

COMMUNICATION WORKERS UNION

CIRCULATED TO THE
POSTAL EXECUTIVE
ON 26 JANUARY 2000

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FOR CONSIDERATION AT THE
POSTAL EXECUTIVE MEETING
ON TUESDAY 1 FEBRUARY 2000

HORIZON PROJECT : POST OFFICE NETWORK

CWU SUBMISSION TO THE PERFORMANCE & INNOVATION UNIT

Attached to this document is a copy of the submission we made to the Performance and Innovation Unit with regard to the Horizon Project and the consequences that the migration to ACT would have on the Post Office Network.

Whilst predominantly this document is provided for information purposes, as it has gone forward in the name of the CWU, it would be useful to have the document endorsed by the Postal Executive.

Recognition should also be given to the fact that the Research Dept, in the form of Matthew Payton, played a significant part in the compiling of the submission.

RECOMMENDATION : That the submission and the actions of the **Assistant Secretary** be endorsed.

TONY KEARNS
Assistant Secretary

Att.

CWU/CMA SUBMISSION TO THE CABINET OFFICE PERFORMANCE AND INNOVATION UNIT ON THE FUTURE OF POST OFFICE NETWORK

SUMMARY

During the debate on the future of the Post Office on 8 July 1999 Rt. Hon. Stephen Byers MP, Secretary of State for Trade and Industry, promised that: *"For the first time, the Government will lay down minimum criteria to ensure that everyone in the United Kingdom has reasonable access to Post Office counter services, particularly in rural parts of the country and areas of social deprivation."*

However we believe that this commitment, and any plans to use the Post Office network to assist in delivering Government objectives (for example in tackling social and financial exclusion), will remain meaningless unless substantial new revenue streams can be found. Even if the Post Office negotiates the necessary commercial arrangements with banks and Government agencies we believe that much of the network will still be under threat. The decisions that have been made by the Government effectively introducing compulsory benefit payment by automatic credit transfer (ACT) from 2003, and its whole approach to the future of the Post Office network appears, to us, to be fundamentally flawed.

INTRODUCTION

The Communication Workers Union (CWU) represents around 165,000 non-management employees in the Post Office, over 11,000 of whom work in Crown Offices and head offices for Post Office Counters Ltd (POCL). The Communication Managers' Association (CMA) is the representative body of all management grades within the Post Office, and is part of the Manufacturing Science Finance (MSF) trade union.

Both of our organisations clearly have a considerable interest in the Performance and Innovation Unit (PIU) study of the post office network, and the formulation of new objectives for POCL and the expansion of current work. The Government's announcement in May 1999, that, following numerous delays and setbacks, it will enable automation of the network to be completed by 2001 (under the Horizon project) – but scrap the benefit payment card element – has stark implications for the future of the counters business.

The decision will also have inevitable consequences for the Post Office Group as a whole given that the DSS/ Benefits Agency are no longer parties to the contract, and the system is now to be provided on a conventional procurement basis, rather than a private finance initiative (PFI). Although it is the counters business that is most directly under threat, the ability of the rest of the Group to continue making an adequate profit and be able to invest in the future will be seriously effected. We have already seen the 1999/2000 half year results of the Post Office reflect this, reporting a loss for the first time since 1990/1991. The exceptional charge of £571 million associated with the Horizon project meant that the Group reported a loss of £366 million (although operating profit was up 4% to £157 million before these additional costs were taken into account).

The fact that the Government agreed to liquidate £480 million of Post Office assets in order to assist in meeting the additional costs of the new procurement procedure also puts the future financial stability of the Post Office under threat. In particular liquidating these assets could have a wider detrimental effect as the “comfort zone” they provided for the business is undermined and eroded as more assets are liquidated in subsequent years.

However, aside from the funding of the automation project, the Government decision means that post offices must prepare to lose around a third of their income as benefits begin to be paid by Automatic Credit Transfer (ACT) directly into bank accounts from 2003. In our view this decision is fundamentally flawed and inconsistent with the Government's commitment to a nation-wide network of Post Offices. The subsequent

loss of income will lead to the closure of a large number of offices, and it is only through considerable expansion in other commercial activities that the remaining offices will be able to survive. In particular POCL will need to make arrangements with the high street banks, and should be guaranteed contracts with certain Government departments and agencies (as we believe that there is a responsibility on Government to help resolve the problems it created).

