

RESTRICTED - POLICY & COMMERCIAL

The Rt Hon Peter Mandelson MP
Secretary of State for Trade and Industry

FAXED



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The Rt Hon Stephen Byers MP
Chief Secretary to the Treasury
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Mr Stephen,

BA/POCL AUTOMATION PROJECT

I was disappointed that our meeting yesterday was again unable to reach a clear decision on the way forward for the BA/POCL automation project. The continued uncertainty is becoming increasingly damaging for all the parties concerned. As I see it, the choice is a straightforward one:

- to continue with Horizon, we will need to secure heads of agreement. Within two to three years Horizon will have equipped the Post Office with a modern IT system, capable not only of handling the benefit payment card, but also front-end banking facilities in conjunction with the commercial banks. This will help us to implement our social banking policies, and to bring modern electronic government into communities which other organisations simply do not reach.
- or we can take a major step into the unknown, delaying the modernisation of the Post Office Counters network, risking the departure of existing clients and virtually eliminating the possibility of attracting new ones. The damage to the confidence of subpostmasters and the knock-on effect of network closures will produce political fall-out, no matter how carefully we try to handle it. The reduction in the network will reduce our ability to extend social banking and modern government into the very communities we most wish to target. Our relations with Fujitsu, a major inward investor into the UK over the past decade, would be severely damaged, as would the credibility of PFI.

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There is still some way to go to complete the Horizon project, but the basic development work has been thoroughly evaluated by independent experts who have pronounced it viable, robust and of a design which should accommodate future technological developments. It can provide a seamless transition for benefit recipients from existing outdated paper based systems to eventual ACT, the end-game on which we are all agreed. The price which we are now asked to pay is higher than we had hoped but is one which the Post Office believe will make commercial sense for them. Certainly, against the cost of any alternative we should need to add the costs of terminating Horizon, which could be considerable.

I believe the only sensible choice is to proceed with the Horizon project. It is the way forward which offers the least commercial and technological risk. We still need further clarification of certain elements of the ICL package and there is still scope through further discussion with the company to secure improvements to elements that are of key importance to us, particularly acceptance procedures. Adrian Montague should pursue these aspects urgently.

Ian McCartney and I stand ready to contribute in any way we can. I regard it as one of my highest priorities to put in place the automated system that will provide the unique channel for delivering our ambitions on social banking and modern government.

I am copying this letter to the Prime Minister, Alistair Darling, Jack Cunningham, Charlie Falconer and to Ian McCartney here.

GRO