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**COVERING RESTRICTED - POLICY AND COMMERCIAL**

**DEPARTMENT OF TRADE AND INDUSTRY**

**FAX HEADER**

**URGENT**

**FOR THE ATTENTION OF:**     Stuart Sweetman, POCL  
                                       Derek Hogson, CWU  
                                       Colin Baker, NFSP  
                                       Terry Deegan, CMA

**NUMBER OF PAGES TO FOLLOW:**     23

**DATE:**                                     30.11.99

**FROM:**     ISABEL ANDERSON  
                 POSTAL SERVICES DIRECTORATE  
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**TEL NO.**

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**MESSAGE**

**HORIZON WORKING GROUP MEETING: WEDNESDAY 15  
DECEMBER AT 3.30 PM**

I attach papers for tomorrow's meeting of the Horizon Working Group.

**GRO**

**ISABEL ANDERSON**

NOV-1999 TUE 14:46 ID:

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P:02

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Mr Stuart Sweetman  
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Date

**GRO**

30 November 1999

Dear Stuart,

## HORIZON WORKING GROUP: 1 DECEMBER MEETING

### 1 December meeting

My letter to you and copy recipients of 3 November confirmed that a full meeting of the Horizon Working Group, chaired by Alan Johnson, will take place on Wednesday 1 December 3.30pm to 5.00pm. The meeting will take place at the Conference Centre, 1 Victoria Street.

I would be grateful if you and copy recipients could let me know the names of those attending.

### 15 December meetings

You and copy recipients are also holding in your diaries a slot on Wednesday 15 December 3.00pm to 4.30pm for a meeting of the drafting sub-group if further work on the PIU paper is still required. We will confirm this at the end of tomorrow's meeting.

### Papers

I attach:

Internet:  
X400:

- (1) an agenda for Wednesday's meeting;

30-NOV-1999 TUE 14:46 ID:

FAX GRO

P:03

**COVERING RESTRICTED - POLICY AND COMMERCIAL**



- (2) the minutes of the meeting with DSS/BA on 15 November; and
- (3) a draft paper for submission by the Group to the Performance and Innovation Unit study on the post office network.

Copies of this go to Derek Hodgson, CWU; Colin Baker, NFSP; and Terry Deegan, CMA.

*Yours sincerely,*

**GRO**

ISABEL ANDERSON  
POSTAL SERVICES DIRECTORATE

0-NOV-1999 TUE 14:46 ID:

FAX: GRO

P:04

HWG/8/01

## HORIZON WORKING GROUP

**EIGHTH MEETING WEDNESDAY 1 DECEMBER 1999 AT 3.30PM**

1. Update on Child Benefit form issue. *Evidence required of people being missed / included*
2. Update by Post Office on Benefits Agency contract issues.  
*AGCS still not on price. float payments - Govt might find ALA option*
3. Update by Post Office on progress with project.  
*18576 lost two weeks 300 p.w.*
4. Submission to Performance and Innovation Unit.
5. Arrangements for next meeting.

DTI

29 November 1999

10-NOV-1999 TUE 14:47 ID:

FAX: GRO

P: 05

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**HWG/7/01**

**NOTE OF 7TH MEETING OF THE HORIZON WORKING GROUP  
ON MONDAY 15 NOVEMBER AT DTI CONFERENCE CENTRE, 1  
VICTORIA STREET, LONDON**

**Present:**

Alan Johnson MP, Minister for Competitiveness  
Jeff Rooker MP, Minister of State DSS

Simon Lancaster, Private Secretary/Alan Johnson  
David Sibbick, Director-Posts, DTI  
Isabel Anderson, Postal Services Directorate, DTI  
Christine Goodfellow, Benefits Agency (BA) Payment Modernisation Programme Manager  
Paul Hanson, BA ACT Project Delivery Manager  
Martin Dunne, BA Commercial Manager  
Dave Higlett, Private Secretary/ Jeff Rooker  
Stuart Sweetman, Group Managing Director, Customer and Banking Services PO  
Basil Larkins, Managing Director, Network Bank PO  
Dave Miller, MD Post Office Network Unit PO  
Colin Baker, General Secretary, National Federation of Subpostmasters (NFSP)  
John Peberdy, Chairman to Negotiating Committee, NFSP  
Terry Deegan, General Secretary, Communication Managers Association (CMA)  
Tony Harris, Assistant National Secretary-Postal, CMA  
Tony Kearns, Assistant Secretary, Communication Workers Union (CWU)  
Matthew Payton, Research Assistant, CWU

