

RESTRICTED - POLICY AND COMMERCIAL**HORIZON: DRAFT REPORT TO MINISTERS****The DTI/Post Office position**

DTI officials and the Post Office take a different view. Termination of the project would undoubtedly be a major blow to ICL. Just how great would depend primarily on the stance taken by Fujitsu who have claimed that it could lead to the collapse of ICL. At the very least it would seriously jeopardise Fujitsu's plans for ICL's floatation next year, and could lead Fujitsu to decide to divest itself of the company. Even on a "least bad" scenario of an agreed termination, the failure of the project would badly damage ICL's reputation both here and in export markets and its future prospects. DTI officials are also concerned at the effect that termination could have on our relations with Fujitsu. Fujitsu have been a major inward investor in the UK, with well over £700m invested in the last decade and the creation of around 20,000 jobs. Whatever the justification from a UK standpoint, termination would be seen in Tokyo as a major breach of faith by the UK Government - a withdrawal from the project because we had changed our minds on the policy but had sought to put the blame on ICL. It also risks being seen in some quarters as a vindictive retaliation by the UK Government against Fujitsu for the latter's closure of the Newton Aycliffe plant in the Prime Minister's constituency.

From a Post Office viewpoint termination now would delay by at least two or three years the availability of the modern, online automated platform which POCL desperately needs if it is to retain existing clients and to win new business. Loss of the benefit payment card and the Horizon platform would be seen by the 18,000 sub postmasters as a devastating blow to their commercial prospects, and no matter how carefully managed the announcement, many would simply give up. The value of post office franchises would plummet, and replacement franchisees would simply not be

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available. The effects of these unplanned closures on the integrity of the network as a whole can only be guessed at at this stage, but could be serious. They could well be sufficient to cause existing and prospective clients to re-evaluate the value of the network as a delivery mechanism. Under any such scenario, the true costs of termination would rapidly escalate to a point at which they significantly exceeded the cost of proceeding with either Option A or B.

The Post Office remain firmly of the view that despite the difficulties referred to earlier in this report, Option A remains their preferred way forward. The assured revenue stream for a further period of years, the highest retention of footfall, and a smooth and controlled migration to ACT and network banking mean that this option offers POCL the best prospect of transition to a viable commercial future, free from the need for Government subsidy, and with the delivery of a unique interface and channel of communication between Government and the citizen.

DTI officials also believe that the present unattractive profile of Option B may be significantly softened once an assessment of the revenue stream which POCL could expect from the commercial exploitation of the Horizon platform, based on work which should produce at least preliminary conclusions over the coming weekend, has been incorporated into the NPV calculations.

Finally, the delay which termination will cause to the availability of a modern online automated platform capable of delivering front end banking facilities on behalf of the commercial banks will, if serious damage to the Post Office Counters network is to be avoided, delay the move from present paper-based methods of paying benefits by at least two or three years.