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Select Committee on Trade and Industry [Minutes of Evidence](#)

Memorandum submitted by the National Federation of Sub-Postmasters

This submission is made in response to the request from the Select Committee of 9 June 1999 inviting the National Federation of Sub-Postmasters (NFSP) to give our reactions to the recent announcement by Government of the future of the Horizon project, the events that led to the withdrawal of the Benefits Agency payment card from the project and its implications for 18,000 sub-postmasters who own and operate the vast majority of the network of post offices.

1. THE BENEFITS PAYMENT CARD

The decision of the previous Government to automate the delivery of benefits payments using the benefits payment card was based on the need to reduce costs, eliminate fraud and ensure beneficiaries would be able to continue to receive their payment in cash from the post office, thus ensuring they retained a choice as to the method of payment which best suited their individual circumstances.

This decision was taken in response to the strong hostile public reaction to a trial which the DSS began in 1993 to test three different versions of the pension claim form. Only one version contained a direct reference to payment in cash at a post office, whilst all three gave great prominence to payment by ACT. The biased nature of the trial, which could have resulted in the withdrawal of the option to choose to use the post office appeared to have been undertaken by the DSS without regard to the Government's stated commitment to the nation-wide network. Had the trial been rolled out nationally it would have very quickly threatened the future of at least 5,000 sub post offices.

Government's decision to automate the network promised a far more secured future for all involved with the Counters Business, not only safeguarding the right of customers to choose to receive pensions and benefits from post offices but also providing a platform on which to develop new products and services for a wider range of clients. This was recognised to be the only way to ensure the future survival and prosperity of the post office network, and it remains the case now.

The NFSP began to develop concerns about the future of the Horizon project during the latter months of 1997. Since then, press speculation surrounding its future has been continuous creating great uncertainty for the future of subpostmasters' businesses, POCL and its current and prospective clients.

2. WELFARE REFORM AND THE PAYMENT CARD

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On 12 May 1998, Kate Hoey MP addressed delegates at the NFSP Annual Conference on behalf of the Minister for Welfare Reform. That speech focused on the Benefit Payment Card, fraud reduction and welfare reform, emphasising the links between them.

Wider access to banking facilities and financial advice for low income groups was stated to be a key aspect of Government's welfare reforms with the aim being for everyone to have access to a basic bank account by 2020. The ability of the nationwide post office network to play a significant role in providing that access and continuing to provide a method of paying benefits was welcomed by the Minister for Welfare Reform.

Post offices have been, and remain, the cornerstone of benefit delivery for the vast majority of people who rely on benefits. The NFSP understands the need to provide a modern, secure payment system which is cost effective, robust and fully accounted.

In the address to Conference, the Minister for Welfare Reform recognised that our partnership with the DSS was crucial in making these objectives achievable for benefits payments through post offices—and that the payment card was designed to do all these things.

The business case to warrant the investment being made in establishing a nationwide network through which customers may receive their benefits using the new benefits payment card was based on being only in post offices. POCL is obliged to operate the largest UK retail network, reaching into practically every community throughout the country. Without exclusivity, its ability to provide the service on a commercially sustainable basis was not possible. We therefore welcomed and were reassured by the written confirmation later given by the Minister for Welfare Reform that there were no plans to extend the use of the payment card to other outlets.

3. GOVERNMENT REVIEW OF THE PROJECT

The NFSP understands that the reasons for the delays experienced by the project were in part caused by the sheer size of the project (the programme was the largest IT project in Europe) and the physical diversity of the post office network. A project of this size and complexity was always likely to have its problems. However, following the award of the PFI contract to ICL Pathway, progress was hampered by the failure of all the parties to agree the detailed project specification. Lack of progress and rising costs led to a major review by Government to decide the best route forward.

Since it became apparent early last year that Government were reviewing its future, the Horizon project has been overshadowed. The NFSP remained in close contact with POWL and ICL Pathway during the course of the review, spending a great deal of time dealing with the uncertainty. Our concerns have been constantly relayed to Government and POCL to ensure the decision makers are in no doubt as to the importance of automation to the future of the network.

Confirmation has now been finally received that the payment card will not go ahead because magnetic strip technology is out of date.

