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To:
MS MADSON NEWS

From:
DAVID SIBBICK
DIRECTOR POSTS

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151 Buckingham Palace Road

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20 September 1999

ci: Secretary of State	
Mr Johnson	
Sir Michael Scholar	
Mr Macdonald	
Mr Davis	CGBPS
Mrs Britton	PORT
Mr Hosker	FRM
Dr Hopkins	CII
Mr Osborne	Legal C
Mr Tee	NEWS
Mr Brebner	PORT
Mr Leese	PORT
Mr Whitehead	CGBPS 1
Mrs Wright	CGBPS1
Mr Halls	CGBPS 2
Mr Fincham	FRM
Ms Madson	NEWS
Ms Anderson	CGBPS1
Mr Robinson	NEWS
Mr Corry	SpAdv
Ms Moore	SpAdv

TRADE AND INDUSTRY SELECT COMMITTEE REPORTS ON THE POST OFFICE: HORIZON AND POST OFFICE NETWORK

1. I attach the final version of key points and line to take briefing for tomorrow's (Tuesday) publication by the Trade and Industry Select Committee of their reports on Horizon and the Post Office reform programme. We understand that copies of the reports will be available at 10.00am, with a press conference following at 11.00am. Mr Johnson may also find this material useful for his attendance at the IPPR seminar on Wednesday.

Key points and line-to-take briefing

2. Please note that this key points and line to take briefing has been agreed with both Treasury and DSS/BA, and includes material which is primarily the responsibility of those two Departments. This is in part because the dividing line between Departmental responsibilities is not always clear-cut; and in part because as representatives of Government, Ministers may find themselves quizzed on any aspect of the policy. It is clearly important that they should answer consistently wherever possible.

Performance and Innovation Unit (PIU) study

3. Please also note that there is a particular sensitivity about referring publicly at this stage to the PIU study. No10 would much prefer there to be no mention of this until the Government is in a position to make a full announcement, probably in the week following the Labour Party Conference. However, they are aware that a number of people - including members of the Horizon Working Group - know of the existence of the study, and that there may therefore be direct questioning which will be difficult/impossible to deflect. In such circumstances, the separate draft material I circulated earlier may be drawn on as necessary.

Mechanics

4. The attached briefing is intended to cover the main issues on Horizon and the future of the nationwide network of counters. The response to questions about specific observations/conclusions/recommendations in the Committee's reports will generally be that the Government will study the report(s) carefully, and will respond formally in due course. However, there may be material in the reports which requires immediate rebuttal. We will advise urgently on this, and will coordinate additional briefing, a Press Notice and a note for No10 with Treasury and DSS/BA colleagues.

DAVID SIBBICK

HORIZON: Q and A BRIEF

Government's response to TISC's recommendations?

- It would not be appropriate to comment on the Committee's recommendations before we have had an opportunity to consider them carefully. We will provide a response in due course in the normal fashion.

Key points on the deal

- This is a highly complex IT project on an immense scale, entered into by the last Government. It is this Government's firm action which has put the project back on track.
- The changes to the Horizon project are designed to put it on a sustainable footing for the future and allow the Post Office to move as quickly as possible to the computerisation of post office counter services.
- Simplification of the project (through the decision not to proceed with the benefit payment card) will enable 40,000 counter positions in nearly 19,000 post offices to be automated by 2001.
- The Benefits Agency will migrate benefit recipients to payment direct into bank accounts via the existing ACT system over a 2 year period commencing in 2003. Payment by ACT is a more modern and efficient way of paying benefits than existing paper-based methods currently used in post offices. It is tried and tested technology, already chosen by one third of benefit recipients to access their benefit payments via bank accounts.
- The Post Office already has relationships with a number of banks whereby customers can access their bank accounts at post offices; Girobank/Alliance & Leicester, Lloyds TSB and the Co-operative Bank. They will be looking to extend their relationship with the banking industry by building on the Horizon platform. As the Post Office is currently the largest single distributor of notes and coins to locations throughout the UK, there could be opportunities for strategic partnerships and economies of scale which Banks and Building Societies could find attractive. With post offices acting as agent for a number of banks, benefit recipients will continue to be able to collect their benefits in cash at post offices if they wish to do so, and bank customers generally will benefit from a wider range of access points.

- Benefit recipients are increasingly opting for payment by ACT, with 54 per cent of new child benefit recipients receiving benefit directly to their bank accounts and 47 per cent of new pensioners receiving their pension in this way.
- Government commissioned a major review of the project when delays became apparent to decide the best route forward given its huge importance to the 28 million customers who visit nearly 19,000 post offices each week and to the 17 million benefit recipients; and that a significant amount of taxpayers' money was involved.
- The agreed way forward represents the best option for achieving successful and early computerisation of the post office network and meeting other important Government objectives such as encouraging wider access to bank accounts (and associated beneficial financial services, such as Direct Debit) for people who don't have them, thus helping to promote financial 'inclusion'.

