

RESTRICTED - POLICY AND COMMERCIAL

<p>To:</p> <p>SECRETARY OF STATE }separate</p> <p>MR MCCARTNEY }copies</p> <p>From:</p> <p>DAVID SIBBICK</p> <p>DIRECTOR POSTS</p> <p>GRO</p> <p>151 Buckingham Palace Road</p> <p>GRO</p> <p>16 April 1999</p>	<p>ci: Sir Michael Scholar</p> <p>Mr Macdonald</p> <p>Mr Baker CGBPS</p> <p>Mrs Britton PORT</p> <p>Mr Fraser IBB</p> <p>Mr Sklaroff COM</p> <p>Mr Hosker FRM</p> <p>Dr Hopkins CII</p> <p>Mr Osborne Legal C</p> <p>Mr Brebner PORT</p> <p>Mr Leese PORT</p> <p>Mr Whitehead CGBPS 1</p> <p>Ms Anderson CGBPS1</p> <p>Mr Corry SpAdv</p> <p>Ms Moore SpAdv</p>
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BA/POCL AUTOMATION PROJECT: HORIZON: REPORT TO MINISTERS

1. You are to meet with your colleagues at 12:15 on Monday (19 April) to decide the way forward on the Horizon project.

2. After an immense amount of effort by all the parties concerned over the past two or three days to refine and analyse the costings associated with Option B (the smartcard-based post office benefit account) the inescapable conclusion is, looked at narrowly, this option is significantly more expensive than Option A (the benefit payment card). Figures produced by KPMG for the public sector side put the gap at an NPV of £700 million. This conclusion is scarcely surprising since Option B involves paying ICL for the aborted benefit payment card and then paying on top of that for the development for the Post Office benefit account and for the smartcard.

3. This led the Treasury to produce at lunch time today a draft report by officials for Ministers concluding that Option B is too expensive and should be rejected by Ministers; and that Option A is undeliverable - not for technical reasons but because of the "dysfunctional relationships" between the contracting parties - and should also therefore be rejected. This leaves only termination which should be accepted by Ministers as the least bad of three thoroughly unattractive options.

4. I said immediately that DTI officials could not be party to such a conclusion. It was therefore agreed that the text of the report would be changed to make clear that this conclusion was that of Treasury officials (and possibly of DSS officials too, though they also wished to consider their position) and that DTI officials would

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urgently supply additional text setting out the DTI/Post Office position. I attach the text which I have this afternoon passed to the Treasury. Treasury officials hope to issue a revised (?final) version of the report incorporating both DTI and DSS comments later this afternoon, but it is doubtful whether this will be available before you depart for the weekend.

5. We will provide further briefing over the weekend based on the final version of the report once it is available. I would, however, make the following points:

- The Prime Minister's remit was to explore an alternative way forward to Option A, not to introduce the already discarded option of termination.
- Option B was specifically designed to retain footfall for the Post Office as effectively as Option A. For their own reasons, POCL and ICL have decided to agree on much more pessimistic assumptions for Option B. If the same take-up, attrition and volume assumptions on which Option A is based are applied to Option B, the NPV gap of £700 million is immediately reduced by £250 - 300 million. A further £75 million of the gap is attributable to the smartcard which is crucial for Government Direct applications and which is not included in Option A.
- I understand - though there is still some confusion about this - that technically there is no reason why the restricted Post Office benefit accounts could not, at a later stage, have additional facilities such as direct debits and deposits from other sources added to them, thereby enabling these accounts to make a useful contribution to the wider Government policy on social banking.
- The NPV calculations so far take no account of the potential which the early provision of a base of some 18 million smartcards in the market place should give to POCL to earn commercial revenue, as compared with Option A. I have asked POCL to drive forward urgently over the weekend the work they have started with ICL on this, so that there will be at least a preliminary assessment available before your meeting on Monday.
- Finally, the history of Option A is indeed one of dysfunctional relationships, but tame acceptance that two public sector bodies would refuse to give effect to a clear collective decision by Ministers is a sad basis for deciding on termination, with all the damage that would do.

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