**MAIN POINTS**

**Child Benefit Form**

1. Mr Rooker said that he had looked into the issue of the wording on the child benefit leaflet which had recently been sent out to 360,000 child benefit recipients. He understood that the wording on ACT was consistent with that used on other leaflets and forms since 1994. In his view there had therefore been no breach of faith.
2. Mr Baker thanked Mr Johnson and Mr Rooker for the speed of their response to his complaint. He asked whether if the Benefits Agency were of the view that there had been no breach of faith this meant that the child benefit letters would continue to be issued.
3. Mr Rooker said that he believed that this mail shot had been completed and was not sure if any further such drops were scheduled. The aim was to move people who were not entitled to be on weekly payment to monthly payment. Allowing people who were not eligible to collect weekly payments to do so was wasting money.

30 NOV 1999 TUE 14:47 ID:

FAX: GRO

P:06

**RESTRICTED - POLICY AND COMMERCIAL****HWG/7/01**

4. Mr Johnson said that he understood that of 7.5 million child benefit recipients 360,000 had been receiving benefit on a weekly basis, and all of these had received the form in question. Mr Rooker added that the BA were not mailing all child benefit customers.

5. Mr Baker expressed concern that the words accompanying the child benefit form were a blatant attempt to migrate people to ACT. The forms had been misunderstood by customers since there was no mention of collecting the benefit in cash at the post office as an option. On periodicity, he asked whether there would be a transitional period for those migrating from weekly to four-weekly payments.

6. Mr Johnson concluded that he understood that the form was the same as that agreed in 1994 but he promised his officials would look further into this and would report back to the group as a matter of urgency (**Action Point: DTI**). Mr Rooker said that he would be quite happy to revisit the issue if necessary but he would not be re-designing forms and leaflets as there had been no change in policy.

*Mr Johnson agreed to write to Mr Rooker*  
**Migration to ACT post 2003**

7. Mr Rooker talked about the reasons for the planned move from paper-based methods of paying benefits. He said that he was not in a position to enter into negotiations on the commercial issues surrounding the OBCS. He referred to the relationship that the Post Office has with a number of banks. He explained that, both as a member of the Government and Minister for DSS, he was committed to maintaining a viable network of post offices but he did not see it as his department's responsibility to fund the network. Since DSS would be making savings from moving to payment by ACT it might be possible to fund some modest adjustment in the overall financial picture. On migration to ACT, Mr Rooker re-iterated that benefit recipients were increasingly opting for ACT - with 54 per cent of new child benefit recipients and 49 per cent of new pensioners choosing to receive benefit via their bank accounts. He recognised however that some people would never be suitable candidates for bank accounts. The Benefits Agency made around 1 million emergency payments to recipients who represented some of the most vulnerable citizens. On the Performance and Innovation Unit study, Mr Rooker said that he had met with Charles Clarke, the Minister sponsoring the study on the future of the Post Office Counters network.

**Payment modernisation programme - Progress since May 1999 and forward look**

8. Mr Hanson described work which the BA have been undertaking since the Ministerial decision of 24 May with support from POCL and the subpostmasters and subpostmistresses in the pilot offices. The BA had successfully withdrawn the Benefit Payment Card (BPC) without interruption to payments. Closure of the BPC



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project had involved wind-down activity. They were continuing their systems work on CAPS which was always intended as a baseline for modern payment methods and had other business benefits associated with rationalising personal details of customers. They had of course also started early work on the project for delivery of ACT plans.

9. On the forward look, Mr Hanson explained that this work, which was necessarily process driven, involved: project initiation; working with Ministers on setting objectives; establishing a timetable; and determining resource/IT requirements. Some big decisions needed to be made, for example, on exceptions to payment via a bank account; the payment process; the migration process; and partnerships.

**Exceptions**

10. On exceptions, Mr Hanson said that there was a need to establish which people and which benefit payments were not appropriate for migration to ACT. There were a number of people for whom ACT might not be the right answer, these might, for example, include people who had been rejected by banks, young people and people who deal in cash. A mechanism for dealing with those for whom ACT is not suitable had not yet been identified.

11. Mr Baker asked how many people DSS estimate to fall into this category. Mr Hanson said that some research had been done including a study by the Rowntree Foundation. The working assumption was that exceptions could number perhaps two million people.

12. Mr Deegan asked whether this category included an element of exclusion due to self-selection. Mr Hanson was unable to confirm the position on this.