Detailed points

Was the Horizon project misconceived from the start?

This project was conceived in 1994. At that time it was seen as a way of achieving both a more modern and fraud-resistant method of paying benefits and providing the post office network with an automated platform.

Why did this take so long to resolve?

- This is a large and complex project with significant amounts of public money at stake, and with implications for 15 million benefits recipients and for 19,000 post offices. Only right that we should consider very carefully how to move forward. As a result, we have now been able to put this project back on track.

What went wrong with the project?

- This is a complex project on an immense scale - to automate 40,000 counter positions at nearly 19,000 post offices throughout the UK. The project suffered repeated delays, and was some 3 years behind schedule. Costs had escalated and anticipated fraud savings to Government/the taxpayer were being lost.

- It is not productive to seek to apportion blame, but, given its scale, it was essential to take decisive action to put the project back on track that is what the Government has done.

Wasn't the delay caused by splits within Government and between BA and POCL?

- No. A range of views and considerations had to be taken into account, but the decision reached was a collective one seen by all those concerned as representing the best way forward.

Was it because the DSS/BA opposed the BPC?

- No. The decision was made on the basis of benefits to the public sector as a whole. DSS/BA were fully committed to the project and were very concerned by the delays to the delivery of the benefit payment card, given the importance to millions of benefit recipients.

If pressed: It has always been the DSS /BA's position that their preferred method of payment for the longer term is by ACT, given the significant administrative savings.

Given the failures in this project, why didn't the Government just terminate and find another supplier?

- The Government is satisfied that the agreement has put the project back on track, this will deliver a modern on-line IT platform to some 40 000 counter positions in more than 18 000 post offices and represents the best value for money for the taxpayer.

PFI concept

Why is this no longer to be a PFI project?

The project has been restructured to remove the Benefit Payment Card, and the service element associated with the Card which was the basis for the PFI deal. The Government therefore decided that the first stage of the project, in which the Post Office purchases the automation system, would be more appropriately taken forward in a conventional procurement. But this is just the first stage and, in parallel with this, the Post Office will be exploring the opportunities for developing a long-term partnership with the private sector to exploit the full potential of the national network of Post Offices, using state of the art technology.

Doesn't this mean there will be greater upfront cost for the Post Office?

- The Government will be discussing the finances of Post Office Counters Limited in the context of the Post Office Strategic Plan, and the implications for the Post Office's external financing will be announced in the normal way.

Doesn't this show that the PFI concept is fatally flawed when it comes to IT projects?

- There is nothing fundamentally wrong with PFI procurements nor are there any fundamental flaws with taking IT projects forward under PFI - others are being delivered successfully: providing good value and service to the public sector and attractive returns to the private sector investors. The Government provided the Select Committee with a list of projects which are being successfully implemented.

How much has the Government contributed to the abortive costs of the benefit payment card?

- As a PFI contract, the costs and risks associated with developing the benefit payment card fell to the contractor - ICL.

Why did ICL/Fujitsu make a provision of £180m in their accounts?

- This is a matter for ICL/Fujitsu and their auditors.

Cost of new deal

New deal has wasted taxpayers money

- This project will result in significant savings overall. There will be substantial fraud savings; and the automation of post office counters will provide a platform for improving the efficiency and quality of delivery of Government and other services to the public, including the payment of benefits.

If pressed on whether this costs more than original project:

- The Government carried out an extensive review of all options for taking this project forward. This option represents the best value overall for the Post Office, benefit customers and the taxpayer.

How much public money was spent up to May 1999 and what did we get for it?

- In total the public sector parties spent about £310 million in relation to the project. However about £170 million of this was to take forward the modernisation of systems for benefit payment (CAPS) and the automation of post office counters, which would have been necessary anyway. Less than half of this - about £140 million - was specifically benefit payment card related, and is therefore “sunk”.

Who will pay for the deal? Where will the money come from?

- The Government has agreed to make a substantial contribution to the capital costs of the revised project. We have said that the Post Office can use up to £480 million of the cash assets (gilts and deposits) on its balance sheet to finance the majority of the capital costs of this project, and that we will be adjusting their financial targets - their External Finance Requirement and their profit target - accordingly.

Although in accounting terms these cash assets are on the Post Office's books, they are effectively accumulated dividends that would, if the Post Office were a conventional company, be paid over to its shareholder - in the Post Office's case, the Government. The Post Office cannot pay a dividend to Government under its current legislation.

