

**RESTRICTED - POLICY AND COMMERCIAL**

*rw 11/05*

To:  
SECRETARY OF STATE

From:  
DAVID SIBBICK  
DIRECTOR POSTS

**GRO**

151 Buckingham Palace Road

**GRO**

9 June 1999

ci: Mr McCartney  
Sir Michael Scholar  
Mr Macdonald  
Mr Baker  
Mrs Britton  
Mr Hosker  
Dr Hopkins  
Mr Osborne  
Mr Seabrook  
Mr Whitehead  
Ms Anderson  
Mr Corry  
Ms Moore

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**HORIZON: MEETING WITH POST OFFICE CHAIRMAN, CHIEF  
EXECUTIVE AND NON-EXECUTIVE MEMBERS OF THE POST OFFICE  
BOARD ON THURSDAY 10 JUNE 1999 AT 17.30**

**Issue**

1. You are meeting with Dr Neville Bain, John Roberts and 2 of the non-executive Board Members, Dr John Lloyd and Mrs Rosemary Thorne at 17.30. It has been agreed that the first half of the meeting will deal with Horizon and Corporate Governance issues which are covered by this brief, whilst the second half attended only by the Chairman and Chief Executive will deal with the White Paper on which Judy Britton is briefing separately.

**Recommendation**

2. That for the first part of the meeting (Horizon, Corporate Governance) you are guided by the attached steering brief and points to make.

**Background**

3. During the last increasingly frantic month of negotiations on Horizon the Board felt that they were being asked to sign up to decisions for which they could see no commercial basis, whilst Ministers declined to give them any comfort about how the non-commercial aspects would then be covered. This would have been an issue in any event, but because the numbers on Horizon were so large - and the numbers on the loss of Benefits Agency work much larger still - in relation to POCL's marginal profitability, the Board had the greatest difficulty in finding a sensible basis for decision taking.

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4. The Board are equally aware that Ministers for their part felt that the Post Office was being obdurate and unhelpful, and refusing to recognise Ministers' responsibility the wider good. They are anxious to repair relations, and to find a basis for avoiding similar difficulties in future. They see their role as considering proposals from a commercial perspective, and making clear to Ministers where they see no commercial case. They wholly accept that Ministers then have the right to ask them nevertheless to go ahead for wider social or economic reasons, provided that Ministers at the same make clear how the non-commercial elements are to be funded.

5. You will want to welcome the Board's wish to find ways of avoiding similar difficulties in future. The circumstances surrounding Horizon were hopefully unique, partly in terms of the pressures, especially in the final stages, partly because the goal posts kept moving with bewildering frequency as a succession of options took centre stage for a brief moment before disappearing, but mainly because by the time Option B3 became the Government's preferred way forward, the Board appeared still to insist on believing that they were being asked to sign up to an option which involved dumping the benefit payment card and allowing the BA to move to ACT. They were not. Those decisions had already been taken by Ministers, as was repeatedly made clear to the Post Office. The only decision the Board therefore needed to address was whether to sign up to a deal under which the Government undertook to fund nearly £500m of total project costs of some £850 million and to lock the BA in until 2003; or to opt for the only alternative which was cancellation, with no Government commitment to help fund a successor platform and no commitment to lock in the BA. Viewed in those terms, it does not seem too difficult a decision to take quickly, especially when delay carried a £100 million addition to the price tag.

6. Of course the Board were entitled to be unhappy at the decision to drop the benefit payment card, and to be concerned that the Government had given no commitment about how the loss of £400 million income from the BA was to be replaced. But it had been clearly explained to them that the longer term future of POCL would be, and indeed could only be, addressed in the context of the PO's strategic plan.

7. Against this background, the Board's apparent acceptance that their role is to consider the commercial case, but that they must - having drawn that to the attention of Ministers - accept that Ministers then have the right to take an alternative view in the wider economic and/or social interest, should indeed form the basis of a clearer relationship that hopefully will avoid the worst of the difficulties experience over the past weeks. But they will be looking to Ministers to recognise in turn that they have an obligation to be as open and up-front as possible with the Board on how the consequences of a non-commercial decision are to be accommodated.

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