

RESTRICTED - POLICY & COMMERCIAL

To:

SECRETARY OF STATE

From:

ISABEL ANDERSON
CGBPS1
BPR **GRO**

GRO

25 March 1999

ci: Mr McCartney*
Sir Michael Scholar
Mr Macdonald*
Mr Baker CGBPS*
Mr Sibbick CGBPS1(o/r)*
Mrs Britton PORT
Dr Sklaroff COM
Mr Fraser IBB
Dr Hopkins CII
Mr Osborne Legal C
Mr Corry Sp Adv

* (with attachments)

HORIZON: TELEPHONE CONVERSATION WITH KEITH TODD, CHIEF EXECUTIVE ICL ON FRIDAY 26 MARCH 1999

Issue

1. You have agreed to speak on the telephone to Keith Todd, Chief Executive of ICL at 11.00 am tomorrow, Friday 26 March. Points to make are given at Annex A.

Background

2. We believe the purpose of Keith Todd's call is primarily to talk to you about ICL's concerns on achieving sufficient progress in the current negotiations on the option now favoured by Ministers (dumping the benefit payment card and migrating benefit recipients instead to a smartcard-based post office bank account accessible only at post offices), and to suggest that the Government commits itself to contracting with ICL for delivery of a core system with no magnetic swipe card and no Post Office smartcard prior to defining the precise way forward.

3. ICL claim that they need to satisfy their auditors (Price Waterhouse-Coopers) and those of Fujitsu (KPMG) by 1 April that there is an ongoing project. If they cannot satisfy the auditors, they will be faced with scoring a massive provision in their accounts (around £250 million) which will make ICL insolvent.

Argument

4. Keith Todd's letter to you of today (at Annex B) highlights the difference in proposals being put forward by ICL and POCL/ Benefits Agency on the definition of Option B. It is evident that ICL want to shape the proposal in order for it to make commercial sense at least in the short term for them in a way which would resemble the benefit payment card route (largely directed by the technological direction the

RESTRICTED - POLICY & COMMERCIAL

project has taken). This is far too restrictive in terms of the commercial prospects it would offer POCL, whose future business strategy has at its heart their ambitions to act as a front-end for a number of commercial banks and would be unwelcome to DSS since it would do little to further the Government's wider social objectives on universal banking.

5. Your two letters of 18 and 19 February (at Annex C) made it clear that a number of specific conditions needed to be addressed satisfactorily by all the parties if option B was to be demonstrated to be a viable way forward.

Progress to date

6. A whole series of discussions on the technical, commercial and financial aspects of the new option are being conducted with a good level of co-operation by all the parties concerned at a variety of different levels. Steve Robson is leading the process on the Government's behalf, a copy of a recent letter from him to ICL is attached at Annex D. Whilst all the parties clearly understand that ICL has a short term imperative driven by Fujitsu and the auditors to have an assurance on the future of the project, there is little in the way of assurance that can be given until the process has progressed further. To commit to the basic infrastructure in the way ICL propose (under Option B Zero) would carry with it a commitment to purchase either Option A or Option B almost regardless of the terms. This would clearly put the public sector side in an immensely weak negotiating position with ICL.

7. Whilst progress is being made it is far from clear that an agreement will be possible which will meet the commercial and financial requirements of all the parties given the different perspectives of the parties. However, all the parties are motivated to achieve a solution.

Line to take

8. We suggest that you listen to ICL's concerns, making it clear that the Government is not yet in a position to commit itself while detailed discussions are continuing. Annex A gives points to make.

ISABEL ANDERSON