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- [Home](#)
- [Parliamentary business](#)
- [MPs, Lords & offices](#)
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- [Get involved](#)
- [Visiting](#)
- [Education](#)

- [House of Commons](#)
- [House of Lords](#)
- [What's on](#)
- [Bills & legislation](#)
- [Committees](#)
- [Publications & records](#)
- [Parliament TV](#)
- [News](#)
- [Topics](#)

You are here: [Parliament home page](#) > [Parliamentary business](#) > [Publications and Records](#) > [Committee Publications](#) > [All Select Committee Publications](#) > [Commons Select Committees](#) > [Trade and Industry](#) > Trade and Industry



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Session 1998-99
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Trade and Industry - Minutes of Evidence [\[Back to Report\]](#)

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MINUTES OF EVIDENCE TAKEN BEFORE THE TRADE AND INDUSTRY COMMITTEE

WEDNESDAY 14 JULY 1999

Members present:

Mr Martin O'Neill, in the Chair

Mr Tony Baldry	Mr Bob Laxton
Mr Roger Berry	Mr Lindsay Hoyle
Mr John Butterfill	Mr Alasdair Morgan
Mr Christopher Chope	Helen Southworth
Mr Jim Cunningham	

CONTENTS

Examination of witnesses

RT HON STEPHEN BYERS, a Member of the House, (Secretary of State for Trade and Industry), RT HON ALISTAIR DARLING, a Member of the House, (Secretary of State for Social Security) and RT HON ALAN MILBURN, a Member of the House, (Chief Secretary to the Treasury), examined.

Question Number

[138 - 159](#)

[160 - 179](#)

[180 - 199](#)

[200 - 203](#)

[Contents](#)

[Next](#)

[Commons](#)

[Parliament](#)

[Lords](#)

[Search](#)

[Enquiries](#)

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- [A-Z index](#)
- [Glossary](#)
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- [Jobs](#)
- [Using this website](#)
- [Copyright](#)

- [Accessibility](#)
- [Email alerts](#)
- [RSS feeds](#)
- [Contact us](#)



- [Home](#)
- [Parliamentary business](#)
- [MPs, Lords & offices](#)
- [About Parliament](#)
- [Get involved](#)
- [Visiting](#)
- [Education](#)

- [House of Commons](#)
- [House of Lords](#)
- [What's on](#)
- [Bills & legislation](#)
- [Committees](#)
- [Publications & records](#)
- [Parliament TV](#)
- [News](#)
- [Topics](#)

You are here: [Parliament home page](#) > [Parliamentary business](#) > [Publications and Records](#) > [Committee Publications](#) > [All Select Committee Publications](#) > [Commons Select Committees](#) > [Trade and Industry](#) > [Trade and Industry](#)

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

Examination of witnesses (Questions 138 - 159)

WEDNESDAY 14 JULY 1999

RT HON STEPHEN BYERS, RT HON ALISTAIR DARLING and RT HON ALAN MILBURN

Chairman

138. Good afternoon, gentlemen. I am not sure if we are creating a first today by having a hat trick of Cabinet Ministers at the one Select Committee. It has been suggested that this may be the equivalent in Parliamentary terms of the Three Tenors.

(*Mr Byers*) We are far more expensive than that.

139. Using it for Social Security purposes, or even the Horizon Project, I think that it is a little more expensive than that. Perhaps we could just start off, I do not think we need to go through the formalities of getting you to introduce yourselves, you are all well known suspects so I do not think that is necessary. Can I say that it is interesting that in one way or another in different guises you have all been involved in different aspects of this issue and in the last few weeks it has come together. We realise that the original decisions to produce a Benefit Card was taken not just by a previous political administration of a different colour but also probably in a different technological time. I wonder if any of you would like to talk about, perhaps Mr Darling, it has been suggested the system was complex, it was using the wrong technology and that perhaps the delays were a blessing in disguise, that we would have ended up embracing an outdated system and that if it had been running now it would have been one of these systems whose technology would have been frankly not appropriate for the next decade even if it had been appropriate when it was first conceived in the early part of this one.

(*Mr Darling*) You are right, Chairman, that the idea of moving to a Benefit Payment Card was announced by the Conservatives, I think at their Party Conference in 1994, and the contracts between the Post Office and ICL, the supplier, and the Benefits Agency were entered into in 1996. At that time clearly we do not know, because we do not have access to the previous administration's papers, what considerations were before them but certainly at that time I have no reason to believe that they did not think that the Benefit Payment Card was not the best technology at the time to move away from paying benefits through what was an outdated system. Your Committee might be interested to know that most of our payments at the moment are still made through Giro cheque or order book and in physical appearance—your Committee may wish to see this—this is a ration book issued in 1940, the benefit payments are made by this method 60 years later so there is very little between them. They have not changed that much. This one is in colour, this one is in black and white, but apart from that they have not changed at all. I have no doubt that the last administration were making an honest attempt to move to a more up-to-date system. What was obvious though was that there were difficulties from that contact right from the start. In May 1996 the contracts were signed, by February 1997 it was realised that the scale of the task that they had undertaken had been under-estimated, there were far more complex considerations than I think were anticipated and the contract had to be redrawn as a result of the fact that some key milestones were going to be missed and the thing had become more complex. However, that said, Chairman, I think it is important to bear in mind what our objectives here are. I think they are two fold. One is to ensure that the Post Office has a system which enables it to compete with banks and other financial institutions, an automated platform to provide banking facilities. The second thing that is necessary

14/09/2022, 09:29

House of Commons - Trade and Industry - Minutes of Evidence

is to ensure that the Benefits Agency customers receive their payments in a modern, efficient and secure up-to-date way which, as I have said, is simply not being achieved through the Giro system that we used then and indeed that we currently use to a large extent. Those are the key objectives. The situation that we inherited by May 1997, some six months after the re-write of the original contract, was a situation where there was further slippage in the timetable. It was quite clear that there were major difficulties. It was not being delivered on time. ICL, the suppliers, were making it clear, and increasingly clear, that they were not prepared to deliver the system without changing the contract so as either to get more money from us or to extend the period during which they would operate it. All the time, since August 1997, our minds were focused on how we could recover a situation which we had inherited from the previous administration which had quite clearly gone wrong and it was not going to be able to deliver a system that worked satisfactorily within the original contract specifications.

140. Thank you. That takes care of the technology of it but what about the finances. I wonder if the Chief Secretary could give us some idea. This was going to be one of the first PFIs and it seems to have gone wrong quite catastrophically wrong. At this stage we are not wanting to allocate blame so much as to say that it does seem that according to the Bates Report we are talking in terms of 180 million lost by ICL. Do you think that the financial arrangements that you inherited or the ones that you tried to operate were effective enough? Were the controls there? What lessons are there to be learnt? Would it be likely that anyone else would go down the road that ICL has gone down and have the financial hit that they seem to have experienced?

(*Mr Milburn*) I think what is now clear, Chairman, is that the people who signed the original contract in the Conservative Government in 1996 and the contractor, ICL, both under-estimated the complexity of the contract. They under-estimated the scale of the project too. They under-estimated the risks inherent in it. As a consequence there has been a pretty price to pay both in terms of time overrun and in terms of cost overrun too. Remember that the Project, as we speak, is now approximately three years late. Actually by the beginning of this year I think there was a fairly healthy scepticism that it was looking undeliverable. I am talking about the Benefit Payment Card element of the Horizon Project in particular. Now I think there are some lessons to be learnt both from what has gone wrong here and indeed what has gone wrong from other IT/PFI contracts this Government has inherited from the previous government. We should be clear about one thing from the outset, that is this contract, the Horizon Project, was in danger of running into computer fiasco territory but we stopped that happening. We stopped it happening because of the decisive action that we took earlier this year. We have now put the Horizon Project back on track with gains for the Post Office, with gains for the Benefits Agency and its customers and, as I will come to in a moment, gains for the taxpayer too. There are lessons to be learned. First of all, the lesson to be learnt is that both from the public sector's point of view and the private sector's point of view there has got to be a proper assessment of the risks inherent in some of these projects from the outset. Let us not forget this was a very complex project, simply automating 19,000 post offices with 40,000 counter points in itself is a pretty complex job, given where the Post Office network starts from. It is going to be a project that will require formidable management skills. Now one of the interesting structural projects that has been inherent in this contract and indeed in some of the other major IT/PFI contracts that have gone wrong is the absence of third party financing. In most PFI contracts as you are aware, normally the developer would be quite separate from the financier. In the case of these IT/PFI contracts, and certainly in the case of this one in particular the developer and financier were one and the same. Now what that means is that there is not the sort, and has not been the sort, of independent and robust and rigorous analysis of the risks inherent in some of these projects. That is why the Treasury's PFI Task Force is now trying to encourage further development of independent third party financing as far as these major IT/PFI contracts are concerned. Just today the Treasury Task Force is issuing new guidance on standardising contracts for PFI contracts. Accompanying that earlier this month we issued a draft consultation document on how we could better standardise in particular PFI contracts for IT, learning the lesson from things which have gone wrong, most noticeably this contract. What the document sets out are some of the simple steps that need to be taken to manage risk. I think the Committee are aware in a complex deal of this sort, representing a huge amount of taxpayer's money, given the complexity of it, you cannot eliminate risk altogether but what you have got to do is properly manage it. What the Task Force set out is a number of simple steps which will be necessary in the future for further IT/PFI contracts identifying risks, first of all, through an independent risk challenge at the project's inception. At the inception of the project there is an independent assessment of the risks inherent in it. That did not happen with this contract and as a consequence we paid the price. Secondly there has got to be the development of a clear risk handling strategy from the outset. Thirdly, there has to be the identification of a senior manager at board level who is responsible for delivering the project. Fourthly, you have got to set a very clear timetable and most important of all you have got to stick to it. Finally, it is necessary to delegate negotiations to a small tightly focused negotiating team whose job is to deliver the contract. Now all of that was absent from the Horizon Project and as a consequence we have wasted a great deal of time and effort in trying to make something work that looked deliverable in 1994 at the Conservative Party Conference but turned out to be undeliverable in 1999.

