CF

Tsy
cc. Mr. Ingham

MISC 14

HMT
DOI
D/M
C&D
(CPRS)
+ CO

Govt Mach

10 DOWNING STREET

From the Private Secretary

MR. IBBS
CABINET OFFICE

This is just to confirm that the Prime Minister is content that the CPRS report on cashless pay should be published.

I am sending a copy of this note to the Private Secretaries to members of MISC 14, the Secretary of State for Employment and Sir Robert Armstrong.

T. P. LANKESTER

29 April 1981

E.R.

1

cc Press Office

PRIME MINISTER

see Ibbs to Ch Ex of 16-3-81

You should know that the CPRS are planning to publish a report they have done on cashless pay. Copy attached. The Chancellor and Sir Keith, and also Mr. Heseltine who has been involved as a member of MISC 14, are keen that it should be published as soon as possible.

Content?

M

R

28 April 1981

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

CC Press Office T/(O(R)
to see
MS
21/4

21 April 1981

The Rt. Hon. James Prior MP
Secretary of State for Employment

Cornish (CPRS) rang on 23/4 to say that he hoped we wd agree formally to publication after the bank strike — cd you tell him all is well?
MS
23/4

Dear Jim

CASHLESS PAY: ALTERNATIVES TO CASH IN PAYMENT OF WAGES

will request if required

Thank you for copying to me your letter of 9 April to Robin Ibbs. I note that you are content for publication of the CPRS report (subject to some minor amendments) to go ahead and I think we should aim to publish the report as soon as possible.

I understand from contact between my officials and CPRS that it should be possible to arrange for publication of the report at the end of May or early June. We will however have to bear in mind the possibility of a bank strike; a strike would clearly be an unfortunate backdrop against which to release the report, particularly if it lasted long enough to cause serious problems for personal customers and thus call into question the merits of cashless pay. But we need to make only contingency arrangements to accommodate this; it would be sensible to go ahead as planned (ie publication in late May/early June) and only change the publication date if an extended bank strike had occurred meanwhile.

I note your suggestion that it might be best to set the deadline for comments on the report a little later than end October, as suggested in Robin Ibbs' letter. I doubt whether in practice there is much difference between what you and Robin Ibbs have in mind on the length of the consultation period. I believe he would be happy to accommodate you on this aspect. Can I suggest therefore that we agree now on a consultation period of six months from the date of publication (assuming that the bank strike and other eventualities do not delay publication beyond June).

I am copying this letter to the recipients of yours and Robin Ibbs.

Ever
Geoffrey

GEOFFREY HOWE

Govt Mach

MR

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/12645/81

Your ref:

-2 APR 81

Dear Geoffrey

I have seen a copy of Robin Ibbs' letter to you of 16 March, with which he enclosed the CPRS draft discussion document on cashless pay. I see no need for us to discuss this again in MISC 14 and, subject to the Prime Minister's approval, would be content for the document to be published as drafted.

I am copying this letter to the recipients of Robin Ibbs'.

Yours ever

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe QC MP

3 APR 1981

Gov Mach

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

26 March 1981

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

TL 27/3

Dear Geoffrey.

CASHLESS PAY

Robin Ibbs sent me a copy of his letter of 16 March and the draft discussion document on cashless pay.

2 I support the publication by the CPRS of a document along these lines. A significant move towards cashless or monthly pay would benefit industry and will only come about if deep rooted attitudes can be changed. The best way of helping to do this is through stimulating a non-partisan public debate.

3 The follow up action proposed by Robin seems basically right, but I suggest the document should be more widely circulated for comment. In addition to the CBI, the Association of British Chambers of Commerce and the various bodies representing small firms should certainly receive copies. I assume that the Post Office and National Girobank would also be on the list.

4 I am sending copies of this letter to the Prime Minister, to the other members of MISC 14, to Jim Prior, Sir Robert Armstrong and Robin Ibbs.

Yours.

Keith

Ger Mall

cc Press Office
DMcN'

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

24 March 1981

J R Ibbs Esq
Central Policy Review Staff
Cabinet Office
Whitehall
LONDON
SW1A 2AS

Dear Robin

CASHLESS PAY : ALTERNATIVES TO CASH IN PAYMENT OF WAGES

Thank you for your letter of 16 March enclosing the draft CPRS report on this subject.

As you know, I share your view that there are important benefits to be gained from a shift towards cashless methods of wage payment. It is of course a sensitive issue, particularly as regards the Truck Acts, and I welcome the cautious treatment of this issue in the report and the way in which it is handled within the wider context of the scope for government action. I think this is the right approach. I also agree with the emphasis in the report on the key importance of the parties most clearly involved - employers, banks and employees, rather than the government - making progress.

I am therefore strongly in favour of the report being published as soon as possible and hope that other Ministers will feel able to clear the report by correspondence. I do however have some minor drafting amendments to suggest (in the attached annex) which you may like to take on board.

Finally I am also happy with the procedure for handling the report suggested in your letter.

Copies of this letter go to the recipients of yours.

GEOFFREY HOWE

ANNEX

SUGGESTED AMENDMENTS

I. In paragraph 12d on page 8, the fourth sentence:

> "Unions, although in many cases understanding the advantages of change for their members may concentrate on the disadvantages."

is perhaps rather untactful. I would suggest instead:-

> "Unions, partly perhaps for historical reasons may tend to over-estimate the disadvantages of change."

