

RESTRICTED - POLICY & COMMERCIAL**DRAFT LETTER FOR THE SIGNATURE OF THE SECRETARY OF
STATE TO THE PRIME MINISTER / MINISTER FOR THE CABINET
OFFICE**

I have become seriously concerned at our handling of the decision on the future of the BA/POCL counters automation project, Horizon. The Christmas break is almost upon us, yet despite a series of meetings and increasingly frenzied rounds of correspondence, a decision remains beyond our grasp.

On Monday, Stephen Byers put forward a suggested compromise that seemed to command a broad measure of support. Certainly I would have been content to sign up to it. Yesterday Alistair Darling submitted a counter-proposal which essentially revisits an option we had already discarded - namely that of continuing with the Horizon infrastructure whilst dropping the benefit payment card and introducing early compulsory ACT. His variation on the discarded theme appears to be that we should compensate ICL for the £200 million or so that they have spent on developing the bpc by overpaying them by something approaching that amount (for there would otherwise seem little attraction for ICL in the proposal) for accelerating the adaptation of the Horizon infrastructure for the delivery of electronic Government. We should be clear that the smartcard at the heart of Alistair's proposal has absolutely no direct role in the delivery of welfare benefits or in the early introduction of front-end banking at post office counters. We should also be clear that ICL and POCL are already committed to the adaptation of the Horizon infrastructure for electronic Government as a key element in their newly agreed public/private partnership, and ICL have already agreed to commit an additional £78 million to it.

RESTRICTED - POLICY & COMMERCIAL

A third point on which we should be clear is that the savings from a move to ACT will be significantly less than we have previously been led to believe. I am told that the Association of Payment and Clearance Services (APACS), who have previously scoped the costs to the commercial banks of social banking at £18 million, have just produced a revised report, based on further work, putting the cost at £239 million.

We simply cannot allow ourselves the luxury of continuing to avoid a decision by tabling each time some new variation on which to commission further work. The continuing delay and uncertainty is already causing serious damage and hardship. The 18,000 subpostmasters, who have collectively sunk £1 billion of their own money in the business, are finding it increasingly difficult to sell their businesses when they wish to retire or move on. The number of such offices remaining unsold on the market is unusually high. Reinforcing this, the number of net closures within the network (offices which have closed and for which the Post Office has been unable to find replacement subpostmasters) in the seven months since the beginning of April is running at some 50% above the level of previous years. Most of them are those which for social reasons we least want to lose. The General Secretary of the National Federation of Subpostmasters is in no doubt that the largest single factor behind these depressing figures is the continued uncertainty about the future of the Horizon project and the associated introduction of the bpc.

Our Ambassador in Tokyo, Sir David Wright, has reported that he is coming under increasing pressure from Mr Naruto, Vice Chairman of Fujitsu, ICL's parent company, for the Government to make its intentions clear. Mr Naruto was asked by my Department to make a special effort to try to rescue the Horizon project by offering legally binding funding and performance guarantees

RESTRICTED - POLICY & COMMERCIAL

exceeding £600 million. Fujitsu, despite its domestic difficulties, responded promptly and positively, and fails to understand why the British Government cannot now give its answer. If we continue to gratuitously irritate a major inward investor in high-tech industries in the UK in this way, we shall serve only to damage irreparably our own international competitiveness.

The proposal in Stephen Byers' letter of 21 December is based on a long period of intensive commercial negotiation as well as a thorough technical appraisal. It offers both a way forward with the lowest technical and commercial risks, and the best prospects of maintaining a financially viable nationwide network of post offices into the future. The second phase of Stephen's proposal would offer scope for influencing the future direction of the project in ways that would optimise its ability to assist in the delivery of a range of policy objectives that are important to all of us. For my part, I would make it clear to POCL that I would expect them to demonstrate maximum flexibility and a positive approach to that exercise.

Against this background I very much hope that my colleagues will now feel able to endorse Stephen's proposal. The longer we delay the greater the very real risks that decisions will increasingly be made for us by default - decisions by individual subpostmasters and ultimately by ICL themselves.