

CONFIDENTIAL - COMMERCIAL**Annex A****BA/POCL AUTOMATION PROJECT**

This note sets out a possible way forward for the Horizon project, following discussions between Steve Robson (HMT) and Keith Todd (ICL). These discussions were conducted on a without prejudice and confidential basis. ICL accepted that the public sector parties reserve their rights and remedies with respect to past breaches of contract by ICL Pathway. Both sides agreed that they would not take pre-emptive legal action against any other party while discussions are continuing.

The proposal

2. Under this proposal, the benefit payment card (BPC) would be removed from the Horizon project. The Benefits Agency (BA) would move directly from the existing order book system to payment of benefits through ACT.
3. Benefit recipients who currently receive their benefits via order books would have a Post Office "benefit account" set up for them. BA would pay benefits into the account via ACT, just as they would into any normal bank account.
4. The Post Office benefit accounts would be simple, credit-only accounts. They could be accessed at any Post Office using a smartcard, but at least initially they would not be accessible at banks. The Post Office might enter into a strategic partnership with a clearing bank to operate these accounts for them. Subject to such arrangements being put in place by the Post Office, ICL tell us that they could start to roll out a smartcard-based system into Post Offices following national rollout of the core Horizon system (currently assumed to be Spring 2001).

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5. Over time, the Post Office could develop the range of services which were offered via the smartcard. It could also enter into negotiations with clearing banks to offer counter facilities, enabling the banks to shrink their branch network.

6. The presumption would be that all order book recipients would be paid via a Post Office benefit account, and the move from payment via order book to payment into benefit accounts would be carried out automatically. However, benefit recipients would at any point be free to ask the BA to pay their benefits via ACT into a conventional bank account, just as they can now ask for a move from an order book to ACT.

7. This approach should mean that a large proportion of benefit recipients will continue to receive their benefits at post offices - either because they do not already have a bank account, or because a post office is more convenient for them, or just because of inertia. This means that POCL should have as much certainty over future footfall as under the BPC. It also ensures that the smartcard has a large initial circulation, which will help the marketing of smartcard-based services.

Impact on the various parties**Benefits Agency****Advantages:**

- avoids having to develop and implement the IT infrastructure which is required specifically for payment of benefits through the benefit payment card (PAS/CMS/BES), although much of the development work has already been done;
- should allow earlier move to ACT than under original benefit payment

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card project.

Disadvantages:

- delays move away from paper-based systems for paying benefits by two years compared to BPC option.

Post Office

Advantages:

- should help to maintain footfall revenue;
- gets smartcard in circulation earlier than under BPC option, bringing forward potential revenues from smartcard-based services;
- simplifies Post Office relationship with ICL if Benefits Agency is no longer a party to the contractual relationship with ICL.

Disadvantages:

- the cost of managing bank accounts and of the smartcard would be borne by POCL;
- may not be consistent with POCL's long term commercial strategy which is to provide counter services to all the banks rather than to run its own bank accounts;
- restricts Post Office to contracting with ICL. The Post Office have previously maintained that if they lost the BPC they would wish to

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re-tender.

ICL

Advantages:

- removes BA from the contract, helping to clarify ICL's relationship with PO as its single client.

Disadvantages:

- ICL will want compensation for cancellation of the bpc and payment for the development of the new facilities;
- ICL would still need to be paid for ongoing bpc work until Heads of Agreement are signed.
- extra development work required for smartcard-based banking services.

Other advantages/disadvantages for Government:

Advantages:

- boost to Modern Government initiative - early introduction of technology to support Modern Government services;
- boost to social exclusion agenda by providing simple banking facilities to those currently without bank accounts.

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Disadvantages:

- not a clear-cut solution, involves further period of negotiation which may take three to six months and might result in failure to reach agreement with ICL;
- from a procurement perspective, to cancel a major part of the automation project and re-shape the remainder involves an inevitable risk of legal challenge.

Benefit recipients

Advantages:

- unlike the BPC option, provides a bank account to those currently without one;
- compared to BPC and conventional ACT, provides a smartcard earlier (although only an advantage if there are attractive smartcard-based services available).

Disadvantages:

- unlike with the BPC, there are no facilities for urgent payments or payment to nominated proxy. But BA would find alternative methods of offering these services.

Taking the proposal forward - negotiation strategy with ICL

12. In order to preserve our leverage on price with ICL (and in the case of the

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BPC to meet DTI's concerns about not putting the whole Horizon project at risk), it would be vital to keep the Government's alternative options open (either to proceed with the BPC or to pull the whole project) until the commercial terms for this new approach have been agreed.

13. This will require a careful negotiating strategy with ICL. They will argue that, as the Government has changed the specification, the Government should pay ICL's sunk development costs for the BPC. ICL have already said that they would want to split the contract in two, with the Horizon infrastructure, excluding the BPC, rolled out and paid for first, and then a second set of negotiations on the smartcard and the method of paying benefits. This would need to be avoided, since it would leave ICL in the driving seat for negotiations on the smartcard.