Mr Butterfill

141. The history that you described there is not quite what we had put to us in evidence. It is certainly true PA Consulting when they did their strategic review in 1997 said that ICL had under-estimated the complexity of the project and that the timetable that had been set was unrealistic, there is no doubt about that.

(*Mr Milburn*) Yes.

142. It is true also that we have been told, for example, that the detail kept being changed and there were massive changes to the specification that were made. ICL said they suffered from "excessive interference and bureaucracy" and that there was competition and a difference of view between the Benefits Agency and Post Office Counters Limited, all of whom seemed to have different objectives and different Government departments seemed to have different objectives. Notwithstanding all that, PA Consulting said that the programme was technically feasible but it would take longer to deliver because it was more complex than we thought. Your own Treasury review in 1998 said that it was technically feasible and broadly in line with the previous reviews. Graham Corbett was appointed to try and sort the whole thing out but he said that there was an acceptable way forward and the right thing to do was to continue with it. Now why has the Government changed its mind despite the advice it received from Anderson's, from PA Consulting, from its own independent reviewing? What was the reason that the whole thing changed? Was it really that your objectives for the system had changed?

(*Mr Milburn*) No, just to be clear about this. Our objectives from the outset were always clear, as Alistair has quite rightly reminded the Committee. Our objectives were two fold. First of all, to deliver for the Post Office what it has never had, a proper automated platform. In the simplest of terms to computerise the Post Office, to provide the Post Office and its customers with the basis for competing and succeeding in the future. Now this should have happened many, many years ago.

143. We would all agree with that.

(*Mr Milburn*) Now we will be pressing ahead and we will have it delivered by the end of 2001. Secondly, to provide, as he has indicated, a more modern, a more efficient and above all else a more secure form of making benefit payments to millions of benefit recipients.

144. All the advice we have had is that it could be made to work and should be made to work.

(*Mr Milburn*) I am just going to come on to precisely the advice that we have had because this Project has been the subject of two major reviews, the PA Consulting review, as you say, in 1997 and separately the inter-departmental working party review buttressed by the Independent Panel's conclusions in 1998. I will tell you precisely what they said. In 1998, yes the Independent Panel, including the Head of the Treasury's PFI Task Force said that the Project could deliver the functions expected of it, that is true. However, what the Independent Panel also said is extremely significant. First of all, that it is extremely unlikely that the Horizon Project could be operating nationwide much before the end of 2001. In other words at best it is going to be three years behind schedule.

145. Yes, that is right.

(*Mr Milburn*) Secondly, even then successful delivery is not without substantial risk. Thirdly, that the cost of continuing is extremely uncertain given that ICL are asking for an extension to the contract and/or an increase in charges. Now following the Independent Panel's conclusions in the middle of 1998 the working group—comprised of officials from the three Departments represented here and the Cabinet Office—made a very clear recommendation to Ministers and that was if we were to press head with the Benefit Payments Card we should only do so on the basis of making no further additional payments to ICL. You are quite right between September and December with Mr Corbett's involvement we tried to negotiate that deal with ICL.

146. When do you expect the new system to be up and running?

(*Mr Milburn*) Can I just finish this point because you have asked a very, very important point and I want to be able to answer it fully. You are quite right between September and December we tried to negotiate on the basis of the Independent Panel's conclusions and indeed on the basis of the working group of officials' conclusions and recommendations to Ministers. I believe, Chairman, that ICL have sent you a

14/09/2022, 09:29

House of Commons - Trade and Industry - Minutes of Evidence

copy of the correspondence that they said they sent to the then Chief Secretary Stephen Byers, in December. What they were asking for was precisely what officials recommended we should not do, agree to a further extension of the contract and further additional cost payments to them. Now we were not prepared to sanction that and in addition to that, there were further problems as far as milestones being promised but not being met were concerned. Remember that we had already, in fact the previous government just a few months after signing the contract reconfigured the contract and the timescale within a matter of months because it had not been thought through properly. We were working on the basis of February 1997 timetable. It promised in November 1997 the BPC, the Horizon Project, would go to live trial, that did not happen. We were promised it again in October 1998, that did not happen either. We are still waiting for it to happen.

147. You will accept there was a massive slippage?

(Mr Milburn) Increasingly what became clear to all of us was that the BPC was undeliverable and that it had been overtaken by events in at least two regards. First of all the technology has moved on and increasingly the banks, the shops and others are looking not at magnetic stripe cards but at smart cards which are the way of the future and secondly, as Alistair has already indicated, that customers are voting with their feet. Increasingly benefit recipients are looking to receive their benefit payments not through World War 2 ration books but through what most people would accept as normal nowadays which is payment direct to bank accounts.

148. When do you expect the new system to be up and running?

(Mr Milburn) As you are aware, negotiations are still taking place, even as we speak—it will be finished I hope by the end of this week—between ICL and the Post Office. We hope that the negotiations come to a successful conclusion and we believe that the Horizon Project will be implemented in the course of 2001.

149. Still 2001?

(Mr Milburn) Yes.

Chairman

150. Could you tell us perhaps how much has been spent already by the Benefits Agency and what the cost has been to the public purse?
(Mr Milburn) Should I give the overall figures and then maybe Alistair can supplement it?

151. Yes. Before you give us those, could you arrange also for us to have copies of the two reviews so that we can have sight of them. We have never had the opportunity to look at those reviews. It would be helpful I think just to tack the debate as it progressed. We have had some information but if you could we would be obliged if you could send them to us.

(Mr Milburn) I am aware that you would like to see those and I can understand the reason for it. You will also be aware that both reviews contain information that is commercially confidential. However, I am and I think we are all prepared to provide the Committee with as much information from the reports that we have received as is consistent with commercial confidentiality if that is helpful.

152. Can you explain to us perhaps what the nature of this commercial confidentiality would be? It is a one off project, no-one else is going to be involved. It is not going to be replicated anywhere else. There are no competitors going to benefit from this. We get a bit fed up in this Committee with people hiding behind the cloak of confidentiality when frankly we do not see there is any commerce involved, it is just secrecy.

(Mr Byers) We accept that principle absolutely but you will understand, Chairman, that we receive information which is given to those reviews by parties who want the information to be treated commercially in confidence. Now if they are prepared to lift that then I think that makes our life a lot easier. I have to say that ICL are looking to try and promote this as a project which can be used elsewhere in the world. It is one of the reasons I think why they are quite happy now to develop a smart card approach because they have realised that the Benefit Payment Card effectively has become redundant because it is old technology. We do have a number of organisations and companies who have supplied the information commercially in confidence. If they are prepared to agree that we can make the information available to the Committee then I think all three of us would be very happy to do that.

153. With that information we are happy to proceed. If you could give us the financial cost that has been incurred to the public purse in general, DTI and the Benefits Agency?

(Mr Milburn) If I can give you two separate sets of figures if that is helpful. First of all, in terms of the deal that is currently being concluded between ICL and the Post Office, we estimate that in net present value terms that will produce savings to the taxpayer over the current system of Benefit Payments by paper of some half a billion pounds, over half a billion pounds, around £550 million over the course of the next few years. In terms of the costs that we have incurred over the course of the last few years, basically as you are aware these fall into two categories. It was a PFI contract, remember, first of all, so that the risks for development and implementation lay with the contractor, with ICL and the deal was a fairly straight forward one, or at least appeared to be at the time. ICL were responsible for developing and implementing the infrastructure. At the point at which it went live and Ministers could feel assured that it was capable of delivering the goods, then at that point the payments would be made according to the number of BPC—Benefit Payment Card—transactions over the Post Office Counters. Obviously we never got to that stage and I understand that in evidence to the Committee ICL have indicated that they have now made a provision of £180 million in their accounts which presumably is the amount of money that effectively they have had to write off for their investment in the BPC element of the Horizon Project. As far as the public purse is concerned, we estimate to date that we have spent some £310 million on the Horizon Project. Approximately £170 million of that largely catered for by the Benefits Agency but approximately £30 million catered for by the Post Office has been investment towards the development of the Horizon Project. So that £170 million would be carried forward into the project that we have now renegotiated and re-engineered. The costs that effectively are sunk come to approximately £140 million, £130 million as I understand it from the Benefits Agency in BPC sunk costs and £10 million from the Post Office in terms of sunk costs in the BPC element of the Horizon Project.