13. Mr Deegan asked whether ordinary individuals would have an alternative to being paid by ACT. Mr Hanson said that ACT would be the normal method of payment. Individuals would have to fall within the limited exception category in order not to be paid by ACT.

**Payment process**

14. Mr Hanson said there was work to be done with the Post Office on delivery of Ministers' commitment that people would continue to have a choice of collecting their benefits in cash at post offices. The new Postal Regulator would be monitoring access to post office services. The DSS/BA were concerned in particular about accessibility in rural communities and outlying urban areas, they knew that in the latter a number of post offices were very heavily reliant on benefit work.

**RESTRICTED - POLICY AND COMMERCIAL****HWG/7/01****Migration process**

15. Mr Hanson described the sorts of issues which BA would need to take into account in decisions on the migration process. For example, they would need to make decisions on the order in which they migrate customer groups and payments. They needed to ensure that the plans enabled them to fulfil the obligation of the Secretary of State to pay the right amount of money to benefit recipients on the correct day. They also needed to take account of the DSS and Government financial picture. There was also a need for the BA plans to intercept the Post Office plans for network banking.

**Partnership**

16. Mr Hanson emphasised that BA would need to think about the role of their partners in planning the migration process. These included the banks with whom DSS/BA already have relationships since 34% of customers were already being paid their benefit by ACT. They would need to make sure benefit customers could access their cash. And they needed to establish an appropriate relationship with the Post Office under these new arrangements. The BA were the Post Office's biggest customer and a large contributor to sub-postmasters' incomes. Sub-postmasters also had a big impact on BA's customers.

**Next steps**

17. Mr Hanson said that DSS/BA were looking forward to seeing the results of the Prime Minister's PIU study which would look at the value of the network. The DSS/BA expected to take 1½ to 2 years to develop the policy options with Ministers. A lot of planning work was necessary in order to deliver the ACT migration by 2005. Officials from DSS/BA would be having a further meeting with key people in Post Office Counters on 23 November.

**Question and Answer session**

18. Mr Miller asked whether the Benefits Agency envisaged having achieved migration of the "rump" by 2005. Mr Hanson said that BA were aiming to complete the migration of all customers by the end of the existing contract in spring 2005.

19. Mr Kearns asked who would pay for dealing with the rump - who was going to pick up the tab.

20. Mr Hanson confirmed that there would be a need to protect benefit customers against bank charges. Other important issues included how customers could be protected from losing benefit if they become overdrawn and how to deliver benefits in denominations smaller than £1. Mr Larkins suggested that there were



30-NOV-1999 TUE 14:49 ID:

FAX

GRO

P:09

**RESTRICTED - POLICY AND COMMERCIAL**

HWG/7/01

straightforward answers to these latter two questions and invited Mr Hanson to talk with him.

21. Mr Kearns asked when the answers to such questions would be known given the objective of commencing the migration in 2003. Mr Hanson said that DSS/BA expected their plans to be well developed by 2001.

22. Mr Baker described how the procedure whereby benefit recipients signed for their benefit in post offices offered a degree of security. He doubted whether this could be replicated with ACT. Mr Hanson conceded that there was an element of passivity associated with receiving benefit by ACT. The BA would need to address the issue of any additional safeguards which might be needed.

23. Mr Hanson reiterated that there were 18 months to 2 years' work to be undertaken in consultation with Ministers. At the moment, the DSS/BA were working on the timetable for the project work.

24. Returning to the issue of customer choice, Mr Deegan asked whether everyone would have the opportunity to opt for the option of collecting their benefits in cash. If this option was not universally available there would be a stigma attached to collecting benefits in cash. Mr Hanson confirmed that everyone would have the opportunity to collect their benefit in cash at the Post Office. He explained that in crediting benefit to an account ACT would be the normal mechanism, whilst in debiting the account people would have the continuing choice of a range of outlets, including banks, ATMs, cashback facilities, and, of course, post offices.

25. Mr Rooker and Ms Goodfellow confirmed that if a customer had a bank account ACT would be the normal method of payment. Clearly, however, there would inevitably be a need to make provision for a number of exceptions.

**Current post office contract management arrangements**

26. Mr Dunne said that the BA met with the Post Office every two months to discuss service issues; their contract with the Post Office was the biggest single service contract in the UK. The low level of complaints received suggested that the contract works quite well. The BA also met with the Post Office in the context of the Fraud Prevention Action Group, and Quality Forum meetings were held to discuss improvement initiatives.

