extra staff in Newcastle Central Office and lead to a 30% - 40% increase in the number of order-books not received by beneficiaries. The Government is also concerned that the proposal might increase opportunities for fraud. These factors would make the savings some £2m less than the review team estimated and it has been decided not to proceed with this change.

The duration of computer-produced order-books should be standardised at 20 weeks (except for child benefit and some minor benefits)

2. The duration of retirement pension order-books will be increased from 13 to 20 weeks from April 1981 and most benefits (war pensions and disablement benefits) paid from North Fylde Central Office will be standardised at 20 weeks in 1982. Order-books for mobility allowance and family income supplement will continue to be issued for longer periods.

Child benefit order-books should last for 48 weeks and contain foils without cash denominations

3. This change would increase complexity for the Post Office and reduce room for flexibility in the child benefit scheme. Instead these order-books will be standardised at 20 weeks along with other computer-produced order-books. This change will be introduced from February 1981.



There should be greater use of combined order-books and girocheques for paying people with more than one benefit

4. This proposal is accepted and from April 1981 payment of invalidity benefit and supplementary benefit will be combined in appropriate cases.

DHSS girocheques for supplementary benefit should be cashable only at nominated post offices, and evidence of identity should be required where girocheques exceed £50

5. At present evidence of identity is required when payment by girocheque exceeds £30. The Post Office are being asked to increase this to £50 and the level will be reviewed annually. Further consideration is being given to providing for supplementary benefit girocheques to be cashable only at nominated post offices.

The standard method of paying nearly all overseas beneficiaries should be through bank with a branch in the United Kingdom

6. Action on this recommendation awaits discussions with UK representatives overseas.

Notes at the back of computer-produced order-books should be standardised and the books should be sorted by computer into geographical areas

7. Sorting into geographical areas is being discussed with the Post Office but savings are likely to be less than was first thought. The standardisation of notes will be considered when resources permit.

The upper limits on individual payments made by order-books (foil limits) should be increased to realistic levels and reviewed each year

8. All foil limits have now been increased to realistic levels (£60 for supplementary allowance and £100 for computer-produced order-books) and will be reviewed each year in line with uprating increases.

The period for implementing nationally the DHSS local office computer system should be reduced from 4 to 2 years, assuming the pilot study is successful

9. This recommendation is accepted subject to reconsideration following the pilot study.

All beneficiaries should be given a statement showing the calculation of their benefit

10. From November 1980 supplementary benefit claimants will be given a written notice of assessment and the position relating to other beneficiaries will be reviewed.

Pilot studies should be mounted to evaluate new ways of providing the public with essential advice and information about social security and there should be a programme for improving the quality of social security documents that go to the public

11. This recommendation is accepted.

Benefit amounting to less than 50p a week should be paid once a year in arrears: sums between 50p and £1 should be paid once every 6 months in arrears

12. For retirement and widows' pensions sums of up to £1 will be paid once a year in arrears, but no change will be made for other beneficiaries.

Other administrative changes

13. The review team also proposed that single payments should be made by payable order rather than giro-cheque, that any arrears of benefit should be included with the first payment in an order-book, and that increases in benefit of up to £1 (50p for supplementary benefit) should be held and paid with arrears on the renewal order-book. These recommendations are accepted. In addition consideration will be given to reviewing the rules for calculating any periods for unemployment, sickness and supplementary benefits.



✓  
MAJ

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

3 September 1980

The Rt. Hon. Sir Keith Joseph, MP  
Secretary of State for Industry

Dear Keith

ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

I have seen the correspondence on this following my letter to Patrick Jenkin of 1 August. I agree in particular with the suggestions made by Lynda Chalker in her letter of 19 August. Indeed I understand that officials have already started work on the preparation of a draft document setting out the Government's response to the DHSS Rayner study, and on an examination of the prospects for some kind of "cushioning" for sub-postmasters who would be affected by the changes. I agree also with the time-table for bringing these matters forward for discussion towards the end of September.

Subject to your views, I would think that Lynda's proposals for consultation with the sub-postmasters seem sensible. No doubt we can consider at the appropriate time whether we should publish anything first, before consultation, as I suggested in my letter of 1 August.

I am sending copies of this letter to other members of the Cabinet, the Chief Whip, Lynda Chalker, Sir Robert Armstrong and Sir Derek Rayner.

L —  
  
J —

GEOFFREY HOWE

- 3 SEP 1980





✓ MR Social Services

**DEPARTMENT OF HEALTH & SOCIAL SECURITY**  
 Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Joint Parliamentary Under Secretary of State*

The Rt Hon Sir Keith Joseph Bt MP  
 Secretary of State for Industry  
 Ashdown House  
 123 Victoria Street  
 London  
 SW1E 6RB

19 AUG 1980

*Dear Keith,*

**ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS**

I have seen your letter of 8 August to Patrick Jenkin, together with that from Christopher Soames of the same date. I found your letter very encouraging and I accept completely that it overtakes Patrick's of 11 August. However I thought it would be useful to outline how we might proceed, so that officials could undertake much of the preliminary work needed to pave the way for an announcement of the Government's views on the DHSS Rayner study by about the end of October.

I am very attracted by the line of development you envisage in your letter of 8 August. This should, as you suggest, make it possible for most sub-postmasters to increase their incomes sufficiently to offset the possible loss to them under Option B of the Post Office Counter Services Study Group's report. We have some reservations about Option B, but it is the best framework within which to work. I would like therefore for my officials to get together with the Treasury's and yours to prepare during the next month a draft document setting out the Government's response to the DHSS Rayner study on the basis of Option B. When we see the result we may regard Option B as too ambitious but I think it should be our starting point at this stage. If this preparatory work can be completed by about the middle of September I will aim to circulate by the end of that month a draft for colleagues on H Committee to consider.

Even with the changes you envisage, there may still be some marginal sub-post offices who will be adversely affected by the DHSS changes. I agree with Christopher Soames that the cost of 'cushioning' the sub-postmasters is unlikely to be great compared with the overall potential savings. I would like to suggest that officials should develop some modest proposals for alleviating the impact on the most marginal sub-post offices of a loss of DHSS business, that will not be offset by other new business. Again this work should be undertaken in the next month, so that the outcome can be incorporated in the draft document I will be putting to colleagues.

Lastly there is the issue of consulting the sub-postmasters. I know that you will be consulting the Post Office about your amendments to the Post Office Act. Do you envisage that shortly afterwards that you will be consulting the National Federation of Sub-Postmasters separately about your proposed changes? If so, this

E. R.

would seem the opportunity to consult them about the changes we envisage in the arrangements for paying social security benefits. This might conveniently be done in early October when colleagues have had a chance to discuss the draft document I shall be circulating. I have rather assumed that you will want to take the lead in the consultations with the sub-postmasters but we would naturally provide any help and support you or your Department wants.

I am copying this letter to members of the Cabinet, the Chief Whip, Sir Robert Armstrong and Sir Derek Rayner.

*Yours ever*  
*Lynda*

MRS LYNDA CHALKER

20 AUG 1980



020



Social Services ✓ MAP  
MAP 18/6

MR PATTISON

ARRANGEMENT FOR PAYING SOCIAL SECURITY BENEFITS

I think it probable that Sir Derek Rayner will enter into the current correspondence between Ministers on the above at a point when he thinks it likely that an intervention may be useful. I would like a word with you about this at leisure.

2. In the meantime, you may like to see the enclosed correspondence between Mrs Walker who wrote to the Prime Minister about these matters on 17 June and Mr Warner of DHSS (who, you will recall, conducted the original Rayner project).

3. This is not the only counter opinion we have. You might also like to see the attached copy of a note on views expressed by Mr Eric Midwinter, who has some qualifications in this field.

GP

C PRIESTLEY  
14 August 1980

Encs: copy correspondence with Mrs Walker.  
note on Mr Midwinter's views.



Ms. M. Thatcher.

43/45, HIGH ST  
BUCKDEN  
HUNTINGDON CAMBS  
17.6.80.

Huntingdon 810306

Dear Mrs. Thatcher.

I am a confused person. I understand we live in a free society, yet I am told I have to get my family allowance from a post office — why? All my friends would prefer a monthly cheque or suchlike.

Our local headmistress tells me she will have to cut the number of childrens books purchased for the school — why not cut the amount wasted on these silly voucher books and spend the money saved on school books? I am certain all parents would agree with this.

I cannot understand why it is so difficult to change an old-fashioned out of date system. Why should I have to live up in the post office, probably for 30 minutes, only to be served by people who have never heard of a please or thank you.?

I do not mind if the money is paid monthly or quarterly in arrears but please, please can something be done about this silly voucher system. Why can an unemployed person have a cheque to pay into their bank account yet I, who work sufficiently hard to pay £2500 a year in tax, cannot get the same treatment. Really it is too bad.

Yours. D G Walker (Mrs)



Department of Health and Social Security  
10 John Adam Street  
London WC2N 6HD  
Direct Line 01-217 4595  
Switchboard 01-217 3000

Mrs D G Walker  
43/45 High Street  
Bickden  
Huntingdon  
Cambridgeshire

10 July 1980

*Dear Mrs Walker*

Thank you for your letter of 17th June to the Prime Minister about the arrangements for paying your child benefit (or what used to be called family allowance). I have been asked to reply.

The Government has a good deal of sympathy with the views you expressed. In principle Ministers think that the public ought to be able to have their social security benefits paid direct into bank accounts if they wish rather than being forced to cash their order books in post offices. A recent study on the arrangements for paying social security benefits recommended this. However it also recommended paying benefits at less frequent intervals, mainly fortnightly, for most people as a way of saving the taxpayers money that goes on administration. However these changes would have reduced the amount of business across post office counters. This would have reduced the income of sub-postmasters if the Post Office could not generate alternative work to replace the lost social security business.

The National Federation of Sub-Postmasters became very concerned at the proposals and mounted a campaign against such changes on the grounds that sub-post offices would close because of the loss of business that would result. It was never the intention - either of this Government or the people who did the study - that these social security changes should be made in a way that led to the closure of many sub-post offices in rural areas. However the concern and anxiety that was generated has meant the Government needs to consider further its position on any changes that might be made in the arrangements for paying social security benefits. But Ministers hope to make their views known publicly as soon as possible and they still want to start offering in the future the facility of paying benefits direct into bank accounts when people want this.

Thank you once again for writing and I hope we can give you the payment method you want in the not too distant future.

*Yours sincerely,  
Norman Warner*

N R WARNER

Mr Norman Warner,  
Dept of H & SS,  
10, John Adam St.,  
London. WC2

43. HIGH ST.  
BUCILDEN  
HUNTINGDON, Cambs.  
Huntingdon 810306  
15.7.80

Mr. Knights - for Mr. [unclear]

Dear Mr. Warner. Mr Green - no reply needed. MHW 21/7

Thank you for your letter of 10 July (which took FIVE days to get to my address!!). Our local sub-postmaster claims the so-called spontaneous action by his federation was, in fact, organised by the post office. He claims letters were distributed, typed and prepared by the post office. Representatives of the post office attended meetings to persuade sub postmaster to take action. Many sub-postmasters were against this (he says) because hardly so much money puts them at physical risk (two have been attacked this week in the area!!).

I really think your experience should have taught you to ignore or regard lobby.

Yours. B G. Walter.

### Payment of retirement pensions

3. Eric Midwinter, who as I expect you know is about to leave the National Consumer Council to become the Director of the Nuffield Centre for Policy on Aging, had lunch with me last Friday.
4. I wanted to talk to him mainly about consumerism, but in view of his impending change I asked him whether he had any views on the question of frequency of payment of retirement pensions, both existing and new.
5. Very much to my surprise, he took a robust line on the issues of frequency and, indeed, method of payment. Assuming that the rural post office network was secured by other means, he thought that a good deal of the argument against change in frequency and method was emotional, much of it being based on a stereotype of rather muddled grannies and grandads. He thought, by contrast, that many of the elderly were exceedingly competent and would be perfectly happy to be paid at fortnightly if not monthly intervals. He deplored the arrogance of those who claimed to speak for the elderly and thought that if market research showed that a substantial proportion of those concerned would be willing to change, it would be well worth putting a lot of effort into making the change.
6. He thought that a change in frequency would march with changes in frequency of payment elsewhere in society, which were now becoming much more commonplace. He also thought that too little emphasis was placed on the fact that it was no fun for the elderly, especially in winter, to have to queue at the Post Office. The view that you could walk into a Post Office and get your benefit without hassle was sentimental.
7. He also thought that too little emphasis was placed on what was in his view at least an important consideration. This was that many elderly folk would welcome an automatic means of saving (eg for the annual TV licence). He thought this facility would be provided by direct credit.

U.S. AIR MAIL  
100





✓  
MAP

*Social*  
2 MARSHAM STREET  
LONDON SW1P 3EB

*Services*  
My ref: H/PSO/16040/80

Your ref:

12 August 1980

*De Patrick*

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

I have seen a copy of your letter of 28 July to Geoffrey Howe replying to his of 2 July about the report of the Post Office Counter Services Study Group.

You will have seen from my own response of 29 July that I share your reservations about publishing proposals for changing payment arrangements at the present time. I entirely agree that we should not propose measures which will affect the income of sub-postmasters, and the viability of sub post offices, until we are able also to point to new business opportunities to offset the potential decline in sub postmasters' remuneration.

I therefore believe that we have no option but to delay on this pending details of Keith Joseph's plans and your own assessment of the scope for changes in the Agency Services Agreement. I am sure too that it would be advisable to consult the sub postmasters before publication; to act otherwise would inevitably raise a storm.

I am copying this letter to the recipients of yours.

*Yours ever*  
*Michael Heseltine*

MICHAEL HESELTINE



11 3 AUG 1980

Carbon



DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Sir Keith Joseph BT MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
London S W 1

cc M. Keir  
Mrs Huggles  
M. Stagg  
N. R. Stagg  
N. N. Clarke  
N. Ward  
N. Potter  
N. Fogden  
N. Warner  
M. Hayward  
N. J. Green

// August 1980

Dear Keith,

ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

My letter of 28 July to Geoffrey Howe explained why I thought we should take a little more time to prepare a statement of the Government's attitude to changes in payment arrangements; and subsequent letters by colleagues suggest general agreement to this. I have now, with Willie Whitelaw's agreement, informed the Chairman of the Social Services Committee that we shall need a little more time before responding to her Committee's report but that we hope to indicate our views in the autumn.

I know that it is your intention to make decisions as quickly as possible on the crucial issue of whether or not the Post Office should be allowed to seek additional counter business from new customers in the public and possibly the private sector. I appreciate that difficult issues are involved here but I wanted to mention to you one matter that is causing me increasing concern and which was raised by a deputation from the Committee of London Clearing Bankers when they came to see me earlier this week. Members of this deputation were very keen to see progress towards allowing people to have their benefits paid direct into their bank accounts by automated credit transfer (ACT) but I was unable to give them a firm date for starting to use this payment method even though it has never been a matter of great controversy. You may recall that ACT was supported with some enthusiasm by the Social Services Committee in their report; and its effect on sub-postmasters' income would be more than offset by the growth of new counter business from existing customers operating under the Agency Services Agreement. My officials have done a good deal of the preparatory work for starting payment by ACT but they are rapidly reaching the point where little further progress can be made without an announcement on ACT. Without this we are unlikely to be able to keep to our original intention of starting to offer this payment method from mid-1982 onwards and completing the exercise of taking people on to payment by ACT about 18 months or so later. The crucial issue is the appointment of a sponsor bank - by competitive tender - who will enable my Department to use the Banks Automated Clearing System and help sort out any problems with individual credit transfers. If we do not invite tenders by early November and appoint a sponsor bank by the end of the year then I doubt if we can start to pay benefits by ACT in mid-1982 and complete the exercise by the end of 1984.



I have given some thought to whether we could announce a start on ACT in advance of indicating our views on other aspects of the Rayner study team's report. But I doubt if this is possible without accusations of bad faith because of the commitments we gave earlier in the year on consultations, especially with the sub-postmasters. If we are to start paying benefits by ACT from mid-1982 I think we have to announce our views generally on the Rayner study by about the end of October which would fit in with what I have told the Chairman of the Social Services Committee. This in turn will mean agreement amongst colleagues on how to proceed by mid-October at the latest. It would be extremely helpful therefore to have your decision on new business for the Post Office as soon as possible in September so that I can circulate to colleagues a draft document setting out the Government's response to the Social Services Committee's report. I should be grateful if you would let me know if you are likely to be able to adhere to a timetable of this kind so that I can consider whether or not to postpone the planned starting date for paying benefit by ACT.

I am copying this letter to Geoffrey Howe, Paul Channon, Sir Derek Rayner and Sir Robert Armstrong.

Your ever  
Paul



Social  
Services

*From the Secretary of State*

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
London, SW1P 3AG

11 August 1980

Dear Geoffrey.

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

I have been following with interest the correspondence on this subject. My concern is that shopping facilities for village communities might suffer from the changed arrangements, and we should be fully aware of the consequences. We also need to carry with us those who will be most affected. I therefore strongly support Angus Maude's proposal that the sub-paymasters should be consulted before final decisions are taken. I fully agree with all that he has to say.

I am copying this to recipients of your letter of 2 July.

Yours ever  
John

JOHN NOTT

12 AUG 1980



CONFIDENTIAL

1/ Please copy. 5/ 12/8



Secretary of State for Industry

PS/MR Butler  
MR Marshall  
MR Croft  
MR Young  
MR Nudusynski  
MR Mantle (papers)

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

8 August 1980

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
London SW1

*John Gulliford*

You wrote to Patrick Jenkin on 1 August in reply to his letter of 28 July about the linked questions of implementing the Rayner proposals on payment of social security benefits and of finding possible additional work for sub-postmasters.

2 I share your concern to implement the Rayner proposals quickly and to move to a less cash-based and less "weekly-minded" society. I think, however, that Patrick Jenkin is right to say that we must show that we have taken full account of the impact of our proposals on the income of sub-postmasters. We should not under-estimate the power of the sub-postmasters lobby or their influence with our own backbenchers; we would risk damaging the prospects for implementing the Rayner proposals if we did not take positive steps to anticipate their objections. We shall need to consult the sub-postmasters before announcing our proposals.

3 The only effective way of taking account of the sub-postmasters' interests is to contemplate extending the scope of the business conducted at Post Office counters. Such an extension would, however, bring with it two serious difficulties. First, the Crown Post Office counters (but not the sub-post office counters) are owned by the nationalised Post Office and are part of the public sector; an extension of Crown Post Office counter activity would therefore entail an extension of the public sector at a time when we are attempting to bring about a contraction. Secondly, an expansion of Post Office services in this area brings with it the serious risk of unfair competition which might have the effect of frustrating the emergence of competing money transfer systems.

4 I believe the Agency Services Agreement will provide us with some safeguard for preventing cross-subsidisation. But we should, as I mentioned in my letter of 15 July, pay particular attention to the need to avoid cross-subsidisation when reconsidering the terms of the Agreement. Provided it was clearly understood that any new business which was undertaken by the Post Office counters

/was...

CONFIDENTIAL



was priced in terms that were transparently non-subsidised I think that we would have a sufficient protection against the risk of cross-subsidisation.

/we 5 I am more concerned, however, about expanding the public sector; this is undesirable in itself and we should open ourselves to serious criticisms by our backbenchers if we allowed this to happen. I think that the only way in which/could permit Crown Post Offices to undertake additional counter service work would be on the clear understanding that this expansion was a prelude to the privatisation of the Crown Office counters themselves. If it was understood that the Crown Office counters would be privatised I think it would be permissible for us to permit them to take on work on behalf of the private, as well as the public, sectors; indeed by making them able to take on private sector business we would make the Crown Offices a more attractive proposition for privatisation.

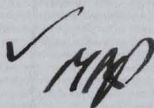
6 I have therefore asked officials to prepare proposals for us to take powers in the new Post Office Bill to enable the Secretary of State to direct the Post Office to form subsidiary companies and to give directions for disposals which would apply to the Crown Office counters. It will take officials a little time to look into the technicalities. But I hope that an expansion of the Post Office's powers to undertake counter business for both the private and public sectors will provide the sub-postmasters with an increase in income sufficient to offset the possible loss to them under "option B" of the Post Office Counter Services Study Group's Report.

7 I am copying this letter to other members of the Cabinet, the Minister for Transport, the Chief Whip, Sir Robert Armstrong and Sir Derek Rayner.

*Evans,*

*Kerr*

Civil Service Department,  
Whitehall,  
London, SW1A 2AZ



*With the Compliments  
of the  
Private Secretary  
to the  
Lord President of the Council*



*Social Security*

Civil Service Department  
Whitehall London SW1A 2AZ  
01-273 4400

8 August 1980

The Rt Hon Patrick Jenkin, MP  
Secretary of State for Social Services  
Alexander Fleming House  
Elephant and Castle  
LONDON SE1 6BY

*Dear Secretary of State,*

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

Thank you for sending me a copy of your letter of 28 July to Geoffrey Howe. I have since seen Michael Heseltine's letter of 29 July, Angus Maude's of 31 July and Geoffrey Howe's of 1 August on the same subject.

I very much agree with Geoffrey Howe's view that it is important we do not lose momentum on this issue and further water down the proposals for more efficient payment of benefits. The savings in administrative costs are not only important in their own right, but a retreat from these very sensible changes would be a blow to our campaign for improved efficiency in the Civil Service.

I am bound to say that I find it hard to see why we cannot find ways to introduce these changes while giving safeguards which will satisfy the sub-postmasters. Clearly if it is possible to allow the sub-postmasters to get new business, that would probably do the trick. But if this is not possible, the size of the financial adjustment needed to protect those sub-postmasters most at risk would be only a small fraction of the savings we would forego if the changes are not introduced. I see that Geoffrey Howe does not rule out some "cushioning" of this kind and if need be I think the possibility of that should be looked at quickly.

*Yours sincerely,*  
*Buckley.*  
*Private Secretary*

*Copied also to PM,  
other Cabinet colleagues,  
Sir Derek Rayner and Sir  
Robert Armstrong.*

*Dictated by the Lord President.*

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11 AUG 1980





VMAJ  
Social  
Services

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

/ August 1980

The Rt. Hon. Patrick Jenkin, MP.,  
Secretary of State for Social Services

*Dr Patrick*

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

Thank you for your letter of 28 July. I have also seen Keith Joseph's letter of 15 July and Michael Heseltine's letter of 29 July.

It seems to me that what we are really now waiting on is a view from Keith Joseph as to whether in principle he is prepared to bring forward proposals to us which would permit the Post Office, or at least sub-Postmasters, to take on additional business beyond their present constraint, even if this additional business were only other public sector business. I am not sure that I myself necessarily accept that the effect on sub-Postmasters would be intolerable if no such additional business were forthcoming. But clearly if a prospect of it were offered, our task in getting the reform made would be that much easier. I hope Keith will, therefore, give this matter further urgent thought.

The other reason you give in your letter for hurrying slowly in this matter is the need to consider what changes in the Agency Services agreement we might envisage. Possible changes were hinted at in paragraph 18 of the report which I circulated with my letter of 2 July, and as you say I referred to them in that letter. But I do not think it is worth putting work in hand in this matter without knowing whether Keith Joseph is in principle agreeable to sub-Postmasters taking on extended business. As you will know the Agency Services agreement is a complicated affair, and possible modifications to it need careful study not only from what might be described as the practical and technical point of view, but also from the point of view of the effect on other users of having differential prices. I would be reluctant to see this work put in hand in vacuo. But I would certainly be glad to have it undertaken if and when we know what we might be going for in principle.

/I must say that



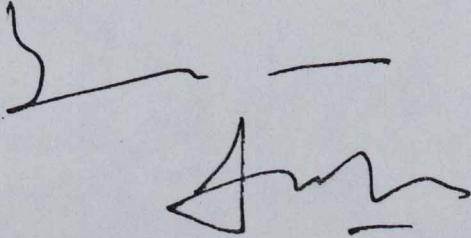
I must say that I am doubtful about the wisdom and value of consulting the sub-Postmasters before we publish anything. Will this not simply whip up further opposition? And it might seem to cut across the Post Office's managerial responsibilities. But if you and other colleagues think it would be helpful, I would not object.

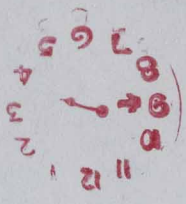
There is one other point in your letter which I should take up with you. You say not only that we must show we have taken full account of sub-Postmasters' problems, but that we must make arrangements which will ensure that they will not suffer a decrease in income during the period of change. I fear I simply do not think this is acceptable. The sub-Postmasters are in a commercial walk of life, and changes in their environment, and the nature and volume of the business they do, take place all the time, and must affect their remuneration. They cannot expect to be provided with a safety net. Without committing myself, I would not rule out an examination of some possible cushioning to meet any really hard cases, if this could be devised fairly and inexpensively. But the sort of blanket undertaking you appear to envisage seems to me to go too far. The same goes for the network itself; we can accept a commitment to maintaining an adequate network, but this does not mean there can be no changes in it at all.

In all the circumstances I do not disagree that we have to take a little more time in this matter, and I am content that you should explain to the Chairman of the Social Services Select Committee why there will not be an immediate reply to her Committee's report. But I hope very much that you will be able to bring forward detailed proposals on which we can take decisions, as soon as possible. I am of course acutely aware of the problems which have been caused by the sub-Postmasters' view of the possible effect on them of the Rayner proposals. But on the other hand I am anxious that these proposals should not be watered down further, and that what we decide to do should be announced and implemented without unnecessary delay. Delay and further watering down would be unhelpful to other Rayner developments which are under study, and indeed to all our uphill efforts to make desirable changes in habits and thinking in our administration; we might also lose the savings we expect and in addition the opportunity for helping the long term move towards a less cash based and less "weekly minded" society, which in my view has advantages.

I am copying this letter to those who had copies of yours.

GEOFFREY HOWE





E-1 AUG 1951



PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

31 July 1980

Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
The Treasury  
Parliament Street  
SW1P 3HE

*Dear Geoffrey,*

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

I have seen copies of your letter of 2 July to Patrick Jenkin, also letters from Keith Joseph (15 July), Patrick Jenkin (28 July) and Michael Heseltine (29 July).

In my view it is absolutely essential that we do not once again find ourselves faced with a campaign by sub-postmasters, which will inevitably drag in every rural voluntary body and produce hundreds of letters to every country MP. The impression given last time - in fact unjustly, since it was Sir William Barlow's fault - was one of Government confusion and lack of understanding.

We could again be taken by surprise. The sub-postmasters could well explode earlier than anyone has counted on.

I share Michael Heseltine's doubts about the riskiness of the assumptions, and confirm his views on the possible damage to villages.

Of course it is an absurd situation that the Post Office, which is supposed to be a commercial corporation, should have its commercial judgement influenced by the effects of its decision on the viability of village shops. Nevertheless, someone must consider the social consequences to pensioners and others of closing village shops in areas where public transport is either non-existent or prohibitively expensive. Surely it can only be the Government?

Subsidising the Post Office to keep village shops open may be ideologically unsound, but is there really an alternative - other than to arrange for increased sub-post office business?

We are, I believe, absolutely committed not to worsen the position in respect of DHSS payments without increasing sub-post office business in other ways.

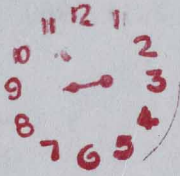
I am certain these decisions must not be taken in a hurry. And I am quite sure Patrick Jenkin is right in believing that the sub-postmasters must be consulted before final decisions are taken.

I am copying to recipients of yours.

*Yours ever,*  
*Angus*

ANGUS MAUDE

- 1 AUG 1980





2 MARSHAM STREET  
LONDON SW1P 3EB

Prime Minister

The interdepartmental group on post office counter services - set up to look

My ref: H/PSO/15281/80

Your ref:

at the effect of the Rayner proposals - 29 July 1980  
has now reported. But, as this

letter from Mr Heseltine and the one below from Mr Jenkin show,

matters are not yet resolved. Also comments from Mr Maudslayi  
I require to doubt whether there will ever be results. MAD 30/vii

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

I have seen a copy of your letter of 2 July to Patrick Jenkin, covering the report of the Post Office Counter Services Study Group.

I accept the need to streamline arrangements for paying social security benefits, and I am aware of the Prime Minister's view that this issue should be divorced from the wider question of the future of the sub-post office network, to the maintenance of which the Government is, of course, committed.

The Study Group's conclusion is that the options which they have examined are unlikely to accelerate the secular decline in the number of Post Offices. I fear, however, that this may be too sanguine a view in the case of options 'B' and 'C'. In those two cases the report envisages a net decrease in sub-postmasters' remuneration which may have a critical effect at the margin, resulting in closures of village shops in places where the revenue from post office business is crucial to viability. Moreover, the report points out that it is likely small sub-postmasters will suffer a net reduction greater than average. Again rural areas will be most affected.

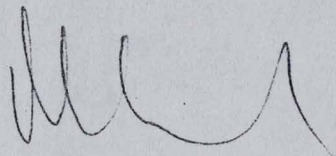
There is a further point. The estimates made are themselves dependent on a set of assumptions, and these could prove invalid. For example it seems risky to assume that other counter users can accept higher costs and maintain or expand the level of their counter services. As you say, if such changes were introduced, we should need to monitor the accuracy of those assumptions with great care.

You will realise from this that I am far from reassured in the light of the Group's report that it would convince the rural lobby - let alone the sub-postmasters - that the effect of options B or C would be negligible. Unless, that is, we can present a package which includes, or at least foreshadows, the

further measures described in your letter under "new business".  
This appears to me to be the key to securing wider assent.

I am copying this to Patrick Jenkin and the recipients of  
yours.

Yours  
M

A handwritten signature in dark ink, consisting of several loops and a long horizontal stroke at the end, characteristic of Michael Heseltine's signature.

MICHAEL HESELTINE



JUL 1980







DEPARTMENT OF HEALTH & SOCIAL SECURITY  
 Alexander Fleming House, Elephant & Castle, London SE1 6BY  
 Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon Sir Geoffrey Howe QC MP  
 Chancellor of the Exchequer  
 Treasury  
 Parliament Street  
 London  
 SW1P 3HE

28 July 1980

Dear Geoffrey,

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

Thank you for your letter of 2 July enclosing a copy of the Post Office Counter Services Study Group (POCSSG) report. I am also grateful for Keith Joseph's comments in his letter of 15 July. As you say, I must now formulate proposals for Ministers to consider collectively. But we do not yet have all the information we need.

I am quite certain that we cannot yet publish proposals for changing payment arrangements. Whatever our proposals, they will affect the income of sub-postmasters in some way. We have to show that we have taken full account of their problems and make arrangements that will ensure that they will not suffer a decrease in income during the period of change. It will not be sufficient simply to assure them that our proposals will not have a significant impact on the sub-post office network. Much turns, in my view, on Keith Joseph's decision about new business opportunities for the Post Office. It is also crucial how the Post Office management treat the sub-post office network. I cannot form a view about the proposed changes in the period of payment for benefits (on which the largest savings turn) until we know (bearing in mind the increased business foreseen in paragraph 14 of the POCSSG report) whether the relaxations Keith announces will safeguard the position of the sub-postmasters. Even then, we shall need his assessment of their likely reaction. My instinct is that the sub-postmasters should be consulted before we publish anything. I would be glad to know whether you both agree?

I welcome your intention to ask your officials to pursue the possibilities outlined in paragraph 19 of the POCSSG report on greater flexibility of pricing within the Agency Services Agreement to maximise the volume of business. If this could be completed quickly, enabling something to be said to the sub-postmasters, it should ease acceptance of the DHSS changes.

All this points in my view to taking a little more time so as to make certain that we do not generate another campaign of opposition by the National Federation of Sub-Postmasters. I will come forward to colleagues on H Committee with proposals as soon as I know what legislative changes Keith Joseph intends to make and what changes in the Agency Services Agreement you envisage. In the meantime I think we need to explain to the Chairman of the Social Services Select Committee (Mrs Renée Short) that the Government will not be able to respond until after the summer recess to the report which her Committee published in June.

I am copying this to the Prime Minister, other Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong. I would be most grateful for Willie Whitelaw's agreement to my mentioning the delay informally to Mrs Short as soon as possible.

Yours ever  
Robert

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28 JUL 1980



copies:  
 Recipients of Chancellors letter to Patrick Jenkin  
 PS/Mr Butler  
 PS/Mr Marshall  
 PS/Secretary  
 Mr Croft  
 Mr Solomon  
 Mr Mantle (on file)

✓ MA  
*Social Services*

DEPARTMENT OF INDUSTRY  
 ASHDOWN HOUSE  
 123 VICTORIA STREET  
 LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
 SWITCHBOARD 01-212 7676

Secretary of State for Industry

15 July 1980

The Rt Hon Sir Geoffrey Howe QC MP  
 Chancellor of the Exchequer  
 Treasury Chambers  
 Parliament Street  
 London SW1P 3AG

*Dear Sir,*

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

- 1 Thank you for copying to me your letter and attachment of 2 July to Patrick Jenkin.
- 2 The Study Group has made a valuable contribution in evaluating the likely consequences of various options and I agree with your suggestion that Patrick Jenkin should now formulate proposals in the light of the Study Group's Report and that of the Select Committee.
- 3 So far as the effects on the Post Office network and the sub postmasters are concerned I note the Study Group's advice that within the constraints of the various assumptions made none of the options considered would lead to significant effects on the network. I agree, however, with your observations on the likely reactions of the sub postmasters to 'Option B' in particular. With this in mind I think it would be helpful if Patrick were to relate his eventual proposals to the options considered by the Study Group and indicate to us to what extent they would be within or beyond Option B in terms of their likely effect on the Post Office.
- 4 I note the importance attached to the provision of new business opportunities for the Post Office counters, and expect to take a decision shortly on the extent to which I feel such new business can be permitted. I note also that you are asking officials to pursue the possibilities of greater flexibility of pricing within the Agency Services Agreement, since the extent to which new opportunities can be converted to business will depend very much on the price that can be offered. I am sure however that officials will consider carefully the extent to which flexibility of pricing could lead to cross-subsidisation of one customer by another.
- 5 Copies of this letter go to the recipients of yours.

*Yours faithfully,  
 G. Kent*

16 JUL 1980





Social  
Services

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

6 May 1980

The Rt. Hon. Patrick Jenkin, MP

*Jim Patin*

You will recall the arrangements made for the Treasury to chair an official inter-departmental working group to assess the implications for the Post Office of the Rayner Study proposals on frequency and method of payment of benefits. In particular we asked for an early report on the effects of offering to beneficiaries automatic credit transfers (ACT) to bank accounts.

The Group has completed its examination of the ACT option. Its findings are that on the most probable take-up rate (to which I refer further below) the annual savings to DHSS will by about 1984 be of the order of £7 million. The Post Office expect to be able to reduce counter costs within the same time span by about £5 million per year, reducing Crown Office costs by £2 million and Subpostmasters' remuneration by £3 million (1.8 per cent of total remuneration). The Post Office believe that changes of these magnitudes can be absorbed without material detriment to either the sub-Post Office or Crown Office network.

There remains £2 million which the Post Office advise cannot be absorbed. This will have to be borne by the counter users, including the Post Office and DHSS themselves. The net saving to the public sector will therefore be £5 million, against which any additional costs incurred by DHSS in operating the new system would need to be offset.

The estimated take-up rate is based on DHSS market research. If it were substantially higher than assumed, the problems of cost absorption would be disproportionately greater, and the sums would change. However I understand that we can place some reliance on that not happening, because

/DHSS



DHSS in any case could not economically cope with a materially higher take-up rate within the time scale and could use administrative means (including the level of publicity given) to reduce demand if it appeared to be running at an unacceptably high level. The banks themselves have indicated that they have a strong preference for gradual growth.

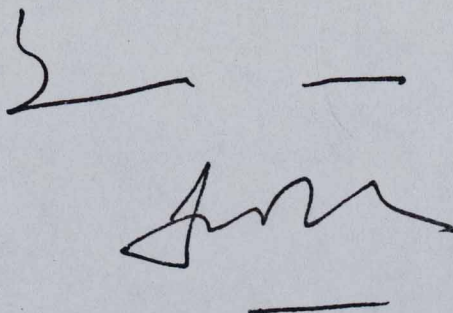
There will be consequences in the shape of interest costs to the Exchequer. It is very difficult to assess them, because there will be a gain in respect of beneficiaries currently collecting benefits at intervals of less than 4 weeks and a loss on those collecting at longer intervals. The Group's best guess was that the effect was likely to be broadly neutral, but it may be worth considering this aspect further in the context of your consideration of DHSS costs of implementation more generally.

The remainder of the Group's work will take some time to complete. Some complex analysis remains to be done. But I see no need to delay implementation of the ACT proposals on this score. The consequences of changes in frequency of payments can stand on their own, and the Group can import the consequences of the ACT charge into their final sums.

Keith Joseph mentioned in earlier correspondence the need to consult the National Federation of Sub Postmasters. No doubt he will wish to consider how best to handle this. I do not know how soon you would wish to make an announcement about the intention to offer the ACT option, but clearly the timing of that will have a bearing on the timing of consultation. If you do not think it urgent, there might be something to be said for waiting until decisions over the whole field have been reached, so that the Sub Postmasters need only be approached once.

I am sending copies of this letter to the Prime Minister and other members of the Cabinet, Sir Derek Rayner and Sir Robert Armstrong.

GEOFFREY HOWE



U.S. DEPARTMENT OF JUSTICE  
FEDERAL BUREAU OF INVESTIGATION  
MAY 12 1964

[-6 MAY 1964]





NBPM yet  
MP 2/11

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

Social Services

2 July 1980

The Rt. Hon. Patrick Jenkin MP  
Secretary of State for Social  
Services

*Dr Patrick*

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY  
BENEFITS

..... The Post Office Counter Services Study Group (POCSSG)  
have now submitted their report. I enclose a copy.

Options

The options examined by the Group are set out in paragraph 7. They were selected on the advice of DHSS, on the basis of the Rayner project study findings and considerations arising thereafter. The relevant recommendations by the Select Committee have not been the subject of considerations, and I comment on them in paragraph 9 below.

Savings

The Group's first main concern has been to establish the amount of savings which could be realised in counter service costs in the light of the reductions in use implied by the options. These are set out in summary form in the table in paragraph 9, with a year by year analysis in paragraph 10. They take account of increased business which is expected to arise during the period assuming a continuation of present arrangements. On the assumption that the changes considered take place in 1982, the annual net savings in Post Office counter costs by 1987-88 (at 1980-81 prices) can be expected to amount to £5.2m for the introduction of direct credit to bank accounts, and up to £22.5m if additionally the frequency of benefit payments is changed. The reduction in charges to DHSS will be somewhat greater, but other departments and users of Post Office counters will have to pay up to £6m more than at present. To achieve the savings, the Post Office will have to reduce staff and overtime levels at Crown Offices and remuneration to Subpostmasters.

/With all



With all the caveats about estimates going wrong, I think the assessments form a reasonable basis for you to build on. The final net savings position will of course have to take account of your Department's own savings or cost increases in implementation of the options.

### Subpostmasters

The second main concern is with the effect on the remuneration of Subpostmasters and on the size of the Sub-Post Office network. These two aspects are separate, although obviously related. Option B, which has the greatest effect in the medium term in reducing income, would clearly be unpalatable to the National Federation. They would argue that the Government were imposing a reduction in income on them of 4.5 per cent on average (greater for many) when they might reasonably instead be enjoying an increase of 2.9 per cent (table at paragraph 14), and that therefore the real loss of them in income as a result of the DHSS proposals would be 7.4 per cent.

We cannot of course expect that savings in expenditure will result in no loss of income for Subpostmasters. Apart from the smallest Sub-Post Offices, which enjoy a minimum scale of payment regardless of the volume of business transacted (which has a useful cushioning effect), the remainder are paid for work done. A fall in the volume of work must lead to a fall in the amount paid. The question for us to consider is whether this is tolerable.

The Group had in mind Ministerial assurances that the Sub-Post Office network should not be put at risk. On the evidence available, the Post Office does not think that the current secular rate of decline in the total number of Post Offices will be significantly accelerated, provided that DHSS estimates of the take up of direct crediting to bank accounts are not materially exceeded and that other counter users can in practice accept the higher costs envisaged while maintaining the level of their existing business or (in the case of Girobank in particular) achieving projected growth. In the period 1979-80, Sub-Post Offices declined in number by 8.1 per cent (to 21,056) and Crown Offices by 9 per cent (to 1,571). There must inevitably be some risk that the impact on those Sub-Post Offices just above the minimum payment band - nearly half of the total - will be more severe than looked for, with a consequential effect on the viability of some of them. If in the years following the introduction of the changes the assumptions look like going seriously wrong, we should have to consider whether remedial action needed to be taken.



