

**RESTRICTED - POLICY AND COMMERCIAL**

To:  
SECRETARY OF STATE ) separate  
MR MCCARTNEY ) copies

From:

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**GRO**

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21 December 1998

ci: Mr Scholar  
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Mr Baker  
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Mr Whitehead CGBPS 1  
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Mr Corry SpAd  
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**MINISTERIAL DECISION ON HORIZON PROJECT: RESPONSE TO A  
NOTE FROM THE CHIEF SECRETARY**

**Issue**

1. The Chief Secretary's office has this evening circulated a note suggesting a way forward for the Horizon project. The Chief Secretary will ring you tomorrow morning to canvass your views before writing to the Prime Minister. How should you respond?

**Recommendation**

2. The Chief Secretary's proposal is for the Horizon project to continue, together with the benefit payment card, on the basis of a package now agreed between POCL and ICL on all key issues. **This is the outcome for which we have fought for the last nine months, and you should strongly support the Chief Secretary's proposal.**

**Timing**

3. **URGENT.** The Chief Secretary will telephone you tomorrow morning (Tuesday 22 December).

**Background**

4. The Chief Secretary's note follows a further period of intensive negotiation between POCL and ICL under the guidance of Adrian Montague. There is now agreement between POCL and ICL on all key aspects - including price, acceptance

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testing and funding/performance guarantees from Fujitsu - of a renegotiated contract for taking the project forward. Beyond this, ICL have agreed to absorb an additional £8 million which would otherwise have fallen to BA, and have further agreed to commit £78 million beyond what is required to complete the Horizon project in order to exploit the potential of the system to deliver "Better Government" within the framework of the public/private sector partnership (the PPP) with POCL agreed at an earlier stage of the negotiations.

5. The Chief Secretary has proposed a two-stage way forward. Under Stage 1, referred to as "stabilisation", Ministers would agree by 24 December that Horizon should continue, together with the benefit payment card, on the basis of the deal reached between POCL and ICL. Some way would be found to adapt the agreement on acceptance testing to protect BA's interests.

6. Stage 2 is referred to as "broadening objectives". It requires the Post Office to work with BA and ICL by the end of March 1999 to see what more can be done to further the Government's wider policy objectives on a cheap, efficient, fraud-resistant and convenient means of paying social security benefits that is also consistent with welfare reform (ie ACT); but also to help maintain a nationwide network of post offices. Further objectives are to support the development of "Better Government", and to improve access to basic financial (banking) services for the socially excluded. If however it proves impossible for the parties to satisfactorily reconcile these potentially conflicting objectives, the project would go ahead on the basis of Stage 1 alone.

### Comment

7. Stage 2 has clearly been devised to try to make the package more palatable to DSS. At any level much beyond that of a rather obvious face-saver it seems unlikely to succeed. What may also help, however, is that the argument has moved quite strongly against DSS and Option 3 (termination of Horizon, rapid move to ACT) on two fronts in recent weeks.

[REDACTED] there is little realistic prospect of terminating without compensating ICL for a significant proportion of the £250 million already sunk in the project - thus adding to the costs of Option 3 as compared to Option 1. Second, the Association of Payment and Clearance Services (APACS), who had previously scoped the costs to the commercial banks of social banking at £18 million, have just produced a revised report, based on further work, putting the cost at £239 million. This belatedly offers strong support for a second point long argued by DTI, namely that the cost to the Benefits Agency of moving large

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numbers of benefit recipients onto ACT is likely in practice to be considerably higher than the costings of Option 3 have allowed for.

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