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HWG/7/01

NOTE OF 7TH MEETING OF THE HORIZON WORKING GROUP
ON MONDAY 15 NOVEMBER AT DTI CONFERENCE CENTRE, 1
VICTORIA STREET, LONDON

Present:

Alan Johnson MP, Minister for Competitiveness
Jeff Rooker MP, Minister of State DSS

Simon Lancaster, Private Secretary/Alan Johnson
David Sibbick, Director-Fosts, DTI
Isabel Anderson, Postal Services Directorate, DTI
Christine Goodfellow, Benefits Agency (BA) Payment Modernisation Programme Manager
Paul Hanson, BA ACT Project Delivery Manager
Martin Dunne, BA Commercial Manager
Dave Iliglett, Private Secretary/ Jeff Rooker
Stuart Sweetman, Group Managing Director, Customer and Banking Services PO
Basil Larkins, Managing Director, Network Bank PO
Dave Miller, MD Post Office Network Unit PO
Colin Baker, General Secretary, National Federation of Subpostmasters (NFSP)
John Peberdy, Chairman to Negotiating Committee, NFSP
Terry Deegan, General Secretary, Communication Managers Association (CMA)
Tony Harris, Assistant National Secretary-Postal, CMA
Tony Kearns, Assistant Secretary, Communication Workers Union (CWU)
Matthew Payton, Research Assistant, CWU

MAIN POINTS

Child Benefit Form

1. Mr Rooker said that he had looked into the issue of the wording on the child benefit leaflet which had recently been sent out to 360,000 child benefit recipients. He understood that the wording on ACT was consistent with that used on other leaflets and forms since 1994. In his view there had therefore been no breach of faith.
2. Mr Baker thanked Mr Johnson and Mr Rooker for the speed of their response to his complaint. He asked whether if the Benefits Agency were of the view that there had been no breach of faith this meant that the child benefit letters would continue to be issued.
3. Mr Rooker said that he believed that this mail shot had been completed and was not sure if any further such drops were scheduled. The aim was to move people who were not entitled to be on weekly payment to monthly payment. Allowing people who were not eligible to collect weekly payments to do so was wasting money.

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4. Mr Johnson said that he understood that of 7.5 million child benefit recipients 360,000 had been receiving benefit on a weekly basis, and all of these had received the form in question. Mr Rooker added that the BA were not mailing all child benefit customers.

5. Mr Baker expressed concern that the words accompanying the child benefit form were a blatant attempt to migrate people to ACT. The forms had been misunderstood by customers since there was no mention of collecting the benefit in cash at the post office as an option. On periodicity, he asked whether there would be a transitional period for those migrating from weekly to four-weekly payments.

6. Mr Johnson concluded that he understood that the form was the same as that agreed in 1994 but he promised his officials would look further into this and would report back to the group as a matter of urgency (Action Point: DTT). Mr Rooker said that he would be quite happy to revisit the issue if necessary but he would not be re-designing forms and leaflets as there had been no change in policy.

It was
not agreed in
'94 - BA
prepared a
first attempt

Migration to ACT post 2003

7. Mr Rooker talked about the reasons for the planned move from paper-based methods of paying benefits. He said that he was not in a position to enter into negotiations on the commercial issues surrounding the OBCS. He referred to the relationship that the Post Office has with a number of banks. He explained that, both as a member of the Government and Minister for DSS, he was committed to maintaining a viable network of post offices but he did not see it as his department's responsibility to fund the network. Since DSS would be making savings from moving to payment by ACT it might be possible to fund some modest adjustment in the overall financial picture. On migration to ACT, Mr Rooker re-iterated that benefit recipients were increasingly opting for ACT - with 54 per cent of new child benefit recipients and 49 per cent of new pensioners choosing to receive benefit via their bank accounts. He recognised however that some people would never be suitable candidates for bank accounts. The Benefits Agency made around 1 million emergency payments to recipients who represented some of the most vulnerable citizens. On the Performance and Innovation Unit study, Mr Rooker said that he had met with Charles Clarke, the Minister sponsoring the study on the future of the Post Office Counters network.

Payment modernisation programme - Progress since May 1999 and forward look

8. Mr Hanson described work which the BA have been undertaking since the Ministerial decision of 24 May with support from POCL and the subpostmasters and subpostmistresses in the pilot offices. The BA had successfully withdrawn the Benefit Payment Card (BPC) without interruption to payments. Closure of the BPC

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project had involved wind-down activity. They were continuing their systems work on CAPS which was always intended as a baseline for modern payment methods and had other business benefits associated with rationalising personal details of customers. They had of course also started early work on the project for delivery of ACT plans.