As it will be our members who will be engaging with the public and using the new automated system on a day-to-day basis, we believe that we should be part of this process of commercial expansion, and that all employee organisations should continue to be involved in the future development of the network. We also believe that the decisions that have been made by Government will have a damaging effect on the commercial viability of post offices – especially in rural and outlying or deprived urban areas – and could effect the size and continuing role of the network in local communities. Specifically the Government decision places a question mark over the immediate future of up to half of the network; this makes the remainder of the network less attractive to new clients in the long run and thus threatens the viability of the whole network over a longer period.

Therefore the Unions make this submission as we believe it is our responsibility to play a part in any discussions that impact upon the future of the post office network as a whole, as this enables us to enhance our members employment security and use our knowledge of the service to ensure the public interest is protected. We also believe that, through our direct dealings with the Post Office over a prolonged period of time, we have developed an expert opinion on the relevant issues.

We are also involved as members of the DTI working group on the Horizon project, where we are working towards the development of a sensible solution to some of the problems encountered in modernising the network. We are confident that our knowledge of the industry and our desire to see the success of this project will help in facilitating these discussions alongside the other interested parties.

The Unions see the PIU study as a valuable addition to the work being carried out by the Horizon Working Group. The project should look to offer the opportunity to address the long-term strategic challenges faced by the network, particularly given the cross-cutting nature of the issues involved, and develop the innovative solutions that will be required if it is to prosper and not face collapse in the future.

The PIU will have seen the joint submission prepared on behalf of the Horizon Working Group which covered many of these issues and which we endorsed. However we also welcome the opportunity to participate in the PIU study by offering our own submission, and adding a number of comments which we would like to have seen included.

BACKGROUND – DELAYS TO THE HORIZON PROJECT

The PIU will now be well aware of the detailed history of the Horizon project for the automation of the Post Office network, but we feel it would be useful to offer our perspective of events as interested observers (as we have never been party to any of the contractual negotiations).

In particular we would like to repeat the view expressed to the Trade and Industry Select Committee, that for one reason or another - either directly or indirectly - all parties to the contract may have contributed to the delay.

- The previous **Government** must share a good deal of responsibility for the delay. The Conservative administration initiated the project in a rush to be seen to be tackling fraud and was happy to launch the system without fully understanding both the technological capability and the cost involved to the Post Office or Government Agencies.

- ICL appears to have encountered numerous problems with the technology it developed. For instance we understand that many difficulties arose in “scaling up” the technology and transferring the system to the UK, after a similar magnetic swipe card system was introduced by the Irish Post Office (An Post).
- The **Benefits Agency (BA)** has wished to provide benefits by means of Automatic Credit Transfer (ACT) for some time. Delays have been attributed to the need of the Horizon technology to be compatible with the BA systems, and the magnetic card or smart card planned for use under the project. However we believe that the desire to move to ACT, and away from both the paper-based methods of payment and the benefit payment card under the Horizon system could not have failed to influence its judgement and its actions.
- **Post Office Counters Ltd (POCL)** has been keen to ensure that any new technology is not only suitable for the purpose it was originally designed for, but that it will be compatible with its future business vision. POCL needs to be confident that it will have the ability to adapt such technology to be fit for purpose, specifically to fit its vision of POCL as a network bank. It is far better to encounter some delay in order to be certain that the system fits not only current services, but that it can be adapted (by the use of software modules) to perform new business in the future.

GOVERNMENT DECISIONS AND COMMITMENTS

Following the delays and disruption to the automation of the post office network we broadly welcomed the statement made in May 1999 which enabled the Horizon project to continue, albeit in a drastically reduced form with no benefit payment card. There was also inevitable concern that the active migration of benefit claimants to ACT from 2003 would have a detrimental effect on the finances of all post offices and the POCL business.

Against this background, we were not particularly re-assured by the Government's commitment 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 2003. No detail was given on exactly how this commitment should be delivered, and it only appears to mean that claimants will be able to access the money in their bank accounts from within the post office. It will be for POCL to establish the necessary arrangements with the banks. As the Government has no direct authority over the banks to make the necessary commercial decisions required to facilitate this arrangement, its assurance is essentially meaningless and it has no real credibility in making this claim.