II. In paragraph 20(b) on page 10, the seventh sentence:-

> "There would be no obligation for pensioners or widows to alter their present method of payment."

is perhaps not entirely clear in context. I suggest that the following might convey more clearly what is I think the intended meaning:-

> "There would however be no obligation for pensioners or widows to accept a change in the method by which they are paid at present if they did not want it."

III. Similarly, in paragraph 22 on page 11, the second sentence:-

> "The provision which the Acts provide against arbitrary and unfair deductions may however be greater than the small number of complaints mignt seem to indicate."

might perhaps be redrafted as follows to bring out more clearly what is presumably the intended meaning:-

> "The degree of protection which the Acts provide against arbitrary and unfair deductions might seem greater than strictly necessary given the small number of complaints."

CONFIDENTIAL

EC, Duguid

Govt Mach

CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

Qa 05291

16 March 1981

Dear Chancellor,

Cashless Pay: attached alternatives to cash in payment of wages

You will recall that MISC 14, at its meeting on 5 August last year (MISC 14(80) 5th Meeting, Item 2), asked the CPRS to draft a discussion document for publication in due course. Since then we have had a number of further discussions, including a talk with the TUC (as MISC 14 envisaged) and with two or three unions. We have also kept in close touch with the Committee of London Clearing Bankers who themselves launched a campaign for monthly non-cash payment earlier this year. The CLCB has indicated that publication of a CPRS document on these lines in the spring or early summer would in their view be helpful.

A draft discussion document, with publication in view, is enclosed. It has been seen in earlier draft by the main interested departments (DE, Treasury, CSD, DOE, DOI, MOD, HO and DHSS) and we have so far as possible taken account of their comments. The document, if published, would however be one for which the CPRS only was responsible, and it would be prefaced by the normal disclaimer.

The document makes it clear that the way forward lies primarily with the parties most clearly involved - employers, banks, unions and employees. The role of Government - as employer, payer of benefits and legislator - is discussed in paragraphs 16 to 26. More detailed material on the Truck Acts and Payment of Wages Act is in the two Annexes (including at Annex B a brief discussion of options for repeal or amendment).

The Rt Hon Sir Geoffrey Howe QC MP
H M TREASURY
S W 1

There has been some difference of view between departments as to whether the document places too much or too little emphasis on the Truck Acts. Our own view is that the protection given to manual workers by the Acts is not an overriding barrier to progress. There is a good deal of evidence that a positive approach by employers and banks (including, if necessary, appropriate incentives) can get results on a voluntary basis. The banks are not asking for legislative change (which they feel might be counter-productive in union attitudes), and the TUC and unions - while generally openminded on the case for more non-cash payment in appropriate circumstances - would almost certainly strongly oppose the removal of current protection. Nevertheless, the Acts in their present form are perceived by some employers as an important obstacle to progress. And within the public sector this view is shared by the MOD so far as their industrial staff are concerned and by the Chief Inspector of Audit in his recently published report on payment of local authority manuals. The draft document aims to put the Acts into the wider context without giving them undue prominence, but at the same time to discuss the issues fairly (and in Annex B the pros and cons of legislative options including the status quo). We do not make any recommendations, and think it would be premature to do so. One of the purposes of the document is to obtain a better political assessment of reactions than is available at present. But we think there would be justifiable criticism if the document failed to discuss adequately one of the few aspects of the problem that is a direct responsibility of Government. In short, I think that the balance of the draft is about right.

It would now be helpful to know whether you, and other Ministers to whom I am copying this, agree that a CPRS discussion Document in this form should be published. If so, subject to the Prime Minister's agreement to publication, we think that it would be desirable to publish it as soon as HMSO can make the necessary arrangements, and in any case by the early summer.

If publication goes ahead, a certain amount of follow-up action will be desirable in order to try to ensure that the report has the maximum possible effect. We suggest:

(a) a press notice at time of publication underlining the main points;

(b) sending copies of the document to the CBI, banks and the TUC;

(c) a discussion in NEDC later this year (as envisaged at the MISC 14 discussion last year), probably based on the document;

(d) a further report to Ministers by officials when the comments on the report (which we suggest should be asked for by the end of October this year) have been received and collated;

(e) consideration, in the light both of reaction to the report and other developments (e.g. the progress of the banks' own campaign), of any further Government action to give impetus to the movement to cashless monthly pay.

If publication is agreed, I should be grateful to know whether these proposals for follow-up action are also agreed.

It may well be possible to clear this in correspondence, but, if you or other Ministers feel that a discussion is required, I would suggest that this should be fitted in at a MISC 14 meeting later this month.

I am sending copies of this letter and of the draft document to other members of MISC 14 and to the Secretary of State for Employment. I am also sending a copy to Mr Lankester (No. 10 Private Office) in view of the fact that the Prime Minister's agreement is required to the publication of any CPRS document, and to Sir Robert Armstrong.

Yours sincerely,

J R Ibbs

CASHLESS PAY: ALTERNATIVES TO CASH IN THE PAYMENT OF WAGES

Introduction

1. In 1979, 13½ million British employees were paid in cash, over half the total. This is a million fewer than in 1976. The number of employees without current accounts in banks is also falling. Perhaps the days of the bulky weekly pay-packet are numbered, as employees, employers and banks of all kinds increasingly see the advantages of cashless pay. By this we mean earnings being paid directly into an employee's account with a bank (including the National Girobank, Co-operative Bank, or Trustee Savings Bank), or payment by cheque. There is also movement from weekly to monthly pay, although the difference remains as one of the most obvious distinctions between white collar employees and the rest of the labour force.

