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To: Sarah Mullen HMT

Copy: Working Group Members

From: Jonathan Evans POCL

Date: 10 November 1998

BA/POCL automation programme: towards an inter-ministerial decision

This is to add a few comments to the exchange of notes between you and Sarah Graham.

First of all I do not think it is really for me to comment on how you Government officials should brief your Ministers. All I can say is that if I were recommending a course of action to the Post Office Board, I would want to expose all the main upsides and downsides of each option as accurately as possible. I would receive no thanks for attempting to smooth over differences of view, or indeed to downplay significant facts, by means of some clever presentational fudge.

I will restrict myself to comments on four areas.

Would it be easy for BA and POCL to agree a way forward under options 2&3?

Answer: we would all like to think it would be easy, but the issues and the history suggest otherwise. The plain fact is that we would (once again) be trying to resolve two conflicting Government objectives - to reduce the costs of benefit payments via an early move to ACT, at the same time as maintaining a nationwide network of post offices in a politically non-upsetting way. I believe it is simply fanciful to suggest that by means of some "presentation" we could overcome the very difficult commercial, contractual and political issues which would be involved. The last attempt to reconcile these objectives produced Horizon - but only after a good deal of negotiation and debate, and a long period of uncertainty.

That this issue is not just an interesting macro-economic one, but one of real concern to customers, is reinforced by CITU's recently published research which found that 70% of benefits recipients would prefer to receive payments at the post office.

Cancelling Horizon might cause post offices to close, but POCL wants to do that in any case, doesn't it?

Answer: not if we can avoid it. In both of Sarah Graham's notes - and more explicitly in the second one - she makes an underlying assumption which is not true: that we in POCL already have plans to run the network down in any case. Our work on our new business strategy - which is still evolving - has pointed to a number of different scenarios for the network, with the current main line assumption being the need to increase the number of access points by 2015. This could be achieved in part by introducing a virtual network, alongside some pruning

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of the physical urban network. But the end state has not been defined with any certainty at all. The illustrative work done to date - which has been the subject of discussion elsewhere in the context of the Post Office Review - is no more than that; it was an attempt to describe from a theoretical standpoint the minimum size and shape of network which might be needed to support the commercial vision. It certainly does not represent the basis on which POCL is today planning for managed change.

A further key distinction I would draw is that between the minimum network which might be required to support POCL commercially, and the "politically acceptable" size of the network. There are presently, and have been for many years, far more post offices in the network than would be needed if we had the luxury of designing the network again from scratch. Our last foray into a sizeable closure programme was in the mid-late 1980's, when we set out to close 1000 town sub-offices, but ended up closing many fewer than that - mainly because of political intervention. But this isn't just a matter of politics, it is also a commercial issue. Closing post offices loses us business - people don't all simply migrate to alternative post offices, some choose alternative channels. Furthermore, closures damage our brand - some 10 years after that last closure programme, research shows that customers and the media still believe that we are actively and deliberately closing post offices. The publicity last week which surrounded the possible closure of the **GRO** subpostmistress's office in Norfolk is a good example of what we come up against.

In Sarah's second note, she suggests that "managed" change could be used to ensure that offices with a "social" value to Government are sustained, with the implication that the "force majeure" closures which occur now could be avoided. In reality, we make every possible effort to fill all rural vacancies; the level of net overall decline each year takes account of offices which re-open as a result of imaginative solutions being devised to reverse closures which may have taken place some time before. Of course, everything has its price, but the evidence is that to keep all these offices open in circumstances in which the options are very limited indeed, the price would be significantly higher than we pay today.

The ability to manage the political risks of major network change even over a period of some years will be influenced in part by the extent both of overt government support for a modernised post office network, and the credibility and public acceptability of technology-based Post Office branded solutions as a trusted alternative to traditional service delivery mechanisms. None of that would be made any easier if Option 1 were to fall. The important point to note is that the key factors which determine the ability to make network change in a managed as opposed to an unmanaged way are the extent to which, firstly, there is confidence in the future of post offices, and, secondly, the pace and nature of change can be aligned with required capacity.

Our policy is, and we believe should continue to be, to avoid closures if we can. In other words, although there may be a theoretical case for a smaller network, and over time, for access to POCL's portfolio of services to be available by means other than physical post offices, significant network reduction should be an action of last

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resort brought on by unavoidable cost reduction, as would be required if a major tranche of business were to be lost. Our hope is that the income streams which will arise from implementing POCL's new vision will make such action unnecessary.

The final point to appreciate here is that while the effect of benefits payments business and future banking opportunities are going to be a crucial element of determining the future, they are not the only ones; BA business is around a third of our total, and clearly the aspirations of the clients of the remaining two thirds (both public and private sector) will also have a major bearing on our future network configuration.

