

WELFARE REFORM COMMITTEE

THE FUTURE DELIVERY OF SOCIAL SECURITY IN SCOTLAND

WRITTEN SUBMISSION RECEIVED FROM VOCALINK

INTRODUCTION

VocaLink welcomes the Scottish Welfare Committee's inquiry into the Future of Social Security in Scotland, particularly looking at the ways in which the current delivery of services can be improved. Currently, VocaLink runs a large part of the UK payments infrastructure, including Bacs Direct Debit and Credit, the Faster Payments Service and the world's busiest ATM network, LINK which connects over 70,000 UK cash points. These services process over 10 billion transactions a year, worth some £6 trillion in payment value.

Through VocaLink systems, we process over 95% of salaries, virtually all the state benefits in the UK, and 70% of household bills. We also operate the Current Account Switching Service, the Cash ISA Switching service and host the banking industry's proxy service linking mobile phone numbers to bank account details, enabling mobile payments (Paym).

In competition with other infrastructure providers, VocaLink has significant experience of building and running economically critical payment systems and as such we have a relevant and unique perspective on how the Scottish Government could look to improve the current system for the delivery of social security. Of particular relevance, we currently provide intermediary services for the processing of social security benefits for HM Government, through our contracts with DWP. We also deliver services for HMRC.

KEY POINTS

- New EU legislation will make it possible for the Scottish Government to have a new, on-line relationship with benefit claimants that will allow the Scottish Government to better support claimants while reducing error.
- VocaLink believes that the UK's Faster Payments System (FPS) is under-utilised by HM Government particularly in ensuring that benefit claimants have access to money in minutes in specific circumstances.
- We believe there is an opportunity for payroll information collected on behalf of HMRC to input into benefit services, in particular making Work Programmes easier and lower cost to manage.
- Because of the high level of sensitivity of Universal Credit and other benefits payments, we believe that the Scottish Government needs to consider a range of cost effective contingency solutions.

- VocaLink's experience in high volume payment processing can support other objectives of the Scottish Government while managing the cost of payment management and reconciliation

IMPLICATIONS OF THE SMITH COMMISSION

As we understand, the Smith Commission proposes that Universal Credit will remain a reserved benefit that is administered and delivered by the Department for Work and Pensions. However, the Scottish Parliament will be given the power to vary the housing costs element of Universal Credit, including the ability to pay housing costs direct to landlords. The Parliament will also have the power to change the frequency of Universal Credit payments, and have the ability to split payments between household members.

Our assumptions in this paper are based on powers being devolved as described, although other options may exist if the Scottish Parliament receives more powers.

Given our expertise in supporting the UK government with the payment of welfare benefits, we believe that we can offer a unique insight to the Scottish Government. We believe that our systems can contribute to the safety, stability, flexibility and efficiency of any new Scottish benefits system. With further powers being devolved to the Scottish Government in respect of universal credit and the broader benefits system, VocaLink believes there are a number of options for the Scottish Government to consider in how they would operate a new social security system.

THE FUTURE PROVISION OF SOCIAL SECURITY IN SCOTLAND

On-line claimant services

Online claimant services would be possible through legislation introduced as part of the Second Payment Services Directive (PSD2) which has recently been agreed in Europe and is due for implementation in the UK by the end of 2017. Under PSD2, a third party provider (TPP) could create a new relationship with the consumer, which would allow them to have sight of a consumer's bank accounts, and the ability to make payments from these accounts.

There is a future opportunity here for Government, who in becoming a TPP and gaining consent from benefits claimants could understand a consumer's eligibility for a benefit or grant payment. Through analysing bank statements, it would also allow the Scottish Government to make more accurate benefit calculations based on evidence of income, or evidence of payments made by the claimant for acceptable purposes (e.g. childcare). It could also allow the Scottish Government to access some evidence of how benefits are being spent (e.g. energy bills and rent). This could dramatically improve the way in which benefits are paid, or to help the Scottish Government understand where further support needs to be given to claimants.