Is this really a new contract? ICL talking of 'revision'. Is this because it has not gone out to competitors?

- This is a revision to the contract. The contract for the purchase of the Horizon infrastructure remains essentially in place. What has changed is the Benefit Payment Card is no longer in part of the contract, and the DSS/BA are no longer a contracting party with ICL.

Is ICL the preferred supplier on 'consultancy deal' for smartcards? Is there effectively a 'done deal' on this?

- No. I understand that the Post Office has made no prior commitment to ICL or to any other supplier.

Future of project

How will the Government ensure that the automation project now proceeds according to plan?

- A Working Group chaired by Alan Johnson, the Minister with specific responsibility for the Post Office in which the Post Office, the main Post Office unions and the National Federation of Subpostmasters are all actively participating has been established to oversee progress with the revised Horizon contract and to explore further the commercial potential of the automated network

Post office network

What does the Government intend to do to guarantee the future of the post office network?

- The Government is fully committed to maintenance of a nationwide network of post offices.
- This project represents a major investment in the future of the national network of post offices, and will help post offices offer better services to their customers. Benefits will continue to be collected using order books and giro cheques as they are now. We intend to move to a more modern and efficient way of paying benefits through post offices in due course. Those benefit recipients who wish to collect their benefits in cash at post offices will continue to be able to do so.

If pressed on costs and financing/PIU study:

The Government is discussing the finances of Post Office Counters Ltd in the context of the Post Office Strategic Plan, and the implications for the Post Office's external financing requirements will be announced in the normal way. In addition, the Government has decided to ask the Performance and Innovation Unit of the Cabinet Office to undertake a study of the issues, and will make a fuller announcement about the nature, scope and timing of this study shortly.

If pressed on future of post office network

- We made clear in our White Paper that we will publish access criteria, which the new Regulator will have a duty to monitor, and which will aim to ensure that everyone in the United Kingdom has reasonable access to post office counter services.

Will Government Departments/Agencies continue to use the post office network?

- The post office network with its nationwide reach represents a valuable channel for the delivery of Government and other services. Automation will provide a modern electronic platform for the delivery of these services.

BA CAPS systems and ACT

Is it true that the Benefits Agency was unable to deliver its own systems on time and that this caused the delays and setbacks referred to by the Government?

- No. The timetable for delivery of CAPS was factored into the agreed project plans that everyone was working to. The Benefits Agency met all its contractual obligations.

If pressed on whether that means BA blames ICL

- I Cannot comment on detailed technical issues which are commercially confidential between the parties.

What was the role of CAPS in the Payment Card project?

- CAPS, the Customer Accounting and Payment Strategy, is not just about the Payment Card. It is a continuing programme that is developing new systems and processes to improve the way in which the Benefits Agency manages customer details and benefit payment information. Until the cancellation of the Payment Card one of its functions was to support the payment of benefit by Card at post offices.

Was the success of the project dependent on the successful delivery of CAPS?

The payment of benefits by Payment Card relied on important [technical] contributions from all three parties; POCL, Benefits Agency and ICL Pathway. The Benefits Agency's CAPS programme provided just one such contribution

Did the Benefits Agency deliberately delay the roll out of the Payment Card and post office automation to cover up its problems with CAPS?

- No. The work on CAPS is well advanced and the Benefits Agency is absolutely confident that in all material respects it did not contribute to the delays.

If there are no problems with CAPS, what caused the problems on the project?

- There is little point in apportioning blame, the important thing to remember is that all parties are agreed on a constructive way forward to meet the projects' objectives.

If there are no problems with CAPS, why have the Benefits Agency spent nearly £20 million on Andersen Consultants?

- I repeat, CAPS is not just about the payment card. It is a major programme of work and it is normal practice in programmes of this size to use expert services provided by consultants.

Will the Government now pay all benefits into bank accounts?

- Benefit recipients can currently opt to receive their benefits through their bank accounts and increasing numbers are doing so. We intend to move those recipients who are currently paid by traditional paper-based methods to a more modern and efficient way of paying benefits in due course, but we will ensure that all those who wish to do so can continue to collect their benefits in cash at post offices.

Will the move to ACT be compulsory?

- Benefit customers are increasingly choosing ACT as their preferred method of payment. BA and POCL will be working together to build on this trend to ensure that, from 2003, ACT becomes an attractive choice to benefit customers, opening up access to a wider range of banking and other financial services, whilst continuing to offer access to cash at post office counters.

Will the Government compel people to open bank accounts in order to receive their benefits?

- No. Up to 90 per cent of benefit recipients already have access to a bank account and we believe that people should be encouraged to open a bank account because of the advantages this will offer them. Given developments in banking technology and the new simple banking products being introduced it should be possible to cater to people's circumstances and provide accounts which will answer their needs.

