

file Horizon

THE POST OFFICE

27 April 1999

DR NEVILLE BAIN
Chairman

The Rt Hon Stephen Byers MP
Secretary of State

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Telephone: **GRO**
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Dear Stephen,

HORIZON

At its regular meeting today, the Board spent a good deal of time reviewing the events of the past few weeks in relation to the Horizon project.

As I said to you in my letter dated 6 April, it has considerable concerns about the project from the viewpoint of Corporate Governance and in addition still believes that Option A is the right way forward. It is capable of evolving into the Smartcard and banking option, while capturing early the benefits of the payment card. However, we do understand why Ministers and ICL both believe now that this is not achievable. While we will work positively to see if there is a commercial case that can be prepared under Option B1, we are pessimistic about the outcome as it currently appears financially unsustainable.

The decision of the Fujitsu Board on Friday appears to give us a further couple of weeks to try and do this. We will continue to work positively, but the Board wanted me to set out clearly for you at this stage some of our major concerns. Above all we see Option B1 as commercially worse for the public sector than Option A by around £900m, but for us it would create a project worsening our position by some £1.5 billion with little or no guaranteed income. We are, therefore, looking to Government to give us a firm commitment for income coming to us both for the 'bank account' service at the heart of Option B1 and from the 'Modernising Government' White Paper. This would give us the best chance of putting together a commercially viable project and meet the Government's stated intention in the White Paper of automating POCL. Option B1, as it stands at the moment, could not be supported by The Post Office Board.

The tests the Board will apply to any proposal will be:

1. Is the case a commercial one with fairly balanced risks? In other words one that gives a positive NPV at an appropriate discount rate.
2. Can the funds be generated in such a way that they do not prejudice other planned Post Office activities (which may have a much better return)?
3. What is the impact and timing of the costs on The Post Office and POCL Profit & Loss accounts? In particular The Board will need to consider if the proposal can be accommodated by Post Office Counter Ltd without technically bankrupting this business.

We remain very keen to keep the project going and to automating Post Office Counters, but not in a way that means it is asked to sign up for substantial costs with no certainty around a revenue stream. No Board could defend such an action publicly.

Finally we all accept that this will be a difficult decision and the Board has agreed that it will need to be taken by the whole Board. I hope that the process over the next few weeks will include in its timescales thirty-six hours to enable me to consult all Board Members.

Kent regards,
Yours sincerely,

GRO

Dr NEVILLE C BAIN