Legal Issues

As you will know from my letter of 30 October, we too believe that the legal annex requires further attention, and agree that Robert Ricks' involvement in that would be helpful. I note that he is going to contact Sarah Graham, and we shall ask Jeff Triggs of Slaughter and May to speak to him also. As with the issues surrounding the main decision, however, if the advice cannot be agreed, then I believe that Ministers should be made aware of both views on the risks associated with any decision to terminate.

On the question of the confirmation which I gave that POCL would not stand in the way of a Ministerial decision to terminate, I should perhaps set that in the context in which it was given, namely that any action by the public sector to terminate, whether unilaterally or bilaterally, requires the positive consent of POCL. In deciding whether that consent should be given, the Board of the Post Office is, of course, obliged to act in what it considers to be the best interests of the Post Office. The latest advice, as I understand it, is that the public sector parties are not on safe enough ground to terminate contracts immediately and litigation would be uncertain, lengthy, messy and costly. In addition, there would be some complex commercial and contractual consequences, including future payment levels, between POCL and BA, which would need to be resolved. This will need close contact between DTI and ourselves to try to avoid a situation where Ministers have to force the Post Office down a route which may be against its commercial interest.

Progress report

Finally, I attach a copy of a paper which we have put together with DTI in response to the request to show in the progress report how we would manage some of the issues and risks in each option.

GRO

Jonathan Evans

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BA/POCL AUTOMATION PROGRAMME: CHANGES FOR POCL TO MANAGE UNDER EACH OPTION

OPTION 1

base assumptions:

- Horizon continues, including BPC - roll-out complete by 2001
- BA moves to compulsory ACT from 2006-2008
- POCL introduces limited banking in 2002, full facilities in 2004
- managed reduction of 1000 offices in town sub-office network, plus 2000 force majeure rural closures, by 2009/10

	nature of changes	actions	likely success rating
technology	<ul style="list-style-type: none"> • Horizon programme rolled out to plan • whole of network automated • integration of Horizon with back-end automation systems 	<ul style="list-style-type: none"> • strong programme management • measures in place to ensure no manual offices allowed to remain outside Horizon • implement existing well-advanced plans 	<ul style="list-style-type: none"> • high • high • high
commercial	<ul style="list-style-type: none"> • POCL becomes front-end of UK banking system • POCL becomes a significant channel for better Govt • existing clients brought onto Horizon 	<ul style="list-style-type: none"> • partnerships with main UK banks established from a position of strength • prove commercial logic for POCL and Government against positive background of Horizon programme • secure support of Govt departments • effective account management, coupled with Govt support 	<ul style="list-style-type: none"> • high • medium • medium • medium
customers	no change to customers' preferred point of payment	<ul style="list-style-type: none"> • introduction of BPC followed by seamless migration to ACT in post offices 	<ul style="list-style-type: none"> • high
network/ subpostmasters	<ul style="list-style-type: none"> • minor rationalisation of town network after full ACT • current policy to maintain nationwide network access sustained over the period 	<ul style="list-style-type: none"> • closures back-end loaded with time to plan network change in line with customer response to ACT migration • POCL and individual subpostmasters have sound basis for investing in the future and embracing change 	<ul style="list-style-type: none"> • high • high

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PR	<ul style="list-style-type: none"> • present positive and credible picture of POCL's commercial future and network sustainability • opinion formers and lobby groups embrace and support changes 	<ul style="list-style-type: none"> • maximise PR advantage from confirmation by Government that programme continues • positive PR campaigns built upon successful roll-out of Horizon and commercial strategy, and customers' continuing ability to collect benefits at post offices 	<ul style="list-style-type: none"> • high • high
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BA/POCL AUTOMATION PROGRAMME: CHANGES FOR POCL TO MANAGE UNDER EACH OPTION

OPTION 2

base assumptions:

- Horizon continues without BPC
- roll-out complete by 2001
- BA moves to compulsory ACT from 2002-2004
- POCL introduces limited banking facilities in 2002, full facilities in 2004
- managed reduction of 1000 offices (KPMG modelling assumption, with subsidy), 6000 offices (POCL working assumption, no subsidy), plus 2000 force majeure rural closures, by 2009/10

	nature of changes	actions	likely success rating
technology	<ul style="list-style-type: none"> • introduce Horizon without BPC • roll-out to plan • integration of Horizon with back-end automation systems 	<ul style="list-style-type: none"> • remove BPC from programme, refocus on banking requirements • reconstruct contract with ICL, avoiding procurement difficulties • reconstruct contract with ICL which secures their ongoing viability • seek to recover lost time and momentum from recasting of programme • review impact on back-end systems, and implement changes within existing timescales 	<ul style="list-style-type: none"> • technical - medium • medium • very low • low • medium
commercial	<ul style="list-style-type: none"> • POCL becomes front-end of UK banking system • POCL becomes a significant channel for better Govt • existing clients brought onto Horizon 	<ul style="list-style-type: none"> • try to agree a revised ACT implementation plan with DSS/BA before BPC termination announcement is made • try to establish commercial relationships with main UK banks: <ul style="list-style-type: none"> • before ACT takes effect • to maximise POCL commercial opportunity • prove commercial logic for POCL and Govt • secure support of Govt departments • effective account management, coupled with Govt support 	<ul style="list-style-type: none"> • low • medium • low • medium • medium • medium