However, statements made by Stephen Byers as Secretary of State for Trade and Industry concerning the Government's intention to maintain and develop an expanding network of Post Offices have been more encouraging, but are incompatible. These statements have covered two main areas: access to the Post Office network and the facilities and services provided.

Statements on these matters were made during the debate on Government's White Paper on the future of the Post Office on 8 July 1999, and during the session of ministerial evidence concerning Horizon to the Trade and Industry Select Committee on 14 July 1999. (Selected quotes are provided at Annex A).

We hope that these statements illustrate a wider commitment from Government to supporting the post office network and POCL, and therefore our members' jobs. In particular a number of the comments refer to the criteria for access promised in the White Paper and, pending the publication of the detailed proposals, we welcome this. It is also encouraging to hear the Secretary of State talk about protecting the network through enabling new services (including Government services) to be offered at post offices. In reality though no real examples of these Government services have been identified and therefore doubt remains over their actual existence.

However none of this can gloss over the fact that the decision made by the Government to migrate benefit payments to ACT between 2003 and 2005 will have a profound effect on the finances of POCL. Out of the businesses total turnover of around £1.15 billion for 1998-99, more than a third (£400 million) is for carrying out work for the Benefits Agency. Given that BA have indicated that ACT payment of benefits into bank accounts will be the norm after 2005, and only certain exceptions will receive benefit in any other way, POCL must therefore act on the assumption that this income will largely be lost.

Our knowledge of the business also leads us to believe that this problem is accentuated in around 7,000 – 9,000 post offices where BA work accounts for 40% or more of the total income. This is a conservative estimate, and it is clear that the impending loss of income from the BA will be felt even more sharply in these outlets. Therefore unless POCL can secure guarantees in the remaining public sector contracts, and in other areas of business, then large scale closures will be inevitable

The Unions are therefore deeply concerned that the commitments that the Government has made are meaningless. We believe that it has no direct authority to deliver on the assurance that claimants will be able to continue to receive their benefit at post offices. The criteria for access and development of numerous new services through the post office network will also be difficult to deliver if so many offices are not financially viable. This inability to deliver would further place in jeopardy the rest of the network, and we would witness a downward spiral of the ability to attract new business resulting in closures, resulting in a further inability to attract new business, resulting in further closures and so on.

Similarly it will become increasingly problematic to see exactly how the post office network can contribute to Government objectives in future if outlets are being forced to close. This inevitably accentuates the need for the business to extend and expand its commercial arrangements, and do so within what has been called the wider grain of Government objectives.

EXPANDING COMMERCIAL ARRANGEMENTS AND CONTRIBUTING TO GOVERNMENT OBJECTIVES

The impending loss of business on such a scale as that performed on behalf of the BA makes it difficult to see what commercial arrangements could possibly generate the volume of work and the income necessary to replace this.

The two keys areas of commercial opportunity that have been proposed to exploit the potential of the Horizon platform are the possibilities in providing a network banking facility, and as a delivery channel for Government services (“Government Gateway”). The true financial possibilities arising from these ventures are unclear, but it is unlikely that the combined income will be anywhere near the £400 million currently paid to POCL for carrying out BA work.

If the network is to deliver these and other commercial arrangements effectively – which will also assist in helping the Government address a number of issues and objectives – then it will need an immediate and unequivocal guarantee in the remaining public sector contracts, and to find a commercial or Government application that could justify the launch of a Post Office smartcard.

However no such application appears to forthcoming on the scale that is necessary at this time. Instead there is much debate as to the commercial potential and limitations of the activities mentioned above, and their contribution to Government objectives.

- Banking

The potential development of network banking facilities at post offices has been covered extensively in the joint submission on behalf of the Horizon Working Group. We would like to re-iterate these points, and emphasise the fact that the potential contribution of the

post office network to Government objectives in tackling financial exclusion could be enormous.

As a result of the Government's assurance that claimants can continue to collect benefit from the Post Office, it would seem inevitable that the number of basic bank accounts will spread amongst benefit recipients. Although, as we have implied, this assurance can only be delivered by POCL making arrangements with the banks, the spread of ACT payments from 2003 as the normal way of paying benefits will mean that people who are disproportionately excluded from these type of financial products and services will start to have greater access to them.

