

Horizon

Post Office Counters /
Benefits Agency / ICL Pathway
Automation Programme

John Roberts
Stuart Sweetman
February 1998

THE POST OFFICE

4-2273

02/02/2022

Just this

for

Scanny

Purpose

- Brief Government on 'Horizon' issues
- Share Post Office's perspective on emerging options
- Explain Post Office's proposed way forward

THE POST OFFICE

Background

- 1992/93 Compulsory Automated Credit Transfer debate
- 1993 Cabinet agrees policy contexts
- 1993/4 DSS/PO agree card - based payment process
- 1994/5 Joint PFI procurement process long term contract agreed to 2005
- May 1996 PFI contract to ICL Pathway backed by Fujitsu

Serious Commitments Publicly Made

THE POST OFFICE

Key Features

- This world class programme will mean skilling all of POCL's front line staff and subpostmasters - over 50,000 people - to run a modernised post office
- Horizon is capable of handling all POCL's 170 services over time, including dealing with £125 billion p.a. of cash transacted over the counter for its clients
- ICL will need to commit over £400 million, backed by its parent company Fujitsu to complete the programme; nearly £100 million is estimated to have been sunk by them already

Horizon - Key Features

- New end-to-end benefit payment systems across three organisations (DSS, ICL, POCL)
- Automates all 19,000+ post offices to create new secure electronic/physical UK-wide network
- Capable of automating all POCL services and key processes
- c20 million new benefit payment card holders

THE POST OFFICE

Horizon-Benefits

- Once rolled out, Horizon provides a new, powerful national electronic network, sited in a nationwide network of post offices that gives local and personal service. This is also backed by powerful new card management and payment authorisation systems on a scale greater than, for example, Visa. This capability will meet the current range of government services, but is also flexible enough to accommodate new services emerging in the future. That is what we mean by a "future proofed platform" being established as part of the national infrastructure.
- Examples of services that could arise from new ideas or policies are "social banking" or "learning accounts" as part of the Government's drive to reform welfare and education respectively

Horizon - What Benefits It Will Bring

- **Benefits Agency**
 - ▶ proper reconciliation of benefits (unqualified accounts)
 - ▶ eliminates £150m pa fraud
 - ▶ eliminates costly paper based payments

- **ICL**
 - ▶ strategic flagship project in Europe
 - ▶ future-proofed platform as part of UK infrastructure
 - ▶ private/public sector partnership

THE POST OFFICE

Horizon - What Benefits It Will Bring

- POCL

- ▶ central to commercial future/viability
- ▶ combines community role with modern network
- ▶ levers private sector capability

Wins for All Parties

THE POST OFFICE

Current Issues

- Delays have been caused by an original underestimate of the complexity of the programme by ICL, and some initial delay in the development of the new, single customer based system within the DSS which acts as a feeder system to Horizon
- When contracts were awarded to ICL in May 1996, national roll-out to post offices was estimated by July 1997; latest plan shows national roll-out commencing in April 1999
- PA estimated extra costs to the programme of c£200m because of delay
- BA say they have an affordability gap of c£70m over the 3 year PES period
- BA believe that the Post Office Review gives an opportunity to change policies on the post office network and/or benefit payments
- ICL Pathway have missed an original contractual milestone. BA/POCL have jointly advised them of that and reserved all rights; Pathway dispute fault
- POCL has reminded BA that they should not terminate contracts with ICL unilaterally, and that BA's contract with POCL should continue to be honoured

Current Issues

- Delays
- Affordability issues for BA short-term
- Business case/contract length issues for ICL
- Profit strain issues for POCL to manage
- Emerging new policies on welfare/PO review
- Increasing press speculation about commitment to the programme
- Independent Review by PA

THE POST OFFICE

PA Review

- Review by PA, jointly sponsored by The Post Office, BA and ICL in October 1997, with some additional work in December 1997
- PA's review stated that POCL had not contributed significantly to delays to date
- DSS had some delays to their feeder systems at the outset, but have since reviewed their plans and appear to have taken action to stabilise these
- PA recommended that programme management arrangements needed to be strengthened
 - this is now in hand, with POCL and ICL committing additional management resources
- PA recommended that the critical data for the future programme plan needed to be settled and agreed upon
 - a set of planning assumptions about the future timetable have now been agreed
- Review proposed an alternative automation option for the smallest offices. POCL have acknowledged that this could be a potential option but are currently awaiting a technical specification from ICL.