154. Do you want to supplement that?

(Mr Darling) Yes, just to add to what Alan has just said. To the end of May of this year, the DSS had spent just under £270 million, I think £268 million, approximately £130 million of that was in respect of the card management system, that is expenditure necessary to operate the Benefit Payment Card which, of course, is expenditure now lost because there is not going to be a Benefit Payment Card. We spend £140 million on what we call the customer account and payment strategy. That would be necessary in any event to ensure that we know how much we pay each one of our customers. That system is up and running, some 15 million customers have their records on it and it is used by 75,000 staff every day so that money has been invested and it is operating successfully. In addition to that, of course, because of the fact that the Benefit Payment Card was not available to us when it should have been, which was the end of 1998, we have foregone fraud savings of about £320 million. You will appreciate that paying money through Giro cheques and order books is very open to fraud. We should have achieved these savings and we have not achieved these savings. Chairman, I wonder if I could just say one thing in response to a point raised by Mr Butterfill which I think is quite important to the Committee's deliberations when he asked why we took the decision that we did. Bear in mind that the Project was announced in 1994. The contracts were signed originally in 1996, renegotiated in February 1997. It was supposed to be delivered in 1998. It still was not delivered when we took the decision but the whole project was due to end in 2005. Even if we had gone ahead with it, we are talking about spending a lot of money on something that might—might—have been technically possible, although there were hundreds of problems with it in terms of inaccuracy and difficulty for something that had a remaining shelf life of about five years. No-one else in the world is using this sort of technology. All these things were bound to cause Ministers to think, for the good of the public purse, for the good of the Post Office, for the good of the 17 million people who get paid through these systems, "Should we proceed with it or should we look to another way to provide our two objectives?" So I think when you look at the whole picture of this contract, which may have been conceived with the best of intentions but which has been going wrong really ever since, most people would come to the view that to have continued with it against all the evidence would have been quite wrong. We have learnt enough. I have had responsibility for two major contracts which I inherited from the last administration, this one and NIRS 2, and by the time I got to the DSS NIRS 2 was switched on and was at a much later stage of development, but I was determined we were not going to repeat the same mistakes which the last Government made with that with the Benefits Payment Card.

Mr Cunningham

155. Would you not, and the DSS in particular, have incurred the same amount of expenditure, whether you talk about the CAP system or an ACT system? In other words, whichever system you used, you would have incurred the same sort of expenditure?

14/09/2022, 09:29

House of Commons - Trade and Industry - Minutes of Evidence

(*Mr Darling*) No, the two things are different. The Customer Accounts and Payments System is simply the computer systems we use to work out how much each customer ought to get in their payment—a combination of their income support, their pension, whatever it may be—you need that anyway as part of our bringing the DSS system up to date. When it comes to making payments to customers, it might be helpful if I just gave you some figures. To pay by giro cheque costs 79p per payment; to pay by order book, which is the foil I was showing you, the old ration book, costs 49p; the payment card would have cost 67p; to pay by ACT costs about a penny. If you look at the total admin. spend of my Department on simply paying benefits, never mind the cash they get, just over 22 per cent now goes on the cost of paying out money. With ACT, that will eventually come down to 8 per cent. I think we do have to bear that in mind. When you also bear in mind that with the deal we have now struck we are giving the Post Office the means of getting that business (because customers will have a choice to use the Post Office or whatever else they want) I think you will see the money we are spending is spent far more sensibly than was proposed by the last administration. Just to add to what Alan said, lest anyone think that somehow we are denying people going to the Post Office, the vast majority of new entrants into the system—if you take child benefit, for example, it is 54 per cent—are opting to go to ACT. We want the Post Office to get a share of that business, and the automated platform we have agreed together with the White Paper which Stephen Byers published a couple of weeks ago will mean the Post Office has that opportunity, which it would not have had had we stuck to the system which was, as I say, failing anyway.

156. Can I ask you about the high levels of consultancy fees? What do you attribute that to, either getting CAPS up and running, as it were, or was it already arising?

(*Mr Darling*) I think I am right in saying, and I will be corrected if I am wrong, we have spent some £500,000 on consultancy fees on all aspects of this contract. As Alan was saying, if you look and ask yourself what has been the difficulty with procurement of these IT projects, part of the problem is that there are relatively few people in this world—and I use the term "world" advisedly—who have great expertise, and it has been necessary to bring in consultants from time to time. I must say in my own previous position I used to bring in consultants only as a last resort. That is what we have done. But in this case, given the sheer scale of this project, given the implications for Government as a whole, the DSS and the Post Office, I think we were justified in incurring that expenditure, which in the scheme of things is a very small proportion of what, after all, as the memo points out, was originally a £1 billion contract. Our duty was to get this right for the public, the taxpayer, to get this right for the Post Office and to get it right for the Benefits Agency and I think we have done that.

157. So what you are saying in effect is that because of your difficulties you have probably incurred more consultancy fees to put it right. Is that right?

(*Mr Darling*) No, no. Putting it right, actually came from Ministers sitting down and looking at all the evidence before them and reaching a view as to what we ought to do. The consultancy fees were incurred earlier on when we tried to find out firstly what had gone wrong with this. Remember, the first I came to know of this was when I was Chief Secretary, when I received a letter from the then Junior Minister in the DSS who wrote in August 1997 to tell me they were extremely concerned by what they discovered. When we came into office and opened the books, as it were, we found all over the place matters which caused us concern. At that point, realising how important this contract was, I think we owed it to everyone to leave no stone unturned to see whether or not the BPC could not be put back on track and made a success. It turned out, despite our best efforts, that would not be possible, so Ministers therefore turned their attention to see how we could achieve the two objectives I set out right at the start, giving the Post Office an automated platform and ensuring the DSS customers had secure and efficient methods of payment. We have achieved that objective now and I believe that the deal we have now struck on behalf of the public, on whose behalf we act, is far far better, although quite clearly it would have been far better if we had started from a different point. But our starting point was essentially a failing project which we inherited from the last Government.

158. Accepting that you inherited a failing project from the last Government and accepting therefore that present day Ministers are not necessarily responsible for what happened in the past, nevertheless you have still got, as it were, the same Civil Service, the same managers there, et cetera, et cetera. To whom do you apportion the blame for these delays given that we accept Ministers are not necessarily responsible?

(*Mr Darling*) Let me say straight away that Ministers are responsible for the actions of their civil servants, whether directly employed by us or an agency, and the three of us I think would be absolutely clear about that. We will take responsibility for our Departments. Quite clearly, the policy decisions taken before May 1997 were not taken by us and we do not have access to papers so we cannot be too sure what exactly happened or what advice was given then. I do think though, just to add to the point that Alan made at the start, that both in this case and I think also in the NIRS 2 contract—the National Insurance Recording System—one of the problems was that a great deal more consideration should have been given to the translation of what might have been a good idea or a good conference speech into a practical proposition. When I saw what I saw when we started looking at the NIRS 2 problem in July last year, I was determined, as were my colleagues here, we would not repeat the same mistakes when it came to the Benefit Payment Card, which is why we spent so long—and I can assure you it has taken quite a deal of ministerial time—sorting this matter out, and I believe what we have on offer now is a very good solution because it meets the two objectives the Government set itself.

(*Mr Byers*) Can I reinforce that point? It probably would have been easier to let the contract run on and not to have taken the decision that we have now taken. The reason why we have taken that decision is two-fold and it goes back to the twin objectives which Alistair mentioned at the beginning. First of all, we need to guarantee that people in receipt of benefit will get that benefit on time and in the right amount. These are people who are financially vulnerable. We do not want to get to a situation where they are turning up at a post office and not getting their benefits paid. It is worth reminding the Committee that when we had a live trial of the Benefit Payment Card last autumn it failed, the milestone was not achieved. Another example of the contract not being delivered on time. So we had people who are financially vulnerable facing the prospect of not receiving their benefits on time. Imagine the chaos that would have caused. We have seen already in a very vivid way what can happen when these computer contracts do not work with the Passport Agency recently. None of the three of us wanted a situation where people turned up to get their benefits paid and were denied payment for one reason or another. As Alan has said, the report we got from the interdepartmental group made it very clear that there was a substantial risk that would be the case, and we were not prepared to take the risk of putting financially vulnerable people in the situation where they were not receiving their benefits. My particular concern was the impact it would have on the Post Office network. What I did not want to happen was people going along to post offices with their Benefit Card or their Benefit Payment Card and not being paid by the Post Office because it would have reflected very badly on the network itself. The proposal we are now working with will achieve our two objectives. It will ensure that those people who are entitled to benefits will receive them on time and in the right amount, and we will be able to guarantee that, and secondly we will be able to introduce automation into the Post Office network by the end of 2001. Automation will allow the Post Office network to expand into new areas where the future market will actually lie. Because of the tough decision we have taken not to go ahead with the Benefits Payment Card, and we had to take that decision out of necessity in the end we are not running the risk of people not receiving their benefit payments and we are continuing to protect the network of Post Office Counters, and I think we can now guarantee we can achieve those two objectives because of the decisions we have taken.

(*Mr Milburn*) Briefly, in response to something Mr Cunningham raised but also it was raised earlier I think by you, Chairman, I would not want the Committee to go away with the idea that somehow or other there is something inherently wrong with the PFI and IT contracts. There are many, many examples of PFI delivering the goods as far as IT contracts are concerned, and indeed of ICL delivering the goods as far as IT/PFI contracts are concerned. If it is helpful to the Committee, Chairman, I am quite happy to produce a list of contracts which have gone right rather than those which have gone wrong, just to make sure there is a balance in the argument.

Chairman: Thank you.

Mr Cunningham

159. I do not think we are casting any doubt on the question of PFI, we are looking at a specific area. Coming back, and given the answers you as Ministers have just given me, are we actually being told that technical advice was ignored in the past? Is that what we are being told?