4. PROGRAMME DELIVERY

The system has already been installed in over 250 post offices in the South West and North East of England with all services fully automated. The Payment Card has worked successfully since October 1996 and has been well received by customers, being easy to understand and use.

The work being done at offices has in many cases been significant and is a reflection of the inevitable difficulties of automating a large diverse network.

On the systems side, our understanding is that the system had been moved successfully through the final stages of testing prior to addition of the remaining offices to make up the balance of 300 taking part in the formal live trial. The training courses, go-live arrangements and support arrangements both at offices and via the helplines were ready to ensure a successful trial prior to national roll out.

This experience has emphasised the need for careful planning and management through any trial period prior to automation being rolled out nationally.

5. IMPACT OF THE LOSS OF THE BENEFITS PAYMENT CARD

Government has stated that it has found a positive way of moving forward on automation as a result of which for the first time ever post offices will have an up to date automation platform, helping them to provide a better service for their customers. Government has further stated that it intends to move to a more modern and efficient way of paying benefits through the post office network, building on banking technology. It intends to do this by transferring between 2003 to 2005 to a system of paying benefits directly by ACT to bank/building society accounts. Post offices will only be one of a multiple of alternative delivery channels. Customers will only be able to retain the choice to pick up their benefit from the post office if the account they have is accessible through the post office.

We view the headline agreement reached between POCL and ICL Pathway as short term protectionism which will have a disastrous effect once the Benefits Agency enforces automated transfer of benefits direct to a bank/building society account. The effect on the network of post offices we estimate to mean the direct loss of up to 40 per cent of all business currently transacted over post office counters.

If automation is completed by 2001 it will be necessary for POCL to strike commercial deals with all banks and building societies to enable those claimants who are their customers to access their account at the post office.

If this is successfully achieved it will mean that the post office network will just be one of a series of delivery channels alongside bank branches, ATMs, supermarkets, telephone banking etc. It is likely that customers will exercise their right to use all of these channels according to their needs. The impact on customers we will return to.

The adverse impact on post offices will be worsened once ACT is enforced as it is inconceivable that customers will continue to use the post office to pay their bills even if they visit the post office to pick up their benefit. This in turn will have a knock on effect on the turn over of the sub-postmaster's associated retail business, it being the synergy between the private/post office business that has enabled so many post offices to remain viable.

Many sub post offices already operate on the edge of viability. In these circumstances, with a loss of work on such a large scale, the local post office will not survive, resulting in a loss to those beneficiaries who want to use post office services, including the elderly, infirm and those without transport, people who now are comfortable with transacting their business in the post office environment.

By moving to compulsory ACT, where each beneficiary will need to have a commercial relationship with their bank many may incur bank charges. Banks are now introducing charges to use their services, for example to access an ATM and use counter services.

Memorising a PIN number and accessing cash at an ATM machine makes people vulnerable. A cost effective and secure method of paying benefits—for who?

The impact on the community of the loss of a post office is well known. The sub-post office is at the heart of the community and the vital social role sub-postmasters play has been recognised many times by Government.

Every day there is a social role played out by the sub-postmaster in every community. Who will fulfil that need when the sub post office is closed?

The NFSP's view is that the decision to scrap the benefit payment card will lead to:

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- the loss of subpostmasters' investment in their post office business, in which many have invested their life savings and on which they rely for their income and retirement provision. In many many cases entire families earn their living from their post office;
- the prospect of a significant proportion of the current 40,000 sub post office staff losing their jobs, many of these staff being part time, one of the most vulnerable sections of the workforce;
- 17,500 jobs in POCL being put at risk;
- the loss to the community of their local post office, restricting customer choice.

The NFSP therefore wish to ask for the support of the Trade and Industry Select Committee:

- in opposing compulsory ACT as the costs, both financial and social, will far outweigh the savings the DSS can make by enforcing ACT;
- to ensure the Benefits Agency do not promote ACT until automation of the post office network is complete and contracts with the banks signed;
- to ensure the Government maximises its use of the network for delivery of its welfare reform and "Modernising Government" aims, which needs to be done in a way which is commercially viable for all parties to the contract;
- to encourage all Government Departments which now use the post office network to remain loyal to POCL during the period in which the proposals to maximise the use of the network for the Government Gateway are developed and implemented.

12 June 1999

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