### New business

The Post Office take the view (paragraph 18 of the report) that they could make substantial volume gains if they were free to seek business of a kind they are not at present empowered to do. No doubt Keith Joseph will wish to consider whether this is a possibility; if it could be held out as one the outlook for the Subpostmasters would be brighter. I am asking my officials to pursue the possibilities outlined in paragraph 19 of greater flexibility of pricing within the Agency Services Agreement to maximise the volume of business.

### Select Committee

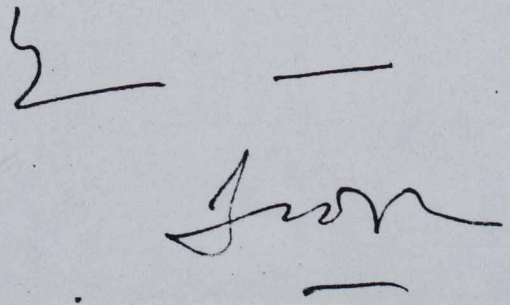
I understand that you will be shortly bringing before colleagues your proposals for implementing changes in the payment of benefits in response to the Select Committee's recommendations. As I said in my letter of 12 June, those recommendations, if accepted by the Government, would remove a large part of the savings we wish to achieve. I for one hope we can be chary about accepting them. A key issue for us to consider will be whether those recommendations should affect the timetable over which changes are implemented. The Study Group's assessment was based on the assumption that changes would be introduced in the two years from 1982-83. If we think that the effect on Sub-Post Offices is tolerable, and the position of the poorest recipients is protected, I see no reason to defer implementation. In my view we should encourage moves towards less dependence on cash in society and not lose momentum on proposals which help in this direction, as well as in themselves offering worthwhile savings.

### Conclusion

If you and others agree, perhaps the best way now of making progress would be for you to formulate proposals which can be considered collectively, in conjunction with Keith Joseph's as necessary.

I am copying this to the Prime Minister, other Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

GEOFFREY HOWE



## REPORT OF THE POST OFFICE COUNTER SERVICES STUDY GROUP

### Introduction

This interdepartmental Group was set up to examine the consequences for the Post Office network of possible changes in arrangements for payment of DHSS benefits resulting from the recent Rayner study. The Group's terms of reference were:

- (i) To examine the consequences of offering beneficiaries of DHSS payments the option of direct credit to bank accounts.
- (ii) To establish best estimates over the next 6 years on alternative assumptions of:
  - (a) DHSS counter traffic, including possible developments in frequency of payment;
  - (b) Other counter traffic including possible development of new traffic.
- (iii) To examine the financial and practical implications of (ii) for the Post Office, both Crown Offices and sub-Post Offices, and user Departments.
- (iv) To report by end April.

2. The Chancellor of the Exchequer advised his colleagues of the Group's interim conclusions on item (i) of the terms of reference on 6 May. On (ii), we decided to project our estimates forward 8 years (to 1987-88), as this gave the best fit in terms of possible implementation of options, and working through the consequences of taking them up.

### The Post Office Agency Services Agreement (ASA)

3. The starting-point of the Group's work was the ASA, which determines the charges the Post Office makes to Government Departments etc for the provision of counter services. It is essentially a cost-sharing arrangement\*. The basis of

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\*The ASA is a framework agreement between the Post Office and the Treasury, and is supplemented by separate bilateral agreements between the Post Office and individual users.

charge is generally the same for all users, but exceptional arrangements for a particular user can be agreed. Within this concept there is a financial incentive for the Post Office to increase efficiency and for counter users to increase traffic. Conversely, there is a financial penalty for the Post Office if its productivity declines, and for counter users if their traffic decreases.

4. Faced with a prospective net decrease in traffic the Post Office will seek to make savings at both Crown and Sub-Post Offices. Savings at Crown Offices can be achieved by running down staff numbers or overtime levels (and very occasionally closing marginal offices). In response to a decline in traffic, the Post Office expects to be able to save about 80% of related Crown Offices costs within a period of two or three years. This is about the maximum level of savings that can be realised in the short or medium term because some fixed costs eg accommodation and administrative overheads can only be phased out over a longer period. Any residual costs will eventually be recoverable from counter users, of which the Post Office bears 50%. Where however a major decline in traffic takes place the counter user responsible is required under the ASA to make agreed special payments to relieve the Post Office and other users of the additional costs, which would otherwise fall on them in the early years following a change.

5. Payments to Subpostmasters for work done at Sub-Post Offices are determined on a triennial review basis under which one third of the offices are reviewed each year. Their remuneration is normally fixed for three years (subject to annual cost of living adjustments and pay negotiations) on the basis of the number of units of business transacted in the immediately preceding year. These arrangements give Subpostmasters protection from the effects of declining business for up to 4 years, and explain why it is more difficult for the Post Office, when faced with a decline in traffic, to reduce costs in the short-term at Sub-Post Offices than at Crown Offices. For every 1% drop in total Sub-Post Offices business remuneration on average will be reduced by 0.65% within 4 years. The proportion of fixed costs at Sub-Post Offices arises as a direct result of the way the unit scale is constructed and in particular the fact that at the smallest offices a minimum payment is assured however small the amount of business handled.

6. The 'Pie Chart' at Appendix 1 shows the major Post Office counter users and their relative proportions of counter business.

Options considered

7. Three options have been identified by the Group and costed by the Post Office, using DHSS traffic estimates. They are as follows:-

OPTION A - DHSS allow payments to be made by automated credit transfer (assumes payment four weekly in arrears).

OPTION B - Option A plus DHSS paying child benefit 4 weekly and other benefits (to new beneficiaries only) fortnightly.

OPTION C - As Option A plus DHSS paying to new beneficiaries only child benefit 4 weekly and other benefits fortnightly.

Option A and B are based on the Rayner Study suggestions as modified by subsequent Ministerial statements. Option C which was chosen for illustrative purposes is a variation on B. It will eventually lead to the same end result as B when all existing recipients of child benefit have ceased to be eligible for payment. It should be noted that for Options B and C the assumption has been made that new pensioners would only be able to draw pensions fortnightly.

8. The recommendations in the First Report by the Select Committee on Social Services (Session 1979/80) on the Rayner proposals, published towards the end of our enquiries, included the following:-

(i) Arrangements to introduce direct crediting of benefits as a method of payment should be introduced quickly and the advantages widely publicised. The scheme to be introduced should have the incentive that payment of benefits would be made at four weekly intervals on the basis of payment two weeks in advance and two weeks in arrears.

(ii) In addition to retirement pensions, child benefit should continue to be available weekly if the beneficiary so wishes.

We have not regarded it as within our terms of reference to offer any assessment of the Select Committee's recommendations. But we note that if these recommendations were to be adopted, the consequences for public expenditure and the Post Office network could be very different from the expected effects of the options examined by the Group. For instance, (i) might be likely to result in a higher take-up of ACT than envisaged in our options (see para 15 below).

## Financial Effects

### 9. Longer Term

Because it takes up to four years to achieve the foreseeable cost savings at Crown and Sub-Post Offices following a loss of business, the financial effect of implementing any of the options will not have fully worked through until 1987-88 (assuming that the earliest implementation date for the various options would be 1982-83 and that the major traffic loss would take place in the years 1982-83 and 1983-84). The eventual longer term financial effects at 1980-81 prices are set out in the table below. These results are based on users' best estimates of counter traffic.

|   | <u>Option A</u> | <u>Option B</u> | <u>Option C</u> |
|---|-----------------|-----------------|-----------------|
|   | £m              | £m              | £m              |
| Reductions in DHSS apportioned costs                | - 7.0           | - 28.4          | - 19.8          |
| Increase in other counter users apportioned costs   | + 1.8           | + 5.9           | + 3.9           |
| Net savings on Post Office counter costs of which:- | - 5.2           | - 22.5          | - 15.9          |
| Crown Office costs                                  | - 2.2           | - 9.8           | - 6.9           |
| Subpostmasters remuneration                         | - 3.0           | - 12.7          | - 9.0           |

### 10. Short Term

The short term financial effects of implementing any of the three options are difficult to quantify because of:

- (a) the difficulties in predicting the pattern and level of cost savings during the period immediately following any change;
- (b) the fact that the traffic loss will occur in the main over a two year period (1982-83 and 1983-84); and
- (c) the complexity of the workings of the ASA and in particular the "traffic averaging" provision which penalises counter users for decreases in traffic.

Based on the best estimates available the financial effects at 1980-81 prices in the period 1982-83 to 1987-88 are likely to be as follows:-

|   | 1982-3 | 1983-4 | 1984-5 | 1985-6 | 1986-7 | 1987-8 |
|---|--------|--------|--------|--------|--------|--------|
|   | £m     | £m     | £m     | £m     | £m     | £m     |
| <u>OPTION A</u>                                   |        |        |        |        |        |        |
| Reduction in DHSS apportioned costs               | - 1.5  | - 4.3  | - 6.1  | - 6.6  | - 6.8  | - 7.0  |
| Increase in other counter users apportioned costs | + 1.1  | + 2.8  | + 3.2  | + 2.5  | + 2.0  | + 1.8  |
| Net savings in Post Office counter costs          | - 0.4  | - 1.5  | - 2.9  | - 4.1  | - 4.8  | - 5.2  |
| <u>OPTION B</u>                                   |        |        |        |        |        |        |
| Reduction in DHSS apportioned costs               | - 5.6  | - 16.5 | - 23.9 | - 26.9 | - 27.8 | - 28.4 |
| Increase in other counter users apportioned costs | + 4.1  | + 10.4 | + 11.7 | + 9.6  | + 7.3  | + 5.9  |
| Net savings in Post Office counter costs          | - 1.5  | - 6.1  | - 12.2 | - 17.3 | - 20.5 | - 22.5 |
| <u>OPTION C</u>                                   |        |        |        |        |        |        |
| Reduction in DHSS apportioned costs               | - 3.0  | - 9.5  | - 15.1 | - 18.7 | - 19.3 | - 19.8 |
| Increase in other counter users apportioned costs | + 2.2  | + 5.6  | + 6.9  | + 6.7  | + 5.1  | + 3.9  |
| Net savings in Post Office counter costs          | - 0.8  | - 3.9  | - 8.2  | - 12.0 | - 14.2 | - 15.9 |

11. The above figures relate only to counter costs covered by the ASA. They do not account of any increases or decreases in DHSS administrative costs which might result from changes in methods of payment or the potential interest costs or savings to the Exchequer resulting from the change in frequency of benefit payments and the speeding up of the transmission of money by ACT.



12. The short term benefits to DHSS in the table above will probably be reduced because under the "major change" provision of the ASA (see paragraph 4 above) a counter user responsible for a major decline in traffic is required to make agreed special payments to relieve the Post Office and other users of the additional costs which would otherwise fall on them in the early years following a change. The level of compensation (over and above what would be paid under the normal "traffic averaging" arrangements) is a matter for negotiation but it could amount to a sum which would fully reimburse other users for the increases in costs that would arise for a period of two or more years following the major traffic changes. This is a matter of cost apportionment and will not affect the net savings to counter costs.

13. The annual net savings in Post Office counter costs by 1987-88 for the three options are £22.5m for Option B, £15.9m for Option C and £5.2m for Option A (at 1980-81 prices) and have been calculated on a formula basis, ie that the Post Office can normally reduce related Crown Office costs by 0.8% for every 1% drop in volume and that Subpostmasters' remuneration will be reduced under the triennial system by 0.65% for every 1% drop in volume (as explained at paragraphs 4 and 5).

#### Sub Post Offices

14. Option B involves the greatest loss of Post Office counter business and in that case Subpostmasters' remuneration is expected to fall by £12.7m a year by 1987-88. However, some counter users, notably Girobank, the Home Office and Department of Transport expect to expand their business through the period to 1987-88 and this would mitigate the effects of the proposed reduction in DHSS business for some Subpostmasters. If the envisaged growth in non-DHSS business is fully realised, the expected reduction in the average annual pay of Subpostmasters would be as follows:-

|  | Option A |  | Option B |  | Option C |  |
|--|----------|--|----------|--|----------|--|
|  | £m       | % of total subpost-masters' remuneration | £m       | % of total subpost-masters' remuneration | £m       | % of total subpost-masters' remuneration |
| Reduction in income from DHSS options<br>Less:                     | 3.0      | 1.8%                                     | 12.7     | 7.4%                                     | 9.0      | 5.2%                                     |
| Increase in remuneration from forecast growth in non-DHSS business | 4.9      | 2.9%                                     | 4.9      | 2.9%                                     | 4.9      | 2.9%                                     |
| Net increase/<br>[decrease] in subpostmasters' remuneration        | 1.9      | 1.1%                                     | [7.8%]   | [4.5%]                                   | [4.2%]   | [2.3%]                                   |

The figures show that for Option A (introduction of ACT) the reduction in remuneration for the "average" Subpostmaster should be more than offset by the forecast growth in non-DHSS business. The estimates for Option B indicate a significant net reduction in earnings for the "average" Subpostmaster, of 4.5%. However, some of the extra business for the Department of Transport will be confined to 1,500 Sub Post Offices and most small Subpostmasters will suffer a net reduction greater than average. In addition, DHSS business forms a greater percentage of business at the smaller offices which compounds this effect.

15. With the phasing envisaged at paragraph 9 the projected loss of counter business under any of the three options is likely to be manageable provided the forecast growth in non-DHSS business materialises and the forecast levels of DHSS business following any change prove reasonably accurate. In particular, no increase in the secular decline in the Sub Post Office network of about one half of a per cent a year is expected. However it must be emphasised that much will depend on the accuracy of the forecasts that DHSS has made about the number of benefit and pension recipients who will take up the ACT option. The Option A, B and C calculations contained in paragraph 9 make the following critical assumptions:-

(a) Child Benefit Recipients

It has been assumed that 2m out of the total 7m recipients will opt for ACT (currently 43% of recipients have own or joint bank accounts);

(b) Retirement and Widow Pensioners

It has been assumed that 250,000 of the 9m pensioners currently drawing their pensions from Post Offices will opt for ACT (currently about 50% of pensioners drawing their pensions at Post Offices have bank accounts);

(c) Other Beneficiaries

It has been assumed that 200,000 of the current 1.3m other beneficiaries will opt for ACT.

While DHSS thinks that these estimates, which are based on market research, are realistic, it has also stressed that for operational reasons it would probably want to limit the take-up to these levels initially should demand prove greater than anticipated. If, however, the take-up rate were much higher than DHSS has anticipated and if DHSS were forced to bow to a much greater demand for ACT, the effect on the Post Office, other counter users and Subpostmasters could be significant, particularly if coupled with changes in payment frequency. A much greater traffic loss than the 2.5% predicted for the introduction of ACT would seriously reduce the likelihood of achieving the target level of cost savings. This would result in much higher counter costs for other counter users who would in turn in some cases find it more difficult to attain their own target traffic levels. If the danger of becoming trapped in a downward spiral of rising costs and falling traffic is to be avoided it is important that the take-up of the ACT option should not greatly exceed the levels assumed by DHSS until alternative business has started to develop.

16. To sum up the position based on the forecasts, the maintenance of the Post Office counter network to which Ministers are publicly committed, requires at least that counters users, other than DHSS, will be able to accept higher costs (the most adverse effect would be for Option B where the medium term increase could be of the order of 2%/3% based on the estimates) and yet maintain the level of their existing business or, for some users (particularly Girobank), achieve their projected growth.

17. The position of the counter network could be further safeguard if new opportunities for growth in business could be developed and this is discussed below.

Prospects for future growth

18. Non-Banking

The Post Office were asked to consider the opportunities for developing

new sources of counter business additional to the growth included in the forecasts. They see little room for further growth within the present constraints of Section 7 of the Post Office Act 1969 which provides that the Post Office shall only have power to perform services for the Government and for local or national health service authorities in the United Kingdom. The Post Office maintain that if the law was changed to permit it to attract non-banking business from nationalised industries, public corporations and non public bodies, it would widen the scope for growth. No detailed study of potential business from these sources has been made but with a change in the law the Post Office view is that it would not be unreasonable to look for growth in total counter business of up to 10% over a 5 year period which would more than offset the forecast decline on DHSS business. The adoption of commercial pricing policies would help to achieve this growth (alternatives to the ASA are discussed at paragraph 20). Some of the additional business would probably be at the expense of other public sector bodies but Sub-Post Offices could properly be regarded as part of the private sector and Subpostmasters would benefit significantly from any expansion of Post Office counter services. If new sources of business could be developed, a more buoyant climate would be created in which the fixed costs of the Post Office counter could be spread over a greater volume of traffic and in which reductions in counter traffic of the kind DHSS wish to pursue could more readily be absorbed. Department of Industry will no doubt wish to consider at an early date the desirability of amendments to the Post Office Act 1969, to widen the ambit of Post Office non-banking activities.

#### 19. Banking

National Girobank, which is already empowered to offer banking services for both public and private sector organisations as well as the general public, expects to increase its non-DHSS business at counters by 50% over the next five years under the terms of the existing ASA (this growth has been included in the forecasts at paragraph 9) and is a critical factor in the general assessment of the position. If the current ASA was revised in the near future to provide greater incentive for growth, National Girobank in particular believes it could increase business by 150% over that period, ie an additional 100%. This extra growth would represent an increase in existing total counter business of 8-9% - around two thirds of Girobank's higher growth would probably be handled by Subpostmasters.

## Alternatives to Agency Services Agreement (ASA)

20. One alternative to the present arrangements would be for all users to negotiate individual contracts with the Post Office. The effects of this are difficult to foresee but it would be reasonable to expect users to pay their share of the total network costs. There would be no guarantee of equity between counter users if the contract price were to depend on respective bargaining powers.

21. Another possibility would be a hybrid arrangement under which counter services for Government Departments continued to be provided on some sort of standard cost-sharing basis, leaving the Post Office free to charge its commercial customers the best price it could get. This assumes that the law would be changed to allow the Post Office to tender for such business, and that the benefits of flexible pricing in terms of increased counter traffic would be most apparent in relation to commercial customers.

22. These and other possibilities will need thorough study in the context of the review of the Agency Services Agreement, due for renewal on 1 April 1982. They are mentioned here in order to illustrate the range of potential options for safeguarding the Post Office from the effects of any possible decline in DHSS traffic.

### Conclusion

23. The cost analysis indicates, based on the best estimates of future counter traffic levels, that by 1987/8 the annual net savings in Post Office counter costs at 1980/81 prices can be expected to amount to £5.2m for the introduction of ACT (Option A), £22.5m if in addition the frequency of benefit payments is changed to 4 weekly for current and future recipients of Child Benefit and fortnightly for other benefits (but for new beneficiaries only) (Option B) and £15.9m for Option B amended to restrict the 4 weekly Child Benefit payments to new beneficiaries only (Option C). Any variation in DHSS administrative costs must be set against these estimated savings.

24. For the three Options A, B and C Subpostmasters remuneration is forecast to fall on average by 1.8%, 7.4% and 5.2% respectively as a result of the proposed DHSS changes. However, the likely growth in non-DHSS business from existing counter users

should help cushion the impact but not evenly throughout the network. The effect on the Post Office network, both Crown and Sub Post Offices, is not likely to be significant for any of the options provided that DHSS and other Government Departments' forecasts of traffic movements and Post Office forecast of cost variability are reasonably accurate. The timing of the DHSS changes are crucial to the Post Office's capability to make the savings projected. If changes were to be introduced more quickly, the Post Office's capability to make the savings would be reduced. The network position could be made considerably more secure if the law were changed to enable the Post Office to take on non banking work for both public and private sector organisations (the Post Office is seeking this change) and safeguarded even further if the Agency Services Agreement could be modified if possible before the April 1982 review to increase the opportunities for attracting new business.

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Soc Service ✓  
MA

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

12 June, 1980

The Rt. Hon. Patrick Jenkin, MP.,  
Secretary of State for Social Services

*Dr Patrick*

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

Thank you for your letter of 30th May about the interim report of the working group under Treasury chairmanship on the implications for the Post Office of the Rayner study proposals for payment of benefits by automated credit transfer into bank accounts.

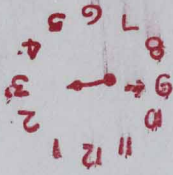
I am content, as I indicated in my letter of 6th May, that you should defer an announcement about this when you have a clearer view on all the issues covered by the Rayner Study. I therefore agree that you should wait until you know what response you intend to make to the report from the Select Committee on Social Services. I see that that report, while giving a qualified green light to the ACT proposals, thought that moves to less frequent payments should be on a voluntary basis, not only for existing pensioners as the Prime Minister has already announced, but also for child benefit. If the Government accepted that, we should lose a large part of the savings which the Rayner study identified. I think therefore that, before you compose your response to the Select Committee report, colleagues should have a chance to consider the main report of the working group on the implications of the Rayner study proposals for the Post Office. We should then be able to take a view on the issues involved against a broader background, and this should help us to formulate a response to the Select Committee. I understand that the Working Group's final report should be with us in the course of the next few weeks.

I am sending copies of this letter to the Prime Minister and other members of the Cabinet, Sir Derek Rayner and Sir Robert Armstrong.

GEOFFREY HOWE

*John*





12 JUN 1980



From the  
Minister of State

The Hon Adam Butler MP

The Chancellor of the Exchequer  
Treasury Chambers  
Great George Street  
London  
SW1

Soc Services ✓ MAD  
DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

9 June 1980

Dear Geoffrey,

I have seen a copy of Patrick Jenkin's letter of 30 May to you making proposals for the handling of the Government's response to the Select Committee on Social Services' report on payment of social security benefits and of the announcement of our own conclusions.

I agree that the most sensible way of proceeding would seem to be the publication of a single paper sometime in July, and that this should also include the decision on ACT.

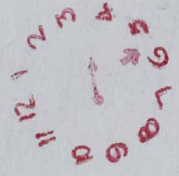
Copies of this letter go to the recipients of Patrick Jenkin's.

Yours  
Adam

ADAM BUTLER



1-9 JUN 61





2  
Social Services

**DEPARTMENT OF HEALTH & SOCIAL SECURITY**  
Alexander Fleming House, Elephant & Castle, London SE1 6BY  
Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury Chambers  
Great George Street  
London SW1

*Prime Minister*

*Mr Jenkins's plans, +  
timing, for action on  
30 May 1980 the Rayner  
proposals for benefits  
payments.*

*Dear Sir Geoffrey,*

Thank you for your letter of 6 May about the working group on the implications for the Post Office of the Rayner Study proposals on the payment of social security benefits. It is good news that they see no obstacle to going ahead with the proposals for offering automated credit transfer (ACT). I should very much like to make an early public statement about it, but I think it would be inopportune to do so before the Select Committee on Social Services publish their report. I understand confidentially that they hope to do so during the week after the Whitsun recess. It might, I think, be very much misunderstood if we meanwhile announced a decision on one part of this complex of issues, and we ourselves might regret it later if we find ourselves hard up for constructive material for our Response.

I undertook in the House on 19 February that we would consult widely on the proposals, publish the study team's report before making changes, and avoid doing so without a full debate and the consent of the House. Much as I would like to go ahead now with ACT, I think the logic of the situation points to our publishing a single paper in July which would be both our Response to the Select Committee and our commentary on the study team's report, which would have to be annexed. We should make it clear that we propose to go ahead with ACT - I think we shall find that the Select Committee support it - and there is no reason to expect criticism of the proposals for miscellaneous administrative improvements which should eventually save a further £9 million. We have already reconciled ourselves to losing the £15 million or more that could have been saved by introducing fortnightly payment of retirement benefits. The really important question now is whether we can get the £7/8 million that could be saved by paying child benefits four-weekly. Here again, I should be surprised if we get any help from the Select Committee, but we shall want to see what they have to say, and also to have the recommendations of the official working group, before we decide what proposals we want to bring forward.

E. R.

What I suggest, therefore, is that we should hold our fire until the Select Committee has reported. As soon as possible after that we should publish our own proposals, with the study group's review as an annex. If you agree, I will arrange for a skeleton draft to be prepared, and will have it completed and circulated for consideration as soon as the Select Committee Report is published.

I am copying this letter to the Prime Minister, the other Members of the Cabinet, Sir Derek Rayner and Sir Robert Armstrong.

Yours sincerely  
*Don Borchers*  
(Approved by the Supt  
& signed in his absence)

30 MAY 1960

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Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

1. MAP to see  
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ms

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22 May 1980

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
London SW1P 3AG

R  
18/5

*Dear Geoffrey,*

You wrote to Patrick Jenkin on 6 May, reporting that the inter departmental working group set up to study the implications for the Post Office of the Rayner Study proposals on the payment of benefits has now completed its work on the effects of offering to beneficiaries the option of automatic credit transfers (ACT) to bank accounts.

I accept that the effects of the implementation of ACT on the Post Office network would appear to be marginal, and would seem unlikely to place any but a very few sub or Crown offices at risk on the basis of the best assumptions on take-up. On that basis I would agree that the decision on this aspect can be taken separately. So far as presentation is concerned, however, in view of earlier reactions I agree that there is much to be said for waiting for decisions to be taken over the whole field before making an announcement. I need hardly emphasise that the question remains a sensitive one and an early move on ACT alone, particularly if as at present, we are unable to announce any countervailing measures could well be open to misrepresentation.

If, however, it were decided in the event to announce the decision on ACT in advance of the rest of the package, as I said in my letter of 28 March 1980, I should like the National Federation of Sub Postmasters to be informed in advance of the announcement. I think we must do everything possible to retain the good will of these people if we are to have any hope of our decisions on the whole group of measures accepted by the general public.

Copies of this letter go to recipients of yours.

*Yours faithfully,  
Gordon Keith*

27 MAY 1960







*C.F. to note*



c. DHSS

*7/12*  
Social Services

## 10 DOWNING STREET

THE PRIME MINISTER

15 May 1980

*Original in GR*

Dear Mr. Lofthouse,

Thank you for your letter of 22 April about the payment of social security benefits.

I made it clear in the House on 28 February in response to Renee Short that retirement pensioners would be able to continue to have their pensions paid weekly through a post office if they wished. This assurance was repeated by the Secretary of State for Social Services when he appeared before the Parliamentary Social Services Committee on 12 March. Patrick Jenkin made it quite clear that we have no intention of forcing any retirement pensioner to be paid fortnightly if he or she does not want this. I also told the House on 28 February that no-one would be forced to have their retirement pension or other social security benefit paid direct into a bank account, but that this might be an option for those who would prefer this payment method.

I can assure you that the Government is determined to ensure the continuance of the sub-post office network. We have no intention to making changes which would threaten the foundation of that network. To do so would be totally inconsistent with our aim of sustaining local communities and the services on which they depend. Nevertheless we want to see if the long-established arrangements for paying social security benefits (which cost about £250 million a year to run) are right for the 1980s - both in terms of public choice and of providing good value for the taxpayer's money that is spent on administration. The Government's aim is to sustain the sub-post office network but without making it dependent in the longer term on expensive and old fashioned ways of paying social security benefits.

/The Government

The Government will take full account of the views of those who might be affected when considering possible changes in the arrangements for paying social security benefits and there will be proper consultation with those concerned.

(SGD) MARGARET THATCHER

Geoffrey Lofthouse, Esq., MP.

vb

There are two points to be made on this. First, as a business, the Post Office is itself responsible for managing its network. In the last 9 months of last year the number of Sub-Post Offices dropped by over 100 mainly because they are not an attractive enough proposition to potential sub-postmasters. It is for the Post Office to make its Sub-Offices attractive to potential keepers and they should be pressed hard on the economics of their operation although I think the Government should help them to find other business. This might include, I agree, allowing OAPs and others to pay at the counter nationalised utility bills, which would save customers postage and provide more over-the-counter work. Secondly, it would be supremely ironic for an institution which, however unfairly, is hardly a by-word for efficiency to succeed in thwarting a Government committed to promoting efficiency and cutting waste. I have a constant stream of letters about the extravagance of the Post Office, ranging from complaints about postmen sewing the streets with rubber bands, through objections to the abundance of telephone advertising and market research to astonishment at the distribution in Southend of a telephone hand-book printed in English and Welsh.

7. All this boils down to two convictions. The first is that the Government is entitled to publish a pretty full statement soon. If, as threatened the Select Committee on Social Services looks into these issues, that might be an opportunity for coming up with a document. The text of the officials' report, with whatever additions may now be necessary, will show not only what an excellent and thorough job was done by them but also that both they and Ministers have been conscious of the need for exceptions and of the effect on the Post Office. It will demonstrate that improved efficiency in so large an administrative system cannot be had by just wishing for it and, that while everyone wants less bureaucracy and less Government expenditure, some change must depend upon people being willing to change their habits. And if one is going for change, the longer the lead time the better. (It is worth adding that some of my more elderly correspondents, obviously badly rattled by local lobbying, have had the grace to reply to my letters very courteously. People are persuadable.)

8. Secondly, Ministers must of course respect the views of the electorate and it is for them to judge what public opinion can be persuaded to accept. If, once they feel they have heard the views of the electorate and not the sound generated by and on behalf of a pressure group, it is thought necessary to soft pedal the frequency change, my advice would be to get as much change as possible now and go for the remaining changes later. In a Stage 1, I would take as many classes of beneficiary along as I could, allowing scope for opting out, but taking pains to explain the advantages of what is on offer; in Stage 2, I would complete the programme, having made it plain from the start that I intended to do so.

PRIME MINISTER

RAYNER PROPOSALS FOR PAYMENT OF SOCIAL SECURITY BENEFITS

The interdepartmental study of offering the option of direct credit to bank accounts has now been completed.

In the summary, the conclusions are:

(a) The likely take-up rate will create for DHSS annual savings of £7m by 1984;

(b) In that timescale, the Post Office expect to be able to reduce counter costs by about £5m per year (reducing Crown Office costs by £2m and sub-Postmasters' remuneration by £3m, representing 1.8% of their total remuneration);

(c) The Post Office believe that these changes can be absorbed without material detriment to either sub-Post Offices or the Crown Office network. But the Post Office claim to be unable to absorb the remaining £2m, which will have to be borne by the counter users, including DHSS themselves.

This amounts to a net saving of £5m with any additional costs of the new system to be offset by DHSS against this.

Further work is to be done on the rest of the Rayner proposals in this area. Sir Keith Joseph will have to consult the sub-Postmasters, and he and Mr. Jenkin have to decide whether to announce the intention to offer this option in isolation, or to await the other work.

9 May 1980

Original to G/R



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10 DOWNING STREET

THE PRIME MINISTER

15 April 1980

Dear Ernest,

Thank you for your letter of 10 March enclosing a petition from your constituents about possible changes to the methods of paying social security benefits and the effect on sub-post offices.

It is true that last year the Department of Health and Social Security - in consultation with Sir Derek Rayner - examined the arrangements for paying social security benefits. This study included the frequency of payments (weekly, fortnightly or four-weekly), and whether the public should be able to have benefits paid direct into bank accounts if they wished. This review was not simply concerned with saving money. It considered whether social security payment arrangements reflected conditions in today's society - bearing in mind other comparable payment methods - and whether the taxpayer was getting the best possible value for the £250 million of his money that goes each year on making 1,000 or so million individual social security payments. As a result of this review, Government Ministers are considering a number of proposals that would provide wider public choice and better value for the money spent on paying social security benefits.

There has been widespread concern and some misunderstanding about this review. However, the Secretary of State for Social Services made clear on 12 March when he answered Questions by the Parliamentary Social Services Committee, "Retirement

/pensioners

pensioners will remain free to draw their pensions weekly from the post office. That is a guarantee. We have no intention of forcing any retirement pensioner to be paid fortnightly if he or she does not want this." Patrick Jenkin went on to say that, "No-one will be forced to have their pension or other social security benefit paid direct into a bank account, but this might be an option for those who would like it." I hope this will allay the anxieties expressed to you.

At a time of economic difficulty, the Government believes that it must set an example by carrying out its own activities as efficiently as possible. We believe that the arrangements for paying social security benefits must strike the right balance between the claims of beneficiaries and the administration of the system borne by all taxpayers. Apart from the savings which could accrue to the taxpayer from possible changes in the way benefits are paid, there are a number of other facts to be borne in mind. Well over 90 per cent of benefit payments are made weekly, despite the fact that about two-fifths of the working population - including 50 per cent of working women - and most occupational pensioners are paid monthly. Over 90 per cent of the unemployed are already paid their unemployment benefit and the associated supplementary benefit fortnightly; and over a half of mothers now cash their child benefit fortnightly or less frequently.

Despite the fact that half the population uses a current bank account and three-quarters uses a current or some other type of account, at present we cannot pay benefits direct into a bank or other account in Britain. There are growing numbers of people who are used to being paid monthly through a bank account. They are used to budgeting on a monthly basis and would prefer to receive their social security benefits in a similar way. I can assure you that the Government will not make any changes based on this review without the most careful consideration and proper consultation.

/I repeat

I repeat my assurance that the Government will take full account of the views of those who might be affected when considering possible changes in the arrangements for paying social security benefits, particularly the possible effect of any changes on sub-post offices. We are fully aware of the most valuable service which sub-postmasters provide to the community, particularly in rural areas; and that local communities attach great importance to this service. I assure you that this review in no way reflects doubt about the quality of service provided by the sub-post offices. As Patrick Jenkin said on 12 March, "We are determined to ensure the continuance of the sub-post office network". He added that any changes which threaten the foundations of the network would be inconsistent with the Government's aim of sustaining local communities and the services on which they depend.

I am grateful to you for drawing these views to my attention and I can assure you that all views expressed will be taken fully into account by the Government in reaching decisions on this review.

(sgd) Margaret Thatcher

The Rt. Hon. Ernest Armstrong, MP.

*Original in CR.*



10 DOWNING STREET

THE PRIME MINISTER

15 April 1980

Dear Mr. Varley,

Thank you for your letter of 14 April enclosing a petition signed by 9,000 people about the payment of benefits through post offices.

As you know, the speculation about changes in the methods arose because a small team from the Department of Health and Social Security examined the arrangements for paying social security benefits in consultation with Sir Derek Rayner. The Government is still studying the proposals made by the study team but I have made it clear to Parliament that retirement pensioners will remain free to draw their pensions weekly from the post office. We have no intention of forcing any retirement pensions to be paid fortnightly if a pensioner does not want this.

We have also made it very clear that no-one will be forced to have their pension or other benefit paid direct into a bank account, but this might be an option for those who would like it. There is evidence of an increasing demand that this wider choice should be provided. The Government is determined to ensure the continuance of the sub-post office network. Any changes which threatened the foundations of

/ that

*RV*



that network would be inconsistent with our aim of retaining local communities and the services on which they depend.

I hope that this will allay your constituents' anxieties.

(sgd) Margaret Thatcher

The Rt. Hon. Eric Varley, M.P.

HER MAJESTY'S CHIEF OFFICERS OF STATE

THE CABINET

|   |  |
|---|--|
| <i>Prime Minister</i> .....   | The Rt Hon Margaret Thatcher, MP                           |
| <i>Secretary of State for the Home Department</i> .....   | The Rt Hon William Whitelaw, CH, MC,<br>MP                 |
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| <i>Secretary of State for Industry</i> .....  | The Rt Hon Sir Keith Joseph, BT, MP                        |
| <i>Secretary of State for Defence</i> .....   | The Rt Hon Francis Pym, MC, MP                             |
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| <i>Minister of Agriculture, Fisheries and Food</i> .....  | The Rt Hon Peter Walker, MBE, MP                           |
| <i>Secretary of State for the Environment</i> .....   | The Rt Hon Michael Heseltine, MP                           |
| <i>Secretary of State for Scotland</i> .....  | The Rt Hon George Younger, MP                              |
| <i>Secretary of State for Wales</i> .....   | The Rt Hon Nicholas Edwards, MP                            |
| <i>Secretary of State for Northern Ireland</i> .....  | The Rt Hon Humphrey Atkins, MP                             |
| <i>Secretary of State for Social Services</i> .....   | The Rt Hon Patrick Jenkin, MP                              |
| <i>Chancellor of the Duchy of Lancaster</i> .....   | The Rt Hon Norman St John-Stevas, MP                       |
| <i>Secretary of State for Trade</i> .....   | The Rt Hon John Nott, MP                                   |
| <i>Secretary of State for Energy</i> .....  | The Rt Hon David Howell, MP                                |
| <i>Secretary of State for Education and Science</i> .....   | The Rt Hon Mark Carlisle, QC, MP                           |
| <i>Chief Secretary, Treasury</i> .....  | The Rt Hon John Biffen, MP                                 |
| <i>Paymaster General</i> .....  | The Rt Hon Angus Maude, MP                                 |



file 26

Social Services

10 DOWNING STREET

From the Private Secretary

8 April 1980

ARRANGEMENTS FOR THE PAYMENT OF SOCIAL SECURITY  
BENEFITS

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The Prime Minister is grateful for the Chancellor's minute of 31 March.

She thinks it slightly unfortunate that the terms of reference circulated to Ministers as a draft have been foreclosed by being sent to the Chairman of the Post Office, but is willing to accept this on the understanding that the points made in our letter to you of 21 March are dealt with by the official group. She is grateful for the Chancellor's assurances on this.

The Prime Minister trusts that the official group will take it as part of its remit to make recommendations covering any gap which is established between the objectives of maintaining a sound sub-post office network and modernising the payment system.

I am copying this letter to the Private Secretaries of members of the Cabinet, including the Minister of Transport, and to Geoffrey Green (CSD), David Wright (Cabinet Office) and Sir Derek Rayner.

J. P. LANKESTER

M. A. Hall, Esq., M.V.O.,  
H.M. Treasury.

J.P.



10 DOWNING STREET

PRIME MINISTER

Regarding your comment,  
DHSS and Treasury don't think  
there is any point in exploring  
the desirability of direct  
credit to bank accounts - since  
no-one (including Derek Rayner)  
has suggested that people  
should be obliged to accept  
this method. It is only to be  
considered as an option.

Thanks -  
A.S.

R.

3 April 1980

Mr SANDERS



ARRANGEMENTS FOR THE PAYMENT OF SOCIAL SECURITY BENEFITS  
(Chancellor's minute to Prime Minister of 31 March)

1. It seems a little odd that the Chancellor asked for agreement to proposed terms of reference on 17 March; that he allowed only a two day deadline; and that, the Ministers mainly concerned having commented within four days, they are now told they need not have bothered because the original terms of reference may have been sent to that helpful figure, the Chairman of the Post Office!
2. I have spoken to Mr Butler's private office. The original terms were sent to Sir William Barlow, and not as a draft.
3. However, as the Chancellor gives his assurance that the points made by the Prime Minister and Mr Jenkin are firmly embodied in the instructions to the official group, there is no point in making a song and dance about this.
4. I attach a possible draft reply (the optional third paragraph of which is addressed to the soggy formulation of the second sentence in paragraph 3 of the Chancellor's minute).

with PM  
1.4

GP

C PRIESTLEY  
1 April 1980

ENC: Draft letter to Mr Hall

9.45 am  
Taxi

DRAFT OF 1 APRIL 1980



M A Hall Esq MVO  
HM Treasury

*type for PL*

ARRANGEMENTS FOR THE PAYMENT OF SOCIAL SECURITY BENEFITS

1. The Prime Minister is grateful for the Chancellor's minute of 31 March.
2. She thinks it slightly unfortunate that the terms of reference circulated to Ministers as a draft have been foreclosed by being sent to the Chairman of the Post Office, but is willing to accept this on the understanding that the points made in ~~my~~ letter to you of 21 March are dealt with by the official group. She is grateful for the Chancellor's assurances on this.
3. The Prime Minister trusts that the official group will take it as part of its remit to make recommendations covering any gap which is established between the objectives of maintaining a sound sub-post office network and modernising the payment system.
4. I am copying this letter to the Private Secretaries of members of the Cabinet, including the Minister of Transport, and to Geoffrey Green (CSD), David Wright (Cabinet Office) and Sir Derek Rayner.

~~N J SANDERS~~

*J.P. Lewis*



Prime Minister  
Content? If so, I  
could write as per  
the draft at Flag C.

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

*Yes - but see comments below*

*TL*  
*1/4*

PRIME MINISTER

ARRANGEMENTS FOR THE PAYMENT OF SOCIAL SECURITY BENEFITS

*Flag A*

I have seen your Private Secretary's letter to mine of 21 March commenting on the proposed terms of reference for the inter-departmental group to examine the implications of the proposals for paying social security benefits, which I circulated with my letter of 17 March. I have also seen comments from Humphrey Atkins (18 March), Patrick Jenkin (21 March) and Keith Joseph (21 March).

*Flag B*

*Why then  
have we  
asked to  
comment?!*  
*TL*

2. Now that Adam Butler has written to Sir William Barlow, inviting him to nominate representatives for the group, presumably with the terms of reference, I think it would be difficult to change them in the way you and Patrick Jenkin suggest. I do not however think this matters. The terms of reference were deliberately devised so as to encompass all the main issues and I see no difficulty in arranging that the group takes account of the points you and Patrick make. I have accordingly asked the chairman of the group to ensure that it covers, inter alia, the following points:-

*Why - if I should not be so inconvenienced?*  
*TL*

- (a) As suggested by Patrick, consideration of item 1 of the terms of reference will not explore the desirability of direct credit to bank accounts but confine itself to examining the consequences for the Post Office and other user departments of offering the option;
- (b) the fairness of the distribution of income between Crown Post Offices and sub-post offices - a point made by both you and Patrick;



- (c) greater use of National Girobank for the payment of social security benefits;
- (d) the extent to which it is possible to generate new counter work to be undertaken by Post Offices.

