

NATIONAL FEDERATION OF SUB-POSTMASTERS



Branch Secretaries' Circular



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INDEX

ITEM

SUBJECT

ACTION/
INFORMATION

1.

FUTURE OF THE AUTOMATION PROJECT

ACTION/
INFORMATION

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1. FUTURE OF THE AUTOMATION PROJECT

Following the work undertaken since the end of May to analyse the impact of the announcement by Government that the Benefits Payment Card would be withdrawn, the Executive Council met on Friday 11 June 1999 to decide the way forward.

On Tuesday 8 May, a meeting took place with Stephen Byers, Secretary of State for Trade and Industry to question him about the announcement and Government's plans for the future. Stuart Sweetman and Dave Miller, at present Horizon Programme Director and who is due to take over as Managing Director of the new Counters Network Business Unit, also met with the Executive Council to update us on the work now taking place to finalise the terms of the contract with ICL Pathway to deliver the automation programme.

The line adopted by the Executive Council is contained in the written submissions (copy of which is attached) to the Parliamentary Select Committee for Trade and Industry, and is the line we suggest is used in answering members and anyone else who expresses concern about the future of the post office network.

The main points are:-

- Press speculation and mounting concern about the future of the project had created a great deal of uncertainty, not only for subpostmasters but also the entire industry including current clients and prospective clients. The Government announcement on 24 May ended that uncertainty.

Government decided it did not wish to proceed with the Payment Card and that POCL and ICL should revise the agreement to deliver the Horizon infrastructure but without the Payment Card.

The Benefits Agency made a policy decision that it did not wish to proceed with the magnetic strip card, preferring instead that commencing in 2003 and completing in 2005 all claimants will have a commercial relationship with a bank or building society, and to make direct payments into those accounts notwithstanding the fact that:

- many millions of legitimate benefit claimants do not have bank accounts and, because they rely on their benefits, are unlikely to be able to open bank accounts
- millions who do have bank accounts still choose to pick up their benefit in cash from a post office.

In reality, the Benefits Agency contract was due to end in 2005, and even with the Payment Card, the Benefits Agency had made it clear they intended to move to ACT when that contract ended. The policy decision to move to ACT cannot be overturned. Whilst subpostmasters should not actively discourage anyone who is concerned from writing to their MP, it would not be appropriate to mount a

Automated services

*Not
Evid*

When all this is done, we will still need customers. It is essential that all subpostmasters understand the importance of providing a good quality service to customers so that they want to keep using the Post Office.

An alarmist reaction to these proposals is more likely to scare customers away now. Reassurance should be given that they will be able to continue to use the post office to collect their benefit in cash. A number of banks already have a contract with POCL to facilitate this - and more deals should be forthcoming once automation is delivered.

We have started to work towards our key objectives, and have already met with Stephen Byers, the Secretary of State for Trade and Industry. The Federation is also now part of a Working Group which has been set up by, and will be chaired by Ian McCartney, Department of Trade and Industry Minister of State with responsibility for the Post Office. The Working Group will help to ensure the successful delivery of the Horizon project and maximise its commercial potential. The Group will consist of representatives from POCL, the Federation, the Communication Workers Union (CWU) and the Communication Managers Association (CMA) and it has the full backing of Government.

Members should be reassured that the Federation is fully involved in the development of the automation platform and ensuring that the potential the platform provides is fully utilised.

The Executive Council has decided that four campaigns are needed to lead members and ensure we all act together to achieve our objectives:-

1. Customer Focus - "Keep your customers warm"

Even if automation is delivered and contracts signed with banks/building societies and Government to use the network, customers will have a wide range of options to pick up their benefits. We need to start now to ensure customers want to continue to use the post office.

The only way to do this is to ensure every subpostmaster is aware of the need to, and delivers, a high quality service to customers - exemplifying our brand image as a trusted, professional and friendly environment in which to carry out the everyday business of life.

2. Tell non members

The Federation is fighting to save all subpostmasters investment - members and non members alike. It is vital that non members join the Federation to maximise our ability to achieve these objectives.

campaign at this point in time. If subpostmasters write to their MPs expressing concern the response they are likely to receive will be based on the letter Stephen Byers sent to all MPs immediately after the announcement (copy of letter attached). This emphasises Government's commitment to automating the network and our involvement in ensuring that it is successful. But Government is well aware that we have that option in reserve.

Government's decision to go ahead with computerisation of the post office network without the Payment Card will deliver the infrastructure we need to survive and compete.

- Whilst the withdrawal of the Payment Card is not ideal, there is no alternative and we know what has to be done to secure everyone's future.
- We are pleased Government has confirmed that automation of the post office network is to go ahead.
- An ACT campaign similar to the one organised in 1992 is not feasible - it would not be successful and we would lose credibility.