The exact ways in which this will operate are still under discussion but will depend on consumer consent for use of their personal banking data.

Real time payments

VocaLink processes welfare benefits for the Department for Work and Pensions on behalf of the Bacs scheme and Royal Bank of Scotland. This means that payments are confirmed with the scheme 3 days prior to being processed.

Therefore, if there are situations where recipients need payments urgently, these have to be processed separately and manually.

VocaLink believes that the ability to make a payment to a claimant in minutes is currently under-utilised by the DWP and that development of new interfaces could speed up this process.

VocaLink would propose that more individuals either at Governmental or Local Authority level, are given the ability to process immediate payments. This would provide a more effective service which could allow for smaller ad hoc payments in situations where claimant's personal issues necessitate an immediate payment, such as with emergency rent payments.

Frequency of payments

At present, Universal Credit is processed on a monthly basis, with payments calculated based on the previous month's pay.

VocaLink understands that the Scottish Government is keen to explore the possibility of increasing the frequency of UC payments. This would necessarily have an impact on the back office costs that the Scottish Government would see, however, VocaLink, with an in-depth understanding of payments, believe that a solution could be developed that ensured more accurate payments to individuals while managing back office costs.

This would also provide a more resilient system, with less impact on payments in the event of processing challenges as recipients would not be reliant on a single monthly payment.

Separating payments

VocaLink also understands that the Scottish Government will receive power to split payments between household members, or to pay housing benefit directly to landlords.

In the same way as increasing the frequency of payments, this would increase the back office costs for the Scottish Government. However, VocaLink believes that it would be possible to easily create a system for processing these payments, which was cost effective and managed the back office costs.

Centralising payments

VocaLink believes it may also be possible for the Scottish Government to centralise tax deductions, particularly for pensioners.

Work Programme

Under the current scheme, Work Programme providers have to be able to prove that those they have placed in work are still employed. This is time consuming for the workplace provider, but also a burden on the individual, who has to verify that they are still employed.

VocaLink believes that there is a better solution, which could use existing information which is processed through the payment system. If it were possible to obtain an agreement for data sharing between government departments, it would be possible to use HMRC data on PAYE to verify that an individual is receiving a salary.

Through accurate and cost effective checks on the payments being made to an individual, it would then be possible to ensure that workplace providers are being paid appropriately.

This would allow the Scottish Government to easily ensure that individuals are still in employment, and that workplace providers are receiving the correct payments owed to them for the services provided. This would help to reduce the administrative burden for all parties, with a central intermediary being able to verify payments.

Contingency Solutions

VocaLink currently supports the Department for Work and Pensions with the delivery of social security payments and currently processes almost all welfare benefits in the UK.

Alongside processing welfare benefits, VocaLink provides a number of accompanying services to ensure that payments are received when expected.

This is a tried and tested system, and VocaLink believes that it would provide a robust mechanism for Scotland to use.

Cost management

VocaLink understands that managing fragmented benefits payment processes, which have been created by separate legacy benefit systems, is a significant challenge.

Our interfaces from DWP provide a benefits payment data warehouse. We believe that this data platform could enable:

- More efficient payment reconciliation, reducing the cost of managing payments
- Anonymised management information, which could support econometric or regional analysis
- Conditional on Data Protection approvals, the provision of a way for the Scottish Government to conduct analytics on benefit payments

We believe this platform could be more widely used by the Scottish Government.

CONCLUSIONS

The new Scottish benefits system could be a fair, efficient and more flexible benefits system than the UK currently experiences. VocaLink has a number of exciting ideas to contribute, some of which we have described above.

At the same time, there is the chance to improve the way in which Welfare to Work providers receive payments, and reduce the burden of administration on both those recently placed in work and the Provider whilst ensuring that correct payments are being made by the Scottish Government.

Some of these are existing services provided to major Government Agencies, whilst others will require a new data market to evolve where data sharing principles are embraced by the banks, Government and claimants.

At VocaLink we believe we can make a contribution to the establishment of the new Scottish benefits system, and would be happy to discuss anything in this paper in more detail.