



Restricted - Policy and Commercial

Rod Clark PPS\SoS
Dave Higlett PS\MoS
Louise Wright PS\PSL
Ben Stayte PS\PSC(AE)
Vicky Hutchinson PS\PSC(ST)
Special Advisor
Jonathan Tross DCM
Marilynne Morgan Solicitor
Stephen Hickey PFD
Martin Sixsmith INF
George McCorkell, BA Project Director
Sarah Graham PFD Special Projects
Ron Powell Sol
John Bretherton INF
Hamish Sandison Bird&Bird

From: Indra Morris ~~PFD Sp Projs~~-----
Date: 24 August 1998

Copy: Carole Souter PFD5
Colin Jackson PS\PermSec
Rob Baldwin BA\CEO
Ruth Calder PFD1f
Linda Oliver PFDSpPrj

**BA\POCL automation project:
Actions and Note from 18 August 1998 meeting with SoS**

1. I attach:
 - the action points agreed following SoS's 18 August meeting with officials (annex A);
 - the note of the meeting itself (annex B).

2. I have separated the actions from the meeting note itself in order to ensure the actions points accurately reflect the work required by SoS (in some cases actions commissioned in the course of the meeting were later revised in light of further discussion with SoS).

Indra Morris
PFD Special Projects
Rm 536
Adelphi

GRO

Restricted - Policy and Commercial

Annex A

**BA\POCL Project
Actions from 18 August 1998 meeting with SoS**

Action 1: By 27 August Sarah Graham to provide:

- draft memorandum for SoS to send to Ministerial colleagues to set out rationale for moving to ACT so as to ensure the principle is accepted and to outline contingency plans for moving to ACT with and without POCL
- supporting information notes (for DSS Ministers only) on implementation plan and issues which need to be addressed in order to extend ACT.

Action 2: By 27 August Sarah Graham to provide:

- a draft memorandum for SoS to send to Ministerial colleagues outlining grounds for cancellation (including background to the project, legal implications, and costs);
- supporting information notes (for DSS Ministers only) on the contracts involved and the negotiating position.

Action 3: By 27 August Sarah Graham to provide:

- information note, for SoS, on financials including costs of continuing with the project. [This information to feature, at a high level, in the memorandum on legal issues].

Action 4: By 27 August Martin Sixsmith to provide:

- a communications\presentation strategy for SoS's consideration.

Restricted - Policy and Commercial

Annex B

**BA\POCL automation project
Note of Secretary of State's 18 August 1998 meeting with officials**

Attendees: Secretary of State
Jonathan Tross DCM
Marilynne Morgan Solicitor
Stephen Hickey PFD
Martin Sixsmith INF
George McCorkell BA Project Director
Sarah Graham PFD Special Projects
Ron Powell Sol
John Bretherton INF
Indra Morris PFD Special Projects
Rod Clark PPS\SoS
Hamish Sandison Bird&Bird

1. The meeting convened to discuss:
 - SoS's preferred way forward on the BA\POCL project;
 - information\action required in order to support Ministers' decision on this.
2. SoS summarised his primary position as:
 - termination of the contract because of ICL's failure to deliver;
 - as a contingency proceeding to ACT (which provides an opportunity to pursue wider policy objectives).
3. In view of this SoS would indicate to OGD colleagues that he planned to instruct Peter Mathison to terminate contracts (due to ICL's failure) once the current Direction expired in mid-September. The question for SoS and his colleagues would then be how best to recover the position in order to pursue a common agenda. These two elements would need to be tackled simultaneously - a decision to cancel could not be taken without a credible and desirable way forward being identified and agreed.
4. The strategy with POCL was discussed. The desire not to leave POCL in a difficult position was clearly an important consideration. However, SoS was of the view that the future direction of the Post Office was a separate question.

Moving Towards 100% ACT

5. The meeting also discussed the timescales within which a move to virtually 100% ACT could be delivered, and the extent to which aligning with the Post Office could slow this timetable down. Under contingency options,

Restricted - Policy and Commercial

should the project fail, it had been assumed that compulsory ACT could be introduced from October 2001. By then the Department would have already begun to promote voluntary take-up (from April 2000). SoS was advised that taking POCL out of the planning equation was unlikely to significantly affect these dates.

6. Although POCL's need to develop (and if necessary procure) banking facilities would be a factor for the timetable the Department itself would need to tackle a number of critical issues (policy, legislative and operational) before a significant shift towards payment of benefit by ACT would be possible or sensible. These included:
 - securing secondary legislation;
 - capacity of current IT system and business processes to cope with large volumes of ACT payments;
 - need to bank 'unbanked' benefit recipients;
 - the barrier of periodicity and the requirement for clear policies on special cases etc;
 - need for an approved publicity and customer awareness campaign.

7. In light of this discussion SoS identified a number of key issues on which he required information from officials:
 - achievable timescales which would maximise the volumes of customers moving to ACT and deliver the changes as speedily as possible;
 - indication of the potential for achieving 70% ACT within the lifetime of this parliament;
 - an explanation of periodicity issue;
 - information on the key areas for decision and action (policy and operational) in order for move to ACT to happen, and happen quickly;
 - potential for building on wider developments eg expansion of cash-back facilities.

Where relevant the above should address both the impact of aligning with POCL and of moving forward unilaterally.

Legal and Contractual Issues

8. The implications for existing contracts, and the need to cancel or re-negotiate them, would be a factor in any government decision. It was noted that the option to cancel the benefit payment card, but restructure the project so that POCL delivered banking facilities with ICL (option 2) was not free from the risk of litigation from ICL. It was, for example, possible that ICL would not accept the terms.

9. In addition a question was raised as to the freedom SoS would have to terminate without POCL's agreement. This clearly could affect the

Restricted - Policy and Commercial

negotiating position. SoS requested additional advice in this area.

Restricted - Policy and Commercial

Financials

10. SoS indicated that moving towards 100% ACT could make a significant contribution to the strategy for reducing Departmental expenditure. More importantly it could do so by achieving these through running costs savings.
11. The potential for savings was clearly illustrated by the comparable costs between paper based methods of payment (47p for order books, 78p for giro) and ACT (currently less than 2p per transaction). However, it was noted that an element of contingency in the financial projections may be prudent, in part to protect savings projections from any changes in ACT costs.
12. It was acknowledged that banks may seek to recover from DSS the costs of banking the unbanked. This would be resisted. DSS would not wish to replace a subsidy of POCL's 'social' function with subsidising that of the banks.
13. However, it was seen as encouraging that banks such as The Bank of Scotland were already leading the developing market for 'universal' (social) banking.

Presentation

14. The importance of careful handling and presentation was underlined; in the past DSS attempts to move towards 100% ACT had been seen as pursuing a narrow agenda, damaging to wider government interests (because of the perceived threat to the viability of the Post Office network, and the potential impact on rural communities). These criticisms would again be made.
15. It was clear that much was at stake and a great deal of noise was inevitable. Careful, but proactive, handling was therefore essential. In view of this the period between the decision 'in-principle' being communicated to the parties, and a public announcement should be kept as short as possible.
16. SoS indicated that (in the longer term):
 - any campaign to promote voluntary take-up of ACT would require clearance; and that,
 - offering financial incentives to customers for ACT take-up was unlikely to be an option.

Conclusion.

17. SoS indicated that he would speak to the Chief Secretary that day to discuss how best to progress reaching a decision on the future of the BA\POCL project.

Restricted - Policy and Commercial

S:\ism\lbapoc\lsostrfml.188