3. I entirely agree with your view that, however the Government responds to the need to protect the recipient and the agent (sub-post offices) from any seriously damaging effects in the process of change-over to less frequent payments, the Government must be free to vary existing arrangements for benefit payment if it wishes. The Official Group will no doubt wish to consider how to reconcile these two objectives. I feel, as you do, that the case for a reform of the system of making payments of social security benefit, and the savings associated with it, has not so far been presented in a sufficiently positive manner. It must not go by default and the Government need not be defensive about it. I hope that, when the official report comes to us, we shall bear these points in mind when presenting our proposals.

4. I note Patrick Jenkin's reservations about the wisdom of including the Post Office as members of the Group. I think however their membership is inevitable since we have to look to them to provide much of the detailed information. Indeed, it would look odd to have an interdepartmental group considering the Agency Agreement without their membership. There may of course be occasions when some work will have to be done by a more restricted membership. And I would expect the preparation of policy advice for Ministers to be a Whitehall matter.

5. Humphrey Atkins may care to note that DHSS (NI) officials would be included in the Group.

6. Patrick Jenkin also raises the question of consultation with the National Federation of Sub-Postmasters and the UPW. I agree

/with him





with him that we do not wish to be committed to such consultations until we have seen the official report.

7. I am sending copies of this letter to other Members of the Cabinet, including the Minister of Transport, Paul Channon, Sir Derek Rayner and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a stylized flourish.

(G.H.)

31 March 1980

11 12 1  
2 3 4  
5 6 7  
8 9 10

11 - APR 1980

W



Secretary of State for Industry

The Rt Hon Patrick Jenkin MP  
 Secretary of State for Social  
 Services  
 Department of Health & Social  
 Security  
 Alexander Fleming House  
 Elephant and Castle  
 London SE1 6BY

*Social Services*  
 DEPARTMENT OF INDUSTRY  
 ASHDOWN HOUSE  
 123 VICTORIA STREET  
 LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
 SWITCHBOARD 01-212 7676

28 March 1980

*R 28/3*

*Dear Patrick*

DHSS RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

In your letter of 21 March to Geoffrey Howe you suggest that we await the outcome of further study on the subject of direct credit transfer before regarding ourselves as committed to consultation on this particular point.

I recognise that the amounts involved are not likely to be large, and I see the advantage of dealing with the matter quickly. But to my mind the omission of any form of consultation, even on as small a part of the package as this, would be inconsistent with the assurances Ministers have given, both in Parliament and in response to the many representations we have received direct. Public fears on this subject have not been easy to assuage and I believe that any attempt to depart from our very specific and unqualified assurances could well give rise to doubts whether we mean to honour our wider undertakings. We could thus lose what public goodwill we have managed to gain, and make a sensible solution the more difficult to achieve.

I would not see the need for long or detailed discussions in order to discharge our obligation to consult. Moreover, if the inter-departmental working party is to take the direct credit issues first, and prepare an interim report on the basis of which such consultations could be carried out, I doubt if any time would be lost.

I am sending copies of this letter to recipients of yours.

*E. Carr / Kerr*

28 MAR 1980

28 MAR 1980

1980 MAR 28  
10 00 AM  
1000



*Social Services*

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

21 March 1980

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London . -  
SW1P 3AG

*NBCM*

*RM*  
*21/3*

*Jan Gowling*

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY  
BENEFITS

Thank you for copying to me your letter of 17 March to Patrick  
Jenkin.

I am content with the proposed terms of reference, and Adam  
Butler has written to Sir William Barlow inviting him to  
nominate representatives, both from the Post Office and National  
Girobank.

I am copying this letter to the recipients of yours.

*Jan*

*Ken*



**DEPARTMENT OF HEALTH & SOCIAL SECURITY**  
 Alexander Fleming House, Elephant & Castle, London SE1 6BY  
 Telephone 01-407 5522  
*From the Secretary of State for Social Services*

NB  
 21<sup>st</sup>

The Rt Hon Sir Geoffrey Howe QC MP  
 Chancellor of the Exchequer  
 Treasury Chambers  
 Great George Street  
 London SW1

21 March 1980

*Dear Chancellor,*

**DHSS RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS**

Thank you for your letter of 17 March about the establishment of an inter-Departmental group of officials to consider the Post Office implications for the DHSS Rayner study proposals. I have arranged for my officials to prepare a paper giving the necessary factual information that will enable the group to start work quickly.

I was a little surprised to learn that you thought the Post Office should be a member of this group after our experiences over the past few months. However if colleagues consider that on balance we are likely to be able to make progress more quickly with the Post Office as members of the group then I would not want to press for their exclusion.

I have only one small amendment to suggest to the terms of reference you propose. I would like to see the words "for the Post Office" inserted after "consequences" in item 1 of the terms of reference. This would avoid the group thinking that they had to explore again the desirability of this payment method when all we really want is advice on the consequences for the Post Office of a move to payment through banks. Although I have no desire to elaborate the terms of reference I thought I should mention that I regard it as crucial for the group to explore three particular areas:

1. the fairness of the distribution of income between Crown post offices and sub-post offices for the DHSS transactions carried out;
2. greater use of National Girobank for the payment of social security benefits by direct credit possibly on a fortnightly and four-weekly basis;
3. the extent to which it is possible to generate new counter work to be undertaken by post offices particularly in the light of Sir William Barlow's evidence to the Parliamentary Social Services Committee on 19 March.

E. R.

Unless the group explores these areas it will, in my view, be difficult for us to both reduce DHSS administrative costs and honour our commitment to sustain the sub-post office network.

Keith Joseph mentions in his letter of 13 March that we should consult with the National Federation of Sub-Postmasters and the UPW before any public statement of intent is made about the payment of benefits by direct credit into banks. I do not think that we should regard ourselves as committed to such consultations on this particular issue until we have seen what the implications of such a change are likely to be for the income paid to the Post Office taking account of any new business likely to be generated. It is worth bearing in mind that the previous Administration committed itself in principle to paying benefits through bank accounts and it is going to be extremely difficult for us to deny the public this payment method particularly if we come under pressure from the banks to offer it.

I am sending copies of this letter to the Prime Minister and other Members of the Cabinet, Paul Channon, Sir Derek Rayner and Sir Robert Armstrong.

BEW  
Private Secretary  
(Approved by the Secretary  
of State and signed in  
his absence.)

21 MAR 1980





CONFIDENTIAL



25  
Social Services

10 DOWNING STREET

*From the Private Secretary*

21 March 1980

ARRANGEMENTS FOR THE PAYMENT OF SOCIAL SECURITY BENEFITS

The Prime Minister has seen the Chancellor's letter of 17 March to the Secretary of State for Social Services. She is content that there should be a group of officials to provide by the end of April a factual basis for decisions by Ministers. But she considers that - as suggested by the Secretaries of State for Social Services and Industry in their letters of 29 February and 13 March respectively - the terms of reference should include the question whether the Post Office's present arrangements for remunerating sub-postmasters is well, or might be better, adapted to the particular circumstances of the sub-post office network within the Post Office's overall management and financial structures.

The Prime Minister has asked me to make three further comments, the second of which should also be reflected in the work of the official group.

First, the Prime Minister would be grateful if the issues could be brought to Ministers for decision as early in May as possible. She regards it as important that the questions should be settled soon and that the Government should expose all the considerations fully to the public at the earliest feasible date. So far, the Government's posture has been a defensive one, whereas the case for reform and the associated savings has not had the public hearing it deserves.

Secondly, while retirement pensioners should be able to get their pensions weekly over the post office counter if they wish, and while the sub-post office network is an important part of town and country life, the Prime Minister believes that the Government must be free to vary existing arrangements for benefit payment if it wishes. The reasons are these:

(a) Existing arrangements are old-fashioned and, at £250m per annum at 1979 prices, very expensive. Every reasonable opportunity must be taken to improve the service to the payee and reduce the cost to the taxpayer.

(b) The Post Office has made it clear in recent statements on Government mail and British Rail night mail that it regards itself as a business, not a charity. The Prime

CONFIDENTIAL

/Minister

27/4

CONFIDENTIAL

- 2 -

Minister regards this as, generally, the correct attitude for the Post Office to take, but it would be unreasonable to allow management or funding arrangements in part of the Post Office to prevent greater efficiency and economy in DHSS.

Finally, the Prime Minister would be grateful if Sir Derek Rayner had the opportunity to comment when the issues come to Ministers for decision.

I am copying this letter to the Private Secretaries to the members of Cabinet, including the Minister of Transport; and to Geoffrey Green (CSD), David Wright (Cabinet Office) and Sir Derek Rayner.

N. J. SANDERS

M.A. Hall, Esq.,  
HM Treasury.

CONFIDENTIAL

PRIME MINISTER

Following public and Parliamentary interest in the Rayner study on payment of benefits, the Ministers involved have now agreed that officials should do some further work on how much of the Rayner package can usefully be introduced and in what timescale.

At this point, Sir Derek Rayner would welcome your endorsement of the need to make as much progress as possible as quickly as possible. May we please therefore comment in your name as in the attached draft. (The Chancellor's letter, with terms of reference for the further work, is below the draft.)

*Agreed*  
*not*

*MAD*

19 March 1980



DRAFT OF 18 MARCH 1980

*Martin Hall*

~~JOHN WIGGINS~~ ESQ

H M TREASURY

cc Private Secretaries to  
Cabinet Ministers, Minister of  
Transport and Minister of  
State, CSD  
Sir Derek Rayner  
Sir Robert Armstrong

ARRANGEMENTS FOR THE PAYMENT OF SOCIAL SECURITY BENEFITS

1. The Prime Minister has seen the Chancellor's letter of 17 March to the Secretary of State for Social Services. She is content that there should be a group of officials to provide by the end of April a factual basis for decisions by Ministers. But she considers that - as suggested by the Secretaries of State for Social Services and Industry in their letters of 29 February and 13 March - the terms of reference should include the question whether the Post Office's present arrangements for remunerating sub-postmasters is well, or might be better, adapted to the particular circumstances of the sub-post office network within the Post Office's overall management and financial structures.

2. The Prime Minister has asked me to make three further comments, the second of which should also be reflected in the work of the official group.



3. First, the Prime Minister would be grateful if the issues could be brought to Ministers for decision as early in May as possible. She regards it as important that the questions should be settled soon and that the Government should expose all the considerations fully to the public at the earliest feasible date. So far, the Government's posture has been a defensive one, whereas the case for reform and the associated savings has not had the public hearing it deserves.

4. Secondly, while retirement pensioners should be able to get their pensions weekly over the Post Office counter if they wish and while the sub-post office network is an important part of town and country life, the Prime Minister believes that the Government must be free to vary existing arrangements for benefit payment if it wishes. The reasons are these:

- a. Existing arrangements are old-fashioned and, at £250m p a at 1979 prices, very expensive. Every reasonable opportunity must be taken to improve the service to the payee and reduce the cost to the taxpayer.
- b. The Post Office has made it clear in recent statements on Government mail and British Rail night mail that it



regards itself as a business, not a charity. The Prime Minister regards this as, generally, the correct attitude for the Post Office to take, but it would be unreasonable to allow management or funding arrangements in part of the Post Office to prevent greater efficiency and economy in DHSS.

Q. Finally, the Prime Minister would be grateful if Sir Derek Rayner had the opportunity to comment when the issues come to Ministers for decision.

Q. I am copying this to the private secretaries <sup>to the members of</sup> ~~of~~ Cabinet Ministers, <sup>including the</sup> ~~the~~ Ministers of Transport; <sup>to Geoff Green (SD)</sup> and ~~Minister of~~ State, <sup>David Wright (C)</sup> CSD, and ~~to the Secretary of the Cabinet and to~~ Sir Derek Rayner.

~~M A PATTISON~~  
C. A. W.



MAR 10 1969  
MAR 10 1969





attachment with PM.

2 PPS ~~MA~~

~~PRIME MINISTER~~

~~Officials are now to undertake further work on the 'Benefits' Rayner Study. May we comment on your behalf as in draft below~~

MR PATTISON

ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

1. We spoke yesterday. I now attach a draft letter to Mr. Wiggins.
2. I am not attaching the papers referred to in the draft, as these are available to you already.
3. The draft draws on your letter of 12 March to Mr Brereton, but I see no difficulty about repeating part of it since it did not go all round the Cabinet, notably not to the Home Secretary (Chairman of H Committee).
4. The draft is self-explanatory, but let us have a word if you want something different

Sp

C PRIESTLEY

ENC: Draft letter

18 March 1980





SECRETARY OF STATE  
FOR  
NORTHERN IRELAND

✓ MAF  
NORTHERN IRELAND OFFICE  
GREAT GEORGE STREET,  
LONDON SW1P 3AJ

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury Chambers  
Great George Street  
London SW1

18 March 1980

*Dear Geoffrey.*

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

Patrick Jenkin copied to me his letter of 29 February to you on this subject.

The Department of Health and Social Services for Northern Ireland uses very much the same methods of paying social security benefits as does DHSS(GB), and in particular has the same relationship with the Post Office, which of course is a United Kingdom body. Consequently, the proposals in the Rayner report, which officials in DHSS(NI) have seen in confidence and discussed with DHSS(GB), would produce broadly equivalent savings in local terms but would have similarly adverse impact on Post Office business in Northern Ireland.

I agree with Patrick that we must now proceed cautiously, in view of the controversy which the proposals have aroused, but I also share his concern that progress should be made, in view of the substantial administrative savings which could result. If you agree to establish an inter-Departmental group of officials to study this urgently, I should find it helpful if DHSS(NI) could be directly represented on the group. Such an arrangement has been most useful in other contexts.

I am copying this letter to the recipients of Patrick Jenkin's letter.

*Yours etc*

*Humphrey*

18 MAR 1980





*Sir Jenkins*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

17 March, 1980

*Dear Patrick*

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY  
BENEFITS

Thank you for your letter of 29th February which crossed with mine of the same date.

I agree that the next stage is for us to invite officials to examine the implications of the proposals and variants on them for the Post Office, and I agree that, as the department responsible for the Agency Agreement with the Post Office, the Treasury should chair an interdepartmental group. I attach the terms of reference I propose. If you agree with them, I should be grateful if you would ask your officials to produce the necessary factual information on the likely traffic flows of DHSS business on different assumptions about frequency of payment and direct credit into bank accounts. This will help the group to get off to an early start.

I also propose that the Post Office be officially represented in the group (as they would be in any examination of the Agreement). If therefore Keith Joseph agrees with the course proposed, I would be grateful if he would write formally to Sir William Barlow inviting him to nominate representatives. I have seen his letter of 13th March and think that the suggested terms of reference should adequately encompass the points he makes.

If therefore there are no objections to the terms of reference by Wednesday, 19th March my officials will invite representatives from interested departments to the first meeting.

/I am sending

The Rt. Hon. Patrick Jenkin, MP



I am sending copies of this letter to the Prime Minister and other members of the Cabinet, Paul Channon, Sir Derek Rayner, and Sir Robert Armstrong, with copies of my letter of 29th February to those who did not then receive it.

GEOFFREY HOWE

*[Handwritten signature]*

*[Handwritten signature]*

TERMS OF REFERENCE FOR INTERDEPARTMENTAL GROUP

1 To examine the consequences of offering the option to beneficiaries of DHSS payments of direct credit to bank accounts.

2 To establish best estimates over the next six years on alternative assumptions of;

(a) DHSS counter traffic, including possible development in frequency of payment;

(b) Other counter traffic including possible development of new traffic.

3 To examine the financial and practical implications of (2) for the Post Office, both Crown Office and sub-post offices, and user Departments.

4 To report by end April.

17 MAR 1980



*[Faint, illegible handwritten marks]*



Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

13 March 1980

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
London SW1

*Sir Geoffrey,*

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

I have seen a copy of Patrick Jenkin's letter to you of 29 February on this subject, and agree with his proposal that an inter Departmental group of officials should be established quickly. I would, of course, wish my Department to be represented on the working group.

I also agree that it would be sensible to separate the less controversial proposal for direct transfer from the more difficult issue of frequency of payments. Given, however, that as Patrick Jenkin rightly points out, this would have some impact on the Post Office (and hence the sub postmasters) and that we have promised consultation on all aspects of the study, I think that if we take this course we must provide for consultation at least with the National Federation of Sub Postmasters and probably also with the UPW, before any public statement of intent is made.

On the wider issues I agree that officials should certainly look at the way in which sub postmasters are paid by the Post Office, since we may well need to forego some savings in order to carry out our assurances concerning the preservation of the sub Post Office network. It is only right, however, that I should remind my colleagues that sub postmasters' remuneration is very much a matter for negotiation between the National Federation and the Post Office, in which we have no formal powers to intervene.

I support fully the proposal that the working group should consider what might be done to generate new counter business for the Post Office network to make up some of the gap left by potential losses of DHSS business. This would only include the possibility of removing or modifying the restrictions imposed by the Post Office Act 1969 on the type of business which might be

/undertaken ...



undertaken if we were prepared to consider what would be seen as an extension of activities by a nationalised industry. I think we should be clear from the outset that this could give rise to difficulties even with the removal of the legislative restrictions. While it may well be possible for the Post Office to secure additional business this is unlikely to be on the scale of the prospective DHSS losses. And of course if it were simply a matter of the Post Office taking business away from other organisations we might well be creating difficulties elsewhere.

I am copying this letter to the recipients of yours.

*Leam*

*Ken*



13 MAR 1907

MAR 11 2 59 PM '07





Minister of State

The Rt Hon Patrick Jenkin MP  
Secretary of State for Social Services  
Department of Health & Social Security  
Alexander Fleming House  
Elephant and Castle  
LONDON SE1 6BY

Civil Service Department  
Whitehall London SW1A 2AZ  
Telephone 01-273 3000

12 March 1980

✓ MJD  
  
Dear Patrick,

Thank you for your letter of 11 March about the Rayner Study on paying Social Security benefits. I am writing to confirm the telephone message passed to your Office earlier this morning.

I suggest one small amendment at the end of the first paragraph of the statement, dealing with the assurance on sub-Post Offices - to replace the phrase "except on the basis that additional business is made available to them" by "except on the basis that arrangements can be made to safeguard their interests, for example by making additional business available to them".

In considering how the sub-Post Office network can be safeguarded, I do not think we should rely exclusively on the scope for placing additional business with them. We should also see what contribution could be made by altering the internal financial arrangements the Post Office makes for sub-Post Offices, and by improving the efficiency of their management by the Post Office.

These points could usefully be looked at in the interdepartmental study you proposed in your letter of 29 February to the Chancellor. I very much hope that he will agree to set that up as soon as possible. I should like CSD to participate.

In the light of the second assurance in the statement, I wonder if you have been able to make any estimate of the change in estimated savings as a result. We must try to see that the potential savings are not eroded beyond this.

I am sending copies to the Prime Minister, Sir Geoffrey Howe, Sir Keith Joseph, Michael Heseltine, George Younger, Nicholas Edwards, Humphrey Atkins, John Nott, Jim Prior, Angus Maude, Sir Derek Rayner and Sir Robert Armstrong.

PAULLCHANNON  
  
X  
Paul

7 MB



13 MAR 1960



VLS

10 DOWNING STREET

|        |     |
|--------|-----|
| cc HMT | NIO |
| CST    | D/T |
| D/I    | D/M |
| DOE    | PGO |
| SO     | DRO |
| WO     | CO  |

*From the Private Secretary*

12 March 1980

The Prime Minister has seen a copy of your Secretary of State's letter of 11 March to Mr. Channon, about the evidence which Mr. Jenkin will be giving to the Select Committee on Social Services this afternoon.

The Prime Minister is entirely content with the line proposed in the second paragraph of the draft Statement enclosed with the letter. She recognises that it will be necessary to retain an option of weekly payment through a Post Office for pensioners who wish to continue with the traditional arrangement.

As I told you on the telephone, the Prime Minister is not content with the line in the first paragraph of the draft Statement. She accepts that the Government should make a commitment to maintaining the network of sub-Post Offices, but she does not want this done in a way which ties this irrevocably to the benefit payment system. Just as the Post Office has recently made public its reluctance to continue arrangements for Government bulk posting, and arrangements for using British Rail overnight mail services, because it finds them less efficient and more expensive than it would wish, so the Government must retain the option of changing the benefit payment system if consumers wish this. The Prime Minister understands that work already done suggests that a direct subsidy to some sub-Post Offices might prove, overall, a less expensive means of maintaining their viability than the long-term maintenance of the present benefit payment system.

I enclose an amended version of the first paragraph of the draft Statement illustrating the line that the Prime Minister would like your Secretary of State to take. This language is not sacrosanct, but the Prime Minister hopes that your Secretary of State will keep separate the issues of maintaining the sub-Post Offices and settling how benefits should be paid in future.

I am sending copies of this letter to John Wiggins and Alastair Pirie (H.M. Treasury), Peter Stredder (Department of Industry), David Edmonds (D.O.E.), Godfrey Robson (Scottish Office) George Craig (Welsh Office), Roy Harrington (Northern Ireland Office), Stuart Hampson (Department of Trade), Richard Dykes (Department of Employment), Richard Prescott (Paymaster General's Office), Clive Priestley (Sir Derek Rayner's Office) and David Wright (Cabinet Office).

**M. A. PATTISON**

Don Brereton, Esq.,  
Department of Health and Social Security.

VLS

DRAFT STATEMENT

The Committee have had the summary of the study team's conclusions and I will highlight one or two of the main aspects of the study in a moment. But before I do so, I would like to repeat two very clear assurances of the Government's intentions. The Government will ensure the continuance of the sub-post office network. We fully accept the importance of that network to our aim of maintaining local communities and the services on which they depend. We naturally will want to discuss the proposals in the report with the post office and with the representatives of sub-postmasters. For this purpose we fully realise that those who provide the service must have a reasonable income.

*amb*

PRIME MINISTER

This letter from Mr. Jenkin's office encloses an opening statement he wishes to make tomorrow when he is before the Select Committee on Social Services.

I know that you agree with his second paragraph, about leaving pensioners the option of weekly payment through a post office.

Do you agree with the first? He is in effect saying we will not change the payments system if this destroys the viability of numbers of sub-postmasters. But the essence of some of Sir Derek's work is to expose unintentional hidden subsidies like that to the post office through the social security system. If there is a cheaper and more efficient way of paying benefits, it might be better to introduce this for those who want it, and consider straight subsidies to needy sub-post offices. Mr. Jenkin's statement seems to rule that out. I think that he should leave the options more open: the last sentence could read:-

"We shall do so on the basis that the House of Commons would be extremely unlikely to agree to any changes that would reduce the income of sub-postmasters below viable levels unless some compensating arrangements were made."

*Have amended slightly*

*I accept that we need the P.O. & that they must have a reasonable income. But that must be not done by the Government to others to have their method paid in another way - 7-4-80*

May we tell Mr. Jenkin that you do not wish him to give the impression that the Government remains committed to subsidising rural post offices through the benefit system? (It is the post office who has recently been preaching that it can no longer subsidise Government postal deliveries and British Rail's inefficient delivery performance. It should not be allowed to get away scotfree when the tables are turned.)

11 March 1980

PS I understand that Sir Derek Rayner will be suggesting that Mr. Jenkin needs to set the efficiency issue in context rather better than is done in this draft.

*MAD*

PRIME MINISTER



DEPARTMENT OF HEALTH & SOCIAL SECURITY  
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

Paul Channon Esq MP  
Minister of State  
Civil Service Department  
Old Admiralty Building  
Whitehall  
London SW1

11 March 1980

*Dear Minister*

As you know, I shall be giving evidence to the Select Committee on Social Services tomorrow afternoon (12 March) about the study of arrangements for paying social security benefits which my Department made with Sir Derek Rayner's help. It is, I am afraid, all too clear that, despite the assurances I gave in the debate on 19 February, and the important further assurance that the Prime Minister gave to pensioners, at Question Time on the 28th, concern about this is still building up in the House and in the country.

I propose, therefore, to open my evidence with a formal statement reiterating these assurances, and I enclose a copy of the draft that I propose to use. I would be grateful if any comments could be telephoned to my office today, or at the latest by 12 noon tomorrow. I am making arrangements to ensure that this statement receives maximum publicity.

I am sending copies of this letter to the Prime Minister, Sir Geoffrey Howe, Sir Keith Joseph, Michael Heseltine, George Younger, Nicholas Edwards, Humphrey Atkins, John Nott, Jim Prior, Angus Maude, Sir Derek Rayner and Sir Robert Armstrong.

*Yours sincerely*

*BC Mervel*

*(Approved by the Secretary of State and signed in his absence.)*

ENC

DRAFT STATEMENT

The Committee have had the summary of the study team's conclusions and I will highlight one or two of the main aspects of the study in a moment. But before I do so, I would like to repeat two very clear assurances of the Government's intentions. The Government are ~~determined~~<sup>will</sup> to ensure the continuance of the sub-post office network. We fully accept that ~~any change which would threaten that network would be wholly inconsistent with our aim of maintaining local communities and the services on which they depend. We naturally will want to discuss the proposals in the report with the post office and with the representatives of sub-postmasters. (We shall do so on the basis that the House of Commons would be extremely unlikely to agree to any changes that would reduce the income of sub-postmasters except on the basis that additional business is made available to them.)~~ *For this purpose we fully believe that those who make sense must have a reasonable income.*

Second, I take the opportunity to repeat the assurance that the Prime Minister gave you in the House, Madam Chairman, on 28 February. The Prime Minister said, in reply to your question, that, if they wish, retirement pensioners can continue to have their pensions paid weekly through a post office. She added, however, that if others want their pensions paid through a bank at, say, fortnightly intervals or at periods less than quarterly, they too should be able to make that choice.

I hope that these two clear and specific commitments which I give on behalf of the Government will reassure the public whose anxieties have been aroused by the reports they have heard or read.



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PRIME MINISTER

You might like to glance at Sir Derek Rayner's letter below to Mr. Jenkin about social security benefits.

Sir Derek <sup>accepts</sup> ~~expects~~ that there will have to be more flexibility on frequency of payment than the project report implied. But he is equally keen not to let the Post Office get away with an unfair victory over the publicity in the proposals. See in particular paragraphs 6(e), 7 and 8.

✓ ✓

MAD

out.

3 March, 1980.



## CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-230 6422 EXT 233-8224

3 March 1980

The Rt Hon Patrick Jenkin MP  
Secretary of State for Social Services  
Alexander Fleming House  
Elephant and Castle  
London SE1

*For Patrick*

### ARRANGEMENTS FOR SOCIAL SECURITY PAYMENTS

You kindly sent me a copy of your letter to Geoffrey Howe of Friday, on this subject, on which we had exchanged letters on 15 February. You may find it helpful to have my comments on your second letter. I am restricting circulation to the Prime Minister, Home Secretary, Chancellor of the Exchequer, Secretary of State for Industry, Minister of State, CSD and the Secretary of the Cabinet.

#### Administrative Savings in DHSS and Payment by Direct Credit

2. I am very glad to see that you wish to go ahead with these proposals not least because, in themselves, they represent savings to the tax payer very much more substantial than achieved (or achievable) by "Rayner Projects" in other Departments.

#### Frequency of Payment and Publication of the Report

3. I agree that moves on frequency will need careful presentation, but I am sure too that now is the time to redress the balance of psychological ~~balance~~ *advantage* and to still the genuine fears of those, mainly the elderly, who have been stired up by blatant lobbying. In reflecting on recent events and what to do now, I think that the Post Office is really having a pretty comfortable ride.

4. A bit of background may help get present issues into focus. The DHSS "Rayner Project" discussed their putative proposals with Department of Industry officials on 10 October. As then agreed, Mr Croft of DOI discussed the likely effects of these proposals on the Post Office with PO officials (Croft's letter to Mr Warner, DHSS, 23 October). The Chairman of the Post Office, Sir William Barlow, was then reported in the Daily Telegraph for 22 November as having told

the South West Post Office Advisory Council on 15 November of the scheme and as having taken "the rare step of urging people to protest to their MPs". (In the same news item, officials of the National Federation of Sub-Postmasters and of the Union of Post Office Workers were reported as expressing alarm at the effects on the Sub-Post Offices and the UPW's clerical section.) I am bound to say that I regard this act by the Chairman of a Public Corporation if accurately reported, as somewhat ironic given a further report in the Times on 2 February that the Post Office intended to stop the discount of Government mail, saying that "We are trying to make [the Government] realise that we are a business, not a charity".

5. The attack by the National Federation of Sub-Postmasters began from three start lines:

a. That most Social Security beneficiaries could not cope with more than weekly budgeting and that it would be dangerous for OAPs to carry more money home from the Post Office;

b. "Many thousands of Sub-Post Offices will cease to be viable financial business concerns, leading to a contraction of the network and to ~~high~~ service charges in the remainder";

c. Social damage would "go far beyond the apparent very debatable savings that might be achieved".

6. My comments on those points are as follows:

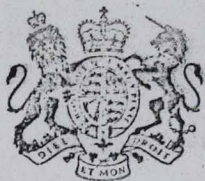
a. The last Government changed the frequency of payment of unemployment benefit from weekly to fortnightly which is, I believe, now to be made total.

b. In comparing British practice with that of other modern nations, I simply do not believe that most of our people are so reckless that they cannot cope with less frequent payment.

c. The DHSS report argued, and I agree, that there should be an option of weekly payment for those on supplementary benefit and FIS and for those over 80. It also made very sensible proposals for achieving a smooth transition from weekly to fortnightly payment.

d. The administrative cost of simply paying benefits is £250 million pa, about two-thirds of which goes to the Post Office to meet encashment charges and the cost of postage. The savings achievable at 1979 PESC prices are £50 million pa, but in an important sense the amount is less important either than the principle of reforming what the report plainly shows to be an immensely costly system or than releasing the resources saved for other purposes.

e. One cannot and should not shrug off the effects of change on the Post Office. On the other hand, the Post Office should not be allowed to keep the psychological advantage. Mr Croft's letter, already quoted, said that the Post Office was "already experiencing acute difficulty in finding shopkeepers willing to take on Sub-Post Offices for [the] small remuneration [available]"



10 DOWNING STREET

3 March 1980

THE PRIME MINISTER

*CF to note*  
*Original*  
*WJR*

*no' this*

*c DHSS constituent*

*Dear Mr. Skinner,*

Thank you for your letter of 14 February enclosing one from Mrs. E.M. Reeves of 11 North Street, Doe Lea, near Chesterfield about possible changes in the arrangements for paying social security benefits.

I know what valuable service Sub-Postmasters throughout the country provide to the community, particularly in rural areas and I can understand the concern of Mrs. Reeves about the ideas now under discussion. Let me explain the background.

The country faces serious economic problems and the Government has to set an example by carrying out its own activities as efficiently as possible. I asked Sir Derek Rayner to help us in this task. As part of his campaign, each Department was asked last year to carry out a critical review in depth of a particular area of its activities. The Department of Health and Social Security examined the arrangements for paying social security benefits, including the frequency of payments and whether an individual should be able to have benefits paid direct into his bank account if he wishes. This review was not simply concerned with saving money. It considered whether social security payment arrangements reflected conditions in today's society (bearing in mind other comparable payment methods) and whether the taxpayer was getting the best possible value for the £250 million of his money that goes each year on making some 1000 million individual social security payments. As a result, Ministers are considering a number of proposals that would provide wider public choice and better value for money.

/The review

*WJR*

The review has taken account of a number of key facts. The overwhelming proportion of benefit payments are made weekly although about two-fifths of the working population - including 50 per cent of working women - and most occupational pensioners are paid monthly. Over 90 per cent of the unemployed are paid their unemployment benefit and the associated supplementary benefit fortnightly; and over a half of mothers already cash their child benefit fortnightly or less frequently. At present, benefits cannot be paid direct into bank accounts or other accounts although about half the population use a current bank account and about three-quarters use some form of account. Taking all this into account, it is well worth considering possible changes which could offer an efficient and less expensive service.

At the same time, I want to assure you that we will take full account of the views of those who would be affected and of the possible effect of any changes on Sub-Post Offices. I recognise that some people will wish to continue with weekly payment of benefits across Post Office counters. I can re-assure Mrs. Reeves that I do not wish to oblige anyone to have benefits paid directly into a bank account. But it does not seem right for the Government to continue to impose the present method and frequency of payment on everybody, when there are growing numbers of people who are used to being paid monthly through a bank account, and to budgeting on a monthly basis, and who would prefer to receive their social security benefits in a similar way.

Ministers are still considering these ideas to see how a more efficient system of paying benefits can be introduced and how the position of village post offices can be safeguarded. Any changes will be implemented only after the most careful consideration and consultation with all those who would be affected. The Government will take account of views such as those put forward by Mrs. Reeves in reaching decisions.

Yours sincerely  
Dennis Skinner

*CF to note*  
*Angus*  
*WJR*



*file*  
*CDSS*

10 DOWNING STREET

THE PRIME MINISTER

3 March 1980

*Dear Nevile,*

Thank you for your letter of 6 February about the role of Sub-Postmasters in the payment of social security benefits.

I know what valuable service Sub-Postmasters throughout the country provide to the community, particularly in rural areas. I can understand the concern of the Sub-Postmasters in your constituency about ideas now under discussion. Let me assure you that the current review of the arrangements for paying benefits in no way reflects any doubt about the quality of the service provided by Sub-Postmasters.

The country faces serious economic problems and the Government has to set an example by carrying out its own activities as efficiently as possible. I asked Sir Derek Rayner to help us in this task. As part of his campaign, each Department was asked last year to carry out a critical review in depth of a particular area of its activities. The Department of Health and Social Security examined the arrangements for paying social security benefits, including the frequency of payments and whether an individual should be able to have benefits paid direct into his bank account if he wishes. This review was not simply concerned with saving money. It considered whether social security payment arrangements reflected conditions in today's society (bearing in mind other comparable payment methods) and whether the taxpayer was getting the best possible value for the £250 million of his money that goes each year on making some 1000 million individual social security payments. As a result, Ministers are considering a number of proposals that would provide wider public choice and better value for money for the taxpayer.

/ I want to see

*B*

I want to see the arrangements for paying social security benefits striking the right balance between the claims of beneficiaries and taxpayers. The review has taken account of a number of key facts. The overwhelming proportion of benefit payments are made weekly although about two-fifths of the working population - including 50 per cent of working women - and most occupational pensioners are paid monthly. Over 90 per cent of the unemployed are paid their unemployment benefit and the associated supplementary benefit fortnightly; and over a half of mothers already cash their child benefit fortnightly or less frequently. At present, benefits cannot be paid direct into a bank account or other account although about half the population use a current bank account and about three-quarters use some form of account. In the other EEC countries (except Ireland) and North American, retirement pensions, family benefits and most other social security benefits are paid monthly or even less frequently. Taking all this into account, it is well worth considering possible changes which could offer an efficient and much less expensive service.

At the same time, I want to assure you that we will take full account of the view of those who would be affected and of the possible effect of any changes on sub-Post Offices. I recognise that some people will wish to continue with weekly payment of benefits across Post Office counters. I can reassure those who have written to you expressing concern because they do not have a bank account because we do not wish to oblige anyone to have benefits paid directly into a bank account. But it does not seem right for the Government to continue to impose the present method and frequency of payment on everybody, when there are growing numbers of people who are used to being paid monthly through a bank account, and to budgeting on a monthly basis, and who would prefer to receive their social security benefits in a similar way.

/ Ministers are



Ministers are still considering these ideas. Any changes will be implemented only after the most careful consideration and consultation with all those who would be affected.

Y  
L  
A  
Ray

Neville Trotter, Esq., M.P.

Original in GK  
CAF to NDC



pe DG  
c DfSS  
Constituent

10 DOWNING STREET

3 March 1980

THE PRIME MINISTER

*Richard Brown*

Thank you for your letter enclosing correspondence (which I return) about possible changes to the methods of paying social security benefits and the effect on sub-post offices.

I am fully aware of the most valuable service which sub-post masters provide to the community, particularly in rural areas, and that local communities attach great importance to this service. I assure you that the current review of arrangements for paying benefits in no way reflects doubts about the quality of service provided by sub-post offices.

The country faces serious economic problems and the Government believes that it has to set an example by carrying out its own activities as efficiently as possible. That is why I invited Sir Derek Rayner to help in this task. As part of this campaign each Department was asked last year to carry out a critical review in depth of a particular area of its activities. The Department of Health and Social Security examined the arrangements for paying social security benefits including the frequency of payments (weekly, fortnightly or four weekly), and whether the public should be able to have benefits paid direct into bank accounts if they wished. This review was not simply concerned with saving money. It considered whether social security payment arrangements reflected conditions in today's society, (bearing in mind other comparable payment methods), and whether the taxpayer was getting the best possible value for the £250 million of his money that goes each year on making 1,000 or so million individual social security

/ payments

*VB*

payments. As a result Ministers are considering a number of proposals that would provide wider public choice and better value for money.

I have said the arrangements for paying social security benefits must strike the right balance between the claims of beneficiaries and taxpayers. Apart from the savings which would accrue to the taxpayer from possible changes, there are a number of other facts to be borne in mind. Well over 80 per cent of benefit payments are made weekly despite the fact that about two-fifths of the working population - including 50 per cent of working women - and most occupational pensioners are paid monthly. Over 90 per cent of the unemployed are already paid their unemployment benefit and the associated supplementary benefit fortnightly; and over a half of mothers now cash their child benefit fortnightly or less frequently. Despite the fact that half the population uses a current bank account and three-quarters uses a current or some other type of account, at present benefits cannot be paid direct into a bank or other account.

However, I would like to repeat my assurance that the Government will take full account of the views of those who might be affected in considering possible changes in the arrangements for paying social security benefits particularly the possible effect of any changes on sub-post offices. I accept that some people will wish to continue with weekly payment of benefits across post office counters, and I can assure you that no-one will be forced to have benefits paid directly into a bank account. There are, however, growing numbers of people who are used to being paid monthly through a bank account, who are used to budgeting on a monthly basis and who would prefer to receive their social security benefits in a similar way.

The Government is still considering possible changes in the arrangements for paying benefits and will not make any changes without the most careful consideration and proper consultation with all interests. It will take full account of views expressed in reaching decisions.

R. C. Brown, Esq., M.P.

Yours sincerely  
Margaret Thatcher

PRIME MINISTER

Mr. Jenkin has now written to colleagues about Sir Derek Rayner's study of payment of benefits. He divides the proposals into three groups. He would like to go ahead as soon as possible on the second and third points, (payment into bank accounts as an option, and improvements in DHSS administrative practices.)

On the first point, less frequent payment of benefits, he recognises that the current controversy means that he must proceed with care. He wants more interdepartmental work on the consequences for the Post Office, and he is clear that it will be necessary to leave the option of weekly payment more widely available than recommended by the report. *- it must be welcome.*

He is also doubtful about publishing the report, or a version of it, at present, given the controversy.

We should await comment from other Ministers with a direct interest, including the Chancellor and Sir Keith Joseph, on these proposals for further action. But, in the meantime, you asked to see the report. I therefore attach it at Flag C, together with the summary and commentary which Mr. Priestley prepared for Sir Derek Rayner (Flag B). Mr. Jenkin's current proposals to colleagues are at Flag A.

*MP*

29 February 1980



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

29 February 1980

*Dear Patrick*

ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

I have seen your letter to Sir Derek Rayner of 15th February in which you accept the main (and some of the subordinate) proposals in your project team's report for switching to fortnightly payment of most benefits and for four-weekly payment of child benefit. I am glad to note that you intend to bring the issues of publication of the report and its wider implications before colleagues, possibly for collective discussion. I may however be useful if I record some general comments now.

I welcome the proposals, not only for the potential they offer for administrative savings and because they would bring more rationality into the systems of payment, but also because they fit closely with the progress I would like to see on the wider front of a movement away from cash transactions.

I am sure that we should aim to move towards payment of wages through the banking system. The advantages in terms of cost reductions, security and removal of temptations to fraud and criminality are self-evident. But attempts by successive Governments to move in this direction have always run foul of union opposition backed up by the Truck Acts. Even within Government (and indeed your own NHS) a substantial proportion of pay to our own employees are made in cash. This should not however deter us from the long-term objective. I hope to stimulate a discussion of the method of payment of wages, possibly in NEDC. I understand that the Committee of London Clearing Bankers would be interested in this, that the CBI would welcome it and that Len Murray does not regard it as taboo.

