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Gutter, N. M.
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Advice, J. 9.

Prime Minister

Modernising DSS Benefit Payments

I am writing to alert you to problems with a private/public sector project designed to improve the benefit payment system and automate the Post Office network. In a nutshell, there is a serious risk that this project will fail to deliver its objectives - or will not do so within a timescale that will make it worthwhile.

We have inherited this £1 billion project from our predecessors. Under the PFI programme, ICL were contracted by my Department jointly with Post Office Counters Ltd (POCL) to fund the development of a system which would provide an automated means of paying benefits through a Benefit Payment Card to replace our current expensive and insecure paper-based methods; and, on the back of this, to provide some additional technology to Post Offices, with the aim of helping POCL to extend the range of their future business. The project was supposed to be fully operational in all Post Offices by the end of this year. But due to a long history of problems, ICL have been unable to deliver to this timetable, so that the completion date has now been extended by two years to 2000 at the earliest, with a consequential loss to us of around £200 million in fraud savings foregone.

This two year delay also brings with it funding consequences both for ourselves and for the private contractor. These and some continuing major concerns around the project's deliverability have led us to the view that it would be prudent to take stock before committing to further investment. In doing so, it must be right to look to the medium and longer-term Government objectives for a modern welfare system and the best way to sustain a rural Post Office network into the millennium and beyond.

The questions that this will raise have far-reaching consequences, which could impact on our future capacity to deliver the benefit payment service people want, and on the future of the Post Office network, vital to so many of our communities. You will anyway wish to be aware because of the wide ranging Ministerial interests involved, and the need to reach a cross-Government consensus on the best route forward. The primary Departmental responsibilities fall to Margaret Beckett and me, but there are also significant issues around rural policy, the Government IT infrastructure and strategies to promote social cohesion.

It is now urgent to reach a decision on the best way forward, because further investment will be required if the project is to continue. It is also possible that ICL, the private contractor concerned, may give their version of the story to the Press at any moment, in an attempt to

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influence the outcome. There are inherent dangers of damaging media speculation, especially around the future of the Post Office: as you know, the Post Office involvement means there could be matters here arousing strong public interest - and opinions. There is already some speculation in the specialist Press.

You may also wish to be kept informed because ICL are part of the Fujitsu empire, with whom you had some contact on your recent visit to Japan and there is also a constituency dimension for you.

The immediate urgency on the financing of the project means that John Denham (who is leading this work here) will need to write very shortly to Alistair Darling on the funding issues. Although we have a clear view about the best route forward, I am clear that we should at all costs seek to avoid getting focused too closely on individual Departmental interests, and that we should aim to establish an agreed view from the start, avoiding the potentially damaging effects that our quite legitimately differing Departmental views can have, when exposed to the public eye. On this basis, I shall be seeking to discuss with Alistair and Margaret in the near future.

A copy of this also goes to Gordon Brown.

Harriet

HH
6 February 1998