

Mail - Received Mail

file 1/05

Sender.....: Sibbick David
 Recipient.....: Anderson Isabel
 Brebner Martin - CGBPS
 Britton Judy - CGBPS
 Davis Derek- CB
 Halls Steve
 Leese Nigel - CGBPS
 MacDonald Alastair
 Whitehead Mike
 Wright Jan - CGBPS
 Subject.....:
 Sent.....: 02/11/1999 11:53
 Attachments.....:
 Reply Requested.....: No
 Folder.....: Inbox
 In Reply To.....:
 Read.....: 02/11/1999 12:42
 Reply Sent.....:
 Reply Requested by...:
 Delivered.....: 02/11/1999 11:53
 Priority.....: Normal
 Sensitivity.....: None
 Status.....: Read
 Importance.....: Normal
 Conversion Prohibited: No

Rob / Maureen / Lynette / James - Me
 3/11.
 Comlors.

Alastair

cc as envelope

HORIZON

I appreciate that we have already over-briefed you for your meeting this afternoon with Neville Bain and John Roberts, and that I risk compounding the mischief by offering yet more. My excuse for doing so is that the Post Office appears to have put forward an agenda for the meeting which gives it ample opportunity to whinge about the perceived inadequacies of Government in general and the DTI in particular. You may therefore find it useful to have an example to bat back to them.

This concerns the spat between POCL and the Benefits Agency over the payment for the order book control service (OBCS) and the minimum payment or "floor" levels that BA will pay to POCL if the volumes of traditional paper-based benefit payments drop below a pre-determined level between now and 2005. In short, the Post Office had demanded from BA a payment calculated on the basis that the total cost of Horizon over the contract period would be roughly £1 billion; that OBCS would represent, initially at least, around one-third of the total volume of transactions likely to be handled by Horizon; and that BA should therefore pay something in excess of £300 million over the contract period. BA refused to raise its offer above £110 million, the amount it had agreed to pay when it was expected that the benefit payment card would be the major user (and source of revenue for POCL) of Horizon. BA also withdrew any commitment to a floor payment.

I told the Post Office on more than one occasion before the summer that I regarded its demand as untenable and one which Ministers would not be willing to support. The Government was contributing £480 million towards the cost of the Horizon project, and what POCL was therefore entitled to claim from the Benefits Agency was one-third of £1 billion less £480 million - that is around £170 million. There was no way, I told the Post Office, that Ministers would tolerate the Government being charged twice over for the same product which was what, in effect, POCL was asking for. The difference between the two sides on my formula is around £60 million as opposed to a gap of more than £200 million on the Post Office's basis.

My understanding had been that POCL had since been negotiating with BA on the basis of a revised bid, but that BA was continuing to be completely intransigent. However, it emerged a short while ago that it was POCL who were being intransigent: they had not moved from their original demands. I told them again that we would not support them on that basis and so far as we were concerned its position was untenable. They have since had one further meeting with BA at which they indicated that they would be prepared to reduce their bid to something around the level I had suggested if in return BA would agree to

reinstate the floor payment. BA has indicated that it is willing to see whether a way through can be found on that basis and I understand another meeting is to be held shortly.

I may like to use the opportunity to make clear to the Post Office that if it wants our help it needs to listen to what we have to say and put itself in a position where our Ministers can go in to bat with their opposite numbers in the Treasury or DSS with right on their side. In this instance the Post Office has put itself in the position where getting a satisfactory solution will now be more difficult than might otherwise have been the case because attitudes have hardened against what was rightly seen as an indefensible stance over a long period of time by POCL.

David