/Against

The Rt. Hon. Patrick Jenkin, MP

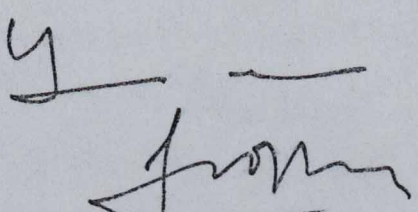


Against that background, I think that if the report's proposals lead to a greater use of the banking system by the poorer and more vulnerable sections of the community, this may help in creating a more favourable response on the wider front. But I think the voluntary nature of the switch to direct credits must be stressed. Any hint of compulsion could backfire on our wider objectives.

I am glad to note your comments on the implications of the report for the Post Office. This not only arouses delicate political questions - we have already seen the reaction of sub-postmasters and mistresses - it also affects the Post Office Agency Agreement, for which my officials have responsibility, the costs to be borne by other departments and the desirable size and shape of the Post Office network. We shall need to study these implications carefully in order to assess, amongst other things, the financial effect of the change on the public sector as a whole. I agree with you that we need an inter-departmental appraisal before taking final decisions. I think it would be appropriate for this to meet under Treasury chairmanship.

One other aspect we shall need to examine carefully is the public expenditure effects of the timing of the changeover to less frequent payment of benefit. I understand that the essence of the proposal is that the costs of paying one week in advance to retirement pensioners would be (in substantial part) covered by the savings from payment of child benefit three weeks in arrears. It will be important to establish that the assumptions on which the project team based its calculations are sound and that the effects of the cash flow of recipients look tolerable. We do not want to find ourselves in trouble because many recipients cannot sustain themselves without child benefit. This again needs inter-departmental study but would be for your department to co-ordinate, as a separate matter from the examination of the effects on the Post Office. Would it help if people coming newly into benefit were paid fortnightly or monthly as appropriate in advance of the general changeover?

I am sending copies of this letter to the Prime Minister, the Secretary of State for Industry, the Minister of State at the Civil Service Department and Sir Derek Rayner.

  
(GEOFFREY HOWE)

3 - MAR 1980





DEPARTMENT OF HEALTH & SOCIAL SECURITY  
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury Chambers  
Great George Street  
London  
SW1

29 February 1980

Dear Geoffrey,

RAYNER STUDY ON ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

We need to take stock of the handling of the proposals in this study in the light of last week's debate in the House, the lobby by the National Federation of Sub-Postmasters, and the considerable ground-swell of opinion in the House that, whatever happens, the network of Sub-Post Offices (particularly in rural areas) should not be damaged. The proposals in the study fall into three groups:

- a. Less frequent payment of benefits. The study team's report proposes that most social security benefits should be paid fortnightly (as is already done for the unemployed), and that child benefit should be paid four-weekly. The report suggests that those aged 80 or over and those receiving supplementary benefit should continue to be paid weekly if they wish. These proposals were designed as a package in which the savings from monthly payment of child benefit would offset the initial extra cost of moving to fortnightly payment of other benefits.
- b. Payment into bank accounts. The report suggests developing with the banks a facility for paying social security benefits direct into bank accounts by automated credit transfer. There would be no compulsion on beneficiaries to use this method. Market research has shown that there is likely to be substantial public demand for this method - probably at least three million people would use it in the early years and the numbers could rise.
- c. Improvements in DHSS administrative practices. The study team made a number of proposals for improving internal DHSS practices and procedures that would increase efficiency and help to finance the start-up costs of the other larger changes.

I had agreed with Sir Derek Rayner that we should adopt this study report as a basis for action, and I would hope to implement as much as possible of it (there are substantial savings in DHSS administrative expenditure at stake. I had hoped to be able to deal with the three elements in the proposals as a package, with the availability of credit transfer as an optional facility serving



to offset any controversy about less frequent benefit payment. But the political reaction so far makes it clear that we shall have to proceed much more cautiously.

The main focus of hostility is the reduced frequency of benefit payment for pensioners: this accounts for nearly half the prospective savings, and we should not therefore simply abandon the idea. But we may have to resign ourselves to some variant of it which deflects the main criticisms (for instance, by preserving existing pensioners' rights to be paid weekly if they wish) and preserves as much of the savings as we can get. I think that, before we make any decisions on the report's proposals to change the frequency of payment we must study further the implications for the Post Office of the present proposals; see what variants are available, and how these in turn might affect the Post Office; and also consider what can be done by way of generating new business for the Post Office to plug any gap left by lost DHSS business - including the scope for making greater use of the National Girobank. We ought also to consider whether the Post Office's present arrangements for reimbursing Sub-Postmasters might be adapted to meet better the particular pressures on the Sub-Post Office network. We must not lose impetus over this report, however, and I would therefore like to see an urgent study of these matters by officials. I suggest the best way forward would be for the Treasury, as the Department responsible for the Agency Services Agreement with the Post Office, to take the lead in establishing an inter-Departmental group of officials to report back to Ministers by the end of April if possible.

Whatever happens about frequency of payment, I would wish to proceed with the second and third elements in this report. (The third set of proposals, for various improvements in DHSS practices, are largely of domestic concern to this Department and we intend to adopt as many of them as possible in any case. But they are of relevance to the larger package in that they yield savings which would, for example offset the costs of credit payment.)

I am already under great pressure from the banks to announce what our intentions are about offering people the option of payment direct into bank accounts. It seems a distinct possibility that the prudent course would be to detach this proposal from the proposal to alter the frequency of payments, and to pursue it separately. But that would have some impact on the Post Office too (though much less than altering the frequency of payments); and it would be helpful if the inter-Departmental group could, as a first priority, make a rapid appraisal of the impact on the Post Office's revenues of paying, say, three million beneficiaries by direct credit into bank accounts, and report back so that we could consider before Easter whether we could make any public statement of intention at least on this element in the proposals.

I think that in view of the evident political sensitivity of this subject I should seek the agreement of colleagues in H Committee before entering into any public commitments about this report. And I see the inter-Departmental study by officials as a necessary preliminary to this. I hope you will agree that this method of proceeding is appropriate, and ask your officials to arrange for this study as quickly as possible.

There will be continuing pressure for publication of the study report, and it is of course a desirable aim to publish the report of Rayner studies where possible. I indicated in the House last week that we should not proceed without allowing for consultation based on a published report. But my present feeling is that publication of this report as it stands, in the present rather excitable climate on this issue, would not be wise - at least until we have settled what proposals

E. R.

We are prepared to put forward as a basis for outside consultation. So I should propose to suspend judgement on the issue of publication, and to include that in the matters to be considered by H Committee when officials have reported to us. I mention the point now only because it adds some urgency to the matter.

In view of the attention this issue has aroused I am copying this to the Prime Minister and other members of the Cabinet, the Minister of State at the Civil Service Department, Sir Derek Rayner and Sir Robert Armstrong.

*Your  
Patel*

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29 FEB 1980



Good  
March

**DEPARTMENT OF HEALTH & SOCIAL SECURITY**  
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

29 February 1980

Mike Pattison Esq  
Private Secretary  
10 Downing Street  
LONDON  
SW1

*Dear Mike*

SIR DEREK RAYNER PROJECTS: METHODS OF PAYMENT FOR SOCIAL SECURITY BENEFIT

Thank you for your letter of 26 February. The Secretary of State was on the point of writing to colleagues, setting out the present position, and making recommendations for carrying the study forward. I attach a copy.

Yours sincerely

*B C Merkel*

*pp*

D Brereton  
Private Secretary



BF 3/3/80. VLB.  
~~by Mr. Pinesley~~

10 DOWNING STREET

*From the Private Secretary*

26 February 1980

*Dear Don*

As you know, the Prime Minister is keen to make progress as a result of Sir Derek Rayner's study about the frequency of payment and method of payment for Social Security benefit. She much regrets that a certain amount of misinformation has been allowed to get into circulation, which clearly needs to be countered as soon as possible.

The Prime Minister is aware that your Secretary of State has it in mind to publish the project report soon. This will provide an opportunity to set the record straight, and to demonstrate the basis on which changes are being considered. She would like to have an opportunity to look at the report before it is published, and she would be grateful to know what timetable your Secretary of State has in mind for publication, and what commitment he proposes to make to the principle of a reduced frequency of payment and greater choice of method. Subject to having an opportunity to look at the full report, the Prime Minister would hope to see fairly rapid progress.

*Yours ever  
Mike Pattison*

PS This was dictated before your Secretary of State answered Questions this afternoon. In the light of his comments then, it would obviously be helpful for him to let the Prime Minister know his intentions as soon as possible.

Don Brereton, Esq.,  
Department of Health and Social Security.

VB

PRIME MINISTER

Sir Derek Rayner's office tell me that Mr. Jenkin is ready to cave in on the Social Security payments exercise.

You had been keen to see this carried through, subject to ensuring that the wishes of those recipients who did not want the changes were respected.

May I write to Mr. Jenkin's office on your behalf, saying that you would like to see the project report published soon, and that you hope that the Secretary of State will be consulting interested parties quickly, on the basis of a firm commitment to the principle of reduced frequency ~~/~~ payment and greater choice of method?

*MRD* Any I first see the report.

*I am unsure that we should not just abandon the whole project.*

25 February 1980



cc D HOS  
ONE COPY FOR CANTO.  
Original in GPK

10 DOWNING STREET

THE PRIME MINISTER

25 February 1980

Dear Mr. Skinner,

Thank you for your letter of 21 February with which you enclosed letters and petitions from Sub-Postmasters in your constituency about possible changes in paying social security benefits and the effect on Sub-Post Offices.

I know what valuable service Sub-Postmasters throughout the country provide to the community, particularly in rural areas and I understand the concern of the members of the National Federation of Sub-Postmasters. The current review of the arrangements for paying social security benefits was not initiated because of any doubts about the quality of the service provided by Sub-Postmasters.

The country faces serious economic problems and we believe that Government has to set an example by carrying out its own activities as efficiently as possible. I asked Sir Derek Rayner to help us in this task. As part of this campaign, each Department was asked last year to carry out a critical review in depth of a particular area of its activities. The Department of Health and Social Security examined the arrangements for paying social security benefits, including the frequency of payments

/ and whether

and whether the public should be able to have benefits paid direct into bank accounts if they wished. This review was not simply concerned with saving money. It considered whether social security payment arrangements reflected conditions in today's society (bearing in mind other comparable payment methods) and whether the taxpayer was getting the best possible value for the £250 million of his money that goes each year on making 1000 or so million individual social security payments. As a result, Ministers are considering a number of proposals that would provide wider public choice and better value for money for the taxpayer.

The arrangements for paying social security benefits must strike the right balance between the claims of beneficiaries and taxpayers. The review has taken account of a number of other key facts. The overwhelming proportion of benefit payments are made weekly despite the fact that about two-fifths of the working population - including 50 per cent of working women - and most occupational pensioners are paid monthly. Over 90 per cent of the unemployed are paid their unemployment benefit and the associated supplementary benefit fortnightly or less frequently. Moreover although about half the population uses a current bank account and about three-quarters uses a current or some other account, benefits cannot be paid direct into a bank or other account. Nor should we ignore the fact that in the other EEC countries (except Ireland) and North America retirement pensions, family benefits and most other social security benefits are paid monthly or even less frequently. Taking all this into account, it is well worth considering possible changes which could offer an efficient and much less expensive service.

( At the same time



At the same time, I want to assure you that in considering possible changes in the arrangements for paying social security benefits we will take full account of the views of those affected and of the possible effect of any changes on sub-Post Offices. Some people may well need to continue with weekly payment of benefits across Post Office counters. Moreover no one will be forced to have benefits paid directly into a bank account. But it does not seem right for the Government to continue to impose the present method and frequency of payment on everybody when there are growing numbers of people who are used to being paid monthly through a bank account, who are used to budgeting on a monthly basis, and who would prefer to receive their social security benefits in a similar way.

We are still considering these ideas and any changes will be implemented only after the most careful consideration and proper consultation with all interests. The Government will take account of views such as those expressed by your constituents in reaching decisions.

Yours sincerely  
Dennis Skinner

Dennis Skinner, Esq., M.P.



10 DOWNING STREET

THE PRIME MINISTER

25 February 1980

*CE to note*

*Dear Mr. Wellbourn.*

Thank you for your letter of 4 February enclosing one from Mr. L.J. White of 67 Mayplace Road East, Barnehurst, Kent about possible changes in paying social security benefits and the effect on sub-Post Offices.

I know what valuable service Sub-Postmasters throughout the country provide to the community, particularly in rural areas and I understand the concern of the members of the National Federation of Sub-Postmasters. The current review of the arrangements for paying social security benefits was not initiated because of any doubts about the quality of the service provided by Sub-Postmasters.

The country faces serious economic problems and we believe that Government has to set an example by carrying out its own activities as efficiently as possible. I asked Sir Derek Rayner to help us in this task. As part of this campaign, each Department was asked last year to carry out a critical review in depth of a particular area of its activities. The Department of Health and Social Security examined the arrangements for paying social security benefits, including the frequency of payments and whether the public should be able to have benefits paid direct into bank accounts if they wished. This review was not simply concerned with saving money. It considered whether social security payment arrangements reflected conditions in today's society (bearing in mind other comparable payment methods) and whether the taxpayer was getting the best possible value for the £250 million of his money that goes each year on making 1000 or so million individual

/ social

*Original in file*

*21*

social security payments. As a result, Ministers are considering a number of proposals that would provide wider public choice and better value for money for the taxpayer.

The arrangements for paying social security benefits must strike the right balance between the claims of beneficiaries and taxpayers. The review has taken account of a number of other key facts. The overwhelming proportion of benefit payments are made weekly despite the fact that about two-fifths of the working population - including 50 per cent of working women - and most occupational pensioners are paid monthly. Over 90 per cent of the unemployed are paid their unemployment benefit and the associated supplementary benefit fortnightly; and over a half of mothers already cash their child benefit fortnightly or less frequently. Moreover although about half the population uses a current bank account and about three-quarters uses a current or some other account, benefits cannot be paid direct into a bank or other account. Nor should we ignore the fact that in the other EEC countries (except Ireland) and North America retirement pensions, family benefits and most other social security benefits are paid monthly or even less frequently. Taking all this into account, it is well worth considering possible changes which could offer an efficient and much less expensive service.

At the same time, I want to assure you that in considering possible changes in the arrangements for paying social security benefits we will take full account of the views of those affected and of the possible effect of any changes on sub-Post Offices. Some people may well need to continue with weekly payment of benefits across Post Office counters. Moreover no one will be forced to have benefits paid directly into a bank account. But it does not seem right for the Government to continue to impose the present method and frequency of payment on everybody when there are growing numbers of people who are used to being paid monthly through a bank account, who are used to budgeting on a monthly basis, and who would prefer to receive their social security benefits in a similar way.

/ We are still

We are still considering these ideas and any changes will be implemented only after the most careful consideration and proper consultation with all interests. The Government will take account of views such as those expressed by Mr. White in reaching decisions.

Yours sincerely  
Rajawati Indira

James Wellbeloved, Esq., M.P.

#18

*Chester*



*file*

*Original of R*

10 DOWNING STREET

THE PRIME MINISTER

25 February 1980

*Dear Mr. Newton,*

Thank you for your letter of 9 January about the Rayner Study on arrangements for paying social security benefits.

I know the valuable service Sub-Postmasters throughout the country provide to the community, particularly in rural areas and I understand the concern of Mr. McArthur. The current review of the arrangements for paying social security benefits in no way reflects any doubts about the quality of the service by Sub-Postmasters.

The country faces serious economic problems and we believe that Government has to set an example by carrying out its own activities as efficiently as possible. I asked Sir Derek Rayner to help us in this task. As part of his campaign, each Department was asked last year to carry out a critical review in depth of a particular area of its activities. The Department of Health and Social Security examined the arrangements for paying social security benefits including the frequency of payments and whether an individual should be able to have benefits paid direct into a bank account if he wishes. This review was not simply concerned with saving money. It considered whether social security payment arrangements reflected conditions in today's society (bearing in mind other comparable payment methods) and whether the taxpayer was getting the best possible value for the £250 million of his money that goes each year on making 1000 or so million individual social security payments. As a result, Ministers are considering a number of proposals that would provide wider public choice and better value for money for the taxpayer.

/ I want to see

*RH*

I want to see the arrangements for paying social security benefits striking the right balance between the claims of beneficiaries and taxpayers. The revenue has taken account of a number of key facts. The overwhelming proportion of benefit payments are made weekly despite the fact that about two-fifths of the working population - including 50 per cent of working women - and most occupational pensioners are paid monthly. Over 90 per cent of the unemployed are paid their unemployment benefit and the associated supplementary benefit fortnightly; and over a half of mothers already cash their child benefit fortnightly or less frequently. Moreover although about half the population uses a current bank account and about three-quarters uses a current or some other account, benefits cannot be paid direct into a bank or other account. Nor should we ignore the fact that in the other EEC countries (except Ireland) and North America retirement pensions, family benefits and most other social security benefits are paid monthly or even less frequently. Taking all this into account, it is well worth considering possible changes which could offer an efficient and much less expensive service.

At the same time, I would assure you that we will take full account of the views of those affected and of the possible effect of any changes on Sub-Post Offices. I recognise that some people may well need to continue with weekly payment of benefits across Post Office counters. Moreover no one will be forced to have benefits paid directly into a bank account. Equally however it does not seem right for the Government to continue to impose the present method and frequency of payment on everybody when there are growing numbers of people who are used to being paid monthly through a bank account, who are used to budgeting on a monthly basis and who would prefer to receive their social security benefits in a similar way.

The present position is that we are still considering these ideas. Any changes will be implemented only after the most careful

/ consideration

consideration and consultation with all interests. The views of Sub-Postmasters will be taken into account in reaching decisions.

Yours sincerely

Reginald Delaney

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John Maxton, Esq., M.P.



cc 0480  
Cover  
Original WGR

CFV  
WGR

10 DOWNING STREET

THE PRIME MINISTER

25 February 1980

Mr. M. Lambie,

Thank you for your letter of 5 February enclosing one from Mrs. Morag Niven of 2 Crofthead, Bourtreehill, Irvine about the Rayner Study on arrangements for paying social security benefits.

I fully appreciate the valuable service to the community which is provided by small post offices and that people are accustomed to receiving benefit weekly but the country faces serious economic problems and we believe that Government has to set an example by carrying out its own activities as efficiently as possible. I asked Sir Derek Rayner to help us in this task. As part of this campaign, each Department was asked last year to carry out a critical review in depth of a particular area of its activities. The Department of Health and Social Security examined the arrangements for paying social security benefits including the frequency of payments and whether the public should be able to have benefits paid direct into bank accounts if they wished. This review was not simply concerned with saving money. It considered whether social security payment arrangements reflected conditions in today's society (bearing in mind other comparable payment methods) and whether the taxpayer was getting the best possible value for the £250 million of his money that goes each year on making 1000 or so million individual social security payments. As a result, Ministers are considering a number of proposals that would provide wider public choice and better value for money for the taxpayer. In this there are a number of key facts.

/ The overwhelming

21



The overwhelming proportion of benefit payments are made weekly despite the fact that about two-fifths of the working population - including 50% of working women - and most occupational pensioners are paid monthly. Over 90% of the unemployed are paid their unemployment benefit and the associated supplementary benefit fortnightly; and over a half of mothers already cash their child benefit fortnightly or less frequently. Moreover although about half the population uses a current bank account and about three-quarters uses a current or some other account, benefits cannot be paid direct into a bank or other account. Nor should we ignore the fact that in the other EEC countries (except Ireland) and North America retirement pensions, family benefits and most other social security benefits are paid monthly or even less frequently. Taking all this into account, it is well worth considering possible changes which could offer an efficient and much less expensive system.

At the same time I would assure you that in considering possible changes in the arrangements for paying social security benefits the Government will take full account of the views of those affected and of the possible effect of any changes on sub-Post Offices. Some people may well need to continue with weekly payment of benefits across Post Office counters. Moreover no one will be forced to have benefits paid directly into a bank account. But it does not seem right for the Government to continue to impose the present method and frequency of payment on everybody, when there are growing numbers of people who are used to being paid monthly through a bank account, who are used to budgeting on a monthly basis and who would prefer to receive their social security benefits in a similar way.

The present position is that we are still considering these ideas. Any changes will be implemented only after the most careful consideration and proper consultation with all interests.

/ The Government

The Government will take account of views such as these expressed by your constituent in reaching decisions.

Yours sincerely  
Margaret Thatcher

---

David Lambie, Esq., M.P.

PATTISON

*Different draft sent.*

*MAK.*

SOCIAL SECURITY PAYMENTS

We spoke yesterday. I attach a draft letter for you to send to Mr Brereton, but you may wish to strengthen it somewhat.

*CP*

C PRIESTLEY  
22 February 1980

Enc: Draft letter to Mr Brereton

DRAFT OF 22 FEBRUARY 1980

D Brereton Esq  
Department of Health and Social Security  
Alexander Fleming House  
Elephant & Castle SE1

PAYMENT OF SOCIAL SECURITY BENEFITS

Now that some of the dust has settled, the Prime Minister is anxious that Ministers should come to early decisions on the important proposals made in the report of last year's "Rayner project". She would therefore like to see the report published soon and consultation with interested parties begun on the basis of a firm commitment by Ministers to the principles of reduced frequency of payment and greater choice of method.

2. It would therefore be helpful to know what is now intended.

3. I am copying this to John Wiggins (Treasury), Cathrine Bell (Department of Industry) and Clive Priestley (Sir Derek Rayner's Office)

M A PATTISON

11 12 1  
2 1 3  
4 5 6

23 FEB 1960

✓ [Blind copy: Mr Pattison] *MA*

COPY TO EACH

Mr Butler (2)  
Mr Crawley  
Mr Russell

*503*  
*file on waste file*

ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

1. You will no doubt have seen Mr Jenkin's letter to Sir Derek Rayner and the latter's reply, both of the same date, and have gathered that Sir DR regards it as generally very satisfactory.
2. The purpose of this minute is to consult you on the points I have marked A/ - F/ in Mr Jenkin's letter. Subject to your views, I think Sir DR should reply as follows:

A/ May look rather odd that greater efficiency means more staff, but has made this point before. Must leave Mr Channon to fight it further, if necessary. If Mr Jenkin absolutely convinced the extra expenditure is justified, Sir DR would (qua adviser) have to bow to his judgment.

B/and C/ Accepted.

D/ Impossibility of early action noted, but leaves his doubts about the size of Overseas Branch on the record.

E/ Good!

F/ Accepted.

3. I should be glad to hear from you on this later this week.

*CP*

C PRIESTLEY  
18 February 1980

ENCS: Copy letters from Mr Jenkin and Sir Derek Rayner,  
15 February 1980



DEPARTMENT OF HEALTH & SOCIAL SECURITY  
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

Sir Derek Rayner  
Cabinet Office  
Whitehall  
London SW1

15 February 1980

*Dear Derek,*

ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

I found our meeting on 24 January extremely helpful. This is the letter that I promised then setting out my views on the project team's report and responding to the comments in your letter of 3 December.

I fully accept the proposals in the project team's report for switching to fortnightly payment of most benefits and for four weekly payment of child benefit, subject to safeguarding the position of those among the poor and very old who wish to be paid weekly. I think that the project team have it about right when they say that the over 80s and those on supplementary benefit should be able to have their benefits paid weekly if they wish. You asked in your letter of 3 December about moving straight to four weekly payments of all benefits, but as I explained at our meeting I do not think that this is a starter. The additional savings on top of the study team's proposals will be at most £20 million a year and this level of saving will take at least five years to attain. A move to four weekly payment of all benefits would mean spending nearly another £130 million at the time of transition and when the Government's policy is to check the growth of public expenditure. Apart from the cost problems it would in my view be politically extremely difficult to switch straight from weekly to four weekly payment of most benefits. It is clear that a switch to fortnightly payment of benefits is going to be far from easy!

A I am strongly in favour of offering the public the choice of having benefits paid direct into a bank account on a four weekly basis if they wish. I have long thought that we should move with the times in offering this facility although there may be a little difficulty in finding the extra staff to launch this new payment method. I hope that it will be possible to adopt the view that the overall effect of the project team's proposals represent such an improvement in efficiency that a modest increase in DHSS staff is an acceptable price to pay for launching payment of benefits direct into bank accounts. I would of course want to have the new arrangements monitored closely to check that the extra staff were justified and their numbers were kept to the minimum.

E.D.

I can confirm that I accept in principle most of the "secondary" recommendations in the project team's report. The one exception is the proposal for using foils without a cash value in child benefit order books: I do not want to proceed with this, because for a fairly modest saving in administrative costs, it would limit unnecessarily Ministerial freedom of manoeuvre on any future adaptation of the structure of the child benefits scheme to meet changing economic circumstances. There are a few 'secondary' issues on which I accept in principle the project team's proposals, but want a little more detailed work done before making final decisions. The proposals in this category are those for sending all order books to home addresses; making greater use of combined order books; standardising order book notes; and speeding up the introduction of the CAMELOT computer project. I also want to consider further the most appropriate period to be covered by a child benefit order book now that we have chosen four weekly payment of this benefit. I have arranged for the further detailed work on these issues to be completed in time for final decisions to be taken during March.

I do not think that we can take early action on the proposal for changing the arrangement for paying beneficiaries overseas because I would like to await the outcome of some discussions about this that Reg Prentice will be having with the Australian Government - the country most affected - later in the year. On the other 'secondary' issues I have asked for the necessary preparatory work to be put in hand to secure their implementation. In this connection perhaps I should mention that I am happy to accept your suggestion that payments of less than £1 should be paid only once a year (except to the recipients of supplementary benefit). The foil limits on supplementary benefit order books were increased substantially last November and I have arranged for them to be kept at realistic levels for the future.

I agree that the 'secondary' recommendations can be implemented more quickly than the major changes but I want to adhere as far as possible to the timetable set out in the project team's report. This timetable was drawn up very carefully as a package which ensured no increase in public expenditure in any financial year, but built up to impressive and increasing levels of saving as the whole package of measures was implemented. Earlier implementation of the 'smaller' recommendations has some attractions but could well disturb the financial balance of the package. In my view successful introduction of the main changes on frequency and methods of payment depend on implementing the project team's report as a total package in the way proposed. If we move forward in this way we shall find it easier to convince Parliament and the public that the proposals are coherent and worthwhile rather than ill-considered expedients aimed at quick savings.

I know you recognise the serious implications of the project team's report for the Post Office. These implications need further study by Ministers and officials in other Departments and I shall be writing to my colleagues about them within the next few days. We must make the changes in a way that avoids damaging the network of sub-post offices. I accept that this may mean that DHSS does not achieve the maximum savings possible as soon as we would like - and, of course, what these full savings turn out to be, in practice, is something we cannot yet know. It may also mean adverse consequences for other Post Office customers and the Crown Post Office network if the Post Office are unable to generate alternative business to replace the lost DHSS counter transactions. Ministers need an inter-Departmental appraisal of these implications and possibilities for coping with them before taking final decisions. However time is not on our side because of the mounting Parliamentary pressure for clarification of the Government's attitude to the project team's proposals



E. P.

and I accept that we must try to complete such an appraisal by Easter at the latest.

We both agreed that it was desirable to publish the project team's report. I explained that I would like to see it edited a little and you accepted this. I would prefer to publish the report with a statement of Ministerial intent. This statement would set out the broad timetable and arrangements for implementation and would be the equivalent of your "action plan". I see the statement and the published version of the report as the basis for detailed consultation on the arrangements for implementation with the Staff Side, the Post Office, banks and other interests. I shall have to consult my Ministerial colleagues in other Departments about publication of the report and the statement of intent. I will do my best to ensure that these consultations are completed in time to meet the timetable of a March announcement on Rayner projects set out in the letter of 14 January by the Prime Minister's Private Secretary. However we may be delayed a little by the inter-Departmental appraisal of the Post Office implications.

Within DHSS Lynda Chalker will continue to have direct Ministerial responsibility for implementing the changes arising from the project. Day to day responsibility for implementation will rest with the leader of the project team supported by a small steering committee and with direct access to the Second Permanent Secretary where necessary.

At our meeting we also discussed some of the impressions you had formed on your visit to the DHSS local office at Hoxton. I found this very helpful. I will be writing to you separately about the points you mentioned when I have had time to go into them in a little more detail.

I am copying this letter to the Chancellor of the Exchequer, the Secretary of State for Industry and the Minister of State at the Civil Service Department.

You ever  
Pat



cc The Rt Hon Geoffrey Howe  
The Rt Hon Sir Keith Joseph  
Paul Channon Esq

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-~~832 3422~~ 233 8224

15 February 1980

The Rt Hon Patrick Jenkin MP  
Secretary of State for Social Services  
Alexander Fleming House  
Elephant & Castle  
London SE1

*Pat Jenkin*

ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

Many thanks for your letter of today. I am replying at once to say that I am very pleased about your decisions and intentions and that you can be assured of my continuing help and advice in so far as I can be of assistance. If I have any comments on the substance of your letter down to the end of the third paragraph on p. 2, I will let you know as soon as possible.

2. On the Post Office, you and I are being accused (as in one of my letters today by an 84-year old widow) of a "diabolical scheme". The Post Office has just told the Government in respect of the latter's mail that it (the Post Office) is not a "charity". It cannot be stressed too often that it is up to the Post Office to take the responsibility for running its own show and that it ought to pay sub postmasters and mistresses enough to make it worth their while to keep running: the Post Office cannot expect to compensate for its own inefficiency by leeching onto other administrative systems. I quite accept, and always have, that some people will find it most convenient to draw on a post office, but that is a quite different point.

3. On publication, the sooner the better. I think you or Lynda Chalker could do a good piece of counter-propaganda with the press and that you are entitled to get your side of the story across soon. Again, if I can help, I will.

*John Smeeth*  
*Derek Bayner*

Derek Bayner

19 FEB 1980





10 DOWNING STREET

cc: DHSS  
Original in G/R

Gort m/c.

THE PRIME MINISTER

13 February 1980

Dear Mr. Taylor,

Thank you for your letter of 18 January about the role of Sub-Postmasters in the payment of social security benefits.

I know what valuable service Sub-Postmasters throughout the country provide to the community, particularly in rural areas. I can understand the concern of the members of your Federation about ideas now under discussion. Let me assure you that the current review of the arrangements for paying benefits in no way reflects any doubt about the quality of the service provided by Sub-Postmasters.

The country faces serious economic problems and the Government has to set an example by carrying out its own activities as efficiently as possible. I asked Sir Derek Rayner to help us in this task. As part of his campaign, each Department was asked last year to carry out a critical review in depth of a particular area of its activities. The Department of Health and Social Security examined the arrangements for paying social security benefits, including the frequency of payments and whether an individual should be able to have

/ benefits

DS

benefits paid direct into his bank account if he wishes. This review was not simply concerned with saving money. It considered whether social security payment arrangements reflected conditions in today's society (bearing in mind other comparable payment methods) and whether the taxpayer was getting the best possible value for the £250 million of his money that goes each year on making some 1000 million individual social security payments. As a result, Ministers are considering a number of proposals that would provide wider public choice and better value for money for the taxpayer.

I want to see the arrangements for paying social security benefits striking the right balance between the claims of beneficiaries and taxpayers. The review has taken account of a number of key facts. The overwhelming proportion of benefit payments are made weekly although about two-fifths of the working population - including 50 per cent of working women - and most occupational pensioners are paid monthly. Over 90 per cent of the unemployed are paid their unemployment benefit and the associated supplementary benefit fortnightly; and over a half of mothers already cash their child benefit fortnightly or less frequently. At present, benefits cannot be paid direct into a bank account or other account although about half the population use a current bank account and about three-quarters use some form of account. In the other EEC countries (except Ireland) and North America, retirement pensions, family benefits and most other social security benefits are paid monthly or even less frequently. Taking all this into account, it is well worth considering possible changes which could offer an efficient

and much less expensive service.

At the same time, I want to assure you that we will take full account of the view of those who would be affected and of the possible effect of any changes on sub-Post Offices. I recognise that some people will need to continue with weekly payment of benefits across Post Office counters. I do not wish to oblige anyone to have benefits paid directly into a bank account. But it does not seem right for the Government to continue to impose the present method and frequency of payment on everybody, when there are growing numbers of people who are used to being paid monthly through a bank account, and to budgeting on a monthly basis, and who would prefer to receive their social security benefits in a similar way.

Ministers are still considering these ideas. Any changes will be implemented only after the most careful consideration and consultation with all those who would be affected. The Government will take account of your Federation's views in reaching decisions.

I hope you will regard this letter as a reply not only to the letter which you sent me but to those sent to other members of the Government.

Yours sincerely  
Margaret Thatcher

Norman Taylor, Esq.

*cc Mr Pattison*



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-~~230 5412~~ 233 8224

11 February 1980

G J Otton Esq CB  
Department of Health & Social Security  
Alexander Fleming House  
Elephant & Castle  
London SE1

*Dear Otton,*

Miss D Mills

Thank you for your letter of 6 February. I know that Derek Rayner looks forward to your paper on the problems of social security local offices in London on which, as you know, he is very conscious of the problems for both managers and managed. It would be greatly helpful if the paper were able to exemplify both problems and response by reference to such particular offices as those in Hoxton and Westminster.

*Yours sincerely,*

*C. Priestley*  
C PRIESTLEY



1. Miss Sullivan

Please add to list.

2. Sir Derek Rayner *Dr*

**DEPARTMENT OF HEALTH & SOCIAL SECURITY**

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522 ext 6618

From the Second Permanent Secretary

To see.

4

7.11.80

C Priestley Esq  
Cabinet Office  
70 Whitehall  
LONDON  
SW1A 2AS

6 February 1980

Dear Priestley,

MISS DEBORAH MILLS

Pat Nairne has passed me your letter of 4 February. You have certainly given Miss Mills the full treatment!

We have already promised to let Derek Rayner have a full account of our problems in our London offices, arising out of points he made on his visit to Hoxton. I will have Miss Mills' points looked at in that connection. It may be that they can best be dealt with in the wider reply - though I recognise your need to let No 10 have a specific reaction to Miss Mills' letter.

Yours sincerely,

(G J OTTON)



NOTE FOR THE FILE

*Gart - Madunony*  
cc for information

THE RAYNER PROJECT: DHSS

✓ Mr Pattison  
✓ Mr Laughrin  
✓ Sir Derek Rayner  
Mr Crawley  
Mr Russell  
Mr Allen

*MA 18/1*

1. Mr Warner rang me to say that the SS/Social Services had discussed the report on the payment of social security benefits with officials on 14 January. He had accepted officials' advice on a few "quibbles", but had decided that he would accept the main recommendations of the report for fortnightly payment of most benefits, monthly payment of some and optional payment by direct credit into bank and other accounts. He intended to press on with all due speed.

2. Mr Warner suggested that at Sir DR's meeting with Mr Jenkin on 24 January, he should press for the speedy settlement of Post Office issues and for an early date for the publication of an edited version of the report. He thought that, certainly on the latter point, Sir DR would find himself pushing at an open door.

*CP*  
C PRIESTLEY  
17 January 1980

CONFIDENTIAL

✓ MP

Original on  
Scrutiny: Pt 3  
GOVT MACH

PRIME MINISTER

EFFICIENCY AND WASTE IN CENTRAL GOVERNMENT: THE SCRUTINY PROGRAMME

In accordance with our decision at Cabinet on 4 November, I enclose details of three studies proposed by the Department of Employment Group for inclusion in the scrutiny programme. The studies are as follows:

For DE (jointly with DHSS)

A study of whether the organisation and methods by which unemployment benefit and supplementary benefit for unemployed people are delivered can be made more effective.

For MSC

Control of Expenditure by the Manpower Services Commission on various forms of energy (heating, lighting, motive power and transport).

For HSE

A study of the ways of estimating the costs and benefits of new proposals for health and safety regulations, approved codes of practice, etc.

I am copying this letter to Patrick Jenkin, Reg Prentice (with the first enclosure only), Sir Derek Rayner and Sir Robert Armstrong.

JP

23 November 1979

JOINT DE/DHSS SUBJECT FOR THE RAYNER SCRUTINY PROGRAMME

THE DELIVERY OF BENEFITS TO UNEMPLOYED PEOPLE

(a) Subject

A study of whether the organisation and methods by which unemployment benefit and supplementary benefit for unemployed people are delivered can be made more effective.

(b) Cost of Carrying out the Functions to be Examined

Unemployment benefit is administered by the Unemployment Benefit Service (UBS) of the Department of Employment on an agency basis for DHSS, which has the policy responsibility. The UBS also pays supplementary benefit to unemployed people on behalf of DHSS. In 1978/79 19,500 staff in HQ, ROs and about 1,000 local offices were directly engaged in the work of payment of unemployment and supplementary benefits to unemployed people and another 1,000 or so were employed in support services at a cost in salaries and general administrative expenditure of £73m. In addition some 500 staff were employed in the Employment Service Division of the MSC on the work of registering the unemployed and related work at a cost of £2m. The costs of superannuation and of providing common services to the Department of Employment in support of these functions totalled about £30m and were borne on the Votes of the PMG, PSA, the Rating of Government Property Department, HMSO and the CCA. Over 80 per cent of payments to people claiming unemployment benefits are made by DHSS computers at Reading and Livingston on the basis of data input from DE offices.

Supplementary benefit entitlements are assessed in over 500 DHSS offices by staff who spend about 40 per cent of their time on unemployed claimants. About 14,000 DHSS staff are involved in supplementary benefit administration at Headquarters, regional and local office levels at an anticipated total cost in staff and general administrative overheads of £70m in 1978/79. The costs of superannuation and of providing common services to the staff engaged on these functions totalled about £25m and were borne on the Votes of the PMG, PSA, the Rating of Government Property Department, HMSO and the CCA.

(c) Reasons for Selecting Subject

During 1978 there were 4.3 million claims to NI unemployment benefit; at November 1978 there were 402,000 people receiving this benefit on its own, 90,000 receiving supplementary benefit in addition, and 515,000 unemployed people receiving only supplementary benefit. It is estimated that for the financial year 1978/79 NI unemployment benefit cost £632 million and supplementary benefit for unemployed people cost £666 million. The two systems of benefits are complex and interacting; and organisation within the DE Group has changed radically since 1974. There have been other changes and developments. The proportion of unemployed people receiving supplementary benefit in addition to or instead of NI unemployment benefit has been increasing over the years and is now about 50 per cent. The programme for computerising all payments to claimants receiving benefits while unemployed is now within sight of completion and the payment of the benefits at fortnightly intervals was introduced in September for the great majority of claimants. Ministers will shortly be taking decisions on the taxation of benefits for unemployed people. It would accordingly be timely to review the interaction of the NI unemployment benefit and supplementary benefit systems.

We would expect the scrutiny team to recommend what changes are desirable and practicable in the arrangements for administering unemployment benefit and supplementary benefit for unemployed people - in order to improve both the service to claimants and the cost effectiveness (including control mechanisms) of the system. In carrying out their task the scrutiny team will need to make some assessment of any longer term possibility of reducing the overlap between unemployment benefit and supplementary benefit with a view to simplification. The team will also need to take account of the current discussions on the respective roles of Unemployment Benefit Offices and the local offices of the MSC's Employment Service Division in relation to unemployment benefit claims.

(d) Terms of Reference

To report on whether the organisation and methods by which unemployment benefit and supplementary benefit for unemployed people are delivered can be made more effective.

(e) Proposed Starting and Finishing Dates

End of February - August 1980. Decisions on taxation of short term benefits should be out of the way before the project begins. Because of the scale and complexity of the subject a six-month study is necessary to tackle it thoroughly.

(f) Names of Examining Officers, if known and Reporting Arrangements

The study team would comprise an Assistant Secretary from DE and a Principal from DHSS, with additional supporting staff, probably on a part-time basis, as required. DE is proposing to nominate an able young Assistant Secretary to lead the team, but the name of the Assistant Secretary to be selected will require clearance with the other employers in the DE Group before being put forward. The team would report to Mr Prior (for DE) and to Mr Prentice (for DHSS)

10, DOWNING STREET,  
WHITEHALL S.W.1

Underlings  
are by PM -  
original returned to  
Sir DK's office MAF.  
~~With the Private Secretary's~~  
Compliments

M. A. PATTISON

✓  
Sir Derek Rayner

29.11.79

cc for optional comment

Mr Laughrin (CSD)  
Mr F E R Butler (Tsy, 2 copies)  
Mr Crawley (CPRS)

cc for information

Mr Allen

ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

I attach the report by Messrs Warner, Grimstone and Baker, together with a draft letter to Mr Jenkin. Also attached is a copy of Mr Warner's note on your visit to Hoxton. You might like to begin by reading the draft letter.

2. The report, although on a potentially complex subject, is very readable. The authors are to be congratulated on the energy to which they tackled it. The project is unique in that it was done by a team of three and included some attitudinal research. (This was carried out by Research Surveys of Great Britain Limited at a cost of £6,000 (para. 1.6) and is reported in Annex I. It's findings are based on 585 interviews, 290 with women with dependant children and 295 with adults aged 65 or over.) Like the DHSS project, this one involves interests outside the Department, including some very determined ones and its success depends on how robust Ministers are prepared to be in putting the proposals through. DHSS Ministers are no doubt reasonably determined, as they have included potential savings of £30m in the "future" list in the Lord President's paper of 19 November on the size of the Civil Service.