However the clear problem with this policy for claimants is that they are effectively being compelled to open a bank account. People who have never had to deal with banks or financial institutions, or deal with trappings of an account such as a cashpoint card and/or chequebook will effectively be obliged to open an account which may not be suitable for their needs. We are concerned that this could lead to claimants incurring additional costs through bank charges, ATM charges etc, and that those least able to bear the cost of charges will end up paying for what is effectively a DSS cost cutting exercise. We would argue that this is an unacceptable situation, as those least able to afford it (i.e. benefit recipients) would be made to carry the cost of the move to ACT. The Government must therefore ensure, through direct intervention, that this situation does not materialise.

Comments made by the Alistair Darling, Secretary of State for Social Security to the Trade and Industry Select Committee on 14 July 1999 were clearly designed to be reassuring on this point. He said that what he did not want to see was "*somebody getting X amount a week of income support, to find that it is X minus Y because of bank charges*" and instead he would like to ensure "*that they get exactly the same amount of money as they are entitled to now*". We would clearly support this sentiment, but suspect that in reality claimants will be susceptible to bank charges they can ill afford. This scenario also assumes that the banks wish to remain in the market for providing "low level" bank accounts (i.e. banking services for customers simply requiring a straight cash withdrawal service). Without a clear commitment to this effect from the banks themselves, the

ability to provide a service allowing benefit recipients to receive their cash at Post Offices remains in doubt.

The extent to which the PO network will be able to deliver banking services as the banks continue with branch closures and “rationalisation” is also a concern. Although this clearly creates an opportunity for the Post Office it is unclear what the rewards/ payments from banks will be, and the extent to which this will be able to make up for lost BA revenue. If the rewards are not sufficient and the network is in financial difficulty, then it will be shrinking, and therefore its ability to provide banking services will be diminished (especially in rural areas – where they are required most urgently).

- Government Gateway

As with the section on network banking, the Unions are happy to endorse the points made by the Horizon Working Group on the potential opportunities for POCL to provide “Modern Government” or Government Gateway services.

There is clearly a great deal of scope for the Horizon platform to improve the electronic delivery of Government services. If the Government really wants to be able to have the capability to enable 50% of dealings with the public to be electronic by 2005 (and 100% by 2008), as it stated in the Modernising Government White Paper, then the computerised network of post offices is in fact the only channel of sufficient size and reach available to the Government to deliver this objective, thus the network of Post Offices needs to be protected. In particular we would like to re-iterate the potential of the large and trusted network of post offices for reaching sections of the community to whom electronic access would otherwise be denied or would be perceived as threatening.

The Government’s recent announcement that it intends to expand its NHS Direct service, and provide it on-line as well as on the phone, is just one example of many areas in which the Post Office could be of assistance in reaching out and providing important services to the wider community.

However, we believe that despite the obvious potential of the post office network in delivering these services and the public image of a trusted one-stop-shop, there is not yet a sufficiently advanced strategy on what can usefully be provided, and what it will be able to deliver for the business. The Post Office and Government have and will continue to contemplate ideas and potential uses of the automated platform, but it would appear that, although a number of ideas have been considered, there is no truly focussed approach on what can be achieved and the income that it will generate. Certainly any work that will be provided will not be of the size of the BA contract, and will only be a small part of the overall turnover necessary to make POCL profitable once BA work tails off from 2003. Therefore the lack of income may again impinge on the ability of the network to provide these new services if offices are closing due to lack of income.

WIDER SOCIAL VALUE

There are of course a number of functions carried out by the post office network that cannot be captured in terms of commercial revenue. That is the social value provided to the population at large by post offices, particularly in rural and deprived urban areas.

The benefits to the community of having a post office include; providing a focus for the social interaction and contact for people who need it most (e.g. elderly); assisting in social cohesion and combating social and financial exclusion; contributing to the vitality of village life; providing local economic benefits (in and around the office).

However these existing services could be under threat in the same way that the provision of new services will be called into question if the network is shrinking. Consequently the ability of the network to contribute to the Government's objectives, with particular reference to social and financial exclusion, will also be reduced.

