



Minister of State,  
Cabinet Office

RESTRICTED - COMMERCIAL

CABINET OFFICE  
70 Whitehall, London SW1A 2AS  
Telephone: **GRO**

Rod Clark Esq  
PPS/SoS for Social Security  
Department for Social Security  
Richmond House  
79 Whitehall  
London SW1A 2NS

CHIEF SECRETARY	
REC.	15 FEB 1999
	MR SCHOFIELD
	PCP - GA/PCCL

11 February 1999

#### HORIZON

Alistair Darling and Stephen Byers met Charles Falconer briefly today to discuss a proposal for a possible way forward for the Horizon project. Steve Robson and Peter Schofield were also present.

The proposal had been developed by Treasury officials reporting to Alan Milburn and Charles Falconer. Ministers agreed that the paper circulated at the meeting (copy attached) offered the prospect of gains for both the Benefits Agency and the Post Office when compared to the existing agreement with ICL.

It was agreed that Stephen Byers and Alistair Darling would give the proposal further consideration. Both Ministers would write to the Chief Secretary by 17:00 on Friday, 12 February to indicate whether they were content for detailed negotiations with ICL to proceed on the basis set out in the attached note.

I am copying this letter to PS/Stephen Byers, ~~PS/Alan Milburn~~, Steve Robson and Peter Schofield. **No additional copies of this note or the proposal should be made. Please limit circulation to a strict need to know basis.**

*Yours sincerely*

**GRO**

STEPHEN WARD  
Assistant Private Secretary

**CONFIDENTIAL - COMMERCIAL**

unlike with the BPC, there are no facilities for urgent payments or payment to nominated proxy. BA would have to find alternative method of offering these services;

- may provide a lower quality of service at Post Office counters than with the BPC (e.g. PIN required, less help on queries).

**Taking the proposal forward - negotiation strategy with ICL**

12. In order to preserve our leverage on price with ICL, it would be vital to keep the Government's alternative options open (either to proceed with the BPC or to pull the whole project) until the commercial terms for this new approach have been agreed.

13. This will require a careful negotiating strategy with ICL. They will argue that, as the Government has changed the specification, the Government should pay ICL's sunk development costs for the BPC. ICL have already said that they would want to split the contract in two, with the Horizon infrastructure, excluding the BPC, rolled out and paid for first, and then a second set of negotiations on the smartcard and the method of paying benefits. This would need to be avoided, since it would leave ICL in the driving seat for negotiations on the smartcard.

**CONFIDENTIAL - COMMERCIAL****BA/POCL AUTOMATION PROJECT**

This note sets out a possible way forward for the Horizon project, following discussions between Steve Robson (HMT) and Keith Todd (ICL). These discussions were conducted on a without prejudice and confidential basis. ICL accepted that the public sector parties reserve their rights and remedies with respect to past breaches of contract by ICL Pathway. Both sides agreed that they would not take pre-emptive legal action against any other party while discussions are continuing.

**The proposal**

2. Under this proposal, the benefit payment card (BPC) would be removed from the Horizon project. The Benefits Agency (BA) would move directly from the existing order book system to payment of benefits through ACT.
3. Benefit recipients who currently receive their benefits via order books would have a Post Office "benefit account" set up for them. BA would pay benefits into the account via ACT, just as they would into any normal bank account.
4. The Post Office benefit accounts would be simple, credit-only accounts. They could be accessed at any Post Office using a smartcard, but at least initially they would not be accessible at banks. The Post Office might enter into a strategic partnership with a clearing bank to operate these accounts for them. Subject to such arrangements being put in place by the Post Office, ICL tell us that they could start to roll out a smartcard-based system into Post Offices following national rollout of the core Horizon system (currently assumed to be Spring 2001).

## **CONFIDENTIAL - COMMERCIAL**

5. Over time, the Post Office could develop the range of services which were offered via the smartcard. It could also enter into negotiations with clearing banks to offer counter facilities, enabling the banks to shrink their branch network.
6. The presumption would be that all order book recipients would be paid via a Post Office benefit account, and the move from payment via order book to payment into benefit accounts would be carried out automatically. However, benefit recipients would at any point be free to ask the BA to pay their benefits via ACT into a conventional bank account, just as they can now ask for a move from an order book to ACT.
7. This approach should mean that a large proportion of benefit recipients will continue to receive their benefits at post offices - either because they do not already have a bank account, or because a post office is more convenient for them, or just because of inertia. This means that POCL should have as much certainty over future revenues as under the BPC.. It also ensures that the smartcard has a large initial circulation, which will help the marketing of smartcard-based services.

### **Impact on the various parties**

#### **Benefits Agency**

##### **Advantages:**

- avoids having to develop and implement the IT infrastructure which is required specifically for payment of benefits through the benefit payment card (PAS/CMS/BES), although much of the development work has already been done;



**CONFIDENTIAL - COMMERCIAL**

- should allow earlier move to ACT than under original benefit payment card project.

Disadvantages:

- delays move away from paper-based systems for paying benefits by two years compared to BPC option.

Post Office

Advantages:

- should help to maintain footfall revenue;
- gets smartcard in circulation earlier than under BPC option, bringing forward potential revenues from smartcard-based services.

Disadvantages:

- the cost of managing bank accounts and of the smartcard would be borne by POCL;
- may not be consistent with POCL's long term commercial strategy which is to provide counter services to all the banks rather than to run its own bank accounts.

ICL

Advantages:

**CONFIDENTIAL - COMMERCIAL**

- removes BA from the contract, helping to clarify ICL's relationship with PO as its single client.

**Disadvantages:**

- ICL would want to recover the revenues they would have received for BPC transactions;
- extra development work required for smartcard-based banking services.

**Other advantages for Government:**

- boost to Modern Government initiative - early introduction of technology to support Modern Government services;
- boost to social exclusion agenda by providing simple banking facilities to those currently without bank accounts.

**Benefit recipients**

**Advantages:**

- unlike the BPC option, provides a bank account to those currently without one;
- compared to BPC and conventional ACT, provides a smartcard earlier (although only an advantage if there are attractive smartcard-based services available).

**Disadvantages:**