3. The main text of the report is fairly short. It is well supported by Appendices dealing either with current arrangements or with speculations on the implementation of proposals and their cost/savings consequences.

CURRENT ARRANGEMENTS

4. Part 2 describes and comments on current paying arrangements. It is supported by Appendices II, on International Comparisons and III, Summary of present arrangements for paying benefits. You might like to start with Appendix III on page 52, which sets out the arrangements made to pay 20 plus benefits; these "have developed piecemeal in response to social needs and political pressures" into an "extremely complex and often obscure" system (para. 2.2).

5. You will see the scale of the operation in para. 2.2:

- Numerous benefits being paid to 15 plus million people and dependants involving
  - 1000 million payments pa amounting to
  - £15,000 million plus pa, ie almost 25% of public expenditure and depending on
  - 90,000 DHSS staff (including 550 local offices)
  - 18,000 DE staff (including 1000 UBOs), with
  - an administrative cost totalling £750m pa, of which £250m is spent on paying benefits to customers (para. 2.26), of which
  - about £125m is paid to enable people to cash orders at the Post Office (para. 2.23).

6. You will also see the importance of the payment method and of the Post Office role. Whereas most of the countries listed in Appendix II pay monthly or at longer intervals (para. 2.28) and either by drafts posted to people's homes or by direct credit transfer into a bank or Giro account, or by some combination of these methods (para. 2.25), the UK:

- makes 95% of all social security payments weekly in the form of "instruments" cashable at Post Offices (paras. 2.4 and 2.26)



- makes 99% of payments in the form of order books and Giro cheques cashed at Post Offices (para. 2.19)
- makes crossed payable orders only to some retirement pensioners and some war pensioners (para. 2.16)
- uses direct credit only for officer war pensioners (via the PGO, para. 2.16 and Appendix III, page 54).

7. The result is that just over a third (34%) of all the Post Office counter work is committed to DHSS work (para. 2.19). Most of this DHSS <sup>work</sup> is done in sub-offices (70%), as opposed to main or "Crown" offices. DHSS makes an Agency Agreement with the Post Office, estimated to cost £125m in the current year; of this, about £40m goes on the PO's fixed overheads while the rest reflects actual DHSS work undertaken (para. 2.20). The cost of postage, which is additional, is £33m (Appendix VI, page 63).

#### PROPOSALS

8. Part 3 makes proposals for (a) future payment arrangements and (b) improving ~~the~~ services to customers. The payment proposals incorporate an option for some people to remain on weekly payment (paras. 3.5 and 3.7).

#### Proposals: future payment arrangements

9. These are:

- Paying benefits now paid weekly fortnightly instead, except Child Benefit (see paras. 3.5, 3.6 and 3.9, which cautions against going to monthly payment for all).
- Paying Child Benefit monthly instead of weekly (paras. 3.7 and 3.8).

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- Paying benefits optionally by direct credit to bank and other accounts, four weeks or (in some cases) thirteen weeks in arrears (paras. 3.10 - 3.16).

No  
4  
1  
10. There are, then, two essential proposals. First, to move all beneficiaries onto fortnightly payment, except in certain protected cases. Secondly, to offer all beneficiaries the option of payment by direct credit on not less than a monthly footing (para. 3.13).

11. These proposals would impact more on Child Benefit and retirement pensions but could also be introduced for other categories (para. 3.17):

- Fortnightly: widows' benefit, war pensions and disability benefits.
- Monthly: family income supplements, Child Benefit increase, guardian's allowance and child special allowance.

12. Change for smaller benefits (maternity allowance and widows' allowance) would depend on the implementation, possibly by 1986, of the scheme for computerising local office payments work (CAMELOT, paras. 2.15 and 3.17).

13. No change is suggested for sickness, injury and unemployment benefits (para. 3.17). The last of these is already paid fortnightly as the result of a reform just introduced by DE (para. 2.5 and Appendix IV). (Appendix IV is a note on DE's experience in moving to fortnightly payment, including the pilot study, paras. 3 and 4. A material factor in making fortnightly payment acceptable was obviously that <sup>that</sup> it saved the claimant weekly attendance and it is noticeable by the end of the pilot study as many as 93% of the participants were being paid fortnightly, para. 4. Incidentally, in his options for

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future action to reduce the size of the Civil Service, the SS/Employment includes withdrawing the residual option for weekly payment of unemployment benefits.)

Proposals: improving services to clients

14. The team considered whether things could be done more efficiently for DHSS and its clients (para. 3.20 et seq), using some of the money saved by the recommendations noted above. They recommend:

| Item  | Cost (approx) | Saving (approx)   |
|---|---------------|---|
| Beneficiaries should have a statement showing how their benefit is calculated, para. 3.21                                       | £0.5m pa      | -   |
| Programme of improvements in the quality of Social Security documents going to the public, para. 3.22                           | £0.25m pa     | -   |
| Experimental provision of essential information and advice in local offices, para. 3.23   | £0.25m pa     | -   |
| Order books should be sent direct to most people's homes, para. 3.25  | -             | £2.5m in Post Office costs  |
| Standardise notes at the back of order books to assist computer sorting by geographical area, para. 3.26                        | -             | £0.5m - £0.78m pa   |
| Standardise duration of order books:<br>Child Benefit, 48 weeks, para. 3.28<br>and other benefits, 20 weeks, para. 3.27         | -             | Child Benefit<br>£1.2m pa,<br>including 115<br>posts; others<br>£1.3m pa, including<br>25 posts |
| Greater use of combined order books and Giro cheques for paying people with more than one benefit, para. 3.29                   | £1m start-up  | £2.8m pa  |
| The upper limits on individual payments made by order books ("foil limits") should be increased to realistic levels, para. 3.30 | -             | £2m pa, including<br>60 posts   |

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| Item  | Cost (approx) | Saving (approx)                            |
|---|---------------|--|
| The standard method of paying nearly all beneficiaries living abroad should be through a branch in the UK of a bank chosen by them, para. 3.31  | -             | £0.5m, including a "small saving of staff" |
| DHSS Giro cheques for supplementary benefits should be cashable only at a nominated Post Office; the limit at which evidence of identity is required should be raised from £30 to £50, para. 3.32 | -             | £0.8m                                      |

BALANCE OF COSTS AND SAVINGS

15. The proposals involve costs as well as savings. The financial consequences are calculated in Appendix VII and are summarised in paras. 3.18, 3.19, 3.33 and 4.11. They settle down at an annual saving of £50m in 1987-88, but this includes a net addition of 350 posts, ie 530 new permanent posts minus 180 saved posts.

16. The main features are set out below (cf Table 3.1 on page 24 and Table VII.1 and pages 66 - 69). It is important to take on board the working assumptions at the top of page 25 about the balance between monthly direct credit, fortnightly and weekly payment.

Child Benefit

17. I have derived the working assumptions here from para. 3.18 and page 52. They should be compared with attitudinal evidence on payment by credit transfer and frequency on pages 46 - 48, by which they have obviously been influenced (perhaps too much so).

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| No of recipients                    | 7.2m | %    | Attitudinal evidence (page 47)   |
|-------------------------------------|------|------|--|
| To be paid by monthly direct credit | 2.0m | 27.8 | On a free choice, 20% of the women sampled would prefer 4-weekly credit transfer and 73% 2-weekly order book. If the Government opened a special bank account, the preferences would change to 39% and 57% respectively (with 4% "don't know") |
| To be paid by monthly order book    | 4.8m | 66.6 |  |
| To be paid by weekly order book     | 0.4m | 5.6  |  |

18. Annual net savings start at £1.4m in 1980-81 and reach £12.9m in 1987-88.

19. The costs are as follows:

Reprogramming and systems work, £0.6m, 1980/81 - 1982/3.  
Staffing start-up costs: an extra 120 staff (apparently temporarily), £1m, 1981/82 - 1983/84.

Staffing maintenance costs: an extra 460 staff (apparently permanent), £15.4m, 1981/2 - 1987/88 (and continuing).

Non-staff start-up and maintenance: £0.7m, 1981/2 and 1982/3.

Financial controls: £7.1m, 1982/3 - 1987/88.

*have a rate of £2.7m pa)*

Retirement pensioners

20. The working assumptions here are as follows (para.3.18 and page 52). They too should be compared with the attitudinal data on pages 47-48.

| No of recipients                     | 8.9m | %    | Attitudinal evidence (page 47)  |
|--------------------------------------|------|------|---|
| To be paid by monthly direct credit  | 1.0m | 11.4 | On a free choice, 9% of the pensioners sampled would prefer 4-weekly credit and 87% 2-weekly order books (with 4% "don't know"). If the Government opened a special bank account, the preference would change to 15% and 78% respectively (with 7% "don't know"). |
| To be paid by fortnightly order book | 6.2m | 69.6 |   |
| To be paid by weekly order book      | 1.7m | 19.1 |   |

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21. Net annual savings are estimated to reach £22.7m in 1987/88.

22. Additional costs are calculated as follows:

Reprogramming and systems work: £0.6m, 1980/1 - 1982/3.

Staffing start-up: an extra 50 staff (apparently temporarily), £0.6m, 1981/82 - 1983/4.

Staffing maintenance costs: an extra 70 staff (apparently permanent), £2.2m, 1982/83 - 1987/88 (and continuing).

Non-staff start-up and maintenance: £0.3m, 1981/82.

Financial controls: £3.8m, 1982/83 - 1987/88.

First-year benefit cost: £69m, 1982/83 - 1983/84.

*at the rate of £0.4m pa*

23. Explanatory notes on these items are given at 4 - 7 and 11 on pages 66 and 68 of the report.

Other benefits

24. These achieve net annual savings rising from £1.5m in 1981/82 to £17.5m in 1986/87 and dropping thereafter. They include a net saving of some 180 posts. There is additional expenditure of £10m in 1981/82 - 1983/84, attributable to the suggested acceleration of computerised payment by local offices, now at the pilot stage although it is suggested that this should be paid for out of the savings identified above (para. 3.34).

Implementation and action plan

25. Part 4 of the report is a schema, which appears well ordered, for the rest of the current financial year and then each year up to 1984/85.

COMMENTARY AND RECOMMENDATION

26. Your interest seems to be reasonably well served by this project which has taken a radical look at a system which "can produce inefficiencies and be confusing to customers and

staff alike" (para. 2.2). Although your response should not be uncritical, especially in relation to the treatment of evidence in Appendix I and of staff costs, I suggest that you should endorse the proposals made. The attached letter to Mr Jenkin does this, with certain reservations.

27. Always assuming that DHSS Ministers are willing to support, and they seem to be, the success of the proposals depends on their acceptability to public opinion; the banks; the Post Office; the staff associations; and Ministers collectively.

Public opinion

28. There is a large selling job to be done here. There are two critical factors, frequency of payment and its method. Over nine in ten manual workers are paid more often than monthly and there has been only the slightest tendency towards monthly payment for such workers over this decade (Table 2.1, page 7). However, the report asserts that many people manage their money "without receiving and spending it weekly". Certainly about 90% of unemployed people - a highly vulnerable group - seem to manage with fortnightly payment of their benefit (para. 3.2). And special arrangements could be made for poor families (ibid). See also paragraphs 3.4 - 3.8.

29. One point you may wish to consider here is whether the arguments against going straight to monthly payment of all benefits briefly set out in paragraph 3.9 are convincing. The first argument is one of public acceptability, the second extra public expenditure in the year of change-over to 4-weekly payment; the latter is set at £2m (para. 3.19), for which off-setting administrative savings would be modest. Both arguments are very briefly stated. If the present opportunity is missed it could be ten years or more before the bigger jump was possible (para. 3.9.).

07  
30. On method, the report notes that although about half the adult population uses a cheque account and about three-quarters a cheque or some other form of account, it cannot have benefit directly credited under existing arrangements (paras. 2.26 and 3.10). It says however that it would be inappropriate for people to be compelled to use this method (paras. 3.11) and the market research shows a marked difference between women with dependant children and pensioners in their attitude to it. Whereas 40% of the former opposed direct credit, 74% of the latter do (page 46).

31. There is I suspect an element of wishful thinking in the treatment of the public response in para. 3.10. By contrast, Appendix I shows that the Post Office is named by 80% of the women sampled and 84% of the pensioners sampled as their first choice as "easy to get to" and 82% and 80% respectively as having "convenient working hours" (page 42). The fact is that the Post Office is more familiar and more accessible to many DHSS customers than the banks and one can easily imagine the support which the sub-offices on the street corner and in the villages would attract.

The banks

32. There is, apparently, no important difficulty about technical feasibility (para. 3.12).

33. The authors have little doubt about commercial viability, provided that there is a selective approach under which money is paid into accounts "on not less than a 4-weekly basis" and the facility is restricted initially at least to benefits other than unemployment, sickness and supplementary benefit (paras. 3.13). This is an important time qualification, which should be read in conjunction with the references to public acceptability above; it does not affect the Child Benefit proposal, but it does bear on certain other benefits, notably retirement pension,



and has been taken into account in calculating the viable mixture of payment types in para. 3.18.

The Post Office

34. The Post Office is a "monopoly supplier of encashment services to most DHSS customers" (para. 3.36). The proposals would reduce DHSS work in Post Offices by some 60% within two or three years. The Agency Agreement between DHSS and the Post Office would continue and its safeguards (para. 2.21) "should ensure that Post Office operations could adjust smoothly to the changes we have proposed" (para. 3.37). The authors hope that the Post Office would find other work, eg from the Department of Transport or in respect of "energy stamps" (paragraph 3.37), but it does not suggest that the Post Office's network should be slimmed down, unless local communities are willing to pay towards keeping their sub-office (para. 3.38). This is not very tactful. They also suggest, more helpfully, that DHSS might "make enhanced payments to rural sub-offices" (paras. 3.37 and 3.38), on the principle of paying for specific services rather than "appearing to subsidise an excessively large Crown Post Office network with its large overheads" (para. 3.39).

35. We know from copy correspondence that there has been discussion between the team and the Department of Industry, which "sponsors" the Post Office. (We also know that the Chairman of the Post Office is very indignant about the proposals.) The Post Office estimates an annual loss of revenue of £60m pa, half of which might be absorbed by reducing costs (an interesting reaction) and half recouped by increasing charges to the remaining users of counter services. The Post Office expects a marked and serious impact on its smallest sub-offices, nearly 14% of which would be very much at risk (3,000:21,500), and its Crown offices, where up to 4,000 jobs might be lost. It would not expect to be able to negotiate a total saving with its unions and sub-Postmasters, which would mean extra charges for

\* See attached cutting from today's Telegraph.

others, including the Department for National Savings and the Giro. Nor would it expect to get enough business from elsewhere to compensate for that lost on DHSS's switching to the banks. We have here, therefore, a most interesting example of the interdependency of public sector bodies which, unless one is determined, can put a drag on reform and leave the taxpayer pulling an unnecessarily heavy load.

36. The present DHSS position to accept the need for discussion with the Treasury, Industry and perhaps the Post Office on the effect of a big reduction in DHSS demand for counter services and for discussion with the Post Office on the question of payment to it for the new level of services sought.

37. Reading between the lines, one can perceive DHSS irritation with the Post Office, but there is obviously going to be much solid opposition to its proposals and much support for the Post Office, within the Government and beyond. It will be interesting to see how people line up on this one.

The staff associations

38. The DHSS associations, notably CPSA, ought to benefit from simplification of work and may not object to new proposals which involve a net increase to the payroll, but you will see that DE's CPSA disagreed with fortnightly payment on unemployment benefit (para. 5 on page 56). Both the CPSA and SCPS nationally are opposing two DHSS computer schemes, Data Link and CAMELOT, unless they get an agreement that technological change means no loss of jobs.

39. The general mood of the DHSS staff side is noted in para. 4.1. It does not look promising. There may therefore be an interesting struggle for the soul of the staff themselves between the staff side and management. One thing we should have to be on the lookout for is the premature offer by management of extra posts as a sweetener.

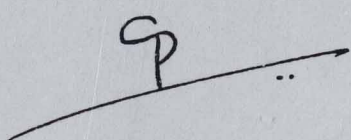
The central Ministers

40. The Treasury will no doubt want to offer you advice on the implications for them, which relate to "shrinkage" (para.3.14), overall financial viability (para. 3.18 and Appendix VII) and the cost of first-year arrangements for retirement pensions in 1982/83 and 1983/84, an increase of £44m and £15m respectively.

41. Similarly, <sup>for</sup> the CSD may want to comment on the cost of the proposals/increased staff (see para. 3.15). The estimates of staff saving (180 posts, para. 3.33) and staff cost (550 posts) are admittedly by and large; it is unfortunate that a reform possibly netting £50m by 1987/88 involves such an increase and as the calculations are not set out in any detail (Appendix VII, page 66) it is difficult to know what to make of them. You will not want to give them your blessing yet.

Next step

42. I attach a draft letter to Mr Jenkin.

  
C. PRIESTLEY  
22 November 1979

Encs: Draft report  
Draft letter to Mrs Chalker  
Note on visit to Hoxton  
Daily Telegraph cutting

PS Because of Sir William Barlow's intervention you should write to Mr Jenkin early next week. I should therefore value comments by close of play on 26 November if possible, especially on the draft letter.



for  
Social Services  
file

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Department of Health and Social Security

RAYNER PROJECT

**ARRANGEMENTS**  
**FOR PAYING**  
**SOCIAL SECURITY**  
**BENEFITS**

REPORT BY PROJECT TEAM

# CONFIDENTIAL

Department of Health and Social Security

Rayner Project

ARRANGEMENTS FOR PAYING SOCIAL SECURITY BENEFITS

Report by Project Team

Project Team: A H Baker  
G E Grimstone  
N R Warner

October 1979

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## PART 1

### THE PROJECT: ITS CONDUCT AND SUMMARY OF RECOMMENDATIONS

1.1 Terms of reference. We were asked to review the arrangements for paying all social security benefits and to consider the scope for greater efficiency in the methods and frequency of paying benefits including the choice of dates from and on which benefits are paid. Our remit was not just to find ways of saving money but to consider if things could be done more efficiently from the point of view of both the Department and its customers. The rules governing entitlement to benefit and the arrangements for assessing entitlement were outside our terms of reference.

1.2 Approach. We have tried to be reasonably comprehensive in our coverage of payment arrangements. However in a 3-month study we could not delve into every aspect of the arrangements for paying over 30 social security benefits and we have not hesitated to discard ideas that seemed unpromising after initial appraisal. We have concentrated on asking:

- Why is work being done as it is?
- Could arrangements be made simpler and more efficient?
- Have arrangements changed with time to reflect conditions in today's society?

A fundamental aim has been to consider future payment arrangements from the standpoint "If we were starting from scratch now what systems would we devise?"

1.3 Method. We have had a wide range of helpful discussions.

- Within DHSS we have spoken to colleagues at all levels in several local offices, the 2 Central Offices at Newcastle and North Fylde, the Reading Computer Centre for paying benefits and to the Under Secretaries and their staff in social security policy, operational and finance divisions.
- In Department of Employment we have had help from the policy staff concerned with payment of unemployment benefit and the staff in the Unemployment Benefit Office that we visited.



- We have had informal discussions with people working for organizations representing consumers and representatives of banks, National Giro, the Post Office and the Inter-Bank Research Organization.
- We commissioned market research by Research Surveys of Great Britain Limited using a representative sample of 300 mothers with dependent children and 300 elderly people in order to find out more about public attitudes to possible changes. This is summarised in Appendix I which also explains the basis on which the sample was chosen and the confidence limits applying to the survey estimates. Broadly speaking the 95% confidence limits surrounding estimates based on the total sample vary between  $\pm 9\%$  on an estimate of 50% down to  $\pm 5\%$  for estimates of 90% or 10%.
- We have had full access to Departmental papers and relevant reports including that of the joint working party between DHSS and banking representatives on paying by direct credit into bank accounts; the report of the Post Office Review Committee ("Carter Committee") and the National Consumer Council's Report on the Social Service Brief of the Post Office.
- We obtained information on the arrangements for paying benefit in other countries and this is summarised in Appendix II.

1.4 Staff Interests. We informed the Departmental Staff Side of the project at the outset and they accepted our suggestion of a discussion. A helpful exchange of views took place and the Staff Side were invited to let us have any further ideas that they might wish to provide. All social security staff were informed of the project and where to send views; and we received nearly 50 letters suggesting changes. We made ourselves available to Staff Side representatives on our visits to local and central offices.

1.5 Involvement of senior management. The Parliamentary Secretary for Social Security (Mrs Chalker), the 2nd Permanent Secretary and other senior officers were kept informed of our thinking as it developed. We discussed our conclusions with Mrs Chalker and the 2nd Permanent Secretary before finalising our draft report.

1.6 Cost of project. We estimate this to be:

|   |         |
|---|---------|
| Salaries of project team and support staff: | £15,000 |
| Travelling and subsistence:                 | £ 500   |
| Market research:                            | £ 6,000 |
| Time of people consulted:                   | £ 1,500 |
|   | <hr/>   |
| Estimated total cost                        | £23,000 |
|   | <hr/>   |

1.7 Main conclusions and recommendations.

- Apart from child benefit all social security benefits now paid weekly should be paid fortnightly except for people at present aged 80 or over, those on supplementary benefit or family income supplement who wish to be paid weekly, or where medical statements do not allow it.
- Child benefit should be paid 4-weekly except for those on supplementary benefit and family income supplement who wish to be paid weekly.
- Recipients of most social security benefits should be able to have them paid direct into bank accounts.
- Order books should be sent direct to most people's home addresses.
- The duration of computer-produced order books should be standardised at 20 weeks (except for child benefit and some other minor benefits).
- Child benefit order books should last for 48 weeks and contain foils without cash denominations.
- There should be greater use of combined order books and girocheques for paying people with more than one benefit.
- DHSS girocheques for supplementary benefits should be cashable only at a nominated post office and evidence of identity should be required when girocheques exceed £50.

- The standard method for paying nearly all overseas beneficiaries should be through a branch in this country of a bank of the beneficiaries' choice.
- Notes at the back of computer-produced order books should be standardised and the books should be sorted by computer into geographical areas.
- The upper limits on individual payments made by order books ("foil limits") should be increased to realistic levels and reviewed each year.
- The period for implementing nationally the DHSS local office computer system should be reduced from 4 to 2 years, assuming the pilot study is successful.
- All beneficiaries should be given a statement showing the calculation of their benefit.
- Pilot studies should be mounted to evaluate new ways of providing the public with essential advice and information about social security and there should be a programme for improving the quality of social security documents that go to the public.

The financial effect of our recommendations is to save eventually about £50 million a year. DHSS staff will need to increase by about 350. The major changes could be implemented by June 1983 and should involve no net increases in public expenditure in any one financial year.

## PART 2

### THE PRESENT ARRANGEMENTS FOR PAYING BENEFITS: A DESCRIPTION AND COMMENTARY

#### The scale and nature of social security operations

##### 2.1 Social security in the United Kingdom is big business:

- Over 30 benefits are being paid at any one time to over 15 million people and their dependants.
- Over £15,000 million - almost a quarter of public expenditure - is spent on 1,000 million or so social security payments each year.
- The cost of administration is about £750 million a year.
- DHSS has nearly 90,000 staff working on social security in Headquarters, 2 Central Offices, 12 Regional Offices and nearly 550 local offices, and there are 18,000 staff working on unemployment benefit for the Department of Employment in nearly 1000 Unemployment Benefit Offices and elsewhere.
- There are 4 major computer installations including one at Newcastle which is the largest in Europe.

Appendix III summarises the present arrangements for paying benefits, including their administrative costs.

2.2 The social security system is extremely complex and often obscure. The labyrinthine qualities of its procedures - recorded in about 100 codes of instructions - can occasionally take on the fascination of a delicate filigree. Benefits have developed piecemeal in response to social needs and political pressures. Often the arrangements for paying individual benefits have had to be devised quickly and within strict staff and accommodation constraints. There has not been time always to pay much attention to how the arrangements for paying a new benefit fitted in with those for existing benefits. From the point of view of individual benefits, payment arrangements can appear sensible and efficient; but their combined effect can produce inefficiencies and be confusing to customers and staff alike.

2.3 DHSS fully recognises the need for greater efficiency and during the last 2 years has established a study of the future strategy for social security operations. There has been an attempt to look at administrative arrangements for benefits as a whole rather than individually. We have

adopted a similar approach and sought to examine payment arrangements with a view to combining administrative simplicity and efficiency with public understanding and acceptability. This is in line with the Government's commitment, given in the Queen's Speech, to simplify the operations of the social security system. The rest of Part 2 outlines the main features of payment arrangements and looks at the role of banks and the Post Office before turning to the cost of different payment methods and the experience of other countries.

#### Frequency of payment

2.4 Social security legislation allows the Secretary of State for Social Services to specify in regulations the frequency and method of paying the benefits to which people are entitled. There is no requirement in primary legislation that benefits should be paid weekly but in practice the overwhelming majority are. Indeed about 95% of all social security payment instruments are cashable weekly. However, a beneficiary does not have to cash a payment instrument weekly. Our market research indicates that only 45% of mothers cash their child benefit weekly and 33% cash it four-weekly or less often. About 15% of retirement pensioners with order books choose to cash their pension less often than weekly. This pattern is consistent with DHSS information on encashment patterns.

2.5 The major exceptions to weekly payment are mobility allowance which is paid four-weekly; officers' war pensions which are paid monthly or quarterly; payments made to beneficiaries overseas; and unemployment benefit. Unemployment benefit has recently been changed from weekly to fortnightly payment for about 90% of its recipients: Appendix IV outlines the experience of Department of Employment in making this change. Retirement pensioners (and some war pensioners) have an option to be paid either weekly, four-weekly, or quarterly but about 92% choose weekly. The incapacity benefits - sickness, injury and invalidity benefits - are normally paid weekly but probably about 20% of the payments of these benefits are made fortnightly at the discretion of DHSS local offices when the medical certificate permits it.

2.6 Historically, social security payments have followed the general practice of paying wages weekly and the organisation of household budgets on a similar basis. However employers have been moving away from weekly

payment and about two-fifths of people in work are paid monthly: Table 2.1 gives further details from the New Earnings Survey. About four-fifths of the 3 million or so occupational pensioners are now paid monthly. The majority of people pay for their electricity and gas on the basis of quarterly bills. Many large authorities now collect rents on a fortnightly basis; and mortgages are usually paid monthly.

Table 2.1

Percentage of employees paid monthly

|                         | <u>% paid monthly</u> |             |
|-------------------------|-----------------------|-------------|
|                         | <u>1970</u>           | <u>1978</u> |
| Manual men              | 7                     | 8           |
| Non-manual men          | 73                    | 81          |
| All men (21 and over)   | 29                    | 37          |
| Manual women            | 6                     | 8           |
| Non-manual women        | 53                    | 68          |
| All women (18 and over) | 35                    | 50          |

Periods covered by payments

2.7 The entitlement to which the weekly payment of social security relates is determined in a variety of different ways. For example, entitlement to child benefit depends on the position at midnight on the Sunday before the payday; and entitlement to retirement pension usually commences on the first Thursday on or after retirement. The position is complicated further by the fact that although nearly all benefits are paid in advance, some are paid in arrears. For example weekly incapacity payments are made in arrears; fortnightly unemployment benefit is paid one week in advance and one week in arrears; and mobility allowance is paid three weeks in arrears and one week in advance. A further complication arises from the fact that some benefits are paid on particular days of the week (see Appendix III) while for others the payday may be determined by surname or National Insurance number.

2.8 Although these arrangements do not affect the method of payment they can be very confusing for the public to understand where, as is not uncommon, 2 or more benefits are in payment. They can also be difficult for staff to understand and apply correctly. There is a particular problem with supplementary benefit where the amount to be paid depends on the amount of

other benefits payable for a specific period. This overlap can mean difficult calculations and sometimes wrong payments. Appendix V explains in more detail the difficulties that can arise from the different periods of coverage for unemployment, sickness and supplementary benefit; and recommends further study by DHSS and Department of Employment.

#### Methods of Payment

2.9 Payments are generally made either by order books, girocheques, or payable orders. Longer-term benefits are usually paid by order book which account for about 91% of all payments. Order books consist of a number of individual "foils" which must be cashed at a specified post office. Most order books - 53 million a year - are prepared by computer but a significant number - over 9 million a year - are produced in local offices by over stamping books. A few -  $\frac{1}{4}$  million a year - are preprinted by HMSO. The period covered by order books varies from 12 to 52 weeks depending on the benefit and the method of production. Most people have separate order books for each benefit they receive - and sometimes more than one book for the same benefit. A person can have four or even more order books to cash each week at a post office.

2.10 DHSS tries to limit the extent of its financial liability in cases of fraud and abuse by placing limits on the upper value of the foils in order books. There are different limits for different benefits but, there have been no regular arrangements for raising the limits in line with benefit increases. Failure to set these limits at reasonable levels can lead to a substantial number of beneficiaries receiving more than one order book for each benefit, the second often for very small amounts. It is estimated that about two-thirds (1.3 million) of the people being paid supplementary benefit by order book will have to be issued with two books so that they can get the new benefit rates from November 1979.

2.11 Girocheques account for about 8% of all social security payments and about 110 million are issued each year. (This will now fall to about 87 million with the introduction of fortnightly payment of unemployment benefit from September 1979). Sickness and unemployment benefit are paid by girocheque as are those supplementary allowance cases where payment is not expected to last long enough to make it worth issuing an order book. Most unemployment benefit girocheques are produced centrally by computer, but girocheques produced in local offices are either prepared manually or with the assistance of an automated typewriter. Once issued, girocheques can be cashed at a post office or paid into a bank account. There are also

arrangements for reducing the risk of fraud and abuse by nominating the post office at which a girocheque can be cashed and this is done routinely for unemployment benefit. Crossed girocheques are issued for large sums of benefit - £100 and over (£150 for unemployment benefit) - and these must be paid into a bank account.

2.12 About 1% of payments are made by payable order issued from DHSS Central Offices or from the Paymaster General's office. Payable orders resemble crossed cheques and must be paid through a bank account.

2.13 Some benefit payments are sent overseas and nearly all of these go to retirement pensioners (about 220,000) and war pensioners (about 20,000). Retirement pensions are paid to beneficiaries in over 150 different countries, although the great majority (over 70%) reside in Australia, Irish Republic, Canada, New Zealand or America. The methods of payment are complex and variable: they include 4-weekly payable order sent to the beneficiary's private address (the main arrangement), payment by overseas agents, and payable orders and schedules sent to banks.

2.14 DHSS issues payments from its two Central Offices or local offices, unless the claimant is unemployed when payments are issued by the two unemployment benefit computer centres (at Reading and Livingston) or by Department of Employment local offices. Girocheques and payable orders are normally sent to the beneficiaries' home address. Order books are sent to home addresses in some instances but are sent mainly to post offices for later collection by beneficiaries. Practices vary from benefit to benefit: order books for 1.7 million supplementary pensioners are sent to their homes while 6.7 million retirement pensioners have to collect theirs from a post office.

#### Uprating of benefits

2.15 The revised rates of benefit are usually announced in the Budget and implemented from November. This means adjusting the rates shown in people's order books and this task is most economically done when the book is being renewed. The period taken to do the uprating is constrained by the length of the longest order book in common use which at present is the 26-week supplementary pension order book produced manually in DHSS local offices. DHSS hopes to reduce the length of this as part of its computerisation of local office payments work. A pilot project is due to start in 1980 using



an area computer network linked to local offices in order to pay benefits calculated locally (CAMELOT). The pilot project should be completed by April 1982 and if it is successful, national implementation should follow after 4 years. When fully implemented the CAMELOT system should reduce the cost of uprating and making local office payments by about £5 million a year.

#### The role of the banks

2.16 At present the banks play only a small role in the payment of benefits. About 700,000 (8%) retirement pensioners in this country and about 22,000 war pensioners are paid by crossed payable order, which they pay into a bank (or similar) account. This method is available only to retirement and war pensioners; and only war pensioners can have the order sent to their bank for direct credit to their account.

2.17 This minor role for banks contrasts with the fact that about half the adult population uses a current bank or National Giro account and over three-quarters uses one of these or some other account such as a deposit or a building society account. Table 2.2 illustrates from our market research the extent to which different groups of people use bank and other accounts.

Table 2.2

#### Proportion of population using bank and other accounts

| <u>Type of Account</u>                         | <u>Age Group</u> |              |              |                | <u>Mothers</u> | <u>Pensioners</u> |
|--|------------------|--------------|--------------|----------------|----------------|-------------------|
|  | <u>16-34</u>     | <u>35-44</u> | <u>45-54</u> | <u>over 55</u> |                |                   |
| Current bank or<br>National Giro account       | 48%              | 61%          | 57%          | 41%            | 53%            | 29%               |
| Any account excluding<br>National Savings Bank | 73%              | 76%          | 75%          | 67%            | 72%            | 55%               |

2.18 Payment into bank and other accounts by automated transfer of funds using computer-generated magnetic tapes is a growing area of banking business. At present, nearly 400 million transactions a year are cleared through Bankers' Automated Clearing Services (BACS) - a jointly-owned central bank clearing house. For several years there has been interest in the possibility of automatically crediting social security benefits into the bank and other accounts of customers. In 1976 a joint working party of DHSS officials and

representatives of the Inter-Bank Research Organisation (IBRO), BACS, and National Giro was set up to consider the possibility. Its reports in 1977 and 1978 concluded that there were no insuperable obstacles to paying benefits by this method; that it would be a cheaper method of doing so, although extra staff would be needed; and that detailed planning should be undertaken with a view to offering this payment method to the public. The reports have shown that payment by direct credit is technically feasible providing the start-up costs of this payment method can be found and there are adequate financial controls.

#### The role of the Post Office

2.19 The Post Office plays a major role in the payment of social security benefits. 99% of payments are made by order books and girocheques cashed at post offices. About 52% of all post office counter time is taken up with agency work for the Government and two-thirds of this time goes on DHSS work. DHSS paid the Post Office £95 million in 1977-78 for the counter work it did on paying benefits - apart from postal costs - and in the current year the amount is likely to be about £125 million. About 30% of post office counter transactions for DHSS are handled in Crown post offices and the remaining 70% take place in sub-post offices.

2.20 The Post Office is paid for agency work on a cost-sharing basis. The amount of time spent handling agency work plus a share of overheads is calculated by the Post Office in accordance with the Agency Services Agreement which is a Government-wide document agreed by the Treasury. Under the Agreement those participating are charged a fixed annual fee, payable in quarterly instalments, based on estimates of the number and value of transactions and the average time per transaction. The annual charges by the Post Office also reflect estimates of the price and wage increases expected to take place during the year. Adjustments are made in a subsequent year when full details of actual costs and the number of transactions are available. In practice about a third of the money paid to the Post Office - about £40 million a year - goes towards fixed overheads and the rest reflects the amount of DHSS business undertaken. The Post Office is funded some days in advance of benefits actually being paid out but the arrangements are not the same for all benefits.

2.21 In the short term it is difficult for the Post Office to adjust the capacity of its counter time at Crown and sub-offices to respond to variations in the level of business. Under the Agency Services Agreement

the Post Office is protected from minor variations in the levels of agency business by a number of smoothing devices in the calculation of agency charges. This has the disadvantage that it takes several years - usually about 5 - for variations in the amount of work performed for a customer department to be fully reflected in the charges met by that department. Even after five years the Post Office fixed costs can mean that any reduction in charges falls far short of the reduction suggested by the lower level of business transacted. Under the current Agreement (which runs until 1982) the maximum saving available to DHSS for reducing its business would be about two-thirds of the Post Office charge for that business even if nearly all the work was withdrawn. In the event of a major change in the level of business the Post Office may under the terms of the Agreement make a case for special transitional arrangements: this happened with the withdrawal of the sale of most National Insurance stamps from 1975 onwards. The Agreement would have to be renegotiated for DHSS to obtain savings on more advantageous terms.

2.22 Between 1971-72 and 1978-79 Post Office charges for cashing pension order books increased by about 350% from about 4p to 16p per foil while prices generally have risen by about 150% during the same period. A small proportion of this increase was due to a substantial rise in the handling charge made by the banks (including National Giro) for the provision of cash.

#### Cost of administration

2.23 This year the cost of social security administration (excluding collecting insurance contribution) is likely to be about £750 million. (It was £620 million in 1977/78 and has gone up by about 20% since then). Between 1970/71 and 1977/78 administrative costs increased from 4.2% to 4.7% as a proportion of the total cost of benefits paid. About one-third of these administrative costs goes on actually paying the benefits but for retirement pensions and child benefit the proportion is over a half. Almost two-thirds of the money spent on paying benefits goes to the Post Office to meet encashment charges - the greater proportion - and postal costs. Taxpayers are now paying about £125 million a year to enable people to cash social security payment instruments at post office counters. They would pay virtually nothing if all these payments were made direct to bank accounts because individuals would meet any costs of drawing cash through their bank charges: most clearing bank and National Giro customers pay no charges.

2.24 The costs of different payment methods vary as Table 2.3 shows.

Table 2.3

Estimated average cost of main payment methods (at July 1978)

|               | <u>Cost per payment</u>  |                            |
|---------------|--------------------------|----------------------------|
|               | <u>Computer produced</u> | <u>Clerically produced</u> |
| Order book    | 19p                      | 34p                        |
| Girocheque    | 51p                      | 58p                        |
| Payable order | 47p                      | 62p                        |

Thus the annual cost of making payments weekly by order book is about £10: of this figure about £9 is paid to the Post Office for encashment and postal charges. The annual cost of making payments four-weekly by credit transfer would be considerably less than this. The banking system would charge about 25p a year: we estimate that DHSS costs would be about £1.75 (mainly on staff) making a total of about £2 a year. Appendix VI gives details of the administrative costs for the main benefits and of the costs of different payment methods.

Payment in other countries

2.25 Appendix II summarises the position in other EEC countries, Australia, New Zealand, Canada and the USA. UK and the Irish Republic are the only countries to pay most of their benefits weekly by order book. Most other countries either pay by drafts posted to beneficiaries' homes, or by direct transfer into a bank or Giro account, or by a combination of these two methods. Apart from Ireland all other EEC countries, USA and Canada pay retirement pensions and family benefits monthly, or in a few cases, at even longer intervals. Australia and New Zealand pay the majority of their benefits fortnightly although Australia pays family benefits monthly. New Zealand has recently moved away from order books and makes extensive use of payment by direct credit to bank accounts. Their ultimate aim is to have direct credit as the main payment method and, as a step towards this, it is the only method available to new applicants for family benefits.

## Conclusions

2.26 DHSS is spending about £250 million a year on actually paying benefits to customers. 95% of the payments are made weekly by use of payment instruments encashable through post offices. These arrangements are out of step with the sizeable proportion of the population now paid monthly and using bank and other accounts. The present arrangements for paying benefits offer considerable scope for greater efficiency, cheaper administration and wider public choice - although the last two considerations can pull in opposite directions. Future payment arrangements should have greater regard to six key factors that stand out from a critical appraisal of the present arrangements:

- The overwhelming proportion of benefit payments - 95% - are made weekly despite the fact that about two-fifths of the working population - including 50% of working women - and most occupational pensioners are paid monthly.
- In the other EEC countries and North America, retirement pensions, family benefits and most other social security benefits are paid monthly or even less frequently.
- The Department of Employment's experience in paying unemployment benefit fortnightly and our market research suggest that moving away from weekly payment of social security benefits would be acceptable to a significant proportion of the population.
- Direct credit of benefit into bank, National Giro or other accounts every 4 weeks would be considerably less expensive to the taxpayer than the cheapest of the existing 4-weekly or weekly payment arrangements.
- The public cannot have its benefit credited direct into a bank or other account at present despite the fact that about half the adult population uses a cheque account and about three-quarters uses a cheque or some other form of account.
- There would be better public understanding and cheaper, simpler administration if there was greater consistency in the rules and procedures governing payment of benefit.

### PART 3

## PROPOSALS FOR FUTURE PAYMENT ARRANGEMENTS AND IMPROVING SERVICE TO CUSTOMERS

### General approach

3.1 As we said at the beginning a major question is "if we were starting from scratch now what systems would we devise?". In today's society the answer is unlikely to be a system in which 95% of payments are made weekly through post offices. More regard would be had to the substantial proportion of the population who already use the services of banks and National Giro, and who are used to organising their household budgets and being paid on other than a weekly basis. The Department of Employment's experience with fortnightly payment of unemployment and supplementary benefit and our market research strongly support the view that a great many people would accept benefits being paid less frequently than weekly. Moreover our market research and a DHSS enquiry of mothers show that many people would actually prefer to have benefits paid into bank accounts even if this meant waiting longer for their money. The United Kingdom is the odd one out among the Western industrial democracies in the way social security benefits are paid. The reasons for this that have been put to us include weekly payment of wages; the public's reluctance to accept change; hardship for those on low incomes who need weekly payment; and difficulties for the Post Office network of greater use of banks. We are not convinced by these reasons.