The way to proceed is to:-

- ensure automation goes ahead on the revised basis. The only alternative would be termination of the whole Horizon project. It is essential therefore that automation of the network is completed by 2001 - before the move to ACT begins in 2003.
- remind Government of our concerns about the move to compulsory automated credit transfer of benefits direct to the claimants bank/building society account. We are not against claimants being able to choose ACT if that is their wish. However, the claimant should have the right to choose.
- stress to Government that the Benefits Agency should not promote ACT until automation of the post office network is complete and contracts with the banks/building societies signed - providing the opportunity for claimants to opt to pick up their benefit in cash at a post office.
- ensure that all Government Departments which now use the post office network remain loyal to POCL during the period in which the automation platform is introduced.
- press Government to maximise its use of the network by delivery of its welfare reform and "modernising Government" aims, which may be built upon the automation platform. This needs to be done in a way which is commercially viable for all parties to the contract.

3. Government Awareness

Nationally, we will continue our work to keep Government aware of the value of the post office network - and of the Federation's potential.

4. Final Resort

If it becomes necessary at some point in the future, we hold in reserve the ability to run an ACT-style campaign. However, now is not the time to consider this option.

Therefore, instead of this being an overt ACT campaign as before, the campaign has to be more subtle and sustained with everyone playing their part in working to retain our position as the first option people choose through which to have their state benefit paid.

Enc: A copy of the submissions to the Parliamentary Select Committee for Trade and Industry is attached for your information together with a letter dated 27 May 1999, from the Secretary of State, Stephen Byers to all MPs regarding the future of the project.

The Rt Hon Stephen Byers MP
Secretary of State for Trade and Industry



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To all Members of Parliament

27 May 1999

Dear Colleague,

POST OFFICE AUTOMATION

I thought you might find it helpful to be updated on progress with the Horizon Project which aims to make sure that our Post Office network is modernised and automated and ready to serve us well over the next decades.

As you may know the project was entered into in 1996 by the previous administration. It has suffered severe delays and set backs. That is why, when these delays became apparent, the Government commissioned a major review of the project to decide the best route forward.

It also became apparent, that given the delays, the original concept of having a magnetic strip benefit payment card, was technologically out of date. The banks, among others, are already moving away from the magnetic strip in favour of the next generation technology - the smart card. We therefore wanted to find a solution that recognised this fact.

I am pleased to say that we have now found a positive way of moving forward on automation. As a result of this, 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 and representing a major investment in the future of the nationwide network of Post Offices. The target set for achieving the computerisation of the entire network of Post Offices, is by the end of 2001. This is a realistic target that we believe can be met. The introduction of this technology will give the Post Office network a leading position in the modernising Government agenda which aims to make Government closer to the people, not least through the use of newer technologies.



The automation of the network will allow us to move from the traditional paper based methods to a more modern, efficient and fraud-proof way of paying benefit through the Post Office network, building on banking technology. In this way, we will ensure that the Post Office network has the services to attract the customers to the other shop services that local post offices often incorporate so underpinning the existence of a successful and thriving Post Office network. The move to make payments using the Automated Credit Transfer system will begin to come in in 2003 and be completed in 2005, giving plenty of time for the network to be ready, and guaranteeing the network in the meantime. Many benefit recipients already chose to receive benefits via payment to their bank accounts. The Government can give an assurance that those benefit recipients who wish to collect their benefits in cash at Post Offices should continue to be able to do so, both before and after the change-over.

In the interim we will be using bar coding on order books to tackle benefit fraud. This will provide savings of about £100 million a year.

We shall be involving the National Federation of Sub-Postmasters closely in this initiative. If you have any questions or queries about these developments, do not hesitate to write to myself or the Minister responsible for the Post Office Ian

McCartney.

Yours,

Stephen Byers

THE FUTURE OF THE POST OFFICE NETWORK

SUBMISSION BY THE NATIONAL FEDERATION OF SUBPOSTMASTERS

This submission is made in response to the request from the Select Committee of 9 June 1999 inviting the National Federation of SubPostmasters (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 subpostmasters 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 3 different versions of the pension claim form. Only one version contained a direct reference to payment in cash at a post office, whilst all 3 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 secure 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

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 nation wide 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 POCL 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 enforce 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% 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, ATM's, 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 subpostmaster'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 subpostmasters play has been recognised many times by Government.

Every day there is a social role played out by the subpostmaster 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:

- 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.

We look forward to the opportunity to expand further on the points covered in this submission.

12th June, 1999

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