**Methods of payment business - as usual**

27. Mr Dunne said that BA's communication strategy was unchanged since 1994. Standard wording and customer information continued to be used. The forms in use stated that payment by ACT was available at post offices.

10-NOV-1999 TUE 14:49 ID:

FAX:

GRO

P: 10

## RESTRICTED - POLICY AND COMMERCIAL

HWG/7/01

28. Mr Baker asked whether BA would be discontinuing the procedure instigated under the BPC project whereby BA wrote to beneficiaries in receipt of more than one payment or having the facility to receive their payment at different post offices advising them that in future they would only be able to use one nominated post office. Mr Hanson said he would need to look into this. The need to do this for the BPC had passed. He was unaware if there were other business reasons (**Action point: BA**).

29. Mr Johnson explained that the Horizon Working Group's task was to look at the scenario where POCL stood to lose up to £400 million of revenue from the BA. Even with automation and the development of network banking POCL might well face a financial gap of as much as £300 million. DSS had said in response to crucial questions asked about choice of payment that people would not have the choice about how money was paid into their account but would have the choice on how they accessed the cash. There was a potential dilemma in that the Government wanted people to encourage people to have bank accounts whereas allowing benefit recipients to continue to receive their weekly benefit payments in cash only if they didn't have bank accounts would mean that many wouldn't want to use a bank account. In response, Mr Hanson said that 80 per cent of benefit customers already had access to bank accounts.

30. Mr Johnson asked how many people with bank accounts at post offices that could be accessed at post offices received their benefit via ACT. Mr Sweetman undertook to look into this question (**Action point: Post Office**).

31. Mr Sweetman went on to express concern about the consequences of seeking to pay all benefits by ACT. He said that DSS were currently paying the Post Office 40/50p per transaction. POCL's research showed that transaction costs of banking were of a similar scale. POCL's discussions with the banks suggested that they were not enthusiastic about this benefits work which they saw as being a loss-making proposition. He asked how Mr Rooker saw a way through this, mentioning that Frank Field had seen the issue in policy terms as a liability the banks would be required to absorb. Mr Hanson pointed to the wider government agenda on social exclusion. He indicated that mixed messages were being received from the banking industry, and a clear view had yet to emerge.

32. Mr Dunne said that not all benefit recipients were perceived in the way Mr Sweetman was suggesting. A lot of transactions were now highly automated and some banks were offering simpler products such as direct debit-only cards. Mr Peberdy suggested that banks might seek in the region of £1.80 per transaction, the equivalent of an ATM transaction.

33. Mr Deegan said that the BA should recognise that many within the Post Office were still reeling from the shock of their withdrawal from the BPC project. The

07NOV-1999 TUE 14:50 ID:

FAX: GRO

P:11

## RESTRICTED - POLICY AND COMMERCIAL

HWG/7/01

impact on the Post Office was deeply worrying. Everyone needed to fully understand that whereas a few months ago Post Office staff believed they were building a relationship with the BA, they were now very worried about the impact of recent developments on the business. He suggested it would be a tragedy if the BA saw the post office counters network as just another outlet for paying benefit recipients - any hope of maintaining the post office network in its present form would not come to fruition. He expressed concern that the planned migration to ACT would stigmatise those without bank accounts. At the moment the great strength of the Post Office was that it crossed social divides. He wished to avoid the situation where the Post Office was just dealing with the bottom end of the market. Government should not underestimate the impact on society if POCL were not able to do deals with the banks.

34. Mr Hanson confirmed that the DSS/BA recognised their wider public sector role and obligations.

35. Mr Sweetman said that looking forward they would need to find a product which meets the needs of the 2 million for whom a bank account would not be appropriate. He was reassured that DSS/BA saw the Post Office as a potential lead player in coming up with the solution to this.

36. Mr Hanson said that the DSS/BA have 27 million different customers. Social stigma was an issue about which they were concerned across all of service delivery not just payment methods. Mr Johnson said that the PIU would be paying particular attention to that point.

37. In conclusion, Mr Johnson thanked the DSS/BA team for their presentation and asked if they would return and give the Horizon Working Group updates on progress.