3.2 It is true that large numbers of people are paid weekly in cash but public attitudes change as Table 2.1 shows. Banks and employers have encouraged a move away from weekly payments in cash over the last few years and this trend is continuing. Some low-income households - particularly those living at the supplementary benefit level - would have difficulty in budgeting on other than a weekly basis. However they are a minority of all households and special arrangements could be made for them. This is certainly not a convincing reason for paying benefits weekly to the large numbers of people who handle money competently in other spheres of their lives without receiving and spending it weekly. Certainly about 90% of unemployed people - a highly vulnerable group - seem to manage with fortnightly payment of their benefits. A move towards payment through banks would have implications for the Post Office but the difficulties are manageable as paragraphs 3.36 to 3.39 indicate.

3.3 The time has come to move to a cheaper and more efficient way of paying benefits that would be at least as acceptable to most of the public as the present arrangements and for some people would be more attractive. The social security system should be made more comprehensible to its customers. We recommend therefore changes for the immediate future in 4 main areas:

- Paying less frequently nearly all the benefits currently paid weekly but with safeguards for those least able to cope
- Enabling the public to have benefits paid direct into a bank, National Giro or other account
- Improvements in the information made available to customers
- Simpler and more consistent administrative procedures for paying benefit.

Fortnightly payment of benefit

3.4 The facts in support of paying benefits fortnightly rather than weekly largely speak for themselves:

- When unemployment benefit (and the associated supplementary benefit) was changed to fortnightly payment only about 10% of the unemployed needed to have their benefit paid weekly. This was despite the fact that nearly 60% of the unemployed receive supplementary benefit. However there was the incentive of fortnightly rather than weekly attendance at unemployment benefit offices and savings in travelling expenses.
- People in the other EEC countries (apart from Ireland) and in North America cope with the monthly payment of retirement pensions, family benefits and most other social security benefits.
- Many people receiving social security benefits are used to being paid income other than on a weekly basis and the numbers are increasing. For example fourfifths of the 3 million occupational

pensioners are paid monthly; and two-fifths of the working population are paid monthly.

- Nearly 80% of mothers and nearly 60% of pensioners have said that they would find it "very easy" or "fairly easy" to manage if their child benefit or retirement pension was paid fortnightly.
- Sickness benefit is already paid fortnightly in 20% of cases; mobility allowance is paid 4-weekly; about 750,000 retirement and war pensioners are paid monthly or less frequently.

These facts suggest to us that paying fortnightly those benefits currently paid weekly should be possible providing that there are safeguards for those least able to cope. Indeed we think it would be possible to pay child benefit even less frequently in most cases (see paragraphs 3.7 and 3.8).

3.5 A shift to fortnightly payment may cause difficulties for some people living on low incomes and for the very old who can find it difficult to adapt to changes of this kind. These problems could be dealt with by allowing all recipients of supplementary benefit and any existing pensioners over 80 to choose weekly payment of all the social security benefits they receive: those on family income supplement should also be able to receive child benefit weekly. We would not assume that these groups could not cope with fortnightly payment of benefit - the choice should be theirs. However we doubt if other people could be given the choice of weekly payment without making the social security system more complicated and costly. It would also cause operational difficulties if people kept switching from fortnightly to weekly payment of benefit after they had made their initial claim and we would hope that people would be encouraged not to change without compelling reasons.

3.6 The transition from weekly to fortnightly payments should not become an administrative nightmare and incomprehensible to the public. A smooth transition could be achieved by:

- Ensuring that the cash flow for people receiving pensions is maintained and that at the point of changeover those receiving benefits which are their main source of income (eg pensions) do not have to wait an extra week for their benefit (see Appendix VII, paragraphs 8 and 9).



- Paying all fortnightly benefits at the mid-point in the period - one week in advance and one week in arrears.
- National and individual publicity in the period before the change.
- Asking those with low incomes well in advance whether they want to continue with weekly payment of benefits.
- No alteration of frequency for those benefits currently paid four-weekly or less frequently.
- Full consultation with staff and other interests.

We discuss in Part 4 and Appendix VII the arrangements for switching to fortnightly payment of benefits.

Payment of Child Benefit every 4 weeks

3.7 Child benefit has been excluded from our proposals on fortnightly payment of benefit because there is a strong case for moving this benefit direct to 4-weekly payment in most cases. Our market research shows that:

- 55% of mothers already cash their child benefit fortnightly or less frequently while a third cash it every 4 weeks or less often.
- About half the mothers said they saved their child benefit for bills or special purchases.
- Nearly 70% of the mothers said that they would find it very easy or fairly easy to manage if the benefit was paid 4-weekly.

This suggests to us that there is a substantial public readiness to accept 4-weekly payment of child benefit (presumably because it is not the major component of families' incomes except for large families with low incomes). We recommend therefore that child benefit should be paid 4-weekly - 3 weeks in arrears, 1 in advance. However those mothers in households also receiving supplementary benefit or family income supplement should be able to continue with weekly payment of their child benefit if they wish. As with other benefits, we hope that people would be discouraged from changing their initial choice of 4-weekly or weekly payment without good reasons. Because

child benefit (unlike pensions) is not a major source of households' incomes, we do not think any special arrangements would be needed at the time when the frequency of payment is changed. This will mean mothers waiting 4 weeks for their benefit (see Appendix VII, paragraph 8).

3.8 There will be some who argue that we are rushing things and that child benefit should follow the pattern of other benefits and be moved to fortnightly payment. We think that the case for paying child benefit 4-weekly is even stronger when seen in the context of paying benefits direct into bank accounts (see the next section). We acknowledge that there will be some families without the option of weekly payment who will be inconvenienced by our proposals. However we do not consider that it is worth increasing administrative costs, causing public uncertainty, or discouraging the move to payment into bank accounts, by offering fortnightly payment of child benefit as well. In paying benefits, a balance has to be struck between public choice and the cost of providing that choice. We think that the right balance to strike is not offering fortnightly as well as weekly and 4-weekly payment of child benefit. We consider however that the public would find it confusing and unsatisfactory if the change to 4-weekly payment of child benefit was not phased in at the time that payment direct into bank accounts became available and our action plan allows for this (see Part 4). If 4-weekly payment of child benefit was thought to inconvenience excessively identifiable groups of vulnerable people not covered by our option of weekly payment it would probably be better to extend the coverage of that option than pay child benefit fortnightly.

#### Conclusion on reduced frequency of paying benefits

3.9 If paying benefits weekly is unnecessary for most people then devoting effort to doing so is wasteful and inefficient. Although less frequent payment might cause some inconvenience to some beneficiaries we doubt if this is likely to be significant for the overwhelming majority, with the safeguards and transitional arrangements we have suggested. We have considered the more radical possibility of moving straight from weekly to 4-weekly or monthly payment of all benefits. We concluded however that such a change might be regarded by the public as too dramatic for some benefits, especially pensions, and could cause difficulties of adjustment for some households. It might be possible to counter any

public objections to such a change by paying benefits in advance at the point of changeover but this would mean increasing public expenditure by some £200 millions in the year of the changeover (see paragraph 3.19). Countervailing savings in administrative expenditure would be modest. Such a course would be inconsistent with the Government's economic policy. It might be possible to pay new beneficiaries 4-weekly but leaving existing beneficiaries on a weekly or fortnightly basis. This would however cause severe administrative complications and the resulting inequities would be difficult to justify especially with regard to pensioners. We consider that paying all benefits monthly or 4-weekly will have to await the 1990s and the outcome of the DHSS operations strategy study.

#### Paying benefits by direct credit to bank and other accounts

3.10 Not all people would want to have their benefits paid direct into a bank account. However there is considerable evidence to suggest that this payment method would be preferred by many members of the public and would be cheaper for DHSS.

- Our market research shows that about 40% of mothers would definitely or probably agree to the payment of child benefit by direct credit to bank accounts if this method was available and another 20% might agree. The comparable figure for pensioners and payment of retirement pensions are over 15% and nearly 10%.
- A 1979 DHSS survey of 4000 mothers asked them if they would like their child benefit paid direct into their bank account 4 weeks in arrears. 37% of the mothers said they would: there was no significant difference according to whether the family had one, two, three or four or more children but a slightly higher proportion - 40% - of mothers who had only recently had the benefit said they would prefer this payment method.
- 700,000 retirement pensioners and about 22,000 war pensioners are at present paid 4-weekly or less often by payable order which must be paid into a bank.
- Paying benefit direct into a bank account at 4-weekly intervals would cost DHSS about £2 a year compared with the £7-£10 a year it costs now to pay benefits weekly by computer-produced order books.

- About 50% of the adult population (and about 60% of those aged 35-55) uses a cheque account; and about 75% uses a cheque account or some other form of account such as a building society account. (If the National Savings Bank is included, about 80% of the population uses an account.)
- DHSS receives continued representations to pay benefits into bank accounts.

Direct credit of social security payments into bank accounts looks like an idea whose time has come, although a number of aspects need to be considered.

3.11 Public acceptance. The evidence already cited strongly suggests that there is substantial public demand for this payment method. It would seem unreasonable not to provide it if it is cost-effective to do so. However, it would be inappropriate for people to be compelled to use this payment method. In the future new beneficiaries might have to accept payment by credit transfer but this will only be possible to decide in the light of experience.

3.12 Technical feasibility. The work of the joint working party of DHSS officials and representatives of the Inter-Bank Research Organisation (see paragraph 2.18) has shown that there are no significant technical difficulties about using the BACS system for paying social security benefits into individual accounts. No significant modifications would be necessary to present procedures but any financial institutions wishing to offer this facility to beneficiaries would have to participate in the BACS system. The BACS system should be able to cope with the load arising from crediting social security benefits to existing account holders.

3.13 Commercial viability. We have little doubt that the banks and National Giro would find it commercially attractive to have some social security benefits paid into personal accounts. But commercial financial organisations would not want to see arrangements which encouraged social security benefits to enter and leave customers' accounts virtually simultaneously. They would also want to be sure that their branches could cope with the extra people likely to visit them without excessive queues developing - particularly important for elderly or disabled people. Although the increased use of

cash dispensing machines helps in the latter respect, these factors - together with problems of computer system capacity - make the direct crediting of social security payments weekly or even fortnightly, a doubtful proposition for the banks. This points to paying money into accounts on not less than a 4-weekly basis and not extending the facility, at least initially, to the higher risk area of short-term benefits (ie unemployment, sickness and supplementary benefit). We believe that the banking sector would be willing to work in partnership with DHSS in developing a direct credit system on this basis, explaining it to the public and encouraging people to use it. They may also be willing in some cases to offer attractive financial arrangements to encourage people to open accounts to receive certain social security benefits. The banks are apprehensive about a substantial number of new accounts being opened by people who will not maintain reasonable balances in them but they may become less concerned in the future once they have experience of a direct credit system in operation.

3.14 Control of public funds. Direct crediting of benefits into bank accounts will reduce the risk of loss, theft, manipulation and forgery of order books. Together with a reduction in the frequency of payments it will help DHSS to combat fraud and abuse. For example, by reducing the number of order book foils in circulation it should make it possible to undertake financial reconciliations on a scale that might reveal irregularities at an earlier stage. However without adequate safeguards direct credit might make a successful prosecution more difficult to achieve; and could lead to more overpayments of benefit because it is said to be less likely than order books to prompt people to tell DHSS of changes in circumstances. DHSS will therefore need to have arrangements - which may require extra staff - for minimising the risk of overpayments, for recovering them where necessary and for maintaining its capacity to deal with fraud and abuse. We do not think that the problems are insoluble. For example it should be possible, in consultation with the banking sector, to designate the type of payment made on bank statements: this helps with proving that the person knew they received it and would serve as effective a reminder as an order book. DHSS is already seeking legal powers to recover automatically any overpayments made as a result of a direct credit payment method; and payment by direct credit would be made completely in arrears. The banks may well be willing to consider how their procedures could be adapted to minimise the risk of overpayments. It may also be

possible to carry out more intensive checks among groups where there is a higher risk of overpayment or abuse if payment is made by direct credit.

3.15 Staffing costs. Although the Government intends cutting the size of the Civil Service, paying by direct credit may require more civil servants. The extra cost is more than offset by savings in encashment charges. It is difficult to estimate precisely the number of extra staff required at the two DHSS central offices because there is no previous experience of this type of work and some work may be redistributed from DHSS local offices to the central offices. Following our discussions with DHSS management, about 200 extra staff would seem to be the best estimate that can be made of the increase required to launch a system of paying by direct credit. These staff would then be available to maintain the system once in operation. As implementation progresses, further additions will be needed, up to a net total of perhaps 550 in all. In practice the number of extra people needed may well be less than this and a correct figure will be revealed eventually by independent review. The financial viability of paying by direct credit is not put at risk even with 550 extra staff. Some of our minor recommendations (see paragraph 3.24 - 3.33) will reduce staff and will help offset any increase necessary to pay by credit transfer.

3.16 We recommend that payment by direct credit should be introduced as an option as soon as the necessary systems work is completed. The normal frequency of payment should be four weeks in arrears (monthly for war pensioners) although for retirement, widows, and war pensions there should be the added choice of payment 13 weeks in arrears. Paying war and retirement pension by payable order should be completely phased-out and replaced by direct credit at the same frequency.

#### Benefits other than retirement pension and child benefit

3.17 Our proposed changes in the method and frequency of paying benefits will have their greatest impact on retirement pensions and child benefit. However worthwhile improvements in efficiency and extra administrative savings would result from paying other benefits less frequently and introducing a direct credit option where it is likely that beneficiaries would welcome this. Widows benefit, war pensions and the disability

benefits (except mobility allowance which is already paid 4-weekly) could be treated in a similar way to retirement pensions. Family income supplement, child benefit increase, guardian's allowance and child special allowance could follow the pattern of child benefit. We appreciate that it may be more efficient to have variations in practice for some of the smaller benefits such as family income supplement. After national implementation of the CAMELOT project (see paragraph 2.15) it should be possible to pay maternity allowance and widows allowance less frequently, as it should be for supplementary benefit where a person is not receiving it with another benefit. We would not suggest any change in the present arrangements for paying sickness, injury and unemployment benefit. Medical certification constrain changes in the payment of invalidity benefit but where there is long-standing incapacity, payment could be made fortnightly by order book.

Cost implications of proposals on frequency and direct credit

3.18 It is easier to consider together the cost implications of these major changes in the frequency and method of paying benefits. Appendix VII sets out our detailed calculations: child benefit and retirement pension - the two major benefits - are costed fully and a broad estimate is made of the savings realisable from other benefits. We have had to make a number of judgements which may turn out to be incorrect in practice but we have erred on the side of caution. There is no doubt that our overall package is financially viable. Table 3.1 summarises the financial effect of our proposals on direct credit and frequency in the case of retirement pension and child benefit: it should be read in conjunction with Appendix VII and paragraphs 3.36-3.39.

Table 3.1

Financial effects of reducing frequency and paying by direct credit

|                    | £ million at 1979 PESC prices |               |               |               |               |               |
|--------------------|-------------------------------|---------------|---------------|---------------|---------------|---------------|
|                    | <u>1980-1</u>                 | <u>1981-2</u> | <u>1982-3</u> | <u>1983-4</u> | <u>1984-5</u> | <u>1987-8</u> |
| Child Benefit      | -1.4                          | -5            | -35.4         | -6.5          | -3.9          | -12.9         |
| Retirement Pension | 0.1                           | -1            | 38.3          | 5.5           | -11.7         | -22.7         |
| TOTAL              | -1.3                          | -6            | 2.9           | -1.0          | -15.6         | -35.6         |

Table 3.1 assumes that:

- 2 million child benefit recipients and 1 million retirement pensioners will be paid by direct credit (including 0.3 million pensioners who switch from order books and 0.7 million transferred from payable orders)
- 1.7 million retirement pensioners and 0.4 million child benefit recipients will continue to be paid weekly by order book (eg all supplementary pensioners and two-thirds of those families on supplementary benefit or family income supplement)
- Pensioners being paid two-weekly will not have to wait for their money when two-weekly payments are introduced
- There will be a gap of four weeks before the first 4-weekly payment of child benefit is made

3.19 Any extension of the transitional arrangements we propose would alter the public expenditure profile of the transition (which at present is virtually self-financing). It would be possible to allow groups other than those on supplementary benefit and family income supplement to opt out of less frequent payment but only at the expense of administrative complication and lower overall savings. Changing the frequency of payment of child benefit and retirement pension and introducing payment by direct credit should in due course produce savings of about £35 million a year. To pay retirement pension 4-weekly rather than 2-weekly would mean an additional public expenditure cost of about £200 million at the point of transition (assuming cash flow is maintained). There would be additional savings of about £7 million a year in post office encashment charges but no additional benefit savings unless new pensioners were made to wait longer than two weeks for their retirement pension.

#### Improving services to customers

3.20 Our remit was to see if things could be done more efficiently from the point of view of DHSS and its customers rather than simply finding ways to save money. Paying benefits through bank accounts undoubtedly improves the service and choice for many DHSS customers. There are also other improvements that could be made in the way DHSS deals with the public over social security. These improvements would be cost effective in the longer



term and their small initial cost could be found from the savings we have identified.

3.21 Payslips. Beneficiaries should be treated like people in employment and given a statement or "payslip" explaining briefly the basis on which they have been paid. Statements of this kind would improve efficiency by encouraging greater accuracy amongst staff and by discouraging appeals (which are expensive to handle) from people simply seeking information. Most people receiving contributory benefits already receive such a statement although sometimes the documents are difficult to understand. People receiving supplementary benefit do not get a statement although they can obtain written explanations on request; but work is in progress preparing a payslip following the recent review of the supplementary benefit scheme. If cost is a problem some of the savings we have identified should be used to finance the automatic issue of "payslips" to people when they first receive supplementary benefit or their benefit is changed. We suggest that DHSS should spend up to another £ $\frac{1}{2}$  million a year to provide "payslips" to people not receiving them at present and to improve the wording and design of these documents.

3.22 Leaflets, forms, notices. In recent years DHSS has greatly simplified its leaflets and improved their layout - sometimes using outsiders to help it improve the quality of forms and notices sent to the public. We consider that this work should be extended to all social security documents the public have to use - forms they have to complete, standard letters and notices they have to read and the notes and instructions printed in order books. We would like to see the use of independent experts in communications and design and a willingness to spend a little extra money (eg by using two-tone printing) to improve the quality of DHSS documents. This is likely to be cost effective because of greater public understanding and acceptance of the social security system, fewer complaints, fewer difficulties for local staff and improved staff morale. Tatty official documents only breed public dissatisfaction and lack of pride in their work by staff. £ $\frac{1}{4}$  million a year should be set aside from the savings we have identified for a programme of improvements in the quality of social security documents going to the public.

3.23 Advice and information. People find it difficult to obtain advice and information about social security and staff have to spend time dealing with customer misunderstandings. There have been a number of attempts in recent years to find ways to improve the provision of advice and information in local offices but more needs to be done. Better written communications would go some way to improve this situation but misunderstandings are unlikely to be reduced without careful study and analysis of the different types of advice and information that the public is seeking. It might, for example, be beneficial to have a freephone service, or use Prestel systems or employ high-grade staff on enquiry points in DHSS local offices. We would suggest that as part of the DHSS Operations Strategy Study 2 or 3 experiments should be mounted in local offices over the next 2 or 3 years to test in a controlled and measured way different methods of providing essential information and advice to see which is the most efficient and cost-effective. To mount these experiments we suggest that £ $\frac{1}{4}$  million a year should be set aside for 3 years from the savings we have identified.

Improvements in administrative practices for paying benefit

3.24 There is scope for simplification and greater consistency in the administrative procedures and practices for paying benefit. Our proposals for achieving greater efficiency are discussed in detail in Appendix VIII but our conclusions are outlined below.

3.25 Sending order books direct to home addresses. At present some people receive their order books by post but others have to collect them from post offices which is more expensive for DHSS. We recommend that in future all books are posted direct to people's homes except where this would mean an unacceptably high risk of the book being lost. This would save about £2.5 million a year in Post Office costs.

3.26 Computer sorting of order books into geographical areas. If - as seems possible - there was a greater degree of standardisation of the notes in the back of order books, computer-produced order books could be sorted automatically into postal areas. This would speed the delivery of books, help the Post Office, and should save DHSS about £0.4 million a year in postal charges. If the notes were halved in size the saving could be increased to £ $\frac{3}{4}$  million a year.

3.27 Duration of order books (except child benefit). Computer-produced order books vary in length from 12-18 weeks but most were due to be standardised at 18 weeks next year. If our proposals on the frequency of payment are accepted, it would be sensible to standardise on a common length of 20 weeks except for child benefit. This should save about £1.3 million a year in postal charges and administration costs, including a staff saving of about 25 posts.

3.28 Duration of child benefit order books. With the present simple rates the foils in child benefit order books could say "pay one child benefit" rather than "pay £4", and for an extra charge the Post Office could work out how much to pay. Upratings would be carried out by instructing the Post Office to pay higher rates from a given date and books could be issued that lasted for 48 weeks. This would save about £1.2 million a year after allowing for extra Post Office costs (including a DHSS staff saving of 115 posts); and would ease current operational difficulties. However this change would rule out policy options such as age-related child benefit which depend on the foils showing the amount of benefit to be paid.

3.29 Combined payments. A combined payment for a person receiving more than one benefit means that only one order book needs to be issued. DHSS has carried out a study into the combination of supplementary benefit with sickness and other benefits and we recommend implementation of its findings. This would produce savings of about £2.8 million a year in encashment and administration costs and in the avoidance of duplicate payments, although there would be a start-up cost of £1 million. There are only a restricted number of other combinations possible (for example retirement and war pensions) but these should be investigated to see whether there is scope for further savings.

3.30 Limits on the value of foils in order books. All foil limits should be reviewed each year to bring them up-to-date with expected increases in benefits and with the objective of avoiding the issue of more than one order book for each benefit. If this happened there could well be administrative savings of about £2 million a year, including a staff saving of about 60 posts.

3.31 Paying beneficiaries who live overseas. A variety of arrangements exist for paying beneficiaries who live overseas. We think it would be reasonable for each person to be asked to nominate a bank with a branch in the United Kingdom through which payments could be made. This would be a more secure method of payment than at present and could save about £ $\frac{1}{2}$  million a year in postal charges and administration costs including a small saving in staff.

3.32 Control of girocheque cashing. At present most DHSS girocheques can be cashed at any post office, although Department of Employment requires the unemployed to nominate a post office. We recommend that DHSS girocheques for supplementary benefit should be cashable only at a nominated post office and evidence of identity for all girocheques should be required only where the girocheque is more than £50 (not £30 as at present). This would save about £0.8 million a year.

3.33 Value of administrative improvements. The administrative improvements set out in Appendix VIII and summarised in paragraphs 3.24 to 3.32 would save DHSS about £12 million a year, including a net staff saving of about 180 posts. This sum includes a small amount for the minor recommendations we make in Appendix VIII for improving the arrangements for paying small amounts of benefit and arrears and making single payments.

#### Local office computers

3.34 By the end of 1982 DHSS should know the results of the pilot project for computerisation of local office payments (see paragraph 2.15). If successful it is planned to introduce these new payment arrangements in all DHSS local offices 4 years later. The period for national implementation could be shortened by at least 1 year by earlier spending of £5 million on hardware and staff resources. Spending £10 million earlier would substantially improve the prospects of shortening the implementation period by 2 years to the end of 1984. For every extra year that the project is implemented nationally DHSS stands to reduce administrative costs by £5 million and the public will receive a better standard of service. We consider that £10 million of the savings we have identified should be spent in the financial years 1982/83 and 1983/84 to complete national

implementation of the CAMELOT project by the end of 1984, assuming the pilot project is successful. This will enable DHSS to save an additional £5 million a year from 1985/86 onwards and provide scope for paying less frequently maternity allowance, widows allowance and supplementary benefit (see paragraph 3.17). The CAMELOT project will free local office staff from the clutches of old-fashioned and unreliable order book printing machines and save them from writing girocheques by hand.

3.35 The point had been made to us that greater use of microprocessors in DHSS local offices would improve efficiency and reduce the drudgery for staff. There has been insufficient time for us to explore this area but, if cost is a problem, we consider that some of the savings we have identified should be used to extend the cost-effective use of microprocessors (or, indeed, other electronic or mechanical aids) that would enable DHSS staff to do a better job.

#### Implications of proposals for the Post Office

3.36 The proposals set out in Part 3 have considerable implications for the Post Office counter services. At present the Post Office is a monopoly supplier of encashment services to most DHSS customers; it maintains a network of post offices larger than it needs for commercial purposes because of its agency business: and, in the terms of the Carter Committee's report, "is clearly being remunerated generously, as we think it should be, for performing the agency services" (paragraph 11.7 (d) on page 89). Our proposals would introduce greater competition between the Post Office and the banks (including National Giro); and they would reduce DHSS transactions over post office counters by about 60% within 2 or 3 years. This could cut DHSS administrative costs by about £50 million in 1987/88 - some £35 million of this representing lower encashment charges. In estimating the realisable savings for DHSS, we have assumed that the Agency Services Agreement will continue as now and that DHSS will realise after 5 years just over 50% of the theoretically possible savings. However, the current Agreement may change so we have tried to identify several key issues that will enter into any wider Government consideration of the Post Office implications of our proposals.

3.37 Impact on Post Office and other users. Paragraph 2.21 explains how the present Agreement protects the Post Office against rapid fluctuations in counter service work. These safeguards should ensure that Post Office operations could adjust smoothly to the changes we have proposed. Unless Post Office overheads are reduced, savings for DHSS mean increased costs for other users and DHSS paying a higher unit cost for its residual transactions. This assumes that the Agreement continues in its present form and that the Post Office is unable to obtain alternative business to plug the gap left by DHSS but both these assumptions may be incorrect. A more sanguine view of the Post Office's capacity to find alternative business can be taken:

- "We think that Section 7(1)(d) of the Post Office Act 1969 unduly restricts the ability of the Post Office to obtain additional agency business which would improve the economics of the counter services. We recommend that this restriction be removed subject to the safeguard that the permission of the Secretary of State be required in respect of each new agency service. We would like to see general powers given to Head Postmasters to seek extra business in their areas within certain limits". (Recommendation 70 of the Carter Committee on page 131 of its report).
- "There is also a good case for allowing the Post Office to act as the agent for other nationalised industries, and the Government intends to introduce legislation to permit this type of agency work to be undertaken by the Post Office." (Paragraph 52 of the 1978 White Paper on the Post Office).
- "We recommend that the Post Office explore means of extending their agency business with nationalised industries, local authorities and other organisations ...." (National Consumer Council Report, September 1979: 'Post Office - Special Agent', page 40.)

Removal of legislative barriers would enable Post Office management to attract new business. There may also be new Government work available. For example there is the possibility of Department of Transport work being undertaken which would replace a significant proportion of the DHSS work lost; and consideration is being given to the sale of energy stamps on behalf of the fuel industries.

3.38 The Post Office network. We have assumed Government sympathy for the idea of competition between commercial organisations like the Post Office and the banks, providing this was fair and the social aspects of Post Office activities are borne in mind. However if the Post Office does not get new business and the Agreement continues in its present form, costs must inevitably rise for other agency users if DHSS realises its savings. The only alternative to this would be for Post Office overheads to be reduced considerably: this effectively means slimming the Post Office network. We are not sufficiently expert to know which parts of the network are the most marginally viable in commercial terms but we are told that it may be the rural sub-post offices. (However the absence of banks in rural areas might mean that rural sub-post offices could compete more effectively in retaining DHSS business than post offices in urban or suburban areas). We understand that there are about 3,500 of the 21,000 or so sub-post offices where the scale payments of about £1,000 a year tilt the balance in favour of commercial viability. It would be perfectly possible to pay a straight subsidy of £1,000 a year to these sub-post offices - costing £3½ million a year in all - and still enable DHSS to realise substantial savings in the way we have proposed. The Government would probably wish to avoid such a subsidy if possible. Local communities could for example be asked to provide a contribution towards the retention of a sub-post office - as they are now being asked to do to retain call boxes. Perhaps more realistically it might be possible to adapt the Agency Services Agreement to make enhanced payments to rural sub-post offices.

3.39 Modifying the Agreement. The Agreement does not determine how the money is shared out between Crown post offices and sub-post offices. The amounts paid to sub-post offices are a matter for separate negotiations between sub-post masters and the Post Office. We think that when the Agreement expires in 1982, thought should be given to paying the Post Office on a different basis so that the charges to customer departments reflects the services provided by different parts of the Post Office organisation. DHSS conducts 70% of its business through sub-post offices and only 30% through Crown post offices; and it might be more appropriate to pay money specifically for the services they provide. This would have the advantage that, where social reasons made this desirable, particular types of sub-post offices could be made commercially viable through enhanced payments. This would enable DHSS to protect sub-post offices needed in the less-populated areas without appearing to subsidize an excessively large Crown post office network with its large overheads.

Conclusion

3.40 We recognise that our proposals will raise difficult issues for the Government and the Post Office. We hope the ideas in paragraphs 3.36-3.39 will be helpful in resolving these difficulties; and at the same time enable DHSS to reduce its administrative costs by the amounts we have identified.



## PART 4

### IMPLEMENTATION AND ACTION PLAN

4.1 So many of our proposals are inter-related that we think they should be implemented as part of a coherent programme. This will need to take account of the operational and financial constraints under which DHSS will be working during the next three or four years. DHSS is still digesting this year's major change of computer systems at Newcastle Central Office and the start of the new pensions scheme. Industrial unrest has caused disruptions of services over the past two years and it would be realistic to assume that difficulties may well continue because of opposition to the Government's policies on reducing the scale of Civil Service activities. During the next three years DHSS social security staff are due to cope with work transferred from Inland Revenue on the taxation of pensions, a modified supplementary benefit scheme, new arrangements for paying sickness benefit and taxation of unemployment benefit. It will be essential therefore to implement our proposals in an orderly way in close consultation with those responsible for the day-to-day functioning of social security operations.

4.2 We have assumed that if Ministers accept our proposals they will want to implement them as quickly as possible and certainly within the lifetime of the Government. Our discussions with those responsible for social security operations lead us to believe that our main proposals could be implemented in full by mid 1983. We describe below an action plan that should meet the needs of staff, the public and management, although its details would require extensive discussion especially with representatives of staff.

4.3 1979-80: The rest of the current financial year would be taken up with:

- Ministerial decisions on contents of package and approximate timescale for implementation;
- Public announcement of main changes to be made and timescale involved;
- Appointment of a project manager to direct DHSS operational planning, to secure agreement to a detailed implementation programme and to supervise implementation over the next 3 years.

- Consultations to be undertaken with DHSS staff interests, banks, other financial institutions and the Post Office.

4.4 1980-81: This year would be concerned with implementing some of our less major proposals and changing systems to cope with reduced frequency of payment and payment by direct credit:

- Carry out systems work necessary to alter both duration of order books and frequency; and to pay benefits by direct credit;
- Implement proposals on sending order books to home addresses; computer post-sorting of order books; foil limits; amalgamating small payments; nominating post offices for supplementary benefit girocheques; girocheque identification limits; child benefit funding arrangements;
- Commence implementation of combined sickness and supplementary benefit payments; and altering payment methods for overseas beneficiaries;
- Carry out study on aligning pay periods for short-term benefits; investigate further combinations of benefit payment;
- Consider improvements in advice and information arrangements, including improving documents sent to beneficiaries.

4.5 1981-82: This year would see the introduction of changes in the frequency of paying benefits and of payment by direct credit. We set out in Table 4.1 below a detailed timetable of the changes for child benefit and retirement pension:

- Introduce payment by direct credit for existing and new recipients of benefits paid by North Fylde Central Office;
- Conclude implementation of combined sickness and supplementary benefit payments;
- Align pay periods for short-term benefits if study proves successful;
- Commence changing duration of order books to 20 weeks (except child benefit);

- At beginning of 1982 commence take-on of existing child benefit beneficiaries (and related benefits) to 4-weekly payment by direct credit or 48-week order book; pay all new beneficiaries similarly;
- At beginning of 1982 commence converting retirement pensioners paid by payable order to payment by direct credit; commence paying new beneficiaries 2-weekly by 20-week order book or 4/13 weekly by direct credit;
- Commence paying overseas beneficiaries through UK-based banks.

4.6 1982-83: This year continues implementation of proposals on reduced frequency and payment by direct credit:

- Commence take-on of existing retirement pensioners (and related benefits) to 4/13 weekly payment by direct credit and 2-weekly by 20-week order book; complete conversion of payable order cases;
- Continue taking on child benefit beneficiaries to 4-weekly payment by direct credit or 48-week order book;
- Commence speeded-up implementation of local office computerisation project (CAMELOT) if pilot successful.

4.7 1983-84: This year completes implementation of proposals on reduced frequency and payment by direct credit:

- Complete take-on of retirement pension and child benefit existing beneficiaries to reduced frequency and payment by direct credit (by June 1983).
- Complete improvements in advice and information arrangements.

4.8 1984-85: This year completes national implementation of local office computerisation project (CAMELOT).

4.9 1987-88: This year is assumed to be the first year in which Post Office encashment savings are fully realised.

TABLE 4.1

| DATE           | CHILD BENEFIT<br>(and related benefits)  | RETIREMENT PENSION<br>(and related benefits)  |
|----------------|--|---|
| September 1981 | Start writing to existing beneficiaries (1/18 each 4 weeks) offering option of being paid from January 1982 (for 1st group) 4-weekly either by direct credit or order book. Explain weekly payment facility. | Start writing to payable order cases saying that from January 1982 payment will be made by direct credit.   |
| January 1982   | DIRECT CREDIT OPTION AVAILABLE   |   |
|                | Commence take-on of existing beneficiaries to 4-weekly payment by direct credit or 48-week order book.<br><br>Commence paying new beneficiaries 4-weekly by direct credit or by 48-week order book.          | Commence conversion of payable order cases to direct credit.<br><br>Commence paying new beneficiaries 2-weekly by 20-week order book or 4/13 weekly by direct credit.   |
| February 1982  | -  | Start writing to existing order book beneficiaries (1/13 every four weeks) offering option of being paid from June 1982 (for 1st group) either 4/13 weekly by direct credit or 2-weekly by order book. Explain weekly payment facility. |
| June 1982      | -  | Complete conversion of most payable order cases to direct credit.<br>Commence take-on of existing order book beneficiaries to either 4/13 weekly payment by direct credit or 2-weekly by 20-week order book.                            |
| June 1983      | End take-on of existing beneficiaries to 4-weekly payment by direct credit or 48-week order book.  | End take-on of existing beneficiaries to 4/13 weekly payment by direct credit or 2-weekly payment by 20-week order book.  |

4.10 It is necessary to change the frequency of the two main benefits - child benefit and retirement pension - at about the same time in order that the public expenditure cost of maintaining pensioners' cash flow at the point of transition can be financed from the savings that result from paying child benefit 4-weekly. We also think it is essential to offer mothers and pensioners the option of having their benefit paid by direct credit at the same time as frequency of payment is altered and order book duration is changed so as to avoid having several upheavals in quick succession. Table 4.1 sets out a timetable for retirement pension, child benefit, and related benefits that meets these objectives and is consistent with the action plan set out above.

4.11 Appendix VII sets out the financial consequences of our recommendations (at 1979 PESC prices). The total effect, together with the staffing consequences, is summarised in Table 4.2 (a minus sign (-) indicates a saving).

Table 4.2

|                                 | 1980-1 | 1981-2 | 1982-3 | 1983-4 | 1984-5  | 1985-6  | 1986-7  | 1987-8  |
|---------------------------------|--------|--------|--------|--------|---------|---------|---------|---------|
| Total financial consequences    | -£1m   | -£7.5m | -£0.5m | -£5.5m | -£28.7m | -£37.2m | -£44.2m | -£50.2m |
| Staffing consequences (numbers) | 20     | 90     | 280    | 370    | 350     | 350     | 350     | 350     |

The financial effect once savings in Post Office encashment charges are fully realised is an annual saving of about £50 million including an increase of 350 in DHSS staff.

SOCIAL SECURITY BENEFIT PAYMENTSSUMMARY OF FINDINGS OF A SURVEY  
AMONG

- I) WOMEN WITH DEPENDENT CHILDREN
- II) ELDERLY PEOPLE

CONDUCTED BY RESEARCH SURVEYS OF GREAT BRITAIN LTD.,  
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A. SURVEY METHODOLOGY

The survey was conducted in 30 locations selected systematically from a national, stratified, list of constituencies. In each constituency, interviewers were given a randomly selected starting address, and thereafter followed a random route according to pre-determined instructions. The interviewers who worked on the survey were fully-trained members of RSGB's regular fieldforce. All interviews were conducted in informants' own homes, and took place between 7th August and 18th August 1979.

A total of 300 interviews were sought in each of two categories:

- 1) Women with dependent children  
(Dependent children were defined as:  
- children aged 0 - 15  
or - children aged 16-18 who were still in full-time education)
- 2) Adults aged 65 or over

Interviewers were entitled to interview anyone within these definitions, encountered in accordance with their random route instructions, subject to the following overall quotas, derived from national statistics:

|                               |   |   |
|-------------------------------|---|---|
| Women with dependent children | : | 50% working full- or part-time<br>50% not working |
| Adults aged 65 or over        | : | 40% men<br>60% women                              |

## CONFIDENCE LIMITS

The chart below gives 95% confidence limits for any percentage shown in the report.

The right hand scale shows sample size and the left hand scale the percentage in question.

To obtain confidence limits lay a straight edge across the chart so that it joins the sample size to the observed percentage. The confidence limits can then be read from the centre scale.

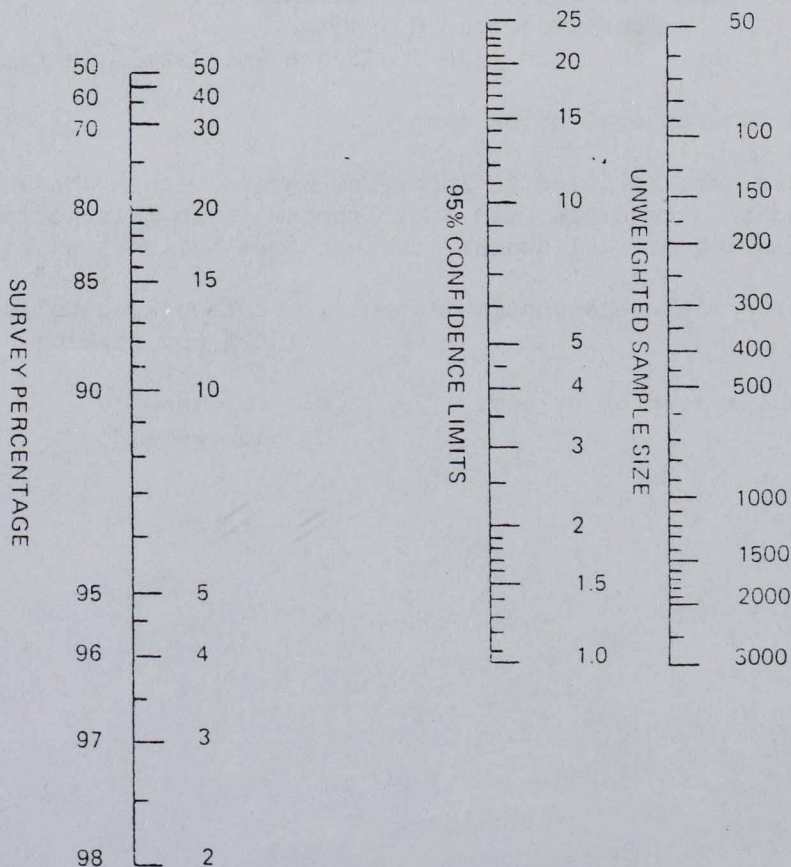
|              |                      |      |
|--------------|----------------------|------|
| For example: | SAMPLE SIZE          | 250  |
|              | PERCENTAGE           | 10%  |
|              | APPROXIMATE INTERVAL | ± 6% |

### Technical Note

The confidence limits given by the chart for a percentage  $p$  on a sample of size  $n$  are given by

$$\pm 1.96 \times 1.5 \times \sqrt{\frac{p(100-p)}{n}}$$

Where 1.96 is the multiple of standard error required for 95% confidence, 1.5 is an estimate of the possible survey design factor, and the latter term is the formula for a simple random sample standard error.



A total of 585 interviews were received in time for processing, made up as follows:

|                       | <u>Women with<br/>dependent children</u> |     | <u>Adults aged<br/>65 or over</u> |         |
|-----------------------|--|-----|-----------------------------------|---------|
| <u>Total</u>          | 290                                      |     | <u>Total</u>                      | 295     |
| <u>Working status</u> |  |     | <u>Sex</u>                        |         |
| Full- or part-time    | 143                                      | 49% | Male                              | 119 40% |
| Not working           | 147                                      | 51% | Female                            | 176 60% |
| <u>Age</u>            |  |     | <u>Age</u>                        |         |
| Under 35              | 157                                      | 54% | 65 - 74                           | 190 64% |
| 35 or over            | 133                                      | 46% | 75 or over                        | 105 36% |

Concurrently, but as a separate exercise, questions were inserted on the regular RSGB 'Omnibus' survey of all adults, to examine the extent of bank account and savings account holding among the population as a whole and among particular age cohorts.