2. Yet movement in these directions is slow. There are disadvantages as well as advantages in cashless pay. There may be obstacles to its growth which could be removed. The Government may be able to focus attention on what the CPRS believes to be an important subject; indeed the main aim of this report is to encourage wider discussion of methods of payment (and the benefits and difficulties of changing them) among employers, employees, banks, unions and the public generally. We hope that all those concerned will re-examine existing attitudes and look for means of solving some of the difficulties which stand in the way of useful change. The Government also has a part to play as an employer and provider of benefit payments. Current legislation (the Truck Acts and the Payments of Wages Act) is held by some to be a barrier: broadly, the latter Act requires that manual workers (but not other employees) must be paid in cash unless they request otherwise.

3. The Central Policy Review Staff has been doing some work on this subject during the past year, and Ministers have decided that the time has come to assist public discussion of an important subject by publishing this discussion paper. It first looks at the advantages and disadvantages of the various methods of payment (cash, cheque or bank credit transfer) and frequency of payment (weekly or monthly, with fortnightly or four weekly pay as possible alternatives). The current position and recent trends in the United Kingdom are described and compared with those in some other countries (paragraphs 5 to 9). The benefits, and the difficulties, of further movement towards non-cash payment, whether weekly or monthly, are summarised (paragraphs 10 to 15). The role of Government is discussed (paragraphs 16 to 26). Finally, our conclusions are set out (paragraphs 27 and 28), and comments are invited (paragraph 29).

4. In preparing the report, the CPRS has had discussions with the CBI, the TUC, a number of firms and unions both large and small, nationalised industry, banking (the Committee of London Clearing Bankers, the Inter-Bank Research Organisation (IBRO), Barclays Bank, the Post Office's National Girobank, the Co-operative Bank and the Trustee Savings Banks) and Government Departments. We are grateful for their help; the responsibility for this report is however our own.

Britain and other countries

5. Details of how British people were paid in 1979 are set out in Table 1. It is worth noting that those paid in cash include 78 per cent of manual workers (showing that the Payment of Wages Act is not a total barrier to non-cash payment), and 35 per cent of non-manual workers (despite the fact that they are not covered by the Act).

Table 1: Methods by which the wages of British employees were paid in 1979

percentages

		Manual		Non-manual		All employees	
Cash:	weekly in cash	77	78	34	35	53	54
	monthly in cash	1		1		1	
Non-cash:	weekly by bank credit	7	21	6	65	6	45
	weekly by cheque	6		4		5	
	monthly by bank credit	5		43		25	
	monthly by cheque	3		12		9	
Total			100		100		100

Source: IBRO

Note: The totals include very small numbers of staff paid by transfer into accounts other than bank accounts (notably building society accounts), and therefore not included in the itemised figures.

Table 2 shows there has been a significant reduction in the proportion of the population paid in cash over the period 1969-79. In the period 1969-76 movement was most marked among non-manual workers, and was often accompanied by a move to monthly payment. Since 1976 the change has been concentrated on manual workers, where the steady progress of the preceding period has been maintained. Among manual workers there has been much less tendency to associate the switch from cash with a move from weekly to monthly pay. Manual workers making a change from cashless pay are increasingly being paid by cheque, although this is an alternative which may not offer as full advantages as payment into a bank account.

Table 2: Method of payment of wages and salaries, 1969, 1976, 1979

percentages

	Manual			Non-manual			All employees		
	1969	1976	1979	1969	1976	1979	1969	1976	1979
Cash	89	82	78	52	35	35	75	59	54
Bank credit	6	11	12	30	47	49	15	27	31
Cheque	5	6	9	17	16	16	10	12	14
Other non-cash	-	1	1	1	2	-	-	2	1

Source: IBRO

6. Between 1976 and 1979 the percentage of employees with bank current accounts rose from 51 per cent to 57 per cent. About 40 per cent of those employees who are paid weekly in cash already have current bank accounts. Other figures show that only 15 per cent of the adult population possess no bank or savings account at all (including building society and national savings bank accounts).

7. There is a strong contrast with methods of payment in most other developed countries. Comparisons may vary in statistical definition, but, according to IBRO, only 1 per cent of US workers, and 5 per cent of Canadian and West German workers, are paid weekly in cash. In France, under 25 per cent are paid in cash, and all workers are paid monthly: over the last decade government and unions have actively pursued monthly cashless payment of wages as part of a wider move towards single staff status. In the Netherlands, the change to monthly cashless pay (now covering 85 per cent of workers) has mainly been brought about by banks and employers. Legislation on the same lines as the Truck Acts has not been repealed, but the Dutch government has helped by paying all its employees by Giro or cheque. Italy and Spain, in contrast, have a higher proportion of workers paid weekly in cash than the United Kingdom.

8. One must of course bear in mind that each country has its own institutions, traditions and attitudes bringing their own advantages and problems; for example, most French banks are open on Saturdays, shops in the United States are often ready to cash cheques, and the system of giro banks and savings banks is highly

developed in several continental countries. Nevertheless, the much higher prevalence of cash (and weekly) payment in the United Kingdom as compared with most other developed countries is striking.

