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DRAFT LETTER FOR THE SIGNATURE OF THE SECRETARY OF STATE TO THE CHIEF SECRETARY

BA/POCL AUTOMATION PROJECT

I have now had an opportunity to consider further the paper we discussed at our meeting following Cabinet yesterday morning.

I believe that the proposal contained in your paper, if all the elements could be brought together and made to work, offers POCL most of the advantages of the benefit payment card (bpc), together with some additional and potentially valuable wider advantages (including early and excellent positioning in the smart card market). I also accept that it should provide a better fit with our wider policy objectives including social/universal banking, single Government account, and electronic Government. Additionally, I see no reason to doubt that ICL could be persuaded to go along with it if the price (which they will doubtless argue must include recovery of most of the £250 million of what under your proposal would become nugatory expenditure on development of the bpc so far) could be made sufficiently attractive.

Indeed if we were starting today with a clean sheet of paper, your proposal offers the promise of a number of clear advantages over the bpc option (Option 1). But we do not have that luxury. We have instead on the one hand Option 1, where a great deal of the development work has already been done and independently validated, and where the technical, commercial and financial issues are known and understood. The whole process could be put into gear and moved forward rapidly, ending months of uncertainty and effective planning blight for the main protagonists.

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Against this, on the other hand, your proposal offers a number of potential advantages, but also represents in a number of respects a worrying leap into the unknown, and thereby extends the uncertainty and planning blight for a minimum of several more months. It is far from clear, for example, whether POCL could operate a Post Office bank account - whether a physical account with a commercial banking partner, or some form of "virtual account" within Horizon - without seriously damaging its prospects of becoming an agent for all the main banking groups to provide front end banking . A fundamental renegotiation of contract terms with ICL would also be needed, and ICL's price at the end of the day might be more than we are prepared to pay.

An important related consideration is that given the central importance of the Horizon project to the future of POCL, it will be difficult, and may in practice be impossible, to publish our White Paper on the future of the Post Office until we are clear on the way forward for Horizon. This is, I believe, also the view of your officials. Adoption of your proposals could therefore delay publication of the White Paper by several months.

For all these reasons, my own preference remains for a decision in favour of Option 1 and transition via the benefit payment card, whether in the form of a magnetic stripe card or a smart card. But I am grateful for the further work which you and your officials have undertaken with ICL, and which has, I accept, sought to address many of our earlier concerns.