

TO: JONATHAN EVANS

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**RESTRICTED - POLICY &  
COMMERCIAL****Horizon Working Group Members**

|                   |                |      |            |                       |
|-------------------|----------------|------|------------|-----------------------|
| TO: Adam Sharples | HMT            | FAX: | <b>GRO</b> | DATE: 6 November 1998 |
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| Joseph Halligan   | HMT            |      |            |                       |
| Elizabeth Hambley | HMT            |      |            |                       |
| David Sibbick     | DTI            |      |            |                       |
| Isabel Anderson   | DTI            |      |            | PAGES: 7              |
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**GRO**

MESSAGE:

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## DEPARTMENT OF SOCIAL SECURITY

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Sarah Mullen HM Treasury  
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6 November 1998

*Dear Emma,*  
**BA/POCL AUTOMATION PROJECT: TOWARDS AN INTER-MINISTERIAL DECISION**

1. Thankyou for your letter of 4 November in reply to mine to Adam Sharples of the day before.
2. I accept that there may not be much mileage now in amending the version of the Working Group Report that went forward to the Chief Secretary. However, as you say, we should not paper over genuine differences; and it does not seem right to let the issues that were unresolved at that stage to remain unaddressed by default. It seems to me therefore that perhaps the best way forward is formally to annotate the version that went forward on Friday 16 October to the effect that, in order to meet the Chief Secretary's timetable, it was not possible to gain the agreement of all parties on all issues. As I recall, we had the final draft for comment (including some new material) at 6.45pm on the Friday evening and beyond a brief conversation I was able to hold with you then, there was no further opportunity. I recall that David Sibbick also was concerned about the implications of this quick turnaround. But, provided there is an overt "caveat" up-front on that version of the report, I am content to move on and seek to address the issues in your "update" instead.
3. Turning to the meat of our concerns, I remain unhappy about the presentation of the risks to the network under the various options. It may be that the additional work commissioned by Lord Falconer for inclusion in your "update" report, will sort this out. But it may nonetheless be helpful in preparing your report, if I stress again that we find it

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it may nonetheless be helpful in preparing your report, if I stress again that we find it difficult to understand the basis for the clear statement in the summary of the Working Group report, that Options 2 & 3 are significantly worse for the network than Option 1. This really is not proven - certainly not in the longer-term. All would accept that, if the Benefit Payment Card option is pursued via an extended period for the contact, then it buys for Post Office another two to three years of indirect subsidy via DSS. But the long term future of the Post Office network must be addressed some time; and as I understand it, a run-down of around 6 000 offices is envisaged over the next decade to reach a potentially commercially viable size for the network. What are POCL's plans to deal with this run-down? Presumably they have some and this includes a managed run-down. When does it start? How long does the current situation of 200 a year Post Offices closing on an "unmanaged" basis continue? The Post Office is claiming that Option 2 means the "unmanaged" run-down of the Post Office network - see John Roberts' letter of 4 November to Peter Mandelson - why? Why can it not be "managed"? Against this background surely there must be some probing on the part of the Working Group about POCL's view of the dangers to the network of the various options? Alternatively, you could flag up in your drafting that POCL's view is that Options 2 & 3 would be very much worse for the network, but there is an alternative view that, with a properly "managed" programme of run-down these disadvantages could be minimised (ie. as originally suggested in our comments on the draft report) - and indeed could be used to ensure that those Offices with a "social" value to Government are sustained, unlike the current position.

4. On this - and other remaining contentious issues - a way through may be to distinguish:

- agreed cross-Working Group views;
- views which are held by one party or another but are not shared across the piece;
- views where the Chair/Secretariat have used their casting vote in favour of

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one side or the other.

5. On the draft outline, I attach some specific comments, which focus in particular on the risk analysis. I think there are also some limitations in any tabular representation of risk analysis; and you could usefully elaborate with some additional text.

6. On the legal advice, thank you for arranging for Robert Ricks to come back to me. We will be taking forward those issues separately.

**GRO**

SARAH GRAHAM  
Department of Social Security

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## HMT Draft Outline Progress Report: Comments

## 1. Main Body of Document

Very much outline at this stage so comments limited to:

- Assessment of the ICL/PO proposal. This must include details of any impact on the Post Office E.F.L. position.
- Next Steps: This section need to emphasise the potential two phase approach to a negotiated settlement i.e. if ministers decide that Option 1 is not achievable they need to decide whether a negotiation around Option 2 is to be offered or whether Option 3 (termination) is the preferred route. The likely outcome is to offer a negotiation around Option 2 and only if that fails, move to a negotiated settlement around Option 3.

## 2. Annex C

A number of concerns here. Overall the way the table on objectives is presented gives an impression of an assumed ranking of objectives (A, B, C, D). This is not helpful

Specific comments/ suggested redrafts on the table of option/objectives follow:

Objective A: NB. Should not *all* the options assume that POCL management will anyway be "managing" a reduction of the network?

Option 1

- Provides technology platform to secure existing clients in the short term.
- In longer term network threatened by clients moving to more modern, commercially attractive and readily available alternative.

Option 2

- In short term promises some level of BA footfall and income.
- In medium term requires managed reduction in network with potential reduction in BA business following migration to ACT; and some potential increased security of footfall in those Post Offices where banking services not readily available nearby.

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- In longer term provides sustainable network.

Option 3

- Implementation need not be delayed depending on sophistication of solution and procurement route.

## Objective B

No comments:

Objective C: What exactly is meant here? Government services like DVLA?  
Or new initiatives?

Option 1

- Don't understand why "PO services" are relevant here.
  - "Could support government initiatives" would be more accurate as "may be able to support government initiatives".
- NB. But at a later date, after completion of BPC roll-out (there must be no diversion of management resources - in ICL or POCL - from the main requirement).

Option 2

- with banking facilities available earlier this must score higher than option 1; and banking would probably support wider Government initiatives (eg SGA) better than Horizon, and could more feasibly be developed concurrently/sooner.

Option 3

- This assumes the point on delayed implementation is accepted.

## Objective D

Option 1

- "Trusted brand" - not perhaps quite the right phrase in comparison with banks? It's perhaps more the "cosiness" factor!

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Options 2 and 3

- No comments

Turning to the tables on risks these obviously require more work - and I believe that some assessment of probability would be useful. Once included, we could then provide the DSS opinion. Some specific comments follow:

Option 1

- Should show an additional risk "Sustainability of services"

Option 2

- "ACT migration delay" ignores the fact that at BA can migrate to 50% ACT utilisation without any change to the current practices.
- Difficult to determine risk management approach for "ICL Commitment" until details of any settlement are known

Option 2 and 3

- Research undertaken so far has indicated that "reaction of the banks" would be positive.