9. There is a wide variety of factors influencing the present United Kingdom position, and the pace of change. The following paragraphs attempt to summarise these factors under two headings: the advantages of change on the one hand, and the obstacles or problems on the other. Since the benefits, and associated obstacles, of moving from weekly cash to non-cash payment still on a weekly basis differ in a number of respects from those involved in moving to non-cash payment on a monthly basis, these are dealt with separately.

<u>Benefits from change to non-cash payment</u>

10. For movement from cash to non-cash (even though still on a weekly basis), the main benefits are -

a. For <u>employers</u>, there can be considerable administrative savings and gains in efficiency from changing the method of payment from weekly cash to weekly credit transfer to employees' bank accounts. These mainly arise from staff no longer needed to make up pay packets; working time otherwise lost when staff queue up to be paid on pay day; in payments for security of cash at the workplace (either for security guards and installations, or for insurance cover); and possibly a day or so's cash flow savings. Payment by cheque will also produce savings, but is more expensive to the employer than payment into bank accounts. Depending on circumstances, an employer may wish to offer an incentive scheme to give the necessary momentum to the changeover to one or another form of cashless pay. Possibilities include single lump-sum payments, payments to cover bank charges, or improved conditions of service, e.g. to lessen white collar-blue collar distinctions in other ways. It may sometimes be desirable on general grounds of staff relations to extend incentives to employees who have already made the change. But even where some of the financial benefit is passed on to employees, considerable savings* can still be secured.

b. For <u>employees</u>, there are often worthwhile advantages from being paid into bank accounts - less cash at risk of theft or loss, facilities for paying bills by cheque or standing order, access to other banking services

*Details of such savings, and advice on how to change methods and frequency of payment, are contained in a booklet entitled 'Payment of Wages: introductory guidelines for employers' published by the High Street Banks and obtainable from 10 Lombard Street, London, EC3V 9AP.

(including personal loans at rates more favourable than hire purchase). Employees paid by cheque do not enjoy all of these benefits, though to some a simple cheque transaction may seem less baffling than a bank account. Continuing advances in information technology will improve the speed and convenience of the services that the banks can offer (for example, more rapid transfer of funds from employer to employee's bank account, and further growth in the number of automated cash dispensing machines offering cash at all times). Such advances in technology will in turn make bank accounts more attractive to employees now being paid in cash or by cheque.

c. For the banks, there are gains from acquiring new customers. These are most obvious when movement to payment into bank accounts takes place on a monthly rather than a weekly basis, but banks are also generally prepared to accept, and in some cases seek out, business on the basis of weekly payment into bank accounts (7 per cent of manuals and 6 per cent of non-manuals are so paid). Even if the banks' profit on such current accounts alone may be modest, they gain new customers for other banking services. The National Girobank in particular can expect to pick up a worthwhile proportion of employees opening new bank accounts, not least because of its convenient opening hours. This should provide some useful additional business for sub-post offices.

d. For the police, for firms and for many members of the public, there are clear security gains from reducing payment in cash. There are large risks for staff in transporting and paying out cash. The Home Office Standing Committee on Crime Prevention (and its sub-committees) - on which police, CBI, TUC, the security industry and various commercial interests are represented - have from time to time discussed the benefits in terms of crime prevention of eliminating payment of wages in cash. Less payment by cash would reduce opportunities for robberies with violence, which have been increasing (including robberies and attempted robberies from security vans which numbered 187 in 1979, resulting in 33 injuries). Moreover, employees receiving their pay in bank accounts would be more likely to use cheques rather than cash for many of their own payments. This should reduce other opportunities for robbery or theft. Opportunities for cash robbery would obviously still exist (from banks, post offices, shops etc. and cash in transport between them): only 20 per cent of cash carried by security vans at present is for wages. Nevertheless, there would be fewer targets to be defended. The elimination (or reduction) of payment in cash would be an important step in the right direction.

e. Non-cash payment is also a step in reducing differences between blue and white collar workers, and thus may contribute to movement towards single staff status.

Benefits of monthly pay

11. There are additional benefits if non-cash payment is made monthly (or, as a halfway house, fortnightly) -

a. For the employer, the savings are larger, partly because wages themselves have to be calculated less frequently, and partly because there are likely to be cash flow advantages once the transition has been made and assuming payment in arrears. (Again, payment by cheque secures fewer savings than payment into bank accounts.) Analysis by the clearing banks has led them to estimate total average savings per employee moved from weekly cash pay to monthly pay by bank credit at about £30 per year, or nearly 60p per employee per week. This figure is an average which covers wide differences between firms, and savings for smaller employers (eg where payment is only a minor part of a job for a single employee) are likely to be less. The move to monthly pay may also encourage the simplification of pay arrangements.

b. For the employee, monthly payment into bank accounts may make budgeting easier. Recurrent payments - such as mortgage interest, hire-purchase repayment, budget accounts for shops, gas and electricity, and in many cases rent and life assurance - tend increasingly to be on a monthly basis.

c. The banks gain considerably from a change to monthly (or fortnightly) pay into bank accounts rather than weekly pay, because the average balance in the new customers' current accounts is likely to be a good deal higher. The increase in the banks' business could lead to reduced bank charges (or less pressure to increase them), and greater scope for the use of cash dispensing machines.

d. A move to monthly non-cash pay is a more significant step towards single staff status than the move to weekly non-cash payment. Eliminating differences in methods of payment can be seen as one element of a longer term process of moving towards single status.