(*Mr Byers*) We have a difficulty which is that we are not allowed to see advice which was given to Ministers before May 1997. We all know the politics behind this and we all know of the conference speech which was made by the then Secretary of State for Social Security in 1994 where he grandly held up the Benefits Payment Card with a great flourish—I am not sure if it was the speech where he had a little list as well, it might have been. This, I am afraid, is part of Lilley's legacy, and we have had to deal with that and deal with it in the way in which we have, which was to ensure that it did not go ahead, because it would have failed and it would have failed some of the most vulnerable members of our society.

(*Mr Darling*) It is a matter of record that although the contract was signed in May 1996, by February 1997 it had to be re-written because it was already clear the milestones were not going to be deliverable. To go back to what Stephen said, if you get so much as a 1 per cent

14/09/2022, 09:29

House of Commons - Trade and Industry - Minutes of Evidence

failure in accuracy of the payments, that would mean that 7.5 million people would get the wrong benefit. You may think the problem with NIRS 2 were difficult, none of us were prepared to tolerate that difficulty again, whereas other methods of payment—ACT or others—are more accurate. We do have a duty. We deal with some 70 per cent of the population every day and I think we have a public duty to ensure we get a system which is as accurate and secure as possible.

(*Mr Milburn*) What we can say in response to Mr Cunningham's question is that as far as the advice that we three have received as Ministers, as far as the advice this Government has received in relation to the Horizon Project, where there have been reviews and there have been recommendations we have carried them out.

[Previous](#)[Contents](#)[Next](#)[Commons](#)[Parliament](#)[Lords](#)[Search](#)[Enquiries](#)

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Prepared 21 September 1999

- [A-Z index](#)
- [Glossary](#)
- [Contact us](#)
- [Freedom of Information](#)
- [Jobs](#)
- [Using this website](#)
- [Copyright](#)

- [Accessibility](#)
- [Email alerts](#)
- [RSS feeds](#)
- [Contact us](#)


 Search

- [Home](#)
- [Parliamentary business](#)
- [MPs, Lords & offices](#)
- [About Parliament](#)
- [Get involved](#)
- [Visiting](#)
- [Education](#)
- [House of Commons](#)
- [House of Lords](#)
- [What's on](#)
- [Bills & legislation](#)
- [Committees](#)
- [Publications & records](#)
- [Parliament TV](#)
- [News](#)
- [Topics](#)

You are here: [Parliament home page](#) > [Parliamentary business](#) > [Publications and Records](#) > [Committee Publications](#) > [All Select Committee Publications](#) > [Commons Select Committees](#) > [Trade and Industry](#) > [Trade and Industry](#)

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

Examination of witnesses (Questions 160 - 179)

WEDNESDAY 14 JULY 1999

RT HON STEPHEN BYERS, RT HON ALISTAIR DARLING and RT HON ALAN MILBURN

Mr Hoyle

160. It seems very interesting that it is probably the biggest fraud which has ever taken place in social security—£130 million in one go. That is one thing we ought to remember and we ought to ensure this never happens again and that is coming across loud and clear today, yes, we are going to put things in place to ensure we never fall into this trap again. That is all well and good but it still does not get away from the fact that there is a lot of money which has gone down the drain which we will never get back. Everybody is saying, "We are going over to ACT, this is all very wonderful", but anybody who uses transactions through ACT knows it is generally on a monthly basis. What we have not heard is, will your transactions be weekly, monthly? How will it be done? I think that is important. Do not forget, there will still be a large part of this country which will be excluded by ACT because one way or another the people will not make them eligible for accounts.

(*Mr Darling*) That is a question for me and let me deal with the two points you make. Firstly, about 85 per cent of those who receive benefits have bank accounts at the present time, about 15 per cent do not. Of that 15 per cent, a number of them do not have bank accounts out of choice rather than it being a question of the banks not taking them. I believe that we can ensure that a good proportion of those people who do not have bank accounts at the moment will get bank accounts in the future, either through the Post Office or other commercial banks, and we will have to make special arrangements for the minority—I suspect something under 5 per cent of the total benefit recipients—who for one reason or another are not going to be able to operate a bank account. But with the head room we have, as a result of the reduction in the costs which we currently incur in paying out benefits, I am very confident we can do that. The second point you make is in relation to the periodicity of payments, which of course is of crucial importance. There are some people, predominantly pensioners, a lot of people now on child benefit, who are quite happy to get their payments monthly or fortnightly, but there are other people on income support who by the very nature of things need payments more regularly. That is one of the issues we are looking at with a view to making an announcement in due course as to how we will implement the transformation to ACT. Remember we start to move in 2003 to complete in 2005. But it might be helpful to know that of the new entrants on to the system, 55 per cent of child benefit people are opting for ACT, 47 per cent of pensioners, 40 per cent of incapacity benefit people, and I think the group you will have most concerns about are those on income support where quite clearly their need is far greater but we will address that problem; we have created now the head room to do it.

Mr Berry

161. I do understand the reason for dumping the Benefit Payment Card, technology moves on and there is a good case for doing it. There is always debate about what is the right time to do it and I think there is an issue here about the timing of the decision. My understanding is that following the reviews last year—the Montague and the Corbet Reviews—in December a deal was struck between the Post Office and

14/09/2022, 09:29

House of Commons - Trade and Industry - Minutes of Evidence

ICL on the best way forward and presumably the Post Office had DTI approval for that. The question which arises is, when after that was the decision made to dump the Benefits Payment Card?

(Mr Byers) Can I say that I am not sure it is a question of choosing to dump it, I think in the end it was inevitable that we could not go ahead with it out of necessity, because it simply was not going to work. That was a judgment we had to take. There was not a deal which was struck towards the end of December last year, there may have been broad agreement which might have been reached between the Post Office and ICL but it was with substantial additional costs which would have been incurred. I think the point Alan has made was that ICL wanted to come back with extra costs being incurred on the contract and we had to take that into account. But I think most significantly it was clear by January this year that the Benefits Payment Card simply could not be delivered and we had to look at it in the round. I have to say, when I took my decision along with Alan and Alistair about our approach, it was not just the additional costs which I had in mind, it was the fact that I did not believe the Benefits Payment Card could operate. It was the complex technology, it was building on the need to have an automated platform, and then the technology on top of that, then in the live trial in the autumn of last year the milestone had not worked, had not gone ahead, so there were all of those problems. So in the end I had to say it was an inevitable decision.

Chairman

162. It was not only ICL, was it? Surely the Benefits Agency data base was years out of date and it was going to be very difficult to get that into shape as well. That is what ICL told us.

(Mr Darling) No.

163. That is what we have received in evidence.

(Mr Darling) CAPS actually works. Just so the Committee understands this, CAPS was part of this overall project right from the start. It is working, it is working at this minute, it is one of the successes in the whole thing. We will need CAPS anyway. There were difficulties with CAPS I think in the early days between May 1996 and February 1997 but the problems which arose after February 1997 were as a result of timetable slippages.

Mr Morgan

164. How late was CAPS in being delivered?

(Mr Darling) There was some slippage. Let me just check this but I think it was decoupled from the main project—

Chairman

165. We have evidence from ICL which says: "CAPS is run in-house by the BA. However, it subsequently emerged that it would be available only on a phased basis and would be delayed by three years. Today, as ICL understands it, it is still not fully completed." That was evidence we got from ICL a matter of weeks ago. If there has been some dramatic improvement, so be it.

(Mr Darling) CAPS is working. What is fair to say, if you look at the DSS computer system overall, much of which is way out of date, we do have difficulties with it day-to-day but the CAP system which was introduced initially to back up the payment card does work.

Mr Chope

166. Is it not right that the whole essence of the CAP system was to be able to have all the benefits tied in together in the CAP system and it was an inherent part of the contract with ICL that all those benefits should be available through the CAP system and that information should be passed on to ICL back in 1996? Is it not because of the delay in achieving that, that the project suffered in the way we have heard?

(Mr Darling) No. The CAP system has actually been delivered and it is working. There are 75,000 members of staff who are using it even as we speak. What did happen was that the CAPS element was decoupled from the Benefit Payment Card because, as I say, right at the start there had been problems with it because the sheer scale of what was envisaged in introducing the BPC had not been fully taken account of. Without wishing to labour the point, the problem with the Benefit Payment Card is not CAPS, it is the fact that it is three years late, it was perfectly obvious there were technical problems—as Stephen Byers and I have said when it was tried in laboratory conditions, if you like, it was still making too many errors to be safe to use—at best we could have expected it to come into operation in 2001 only four years before it was due to end, and on top of that ICL made it very clear that they were only willing to continue with the project if either they got more money or the term of the contract was extended so they could charge us transaction fees thereafter. For us to have continued with the project in the face of all those difficulties would have been to lead ourselves into very justifiable criticism. The three of us took the decision that had the BPC been working, had it been delivered, we would have stuck with it, it would have been daft not to, but the fact is, it was not there. With respect to Mr Berry's point, we did not dump the BPC, it was not there to be dumped, it just was not operating, it was not delivering. The problem we had to face was, in the light of all that evidence what did we do? Try and resuscitate it? Try and resurrect it, when we were being told it would (a) cost us more money and (b) we could not be sure it would actually operate? Or did we go for another solution? I repeat the point, we had the twin objectives—give the Post Office automation and give us a secure system.

167. If the BPC was not working, say, last autumn, which is what you would lead us to believe, why is it that ICL were continuing in discussions and consultation with departmental officials and produced a letter in December to Government Ministers asking them to have a meeting early in January to discuss the way forward? They never received a reply to that letter and it was not until April that they withdrew their offer which was contained in their letter in December. Is that consistent with the Government reaching a conclusion that the BPC was not going to work and then acting immediately to take some action to remedy the situation?

