



DEPARTMENT OF SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone: GRO

RESTRICTED COMMERCIAL

The Rt Hon Stephen Byers MP
Chief Secretary to the Treasury
Parliament Street
London SW1P 3AG

22 December 1998

Dear Chief Secretary,

BA/POCL AUTOMATION PROJECT

I refer to your private secretary's letter of yesterday and also to my note to you earlier this week in which I suggested that there is a way forward which can meet the objectives of all of the parties concerned.

I have now seen the recent letter from Keith Todd to you of 18 December, setting out (albeit very briefly) ICL proposals around exploiting the Horizon system in order to support "Better Government" initiatives and help achieve other important objectives - such as achieving substantial progress towards bank accounts for all - on the Government's policy agenda. This letter seems to me to provide a possible solution which will allow us to move forward in a way that addresses all our concerns as well as moving us positively towards achieving our goals.

Specifically, I now see a way forward as follows:

- confirm to ICL/Fujitsu that Government can commit to the level of funding for the project that has emerged from the latest discussions (assuming you agree to commit that level of funding);



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- and that, given the potential offered by a Government Smart Card, and ICL's view that this can be introduced almost as swiftly as the Benefit Payment Card, we should seek to re-shape the current contracts around an early transition to a Smart Card, without the added complication of the Benefit Payment Card;
 - that the public sector will negotiate within the overall funding package with ICL on this basis.

So far as the public sector is concerned, we would thereby be:

- buying a product we want, for the additional money we would be spending under Option 1;
- giving Fujitsu/ICL the guaranteed funding/re-assurance they need to continue discussions with us about the project, thereby ensuring that ICL/Fujitsu remain a thriving and productive part of UK plc.

So far as the public sector is concerned, our internal concerns are to protect the Post Office network, ensure continued footfall from Benefits Agency customers, and at the same time achieve a safe and cost-effective means of paying benefits. These can be achieved by, for example:

- deciding that DSS/BA will continue to fund POCL to the tune that it would have done under the existing contract it holds until 2005;
- agreeing that the additional money that would have been paid to POCL under the Option 1 agreement brokered by Corbett - £800 million over three years between 2005 and 2008 - can be re-directed to support POCL and ICL;
- the provision of this money could be linked to an incentive for ICL/POCL to move to Smart Card swiftly;



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- DSS/BA to agree not to move to ACT until Smart Card is in place;
- in the interim, paper-based payments to continue but with extended fraud measures to achieve the £100 million savings endemic in encashment payments at present.

I am sure that there must be a way forward that the public sector can agree roughly along the lines outlined above. With this hopeful prospect in sight, it would certainly seem premature to rush into agreeing anything specific in the next few hours. In any event, I could not sign up to a negotiating strategy which agreed to Option 1. When Ministers last met, we were adamant that the acceptance conditions were just not acceptable; that remains the case.

Your "stabilisation" process is, in fact, complete acceptance of option 1 unamended. And there is as yet no agreed commitment, even in Government, to any variation on it. I remain reluctant to commit us to a ten year contract for a card that no one - not even ICL - now wants

If however, you wish to provide some early re-assurance to ICL/Fujitsu, I would be content for you to send a letter on the lines of the attached draft.

Copies of this letter go to Jack Cunningham, Charlie Falconer, Peter Mandelson, Ian McCartney, David Miliband and Geoff Mulgan.

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Rod Clark

PP **ALISTAIR DARLING**

[Agreed by the Secretary of State and signed in his absence.]

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RESTRICTED - COMMERCIAL & POLICY**BA/POCL AUTOMATION PROJECT: SUGGESTED DRAFT LETTER**

1. Thank you for your letters of 9 and 18 December 1998. I am particularly pleased to see the very firm commitment that Fujitsu have now given to support the project.
2. Based on your latest NPV requirements and your proposals to support "Better Government", my colleagues and I are clear it will be possible to conclude negotiations on the future automation of POCL which will meet the requirements of all parties. Officials will be in touch in the New Year to take negotiations forward.
3. I am very pleased that the discussions over the past few months have reached this positive outcome.