Problems of weekly cashless pay

12. Despite these advantages, there are a number of problems and difficulties (excluding the Truck Acts, which are discussed at paragraphs 21-26 below) which stand in the way of more rapid movement away from cash payment. Where the move is from weekly cash to weekly non-cash, the main points are -

a. Employees who are not paid in cash still have to be able to obtain cash at convenient times, and will need either to draw money from an account or to cash an employer's cheque. Access to a bank during opening hours may not be possible from the place of work (due to distance or work schedules). The fact that banks (except for National Girobank, the Co-op bank outlets in shops and a few foreign-owned banks) are not open on Saturday in this country is sometimes a serious handicap. There are various possible solutions to this difficulty, eg a bank can arrange for a sub-branch to be opened in a large factory for limited periods during the week, or automated cash dispensers can be provided at the factory (or in town centres). But banks are not always ready to help in this way for various reasons, eg the security risks of a sub-branch or a cash dispenser may be high, and cash dispensers are relatively expensive (they cost around £20,000 to buy) and need fairly intensive use to justify their cost.

b. Employees may also be justifiably concerned about extra costs falling on them if they move to non-cash payment into a bank account. The level of bank charges in the future is unpredictable (even if the bank offers free facilities for an initial period), particularly as the employee is likely to be uncertain how his average balance will settle down. In contrast to a post office savings banks or building society account (and in contrast to many of the savings banks used in other countries for payment of wages), a bank current account offers no interest incentive.

c. There are also deep-seated social attitudes, particularly among some older workers, which are slow to change, such as a preference for seeing one's money in cash, being accustomed to cash budgeting, reluctance to let one's wife (or husband) know the size of the paypacket (which bank statements would reveal), or institutional preferences and prejudices (eg unfamiliarity with clearing banks as compared with post offices, trustee savings banks, co-ops, or building societies). There may be fears that a computer-based system could break down. This would not apply to payment by cheque, but in industries where there are small firms which may go out of business very rapidly there can be anxiety that payment by cheque involves the risk that the cheque may bounce.

d. Lack of understanding and unwillingness to change on the part of other parties involved - employes, unions and banks - can also be unhelpful. Employers may not appreciate the savings that can be made, or may overestimate the difficulty of making a change. They may also be reluctant to accept the case for sharing the benefit with employees where this is possible. Unions, although in many cases understanding the advantages of change for their members, may concentrate on the disadvantages. The clearing banks have not in the past shown themselves particularly interested in new weekly paid customers. More might be done to attract people at present unwilling to open bank accounts. For example, there is often real concern about the level of possible bank charges; more thought might be given to ways of meeting this concern, e.g. through guarantees of free banking services. There is also a case for more flexible bank opening hours. In particular, Saturday opening by those banks which are at present open only on weekdays seems likely to be helpful. Despite staff opposition in current circumstances, there should be a wide area of common employee-employer interest in attracting more bank customers, particularly when technological change is reducing the manpower required to meet existing customer needs. Finally, the time at present needed by the banking system between receiving pay information from the employer and crediting the employees' accounts should, if possible, be shortened.

Problems of monthly cashless pay

13. Where the move is to monthly non-cash pay, some additional problems can arise -

a. Where bonus payment schemes are linked to short-term gains and losses in productivity, the success of the scheme for both employer and employees may be greater if payment reflects the effort of the immediately preceding week. Monthly payment may obscure the link between pay and productivity (unless the scheme itself is substantially altered), and make it more difficult to question mistakes. In some cases simplification of payment schemes may be a necessary pre-condition of the change.

b. There are immediate transitional problems for employees in any movement from weekly to monthly pay in arrears. These can be solved by the employer arranging for a temporary loan to the employee, but, depending on the precise phasing arrangements, this may carry with it a temporary cash flow disadvantage for the employer before the cash flow gains start to accrue.

c. Social attitudes are again important. The move to monthly budgeting may be particularly difficult for people who have been used to managing from week to week, and some of whose major payments out may still be on a weekly basis. A move to fortnightly pay may be useful as a half-way house.

Benefits and problems - general assessment

14. The difficulties outlined in paragraphs 12-13 above are real ones, but some have more force than others and they are in general more transitional than long-term in character. We believe that, given adequate co-operation and flexibility on the part of all concerned, they can be much reduced, if not entirely solved.

15. Overall, despite the difficulties, there are undoubtedly gains in efficiency for the economy as a whole in switching from weekly payment in cash. This is because a widespread switch from weekly payments in cash to monthly payments via banks would bring substantial cash savings. While cash is sometimes an appropriate payment mechanism, it is in general more costly (for the reasons outlined in paragraphs 10 and 11 above) for the payment of relatively large sums, such as wages, on a regular basis. This argues for some form of action to draw attention to the advantages of a switch from cash to non-cash wage payments (preferable on a monthly basis), and to reduce so far as possible the difficulties outlined in paragraphs 12-13 above.

The Role of Government

16. The primary responsibility for tackling the barriers to more rapid movement to cashless, monthly pay must lie with those most directly concerned: the employers, banks, and employees themselves. The Government may be able to help spread understanding of the potential benefits, not least in helping to prevent crime. But the Government also has a more direct role as paymaster of its own employees, as the channeller of funds to pensioners and others who receive benefits, and as a framer of legislation should this be needed.

