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TO: JONATHAN EVANS

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Peter Schofield, HMT

From: Sarah Graham, PFD Spec Proj

Date: 11 December 1998

cc: HPTG Members
Ron Powell, Sol Comms
Carbons

File:

BA/POCL AUTOMATION PROJECT

1. Thanks for your "issues" paper.
2. If this is going to sit on front of Sarah Mullen's paper, it could be the only thing Ministers' read. We need to bring out:-
 - what we've already lost on the project;
 - overall bill for Government of continuation;
 - continuing the risk on the project;
 - the fact that the proposals are based on a plan that is no longer valid; and
 - six month slippage on Corbett's plan.
3. You may find the attached paper on risks of Option 1 (already circulated to other members of the HPTG, in one of its previous incarnations!) helpful background.

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RESTRICTED - COMMERCIAL & POLICY**BA/POCL AUTOMATION PROJECT: TOWARDS AN INTER-MINISTERIAL DECISION****"Aide-memoire" of issues that may have escaped the formal evaluation process****1. The risks of continuing with the project:**

- why should ICL performance improve dramatically in the future over the past? Apart from the well documented and continuing delays, ICL have dragged their feet every step of the way, always looking to do less rather than more eg. constant arguments about the security requirements for the BPC have only recently been resolved, although these were central to the DSS business and policy objectives for undertaking the project at all. There is no evidence that ICL is making extra efforts to keep to committed milestones since they were placed in breach of contract by both parties last November eg. the October, 1998 milestone for the software required for delayed operational trial (11 months late) was not met. The whole tenor of the discussions around the negotiations with Graham Corbett was to make life much easier for ICL than under the current contract; easing requirements, cutting corners etc; and this is further reflected in spades in the latest (9 November) proposals from ICL. This cannot bode well for the future. Either the project is in the end going to cost much more than is envisaged, to get the quality and timely product we need; or, just as likely, it will not be delivered on time or in totality; or most likely of all, a mixture of both.
- incomplete "roll-out" to Post Offices: even if ICL meets its commitment to develop the system to an agreed timescale, it cannot - and has no confirmed plans - to meet certain isolated Post Offices which are too difficult and expensive to "wire-up" with existing solutions; it is arguable that these would be amongst those very offices that for "social" reasons the Government would wish to keep open, certainly for benefit delivery;
- ICL commitment to the project is likely to be reduced for the following main reasons:
 - in their latest proposals, ICL are claiming they will be accepting a loss of £100 million over the life of the project; certainly the project will not be earning much, if any, profit for the organisation over its remaining life, and is therefore unlikely realistically to command their best or possibly adequate resources;
 - it is now understood by ICL that the BPC element of the project has no life for Government after contract completion; neither does it have any life for ICL in terms of a wider product marketability; it is unreasonable to

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expect a high level of commitment to a product with no future;

- commitment of the public sector parties: the Independent Panel (which reported in July) quite rightly recognised the difficulties inherent in a project designed around different and often mutually conflicting objectives; continuing with the project merely cements these, and does not give an opportunity for the three parties to re-group and re-commit in any significant way; if anything, the different objectives of the two parties are now even more firmly cemented following this year long period of debate.

2. What are we buying for the £5 billion that DSS will be spending on the contracts with POCL and Pathway until 2008?

- the DSS return on this investment will be up to £850 million in fraud savings, provided the project is fully operational by 2002;
- all options (with improvement in the security of paper-based methods in the interim) can provide this same level of fraud savings;
- an earlier move to a fully operational ACT system would see additional administration savings of the order of £400 million a year being achieved;
- in effect, this could release around £2-3 billion over the next decade (assuming DSS plans to move to full ACT over 3 years from 2000) which Government could make available to spend on funding the Post Office and ICL developments;
- on this basis, a large number of Post Offices which might otherwise close - over and above the 6000 we understand are planned to close anyway under the Post Office Review assessment of the basis for a commercially viable network - could be kept open;
- in addition, a more transparent approach (eg. by giving social grants to certain Post Offices that meet given criteria) could mean the Government has some influence over which offices close, and which stay open.

3. Will continuing with Option 1 really help the Post Office significantly more than other options?

- the VFM of the options carried out by KPMG showed that none could give the Post Office a viable commercial future, which sustains its current 19 000 network;
- a viable Post Office network has to shrink, irrespective of whether Horizon goes ahead or not (as confirmed by the Post Office review);

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- is simpler and familiar to ICL - they have delivered similar systems successfully - eg. for First Direct; and
- is potentially, in itself, a marketable product globally - we understand that Post Office systems worldwide are moving to banking-based IT/business solutions;
- ICL could work much more overtly closely with Government in delivering its future programme, rather than the past programme of a previous administration.

