

16-DEC-1998 WED 16:02 10:

21

RESTRICTED - POLICY AND COMMERCIAL

DEPARTMENT OF TRADE AND INDUSTRY

FAX HEADER: URGENT

**FOR THE ATTENTION OF: MENA REGO
KEITH BAINES**

LOCATION:

NUMBER OF PAGES TO FOLLOW: 5

DATE: 16.12.98

**FROM: ISABEL ANDERSON
POSTAL SERVICES DIRECTORATE
306 RED ZONE
151 BUCKINGHAM PALACE ROAD
LONDON SW1W 9SS**

TEL NO. GRO

FAX NO. GRO

MESSAGE

**HORIZON: FOLLOW-UP TO INTERMINISTERIAL MEETING ON
14.12.98/ FIRST DRAFT OF NOTE TO CHIEF SECRETARY**

Mena
Keith

I attach a first draft of a note for the Chief Secretary just received from Treasury officials on which we will be commenting. Grateful if we could speak urgently with you.

Isabel Anderson

16-DEC-1998 WED 18:02 10:

FAX: 0171 212 1274

F102

HM Treasury

HM T
16/12/98 15:32 PAGE 001/5 RightFAX

RESTRICTED - POLICY & COMMERCIAL

Received 1610

HM Treasury

Parliament Street
London SW1P 3AGFACSIMILE TRANSMISSION
COVER SHEET

If you have received this fax in error, please call back on the telephone number given below and then destroy this material. Please treat our information with the same confidentiality you would expect us to display with yours.

From: Name: Mullen
Fax Number:
Voice Phone:

To: Name: Sibbick
Company:
Fax Number: GRO

Fax Notes:

draft outline note for CST

ps/Secretary of State
cc/Mr McLambrey
Mr Macdonald
Mr Baker
Dr Hopkins
Mr Sibbick
Mrs Bolton
Mr Whitehead
Ms Anderson
file: kx/b9

Date and time of transmission: 16 December 1998 15:29:46
Number of pages including this cover sheet: 05

16-DEC-1998 WED 18:05 10:

HM Treasury

16/12/98

15:32 PAGE 002/5

RightFAX

With huge apologies for the delay (we have had to deal with another crisis here that has taken up most of the day) I attach a very rough first draft of a note for the CST. I would be grateful for drafting suggestions:

DTI/POCL: - on the latest discussions with ICL on acceptance, guarantees, the JV and on what option 1 can deliver (by when) on the wider government policy agenda

DSS/BA: on the detail of option 3 and the case for this option.

If you can let me have comments today that would be good. Otherwise I am aiming to put this up by tomorrow lunch time. We also await papers from POCL.

Sarah

GRO

16-DEC-1998 WED 16:05 10:

HM Treasury

16/12/98

15:32

PAGE 003/5

RightFAX

DRAFT

RESTRICTED - POLICY & COMMERCIAL

**FACTUAL NOTE FOR CHIEF SECRETARY TO CIRCULATE TO COLLEAGUES ON
BA/POCL AUTOMATION**

A clear decision on the way forward for the BA/POCL automation project is required. There are two choices facing Ministers:

- .. to continue the project broadly on basis of ICL offer of 9 December but with changes to acceptance testing to meet the concerns of the public sector parties; reassurance on the nature of the Fujitsu guarantee; and confirmation that Horizon offers a platform to take forward the wider government policy agenda - option 1 plus;
- .. to move to termination via issue of notice and then to implement the fallback strategy based on a move to payment of benefits directly into bank accounts but which could be withdrawn at post office counters - option 3.