(Mr Darling) No, no. Right from, say, August 1997, which is the first time it came to Ministers' notice outside the DSS, there have been numerous discussions with ICL and officials from the DSS, the Benefits Agency and from the Post Office and from the DTI, there has been correspondence exchanged, punctuated by further discussions. ICL certainly wrote to us in December of last year but they made it clear they were willing to carry on only if they were going to get more money to continue with it, otherwise they could not carry on. If you are suggesting that the Government should just have said, "Yes, carry on, we will pay you more money", I think that would have been—

168. What I am suggesting is that you should have replied to their letter instead of leaving it for four months before they knew—

(Mr Darling) No, we did not ignore the letter. We got the letter, I think it was 9th December from recollection.

(Mr Milburn) There were two letters, 9th December and 18th December

(Mr Darling) That is right. There were numerous discussions, telephone conversations and meetings taking place over that Christmas period. I know that, I think it was on Christmas Eve and New Year's Eve, the three of us were involved in clearing positions for our officials to take and there were discussions going on right throughout the spring of this year, because I repeat the point, we were anxious if at all possible to try and resurrect what looked like a project which was beyond resurrection. Eventually we came to the conclusion we could not, so we then spent the time in getting a solution which would actually work. So it is simply not true to suggest that long periods elapsed and there was no contact, it is not true at all. I find it hard to believe you could even think such a thing would happen.

(Mr Milburn) I do not want to labour the point but I think this is an important issue. I have heard what ICL have said and I have heard what Mr Chope has had to say too. They did write two letters on 9th and 18th December and I know the impression has been given somehow to the Committee that as a consequence of that ICL were left out of the loop for months on end. That is simply not true, and it is not true because on 29th January officials met with ICL for the first time following the discussions we had over the Christmas period to discuss how we could best ensure that we could get something from the Horizon Project. ICL were fully in the loop and we tried to look at a number of options between January and May to see what provided the best way forward. We went back, if you like, to basics, to coin a phrase, to try to see whether or not we could get the two objectives, first of all, the twin objectives which Alistair has outlined—automation of the Post Office and modern means of paying benefits to customers—but, secondly, whether we could simplify the project and reduce the risks inherent in it. Between January and April/May we had a number of discussions with ICL involving the Benefits Agency, involving the Post Office, involving ministers, to try to find the right way forward and now we have reached a conclusion to that, or at least, hopefully we will have done over the course of the next few days. So I do not want the Committee to go away with the idea that somehow or other ICL received a slap in the face; they did not.

14/09/2022, 09:29

House of Commons - Trade and Industry - Minutes of Evidence

Mr Berry

169. There is a pretty obvious reason why the DSS and the Benefits Agency would prefer ACT. As Mr Darling referred to earlier, it is a question of cost. Is there any truth in the suggestion that the DSS and the Benefits Agency have always hankered after ACT and have, therefore, always been pretty unenthusiastic about the Benefit Payment Card?

(*Mr Darling*) No. I do not know what attitude the BA took in 1994. They clearly would have put a submission up to the then Secretary of State but I cannot get access to that. If when we came into office in May 1997, and when I became Secretary of State in July last year, the contract had been working, then it would have been daft to try and unpick it because a lot of money had been invested and clearly a Benefit Payment Card is better than these Order Books. It is one step further down the evolutionary chain. The difficulty we had was that there was no BCP; it just was not there, or at least the only way it was going to be there was if we had paid rather a lot of money for something we could not be certain would have worked. My objective is that it is not just cost, it is actually more secure to pay money straight into somebody's bank account and it is a lot easier where you have somebody who is getting multiple benefits, to pay money into their account, perhaps at different times, rather than have to assemble all this information and then put it on to an Order Book. The other point is, of course, with ACT we actually know where the money is. One of our problems just now is that you can run around with one of these Order Books for months on end and it does not make for good accounting.

Mr Butterfill

170. I hear what is said about the timetable for events but it is not borne out by what was told to us at the time. When Mr Mandelson came before us in November last year he said: "The current plans provide for Post Offices to be automated by the end of the year 2000 ... I feel confident that the project will be properly completed and that it will provide a very important platform, computer based platform, springboard, for the Post Office" And that was reinforced by Mr McCartney the following month, in December. So to say that you already knew that there was a project that was going wrong, that was hopelessly irretrievable, is not borne out by what your own ministers were telling us at the end of last year, and there is this deep suspicion that there was always argument going on within the Government between those who wanted a Benefit Card and those who wanted an ACT and that the ACT proponents won the argument at the end of the day and hang the consequences for the Post Office. Is that not really what it is all about?

(*Mr Byers*) May I answer that and put the record straight because I think that is a misinterpretation of the position. At the time that evidence was being given it was the time that these live trials were taking place and I think for many of us it was the fact that in these conditions a very important milestone was missed and, as a result of that, it was becoming increasingly clear that the three-year delay which we had already suffered could well be even longer, that there was a huge cost overrun and that, indeed, extra money would be needed, as ICL themselves made plain in their letters of 9 December and 17 December and as a result of that, when we looked at the issue in January there was a very clear conclusion that needed to be reached and we then discussed further with ICL what we might be able to retrieve from the project. But may I say why I think that the Benefit Payment Card had not proceeded and the automation with the opportunity of developing smart card technology is actually in the best interests of the Post Office and the national network, because I believe it is. I am very firmly of that view. It is for this reason: firstly, of course people are moving to ACT. Whether people like it or not, people are choosing to go to ACT, and Alistair has given you the figures: 54 per cent. of new Child Benefit payments, pensioners, 47 per cent. and so on. People are choosing to do that. All the Benefit Payment Card would do—it is old technology, it is pretty redundant technology actually, it is a magnetic strip—all it does is identify the individual.

171. It helps the people who have not got bank accounts, does it not?

(*Mr Byers*) We will have provision for them.

172. How will we deal with them?

(*Mr Byers*) We will make arrangements for those people, but remember, as Alistair was saying, 85 per cent. of people receiving benefits at the moment have a bank account, but the smart card will be able to accommodate those people, a smart card that can be built on the platform that we will provide in the national network of post offices and that is the technology of the future and those are the services of the future, because it will link in with the modernising government agenda, which is very important and is the reason for people actually to go into the post offices. It also ensures that they can be involved in financial services, and I think the Committee is aware that the Post Office are having some detailed discussions with the Alliance and Leicester with the co-operative Bank, with Lloyds TSB, about the financial services that can be offered through the automation of the national network. So this is the technology of the future that we are now providing, through the agreement that we are about to reach, hopefully by the end of this week, with ICL, not the redundant technology which is inherent in the Benefit Payment Card but actually the way forward, technology that will offer all these facilities, a whole range of different opportunities, which will be accessed through the national network of Post Office Counters.

Mr Morgan

173. Is there any reason why the smart card project should not go wrong in the same way as the magnetic strip? Surely the specification is just as complex and it is going to be just as difficult to implement? All that is happening is that you are changing the technology; you are not changing the user requirement, which is what ICL had all the trouble with?

(*Mr Byers*) I think the big difference is that we already know the technology that will be used for the smart card is tried and tested. We probably all have smart cards so it is nothing original. The Benefit Payment Card was highly complex. It meant automation but also then you had to have the Benefit Payment Card on top of that, and it was operating—Remember, the Post Office Counters network is the largest single retail network in the whole of Europe, 19,000 post offices, the single largest retail outlet in the whole of Europe, so it is a massive exercise. It is worth the Committee being aware of that. So the technology was new as far as the Benefit Payment Card was concerned. What we are doing with the smart card is actually building on best practice and what is working well at the moment. So we do not have the reservations that we have about the Benefit Payment Card.

Mr Butterfill

174. May I turn to the new arrangements because I think it is important that we look at those. First of all, it is a bit of a puzzle. This is the New Deal, whatever it is, the New Deal with ICL.

(*Mr Darling*) It is a different sort of New Deal.

175. I thought it was a different sort of New Deal, but some people are describing this as a revision of the existing contract. ICL think it is a revision of the existing contract, but the Post Office think it is a new contract. If it is a new contract, do you not have to retender it? Do you not have to go through all the European requirements for retendering?

(*Mr Byers*) I think it is worth looking at the nature of the contract. In very simple terms the Horizon contract was in two parts, if you like. One part was the infrastructure, the automation, which is still going ahead. All of the network will have the platform in by the end of the year 2001. In addition, there was the Benefit Payment Card and it was the Benefit Payment Card aspect that created all the problems, but in contractual terms the bulk of it is actually the platform, the automation, which is still going to go ahead. So it is a revision of the original contract and not a renegotiating, not a separate contract.

176. Have you taken legal advice on that?

(*Mr Byers*) We have been advised accordingly.

177. You have been advised that that is all right?

(*Mr Byers*) Yes.

178. And you are happy that you are going to win that argument with the European Commission if they come down on your neck and say you should have retendered it?

(*Mr Byers*) We will wait to see if they do that. There is no indication that they intend to do that.

(*Mr Milburn*) We are confident it is a revision of the contract rather than a new contract.

179. Some people are clearly describing it as a new contract. Is the reality actually that those whole deal with ICL has been screwed up and the Government has changed its mind and it is going to cost £180 million for ICL and you are actually buying them off from suing you?