## B. SUMMARY OF PRINCIPAL FINDINGS

### 1. Description of questionnaire content

The questionnaires used for the two groups covered by the survey (women with dependent children, and adults aged 65 or over) were essentially similar: they differed only on points of detail, and in referring as appropriate to either child benefit or retirement pensions.

The areas covered can be described broadly as follows:

- ratings of banks, post offices and building societies on various criteria
- bank account and savings account holdings
- current method of benefit payment and attitudes to payment by Order Book
- attitudes to direct payment by Credit Transfer
- attitudes to various frequencies of payment
- evaluation of specific propositions on methods of payment
- background information about the informants

Detailed computer tabulations were compiled from the completed questionnaires. The results which follow are a brief summary of the principal findings, illustrated with figures drawn from the computer tables.

### 2. Comparison of Banks, Post Offices and Building Societies

Informants were asked to place banks, post offices and building societies in rank order on four criteria:

- being easy to get to
- having helpful and friendly staff
- not having to queue at the counter
- having convenient opening hours



Among both samples as a whole, the mean order of choice, on all four criteria, was:

1. Post Office
2. Bank
3. Building Society

The extent of preference for the Post Office is best illustrated by the proportions naming it as first choice.

PROPORTION GIVING POST OFFICE AS FIRST CHOICE

|                                | <u>Women with<br/>dependent children</u> | <u>Adults aged<br/>65 or over</u> |
|--------------------------------|--|-----------------------------------|
| Easy to get to                 | 80%                                      | 84%                               |
| Helpful and friendly staff     | 49%                                      | 67%                               |
| Not having to queue at counter | 39%                                      | 53%                               |
| Convenient opening hours       | 82%                                      | 80%                               |

The extent of preference for the Post Office is tempered slightly among certain sub-groups. Thus, in particular:

- working mothers are more likely than others to prefer banks for ease of access, friendly and helpful staff, and not having to queue.
- the minority in both samples with previous experience of direct payments by credit transfer are more likely than others to prefer banks for ease of access, and having friendly and helpful staff.
- those with bank accounts and building society accounts are generally more inclined than others to prefer these institutions. For example, those with building society accounts are more likely to appreciate their extended opening hours.

However, only in isolated instances does this mean that the Post Office loses its position as the first choice of these groups of people as a whole, and in no instances does it do so by a statistically significant margin.

3. Possession of Bank Accounts and Savings Accounts

Informants were asked about their holdings of:

- bank accounts with a cheque book
- bank deposit accounts
- Giro accounts
- building society accounts

These accounts were chosen as the main types of account into which payments can be made directly by credit transfer. The overall results are summarised below.

### ACCOUNT HOLDING

|  | <u>Women with<br/>dependent children</u> | <u>Adults aged<br/>65 or over</u> |
|--|--|-----------------------------------|
| Any account (of the types described above) | 72%                                      | 55%                               |
| Any account in own name                    | 39%                                      | 40%                               |
| Any cheque account (inc. Giro)             | 53%                                      | 29%                               |
| Any cheque account in own name             | 23%                                      | 20%                               |

Women with children are thus much more likely to have bank and savings accounts than elderly people, but overall no more likely to have accounts in their own name. However, 46% of elderly people interviewed lived on their own, and almost universally had accounts in their own name. If the women with children are compared only with elderly people in multi-person households, the women with children are shown to be more likely to have accounts in their own name.

Among women with children, those aged 35 or over are slightly more likely to have some form of account (74%, as opposed to 70% among younger women), and to have an account in their own name (43% compared with 36%).

The difference between working women and others is greater than the difference according to age: 78% of working women had an account (others, 66%) and 44% had an account in their own name (others, 34%).

Among elderly people, the oldest were least likely to have an account: 59% of those aged less than 75 had some sort of account, compared with only 49% of those aged 75 or more.

#### 4. Current Method and Frequency of Benefit Payment

Those receiving payment by Order Book were asked about frequency of collection, and ease of getting to the Post Office. Only 3% of women with dependent children, and 5% of adults aged 65 or more, claimed any degree of difficulty in getting to the Post Office.

The frequency with which people normally collect their benefits provides an important indicator to the real extent of change entailed in departing from the present method whereby benefits are available on a weekly basis.

Pensioners are much more inclined than child-benefit recipients to collect their benefit weekly.

### USUAL FREQUENCY OF COLLECTION

|                                    | <u>Women with<br/>dependent children</u><br>% | <u>Adults aged<br/>65 or over</u><br>% |
|------------------------------------|---|--|
| Base: All those paid by Order Book |   |  |
| Once a week                        | 45  | 85                                     |
| Once every 2 weeks                 | 17  | 11                                     |
| Once every 3 weeks                 | 6   | 2                                      |
| Once every 4 weeks                 | 17  | 2                                      |
| Less often                         | 16  | *                                      |

Among women with dependent children, working women were less likely to collect their benefit weekly, only 35% doing so this often, compared with 55% of non-working women.

5. Use of Child Benefit

Women with dependent children were asked which of two statements best described how they used their child benefit. The results were as follows:

- I use it as part of my weekly housekeeping money 47%
- I save it up to pay for bills or special purchases 51%
- (Don't know) 2%

Among those saving their child benefit for special bills, 50% only collected their child benefit every four weeks, or less often.

6. Usefulness of Notes at Back of Order Book

In both samples, four-fifths or more claimed at some stage to have read or looked at the notes in the back of the Order Book. Of these, the great majority had found them useful.

USEFULNESS OF NOTES

| Bases: All those paid<br>by Order Book | <u>Women with<br/>dependent children</u> | <u>Adults aged<br/>65 or over</u> |
|--|--|-----------------------------------|
| Ever read notes                        | 87%                                      | 80%                               |
| Read and found very useful             | 25%                                      | 24%                               |
| Read and found fairly useful           | 46%                                      | 44%                               |

7. Attitudes to Payment by Order Book and Credit Transfer

Informants were asked what they thought were the advantages and disadvantages of payment by Order Book and, later, the advantages and disadvantages of direct payment by credit transfer. Here, the results are presented together to facilitate comparison.

Many of the answers given represented merely an attachment to a particular method, but were features that could be attributed equally to either method rather than genuinely distinguishing between them.

The summary presented here concentrates mainly on the reasons that are of major importance or could be seen as genuinely distinguishing between the two methods.

These were defined as answers relating to the following areas:

- ease of access to the drawing source (including mentions of opening hours)
- frequency of drawing
- ability to save
- absence of a bank account

It should be remembered that, at this stage of the interview, there had been no questions that linked method of payment to frequency of payment. Any mentions of frequency in connection with a given method are related entirely to informants' preconceptions of what the method entails.

The extent of these answers is shown below. Categories not generating any answers at a particular question are not shown.

ADVANTAGES AND DISADVANTAGES

|  | <u>Women with<br/>dependent<br/>children</u> | <u>Adults aged<br/>65 or over</u> |  | <u>Women with<br/>dependent<br/>children</u> | <u>Adults aged<br/>65 or over</u> |
|--|--|-----------------------------------|--|--|-----------------------------------|
| <u>Advantages of<br/>Order Book</u>      | %  | %                                 | <u>Disadvantages<br/>of Order Book</u>         | %  | %                                 |
| Ease of access to<br>drawing source      | 21   | 24                                | Difficult access<br>to drawing source          | 2  | 2                                 |
| Ease of access<br>(inc. "convenient")    | 33   | 32                                |  |  |                                   |
| Ability to save                          | 29   | 1                                 |  |  |                                   |
| Frequency of payment                     | 9  | 13                                |  |  |                                   |
| No advantages                            | 3  | 4                                 | No disadvantages                               | 66   | 80                                |
| <u>Advantages of<br/>Credit Transfer</u> | %  | %                                 | <u>Disadvantages of<br/>Credit Transfer</u>    | %  | %                                 |
| Ease of access to<br>drawing source      | 13   | 6                                 | Difficult access<br>to drawing source          | 34   | 42                                |
| Ease of access<br>(inc. "convenient")    | 13   | 6                                 | Difficult access<br>(inc. "incon-<br>venient") | 39   | 48                                |
| Ability to save                          | 34   | 3                                 | Frequency of<br>payment                        | 25   | 15                                |
|  |  |                                   | Absence of bank<br>account                     | 9  | 7                                 |
| No advantages                            | 48   | 77                                | No disadvantages                               | 1  | 7                                 |

Thus, many people see no advantages to credit transfer and no disadvantages to the Order Book method: this phenomenon is more marked among adults aged 65 or more than among women with dependent children.

Ease of access to the drawing source is the main area of concern - increasing even more if general mentions of convenience are included. Mothers with dependent children are also concerned at the ability to save or accumulate their benefit, but see this as a feature of credit transfer as much as of the Order Book. Both samples also evidenced some concern about the implications for frequency of payment.

8. Reactions to Payment by Credit Transfer

Informants were asked how they would feel about their own benefit being paid by credit transfer.

PAYMENT BY CREDIT TRANSFER

|                                    | <u>Women with</u><br><u>dependent children</u> |     | <u>Adults aged</u><br><u>65 or over</u> |     |
|------------------------------------|--|-----|---|-----|
|                                    | %  |     | %                                       |     |
| Definitely I would agree to it     | 17   | 60% | 7                                       | 25% |
| Probably I would agree to it       | 24   |     | 9                                       |     |
| Maybe I would agree to it          | 19   |     | 9                                       |     |
| Probably I would not agree to it   | 17   | 40% | 19                                      | 74% |
| Definitely I would not agree to it | 24   |     | 55                                      |     |
| (Don't know)                       | -  |     | -                                       |     |

Clearly, women with dependent children are much more amenable to the idea of payment by credit transfer than are adults aged 65 or over.

Among women with dependent children, the following things characterise people with an above-average likelihood to accept credit transfer:

- previous experience of payment by credit transfer
- possession of a cheque book
- currently collecting child benefit less often than once a week
- using child benefit for special bills rather than weekly housekeeping
- working full- or part-time

Among adults aged 65 or more, the following points characterise those with an above-average likelihood to accept credit transfer:

- previous experience of payment by credit transfer
- possession of a cheque book
- currently collecting pension less often than once a week
- male

The main reasons given for not accepting credit transfer were as follows:

REASONS FOR NOT AGREEING TO CREDIT TRANSFER

| Base: Those not agreeing               | <u>Women with</u><br><u>dependent children</u> | <u>Adults aged</u><br><u>65 or over</u> |
|--|--|---|
|  | %  | %                                       |
| Difficult access to drawing source     | 38   | 27                                      |
| Difficult access (inc. "inconvenient") | 55   | 47                                      |
| Frequency of payment                   | 8  | 10                                      |
| Absence of bank account                | 9  | 6                                       |

9. Attitudes to Frequency of Payment

Informants were asked how easy they would find it to manage, if their benefits were paid at various intervals, as shown below.

EASE OF MANAGING ACCORDING TO FREQUENCY OF PAYMENT

|                  | <u>Women with dependent children</u> |                   | <u>Adults aged 65 or over</u> |  |
|------------------|--------------------------------------|-------------------|-------------------------------|--|
|                  | <u>FOUR-WEEKLY</u>                   | <u>TWO-WEEKLY</u> | <u>TWO-WEEKLY</u>             |  |
|                  | %                                    | %                 | %                             |  |
| Very easy        | 32                                   | 46                | 24                            |  |
| Fairly easy      | 36 68%                               | 32 78%            | 34 58%                        |  |
| Fairly difficult | 13                                   | 10                | 18                            |  |
| Very difficult   | 10 31%                               | 6 19%             | 15 41%                        |  |
| Impossible       | 8                                    | 3                 | 8                             |  |
| (Don't know)     | 1                                    | 3                 | 1                             |  |

It is clear that a change in the frequency of payment would be managed less easily by adults aged 65 or over than by women with dependent children: the latter, overall, could manage more easily receiving their benefit four-weekly than the adults aged 65 or more could if receiving theirs fortnightly.

10. Evaluation of Specific Propositions

Informants were asked which of two possible payment methods they would prefer, if they had to choose between them. The alternatives were:

- being paid every two weeks, by an Order Book which you can cash at a Post Office
- being paid every four weeks, with the DHSS paying the money directly into a bank, giro, or building society account.

People choosing the former option were asked if they would change their mind if the Government were to open a special bank account for them. The results are summarised in the following table.

OVERALL PREFERENCE FOR PAYMENT METHODS

|  | <u>Women with dependent children</u> | <u>Adults aged 65 or over</u> |
|--|--------------------------------------|-------------------------------|
|  | %                                    | %                             |
| 2-weekly, by order book                  | 73                                   | 87                            |
| 4-weekly, by credit transfer             | 27                                   | 9                             |
| (Don't know)                             | -                                    | 4                             |
| IF SPECIAL BANK ACCOUNT OPENED FOR THEM: |                                      |                               |
| 2-weekly, by order book                  | 57                                   | 78                            |
| 4-weekly, by credit transfer             | 39                                   | 15                            |
| (Don't know)                             | 4                                    | 7                             |

This may be regarded as the minimum likely level of acceptance of the two alternatives.

For women with dependent children, independent measures were obtained of (a) the acceptability of credit transfer, and (b) the acceptability of four-weekly and two-weekly payment. Combining the results of these two independent questions, it is possible to estimate the proportions who have no objection to either method in principle. For adults aged 65 or over, this is only possible for the combination of credit transfer and two-weekly payment, since this group were not asked their reactions to four-weekly payments per se.

These results may be regarded as indicating the likely upper limits of acceptance of the alternatives in question.

ACCEPTABILITY OF VARIOUS PAYMENT METHODS

|  | <u>Women with<br/>dependent children</u> | <u>Adults aged<br/>65 or over</u> |
|--|--|-----------------------------------|
| Could manage very or fairly easily<br>with <u>two-weekly</u> payments  |  |                                   |
| AND .. would definitely/probably agree<br>to credit transfer           | 38%                                      | 14%                               |
| .. would definitely/probably/maybe<br>agree to credit transfer         | 54%                                      | 20%                               |
| Could manage very or fairly easily<br>with <u>four-weekly</u> payments |  |                                   |
| AND .. would definitely/probably agree<br>to credit transfer           | 34%                                      | Not available                     |
| .. would definitely/probably/maybe<br>agree to credit transfer         | 49%                                      | Not available                     |

11. Background Information About the Samples: Payment Methods

Among women with dependent children, the vast majority (97%) had worked at some stage in their lives even if they did not currently go out to work. Among adults aged 65 or more, only 83% had work experience, owing to a lower level of work experience among the women.

Among those with work experience, their method of payment (in their current or last job) are shown below:

METHOD OF PAYMENT IN CURRENT/LAST JOB

| Base: Those with work experience | <u>Women with<br/>dependent children</u> | <u>Adults aged<br/>65 or over</u> |
|----------------------------------|--|-----------------------------------|
|                                  | %  | %                                 |
| Weekly                           | 69                                       | 82                                |
| Monthly                          | 28                                       | 17                                |
| (Not stated)                     | 2  | 2                                 |
| In cash                          | 58                                       | 82                                |
| By cheque                        | 16                                       | 7                                 |
| Direct into a bank               | 25                                       | 9                                 |
| Other/(not stated)               | 1  | 1                                 |

Among adults aged 65 or over, 37% claimed to have a pension from a former employer. Of these, 11% were paid weekly, 85% monthly, with 5% not answering; and 9% claimed to be paid in cash, 41% by cheque, and 46% direct into a bank, with 4% not answering.

Among the samples as a whole, and taking pensions into account as well as jobs, the following proportions had previous experience of being paid monthly by credit transfer.

MONTHLY PAYMENT BY CREDIT TRANSFER

|  | <u>Women with<br/>dependent children</u> | <u>Adults aged<br/>65 or over</u> |
|--|--|-----------------------------------|
|  | %  | %                                 |
| Previous experience of monthly payment<br>by credit transfer | 21                                       | 18                                |
| No previous experience                                       | 79                                       | 82                                |

C. "OMNIBUS" SURVEY: BANK AND SAVINGS ACCOUNTS

The questions on the Omnibus survey covered the four types of account covered on the main survey, namely,

- bank accounts with a cheque book
- bank deposit accounts
- Giro accounts
- building society accounts,

which were selected as the main types of account into which payments can be made directly by credit transfer; and, in addition,

- Post Office/National Savings Bank account.

The types of account held amongst the adult population as a whole were as follows:

TYPES OF ACCOUNT

|                                  | <u>All adults</u> |
|----------------------------------|-------------------|
|                                  | %                 |
| 1. Bank account with cheque book | 48                |
| 2. Bank deposit account          | 32                |
| 3. Giro account                  | 2                 |
| 4. Building society account      | 38                |
| 5. P.O./NSB account              | 19                |

Of particular interest are the proportions of people holding various types of account - especially those into which payments can be made directly by credit transfer - amongst incipient pensioners and those women who are around first-child-bearing age.



|  | <u>All adults</u> | <u>Women</u><br><u>16-24</u> | <u>Women</u><br><u>16-34</u> | <u>Women</u><br><u>35-54</u> | <u>Adults</u><br><u>55-64</u> | <u>Adults</u><br><u>65+</u> |
|--|-------------------|------------------------------|------------------------------|------------------------------|-------------------------------|-----------------------------|
|  | %                 | %                            | %                            | %                            | %                             | %                           |
| Any of accounts 1-4, above                     | 72                | 73                           | 74                           | 73                           | 71                            | 64                          |
| Any of these, in own name                      | 45                | 53                           | 45                           | 41                           | 44                            | 45                          |
| (Any account, including<br>PO/NSB)             | (78)              | (82)                         | (81)                         | (80)                         | (79)                          | (74)                        |
| (Any account, including<br>PO/NSB in own name) | (53)              | (62)                         | (55)                         | (51)                         | (51)                          | (55)                        |

Among women, it is clear that younger women - and hence those more likely to be around first-child-bearing age - while being no more likely to have an account as such, are more likely to have an account in their own name.

Among older adults, those approaching pensionable age are more likely to have an account than those already aged 65 or more.

## INTERNATIONAL COMPARISONS

1. There is always the difficulty with international comparisons that different economic, social and historical forces may have been at work. In looking at the arrangements for paying social security benefits in different countries, it must be borne in mind that benefits may cover different contingencies and may have been started at different times; that there are different social conventions (for example, in relation to the periods for paying salaries and wages); that different relationships exist between the State and the public; and in some countries there is less emphasis on uniform national schemes.

2. However even with these qualifications it is possible to make meaningful comparisons between the practices in the countries of the EEC, North America, Australia and New Zealand in the payment arrangements for the equivalent in the various countries of retirement pension and child benefit (although the names of the benefits vary). The different arrangements for these benefits are shown below.

FREQUENCY AND PERIOD OF COVERAGE

| <u>COUNTRY</u> | <u>RETIREMENT PENSIONS</u>   | <u>FAMILY BENEFITS</u>           |
|----------------|------------------------------|----------------------------------|
| United Kingdom | Weekly<br>(in advance)       | Weekly<br>(in advance)           |
| Belgium        | Monthly<br>(advance/arrears) | Monthly<br>(in arrears)          |
| Denmark        | Monthly<br>(in advance)      | 3-monthly<br>(in advance)        |
| Eire           | Weekly<br>(in arrears)       | Monthly<br>(in advance)          |
| France         | 3-monthly<br>(in arrears)    | Monthly<br>(in arrears)          |
| Italy          | 2-monthly<br>(in advance)    | Monthly<br>(-)                   |
| Luxembourg     | Monthly<br>(in advance)      | Monthly<br>(advance/arrears)     |
| Netherlands    | Monthly<br>(advance/Arrears) | 3-monthly<br>(in arrears)        |
| West Germany   | Monthly<br>(in advance)      | 1 or 2 monthly<br>(in advance)   |
| Australia      | Fortnightly<br>(in advance)  | Monthly<br>(in arrears)          |
| Canada         | Monthly<br>(in arrears)      | Monthly<br>(-)                   |
| New Zealand    | Fortnightly<br>(in advance)  | Fortnightly<br>(advance/arrears) |
| USA            | Monthly<br>(in arrears)      | -                                |

## SUMMARY OF PRESENT ARRANGEMENTS FOR PAYING BENEFITS

This appendix sets out in tabular form the key information on the present arrangements for paying individual benefits. The grouping of benefits is explained in the footnotes at the end. The figures in columns (2) and (3) are based on statistical returns at the end of 1978. The annual number of payments in column (2) is the number of foils cashed together with other payment instruments encashed. The figures in column (4) are estimates of the likely costs in 1979-80 based on the actual costs for 1977/78 increased by about 21% to take account of price movements since then. In column (5) it should be assumed that order books are sent to post offices for collection by the beneficiary unless otherwise stated. Newcastle Central Office and North Fylde Central Office have been abbreviated to "NCO" and "NFCO" respectively.

| BENEFIT AND WEEKLY PAYDAY                        | ANNUAL NUMBER OF PAYMENTS | AVERAGE NUMBER OF RECIPIENTS AT ANY ONE TIME | ANNUAL COST OF PAYING PARTICULAR BENEFITS | FREQUENCY OF PAYMENT AND METHOD   |
|--|---------------------------|--|---|---|
| (1)  | (2)                       | (3)  | (4)                                       | (5)   |
| Child Benefit (a)<br>(Monday or Tuesday)         | 374.4m                    | 7.2m   | £26m (b)                                  | Weekly by computer-produced 18-week order books prepared at NCO. (Change from 13-week order books to be completed by April 1980.) |
| Retirement (c)<br>Pension<br>(Normally Thursday) | 332.8                     | 6.4m   | £63m                                      | Weekly by computer-produced 13-week order books prepared at NCO.  |
|  | 78m                       | 1.5m   |   | Payment combined with supplementary pension (see below)   |
|  | 4.7m                      | 366,000                                      |   | 4-weekly by payable order produced at NCO and posted to beneficiary.  |
|  | 1.2m                      | 303,000                                      |   | 13-weekly by payable order produced at NCO and posted to beneficiary.   |
|  | 1,500                     | 21,000                                       |   | 13-weekly schedules by payable order to Area Hospital Authorities.  |
| Graduated Retirement Pension                     |                           | 3.8m   |   | 13-weekly by girocheque produced at NCO and posted to beneficiary (for small payments only.)                                      |
|  |                           | 0.8m   |   | Paid as part of <u>retirement pension</u> .   |
|  | 156,000                   | 12,000                                       |   | Paid as part of supplementary pension   |
|  |                           |  |   | If no <u>retirement pension</u> payable, paid 4-weekly by computer-produced 52-week order books prepared at NCO.                  |

| BENEFIT AND WEEKLY PAYDAY<br>(1)  | ANNUAL NUMBER OF PAYMENTS<br>(2) | AVERAGE NUMBER OF RECIPIENTS AT ANY ONE TIME<br>(3) | ANNUAL COST OF PAYING PARTICULAR BENEFITS<br>(4) | FREQUENCY OF PAYMENT AND METHOD<br>(5)   |
|---|----------------------------------|---|--|--|
| Supplementary Pension (Normally Thursday)                               | 88m                              | 1.7   | £80m   | Weekly by manually-produced 26-week order books prepared in DHSS local offices. <u>Retirement pension. Combined if in payment.</u>   |
| Supplementary Allowance (Normally Monday)                               | 46m                              | 650,000   |  | Weekly by manually-produced 13/26-week order books or by giro-cheques prepared in DHSS local offices and posted to beneficiary.  |
| Widows <sup>(d)</sup> Benefit (Tuesday)                                 | 23m                              | 444,000   | £ 5m   | Weekly by computer-produced 13-week order books prepared at NCO.   |
|   | 2.1m                             | 40,000  |  | Widows allowance: weekly by manually-produced 26-week order books prepared in DHSS local offices and posted to beneficiary.  |
|   | 119,000                          | 14,000  |  | 4-weekly or 13 weekly by payable order.  |
| Unemployment <sup>(e)</sup> Benefit (Normally allocated alphabetically) | 30m                              | 1.1m  | £26m <sup>(f)</sup>                              | Fortnightly by girocheques (weekly in special cases) which are now nearly all prepared at one of two central computer centres. Girocheques are posted to beneficiary on day after signing but issued in person from Unemployment Benefit Offices in certain circumstances.     |
| Sickness and Industrial Injury Benefit (Depends on NI number)           | 23.3m                            | 517,000   | £39m   | Weekly by girocheques prepared in DHSS local offices and posted to beneficiary: can be fortnightly if incapacity lasts over 4 weeks and medical certificate covers 2 weeks or more.  |
| Invalidity <sup>(g)</sup> Benefit (Depends on NI number)                | 33.7m                            | 668,000   |  | Payment method depends on period covered by medical certificate. About two-thirds of payments made weekly by manually-produced 13-week order books: remainder are made weekly or fortnightly by girocheque. Payments prepared in DHSS local offices and posted to beneficiary. |
| Industrial Disablement Benefit (Wednesday)                              | 10m                              | 200,000   |  | Weekly by HMSO preprinted 52-week order books held at NFCO. NFCO sends to DHSS local office who post to beneficiary.   |

| BENEFIT AND WEEKLY PAYDAY<br>(1)                                      | ANNUAL NUMBER OF PAYMENTS<br>(2) | AVERAGE NUMBER OF RECIPIENTS AT ANY ONE TIME<br>(3) | ANNUAL COST OF PAYING PARTICULAR BENEFITS<br>(4) | FREQUENCY OF PAYMENT AND METHOD<br>(5)   |
|---|----------------------------------|---|--|--|
| Industrial Death Benefit (Wednesday)                                  | 1.7m                             | 32,000  |  | Weekly by computer-produced 12-week order books prepared at NFCO   |
| Workmen's Compensation and Diseases Benefits (Wednesday and Thursday) | 348,000                          | 6,700   |  | Weekly by HMSO preprinted 52-week order books held at NFCO and posted to beneficiary.  |
| War Pensions <sup>(h)</sup> (Wednesday)                               | 16m                              | 293,000   | ∅  | Other ranks: weekly by computer-produced 12-week order books prepared at NFCO and posted to beneficiary.   |
|   | 86,000                           | 21,500  |  | 13-weekly by payable order   |
|   | 0.3m                             | 30,000  |  | Officers: monthly or 13-weekly by payable order prepared at Paymaster-General's Office and posted to beneficiary's home or bank.                     |
| Family Income Supplement (Tuesday)                                    | 4.1m                             | 79,000  | ∅  | Weekly by manually-produced 52-week order books prepared at NFCO and posted to beneficiary.  |
| Maternity Allowance (Friday)  | 4.9m                             | 92,000  | ∅  | Weekly by manually-produced 18-week order books prepared in DHSS local offices and posted to beneficiary.  |
| Maternity Grant ( - )   | 591,000                          | --  |  | Lump-sum payments by giro-cheques prepared in DHSS local offices and posted to beneficiary.  |
| Attendance Allowance (Monday unless combined)                         | 4.0m                             | 270,000   | ∅  | If possible, combined with payment of main benefit (220,000 cases). Otherwise paid weekly by computer-produced 12-week order books prepared at NFCO. |
| Housewives Non-Contributory Invalidity Pension (Wednesday)            | 2m                               | 40,000  | ∅  | Weekly by computer-produced 12-week order books prepared at NFCO and posted to beneficiary.  |
| Mobility Allowance (Wednesday)  | 1.5m                             | 120,000   | ∅  | 4-weekly by computer-produced 52-week order books prepared at NFCO and posted to beneficiary.  |
| Invalid Care Allowance (Monday or Tuesday)                            | 312,000                          | 6,000   | ∅  | Weekly by computer-produced 12-week order books prepared at NFCO and posted to beneficiary   |

| BENEFIT AND WEEKLY PAYDAY<br>(1)    | ANNUAL NUMBER OF PAYMENTS<br>(2) | AVERAGE NUMBER OF RECIPIENTS AT ANY ONE TIME<br>(3) | ANNUAL COST OF PAYING PARTICULAR BENEFITS<br>(4) | FREQUENCY OF PAYMENT AND METHOD<br>(5)  |
|-------------------------------------|----------------------------------|---|--|---|
| Guardians Allowance (Tuesday)       | 208,000                          | 4,000   | ∅  | Weekly by manually-produced 26-week order books prepared at NCO                           |
| Child's Special Allowance (Tuesday) | 41,600                           | 800   | ∅  | Weekly by computer-produced 13-week order books prepared at NCO                           |
| Death Grant ( - )                   | 567,000                          | -   | ∅  | Lump-sum payments by girocheques prepared in DHSS local offices and posted to beneficiary |

NOTES: (a) Including Child Benefit Increase.

(b) This figure is an underestimate because the 1977-78 figures did not fully reflect the increased work which was brought about by the change from Family Allowances to Child Benefit.

(c) Including Old Persons Pension

(d) Including Widows Allowance, Widowed Mothers Allowance, Widows Pension, and Age-related Widows Pension.

(e) The payment of supplementary allowance is included under unemployment benefit when paid either with or in place of unemployment benefit.

(f) This figure is an overestimate because of the change to fortnightly payment of unemployment benefit from September 1979.

(g) Including Non-Contributory Invalidity Pension.

(h) Including War Disablement Pension, War Dependents Pension, and War Widows Pension.

∅ Total cost of paying benefits marked ∅ amounts to £9 million.

NOTE ON DEPARTMENT OF EMPLOYMENT'S MOVE TO FORTNIGHTLY PAYMENT OF UNEMPLOYMENT BENEFIT

1. To obtain unemployment benefit, a person must register for employment at an office of the Employment Services Agency and attend an Unemployment Benefit Office to declare that he or she is unemployed but capable of and available for work. Provided that certain contribution conditions are satisfied, unemployment benefit is payable with or without supplementary allowance; and in due course a girocheque is sent to the beneficiary. If contribution conditions are not satisfied, or if entitlement to unemployment benefit has expired, supplementary allowance alone may be payable.
2. Until recently, both attendance and payment occurred weekly and benefit was paid a week in arrears. However following a successful pilot study, attendance and payment now take place fortnightly for the great majority of claimants. The fortnightly payment covers one week in advance and one week in arrears.
3. The pilot study, which commenced in September 1977, was overseen by a Joint Working Party comprising nominees of Department of Employment management and Staff Side. The study was carried out in 36 offices dealing with 56000-60000 claimants. It was recognised from the outset that weekly attendance and payment would still be necessary for some beneficiaries including those who were likely to return to work at short notice and those who might have difficulty safeguarding the larger sums of money likely to be paid fortnightly. Such people, about 5% of the total, were excluded from the arrangements. Additionally, reversion to weekly attendance and payment was permitted on request by the claimant or if DHSS advised that the person concerned was having difficulty managing to budget. About 2% of people reverted to weekly payment during the course of the pilot.
4. The pilot study was generally well received and the majority of claimants were in favour of the new arrangements. 72% of claimants who gave their views preferred fortnightly attendance. Although 35% said that fortnightly pay made managing their money more difficult, the number asking to revert to weekly payment was small and very few sought special help from DHSS. By the end of the pilot study, about 93% of all claimants were being paid fortnightly and the majority of staff involved found the new arrangements acceptable.
5. The Joint Working Party concluded, with the CPSA dissenting, that the pilot scheme had demonstrated fortnightly signing and payment offered a worthwhile improvement in the service provided to claimants. With procedural changes and a redeployment of staff it was thought possible to achieve a reduction in staff numbers of about 7-8% and a saving in staff costs of 5-6%. Because unemployment benefit was now being paid partly in advance rather than completely in arrears some overpayments were bound to occur but the view was taken that this could be limited on a national scheme to about £1 million. This compared with estimated savings on Post Office charges and stationery of between £4-5 million.
6. Because of the success of the pilot, Ministers decided that fortnightly arrangements should be implemented nationally. This commenced on 5 September 1979. It is estimated, that even assuming 15% of people remain on weekly payment, annual savings of £7 million will result. Adding a week's payment in advance to the previous payment of a week in arrears, has meant a start-up public expenditure cost of £16 million in the first year. This is because, at the end of the present financial year payments are made which would otherwise not have been made until the following year. There has been little criticism of the national scheme and the new arrangements appear to be working well.

## APPENDIX V

### NOTES ON DIFFICULTIES ARISING FROM PRESENT PAY PERIODS FOR UNEMPLOYMENT, SICKNESS, AND SUPPLEMENTARY BENEFIT

1. Unemployment and sickness benefit (which may be payable with supplementary benefit) are known as short-term benefits in that they were designed to cater for short-term contingencies. Depending on circumstances, beneficiaries may move from one benefit to another. For example, an unemployed person may become sick or vice versa; and supplementary benefit may or may not be payable. This note sets out the present arrangements, the difficulties that arise, and suggests what might be done to rationalise the present situation.

#### Unemployment Benefit

2. Unemployment benefit is a daily benefit paid on the basis of a six-day week (Sundays normally excluded). In order to obtain benefit, a claimant normally has to attend an unemployment benefit office weekly or fortnightly and sign a claim and declaration. Provided that the office is connected to the Department of Employment's national ADP network (and almost all offices either now are or soon will be), the relevant computer centre is notified and payment is posted to the claimant on the day following signing with the expectation that it will arrive the following day (some 5% of claimants are required to collect their payments from an unemployment benefit office rather than have them posted). Mondays to Thursdays are signing days and are allocated alphabetically depending on a person's surname. Each office determines its alphabetical split depending on its workload. Provided a person is being paid fortnightly (see Appendix IV), the period covered by the payment will be the day of signing and the five previous days (excluding Sunday) plus up to six days after the signing day. Benefit is not payable for the first three days of unemployment unless there has been an earlier "linking" payment.

3. The Department of Employment would like to move to a "Saturday Fortnight Ending" system in which payments would cover the period running from Monday in the week preceeding signing to the Saturday following signing. (This system helps avoid overpayments of unemployment benefit that would otherwise arise when an unemployed person resumes work on a Monday but, under present payment arrangements, does not find favour with DHSS because large supplementary benefit overpayments at the beginning of the claim can result).

#### Sickness Benefit

4. Sickness benefit is also a daily benefit paid on the basis of a six-day week (Sundays normally excluded). Claimants must submit doctors statements as evidence of incapacity, and are allocated a payday (normally Monday to Thursday) according to their National Insurance Number. If weekly payments are made, the period covered by the payment includes the allocated payday and the five previous days. (There is provision for fortnightly payment six days in arrears and six days in advance but it depends on the discretion of staff and the period covered by the medical certification.) Payment is not normally made for the first three days of sickness. Payments are calculated and issued from the relevant DHSS local office on the payday with the expectation that they will be received on the following day.

#### Supplementary Benefit

5. Supplementary benefit is a weekly benefit payable in advance on the basis of a seven-day week. It can be paid in addition to sickness and unemployment benefit (and other benefits) or by itself. If paid with unemployment benefit, payments are

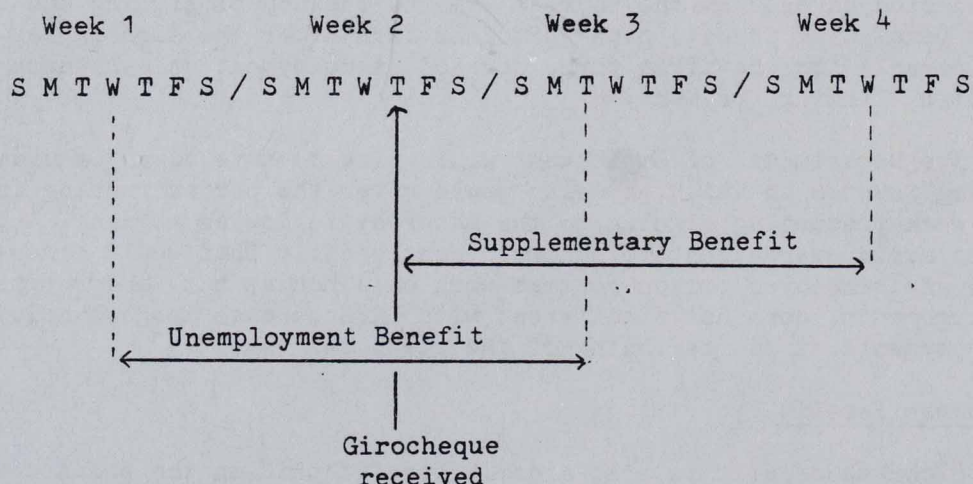


combined and only one girocheque is issued but separate payments of sickness benefit and supplementary benefit are made if both are payable. As entitlement of unemployment benefit expires after a year of unemployment, people who are unemployed for more than a year may only receive supplementary benefit. If they qualify, these people and others only qualifying for supplementary benefit are normally paid by the Department of Employment using the same arrangements as for unemployment benefit. For unemployed recipients of supplementary benefit, paydays are as for unemployment benefit. For sickness benefit cases, paydays will normally be Mondays. The period covered by the payment will be the appropriate payday and the following six days (ie one week in advance). Unemployed people who are paid fortnightly will receive their supplementary benefit two weeks in advance. Payment of supplementary benefit starts from the first payday following a claim being made although in exceptional circumstances hardship payments are made to cover the gap between the date of claim and the first payday.

**PRESENT DIFFICULTIES**

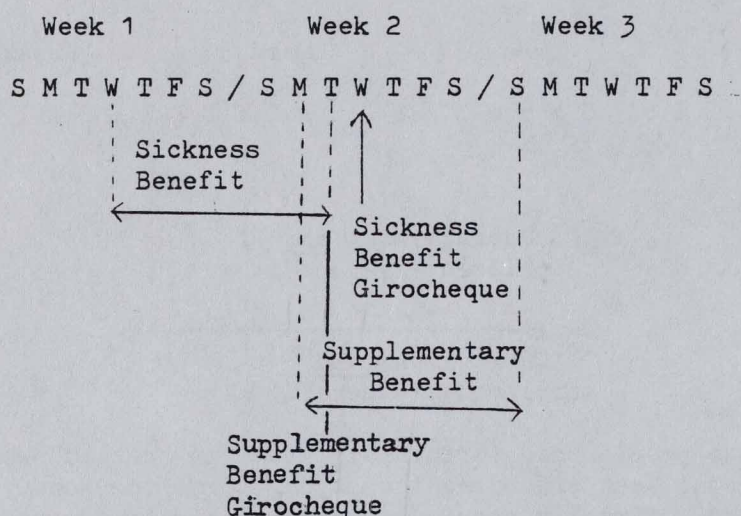
6. The difficulties that arise with the present arrangements are best illustrated by examples. Consider first the case of an unemployed man receiving both unemployment and supplementary benefit. If his signing day is Tuesday he would expect to receive a girocheque every other Thursday. The girocheque would include both his unemployment and supplementary benefit - the period covered by the unemployment benefit would be from the Wednesday of the previous week to the Tuesday of the following week; the period covered by the supplementary benefit would be two weeks from the Thursday the girocheque is received eg:

Case 1



7. If the same person was claiming instead sickness and supplementary benefit and is paid weekly, he will receive two girocheques each week. (Occasionally the supplementary benefit is paid by order book.) His sickness benefit payday would be determined by his National Insurance number. Assume it is Tuesday. A girocheque would be prepared and issued from the DHSS local office on that day and he would expect to receive it on Wednesday. The girocheque would cover the period from the payday (eg the day before receipt) to the preceding Wednesday. His supplementary benefit payday will be Monday and that girocheque, which will be received on Tuesday, will cover the period from that Monday until the following Sunday eg:

Case 2



8. Moving from unemployment benefit to sickness benefit (Case 1 to Case 2) means payments made by the Department of Employment stop; payments made by DHSS commence; and the payday, frequency, and period covered by the payment are altered. If sickness stops and the person is still unemployed, the procedure is reversed. Both transitions give rise to complicated calculation which are expensive in staff time and difficult to understand. The customer is bewildered because, even though the total amount of money that is received does not alter, everything else does.

A POSSIBLE SOLUTION

9. Various difficulties with the present arrangements can be identified:

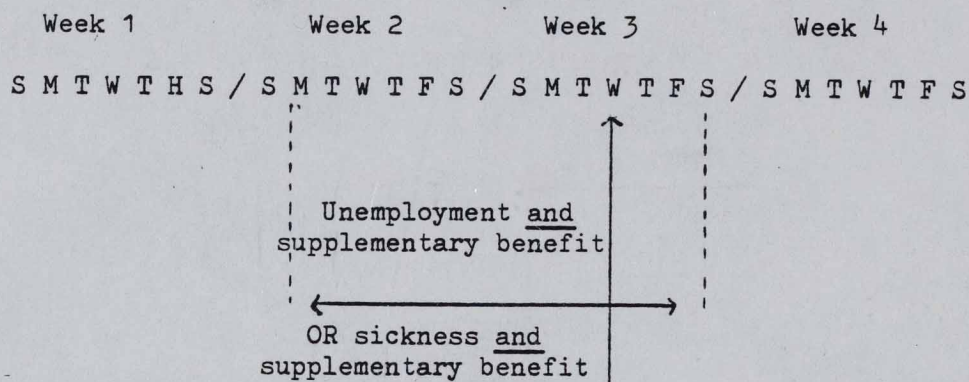
- Sickness and supplementary benefit payments are made separately
- Payperiods (eg the period for which benefit is paid) are not standard
- Paydays vary
- The transition between sickness and unemployment benefit is complicated

These will be dealt with in turn.