9. On the forward look, Mr Hanson explained that this work, which was necessarily process driven, involved: project initiation; working with Ministers on setting objectives; establishing a timetable; and determining resource/IT requirements. Some big decisions needed to be made, for example, on exceptions to payment via a bank account; the payment process; the migration process; and partnerships.

The bigger decision
is the de-legal-
ising -
will it be
compulsory or
not!

Exceptions

10. On exceptions, Mr Hanson said that there was a need to establish which people and which benefit payments were not appropriate for migration to ACT. There were a number of people for whom ACT might not be the right answer, these might, for example, include people who had been rejected by banks, young people and people who deal in cash. A mechanism for dealing with those for whom ACT is not suitable had not yet been identified.

Have about
has who
don't want
it?

11. Mr Baker asked how many people DSS estimate to fall into this category. Mr Hanson said that some research had been done including a study by the Rowntree Foundation. The working assumption was that exceptions could number perhaps two million people.

12. Mr Deegan asked whether this category included an element of exclusion due to self-selection. Mr Hanson was unable to confirm the position on this.

13. Mr Deegan asked whether ordinary individuals would have an alternative to being paid by ACT. Mr Hanson said that ACT would be the normal method of payment. Individuals would have to fall within the limited exception category in order not to be paid by ACT.

Which is?

Payment process

14. Mr Hanson said there was work to be done with the Post Office on delivery of Ministers' commitment that people would continue to have a choice of collecting their benefits in cash at post offices. The new Postal Regulator would be monitoring access to post office services. The DSS/BA were concerned in particular about accessibility in rural communities and outlying urban areas, they knew that in the latter a number of post offices were very heavily reliant on benefit work.

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Migration process

15. Mr Hanson described the sorts of issues which BA would need to take into account in decisions on the migration process. For example, they would need to make decisions on the order in which they migrate customer groups and payments. They needed to ensure that the plans enabled them to fulfil the obligation of the Secretary of State to pay the right amount of money to benefit recipients on the correct day. They also needed to take account of the DSS and Government financial picture. There was also a need for the BA plans to intercept the Post Office plans for network banking.

Partnership

16. Mr Hanson emphasised that BA would need to think about the role of their partners in planning the migration process. These included the banks with whom DSS/BA already have relationships since 34% of customers were already being paid their benefit by ACT. They would need to make sure benefit customers could access their cash. And they needed to establish an appropriate relationship with the Post Office under these new arrangements. The BA were the Post Office's biggest customer and a large contributor to sub-postmasters' incomes. Sub-postmasters also had a big impact on BA's customers.

Next steps

17. Mr Hanson said that DSS/BA were looking forward to seeing the results of the Prime Minister's PIU study which would look at the value of the network. The DSS/BA expected to take 1½ to 2 years to develop the policy options with Ministers. A lot of planning work was necessary in order to deliver the ACT migration by 2005. Officials from DSS/BA would be having a further meeting with key people in Post Office Counters on 23 November.

Question and Answer session

18. Mr Miller asked whether the Benefits Agency envisaged having achieved migration of the "rump" by 2005. Mr Hanson said that BA were aiming to complete the migration of all customers by the end of the existing contract in spring 2005.

19. Mr Kearns asked who would pay for dealing with the rump - who was going to pick up the tab.

20. Mr Hanson confirmed that there would be a need to protect benefit customers against bank charges. Other important issues included how customers could be protected from losing benefit if they become overdrawn and how to deliver benefits in denominations smaller than £1. Mr Larkins suggested that there were

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straightforward answers to these latter two questions and invited Mr Hanson to talk with him.

21. Mr Kearns asked when the answers to such questions would be known given the objective of commencing the migration in 2003. Mr Hanson said that DSS/BA expected their plans to be well developed by 2001.

22. Mr Baker described how the procedure whereby benefit recipients signed for their benefit in post offices offered a degree of security. He doubted whether this could be replicated with ACT. Mr Hanson conceded that there was an element of passivity associated with receiving benefit by ACT. The BA would need to address the issue of any additional safeguards which might be needed.

23. Mr Hanson reiterated that there were 18 months to 2 years' work to be undertaken in consultation with Ministers. At the moment, the DSS/BA were working on the timetable for the project work.

24. Returning to the issue of customer choice, Mr Deegan asked whether everyone would have the opportunity to opt for the option of collecting their benefits in cash. If this option was not universally available there would be a stigma attached to collecting benefits in cash. Mr Hanson confirmed that everyone would have the opportunity to collect their benefit in cash at the Post Office. He explained that in crediting benefit to an account ACT would be the normal mechanism, whilst in debiting the account people would have the continuing choice of a range of outlets, including banks, ATMs, cashback facilities, and, of course, post offices.

