

Rich, Paul

From: Evans, Jonathan
To: Rego, Mena; Rich, Paul; Sweetman, Stuart; cook, colin RM; roberts,
john RM
Subject: PERSONAL - HORIZON
Date: 11 February 1999 23:40

David Sibbick rang late this afternoon to tell me that Alan Milburn had earlier today passed to Stephen Byers a proposal for a way forward on Horizon. Byers has until lunchtime tomorrow (Friday) to give comments back to HMT. Darling at DSS is in a similar position.

The proposal is strictly confidential to Ministers and officials - HMT have not given clearance for us or BA to be brought into the consultation net.

However, this evening I went over to DTI with Mena to help David analyse what the proposal contains. Contrary to rumours, it does not contain any suggestion of involving a new partner, but essentially is option X with a twist:

- scrap the benefit payment card
- POCL to introduce a smartcard
- benefit payments to be paid into a "benefit account" via ACT. The benefit account (a credit-only bank account) would be operated either by POCL, or by a bank "in a strategic partnership with POCL"
- "initially" the benefit account would only be accessible at post offices
- ACT into normal bank accounts would remain an option throughout.

The paper contained no numbers, timescales or discussion on whether the proposal could make commercial sense, but proposed that negotiations should be opened with ICL to see if a deal on this basis could be done (silent on who does the negotiations, but there was an acknowledgement that they would be tricky). The paper highlighted the main pros and cons for each party, with the pros for us stated as being that we keep customer footfall and get a foothold in modernising government (via the smartcard), and the main cons being that we would have to pay for operating the bank accounts, and that it might conflict with our network bank strategy. For Government the pros were all around modernisation, helping social exclusion etc.

Mena's and my response to this was:

- the big unknown was how the benefit account would actually work, and what our involvement/costs/risks would be
- if we needed to introduce a banking partner into the equation quickly, that would add further complexity to the negotiations and would very likely conflict with our network bank ambitions
- the extent to which we could keep customers would depend crucially on how easy it was for customers to transfer from paper-based benefits to the "benefits account": if there were hurdles in the way (eg filling in forms, getting credit references etc) this would persuade many customers to go straight to their own bank accounts (remember 80% of beneficiaries have them)
- overall we saw that this gave the PO no advantages over option 1 - other than getting the smartcard earlier
- but above all it was impossible to give a proper critique on the proposal without discussions/negotiations between the parties on the commercial terms (and there was no mention in the paper of BA still paying what they would have done under option 1, as we had discussed with them before)
- such negotiations would be complex (especially if a bank needed to be brought in to play) and lengthy - with an uncertain outcome, and with uncertain cost implications.

David thought he would brief Byers to the effect that:

- the proposal would only stand a chance of "working" if a whole number of issues could be favourably concluded: eg how it would work, involvement of a bank, knock-on into network bank strategy, early resolution of smartcard standards, migration arrangements from paper benefits - and of course a satisfactory commercial deal between all the parties
- this would take months of negotiation to ascertain whether a deal could be done, with no guaranteed outcome
- in the meantime work on the BPC would need to continue as a fallback (which the HMT paper recognised as well)
- as pursuing the proposal as the way forward would not remove the uncertainty around Horizon for many months, this would seriously jeopardise publication of the PO White Paper (David thought this was the big point which would attract No 10's attention)
- therefore DTI still preferred to go for option 1.

While we were there, David spoke to John Bennett. The proposal had been put to ICL a fortnight ago. ICL had felt very constrained about replying because they were unable to talk to POCL: they valued the emerging strategic partnership with us, and didn't want to do anything to damage it. They had only

replied to HMT on a factual basis of what might be possible technically. They would want protecting on all their costs sunk into the BPC if this change of tack were to be followed. The main upside they saw was getting BA out of the picture.

David expects next steps to be some ministerial discussion possibly over the weekend/into next week. Crucial will be the view from No 10.

PLEASE REMEMBER we are not supposed to know any of this!

Jonathan

Stuart - I decided not to ring you last night. It was 9.30 when we left DTI, and I didn't want to call you from the train.

PS As this is basically the proposition we were talking with BA and DSS about 3 weeks ago, what on earth have they been doing for the past fortnight?