

Electronic *memo*



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From Mena Rego/POCL/POSTOFFICE

Date 20/07/99 14:51

Subject Post Office BOard Meeting 19/20 July 1999

David W Miller has advised that the following is the outcome of the Board's deliberations on the revised ICL contract;

The Board are concerned about:

- the lack of movement on the BA contract negotiations;
- the high level acceptance incidents still awaiting resolution.

Accordingly they have not resolved to agree the signing off of the ICL contract but have remitted authority for that decision to John Roberts and Neville Bain who have until 30 July 1999 to sign if they think it appropriate.

Please advise those members of your team of this decision as you see fit.
Mena



TRADE AND INDUSTRY SELECT COMMITTEE HEARING

Electronic Government: The Horizon project for automated payment of benefits through post offices

1.30 pm 14 July

Attended by:

Martin O' Neill MP - Chair
John Bercow MP
John Butterfill MP
Lindsay Hoyle MP
Alasdair Morgan MP
Helen Southworth MP
Tony Baldry MP
Roger Berry MP
Jim Cunningham MP
Bob Laxton MP

Evidence given by:

Stephen Byers MP - Secretary of State for Trade & Industry
Alastair Darling MP - Secretary of State for Social Security
Alan Millburn MP - Chief Secretary to the Treasury

Notes from Select Committee

QUESTION 1

M O'Neill **Q.** The original decision to produce the benefit card was taken in an earlier technological era - is it true that at the time it was too complex a project - or was it a blessing in disguise that it didn't work because we would now have a system which is not appropriate ?

A Darling **A.** The card was announced by the Tories at their Party Conference in 1994 and the contracts between The Post Office and ICL entered into in 1996. We don't know what the considerations were at the time as we have no access to their records. But the system they were developing is an outdated system and there is very little difference between the system currently in place with giro-cheques and the old ration books!

In May 1996 when the contracts were signed the scale of the task was underestimated. As a result the contracts had to be redrawn and some key milestones were missed.

However, we must remember our objectives:
ensure The Post Office has a system that can compete with banks, and



ensure that the DSS customers get an efficient and safe payment system.

The situation Labour inherited was one of slippage in the timetable. ICL made it clear that they would not deliver the system unless they received more money. Since August 1997 we have been trying to recover a situation which had gone wrong.

QUESTION 2

M O'Neill Q. On finances.... This is also one of the 1st Public Finance Initiatives that has gone categorically wrong. What are the lessons to be learnt?

A Millburn A. The scale, complexity and the risk was underestimated. There has been a price to pay as the project is 3 years late and the cost has overrun.

The lessons to be learnt are that this project was in danger of running into 'computer fiasco territory' but we have put it back on track. In the future we must assess the risks these projects. This will require formidable managerial skills.

An unusual element in this project is that there was no 3rd party financing. Normally the developer and financier would be separate but not in this case.

In the future we need to:

identify the risks

develop a clear risk handling strategy

identify a senior manager at board level who will have overall responsibility

need a small team who are tasked with developing the project

set a timetable and stick to it

QUESTION 3

J Butterfill Q. Isn't it true that half way through the Government changed the objectives for the system?

A Millburn A. No. The objectives are still the same - we still need an automated platform and to provide a secure system for benefit recipients.

We have had 2 major reviews. In 1998 the Independent panel said that the project didn't line up to what was expected and that it was extremely unlikely that Horizon would be operational before 2001. Then there was the recommendation from the Government panel which made it clear that there should be no further payments to ICL.

Between September and December 1998 we tried to negotiate on the basis of this advice. We were in agreement with the 2 advisory groups that there should be no extension in time and no more money for ICL.

We were promised a number of things (by ICL) and none were delivered in the trial



of the system. We also realised that no one wants the swipe-cards and smart-cards are the wave of the future.

QUESTION 4

M O'Neill

Q. What about the expenditure from the public purse?

A Millburn

A. Net value in terms of savings to the taxpayer are £7.5 billion. ICL have had to write off £180 million. £310 million has been spent on Horizon. £170 million by the Benefits Agency and £30 million by The Post Office.

The sunk costs are £140 million- £130 million from the DSS and £10 million from The Post Office.

A Darling

A. £140 million has been spent on 'customers accounts' and a payment strategy. We need this to ensure we know how much we are paying our customers - this is money that is operating successfully.

Because the Benefits Payment Card (BPC) was not available at the end of 1998 we did not save £320 million on prevention of fraud. The BPC would have saved us this money.

QUESTION 5

J Cunningham

Q. What is the cost in terms of Benefits?

A Darling

A. For the majority of entrants into the system 54% favour ACT and we want The Post Office to have the opportunity to get that business.

QUESTION 6

J Cunningham

Q. What about the high level of consultancy fees?

A Darling

A. The fees were about £500, 000. These people had great expertise. I go to consultants as a last resort but we were under a duty to get it right for the taxpayer.

QUESTION 7

J Cunningham

Q. Who is to blame if it is not you the Ministers?

A Darling

A. A greater deal of thought should have been given to a project which would have made a good conference paper but was turned into a bad practical project.

S Byers

A. It would have been easier to let the project run along but we needed to ensure that people who are financially unstable should get their payments safely. These people could not be put in such a risky situation. Now due to our action there is no risk and we have guaranteed the future of Post Office



Counters.