If pressed

- There may be some people who are unable or unwilling to open bank accounts. For these, we are considering alternative means of using ACT at post offices.

If the banks do not consider these accounts to be a commercial proposition, who will pay for them - the customer, Government?

- There should be no need for anyone to 'pay' for their bank account. It is envisaged that many new accounts will be, at least initially, of simple credit only accounts, for which the banks should make no charge.
- For the relatively small minority for whom a bank account may not be appropriate, we shall be examining what other simple ACT-based money transfer systems may be commercially available, for which there should be no charge to the benefit recipient.

What about people who don't have bank accounts?

- DSS will be working with the Post Office to encourage benefit recipients without a bank or building society account to open one, and will be exploring other means of achieving payment of benefit by ACT for those recipients who cannot or do not want an account.

What about people who can't get to a bank?

- The Post Office's strategy is act as agent for a wider range of banks and building societies so that benefit recipients who wish to continue to collect their benefits in cash at the post office will continue to be able to do so.

Are DSS / BA looking for other delivery channels e.g. Paypoint, Link? Will POCL be preferred supplier for access to benefits in cash or one of the many?

- The proposal is that all benefits should be paid to recipients through the existing automated credit transfer system. The Government intends that all benefit recipients who wish to do so should continue to be able to receive their benefits in cash at post offices.

What does the loss of the benefit payment card mean for the Benefit Agency's anti-fraud strategy?

- The nationwide introduction of bar-coded order books will save up to £100 million annually, in addition to existing savings achieved by other existing measures.

Contractual issues

THIS LINE NOT TO BE USED UNLESS THE REPORT DEALS WITH THE BREACH AND IF DIRECTLY ASKED

Was ICL placed in breach of contract in November 1997? Why was this not acted on?

- A notice of failure to meet a key contractual milestone was sent by the public sector parties to ICL in November 1997, following ICL's failure to meet the live trial milestone.

If pressed

- this was in order to protect the public sectors' legal position. Did not affect the public sector's desire to find a way forward on the project.

Isn't the public sector to blame for delays? Was it a case of poor management that led to the delays?

- The public sector parties are confident that they did not contribute to delays.

If pressed

There was a short period between May 1996 and February 1997 when it became apparent that the work required replanning replan from all parties' point of view. However throughout the project the public sector has met all its contractual requirements to enable the project to be delivered to time.

Why were so many changes required of ICL by the public sector parties, in particular the DSS?

- The number of change requests is not unusual, given the size, complexity and importance of the service required and many of the changes requested were related to changes forced by the replanning activity as a result of delays to the programme.

IT consultants appointed by the Government's review found the system to be technically robust and deliverable?

- They also found that its deliverability was dependent on a number other factors. Given the possibility of further delays with the project, and the lack of assurances on cost and timetable, the Government decided that a restructuring of the project had become essential.

Why are you now arguing that the magnetic swipecard is an outdated technology when you were offered a smartcard when the contract was first signed?

- The decision to go for a magnetic strip card was made by the last administration, but we understand that it was adequate for the purposes of the project had it been up and running since 1998 as originally intended. But given the delays, it makes more sense to go for a more modern technology, given that this is the direction the banks and other financial institutions are now moving.

The Post Office were happy with a deal reached with ICL which would have included the benefit payment card and were prepared to bridge the financial gap. Why didn't Ministers agree?

- Ministers had to have regard to wider benefits for the public sector as a whole - not just those relating to the Post Office. There were real concerns about whether the project would deliver the Government's objectives for the payment of benefits, particularly given that many benefit recipients are vulnerable financially, should the system fail. And there were concerns about the risk to the taxpayer.
- In particular, there had been further slippage in the timetable for the project. As noted in the memorandum, in October 1998, the key milestone for the start of live trials of the system (which had been deferred from November 1997) was missed yet again. Increasingly Ministers were concerned as to whether the project would ever be delivered.

- Ministers could not sit by and watch as delay followed delay. As the independent panel of experts had noted in July, timetable slippage was eroding the business case for the sponsors - for example, it was delaying the start of the £100 million pa fraud savings which the system was designed to deliver.
- And while the programme was moving further behind schedule, so the whole concept of the Benefit Payment Card was increasingly looking outdated:
 - it was looking increasingly outdated technologically - as banks, retailers and others turned their attention away from magnetic strip cards to smartcard technology;
 - and it was looking outdated in terms of the role it might play, as the escalating trend of benefit recipients to opt for payment by ACT continued - 54% of new child benefit recipients and 47% of new pensioners choose ACT.

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