BEIS0000181

RESTRICTED - POLICY

APPENDIX F

SUMMARY OF KEY FINDINGS OF HORIZON WORKING GROUP REPORT AND KPMG REPORT

The Working Group's report covers the three strands of work undertaken over the last month: the negotiations between the public sector parties and ICL chaired by Graham Corbett, KPMG's analysis of fall-back options and the DTI response to the five points in Stephen Byers' letter of 10 September 1998.

KPMG tested the key assumptions underlying the value for money analysis of the options previously presented to Ministers, namely: Option 1 - continuing with Horizon; Option 2 - continuing with the project minus the benefit payment card and Option 3 - cancellation of the project with an alternative technology platform commissioned by Post Office Counters. Their work focused on analysis of the fall-back options.

Value for Money Analysis

- KPMG's **value for money analysis** reached broadly similar conclusions to those of the Treasury Working Group in their report to Ministers i.e. **continuation offers slightly better value for money than the fall-back options but that there remain margins of error surrounding the modelling and risks surrounding all of the options which have not been quantified.**

Comment: However this analysis ignores the cost of the damage which Option 3 would do to ICL, to our relationship with Fujitsu, to inward investment from Japan, and to the credibility of the PFI process, especially for projects of this type. If these costs were added to Option 3, the relative attractiveness of Option 1 would be much enhanced.

Post Office Network

- KPMG's modelling under all 3 options assumed that HMG would still wish by 2009-10 to retain a network of around 80% of its current size (assumes managed closure of 1,000 urban offices and the attrition of 2,200 offices); this would necessitate the payment of a subsidy of £30m to the 6,000 most vulnerable offices. The network is predicted under KPMG's analysis to be loss making under all options but with smaller losses under Option 1 than under Options 2 and 3.

BEIS0000181

- The impact of income loss on the network modelled by KPMG is less severe than that modelled by POCL.

ACT

- BA have prepared a programme for moving to ACT. Their preferred strategy would be to see active promotion of voluntary ACT from April 2000 and compulsory ACT migration benefit by benefit from October 2001 to October 2004. DSS Ministers have not taken any decisions on the frequency of payments but for the purpose of this exercise some changes have been assumed. KPMG suggest that that there is a risk that the costs of periodicity in the current modelling are understated.

- KPMG from their research (which was limited given the timescale) suggest that the banks view migration of all benefit recipients to ACT in 2-3 years as manageable, although a significant increase in counter transactions might cause the banks to review their charges for this service. The banks consulted were in favour of post office customers continuing to use post offices for cash withdrawals once they had moved to ACT, provided that post offices were by then suitably equipped with the necessary facilities.

Comment: Whether such a migration could in reality be achieved will not, we believe, be possible to forecast accurately until proper negotiations are undertaken with the banks.

Alternative technology platform for Option 3

- KPMG believe that a full-function replacement for Horizon (minus the benefit payment card but with banking functionality equivalent to a "manned ATM") would be unlikely to be significantly simpler or cheaper than Horizon.

- They have expressed concern that a simple swipecard facility in post offices (BA's programme for migration to ACT under Option 3 is dependent on this being in place by October 2001) might not sit easily with POCL's long term aim to develop retail banking.

- They suggest that a lower risk option might be to postpone the move to compulsory ACT until POCL have full banking functionality i.e. April 2004.

- They identify a risk that cancellation of Horizon might have an negative impact on market perceptions and interest.

BEIS0000181

Comment: As indicated in the Working Group report, a move to compulsory ACT would be controversial unless POCL is able to offer at least a range of basic current account services so that claimants can continue to collect their benefits at post offices. If Horizon falls, DSS are likely to push for a rapid migration to ACT and will not wish to wait until 2004.

Option 2

- KPMG have confirmed that Option 2 is technically and commercially feasible. However, since development of the payment card represents the major element of ICL's costs to date, terminating the payment card by agreement might carry almost as high a price tag as terminating the project as a whole..

DTI Response to Stephen Byers' 5 Points - (Annex A)

Stephen Byers' letter of 10 September asked the Secretary of State to take forward with the Post Office a number of issues relating to the Horizon project and the future of the business.

Plans to strengthen POCL's management of the project

We provided to the Working Group with the assistance of the Post Office a note of actions taken by POCL in recent months to answer the Expert Panel's comments about the need to strengthen POCL's management of the project. These include recruitment of external resources and retention of the services of PA Consulting to advise on service management.

- The report indicates that the WG are broadly content that POCL's actions were making a difference.

Plans to give the management of POCL a much stronger commercial focus

We reported that DTI Ministers have strengthened the commercial focus of the Board by the appointment of 4 new non-executive directors. We set out the actions being undertaken by POCL to develop business propositions within their commercial strategy with the help of McKinseys.

- The report comments that the Post Office Board has moved to strengthen commercial management within POCL - although belatedly and that this was at an early stage of implementation. A crucial issue was the balance between internal development and external recruitment - in the Post Office the latter had tended to dominate.

BEIS0000181

RESTRICTED - POLICY

Exploration of possible partnerships between POCL and the private sector

We reported that the Post Office Board recognises the need for POCL to develop strategic partnerships, detailed partnerships already in place and referred to current discussion about a strategic alliance with ICL.

- The report comments that the Post Office have not moved very far in achieving their aspirations and that there remains a lot of work to be done.

Consideration of possibilities for further development of the system to support social banking and broader account-like services

We reported that the Horizon infrastructure will be fully capable of supporting a range of banking facilities that could accommodate various forms of social or universal banking and broader account-like services.

- The report comments that POCL's aspirations for developing retail and social banking require a great deal more detailed development.

A strategy for more transparent funding for POCL to identify clearly the social value added that is being bought.

Our response on this issue sought to set out key issues to be addressed in future work on establishing a more transparent funding regime for POCL. It reported the results of preliminary study by Price Waterhouse Coopers on the social value of the network and highlighted the issues which would need to be addressed in devising a future subsidy regime.

- The report merely states that it has not yet been possible to fully consider DTI/POCL's work in this area and thus it it is not possible to comment on its deliverability.

[redacted]

BEIS0000181

RESTRICTED - POLICY

[redacted]

DTI Posts Directorate
6.11.98