14/09/2022, 09:29

House of Commons - Trade and Industry - Minutes of Evidence

Is not that the reality?

(*Mr Byers*) No. I think if anybody looks in detail at the circumstances they will see that what we have now been able to arrive at is actually a better deal for the taxpayer, which is why the Chief Secretary is content with the arrangement, it is going to be a better deal for the benefit recipients, which is why the Social Security Secretary is happy with the arrangement, and it is going to be a better deal for the Post Office network, which is why I am happy with the arrangement.

Mr Butterfill: It is certainly a New Deal. Whether it will be a better one, maybe the proof of the pudding will be in the eating.

[Previous](#)

[Contents](#)

[Next](#)

[Commons](#)

[Parliament](#)

[Lords](#)

[Search](#)

[Enquiries](#)

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Prepared 21 September 1999

- [A-Z index](#)
- [Glossary](#)
- [Contact us](#)
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- [Jobs](#)
- [Using this website](#)
- [Copyright](#)

14/09/2022, 09:30

House of Commons - Trade and Industry - Minutes of Evidence

- [Accessibility](#)
- [Email alerts](#)
- [RSS feeds](#)
- [Contact us](#)


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 Search

- [Home](#)
- [Parliamentary business](#)
- [MPs, Lords & offices](#)
- [About Parliament](#)
- [Get involved](#)
- [Visiting](#)
- [Education](#)
- [House of Commons](#)
- [House of Lords](#)
- [What's on](#)
- [Bills & legislation](#)
- [Committees](#)
- [Publications & records](#)
- [Parliament TV](#)
- [News](#)
- [Topics](#)

You are here: [Parliament home page](#) > [Parliamentary business](#) > [Publications and Records](#) > [Committee Publications](#) > [All Select Committee Publications](#) > [Commons Select Committees](#) > [Trade and Industry](#) > [Trade and Industry](#)

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

Examination of witnesses (Questions 180 - 199)

WEDNESDAY 14 JULY 1999

RT HON STEPHEN BYERS, RT HON ALISTAIR DARLING and RT HON ALAN MILBURN

Mr Baldry

180. I want to ask the Secretary of State for Trade and Industry, wearing his Post Office hat here. I am a bit confused in all of this. I can understand the Government collectively wanting to move on the technology, but, of course, the advantage of the Benefit Card was its exclusivity, so that people actually only really used it in the post office. What I do not really understand now is this: if you take Banbury High Street, I think we have more banks and building societies than any town in the United Kingdom, so if you are telling me that 85 per cent. of those in receipt of benefits have bank accounts and, indeed, you are going to encourage those who do not to have them, why on earth do they want to go to the post office? Why are they going to Bloxham sub-post office to get these benefits paid? They are just going to go to a bank, so I do not entirely understand how this is good news for the Post Office. Surely it is actually pretty awful news for the Post Office, because up until now you have been receiving very considerable revenue from the Department of Social Security for providing these services which you are no longer going to have and there is going to be no exclusivity?

(Mr Byers) No. One of the great challenges of the 19,000-strong network is that they all have different needs and the needs of the post office in the High Street of Banbury will be quite different from the needs of the sub-post office in Bloxham, and the sub-post office in Bloxham will have a future, not based on the Benefit Payment Card, I have to say, but actually based on a smart card, where people who do not receive benefit will go along and get cash out. I have to say my nearest bank is far further away than my local post office. It would be very convenient for me if I could go along and get cash from the post office. I cannot do that at the moment. With the smart card technology I will be able to do that and while I am there I might buy a newspaper or buy a can of baked beans. That is a far better future for the post office, and particularly protecting the rural network, because people will have more reasons to go there. We should not just be relying on people who are in receipt of benefits. We should be saying to the whole community, "There is a good reason for you to go into your local post office." The smart card will allow them to do that.

Mr Laxton

181. Could I move on to "Son of Horizon" or whatever the new project will be. It seems to me that you have put together a pretty challenging prospect for the Post Office, given that, for example, Post Office Counters probably only turns in £30 or £40 million of profit a year, if you look back over the last ten years or so. You are wanting them to finance it; you are wanting them presumably, or the Post Office want Post Office Counters, to remain in profit, and they also obviously want to try and maintain and presumably improve the level and the number of transactions. This project is going to cost £8-900 million. From a Treasury point of view, perhaps you could let the Committee know how that money is going to be found or where it is going to come from and also from the DTI point of view, what is going to be the division between the two in terms of finding that money and how does the Post Office fit into that? They have given us some general views

14/09/2022, 09:30

House of Commons - Trade and Industry - Minutes of Evidence

but I think I want something a bit more specific.

(*Mr Byers*) On the specifics, you are right to say that the cost to the Post Office will be between £800 and 900 million. I think the Committee has already been told that the Treasury has agreed to make a contribution of £480 million from gilts which are at present held by the Treasury towards the cost of that. The difference will be met then by Post Office Counters from charges for people using the services, and I think the Committee will be aware that the Vehicle Licensing Authority has just signed a three-year deal with Post Office Counters to offer that facility through the network and there will be deals like that that will need to be struck, and then the income which arises from that will be used to make up the difference, and I am confident that, given the whole modernising government agenda, given the new financial services aspects that the network will be able to get involved with, they will be able to bridge that gap. Indeed, the White Paper, I think, provides a golden opportunity because between now and 2003, which is when ACT will come into effect, there will net be an extra £600 million going into the Post Office and I would hope that they would use some of that to support the national network of post offices. So they have the opportunities. Automation comes in at the end of 2001, there is then ACT beginning in 2003, there is £600 million extra going into the Post Office up to 2003, so there is a golden opportunity, I think, for the network to be in a position where it can take advantage of the new technology that we intend to give it. They will be in a prime position, I think, to be attractive, not just to benefit recipients but to a far wider community as well.

182. But out of that £600 million there are some calls upon it. There are some calls in that the proposed changes in the letters monopoly may impact upon the level of profitability. Would you be content to see a situation, for example, where a technical loss were to be made, or could we envisage charges going up in terms of stamps or something like that?

(*Mr Byers*) There might be a technical loss on the account of Post Office Counters, because the way in which the effective grant was given from the Treasury of £480 million has to be accounted for, but it is not a real loss. I think people commercially will recognise that. So I cannot see those sorts of difficulties arising in that way.

Mr Morgan

183. In terms of ACT, obviously there are reduced costs in terms of government but surely there are still costs, especially if it means lots of people are running very small bank accounts. What are we doing about the problems of people who perhaps feel that they are being forced into having a bank account eventually, who are going to be faced with considerable charges in operating that bank account?

(*Mr Darling*) Nobody is being forced to go into a bank. Indeed, we made it clear when Stephen made his announcement that people will have the choice of using the post office or using a bank account. What I can tell you is that, as I said earlier, some 85 per cent. of people who get benefits have banks already and 15 per cent. who do not. We reckon there are about 5 per cent. who would be in some difficulty operating a bank account, but given the savings that we can make, reducing our administrative costs from 22 per cent. to 8 per cent., we would be able to accommodate that, and one of the things we are looking at at the moment is how we deal with people who would find difficulty operating a bank. But I just stress this point: we cannot stand like Horatio on the bridge and try to prevent people doing what they want to do, nor would I want to stand like Horatio on the bridge. If people choose to use their bank—and, as we have said, an increasing number of new entrants to the system are choosing to go to their bank or building society or something like that—then we think we should allow them to do so. The advantage of what we now have, as Stephen has just said, is that the Post Office can actually enter into that market because it can offer facilities that at the moment it cannot do because of the fact that for years it just did not have the necessary investment to do that.

184. But for people who choose to go to the post office or who do not live in Banbury High Street and do not actually have a bank near them and will continue to want to use the post office, they will not be forced to take out some kind of post office bank account in order to get their benefit?

(*Mr Darling*) No. What will happen is the money will be paid into the post office, which will then have banking facilities of the sort that Stephen described, either in partnership or themselves. People can then get the money out. Most people when they want their money, their income support or their pension, what they are really interested in is getting the cash so that they can go and spend it. At the moment what they do is they hand a piece of paper over and they get cash in exchange. Under the new system they will be able to get that probably by a piece of plastic card in the way that most people get their bank accounts, but they will still get the cash and, who knows, even in rural parts of the country—as you know, I am very familiar with them, especially in the North West of Scotland—people can actually get their money out through machines 24 hours a day rather than when the post office happens to open. So you get a better deal for the Post Office, who are still getting the business, and, hopefully the people who are coming in and buying newspapers and whatever else, and a better deal for the people whom the DSS pays, who are entitled to exactly the same consideration as anybody else. There is no reason why people on benefit should be disadvantaged or somehow treated so very differently from anybody else because they happen to get some of their income, either in whole or in part, from the DSS as opposed to an employer or whatever.

185. So what timetable are we looking at for people to be able to go to the post office with their smart card?

(*Mr Darling*) The smart card technology comes in 2001. We are talking about migration to ACT from 2003 to 2005.

(*Mr Byers*) But the attraction of the automation by the end of 2001 is that it will allow a rural post office to communicate with a Lloyds TSB or an Alliance and Leicester and access money that way. So we can begin and hopefully it will be completed by 2001 and hopefully we will see a roll-out beginning a lot earlier than that and it will provide that particular facility. Most importantly, when we do get the smart card technology in place, it will allow, for example, someone to go along and if they do not want to get all their money out in one go they can say, "I will take so much in cash and you can pay £5 directly to my electricity account or my gas account," and the smart card will allow that to happen as well. So there is a whole range of facilities which I happen to believe for many people on benefit will actually be a godsend; it will make life a hell of a lot easier than having to carry around a giro day in and day out with all the risks that entails and being very inflexible in terms of what they can do with it.