QUESTION 8

Lindsay Hoyle Q. Isn't this loss of £130 million the biggest fraud in Benefits history? You say we are going over to ACT, normally these are done as monthly transactions. How will yours be done?

A Darling A. 85% of those who get benefits have bank accounts. The other 15% don't by choice but a good proportion will in the future.

We are looking at how and when the payments themselves will be made. An announcement on this will be made shortly.

QUESTION 9

M O'Neill Q. ICL in their evidence say that the CAPS would delay the system by 3 years. Is this correct?

A Darling A. No. There are difficulties with the DSS computer system because it is outdated but the CAPs system does work. The problem is not with CAPS but with the BPC. The BPC just wasn't operating correctly. We couldn't resurrect it and still achieve our objectives.

QUESTION 10

J Chope Q. Why didn't you reply to ICL's letter in December in which they expressed concerns?

A Millburn A. The Committee should not get the impression that at any stage we left ICL out of the loop. It is just not true.

QUESTION 11

J Butterfill Q. The timetable you are explaining is just not borne out. When Peter Mandelson spoke to the Committee in December he told us the system you are now complaining about would work.

S Byers A. When Mr. Mandelson spoke it was at a time when the trials were being carried out. It was just at that point that it started becoming obvious that things were going badly.

People are choosing to go to ACT. These are the services of the future and are part of Government's plan for Modernising Government. We/ they (The Post Office) are discussing with banks about the automation of the network and the services that can be provided. We know the technology of smart-cards works and we all use them every day.



The Post Office network is the biggest in the whole of the EU. What we are doing with the smart-card is developing this new technology.

QUESTION 12

J Butterfill Q. The new deal that has been struck between The Post Office, DSS and ICL - is this a new contract which should have been re-tendered ?

S Byers A. The Horizon contract has two parts. The first and biggest is the automation which is going ahead and as such was a revision not a re-negotiation of the contract.

The second part deals with the smart-card and is a much smaller part of the project.

QUESTION 13

T Baldry Q. Why go to a bank rather than a Post Office ?

S Byers A. One of the challenges for the network of 19,000 post offices is that we all have different needs. The future of this network is based on the smart-card and a system where people can go along and get cash.

QUESTION 14

B Laxton Q. From a treasury point of view where will the £800-900 million come from?

S Byers A. The cost to The Post Office will be £800-900 million. The Treasury will give £480 million. The difference will be made up from charges to people using the service. Under the White Paper I have give The Post Office an extra £600 million. They can use this for the benefit of The Post Office network.

QUESTION 15

A Morgan Q. What about the charges on transactions to customers?

A Darling A. No one will be forced to get a bank account. We reckon 5% may have some difficulty in using a bank account. However, with the reduction in our costs from 22% to 8% we can use these savings to assist in this process. We can't stop people making the choice not to go to a post office.

On the costs, we want to strike as good a deal as possible for our customers. We will drive a hard bargain. Benefit recipients will not be paying banks these charges and they won't be penalised. They will get the same amount of money as they are currently entitled to.

The Department of Vehicle Licensing has signed a three year deal which will assist



The Post Office with its future finances.

QUESTION 16

Helen Southworth Q. What about access to cash? The Post Office network cannot be recreated so will the DSS take account of that fact and give preferential treatment to The Post Office ?

A Darling A. The Post Office has that preferential treatment at the moment. The majority of our customers use The Post Office. There is no reason why this can't continue but we want a situation where people are free to choose. With The Post Office we have more outlets, they are more secure and they are cheaper to run.

S Byers A. We will be publishing before the end of the year the criteria for access to the Post Office network. It will be the task of the regulator to ensure these are met.

QUESTION 17

Chope Q. Will you guarantee the future of the network of 19,00 post offices ? The Post Office press release on The White Paper says that this could threaten the network of post offices.

S Byers A. For the 1st time ever we will have criteria for access to the Post Office network. We want to ensure the future of the national network of post offices but we cant ensure the life of each individual one.

The £600 million which I gave The Post Office in The White Paper will improve the network and we now also have policies which safeguard this.

QUESTION 18

Chope Q. Won't it depend on the subsidy from taxpayer's money? Can you explain how you will ease the difficulties of the transition period and who will pay?

S Byers A. There will be, in The Post Office's Strategic 5 Year Plan, a clear indication of how The Post Office will deal with these issues. While commercially we wouldn't have 19,00 post offices socially we need them.

The Post Office network will be automated by the end of 2001 which will allow The Post Office to extend into other areas. (Byers then referred post offices offering cash machines which would extend opening hours and said he would like to go to his post office which was closer than his nearest bank to withdraw cash.

The Government will not take active steps to encourage Benefit customers to migrate to ACT until 2003. This will give The Post Office breathing space to develop.

QUESTION 19

O' Neill **Q.** Will the Social Exclusion Unit be monitoring the changes because the deprived of society are depending on this. ?

A Millburn **A.** If the Committee would like I will ask the Unit to look into this.

QUESTION 20

O' Neill **Q.** Will the role of The Treasury be to promote savings through The Post Office and other financial services?

A Millburn **A.** We have a three year comfort period before we move to ACT. The Post Office also now has extra investment of £500 million to provide an automated platform.

The Post Office should be confident about its future because:
of this substantial investment
its unrivalled reach into all parts of the country
the fact that it already handles a large amount of this money, and
it has a good platform, due to its relationship with a number of banks, to build on this.