

LCB/4278/B

**RE: NOTE OF MEETING WITH THE SECRETARY OF STATE AND OTHERS ON
THE 18TH AUGUST 1998**

The SoS said that neither the DSS nor the Treasury were particularly enthusiastic for carrying on as under Option 1.

As regards ACT, Sarah Graham said that it could be introduced working to more or less the same timetable as the benefit payment card. But George McCorkell said the logistics of the operation would hold things up. Periodicity would be affected as well (currently benefit is paid weekly and if it is paid by ACT it is cheaper to pay it less frequently, say monthly or quarterly. But current regulations require a weekly payment and new regulations would be required for less regular payments and to cover the question of whether they are paid in arrears or advance). George McCorkell said that current systems for paying ACT were old and if we were going to head toward 100% ACT then those systems would need replacing.

SG: We would need to change the legislation as well. If ACT became the norm, we would need to amend secondary legislation and consult SSAC. That would all take twelve months. We could also start straightaway with a campaign to encourage ACT take up -we estimate we could get it up to 60% in this way.

JT: But sticking with one week periodicity would substantially increase the cost of ACT.

GMc: Our plans show a significant move to ACT from 2001 taking account of POCL, legislation, and voluntary take up.

SH: There could be a carrot to POCL, to recycle some savings. From our point of view we would prefer ACT quickly.

SG: *We could start a voluntary ACT drive now. It would be a year to eighteen months before benefits accrue. 70% though of ACT voluntarily, was not an unrealistic target to achieve before the end of this Parliament.*

SoS: *I would like to get as many people on to ACT as soon as possible.*

SG: *We could draw up an implementation plan. Option 2 does not involve a subsidy to the post office via the DSS.*

SoS: *Are Options 2 and 3 different?*

JT: *Options 2 and 3 are a great difference on the way we negotiate settlement.*

SG: *There would be a smoother transition under Option 2. There is the difficulty of aligning our ACT development and the post office development banking.*

GMc: *The post office could have banking by 2001. The post office could have some kind of banking system very quickly, but it would be simple. There is an option under Option 2 to negotiate a settlement with ICL. That is not so with Option 3.*

JT: *Option 2 has the political advantage of helping the post office stay alive.*

HS: *Option 2 involves termination. So could involve ICL suing the DSS. There would be the sop for ICL with the post office contract was maintained.*

GMc: *But we could have litigation under Option 2.*

SoS: *We have grounds to terminate the contract and want to terminate the contract. We do not want the card system any way.*

SG: *But we need to avoid an allegation of termination for convenience. There are also opportunity costs now because of ICL's delay.*

SoS: *Do we have a worked up plan for getting to ACT?*

SG: *We have an outline plan, which could work up.*

SoS: *We would have to say that we were terminating for ICL's failure. We need a strategy worked out for ACT and the post office by the time of the decision to terminate.*

MAM: *But we need POCL's consent to terminate under the DSS agreement. That might force the issue.*

SoS: *The reality is that we cannot act unilaterally. I am in no doubt that I want to get out of this contract. But I need a clear statement of the costs involved. I would like a draft of a memorandum to go to a Ministerial colleague setting out that ICL are in breach and our entitlement to terminate, and the savings that would accrue. I would like a parallel paper on ACT setting out the cost of ACT, and that it is not for the DSS to subsidise the post office. I would like the costs projected over a number of years.*

SG: *100% ACT might save £0.4 billion.*

JT: *But if you encourage banks to provide social accounts that in turn might cost us something.*

SG: *But 80% of our customers have bank accounts already. Some others might easily have a bank account. There will only be a small proportion that will be unbankable. But some banks are already focusing on those types of customers.*

SoS: The hesitation over Option 2 is that we will end up more or less where we are. In handling terms we need to start on the basis of Option 3.

SH: We would have to address the issue of periodicity.

SG: We are not sure of the spread of users of the post office as between urban and rural post office.

JT: Most claimants of ours are in urban areas. Only a small amount of money goes into the rural post offices.

SG: But there are also outer-City post offices. At present we subsidise the post office but have no control over which post offices actually stay open.

SoS: We should piggy back on developed systems. I will speak to Chief Secretary today.

SG: There are considerable difficulties over the timing.

HS: We hope to get POCL's agreement to a standstill agreement in the course of next week.

SoS: I would like a note of our powers to terminate etc, what if Peter Mathison does not get a direction from me?

After the meeting it was agreed that the legal issue paper on termination would be pulled together by ourselves from advice from Bird & Bird and Dibb Lupton.

We need to check to see what happens to Contract B if we pull out of the Pathway agreement (that may be obvious - to get out of the DSS agreement we need the post office's consent, if they give their consent for that prompt, they will presumably not stand in the way of terminating Contract B).

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