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customers	<ul style="list-style-type: none"> no change to customers' preferred point of payment, despite post office closures including some 1000 managed rural closures 	<ul style="list-style-type: none"> try to work with DSS/BA to agree revised ACT implementation allowing customer preference to use PO network to be maintained try to introduce front-end banking capability before ACT bites, and without damaging commercial POCL prospects 	<ul style="list-style-type: none"> low very low
network/ subpostmasters	<ul style="list-style-type: none"> creation of major subsidy regime to sustain network (with NPV c £1billion) close offices in advance of and during ACT migration maintain asset values of sub-offices in the face of uncertain customer and income streams 	<ul style="list-style-type: none"> establish subsidy regime in such a way to command network confidence and avoid external challenge POCL would need to start closing offices in a structured way to try to avoid unmanaged network change early Government guarantee around future subsidy regime 	<ul style="list-style-type: none"> low low very low
PR	<ul style="list-style-type: none"> present positive and credible picture of POCL's commercial future and network sustainability opinion formers and lobby groups embrace and support changes 	<ul style="list-style-type: none"> conduct damage limitation exercise to retain confidence of customers, clients and subpostmasters following announcement of BPC cancellation positive PR campaigns built upon successful roll-out of automation without BPC and commercial strategy, and customers' continuing ability to collect benefits at post offices, despite network closures and forced customer migration 	<ul style="list-style-type: none"> low low

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OPTION 3

base assumptions:

- Horizon cancelled
- BA moves to compulsory ACT from 2002-2004
- POCL introduces limited banking in 2002, full facilities in 2004
- managed reduction of 1000 offices (KPMG modelling assumption, with subsidy), 9000 offices (POCL working assumption, no subsidy), plus 2000 force majeure rural closures, by 2009/10

	nature of changes	actions	likely success rating
technology	<ul style="list-style-type: none"> • introduce new automation platform • integration of new front-end with back-end automation systems 	<ul style="list-style-type: none"> • re-specify system focusing on commercial strategy requirements • new procurement and implementation within current planned timescale • cancel existing programme and re-specify revised requirements • cancel programme without implications for client systems and or cancellation costs • new procurement and implementation within current planned timescale 	<ul style="list-style-type: none"> • high • very low • high • very low • very low
commercial	<ul style="list-style-type: none"> • POCL becomes front-end of UK banking system • POCL becomes a significant channel for better Govt 	<ul style="list-style-type: none"> • try to agree a revised ACT implementation plan with DSS/BA before termination announcement is made • try to establish commercial relationships with main UK banks: <ul style="list-style-type: none"> • before ACT takes effect • to maximise POCL commercial opportunity • prove commercial logic for POCL and Govt, despite delay to new automated platform • secure support of Govt departments 	<ul style="list-style-type: none"> • low • medium • low • low • low

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	<ul style="list-style-type: none"> existing clients brought onto new automated platform 	<ul style="list-style-type: none"> effective account management, coupled with Govt support, despite delay to new automated platform 	<ul style="list-style-type: none"> low
customers	<ul style="list-style-type: none"> no change to customers' preferred point of payment, despite post office closures including some 3000 managed rural closures 	<ul style="list-style-type: none"> try to work with DSS/BA to agree revised ACT implementation allowing customer preference to use PO network to be maintained try to introduce front-end banking capability before ACT bites, and without damaging commercial POCL prospects 	<ul style="list-style-type: none"> low very low
network/ subpostmasters	<ul style="list-style-type: none"> creation of major subsidy regime to sustain network (with NPV c£1billion) close offices in advance of and during ACT migration maintain asset values of sub-offices in the face of uncertain customer and income streams 	<ul style="list-style-type: none"> establish subsidy regime in such a way to command network confidence and avoid external challenge POCL would need to start closing offices in a structured way to try to avoid unmanaged network change early Government guarantee around future subsidy regime 	<ul style="list-style-type: none"> low low very low
PR	<ul style="list-style-type: none"> present positive and credible picture of POCL's commercial future and network sustainability opinion formers and lobby groups embrace and support changes 	<ul style="list-style-type: none"> conduct damage limitation exercise to retain confidence of customers, clients and subpostmasters following announcement of Horizon cancellation positive PR campaigns built upon successful roll-out of new automated platform and commercial strategy, and customers' continuing ability to collect benefits at post offices, despite network closures and forced customer migration 	<ul style="list-style-type: none"> very low very low