(a) Payment of wages in public sector

17. The Government is directly responsible for payment of industrial and non-industrial civil servants. It is perhaps surprising that for significant numbers cash payment (normally weekly) is still the practice. Out of 540,000 non-industrial civil servants, roughly 9,000 monthly-paid and 40,000 weekly-paid staff are still paid in cash. If these and a further 80,000 weekly-paid staff paid other than in cash could be persuaded to move to monthly payment into bank accounts, there would be a saving in the region of 500 staff now doing pay work. The total savings from staff and other factors, including cash flow effect, could be of the order of nearly £8 million a year. There are difficulties in imposing changes in the frequency and method of payment on existing staff, and in securing a voluntary switch without offering financial incentives. It is proposed however that, beginning in the near future, new entrants to the non-industrial Civil Service should in general as a condition of service be paid monthly into bank accounts. Given the turnover of staff, this should achieve 75 per cent of the potential savings within about five years. At the same time serving weekly paid staff (whether or not paid in cash at present) will have the option of changing to monthly pay by bank credit if they wish. Given the savings that can be achieved, we hope that ways can be found of encouraging them to do so.

18. There are roughly 155,000 industrial civil servants, most of them employed in various establishments of the Ministry of Defence and the Department of the Environment. At present, all are paid weekly, some 40 per cent of them in cash and a high proportion of the others by giro cheque, which is considerably more expensive than credit transfer into a bank account. Here, too, further progress towards monthly pay by credit transfer, if this could be achieved, would bring large savings in money and staff.

19. In the public sector more widely, there is a mixed picture of progress in some areas (for example, North Thames Gas obtained a worthwhile switch to credit payment by offering a lump sum payment to employees who made the change), and little change in others. So far as local government is concerned, the 1979/80 report of the Chief Inspector of Audit gives a valuable analysis, including detailed figures (based on a sample review) which demonstrate striking differences between the average annual costs of payment in cash as opposed to payment by credit transfer or cheque. The report estimates that the cost of paying 2.6 million local government employees is over £25 million, and that this cost could be halved if all employees were paid by bank credit or cheque, and reduced to £2 million or £3 million if they were also paid monthly. The CPRS believes that local authorities should take a close look at the possibility of making such savings, particularly now when the alternative may be painful cuts in services. We have little doubt that there is scope for savings on a similar proportionate scale in other parts of the public sector (eg the National Health Service).

(b) Payment of benefits

20. Apart from its role as employer, the Government is also directly involved on a massive scale in money transfer payments to pensioners and other recipients of social security benefits. Roughly a thousand million such payments are made each year, at a cost to public expenditure of administering these payments of well over £300 million at current prices. At present most of these payments are made weekly and cashed at post offices. In their reply to the First Report from the Social Services Committee on arrangements for paying social security benefits (Cmd. 8106), the Government set out proposals for the future. Payment by credit transfer would be offered from mid-1982 onwards to most beneficiaries who wanted it. Payment would be at four-weekly intervals, or quarterly, in arrears. There would be no obligation for pensioners or widows to alter their present method of payment. Child benefit would be paid four-weekly in arrears by credit transfer or order book, except for more vulnerable families in defined categories who could keep weekly payment if they wanted. Other benefits would be paid on the lines proposed for pensions. The Government has asked for views on these proposals. The potential gain in efficiency and savings in public expenditure is considerable.

(c) <u>The Truck Acts and Payment of Wages Act</u>

21. Current legislation affecting methods of payment consists of the Truck Acts, 1831-1940, and the Payment of Wages Act, 1960. A brief history of these Acts is given in Annex A. The legislation applies to <u>manual workers</u> (excluding domestic servants) only. Its effect is as follows -

a. employees must be paid in cash, except if they themselves make a written request (which can be withdrawn at any time at a month's notice) to be paid by credit transfer, cheque, postal or money order;

b. only those forms of deduction specified in the Acts are legal;

c. all payments in kind are prohibited;

d. no restrictions can be placed on the way in which workers should spend their wages.

22. The number of individual complaints by employees under the Acts to the Factories Inspectorate is small, and they mostly concern deductions. The provision which the Acts provide against arbitrary and unfair deductions may however be greater than the small number of complaints might seem to indicate. Wider interest in the Acts, and criticism from employers and industry, centre on the requirement to pay manual workers by cash unless they ask otherwise. This is the relevance of the Acts to the subject of this report. Two earlier enquiries into the working of the Acts are summarised in Annex A, paragraphs 5 to 8.

23. There are also treaty obligations dealing, among other matters, with methods of payment and deductions. These arise from the United Kingdom's ratification of the Protection of Wages Convention (No. 95), 1949, of the International Labour Organisation (ILO). The existing provisions of the Truck Acts and the Payment of Wages Act are the vehicle for United Kingdom compliance with the Convention.

24. It will be evident from paragraphs 10-15 above that the Payment of Wages Act is only one factor in a complex interplay of factors affecting change in methods of payment. The Act has not prevented a significant number of firms from attempting, often successfully, to obtain the voluntary agreement of their manual workers to the switch from cash to cashless pay.

