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10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

11 May 1999

Dear Dan,

BA/POCL

The Prime Minister was grateful for the Chief Secretary's minute of 10 May.

The Prime Minister has now discussed this with the Chancellor, who set out in more detail the Treasury's concerns about signing up today to Option B1. The Chancellor said that this would be something of a leap in the dark. For example, it was not clear what discussions had taken place with the banks on the viability of this option; what demand there would be for the new smart card; or how willing benefit recipients who already had bank accounts would be to use the proposed POCL bank accounts. We needed more time to bottom these issues out. It would be wrong to commit the Government now to an option that would cost £400 million more over the CSR2 period than the best alternative. This would simply divert resources away from the Government's key priorities in the next CSR.

Against this background, the only sensible course of action would be to buy more time to consider all the options in much more depth. The most rational option would probably be termination. But given where we were starting from with ICL, it would probably be best to commit now to Option B3 and agree to do further intensive work on Option B1 over the next three months. He therefore proposed that Steve Robson should write to ICL this evening along the lines of the attached draft.

The Prime Minister said that he had not had time to look into all the options in detail. Starting with a clean sheet, it was doubtful whether we would want to devote substantial new resources to a project that appeared to be designed largely to prop up the Post Office network. However, we were not starting from

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a clean sheet. He was content for the Chancellor to go over his concerns in more detail with Lord Falconer and other interested parties, to try to find an agreed way forward. Any solution should meet three key political requirements:

- (i) we did not want a huge political row, with the Post Office or the Sub-Postmasters' lobby claiming that the entire rural network had been put in danger by the Government;
- (ii) we should not put ICL's whole future at risk; and
- (iii) it would be important to ensure that the Government had a fully defensible position vis-à-vis the PAC.

The Chancellor said that he would discuss the way forward with Lord Falconer and report back to the Prime Minister.

I am copying this letter to Tom Scholar (H.M. Treasury), Antony Phillipson (Department of Trade and Industry), Rod Clark (Department of Social Security), Mark Langdale and Sebastian Wood (Cabinet Office).

Yours sincerely,

GRO

pp JEREMY HEYWOOD

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