DTI Postal Services Directorate  
29 November 1999



3-NOV-1999 TUE 14:51 ID:

FAX: GRO

P:12

RESTRICTED - POLICY AND COMMERCIAL

HWG/8/02

DRAFTJOINT SUBMISSION BY THE HORIZON WORKING GROUP TO THE  
PERFORMANCE AND INNOVATION UNIT STUDY ON THE POST  
OFFICE NETWORKINTRODUCTION

1. The Horizon Working Group was established by the Secretary of State for Trade and Industry following the Government's decision in May this year to restructure the Horizon project, notably by discontinuing the benefit payment card element of the project, removing DSS/BA as a party to the contract, and revising the contractual basis to that of a conventional procurement rather than the previous private finance initiative (PFI) basis. The Government also agreed to contribute substantially towards the capital costs of the project by allowing the Post Office to liquidate £480 million of assets already held on their balance sheet. In a parallel decision the Government decided that the existing paper-based methods of paying social security benefits at post offices would be phased out over a 2-year period starting in 2003, and would be replaced by modern electronic means using the existing automated credit transfer system (ACT). Against an expectation that the Horizon platform would by 2003 have enabled POCL to substantially expand its commercial arrangements with the banks, allowing bank customers to access their accounts at post offices, the Government offered assurances that all those benefit recipients who wished to do so would continue to be able to access their benefits in cash at post offices both before and after the changeover. The Government stressed that there would be no change to the existing methods of payment before 2003. POCL currently earn some £400 million a year (about one-third of their total income) from carrying out this work on behalf of the Benefits Agency.

*flesh out*

**RESTRICTED - POLICY AND COMMERCIAL****HWG/8/02**MEMBERSHIP AND REMIT

2. The Group is chaired by Alan Johnson, Minister for Competitiveness at the DTI, with membership drawn from the main stakeholders in the Post Office Counters business, namely Post Office Counters Ltd (POCL) itself, the National Federation of Sub-Postmasters who represent some <sup>14,000 X</sup> thousand of the nearly 18,000 sub-postmasters who run the vast majority of the network outlets; the Communication Workers Union representing some Y thousand frontline staff working in the 600 Crown offices and in headquarters; and the Communication Managers Association representing Z thousand managers within the Counters business. The Group was given a remit to contribute to ensuring that the agreement in principle between POCL and ICL (the system supplier) signed on 24 May was carried through to a full agreement; to oversee the roll out of Horizon to all offices in the network within the agreed timescale; to contribute to the smooth migration from paper based methods of paying benefits to payment via ACT; and to contribute to maximising the commercial potential of the Horizon platform and hence the future viability of the counters network. Specifically, the terms of reference of the Group are

“In relation to carrying forward the work on the POCL/ICL Horizon project:

- to oversee the negotiations between POCL and ICL which will develop the letter of agreement signed between the parties on 24 May into a Codified Agreement governing the contractual relationship under which the project will be taken forward, together with the consequential arrangements between POCL and the Benefits Agency; and to facilitate solutions to any problems which may arise;



**RESTRICTED - POLICY AND COMMERCIAL****HWG/8/02**

- to oversee, to contribute actively to, and to facilitate solutions where problems arise, the completion of the development phases of the Horizon project, and in particular the smooth and timely roll-out of the system to all offices within the post office network, and the subsequent satisfactory migration of benefit payments from the present paper-based methods to more modern, ACT-based, methods of payment accessible through post offices; and
- to contribute through ideas, contacts and other practical measures, to maximising the commercial potential of the Horizon infrastructure and the future viability of the post office network as a whole."

**THE HORIZON PROJECT**

3. The Horizon project was initiated under the previous Administration. Its objectives were to automate the network of post offices in order to make existing business more efficient and help to win new business; to provide a more secure and efficient way of paying social security benefits by replacing the existing paper-based methods by a magnetic strip benefit payment card; and to provide the Department of Social Security/Benefits Agency (DSS/BA) with the means to account fully for their vast programme expenditure. The project was by any standard huge, worth some £1 billion, involving automation in 19,000 post offices and 40,000 counter positions; and providing links into DSS/BA and PO systems. The agreement to take forward the project on a PFI basis was signed in May 1966 between POCL, DSS/BA and ICL Pathway as the private sector partner. However it emerged over the next few months that the project was necessarily of a complexity which had not previously been fully understood and by February 1997 substantial revisions to the timetable for the project were agreed by all the parties. Despite this there were further significant slippages and by March 1998 the project was almost 2 years behind even the revised

2-NOV-1999 TUE 14:52 ID:

FAX:

**GRO**

P:15

**RESTRICTED - POLICY AND COMMERCIAL****HWG/8/02**

timetable agreed in February 1997. At the same time, ICL sought a change in contractual terms either in the form of an extension to the contract (to allow them further time to recover their costs) or increases in charges. At that point Ministers established an interdepartmental working group comprising officials from the DTI, DSS, Treasury and CITU to advise on the way forward for the project. Intensive efforts over the following 14 months involving substantial external assistance on technical evaluation and commercial facilitation resulted in the decision by Ministers described at paragraph 1 above.

