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From: Geoff Mulgan  
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PRIME MINISTER

cc: Jeremy Heywood  
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BA/POCL

1. The attached note from Alan Milburn and Charles Falconer sets out the current position on BA/POCL. You will recall that it was decided to discuss with ICL the viability of proceeding with Horizon and automating the Post Office, but with the Benefit Payment Card replaced by a more flexible smart card, and DSS permitted to move more quickly to ACT. The aim was to create a third option, alongside continuation with the BPC and outright cancellation.
2. The main reason for wanting a third option was that:
  - continuing with the BPC would lock government into an obsolete technology, and an excessively costly way of delivering benefits. Worse, even if the BPC looked viable on paper the chances of such a complex IT project being implemented successfully would be slim if BA remained hostile.
  - pulling the plug altogether would have a damaging impact on ICL and Fujitsu, destabilise the Post Office, and lead to litigation.

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3. These considerations remain valid. However, the third option described in the Milburn/Falconer note remains promising rather than proven. It *may* offer a quicker move to ACT, with associated savings for government; a platform for government direct; and better opportunities for the Post Office to develop banking services. The smart card *may* be useable for many other things, from financial services to ILAs (and at this stage the best that can be said is that both ICL and POCL will have very strong incentives to develop new customers and applications for it). The third option *may* be as cost effective as the alternatives (KPMG's very rough estimate is that it will cost more – but the margin of error is much wider than the note admits). And if the negotiations are successful the resulting project *should* be a system that is up to date and less vulnerable to obsolescence than the BPC.
4. In short the route mapped out is uncertain, and only a further period of detailed negotiation with all the players will clarify how practical it is.
5. Steve Robson, who is leading the negotiations, sees three factors as critical to making the negotiations succeed:
- First, a very clear message to the Post Office that the government wants this alternative option to succeed. This could take the form of a phone call from you to Neville Bain, but equally this could be seen as a job for Stephen Byers.
  - Second, keeping the BPC in play as a fallback in case the negotiations fail, and as a pressure on DSS. In practice this will mean ICL doing enough, and spending enough, so that it can be reactivated if necessary.

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- Three, maintaining strong pressure on ICL and sticking to the line that there will not be any new money
6. If you agree to proceed with the negotiations, these should proceed more smoothly and positively than in the past since the main source of contention – the BPC – has been removed. However, heads of agreement are unlikely before June or July.
  7. One implication of this is that it may be necessary to postpone the Post Office White Paper. Stephen Byers wants to publish in March. But given the importance of Horizon to the Post Office there are strong grounds for delaying publication at least until heads of agreement have been reached. The one benefit of a delay is that it would increase the pressure on the Post Office to contribute positively to the negotiations.
  8. To reassure DTI you should propose a stocktake in two months. This should be long enough to answer at least some of the outstanding questions.
  9. You may wish to discuss the next steps with Alan Milburn and Lord Falconer, although a meeting is not essential. I would on balance urge against a bigger meeting with Alastair Darling and Stephen Byers at this stage, although it may be necessary for you to talk to Stephen Byers.
  10. The key point in all of this is that after a long period when this project has been plagued by division, delays and drift, a clear policy direction was set by you in January. Despite continuing uncertainties it remains more promising than the alternatives and now needs to be pursued vigorously to the next stage.

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