5. How will continuing with Option 1 further the Government agenda?

- In practice it may put off the introduction of ACT for longer than is theoretically being planned: it may be difficult to change payment arrangements for the 15 million or so people currently paid by Order Books and Giros, and shortly after that expect them to move to an ACT-based/banked system; similarly we would be asking Post Office and their staff to undertake 2 major changes in their business in a relatively short period.
- Will not further the Government's agenda in terms of opening up "access to banking" for all - currently under discussion within the Social Exclusion Unit, from which it is evident that, without a major move to ACT, other measures are marginal - or worse, socially divisive involving "poor people's banking";
- The BPC in itself is potentially socially divisive, marking out often poorer beneficiaries from the rest of the population;
- Similarly it will prolong the situation recognised by the Chancellor and his plans for WFTC, that there is a distinct difference between the benefit economy - cash based - and the world of work associated with payment into bank account, with the access this brings to other financial services, payment by direct debit (and consequent savings in bills for utilities); and arguably losing the opportunities offered by moving to a banking-based system, to help support a sense of personal responsibility - a "hand-up" rather than a "hand-out" - that this Government is seeking to inculcate in its approach to welfare provision.

6. How will the Government be judged for its handling of this project?

- In five years' time - or earlier! - Government could easily be judged to have rewarded a failed PFI project (and in the shorter term it may find itself under attack from Andersen Consulting who have been given a very different package on NIRS 2);
- In the short term the PAC have commissioned an NAO VFM study which will start

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- all that option 1 does is put off the agony for a further 2-3 years compared with arrangements under the current DSS/BA contract with the Post Office;
- as shown above, there will be plenty of money from ACT administration savings (once fully implemented) to cushion any cliff-hanger effect for the Post Office, as it moves to a new commercial future;
- the only viable way forward for the Post Office to emerge so far, is to:
 - act as an agent of Government services, including but not dependent on benefit delivery, and adding in information and other services that Government may require;
 - provide financial and banking services; and
 - related, but probably marginal services, such as providing insurance etc;
- the Post Office under any option has a further two years at least of guaranteed paper-based levels of payment from the Benefits Agency and accompanied funding;
- it could use that time to use and plan more swiftly for simple banking initially followed by more sophisticated services in the longer term.

4. What will continuing with the project really do for ICL?

- if a solution acceptable to the Government and the taxpayer is found it will not give ICL what is normally understood to be a commercial rate of return, certainly over the life of the project (under their proposals of 9 November, they are accepting a loss of £100 million);
- provided the project is delivered (and that is questionable - see above) it could help ICL market itself as a successful deliverer of large business systems;

BUT

- there are better ways that ICL could do that eg. by delivering an adapted Horizon automation programme, with a banking facility instead of the "bespoke" BPC element; this should surely be attractive to ICL:
 - there must be significant savings to ICL in removing the BPC elements: it is relatively cheap to install (around £20 million) and there will be savings in the service requirements for Card operation (eg. provision of new Cards; Help Desk Services etc);

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immediately Ministers' reach their decision on a route forward; this will certainly pore over all the detailed VFM analysis undertaken by the Working Group(s) and KPMG and however a decision to continue is justified in broader Government terms, will raise many difficult issues for Ministers about the BPC angle - which already presents such difficulties in VFM terms, that the Chief Executive of the Benefits Agency (CE/BA) has required a formal Direction from his Secretary of State to continue with the project while a decision is being taken;

- Ministers will need to give a very clear justification for continuing with the project, in order to avoid the need for a further substantive Direction to the CE/BA (DSS are drawing up an example of the sort of statement that would be required, for Ministers to consider at their meeting on 17 November); without such cover, the PAC probing of the issues will be even more difficult: they have a duty to explore all the background to the issue of a formal Ministerial Direction;
- There will be a complete lack of evidence of "joined-up" Government:

Government could be accused of a lack of clear of strategy around either the future of the Post Office network, or of benefit delivery - Government could easily be seen as the victim of ICL, as it fumbles for a strategic way forward on either front.
- What may seem the "safe" way forward now to continue with the project at all costs (quite literally!), will not look such a comfortable decision in five years time.

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13/11/98