**THE NETWORK CHARACTERISTICS**

4. Post Office Counters Limited is a wholly owned subsidiary of the Post Office. It oversees the nationwide network of post offices, negotiating and co-ordinating the contracts with Government bodies and other clients which provide business for the network. The post office network comprises more than 18,500 outlets. All but 600 of these - the directly run and staffed Crown Offices - are run on an agency basis, the vast majority by private individuals. The network thus represents a partnership between the public and private sectors, with subpostmasters investing over £1 billion of their own money in the network. Around 85% of post offices share premises with another retail business, enabling cost-effective operation of the post office through shared overheads, whilst generating additional trade for the retail business through the "footfall" effect of benefit recipients collecting their benefit cash at the post office counter, and staying to make purchases from the retail side of the business.

5. Although the post office counters network has been shrinking by some 200 offices a year for some years now, as subpostmasters leave and replacements cannot be found, it remains the largest retail network in Europe. Statistics show that around 94% of the UK population live within a mile of a post office (99.9% within 5 miles), though this average probably falls to around 80-85% in rural areas. It is also

**RESTRICTED - POLICY AND COMMERCIAL****HWG/8/02**

estimated that 28 million people per week make around 45 million visits to a post office each week. The post office network provides communities with access to a wide range of services (some 170 products), of which the most important include access to postal services, benefit payments, cash, banking and bill payment services, licensing and other Government services and a range of other customer driven services (e.g.: lottery, bureau de changes, insurance). Local businesses in the community also value access to corporate banking/deposit facilities, cash provisioning and access to mail services. Around 25% of all notes and coins in circulation in the UK are acquired across a post office counter.

6. Numerically rural post offices account for almost half the network (57% of rural parishes have a post office, less than 10% have a bank or building society), yet they account for less than 20% of the network's turnover. The post office outlet is particularly valuable in rural areas where neighbourhood village shops are only able to survive in the face of retail pressures because of the income which operating a post office provides. The village post office and store can provide a focal point in the community providing access to cash and essential everyday items, an information centre in areas where frequently other retail and banking facilities are absent. The accessibility of such post offices is crucial to the least mobile sections of the community - poor, elderly, infirm, mothers with young children, etc.

7. As in rural areas, post offices in urban deprived areas play a particularly important role. Here also the post office is often the last remaining shop and financial services outlet in a neighbourhood. The post office in such communities can also act as a lynch pin in sustaining the local centre, having the potential to generally increase the amount of trade of other shops located in its vicinity (a somewhat wider manifestation of the "footfall" effect referred to above). Post Office statistics show that in more than one third of the most deprived wards in England and Wales, covering almost 3 million people, there is at least one post office

2-NOV-1999 TUE 14:53 ID:

FAX: **GRO**

P:17

**RESTRICTED - POLICY AND COMMERCIAL****HWG/8/02**

but no bank or building society. As banks and building societies continue to prune and rationalise their branch networks, the number of deprived wards dependent solely on the post office seems certain to continue to rise.

8. A further significant statistic in terms of the potential value of the post office network as a delivery channel for services which contribute towards achieving the Government's objectives in combatting various forms of social exclusion is that post office customers in deprived urban areas carry out 33% more business at their post office than the national average. As almost all adults visit a post office the post office customer profile matches the population profile closely. The visit profile is, however, more weighted towards the Es (31% compared with 29%), older people (24% as compared with 20% for 65 plus) and women. Distribution of pensions and benefits is a significant element of the business transacted at post offices in these areas. The range of products available at post offices makes them particularly well suited to meeting the needs of the socially disadvantaged, for example schemes for easy budgeting for household bills through traditional well-tried methods such as saving stamps (as well as their modern replacement, the plastic card). As well as providing access to cash - vital to those who currently lack access to a bank account - post offices offer a range of financial products aimed at this market including National Savings Pass Book accounts allowing small sums of money to be saved, postal orders for easy money transmission and more recently insurance products such as bill payment cover, tailored for this market.