Joint PA Review

- Technically feasible solution
- Confirmed delays to timetable and higher costs
- ICL Pathway had underestimated complexity of programme at outset
- No sensible way of radically altering plan
- Alternative automation option for smallest offices

Better to Continue Than to Terminate

THE POST OFFICE

Latest Timetable

- Pathway's system is due to be "accepted" by both BA and POCL by March 1999. This is a contractual condition, to meet agreed standards of service and operation, before sponsors agree to the full rollout of the infrastructure, planned to start in April 1999
- National roll-out to post offices will be complete within the lifetime of this parliament with c13,000 post offices rolled out by April 2000 and all 19300+ post offices completed by April 2001
- Other benefit payments are due to come on stream from new DSS feeder systems during and after roll-out, as are new software links to new POCL systems to enable it to modernise its key processes (contracted separately), together with new links to enable its other clients' services to be automated
- During roll-out, it is planned to develop other government or private sector business (in part by commercial freedom) to use the system in post offices

Latest Timetable

- Original plan showed national roll out July 1997
- 205 offices now successfully running child benefit cards
- Formal 'live trial' release October 1998
- Live trial January-March 1999/system 'accepted'
- National roll out begins April 1999
- Roll out to 300 offices per week

Rollout Complete by 2001

THE POST OFFICE

Probable Impact of Termination

- Over 25% of POCL income lost
- Inevitable spiral of decline for POCL - ongoing subsidy of over £200m pa needed
- Over 17,000 job losses estimated - £50m EVR costs
- 4500 sub offices closed, 500 crown offices closed unless heavily subsidised
- Compensation payment to subpostmasters to compensate of c£150m
- Strategic Cash Market disruption/imbalance for UK
- Girobank would lose 75% of its core corporate deposits business
- But 'rump' of 7-9 million customers without bank accounts - what happens to them?
- Banks' unwillingness to take on anyway - and/probably charge customers and government heavily for doing so
- 'Social Banking' through post offices for the "unbankable rump" only does not seem to make commercial sense for anyone
- Issue of what happens to the 'rump' of 7-9 million customers without bank accounts. The banks have shown themselves to be unwilling to take them on and would probably charge the customer and the government for doing so. A commercial case for 'social banking' through post offices for the 'unbankable rump' has yet to be proven.

Probable Impact of Termination

- High profile legal claim / counter claims
- Flagship PFI scheme is seen to fail
- BA accelerate ACT
- Many post offices not viable and so will close
- Significant impact on other "post office dependent" businesses (e.g. Girobank)

High Risk Consequences

THE POST OFFICE

Emerging Position

- We believe that if all parties were to be flexible, a way forward may be found
- The alternative "social banking" solution emerging from DSS is not yet specified, and it is difficult to construct either a proper set of commercial or programme arrangements at this stage. Soundings with HMT indicate that it is at only an early stage concept currently
- ICL's preference is for extended contracts, arguing that a PFI of this nature is more like an infrastructure project with intrinsically longer pay-back periods required than that contracted. Fujitsui are expecting to see commercial discussions with BA and POCL commence soon to ensure their continued support.
- ICL's accounts run from April 1st so if they do not receive assurances before the end of March they may need to include provisions in their accounts or have their accounts qualified. Potentially this undermines Fujitsui's aim of floating ICL on the stock exchange within 2 years.
- Post Office signed its contracts with BA in good faith, and has fully co-operated fully in achieving the automation design contracted by BA. We would consider extending contracts with ICL once their delivery is proven, and only if this was matched by an extension of our BA contract, subject to acceptable commercial terms.

Emerging Position

- DSS
 - ▶ no discussion around increased costs or contract extension
 - ▶ seems to imply greater use of ACT or the development of new payment methods based on an unspecified 'social banking' solution
- ICL
 - ▶ continue and extend contracts and/or raise prices (helping BA with PES in doing so)
- PO
 - ▶ continue and develop platform separately exploit its potential with Government and ICL

THE POST OFFICE

Exploiting the Platform

- Potential for new citizen's 'bank accounts' as part of "social banking" in the future
- Potential for new citizen's card to access 'learning' accounts, ISAs, stakeholder pensions and new government information services
- Potential to make Post Office part of "Better Government" and welfare reform, not an indirect 'casualty' of it
- Potential to provide a network of services for local businesses, to ensure social inclusion for the local community
- Potential to add other private sector communications and financial services provision
- Potential to provide trusted and networked presence in every community through the Post Office brand
- Potential to tackle other key areas of fraud through a world-class secure platform

Horizon Is a Future-Proofed Infrastructure to Deploy New Government Policies
and Provide Public and Private Sector Universal Service

Proposed Way Forward

- Honour all existing contracts
- Continue Horizon's programme delivery
- DSS to fund PES gap in short term
- Accelerate work on wider government services role with ICL
- Consider extension of ICL contracts once delivery is proven (so ICL possibly help DSS on PES gap)
- Develop strategy for exploiting the programme

THE POST OFFICE