Helen Southworth

186. What protection is there going to be for people from transaction costs, if people are using smart cards? Banks are currently charging in some cases quite exorbitant charges.

(*Mr Darling*) The DSS is in the happy position of being quite a large customer and we find that in dealing with banks they are quite anxious to get our business and one of the things we want to ensure is that we strike the best possible deal for members of the public, particularly those people who are getting benefits and every penny of which wants to go to maintaining them rather than into the banks. This is one of the issues we will be addressing at the moment to ensure that, as far as we are concerned, if we are paying a bank to receive and pay out some of the benefits, we drive a hard bargain on behalf of the public. I do not particularly want to get drawn on exactly how much we might be prepared to pay for that but certainly it has been my experience that the banks are usually very pleased to see us simply because of the sheer volume of business that we transact.

187. What action is the DSS going to be taking to achieve the vision that Stephen Byers was creating of better cash flow back into the local community through the post office?

(*Mr Darling*) I think in the next ten to twenty years, just as you are seeing now, there are cashpoints appearing in places that would have been unheard of in the past. Twenty years ago, I think I am right in saying, you would not expect to find cashpoint facilities in a supermarket or an ability to bank in a supermarket or the cash-back systems at the checkout and so on, and what I am anxious to do is to ensure that we pay money to people where they are, as far as that is possible. Technology is changing all the time, the facilities are changing all the time, but I should stress this point, that the three of us are united in our belief that the Government ought to arrange its business so that we pay money to the people who need it, who are entitled to those payments, as efficiently and as effectively as possible and giving them the choice as to where they should do it. By the changes we have made we have allowed the Post Office to get into that business. If we had not done that there is every chance the Post Office would find it was competing against the banks, against the supermarkets, against other outlets, unable to get into that business because they did not have the technology to do it. What we are now doing is enabling that to happen. So far as your concern about individuals is concerned, we will make sure that we drive a hard bargain on behalf of the public because we want the public to get the best possible service.

Chairman

188. Does that mean that it will be free, there will be quite clearly no charge imposed on a client going to a post office to get their benefit?

14/09/2022, 09:30

House of Commons - Trade and Industry - Minutes of Evidence

(*Mr Darling*) No. What we do not want to do is, if somebody is getting X amount per week of income support, to find that it is X minus Y because of bank charges. It is for us to provide them with the amount of money in their hand that they are entitled to and they will not be paying the bank for that.

189. That is all beneficiaries?

(*Mr Darling*) That is the people who receive income support. At the moment, for example, if you get your child benefit—I say "you" in general terms—

190. My wife does still.

(*Mr Darling*) I am sure she will be very pleased that she does. Your arrangements with your bank are carried out in the normal way, but I want to avoid the situation where somebody at the moment is getting their cash from the post office, then goes to use a bank and finds, if we did not do something, that they would be down however many pence a transaction because the bank was charging them. We need to ensure that we take account of that, so that they get exactly the same amount of money as they are entitled to now

Helen Southworth

191. But get access to the services that you were talking about—transfer of electricity payments, etc.?

(*Mr Darling*) What I am not offering to pay for is if they choose to do their entire banking and a whole lot of other things. Were they to start investing in stocks and shares or something, I am not offering to pay for that as well. Our obligation, as I say, is to ensure that someone on income support gets their income support money and they get that free, if you like. If they then want to do other things at the bank, then naturally that is a matter for them rather than for us.

(*Mr Byers*) May I say I think experience shows us, and this smart card technology is something that we are negotiating at the moment and will come on after we have automated the system because it is a whole different set of proposals that we do need to put in place, but we do know from the electricity companies and so on that they very often offer discounts if somebody pays by direct debit, as we know, and it may well be if you put a guarantee that with your benefit there will be £5 a week or £5 a month or whatever the figure might be going into your electricity account, it may be that the companies will offer a discount as a result of that security being there. These are all things to be discussed. It is a whole new area that is being opened up as a result of the decision to move away from something that was pretty redundant, which was the Benefit Payment Card, to a smart card, which will offer a whole range of new opportunities.

192. Are the DSS and the Benefits Agency having discussions with potential competitors to the Post Office? You were saying you are an excellent customer, people are very pleased to see you. Does that mean you are actually discussing with them the possibilities of setting up alternatives to the Post Office prior to the Post Office being able to compete—

(*Mr Darling*) Bear in mind that 30 per cent. of existing benefit customers are already using the banks, and we have discussions with all financial institutions all the time with a view to improving our services. But what we are doing here, as part of the agreement we have reached, is we are not taking active steps to switch customers on to ACT before 2003. That gives the Post Office some three years in order to get their systems in place so that they can compete. Clearly given that 85 per cent. of our customers have bank accounts now and there is nothing in this world we can do if they tell us tomorrow morning they want to move, it is a free country, they can do that, but we will not take active steps to do that until the Post Office—

Chairman

193. Sorry, the word "active", is that proactive or reactive? What do you mean by that? That is jargon.

(*Mr Darling*) What it means is if we write and say, "Dear Mr O'Neill, We presently pay you through an Order Book. From such-and-such a date we intend to pay your money into a bank account. Please tell us where you would like it to be paid," that is what I mean by actively contacting people, but if you were to ring us up and say, "I currently get my money through an Order Book. I now have opened a building society account. Please pay it in there," then we would do it. We do it as a matter of course.

194. But if I phoned you up and said, "I have a book and I don't want anything else but the book," you will agree to continue to issue me with the equivalent thereof, even if it is plastic, but I can use it at my post office because I do not have a bank, I do not trust banks, I do not want anything to do with them, as a number of my constituents suggest to me regularly?

(*Mr Darling*) You can continue to use the Post Office for the next three years. From 2003 we will then start the process of enabling our customers to get the money paid into a bank, into a building society, other financial institutions or the post office. They can still use the post office.

195. So Mr Lud will be all right if he wants to wreck the system?

(*Mr Darling*) Whoever Mr Lud is, if he wishes to use the post office he can use the post office. But without wishing to labour the point, having people going around the country with this sort of thing is not particularly good for them because they are prone to loss. An awful lot of people lose them, an awful lot of people say they lose them and we have to re-issue Order Books. They are extremely expensive because it costs us a lot of money to pay for these things. As times change I think most people would accept that, yes, they can use the post office but the means by which they get the money out of the post office may move from basically a ration book at the beginning of the next century into a plastic card, but they will still be allowed to use the post office.

196. The thing is, Mr Darling, there are some of us who are just about old enough have happy memories of ration books actually. They were not quite as unpopular as you seem to suggest because they were the means by which one got regular food, but the other thing is that what we are concerned about is that in 2002 or 2003 we will have constituents coming to surgeries saying, "We have had this letter. What does it mean? Does it mean that we are not getting any more social security unless we go to the bank or the post office or take a bit of plastic?" and that is the danger of the active steps that you are speaking of.

(*Mr Darling*) I understand what you are saying. I do not remember rationing; I do remember national dried milk but rationing was abolished the year before I was born, if I remember rightly. But I think most people nowadays, what they are concerned about is that they get the cash to which they are entitled and if they want to get the cash through the post office we will enable them to do that. I do not think, despite what you say, despite people's fond memories of the ration book and black-outs and the rest of it, that they would mind 60 years later producing some other device such as a plastic card to get their money. In my experience, certainly my constituents have rather more to say about the amount they get from the post office rather than the means by which they get it. But for the avoidance of doubt, two things: you can still use the post office. When we start to make the change it will be accompanied by appropriate publicity and appropriate reassurance to people so they have no reason to doubt they will not get exactly that to which they are entitled.

Helen Southworth

197. My question relates to the Post Office network and access. As you said, the concern over benefits was most likely about the levels of them, so we have covered the issue of charges. We also have to cover the issue of getting access to cash. The Post Office network, I think we all agree, is beyond any possibility of re-creation by any other alternative provider. Are the Benefits Agency and the DSS going to take due account of that and is there the possibility that it is going to give people in disadvantaged communities, in rural communities, access to cash, and is it going to give some kind of preferential consideration to benefits while it is developing its automation?

(*Mr Darling*) The majority of our customers choose to use the Post Office at the moment. Sometimes they will do it out of habit; others will do it because it is the most convenient outlet, and you are right, that in many parts of the country, not just in rural communities, there are more post offices than banks and there is no reason why they cannot continue to use that. But really what we want to achieve is a situation where people choose; they tell us where they want to receive the money. I also think that the technology is there now. For example, in Australia they use it, where people do not have bank accounts as such but simply get their money paid into the equivalent of a post office, they get a card which they put into a hole in the wall and they get the cash out. They can do that 24 hours a day, which is something we cannot do at the moment because post offices, like banks, observe the usual hours of work. So what you are judging here is that far more outlets in totality are available to people, there is more flexibility, it is more secure and it is cheaper for us to run, and when it comes to the social security budget, I would rather re-allocate money that I do not need to spend on ration books when I can spend less than 1p a transaction on putting money into people's bank accounts where they are and that means the money is freed up to spend elsewhere in the system. Most people might think that is a good thing. I do not know if there is anything else on the network you want to say.