9. Currently around half of Post Office Counters income is derived from its contracts with Government departments and agencies, including the Benefits Agency, the Driver and Vehicle Licensing Authority and the Department for National Savings. By far the largest of these is the contract with the Benefits Agency which runs until 2005, accounts for more than one-third of POCL's total income, and constitutes the UK's largest single service agreement. The impending loss of income



**RESTRICTED - POLICY AND COMMERCIAL****HWG/8/02**

from the Benefits Agency adds sharply to the case for securing some assurance of stability in the remaining public sector contracts. Other business includes Royal Mail/Parcelforce business which accounts for around 20 per cent of the POCL's income. New services such as the sale of lottery tickets, bureau de change facilities, insurance products and simple banking transactions for banks other than Girobank generate about 10 per cent of POCL's business.

**A POST OFFICE SMARTCARD**

10. Against the background of the Government's decision on the way forward for the Horizon project set out in paragraph 3 above, and the network characteristics described in paragraphs 4 to 9, the Horizon Working Group has begun to examine the wider commercial potential of the Horizon platform. As noted above, the benefit payment card had from the outset been at the heart of the Horizon project (and arguably a major cause of the delay and cost escalation), and the decision to discontinue it changed substantially the nature of the project from a technical viewpoint and also affected significantly the project's commercial potential. The technical simplification which resulted from removal of the card, and the contractual simplification which flowed from it, enabled a clear goal of equipping every counter position at every Post Office throughout the land by Spring 2001 to be set. However the decision to migrate all social security benefits to payment by ACT over a two year period starting in 2003 not only stands to lose POCL some £400m a year in revenue from BA once the migration has been completed, but the loss of the benefit payment card risks removing an important commercial opportunity which the Horizon platform could otherwise have provided.

11. Although the benefit payment card was to have taken the form of a magnetic strip card utilising familiar (and therefore non-threatening) technology, the possibility remained open that at a certain point in the renewal cycle of the cards the



**RESTRICTED - POLICY AND COMMERCIAL****HWG/8/02**

magnetic strip technology would be replaced by smart card technology (though for security reasons the BA application would remain "dumb"). However an installed base of some 15 million smart cards justified by virtue of the BA application on a Post Office branded smart card could have been expected to create an extremely powerful marketing tool for attracting a series of revenue-earning commercial "smart" applications. The Horizon Working Group believe that the early identification of an alternative major application which would justify the creation of a Post Office smart card as a basis for unlocking a further series of commercial opportunities could play an important part in helping to replace revenue lost from BA. However this window of opportunity may be strictly time-limited, since despite the Post Office's trusted image and ubiquitous availability there are likely to be overwhelming "first to market" advantages.

**WORKING WITH THE GRAIN OF WIDER GOVERNMENT OBJECTIVES**

12. The Group has also been looking at two further key areas of activity in which the existence of the Horizon platform can be expected to open up significant commercial opportunities. The first of these is network banking, to which reference has already been made. The second is the electronic interface between the public and Government, government agencies, local authorities etc. The electronic delivery of public sector services has been branded as "electronic government" or "modernising government" but is referred to generically by the Post Office as "government gateway". In looking at these, and indeed at other areas of potential commercial opportunity for the Horizon platform, the Group has been concerned to look beyond simply the straight commercial potential for the Post Office, important though that unquestionably is, but to explore in addition the extent to which such developments could best be carried forward in a way which would work with the grain of wider Government objectives rather than against it.

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13. It is clear to the Group that a combination of the unique reach of the counters network, the social groups who regularly use and trust it, and the potential of the Horizon network combine to create a powerful weapon in the campaign against social exclusion, particularly in the fields of financial, retail and IT exclusion; and in the Government's wish to communicate with citizens in a modern, convenient and cost effective manner.

**BANKING**

14. The development of network banking facilities at post offices forms an important part of POCL's plans for the future, but is also key to the Government's plans to migrate to the payment of benefits by ACT from 2003. POCL already has agreements in place with Alliance and Leicester Girobank, the Cooperative Bank and Lloyds TSB. But these arrangements rely on slow and expensive paper-based transactions, which severely constrain the scope for any major expansion of POCL's network banking activities. The Horizon platform offers the promise of removing that constraint, and opens up a scenario in which a combination of, on the one hand

- the apparent desire by the high street banks to continue apace with their programme of branch closures (and to focus the remaining branches more on selling services than on carrying out routine banking transactions);
- yet at the same time wanting to enhance rather than reduce the service they are able to offer their customers;
- whilst also at the same time needing to accommodate large numbers of new accounts (powerfully driven by Government policies) of a kind for which they might normally have little or no appetite;

and, on the other hand,

- the ubiquity of the nationwide network of post offices;
- its trusted image with the public, and especially that sector of it unused to, and probably mistrustful of, the existing financial institutions; and