Option 1 plus**2. This option envisages that:**

- .. the roll out of the automated platform into Post Offices would start in Jan 2000 and would be completed by September 2001;
- .. paper-based methods of payment would end by [when in 2001?] and compulsory benefit payment by ACT would begin in April 2005 and would reach 100% by October 2008;
- .. the benefit payment card would be the interim method of payment and would have a life of around [8] years;
- .. the Post Office would introduce limited banking services (i.e contracts with [one or two] major banks in X number of outlets?) by ? 2001, and full banking services in all their offices by ? 2004;
- .. other PO services (such as payment of bills, TV licence renewal, [what else] would be automated by [when?], and the Post Office would work together with ICL to provide a smartcard by [when?] and to win other government.direct business [by when?]
- .. BA's contract with ICL ends in 2008 and the Post Offices' contract ends in 2010

3. The overall benefit to public sector of this option is estimated to be around £1.3bn NPV (a benefit to DSS of £1.16bn and to the PO of ...)**4. In the light of the ICL offer of 9 December:**

- .. the Post Office have argued that they have a commercially viable case and they are prepared to meet the remaining gap between ICL and the public sector on its contracted services and absorb increased prices for the benefit payment transactions in order to secure the deal (although the Exchequer will continue to

16-DEC-1998 WED 16:07 10:

HM Treasury

16/12/98

15:32

PAGE 004/5

RightFAX

bear some of the risk of this when we move to the new 40% dividend regime);

- .. acceptance testing resolved???
- .. FJ guarantees confirmed
- .. something on the JV - what will it deliver by when, without giving any guarantees.

pros

- .. an announcement ending the uncertainty over the project will reassure subpostmasters and the PO non-BA clients that the Government is committed to automation to secure POCL's future. Cancellation will inevitably lead to uncertainty until a new automation platform is commissioned, and this will be compounded by an announcement that BA will be moving to ACT. The downside risks to the PO network are therefore reduced relative to the fallback option;
- .. the PO would not be starting again from scratch to commission an automation platform; it would be building on a system that has been shown to be technically viable and is close to completion;
- .. the benefit payment card provides a bridge between current paper based methods and ACT which gives the Post Office time to adjust and can be a platform on which to launch the PO's plans for a smartcard;
- .. the detrimental impact on ICL and Fujitsu and inward investment into the UK will be reduced.

cons

- .. the Benefit Payment Card is a bespoke technology. If we could start from scratch we would be able to introduce something more modern - ie a smart card (timescale?);
- .. it is agreed by all parties that Government should eventually move to paying benefits directly into bank accounts since this is more efficient, and would provide an opportunity to address the "unbanked" and reduce financial exclusion. The benefit payment card delays this move;
- .. given the current record of extensive delays (including the most recent slippage) there is a risk that delivery of the system will be even later than currently expected;
- .. there are legal risks around procurement (given the changes to the contract) (but our legal advisers are of the view.....)

Option 3

5. The fallback option comprises:

16-DEC-1998 WED 18:04 10:

FAX:01722151571

P:05

HM Treasury

16/12/98

15:32

PAGE 005/5

RightFAX

- .. a campaign to promote voluntary ACT from April 2000, compulsory ACT from 2001, 100% by ? 2004
- .. PO offer interim "cashback" banking by 2001 as compulsory ACT begins, and full banking by 2004
- .. full role out of PO automation achieved by 2004?

[etc....]

6. The overall benefit to the public sector of this option is estimated to be £1.3bn - ie a similar order of magnitude to option 1.

pros

- .. avoids the introduction of the benefit payment card (a bespoke technology) and offers the opportunity to commission a new system based on a more modern technology
- .. BA can move more quickly to ACT providing an earlier opportunity to address the "unbanked" problem and reduce financial exclusion.
- .. large admin savings for DSS come on stream earlier

cons

- .. Although Ministerial statements will provide some assurances, cancellation will inevitably lead to continued uncertainty until a new automation platform is commissioned, and this will be compounded by an announcement that BA will be moving to ACT. The downside risks to the PO network are therefore greater;
- .. the PO would have to start again from scratch to commission an automation platform;
- .. the detrimental impact on ICL and Fujitsu and inward investment into the UK.