

From: Geoff Mulgan
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PRIME MINISTER

cc: Jeremy Heywood
Jonathan Powell
David Miliband
Lord Falconer
Geoffrey Norris

BA/POCL

1. We have come very close to reaching an agreement on the way forward for BA/POCL. But the Ministerial changes yesterday made it impossible to reach final agreement. The attached note from Stephen Byers sets out how we propose to proceed. In line with your instructions, our aim over the last two weeks has been to ensure that the Government continues with ICL/Fujitsu, while also avoiding the danger of being locked into an obsolete technology in the form of the Benefit Payment Card. This has broadly been achieved. It has required considerable compromise on the part of DSS, and some movement from DTI, although the relevant Ministers have not given final agreement yet.

2. The aim is to pursue a two-stage approach.

- In the first, Government will confirm as soon as possible to ICL that it wishes to continue with Horizon within the overall financial parameters that have been agreed. This move should stabilise the situation and restore trust between the main parties, which remains at a very low level.
- In the second stage, beginning in January, the three parties – ICL, POCL and BA – will work together to agree a better route forward in terms of the technologies. There will be three alternatives on the table: the existing plan

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- 2 -

for rolling out the Benefit Payment Card; new proposals from ICL in which there would be a rapid move from the BPC to smart cards which would support a range of Government and banking services; and proposals from the Benefits Agency for a direct move to smart cards. Our hope is that we can secure agreement around the second or third of these options, either of which would be markedly better than the current project.

3. During this second stage, it will be important to keep the overall Governmental interest in sight. This will require that Ministers in the DSS and DTI impose substantial pressure on the BA and POCL respectively to ensure that they play a constructive role in negotiations rather than solely protecting their interests.

4. I have asked the Treasury to let ICL know that we are very close to agreement because, not surprisingly, they have been very concerned to get a response from Government as soon as possible.

5. During the next stage, it will be important that someone who is on top of the issue plays a co-ordinating role, given that Alan Milburn will be coming to this issue unsighted. It would probably be best to give Lord Falconer a more overt co-ordinating role.

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