CONCLUSION – ROLE OF PIU STUDY

We have repeated several times during this submission that although we welcome the Government's decision to allow the Horizon project and the automation of the post office network to continue, we believe there has been a serious contradiction in the attitude and approach displayed. As we have said, the decision to migrate benefit payments to ACT between 2003 and 2005 will mean a serious loss of income for POCL and could make thousands of post offices uneconomical to run. In the meantime the Secretary of State for Trade and Industry has talked of the Government's commitment to a nation-wide network of post offices which will make new services available and accessible to all. This commitment, and the remit of the PIU study to assist in developing ways in which the network can assist and contribute to delivering the Government's objectives in future, does not fit with the actions that have been taken. In fact it appears to be a glaring contradiction.

Therefore the joined-up approach advocated by the PIU, and its specific ability to be able to address strategic and cross-cutting issues, is to be welcomed in the light of the more fragmented and disjointed approach displayed by Government departments in recent times.

That said, we do believe that the Horizon platform is, at this moment in time, the only vehicle that is able to offer a viable long-term future for the post office network. Without it there will simply not be a future for the network and huge sections of it will undoubtedly be closed down. Even with a computerised network considerable doubts remain as to the income that can and will be generated once the £400 million from BA begins to fall away from 2003 onwards.

As far as the PIU are concerned we hope that it can provide the necessary insights and advice to Ministers in the wider context, and provide a true picture of quite how serious

the situation is. In essence it is for Government to decide quite simply whether they want to maintain a large-scale network of post offices or not.

We believe that, due to the potential contribution in delivering Government objectives, the social value and not least the implications for our members' jobs, the network is worth investing in and protecting. We hope that this overview will be helpful in drawing attention to the difficulties involved in maintaining it, but also in highlighting the present and potential value of the network.

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**ANNEX A – QUOTES FROM Rt. Hon. STEPHEN BYERS MP, SECRETARY OF
STATE FOR TRADE AND INDUSTRY**

Debate On The Future Of The Post Office On 8 July 1999 :

- **On access to the Post Office network**

- *“For the first time, the Government will lay down minimum criteria to ensure that everyone in the United Kingdom has reasonable access to Post Office counter services, particularly in rural parts of the country and areas of social deprivation. The new regulator and the users council will monitor the network against those criteria”*
- *“We have agreed arrangements with the Post Office for maintaining a network of Crown Offices, which will handle at least 15 percent of total counters business. Where appropriate, new Crown Offices may be opened”.*
- *“Crown Offices will be established. As I said in my statement and as the White Paper states, we have agreed with the Post Office that 15 per cent of all Post Office counters transactions should go through Crown Offices”*
- *“The Post Office Counters network, which plays such a valuable role in local communities, particularly for the less mobile, will be strengthened by our decision to put the Horizon project back on track.”*

- **On future business and services provided**

- *“We shall equip all 19,000 post offices with a modern, on-line computer system. It will enable the Post Office to modernise and improve the service that it gives to*

existing clients and customers, and to win the new business on which the future success of the post office network will depend."

- *"We expect the Post Office network to offer more facilities than would have been available through the benefit payment card under the Horizon project. The new Horizon project that we are developing with interested partners will provide more facilities and services through the Post Office network."*
- *"I am keen to establish a Post Office network that does not deal only with payment of benefits, which it does effectively, or even with extensions to passports -- it should offer a range of services not currently offered. As part of our agenda for modernising Government, we should see the network of 19,000 post offices as a key to local delivery of important Government services."*
- *"A working party has been set up in my Department to ensure that we modernise the network and that new technology will be made available. We have to make sure that extended services are available to meet the needs of people locally, to support local communities and to ensure the future of the network."*

Evidence On Horizon To The Trade And Industry Select Committee, 14 July 1999 :

- **On access to the Post Office network**
 - *"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.....because of the decisions we have taken.."*
 - *"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."*

- *“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.”*
- **On future business and services provided**
 - *“This is the technology of the future we are now providing....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.”*
 - *“(Smart Card Technology) 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.”*
 - *“The real challenge actually for myself as Secretary of State for Trade & 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 the interface between Government and the communities we are serving.”*