25. Limited recent survey evidence from the private sector (based on 200 firms, only 5 per cent of whom mentioned the Truck Acts) suggests that only a small minority of employers put the Acts high on their list of significant obstacles the movement to cashless pay. Nevertheless some do. And in the public sector there are undoubtedly areas (e.g. industrial civil servants and local authority manuals) where the Acts in their present form are perceived as a significant brake on progress. Moreover, we believe that a number of firms, faced with legislation which is uncertain and potentially tricky in its application, may give up rather than make a change to cashless, monthly pay even though this change would come to be seen as useful by all concerned. Some of the uncertainties stem from attempts in the Truck Acts to define 'manual worker' in terms which were probably unclear even in Victorian times and are now anachronistic as well. The legislation may also forbid deductions from pay or the provision of non-cash benefits which are nevertheless regarded as desirable on all sides. A company which is considering reorganising its entire payments system on a non-cash, monthly basis may be deterred by the risk that individual employees could subsequently demand a return to cash payment for which there would no longer be any facilities.

26. Despite these problems, the CPRS does not believe that the Truck Acts, and specifically the Payment of Wages Act, have been an overriding obstacle to the movement to cashless pay; a number of other social and economic obstacles mentioned above seem to us to have been more important barriers. We note also that the banks do not advocate any amendment to the Truck Acts. Nevertheless, the Acts in their present form are undoubtedly one of the obstacles, and one which is under the Government's control. If it were felt that legislative change was either necessary or desirable, a number of options could be considered (see Annex B).

Conclusion

27. The CPRS believes that there are significant general advantages in the movement to cashless pay (particularly by direct transfer to bank accounts) and to monthly rather than weekly pay. Non-cash payment benefits the economy as a whole as a result of resource gains from greater efficiency of pay systems. It results in significant cost savings for employers, and additional customers for banks. Society benefits from reduced opportunities for violent crime. The erosion of one of the traditional distinctions between manual and non-manual workers contributes to longer term movement towards single staff status. Employees also benefit from increased security and access to a wide range of banking services. There are undoubtedly transitional difficulties for employees who have become accustomed to weekly payment, and budgeting, in cash. But action by both employers and banks, in consultation with employees and their unions, can go a long way to ease or solve these difficulties.

28. Despite these advantages, progress in the United Kingdom has been far slower than in most other developed countries. Nearly four-fifths of manual workers, and over one-third of non-manual workers, are still paid weekly in cash. The steady but slow trend towards more cashless pay will doubtless continue in any case. But the CPRS believes that it would be for the general benefit if the trend could be accelerated, and that this should be possible if all those concerned are prepared to re-examine attitudes and to adopt a positive approach in tackling the transitional problems. We hope that this report can contribute towards this objective.

Comments

29. The main aim of this paper is to stimulate wider public discussion, particularly by those directly concerned, of the issues. But comments would be welcome, particularly on matters that lie within the Government's direct responsibilities (paragraphs 16-26). Any comments should be sent by [31 October 1981] to:

Central Policy Review Staff,
Room 429,
Cabinet Office,
70 Whitehall,
London, SW1A 2AS

The Central Policy Review Staff will forward comments to other Departments as appropriate.

A BRIEF HISTORY OF THE TRUCK ACTS

1. The Truck Act, 1831, consolidated and extended a series of laws reaching back to 1464. Its central purpose was to protect workers from abuses associated with payments in kind, and in particular from having to buy goods on credit and often at inflated prices at company shops. However, it seems not to have been very successful. The Truck Amendment Act, 1887, extended the scope of the 1831 Act, in particular to cover virtually all employees engaged in manual labour other than domestic servants. The Truck Act, 1896, completed the structure of the general legislation: it aimed to ensure that deductions from wages and payments in respect of disciplinary fines, bad work, use and supply of materials and tools etc. were fair and reasonable. In general, only deductions expressly sanctioned by the Act are legal. There was a further Truck Act in 1940, but this was of a purely technical nature.

2. The Truck Act, 1831, had the effect of allowing a worker to be paid by cheque only if he consented, and if the cheque was drawn on a bank which was both licenced to issue notes and within 15 miles of his place of work. The intention was simply to remove the abuse whereby employers paid their employees by drafts on distant banks which the employees could not possibly cash and so were obliged to exchange for goods at the company shop. This restriction became an absolute bar to payment by cheque when, in England and Wales, private banks ceased to issue their own notes. This cannot have been the intention of those who framed the Act. Nor could they have foreseen the development of credit transfer facilities.

3. Following a judgment in which Pye Radio Ltd was stopped by the Truck Acts from moving away from cash payment, the Payment of Wages Act, 1960, removed certain of the restrictions imposed by the Acts. In particular it enabled manual workers to be paid by credit transfer, postal order, money order or cheque, but only at the written request of the worker, or of a person authorised by him to act on his behalf, and with the agreement of the employer. A worker's agreement to payment by means other than cash can be withdrawn at any time on giving a month's notice.

4. There has been no subsequent legislation.

Reviews of the Truck Acts

5. In recent years there have been two enquiries into areas covered by the Acts: the Karmel Committee on the Truck Acts, which reported in 1961, and the 1972 report on "Methods of Payment", by the Department of Employment's National Joint Advisory Council (which consists of representatives of the CBI, TUC, nationalised industries and the Department of Employment).

6. The Karmel Committee found that the Truck Acts were outdated, not least because they discriminated between manual and non-manual workers in a way which was no longer justified. It concluded, nevertheless, that there was still a need for protective legislation to cover abuses by employers over deductions from pay. The Committee recommended that the Truck Acts should be replaced by new legislation establishing safeguards for all, not just manual workers, over deductions from pay, with the right to appeal to a tribunal. No action was taken on these recommendations.