25. Mr Rooker and Ms Goodfellow confirmed that if a customer had a bank account ACT would be the normal method of payment. Clearly, however, there would inevitably be a need to make provision for a number of exceptions.

Current post office contract management arrangements

26. Mr Dunne said that the BA met with the Post Office every two months to discuss service issues; their contract with the Post Office was the biggest single service contract in the UK. The low level of complaints received suggested that the contract works quite well. The BA also met with the Post Office in the context of the Fraud Prevention Action Group, and Quality Forum meetings were held to discuss improvement initiatives.

Methods of payment business - as usual

27. Mr Dunne said that BA's communication strategy was unchanged since 1994. Standard wording and customer information continued to be used. The forms in use stated that payment by ACT was available at post offices.

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28. Mr Baker asked whether BA would be discontinuing the procedure instigated under the BPC project whereby BA wrote to beneficiaries in receipt of more than one payment or having the facility to receive their payment at different post offices advising them that in future they would only be able to use one nominated post office. Mr Hanson said he would need to look into this. The need to do this for the BPC had passed. He was unaware if there were other business reasons (Action point: BA).

29. Mr Johnson explained that the Horizon Working Group's task was to look at the scenario where POCL stood to lose up to £400 million of revenue from the BA. Even with automation and the development of network banking POCL might well face a financial gap of as much as £300 million. DSS had said in response to crucial questions asked about choice of payment that people would not have the choice about how money was paid into their account but would have the choice on how they accessed the cash. There was a potential dilemma in that the Government wanted people to encourage people to have bank accounts whereas allowing benefit recipients to continue to receive their weekly benefit payments in cash only if they didn't have bank accounts would mean that many wouldn't want to use a bank account. In response, Mr Hanson said that 80 per cent of benefit customers already had access to bank accounts.

30. Mr Johnson asked how many people with bank accounts at post offices that could be accessed at post offices received their benefit via ACT. Mr Sweetman undertook to look into this question (Action point: Post Office).

31. Mr Sweetman went on to express concern about the consequences of seeking to pay all benefits by ACT. He said that DSS were currently paying the Post Office 40/50p per transaction. POCL's research showed that transaction costs of banking were of a similar scale. POCL's discussions with the banks suggested that they were not enthusiastic about this benefits work which they saw as being a loss-making proposition. He asked how Mr Rooker saw a way through this, mentioning that Frank Field had seen the issue in policy terms as a liability the banks would be required to absorb. Mr Hanson pointed to the wider government agenda on social exclusion. He indicated that mixed messages were being received from the banking industry, and a clear view had yet to emerge.

32. Mr Dunne said that not all benefit recipients were perceived in the way Mr Sweetman was suggesting. A lot of transactions were now highly automated and some banks were offering simpler products such as direct debit-only cards. Mr Peberdy suggested that banks might seek in the region of £1.80 per transaction, the equivalent of an ATM transaction.

33. Mr Deegan said that the BA should recognise that many within the Post Office were still reeling from the shock of their withdrawal from the BPC project. The

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impact on the Post Office was deeply worrying. Everyone needed to fully understand that whereas a few months ago Post Office staff believed they were building a relationship with the BA, they were now very worried about the impact of recent developments on the business. He suggested it would be a tragedy if the BA saw the post office counters network as just another outlet for paying benefit recipients - any hope of maintaining the post office network in its present form would not come to fruition. He expressed concern that the planned migration to ACT would stigmatise those without bank accounts. At the moment the great strength of the Post Office was that it crossed social divides. He wished to avoid the situation where the Post Office was just dealing with the bottom end of the market. Government should not underestimate the impact on society if POCL were not able to do deals with the banks.

34. Mr Hanson confirmed that the DSS/BA recognised their wider public sector role and obligations.

35. Mr Sweetman said that looking forward they would need to find a product which meets the needs of the 2 million for whom a bank account would not be appropriate. He was reassured that DSS/BA saw the Post Office as a potential lead player in coming up with the solution to this.

36. Mr Hanson said that the DSS/BA have 27 million different customers. Social stigma was an issue about which they were concerned across all of service delivery not just payment methods. Mr Johnson said that the PIU would be paying particular attention to that point.

37. In conclusion, Mr Johnson thanked the DSS/BA team for their presentation and asked if they would return and give the Horizon Working Group updates on progress.

DTI Postal Services Directorate
29 November 1999