10. Combined sickness and supplementary benefit payments. A recent DHSS study has investigated combining payments of sickness and supplementary benefit. In Appendix VIII (paragraph 6) we recommend that it should be implemented and identify the savings that could be made.

11. Payperiods are not standard many difficulties would be avoided if the period covered by the sickness or unemployment benefit and supplementary benefit were the same. Benefit administration and calculation would be easier and would greatly reduce the overpayment problems that arise with adopting "Saturday Fortnight Ending". ("Saturday Fortnight Ending" is especially useful in the case of unemployment benefit because many people commence new employment on Mondays but whether it has overall advantages, for sickness benefit need further consideration). Standardisation of pay periods is shown in Case 3.

Case 3



In the case of those people paid fortnightly, the "pay period" would run from the Monday of the week preceding the payday (from the Monday of the same week in the case of weekly payments) to the Saturday of the week in which payment is made.

12. Two objections to the above are that it would cause a major upheaval to alter payperiod arrangements and that the philosophy underlying supplementary benefit makes payment in arrears impossible. As far as the first point is concerned, we think that there might be significant administrative gains from having common payperiods for sickness, unemployment, and supplementary benefit, which would more than compensate for any short-term transitional problems.

13. The conceptual problems caused by not paying supplementary benefit in advance arise in the main with the first payment in a spell of sickness or unemployment - once regular payments are being made, it matters little to the claimant whether the period covered by them is in advance or in arrears. (If payment of wages is delayed on return to work, a separate problem arises). The difficulties that occur with the first payment come about because the system assumes that the claimant is in immediate need and must be paid for the week ahead. However, the system is not completely consistent on this point because payment does not commence normally until the first payday following the claim (eg someone claiming supplementary benefit on Wednesday will not sometimes be paid until the following Monday). A mechanism does exist in this case for making an immediate "hardship" payment. We think that it is wrong to assume that all supplementary benefit claimants are indigent at the point of claim; in our view it has not been convincingly demonstrated that most supplementary benefit claimants could not wait a little longer (eg a week) for their first payment provided that in cases of real hardship an advance payment was possible.

14. Paydays vary. It would in theory be possible to align benefit paydays by using a person's National Insurance number to determine a day of the week on which all benefits would be payable. This is already done in the case of sickness benefit and has certain attractions for other benefits. It would, however, cause a complete reorganisation of present Department of Employment practices. A common payperiod has the advantage of not necessarily implying a common payday or any change in the arrangements for people signing on for unemployment benefit.

15. The transition between sickness and unemployment benefit. A possible partial solution (remarked on by the Department of Employment's Rayner project team) would be for the Department of Employment to pay sickness benefit to people previously unemployed where it appeared likely that unemployment would be resumed after the sickness had ended. This needs further investigation, as does the basis on which daily entitlement of benefit is calculated.

#### CONCLUSION

16. In the time available we have not had time to do more than examine briefly this very complicated subject. The Department of Employment's Rayner project on peaks of work in unemployment benefit offices may shed further light. We know there would be transitional difficulties but there is a considerable prize to be won in terms of public understanding; simplifying the work of staff; and cutting out wrong payments if present arrangements were rationalised. The result could well be cheaper and more efficient administration. It would also assist with any arrangements for taxing short-term benefits. We consider therefore that there should be a joint DHSS and DE review of the present arrangements under senior chairmanship, with the aim of trying to achieve rationalisation in time for national implementation of the CAMELOT project for paying benefits from DHSS local offices.

## COST OF ADMINISTERING SOCIAL SECURITY BENEFITS AND PAYMENT METHODS

1. The figures in Table VIa are estimates of the likely costs of social security administration in 1979/80 based on the actual costs for 1977/78 increased by about 21% to take account of price movements since then.

TABLE VIa

| BENEFIT                                       | TOTAL<br>ADMINISTRATION<br>COST | ESTIMATED<br>COST OF<br>PAYMENT AND %<br>OF TOTAL<br>ADMINISTRATIVE<br>COSTS |        | ESTIMATED<br>COST OF<br>ENCASHMENT | ESTIMATED<br>COST OF<br>POSTAGE |
|---|---------------------------------|--|--------|------------------------------------|---------------------------------|
|   |                                 | £m   | £m (%) |                                    |                                 |
| CHILD BENEFIT                                 | 50*                             | 26   | (52%)  | 23                                 | 2                               |
| RETIREMENT<br>PENSION                         | 109                             | 63   | (58%)  | 54                                 | 3                               |
| SUPPLEMENTARY<br>BENEFITS                     | 318                             | 80   | (25%)  | 19                                 | 14                              |
| WIDOWS BENEFIT                                | 12                              | 5  | (42%)  | 4                                  | 1                               |
| UNEMPLOYMENT<br>BENEFIT                       | 81 <sup>ø</sup>                 | 26   | (32%)  | 4                                  | 3                               |
| SICKNESS<br>INVALIDITY AND<br>INJURY BENEFITS | 140                             | 39   | (28%)  | 12                                 | 8                               |
| OTHERS  | 40                              | 9  | (22%)  | 6                                  | 2                               |
| TOTALS  | £750m                           | £248   | (33.1) | £122                               | £33                             |

\*This figure is an underestimate because the 1977-78 costs did not fully reflect the change from Family Allowances to Child Benefit.

<sup>ø</sup>This figure is an overestimate because unemployment benefit became payable fortnightly instead of weekly from September 1979.

2. Table VIb illustrates the estimated average costs in DHSS of different payment methods. These are based on July 1978 costs so they will be higher now. The actual costs vary from location to location depending on the volume of work and the production methods used.

TABLE VIb

| METHOD                                  | TOTAL COST PER PAYMENT | ANNUAL COST | DHSS PROPORTION OF ANNUAL COST | ENCASHMENT ELEMENT OF ANNUAL COST | POSTAGE ELEMENT OF ANNUAL COST |
|---|------------------------|-------------|--------------------------------|-----------------------------------|--------------------------------|
|   | £                      | £           | £                              | £                                 | £                              |
| 1. <u>13 WEEK ORDER BOOK</u>            |                        |             |                                |                                   |                                |
| (a) CENTRAL OFFICE<br>COMPUTER-PRODUCED | 0.19                   | 9.98        | 0.90                           | 8.80                              | 0.28                           |
| (b) LOCAL OFFICE<br>MANUALLY PRODUCED   | 0.34                   | 17.46       | 7.96                           | 9.16                              | 0.34                           |
| 2. <u>GIROCHEQUE (WEEKLY)</u>           |                        |             |                                |                                   |                                |
| (a) CENTRAL OFFICE<br>COMPUTER-PRODUCED | 0.51                   | 26.42       | 13.78                          | 7.96                              | 4.68                           |
| (b) LOCAL OFFICE<br>CLERICALLY PRODUCED | 0.58                   | 30.11       | 17.68                          | 7.96                              | 4.47                           |
| 3. <u>PAYABLE ORDERS</u>                |                        |             |                                |                                   |                                |
| (a) 4 WEEKLY COMPUTER-<br>PRODUCED      | 0.47                   | 6.07        | 4.22                           | 0.68                              | 1.17                           |
| (b) 13 WEEKLY<br>COMPUTER PRODUCED      | 0.56                   | 2.26        | 1.69                           | 0.21                              | 0.36                           |

FINANCIAL CONSEQUENCES OF RECOMMENDATIONS

1. Costing our proposals has not been straightforward. It would have been considerably more difficult without the DHSS Finance Division who helped us cope with the mysteries of the Agency Services Agreement and public expenditure conventions, advised us on our assumptions and costed our proposals. This appendix sets out the basis on which we have estimated the financial consequences of our proposals and has been agreed with the DHSS Finance Division.
2. Briefly our approach has been to make broad order of magnitude estimates for the financial effects of our ideas (including the number of beneficiaries likely to be affected by them); then to devise an operationally-feasible programme for implementation; and finally to refine the financial estimates and the implementation programme with the aim of avoiding any increase in expenditure in the transitional period up to April 1983. We show in tabular form below the financial consequences of implementing our proposals for each of the financial years in the period 1980/81 to 1987/88. The table attempts to evaluate as realistically as possible the full costs and savings of our proposals. It takes account of expenditure programmes other than DHSS (eg PSA accommodation costs); and also includes interest gains and losses. The figures in the table are not calculated on the same basis as those used in the Public Expenditure Survey but they do indicate the broad financial effects that our proposals would have on Government expenditure programmes. In the table a minus sign (-) means a reduction in costs.
3. For the purposes of making our estimates we have assumed that the Agency Services Agreement will not be renegotiated; but as we indicate in paragraph 3.36 to 3.39 in the main report our proposals could have considerable implications for the Agreement. If it was renegotiated this could invalidate the detailed figures shown in the table below but any renegotiation seems unlikely to reduce these figures significantly because the table has been drawn up on the assumption that DHSS will get back eventually only just over 50% of the theoretical savings implied by the reduction in DHSS business done across the Post Office counters. It also assumes that obtaining this level of savings will take 5 years to achieve after full implementation of our proposals.

Table VII.1

## Financial consequences of recommendations

£ million at 1979 PESC prices

| RECOMMENDATION<br>(paragraph number<br>shown in brackets)                               | 1980-1 | 1981-2 | 1982-3 | 1983-4 | 1984-5 | 1985-6 | 1986-7 | 1987-8 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| <u>Reducing frequency of payment<br/>and introducing payment by<br/>credit transfer</u> |        |        |        |        |        |        |        |        |
| <b>CHILD BENEFIT*</b>   |        |        |        |        |        |        |        |        |
| Reprogramming and systems work  | 0.1    | 0.3    | 0.2    | -      | -      | -      | -      | -      |
| Staffing start-up costs (4)   | -      | 0.3    | 0.6    | 0.1    | -      | -      | -      | -      |
| Staffing maintenance costs (5)  | -      | 0.5    | 1.5    | 2.6    | 2.7    | 2.7    | 2.7    | 2.7    |
| Non-staff start-up and<br>maintenance (6)   | -      | 0.4    | 0.3    | - 0.2  | - 0.5  | - 0.5  | - 0.5  | - 0.5  |
| Financial controls (7)  | -      | -      | 0.5    | 1.0    | 1.4    | 1.4    | 1.4    | 1.4    |
| Realisable savings in<br>encashment costs (13)  | -      | -      | -      | - 2    | - 4    | - 6    | - 9    | -13    |
| First-year benefit deferment(11)  | -      | - 5    | -36    | - 5    | -      | -      | -      | -      |
| Alterations of funding<br>arrangements (12)   | - 1.5  | - 1.5  | - 2.5  | - 3.0  | - 3.5  | - 3.5  | - 3.5  | - 3.5  |
| <b>RETIREMENT PENSION</b>   |        |        |        |        |        |        |        |        |
| Reprogramming and systems work  | 0.1    | 0.3    | 0.2    | -      | -      | -      | -      | -      |
| Staffing start-up costs (4)   | -      | 0.1    | 0.3    | 0.1    | -      | -      | -      | -      |
| Staffing maintenance costs (5)  | -      | -      | 0.2    | 0.4    | 0.4    | 0.4    | 0.4    | 0.4    |
| Non-staff start-up and<br>maintenance (6)   | -      | 0.3    | - 0.2  | - 0.4  | - 0.6  | - 0.6  | - 0.6  | - 0.6  |
| Financial controls (7)  | -      | -      | 0.5    | 0.5    | 0.7    | 0.7    | 0.7    | 0.7    |
| Realisable savings in<br>encashment costs (13)  | -      | -      | -      | - 3    | - 5    | - 8    | -11    | -16    |
| First-year benefit cost (11)  | -      | -      | 44     | 15     | -      | -      | -      | -      |
| Net benefit saving new<br>beneficiaries (11)  | -      | - 1.7  | - 6.7  | - 6.7  | - 6.7  | - 6.7  | - 6.7  | - 6.7  |
| Alteration of funding<br>arrangements (12)  | -      | -      | -      | - 0.4  | - 0.5  | - 0.5  | - 0.5  | - 0.5  |
| <b>OTHER BENEFITS</b>   |        |        |        |        |        |        |        |        |
| Estimated net savings   | -      | -      | -      | -      | -      | - 1    | - 2    | - 4    |
| <b>SENDING ORDER BOOKS TO<br/>HOME ADDRESSES</b>  | 0.1    | - 0.5  | - 1.1  | - 1.7  | - 2.1  | - 2.5  | - 2.5  | - 2.5  |
| <b>POST-SORTING OF ORDER BOOKS</b>  | - 0.2  | - 0.4  | - 0.4  | - 0.4  | - 0.4  | - 0.4  | - 0.4  | - 0.4  |
| <b>INTRODUCING 20-WEEK ORDER BOOKS</b>  | -      | -      | - 1.0  | - 1.1  | - 1.3  | - 1.3  | - 1.3  | - 1.3  |
| <b>INTRODUCING 48-WEEK CHILD<br/>BENEFIT ORDER BOOK</b>                                 | -      | -      | - 0.6  | - 0.9  | - 1.2  | - 1.2  | - 1.2  | - 1.2  |
| <b>COMBINING BENEFIT PAYMENTS**</b>   | 0.6    | - 2.2  | - 2.8  | - 2.8  | - 2.8  | - 2.8  | - 2.8  | - 2.8  |
| <b>REGULAR REVIEW OF FOIL LIMITS</b>  | - 0.1  | - 0.3  | - 0.9  | - 1.3  | - 2.0  | - 2.0  | - 2.0  | - 2.0  |
| <b>ALTERING OVERSEAS PAYMENT<br/>ARRANGEMENTS</b>                                       | -      | 0.1    | - 0.5  | - 0.5  | - 0.5  | - 0.5  | - 0.5  | - 0.5  |
| <b>SPEEDING UP CAMELOT INTRODUCTION</b>   | -      | 2      | 4      | 4      | - 3    | - 5    | - 5    | ***    |
| <b>AMALGAMATING SMALL PAYMENTS</b>  | -      | -      | -      | -      | -      | - 0.1  | - 0.1  | - 0.1  |
| <b>NOMINATED POST OFFICES FOR<br/>SUPPLEMENTARY BENEFIT<br/>GIROCHEQUES</b>             | - 0.1  | - 0.3  | - 0.3  | - 0.3  | - 0.3  | - 0.3  | - 0.3  | - 0.3  |
| <b>INCREASE IDENTIFICATION LIMIT<br/>TO £50 FOR GIROCHEQUES</b>                         | - 0.1  | - 0.2  | - 0.3  | - 0.5  | - 0.5  | - 0.5  | - 0.5  | - 0.5  |
| <b>IMPROVEMENTS IN INFORMATION ETC</b>  | 0.1    | 0.3    | 0.5    | 1      | 1      | 1      | 1      | 1      |
| <b>TOTAL</b>  | - 1.0  | - 7.5  | - 0.5  | - 5.5  | -28.7  | -37.2  | -44.2  | -50.2  |

\*Child benefit has been assumed to be price protected at its present £4 value

\*\*This study was carried out by DHSS before this project

\*\*\*There will be a further £5m saving this year but this cannot be attributed to our recommendation.



4. Staffing start-up costs. The table assumes that about 120 staff will be needed to take-on payment of child benefit by direct credit to banks and about 50 staff to take-on payment of retirement pensions by this method. These figures have been provided by management at Newcastle Central Office (see paragraph 3.15 of main report).

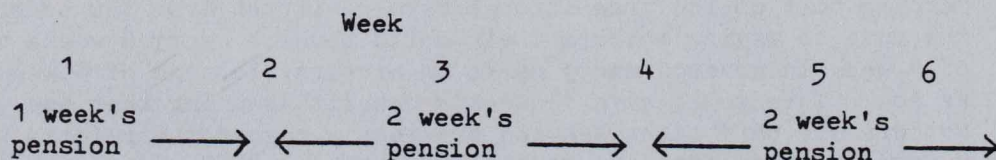
5. Staffing maintenance costs. The table assumes that about 460 additional staff will be required to continue to pay 2 million child benefit recipients by direct credit to banks and about 70 staff will be required to do this work for 1 million retirement pensioners. These figures allow for a small reduction of staff in DHSS local offices and savings in order book preparation. The lower figure for retirement pensions is because the majority of direct credit recipients are already paid 4 or 13 weekly by payable order which is more staff intensive than payment by order book. These figures have been provided by management at Newcastle Central Office and (as indicated in paragraph 3.15 of the main report) may eventually turn out to be an over-estimate. It would be undesirable to use them as the basis for future complementing if take-up of direct credit is higher than expected without independent staff inspection.

6. Non-staff start-up and maintenance. These figures include the cost of including with order books a notification about change of frequency and an invitation for people to accept payment by credit transfer; the savings that result in order book and payable order production and despatch; and the cost to DHSS of making payments by direct credit.

7. Additional financial controls. Payment by direct credit to banks can continue without action by the beneficiary. Payment by order book requires regular attendance at a post office and this method is said to prompt the public to notify DHSS of changes in circumstances that affect entitlement to benefit to a greater extent than would be the case with direct credit. Stopping payment by direct credit should be no more difficult than stopping payment by order book. DHSS considers that the position of the Accounting Officer will require additional reviews and financial controls for payment by direct credit (eg checking once every 5 years that all mothers are receiving the correct entitlement to child benefit). The costs quoted are for the controls that the DHSS Finance Division say will be needed with payment 4 or 13 weeks in arrears and a legal right for DHSS to recover overpayments automatically.

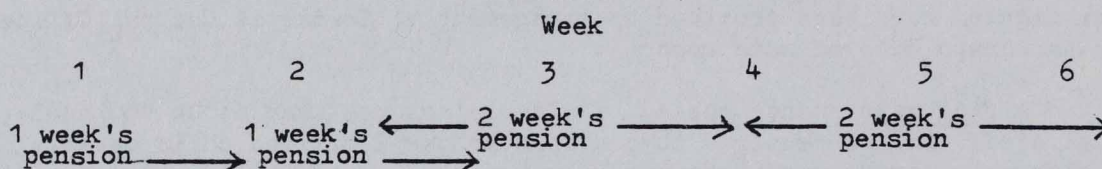
8. Effect on benefit payment. We recommend (in paragraph 3.6) that when changing the frequency of payment there should be no interruption in the benefit cash flow for people receiving benefits that are the major part of their income. If this is not done a pensioner, for example, would have to wait a week without pension before receiving the first fortnightly payment. Figure VII.2 shows a changeover to fortnightly payment at the end of week 1 but with the first payment made in week 3.

Figure VII.2



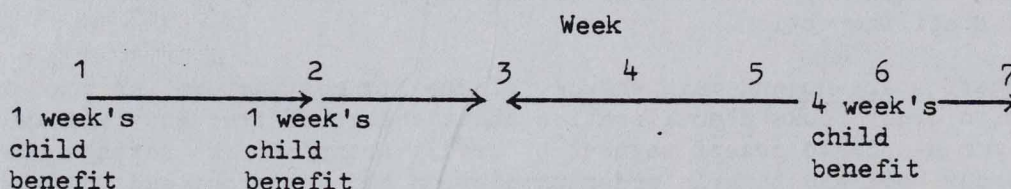
To maintain the cash flow an additional week's benefit has to be paid at week 2, as in figure VII.3.

Figure VII.3



This means that, strictly speaking, benefit has been paid twice for week 2-3 although in practice the pensioner will not see it like that. To do this means that DHSS will incur an extra week's expenditure on benefit in the year that the change in payment frequency is made. This will affect all the people who receive retirement pension. We do not think it necessary to make special arrangements for people receiving child benefit.

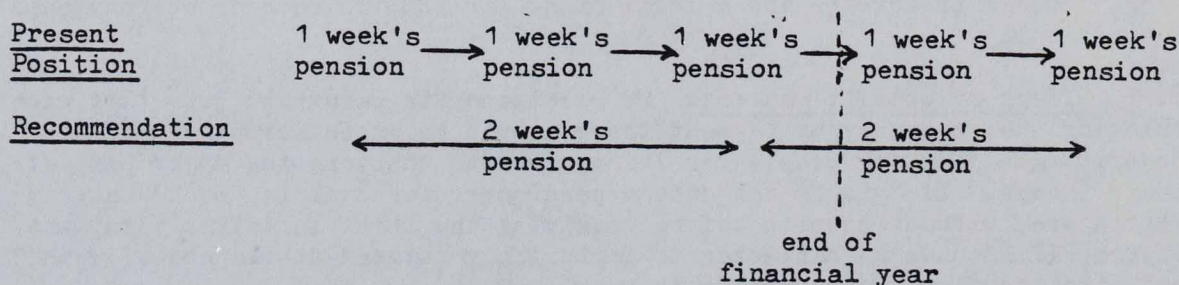
Figure VII.4



At the point of transition there will be a gap of four weeks for those paid by order book before the first 4-weekly payment is received.

9. The extra cost of making special arrangements for retirement pensioners and similar groups can be met by adopting the normal accounting conventions for public expenditure. For example, paying retirement pension one week in advance and one week in arrears as opposed to one week in advance means that there is potential for carrying forward payment of one week's benefit to the following financial year. This can be seen from the position of the vertical dotted line in figure VII.5.

Figure VII.5



In practice, however, only half this expenditure could be deferred because only 50% of, for example, pensioners would be given their fortnightly payment in any one week to avoid an excessive crush in post offices. The remaining cost of the transitional payment is met from the benefit saved in the move to paying mothers their child benefit every 4 weeks on the basis of 1 week in advance and 3 weeks in arrears, instead of 1 week in advance as now. This would save  $1\frac{1}{2}$  week's benefit assuming that one-quarter of mothers are paid each week and previously cashed their foils weekly. However we know from our market research and DHSS sources that not all mothers cash their child benefit weekly and we have calculated the amount of benefit deferred using the encashment pattern revealed by our research. It is possible this underestimates the saving.

10. For new retirement pensioners, paying fortnightly will mean that retirement pension is not received until the second Thursday following retirement. This means a benefit saving in the first year the pension commences which will only be made up if the pension terminates in the "advance" week of a fortnight's payment rather than the "arrears" week. It can be shown that this saves an overall half a week's payment for each new beneficiary coming on each year. The same consideration does not apply to child benefit because there is already an unavoidable delay in paying benefit on the birth of a child. We have therefore assumed that there will not be any benefit saving in the payment of new recipients of child benefit.

11. The full-year financial effect of paragraphs 8-10 is as follows:

Retirement pension

|  |          |
|--|----------|
| Benefit deferment in first year (order book beneficiaries)             | = £53.6m |
| Benefit deferment in first year (order book changing to direct credit) | = £12.4m |
| Benefit saving for new beneficiaries (650,000 a year)                  | = £ 6.7m |
| Transitional payment for existing beneficiaries                        | = £125m  |

This assumes the average weekly pension payment is £20.60, 85% of pensioners cash their pension weekly and that 300,000 of people paid by order book at present will change to being paid by direct credit. All payable order cases will be changed to direct credit: this will have no interest effect because paying direct credit fully in arrears compensates for the average of about 1 week that these people currently defer cashing their orders.

Child benefit

|                              |        |
|------------------------------|--------|
| Benefit saving in first year | = £46m |
|------------------------------|--------|

This assumes the average weekly child benefit payment is £7.80, that 2 million people will change to being paid by direct credit, and our market research encashment patterns.

12. Changes in funding arrangements. At present the Post Office is funded in advance of benefits being paid out. If payments are made by direct credit, advance funding is reduced and a saving of interest on Government borrowing results. Even without the introduction of direct credit it would be possible to achieve some savings by reducing the level of advance funding for child benefit to bring it into line with that for retirement pensions: the interest saving of this reduced advance funding is calculated to be over £1 million in a full year. It would mean in the year of the change there would be a once-and-for-all reduction in the standing weekly advance to the Post Office of about £13 million.

13. Changes in encashment costs. Under the present Agency Services Agreement, only a proportion of the savings that result from less frequent encashments at Post Offices can be realised (see paragraph 2.21). For illustrative purposes we have assumed that about 1/5th of the notional charge of cashing an order book foil relates to cash-handling charges and is fixed; and that only 2/3rds of the remaining 4/5ths is realisable because of fixed overheads. We also assumed that the realisable savings can only be achieved over a period of 5 years. A renegotiation of the Agency Services Agreement (which expires in 1982) or an increase in other Government business handled by the Post Office might increase the savings that could be made by DHSS (see paragraph 3.39 of main report) but we have not made any assumptions about this in these estimates.

### Retirement and supplementary pension

|                   |   |               |
|-------------------|---|---------------|
| Present position: | 8.1m paid weekly by order book                        |               |
|                   | 0.4m paid 4-weekly by payable order                   |               |
|                   | 0.3m paid 13-weekly by payable order                  |               |
|                   | Number of order book foils issued per year            | = 421m        |
|                   | Number of payable orders issued per year              | = 6m          |
| Recommendation:   | 1.7m to be paid weekly by order book                  |               |
|                   | 6.1m to be paid fortnightly by order book             |               |
|                   | 1.0m to be paid 4/13 weekly by direct credit transfer |               |
|                   | Number of order book foils to be issued per year      | = 247m        |
|                   | Number of direct credit transfers per year            | = 10m         |
|                   | Order book foils saved each year                      | = <u>174m</u> |
|                   | Foil encashment cost (excluding cash handling)        | = 13.4p       |
|                   | Gross encashment saving = £23m Realisable saving      | = <u>£16m</u> |

### Child benefit

|                   |  |               |
|-------------------|--|---------------|
| Present position: | 7.2m paid weekly by order book                   |               |
|                   | Number of order book foils issued per year       | = 374m        |
| Recommendation:   | 0.4m to be paid weekly by order book             |               |
|                   | 4.8m to be paid four-weekly by order book        |               |
|                   | 2m to be paid by direct credit transfer          |               |
|                   | Number of order book foils to be issued per year | = 83m         |
|                   | Number of direct credit transfers per year       | = 26m         |
|                   | Order book foils saved each year                 | = 291m        |
|                   | Foil encashment cost (excluding cash handling)   | = 6.9p        |
|                   | Gross encashment saving = £20m Realisable saving | = <u>£13m</u> |

14. Other benefits. The major administrative savings are achieved by changes in the method and frequency of paying retirement pension and child benefit. However as indicated in paragraph 3.17 worthwhile improvements in efficiency would result from paying other benefits less frequently and introducing a direct credit option. The savings shown in the Table VII.1 represent only a broad, and possibly low, estimate of what might be achieved by these changes.

15. No change is proposed in the frequency of benefits paid from DHSS local offices until after the national implementation of the CAMELOT project. It should then be practical to consider paying maternity allowance, widows allowance, and supplementary benefit recipients less frequently where appropriate. No change is needed in present sickness, injury, and unemployment benefit arrangements. Medical certification places constraints on the payment of invalidity benefit. However where incapacity has been confirmed as long-standing (eg after two years) order books rather than girocheques should be issued and payments could be made fortnightly, except for those on supplementary benefit paid weekly.

16. Other administrative changes. The figures shown in this table have been taken from Appendix VIII which explains the proposed changes in more detail.

## RECOMMENDED IMPROVEMENTS IN ADMINISTRATIVE PRACTICES FOR PAYING BENEFITS

1. This appendix discusses in greater detail our proposals for simplifying payment arrangements (see paragraphs 3.24 - 3.32 of main report).

2. Sending order books direct to home addresses (paragraph 3.25)

Present position: 52m order books a year sent to post offices for collection 5m order books and 1 $\frac{1}{2}$ m award notices sent to home addresses

Recommendation: All order books and award notices to be sent to home addresses except in high-risk cases

Realisable savings in post office handling charges = £2.4m  
Savings in postage = £0.13m

Start-up cost = £0.05m

On-going staff costs (20 staff) = £0.1m

Net saving = £2.5m

The Post Office has previously expressed concern about the vulnerability of large numbers of order books being held in post offices for collection and has suggested that they should be sent direct to the beneficiary. Experience of sending supplementary benefit and family income supplement books to home addresses shows this is feasible and that losses can be held to an acceptable level if high-risk addresses (such as lodging-houses or where there has been a history of losses) are excluded. Tests in the past have shown that the DHSS central record of pensioners' addresses is about 2% wrong and a simple verification exercise will be necessary before present procedures are changed. This exercise can be done by including a message in all order books explaining the change and asking people to notify DHSS if the address shown is wrong. Present emergency procedures which allow post offices to pay out benefit on the stubs of old books if new books have not been received will need to be reviewed but we think a satisfactory new procedure can be developed (the emergency procedures have only been invoked on a major scale once in the last six years). Overall, we think this recommendation might involve an additional 20 DHSS staff a year to deal with queries.

3. Computer sorting of order books into geographical areas (paragraph 3.26)

Present position: 52m computer-produced order books posted a year at full rate

Recommendation: DHSS Central Offices to sort books into geographical areas and claim a rebate on postal charges

Savings in postage (9% rebate) = £0.4m

On-going staff costs (9 staff) = £0.04m

Net saving = £0.4m

By knowing the post office at which an order book is to be cashed, DHSS computers can produce order books grouped into geographical areas which approximate to where beneficiaries live. This enables the Post Office to provide a better service at cheaper cost and enables a rebate to be claimed on postal charges. In order to do this, there has to be some standardisation of notes in the back of order books because at present the computers sort books by note-type. (For example, there are four different sets of notes which are inserted according to whether a retirement pensioner has earnings and/or dependent children or not.) We think that notes in the back of order books could in any event be made simpler and easier to understand and that they then would have more impact. If the notes were halved in size, there would be an additional saving of about £0.35m a year in stationery which we have not allowed for in the above. Overall, this recommendation might involve an additional 9 DHSS staff to do work currently done by the Post Office.

4. Duration of order books (except child benefit (paragraph 3.27))

Present position: Computer-produced order books vary in length

Recommendation: Computer-produced order books at present 12-18 weeks long should be standardised at 20 weeks

|  |   |              |
|--|---|--------------|
| Savings in postage                               | = | £0.9m        |
| Savings in production costs (including 25 staff) | = | £0.4m        |
| Net saving                                       | = | <u>£1.3m</u> |

At present, computer-produced order books are either 12, 13 or 18 weeks long although they are being standardised to 12 and 18 weeks length. If payments are to be made fortnightly, it makes sense to standardise on a length which results in an even number of foils, and we recommend that there should be a change to 20-week order books. This should not in itself lengthen the present time between announcement of uprating and the uprating itself, and should not lead to additional renewal order books being produced. The savings quoted above (which refer to books produced at the 2 DHSS Central Offices) accept that the standardisation planned for next year will not now take place and the savings that would have resulted are being deferred. This recommendation results in a reduction in DHSS staff of about 25 posts. In due course, we think books produced by CAMELOT for DHSS local offices should also be standardised at 20 weeks where possible.

5. Duration of child benefit order books (paragraph 3.28)

Present position: Paid by 13/18 week order book which shows cash value of benefit on foils

Recommendation: Pay by 48-week order book which shows non-cash value of foils

|  |   |       |
|--|---|-------|
| Savings in postage                                     | = | £1m   |
| Savings in order book production (including 115 staff) | = | £1.1m |

|  |   |       |
|--|---|-------|
| Extra Post Office encashment charges = 62.4m foils<br>x 2sec | = | £0.9m |
|--|---|-------|

Net saving = £1.2m

A 48-week order book for child benefit (containing 12 x 4 week foils) would mean that only about one-third of the present number of books would be issued each year. Production processes would be simpler and beneficiaries would be guaranteed benefit for 48 weeks once a book had been issued. In order to avoid DHSS issuing additional books or re-rating existing books, 48-week books would only really be feasible if upratings were carried out by the Post Office. This can only be done if non-cash value foils are used saying "pay ONE child benefit" etc. The foreword to the book would say the rate of benefit prevailing at the time of issue and upratings would be notified to post offices and widely publicised. (Post Office clerks could uprate the figure shown in the foreword if this was thought necessary). Child benefit would have to be maintained in simple denominations and there would have to be a single rate for all children. Beneficiaries whose child benefit book incorporates child benefit increase (and as from next year guardians allowance or child special allowance) (in total about 350,000 cases) would need to be excluded unless the rates of these other benefits were also kept simple (eg a foil might say "pay ONE child benefit and INCREASE"). Post Office encashment charges would be greater for non-cash value foils: the calculation above assumes that an extra 2 seconds of counter time per foil would be necessary. This allows for the fact that extra work is cheaper if done at a time when other work is being taken away. The wording on the declaration signed by the beneficiary when benefit is received might need to be amended and accounting arrangements would have to be adapted to the fact that non-cash values were being shown (the "value" of the foil could of course be immediately ascertained). This recommendation would save DHSS about 115 staff a year.

6. Combined payments should be increased (paragraph 3.29)

Present position: Combinations at present include retirement with supplementary pension; unemployment with supplementary benefit; attendance allowance with various benefits; child benefit with child benefit increase (child benefit with guardians allowance and child special allowance is to be introduced next year)

Recommendation: Combinations should be increased wherever practical  
eg Combining sickness and supplementary benefit (see Appendix V)

|   |   |       |
|---|---|-------|
| Savings on duplicate payments             | = | £2m   |
| Savings in encashment and postage charges | = | £0.5m |
| Benefit saving                            | = | £0.3m |

|  |                       |   |              |
|--|-----------------------|---|--------------|
| (Figures derived from DHSS<br>CMS study) | Net saving            | = | <u>£2.8m</u> |
|  | Initial start-up cost | = | £1m          |

Paying two benefits with a combined payment is cheaper than making two separate payments. A recently-completed DHSS Central Management Services study has looked at sickness and supplementary benefit and the savings that would result are set out above - the claimant benefits because only one girocheque is received rather than two. Other combinations which might be considered are attendance allowance and housewives non-contributory invalidity pension, and war pensions with retirement pensions - in the case of the latter it would be necessary to identify on the combined order book that war pension was being paid and combination might need to be restricted to those with National Insurance numbers (eg some recipients of old persons pension might need to be excluded). We think that further thought should be given to these possibilities and that any start-up costs (eg compare the start-up cost above which is largely due to staff training) should be financed from our other recommendations.

7. Limits on the value of foils in order books (paragraph 3.30)

Present position: DHSS decided in June 1979 to increase existing foil limits and review them every two years

Recommendation: Foil limits should be reviewed well in advance of each year's uprating to ensure that beneficiaries do not generally receive more than one order book for each benefit

Illustrative example of savings:

Cost of issuing 1.3m additional supplementary benefit order books in 1979 because foil limits had been set too low

|   |   |              |
|---|---|--------------|
| Encashment cost                                   | = | £3m          |
| Order book production costs (including 160 staff) | = | £0.9m        |
| Net cost  | = | <u>£3.9m</u> |

As a deterrent against fraud, DHSS decides in consultation with the Post Office what administrative limit to place on the upper values of foils in order books (eg the present supplementary benefit limit is £30 per foil so that if a weekly payment of £32 is to be made, two order books are issued one with a weekly value of £30 and one with a weekly value of £2). No regular review of these foil limits has taken place in the past, and, for the uprating this November, about  $\frac{2}{3}$  of supplementary benefit recipients will have two books issued rather than one. £1 $\frac{1}{2}$ m has had to be written off recently on books whose foil limits were so low as to make them no longer useable (eg "not more than £X" had been printed on each foil).

It has recently been decided by DHSS that foil limits should be reviewed every other year and a mechanism has been established so that this can be done. This is very much a step in the right direction. We believe that the issuing of extra order books carries in itself an increased risk of fraud and we recommend that as a general rule no beneficiary should ever receive more than one book for each benefit, and that foil limits should be reviewed well in advance of each uprating to ensure that this is so. Based on the 1979 experience (which was exceptional), we think that savings of £2m a year might result from this recommendation including a reduction of about 60 staff. (We acknowledge that the moves already taken by DHSS would in themselves have produced savings in due course.)

8. Paying beneficiaries who live overseas (paragraph 3.31)

Present position: The main method of paying overseas beneficiaries is by payable order sent by post

Recommendation: Benefits should be paid through nominated United Kingdom banks or through foreign banks with a branch in this country

|  |   |              |
|--|---|--------------|
| Savings in postage                         | = | £0.3m        |
| Savings in other costs (including 6 staff) | = | £0.2m        |
| Net saving                                 | = | <u>£0.5m</u> |
| Start-up cost (one year)                   | = | £0.06m       |

We think it reasonable that beneficiaries who choose to live overseas should bear the cost of transferring their benefit from this country to their country of residence (we exclude beneficiaries - eg war pensioners - who have never lived in the UK and those in countries for which there are special bilateral arrangements). At present, there exist a large variety of arrangements and it could be said that beneficiaries living abroad have been given better payment arrangements at DHSS expense than beneficiaries living in this country. We recommend a much greater standardisation of present arrangements with benefits being paid through banks with a branch in the United Kingdom. DHSS would pay either by direct credit transfer or by schedule to the bank concerned which would have been selected by the beneficiary from a list of those banks agreeing to participate in the scheme. DHSS responsibility for payment would end once payment had been made to the bank. Overseas Branch at Newcastle Central Office (total staff 1000) have produced the above estimated savings which include a reduction of 6 staff. We wonder if greater savings might be possible in the longer-term.

9. Paying small amounts of benefit (paragraph 3.33)

Present position: Benefit amounting to less than 50p a week is paid by girocheque quarterly in arrears (except for family income supplement and supplementary benefit)

Recommendation: Benefit amounting to less than 50p a week should be paid once a year in arrears: sums between 50p-£1 should be paid once every six months in arrears (including family income supplement and supplementary benefit)

About 60,000 people receive less than 50p benefit a week  
about 20,000 people receive between 50p-£1 benefit a week

Realisable savings = £0.1m



The present 50p limit below which payments are made quarterly in arrears has not been reviewed for three years. Sums above this level are paid by order book which in some cases means that DHSS incur payment costs of £10 a year to pay benefit amounting to £30 a year. There is frequent public criticism of present arrangements. It would be cheaper for DHSS to pay small sums less frequently in larger lump sums and this would also be more convenient for the customers. We suggest sums up to 50p a week should be paid annually in arrears and sums 50p-£1 should be paid once every six months in arrears. It may be that the limit should be even higher: it should certainly be regularly reviewed. We have tentatively included supplementary benefit in the recommendation but this should be given further consideration.

10. Controls on cashing girocheques at post offices (paragraph 3.32)

Present position: DHSS girocheques can be cashed at any post office subject to evidence of identity being required if sum involved is more than £30

Recommendation: DHSS girocheques for supplementary benefit should only be cashable at a post office nominated by the beneficiary. Evidence of identity should be required for all girocheques above £50 in value

Saving in post office charges from raising identity  
check limit to £50 = £0.5m

Saving from requiring nominated post offices = £0.3m

The Department of Employment requires people receiving unemployment benefit girocheques to nominate the post office at which they wish to cash them. The post office is shown in code on the girocheque. Introduction of this measure caused the number of "lost" girocheques to fall by 40%. It would be cost-effective for DHSS to introduce similar arrangements for supplementary benefit girocheques. Also, there is some evidence that the identity checks on people cashing girocheques value £30 or more are not carried out very effectively. We recommend the limit is increased to £50 and the checking procedures tightened up. Nominating post offices will cause an increase of staff in DHSS local offices but this should be completely offset by a decrease in staff time spent in following-up "lost" girocheques.

11. Miscellaneous recommendations (paragraph 3.33) (not costed)

a) Until direct credit transfer is widely available, the cheapest way for DHSS to make one-off payments is by computer-produced payable order. These orders have to be presented through a bank account but customers of Departments other than DHSS seem to manage (eg income tax refunds, county court payments). We suggest that DHSS adopts payable orders wherever possible.

b) Sometimes when order books are issued, payment of arrears has to be made at the same time. Occasionally this is done by separate girocheque. It should be standard practice to pay these arrears on the first foil of the order book (unless the sum involved is excessively large) and, if necessary, a separate foil limit should be set for the first foil.

c) If circumstances of a beneficiary change during the currency of an order book, benefit payments are sometimes affected. Separate order books are issued or the original book is re-rated. For supplementary benefit recipients, changes leading to an alteration of benefit of less than 50p a week are held and the balance is paid on the first foil of the next book. We think this sum should be regularly reviewed and that a higher sum (eg £1) should apply to National Insurance benefits (eg when the earnings of a retirement pensioner subject to the earnings rule change).