7. The Committee did not regard itself as being directly concerned with the Payment of Wages Act. It did say, however, that while it thought the legislation concerning deductions should apply to all workers, and not just manual workers, it did not think that as a consequence the Payment of Wages Act should be similarly extended in scope. It thought therefore that the Act might need consequential amendment to ensure that it continued to apply only to manual workers.

8. The relative advantages of different methods of paying wages and salaries were considered in the 1972 report of the National Joint Advisory Council, and the Council also considered the possibility of amending the current legislation. The CBI suggested to the Council that the law should be more flexible, while the TUC thought that current safeguards should be retained and that, if the law should be changed, it should be to extend the Acts to cover all employees. The Council concluded that the present legislation was not the main impediment to the more widespread introduction of non-cash forms of payment and that there was no reason, therefore, to believe that a change in the law would greatly accelerate the changeover.

THE TRUCK ACTS: OPTIONS

1. The CPRS sees the choice as lying between three main options:

Option 1: do nothing

2. The case for leaving the legislation as it stands is that, even if some aspects of the Acts are outdated, a number of changes provide a protection for manual workers which should not be diluted. It can be argued that repeal, or even amendment, of the Payment of Wages Act in particular would bring about situations in which some employees could in effect be forced to open a bank account, and that this would be undesirable. It is true that even total repeal would only put manual workers in the same legal position as non-manual workers at present (and 35 per cent of these are still paid in cash), and that employers are almost certainly more constrained by collective bargaining in this area than by legislation. There is nevertheless a limited number of cases where bargaining power is weak and the interest of employees in payment of cash (e.g. because of a lack of adequate facilities to draw cash, or distrust of an employer's solvency) runs counter to the employers interests. There would doubtless be concern about possible hardship arising in such cases. At worst, an attempt to impose changes might lead to opposition even to sensible changes on a voluntary basis within the present law. The net result might be to set back, rather than advance, the slow movement towards cashless pay which is already taking place.

Option 2: repeal both the Truck Acts and the Payment of Wages Act

3. The case for repeal is: first, that many of the provisions are now either anomalous or anachronistic (eg the distinction between 'manual' and other workers); secondly, that the Acts do at least to a small extent hinder progress; and thirdly, that this is one of the few positive actions to encourage a desirable trend which is open to the Government. Manual employees (like non-manuals at present) would continue to be protected against methods of payment which are not acceptable to them either by the terms of their contracts of employment, or by their collective bargaining strength.

4. The case against this option is that set out under option 1 above. Further, whatever is done about the payment of wages, the Karmel Committee was clear in 1961 that some protection against improper deductions, with right of appeal to a tribunal, was needed, and that this should be extended to non-manual as well as manual workers (see Annex A). There is undoubtedly some scope for abuse in this area, and Karmel's conclusion probably still stands (although there is little recent direct information on the subject). New provisions (which could

be incorporated in the Employment Protection legislation) to provide minimum protection appropriate to modern conditions would probably be required. Finally, repeal would place the United Kingdom in breach of the ILO convention mentioned in paragraph 23 above. But a number of other Western countries have not ratified the Convention. The United Kingdom could follow them: repeal of ratification could not however take place before 1983.

Option 3: amendments to make the legislation less restrictive

5. The case for this approach is that, while wholesale repeal might be regarded as too radical, there might be general support for sensible amendments to the Truck Acts, in the context of helping movement towards cashless pay. So far as the payment of wages is concerned there is a range of possibilities. The following (either taken together or separately) could be worth considering. The first two modify the existing rules. The third goes further and is equivalent to gradual repeal -

i. give workers the right to opt into payment in cash, rather than to opt out as at present. This would be the least controversial, but also the least significant amendment. However, it would establish cashless payment as the norm, and so have some presentational and psychological effect. It would also make it easier to provide for non-cash payment as a normal condition of service for new employees.

ii. withdraw the present right to revoke a decision to accept cashless pay, except with the employer's agreement (or possibly to restrict the employees' right to revoke to, say, the first three months after the decision). This would remove any threat of reversion to cash which employees might be thought to be able to make against employers who have got rid of the means of handling cash payments and which may discourage some employers from moving away from cash in the first place.

iii. maintain the protection given to existing employees under the Payment of Wages Act (or as amended by i. or ii. above); but withdraw the protection from employees who accept new contracts of employment, or who take up new jobs. This would amount to gradual repeal while protecting those who did not change jobs. It would recognise the existing practice in some new factories.

6. There are two further less attractive possibilities. The first, which follows the French legislation, would be to give the current protection only to workers, probably non-manual as well as manual, earning less than a specified wage (e.g. a specified proportion of the average wage). This is an arbitrary approach, and would have the undesirable effect of adding new weight to the Truck Acts in the case of those workers who remained covered. The second possibility, which has been adopted in some other countries, is to make a change to cashless pay for the whole of a particular workforce possible when, say, the recognised unions or a given proportion of the workforce agree. It might however be argued that this impinges too much on the rights of individual workers. Moreover, trade unions might be unwilling to make such agreements against the wishes of a minority, however small, who refused to accept payment other than in cash. In addition, amending legislation would have to find a way round the legal difficulty that individual contracts of employment between employer and employee should always prevail in law over a collective agreement if there is any suspicion of conflict.

7. So far as deductions are concerned, it might in any case be desirable to bring forward amended provisions as under Option 2 above (paragraph 4).