30-NOV-1999 TUE 14:56 ID:

FAX: **GRO**

P:21

**RESTRICTED - POLICY AND COMMERCIAL**

**HWG/8/02**

- its long experience in carrying out a wide range of financial transactions on an agency basis;
- together with
- POCL's need to find additional business to replace the revenue stream from the Benefits Agency;
  - the desirability of keeping as many benefit recipients as possible within the post office system, not least to retain the "footfall" effect for the retail side of subpostoffices; and
  - the desirability of maintaining as far as possible a balancing outflow (through withdrawals from a large number of bank accounts) for the large inflows of cash in the form of corporate deposits especially from small and medium sized companies;
- and
- the Government's need to honour its commitment that all benefit recipients who wish to do so will be able to access their benefits in cash at post offices both before and after the migration to ACT from 2003 - as well as securing a credible means of ensuring that benefit recipients living away from the major concentrations of banks and ATMs can in practice access their benefits in cash without undue expense or difficulty
- begin to take on the appearance of - potentially at least - an extraordinarily serendipitous fit.

15. The reality may be less clear cut. There are important questions of timing. The longer Horizon is delayed, the more likely it is that the banks will have moved to develop alternative solutions. There are technical issues still to be fully resolved about the suitability of Horizon as presently configured to handle potentially very large numbers of on-line transactions, and about the interface between Horizon and the banks' systems. Perhaps above all lies the question of how much the banks will

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be willing to pay POCL for providing front-end banking on an agency basis, especially if many of the accounts are of marginal profitability (if at all) for them.

16. The Horizon Working Group will be pursuing these issues with POCL and other interested parties over the coming months.

**GOVERNMENT GATEWAY**

17. A second important area of potential opportunity for POCL which the Horizon platform can open up is the delivery of Modern Government, or Government Gateway, applications on behalf of central, regional and local government. However although the potential here would appear to be enormous, there remain at this stage very great uncertainties as to timing, as to the share of such work post office counters might be expected to attract in competition with a multiplicity of alternative delivery channels, and as to the value of the revenue streams that POCL might generate from such work.

18. It is clear that the counters network has a number of powerful advantages as a potential delivery channel. Its ubiquity and its trusted image have already been referred to, and when combined with the customer profile described in paragraph 8 above, the network offers an ability to reach large sections of the community for whom electronic access would otherwise be denied. But at this stage it seems difficult to predict with any accuracy how quickly even the most basic Modern Government applications such as central notification of change of address will come on stream; and in the meantime there are predictions that very large numbers of households, including the C,D and E socio-economic groups, may acquire access to the internet through digital television a great deal more quickly than earlier forecasts based on the growth of home computers had predicted.



30-NOV-1999 TUE 14:57 ID:

FAX:

GRO

P:28

**RESTRICTED - POLICY AND COMMERCIAL****HWG/8/02**

19. Whilst assessments can be made of the savings to Government expected to flow from more modern ways of interfacing with the citizen, the price which Government will expect to pay will in practice take account of the prices charged by alternative delivery channels. Commercial delivery channels may be prepared to carry certain amounts of Government information without charge, where they believe that such information will add value to their channels. Others may be prepared to provide interactive services without charge, or at very low cost, where doing so will enable them to attract advertising revenue.

20. The Horizon Working Group is at a very early stage in its consideration of the potential of Modern Government applications for the counters network, and is due shortly to take delivery of a paper from CITU aimed at providing the Group with a central and expert perspective.

**CONCLUSION**

21. The Horizon Working Group very much welcome the work on which the PIU have now embarked, and which we see as complementary to our own task. We believe that the Horizon platform offers the counters network its best hope of a viable longer term future, and we will work towards maximising that potential. Whilst we hope that the results of our efforts will go some way to reducing the gap which will be left in POCL's income when current annual revenue of some £400 million from BA begins to fall away from 2003 onwards, it is far from clear that revenue from new commercial activities can bridge the gap fully, at least from the outset. Setting this work in the wider context which forms the remit of PIU study should serve to provide Ministers with valuable insights to assist them in the decisions they will need to take on the future of the counters network.



30-NOV-1999 TUE 14:57 ID:

FAX:

GRO

P:24

**RESTRICTED - POLICY AND COMMERCIAL****HWG/8/02**

22. We are, of course, happy to provide further information or clarification on our work so far, and on the next stages of our programme. In any event we feel it will be useful for our two groups to remain in touch and to exchange views and information over the coming weeks.

*Horizon Working Group**November 1999*