14/09/2022, 09:30

House of Commons - Trade and Industry - Minutes of Evidence

(Mr Byers) Just to say that, because all the positive bits in the White Paper did not get much coverage—they do not get coverage, the positive bits—we will be publishing before the end of the year the criteria for access to the Post Office network, which will say that a particular percentage of the population should be within so many miles of a post office, and that is the first time that has ever been done. It will then be the task of the regulator to make sure that those criteria for access are actually met, and that will make a real difference in terms of safeguarding the future of the network.

198. The key point of the question is, is the Government going to give preference to Post Office Counters Limited in terms of benefits payments to allow them to develop the automated network?

(Mr Darling) They have that preference now, yes, because for the next three years we are not going actively to pursue the transfer of our customers to ACT, so for the next three years the Post Office will have the benefit of some 60 per cent. of our customers who will be coming through their front door, which gives them significant help.

(Mr Byers) And the real challenge actually for myself as Secretary of State for Trade and Industry and for the Post Office is to make sure we can capitalise on the Modernising Government agenda, because there will be a whole raft of new opportunities there, and I happen to believe that the 19,000-strong national network of post offices is in an ideal position to be the interface between government and the communities we are serving.

Mr Chope

199. Following on from that, there are a lot of people who are worried that this may be the death knell of the sub-post office network. Is the Secretary of State guaranteeing that there will continue to be 19,000 post offices, because a lot of people will want to have some guarantee that the post office just down the road from where they live is still going to be open after this new system comes in? And particularly having regard to the Secretary of State's confidence about how good this is for the Post Office, can he explain why the Post Office issued a press release following the White Paper saying that the move to automated credit transfer for 2003 would seriously threaten the income stream of many post offices, especially in rural areas? The Post Office Users' National Council have said that there is no guarantee that after 2003 they will be able to retain the benefits business and it could have a major impact on the rural network, and the Association of Sub-Postmasters have said similar things. What guarantee is the Government providing for the continuance of the existing range of post offices?

(Mr Byers) As I said in reply to the previous question, for the first time ever we will have criteria for accessibility to a post office outlet. That has never been there before. That will be for the first time. It will be for the regulator to make sure that that commitment and those criteria are met. For the first time the new, revamped, more powerful Users' Council will be able to make representations if there is a proposed closure or a loss of a post office in any community, and these are all mechanisms that we are putting in place that were never there before and we are putting them in place to ensure that we can continue to offer a national network of post offices. I cannot guarantee that every post office that is in being as we meet today on 14 July will be there in five years' time. People move, demand changes, and that is the reality of the situation, but what I can say is that for the first time we will have criteria and we will have a regulator with the power to ensure that those criteria are met. In addition, there will be £600 million extra going into the Post Office between now and 2003 and I hope that the Post Office, now arm's length from the Government, will use some of that money to improve the network. They will have the freedom to do that and I hope they will exercise that because we do need a national network which serves those communities. Whether they be inner-city estates or whether they be in the rural highlands of Scotland, we need the network to be there and I believe we have put in place the policies that for the first time ever will safeguard the national network of post offices.

[Previous](#)[Contents](#)[Next](#)[Commons](#)[Parliament](#)[Lords](#)[Search](#)[Enquiries](#)

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Prepared 21 September 1999

- [A-Z index](#)
- [Glossary](#)
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- [House of Lords](#)
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- [Bills & legislation](#)
- [Committees](#)
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- [News](#)
- [Topics](#)

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

Examination of witnesses (Questions 200 - 203)

WEDNESDAY 14 JULY 1999

RT HON STEPHEN BYERS, RT HON ALISTAIR DARLING and RT HON ALAN MILBURN

200. So will affordability, from the point of view of Post Office Counters Limited, be a relevant criterion on the issue of access and keeping the network open, and is this not all going to depend upon how much subsidy ultimately comes from the taxpayer? In paragraph 19 on page 63 of the White Paper you say that: "The Government stands ready to play its part in easing the transition with an eye in particular to supporting those post offices of special value to their local community," thereby accepting that there are going to be problems. Can you say a bit more about what you had in mind in saying you will be playing your part in easing the transition? Is that going to be in the form of subsidy, a guarantee that particular post offices will stay open, and if so, who will pay for that?

(Mr Byers) Under the proposals in the White Paper there will be a five-year Strategic Plan which will be proposed by the Post Office to the Secretary of State for Trade and Industry, and I would expect that within that Strategic Plan there will need to be a very clear indication of how the Post Office intends to meet the access criteria for the network. I am sure that will be part of it. So we expect it to be dealt with there. Quite clearly the network services a social need and the Post Office themselves make that very clear, that commercially they probably would not have a 19,000-strong network but for social reasons it is necessary to maintain it, and what we have agreed with the Post Office reflects that reality. It will be in the Strategic Plan and I am sure that with the extra £600 million that they will get between now and 2003, we will provide them with opportunities to enhance the facilities rather than let them wither on the vine, which I have to say were the policies that were being pursued by the Government of which Mr Choqe was a member. I know he would much rather try and sell them off. If we sold them off because they were not a 19,000-strong commercial reality, there would be thousands of closures as a result of the policies that he promoted as a government minister just a few years ago.

Chairman: I believe we are here to discuss Horizon, not privatisation of the Post Office.

Mr Choqe

201. One final point on that. What the Conservative government was promoting was an exclusivity arrangement in order to protect the vital sub-post office network. What the present Government is doing is abandoning that exclusivity arrangement and that is why it is causing so much concern to people who have invested their life savings in small sub-post offices as businesses and it poses a big threat to rural communities and suburban communities dependent upon their small post offices. One great thing that the previous government did do was to introduce a system which would guarantee that exclusivity. My final question is this: if the Government wanted to migrate to the smart card system, which it has said it wants to do, and abandon the benefits card, why did it not utilise the facility which ICL have put into the new system which enables migration to the smart card system? Why did it not carry on with that rather than reverting to the automatic credit transfer?

(Mr Byers) Because, as I think we made clear earlier on in our evidence, that was based on having the Benefit Payment Card, which of

14/09/2022, 09:30

House of Commons - Trade and Industry - Minutes of Evidence

necessity we had to say no to because it simply was not working, but on the network, the safeguarding of the network, for the first time, just to repeat what is in the White Paper, there will be criteria in terms of access to the network; for the first time we will have a regulator with the responsibility to regulate to meet those criteria, and the user; the individual in those communities, for the first time will have the opportunity of objecting and raising with the regulator any individual proposed closure which would affect their community, whether it be in a rural area, whether it be in an inner city, wherever they might be. Those are new for the first time and I happen to believe that procedure and those mechanisms are a far stronger guarantee for the future of the network than anything else that we have had, either from Mr Choze today or from his government earlier.

Chairman

202. Thank you, Mr Byers. One last question. This has been an exercise in joined-up answering if not joined-up government. Mr Milburn, will the role of the Treasury still be actively to promote National Savings through the post offices? Will it give the Post Office with its new on-line facility the role of the major outlet for that kind of financial commodity? Secondly, on a slightly wider point, is the Social Exclusion Unit monitoring these changes because of any group in society it is the socially excluded who depend most upon the success of Horizon? Will this be the subject of monitoring by the Social Exclusion Unit?

(Mr Milburn) Not that I know of, although that seems to me to be quite a good idea and I am happy to locate it with the Social Exclusion Unit. Apart from being Chief Secretary I have the pleasure of chairing the ministerial network which looks after the Social Exclusion Unit, and if the Committee thinks that is a useful thing to do then I am happy for the Unit to look at that as an issue. As far as the Treasury's role in relation to the Post Office is concerned, as Stephen has already made clear what we have done here is provide two things: first of all, we have provided the three-year period of comfort, if you like, to the Post Office. There will not be any move towards ACT before 2003. There will be a period of migration then over the following two years between 2003 and 2005. Secondly, what we have provided for the Post Office is something that it has never had before, an extra investment of around half a million pounds going in to provide it with a modern automated platform that will provide a better service to its customers today but will also provide it with the opportunity to build for tomorrow and we can move on to smart card application if that is what the Post Office want to do. I think the best thing about this is that the Post Office ought to be confident about its future and we should be confident about its future, too, for four reasons: one, because of the substantial investment that we have now made in this automated platform, modernising and computerising the Post Office, every one of them, 19,000; secondly, because the Post Office is actually the biggest handler of notes and coins in our country already; thirdly because it has an unrivalled reach into parts of the community that, frankly, banks and building societies do not have, and it is clear from some of the concerns that have been expressed, maybe even by this Committee in the past, that some of the banks now are engaged upon a process of retrenchment and closure in many of these communities that Mr Baldry was referring to earlier; and fourthly, because the Post Office already has a platform in terms of its relationship with a number of banks. Now it can build on that, it can build on the relationship with the Co-operative Bank, Lloyds TSB and the Giro Bank, too, and I am sure if it seizes the opportunities that we have afforded it here, it will be able to compete and succeed for the future and that will be good for the Post Office but it will be good for the socially excluded, too, because then they will have access to the sorts of services that you and I both want to see.

203. And the National Savings Bank as well?

(Mr Milburn) I think National Savings are in negotiation with the Post Office at the moment and we hope that they will be able to make the most of the automation that we have provided for them.

Chairman: Thank you very much. It has lasted a wee bit longer than we had anticipated and we are very grateful for the fullness of your answers. We look forward to getting your response in respect of the two consultants' reports, and if we have any other matters, we will be in touch with you. So thank you very much for your time this afternoon. It is much appreciated.

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Prepared 21 September 1999

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