

Rww/1/05

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14 April 1999

1. Mr Fozzard 15/4.
2. Mr Powell 15-4.
3. Ms Churchyard file

BA/POCL AUTOMATION PROJECT: HORIZON: UPDATE

Update

1. Steve Robson convened a meeting earlier today of the public sector interests in the Horizon programme in order to take stock of the emerging results of the various strands of work that have been pursued over the past few weeks, as a prelude to preparing a report for Ministers' weekend boxes and a final decision on the way forward for the project in the early part of next week. **The headline conclusion is that Option B is likely to cost in NPV terms some £700 million more than Option A, for a project which contains in practice little additional functionality or contribution towards wider Government objectives.** This very large disparity makes it, in Steve Robson's words, a "no-brainer". **Option A itself is increasingly seen as dysfunctional and unworkable thanks to BA (and DSS) implacable opposition to it - though it remains POCL's preferred way forward despite the difficulties. These conclusions appear to leave the public sector parties staring the termination option in the face.**

2. The Benefits Agency then suggested that it might be worth considering a variant of Option Bzero. Under this, the public sector would agree to purchase the basic Horizon infrastructure, **but without the commitment of the earlier version of this option to purchase later either the benefit payment card or the smartcard enabled benefit account.** The public sector side would, however commission ICL to supply the infrastructure with the addition of OBCS (order book control system) which can substantially reduce entitlement fraud with the existing paper-based method of benefit payment and which would provide an additional revenue stream for ICL. The

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Benefits Agency would then continue with the present paper-based system for a limited period while POCL developed front-end banking deals with the major commercial banks. At the end of that period the Benefits Agency would migrate recipients as speedily as possible to ACT, and POCL would have to take its chances on the proportion of new bank account holders who would choose to access their bank accounts at a post office. Post Office Counters agreed to look urgently at this option but the latest information I have from them is that they are likely to reject it as a worse option for them than termination followed by starting again with an infrastructure tailored specifically to on-line banking facilities.

3. I saw Steve Robson separately after the meeting to stress three points. First, DTI Ministers would be deeply concerned at the effects of termination on ICL and on our wider relations with Fujitsu. This concern appeared to be shared by No10 and by the FCO. Second, Ministers would need to be very clear that we had not loaded on to Option B costs which under Option A would equally rest with the public sector. For example, if the risk of repudiation fraud was equally great under either option, we needed to be sure that it had received equal treatment in both sets of figures (POCL have estimated it at £20 million a year in their figures; it is unclear what if any provision is made for it under Option A). Third, if Ministers had decided that for social reasons the country needed a counters network of a certain size and configuration, and were committed to subsidising its maintenance, the true marginal cost to the public sector as a whole of putting additional business through the network was likely to be very low, and probably cheaper than other available channels. In such circumstances it would make sense for the Government to decide centrally to conduct a high proportion of its business through POCL. If Ministers accepted this view, it might not be unreasonable to allocate a forecast revenue stream from this work to Option B, thereby narrowing the gap between it and Option A.

4. Steve Robson agreed that each of the three options - A, B and termination - looked thoroughly unappetising, and he doubted whether the latest BA suggestion could satisfy both ICL and POCL. Whilst further work on the numbers might reveal some double-counting or under-counting as between the options, he doubted whether we would find anything that would fundamentally alter the relationship between Options A and B. As for future revenues from Government business, the greatest potential probably lay with the delivery of electronic Government which at this stage was insufficiently developed and too uncertain a prospect to materially influence the numbers. These assessments have since been echoed in discussions this afternoon with the Treasury team working on the detailed figures, and with POCL.

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Comment

5. POCL and ICL have worked well together in defining and developing an alternative (to the benefit payment card) way forward (though there are still a number of important issues on which agreement has not yet been reached). Sadly the costings appear to show that Option B is very expensive and offers in practical terms little extra, especially in the short term, in return for the prohibitive additional cost. In past negotiations ICL have pitched their initial demands very high, but have then been prepared to reduce them substantially in subsequent negotiations. This time, because of the 23 April deadline, there is virtually no time left for successive rounds of negotiation. Work to try to find a solution will doubtless intensify as the parties edge towards the abyss, but at the present moment the prospects do not look encouraging.

6. I will report further as the situation develops over the next few critical days.

DAVID SIBBICK