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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Alistair Darling MP
Secretary of State
Department of Social Security
Richmond House
79 Whitehall
LONDON
SW1A 2NS

10 September 1998

Dear Secretary of State

BENEFITS AGENCY/POST OFFICE COUNTERS AUTOMATION PROJECT

When we met yesterday with Jack Cunningham, Peter Mandelson and Ian McCartney to discuss this subject, I undertook to write setting out in more detail how the recommended option in the Treasury/Policy Unit might be carried forward, and the remit for the proposed "troubleshooter"

2 I envisage three streams of work.

3 First, there must be a negotiation between the parties to the contract to establish whether there is a commercial basis for proceeding which we can accept, and to resolve outstanding differences on project implementation and timetable I would propose to write to ICL in the terms attached at Annex A to set the framework for these negotiations. This framework must protect the position of the public sector parties by clearly asserting that Pathway are in breach of contract.

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4 As agreed, we will need to appoint a troubleshooter to facilitate the process I attach at Annex B proposed terms of reference for the troubleshooter I am considering who might be a suitable appointment to this important position

5 Second, I would look to Peter to take forward with the Post Office:

- plans to strengthen POCL's management of the project,
- plans to give the management of POCL a much stronger commercial focus,
- exploration of possible partnerships between POCL and the private sector,
- a strategy for more transparent funding for POCL so we can be much more rigorous in defining what social value added is being bought,
- consider possibilities for further development of the system to support social banking and broader account-like services (The Post Office would need to involve CITU and consult BA on this last point)

6 We would need to see sufficient results within the next month to be assured that each of these elements can be delivered

7. Third, we need to prepare fall-back options based on cancelling the card, and cancelling the whole project We will need sufficient analysis of these options to allow us to judge whether the outcome of the negotiations offers the best value for

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money for the public sector as a whole I think we will need to engage consultants to advise on this point, looking at the data provided by POCL and BA

8 This will involve intensive work over the next month or so To make sure the threads are properly tied together, I suggest an Interdepartmental Working Group including the Policy Unit should be established

9 I must look to you and to Peter to ensure that BA and POCL respectively cooperate fully with this process and enter the negotiations constructively and in good faith They must also accept that if at the end of the process Ministers decide to proceed with the project they must commit themselves wholeheartedly to its success, equally if the vfm picture suggests an alternative route forward there will be a similar commitment from both BA and POCL

10 When we have reports from these three streams of work we will clearly need to meet again to agree the way forward.

11 I would be grateful to know urgently from you and from copy recipients whether you are content to proceed on this basis

12 Copies go to the Prime Minister, Jack Cunningham, Peter Mandelson, Ian McCartney and Sir Richard Wilson.

Yours sincerely

GRO

pp STEPHEN BYERS

(approved by the Chief Secretary and signed in his absence)