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To:

SECRETARY OF STATE } separate
MR MCCARTNEY } copies

ci: Sir Michael Scholar

Mr Macdonald

Mr Baker

Mr Macintyre

Mrs Britton

Mr Seabrook

Mr Fraser

Mr Hosker

Dr Hopkins

Mr Osborne

Mr Whitehead

Ms Anderson

Mr Corry

Ms Moore

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From:

DAVID SIBBICK
DIRECTOR POSTS

GRO

151 Buckingham Palace Road

GRO

28 May 1999

1. Mr. Fould 2-6.

2. Ms. Fould 2/6.

3. Ms. Choudhury

POCL/ICL AUTOMATION PROJECT HORIZON

1. Your asked for advice on terms of reference for the Working Group under the chairmanship of Mr McCartney to take forward the work on Horizon following the agreement reached last weekend.

2. There are, I think, four separate issues. First there are the negotiations between POCL and ICL that need to take place over the next 2-3 months to put in place the detailed contractual arrangement that will give effect to the outline agreement reached last weekend. These negotiations will need to be carefully monitored, and any sticking points addressed and resolved. There is clearly a role here for Mr McCartney, supported by officials, though it is less clear whether the Communications Workers Union (CWU) or the National Federation of Sub-Postmasters (NSFP) will be able to contribute much to this process. Nevertheless, both organisations will be anxiously awaiting a successful conclusion of this phase, and keen to contribute in any way that they can. **This next phase of the process therefore seems one that could sensibly form a part of the remit of the Working Group.**

3. The second issue is to ensure that the remaining development phases of Horizon, including large scale live trials are completed without further slippage; and most crucially that the rollout of the system following acceptance to all offices within the network is accomplished in a smooth and timely fashion. The CWU and NFSP members will be in the front line of the action during these phases, and both organisations have much to contribute to the successful completion of these phases. **These aspects of the project should clearly fall within the remit of the Working Group.**

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4. The third issue is how to maximise the commercial potential of the Horizon platform. Here I suggest that the wide experience of daily face-to-face contact with the Post Office's customers should give the both CWU and NSFP the ability to contribute significantly to the task of identifying potential commercial applications which could be delivered through the Horizon platform. Given that there is no longer to be a base of some 15 million smartcards carrying a Benefits Agency application, the task of finding replacement business, particularly based on smartcard technology, together with associated revenue streams, now becomes one of the pressing issues facing POCL. It is significant that the CWU have already suggested, and have followed up with Frank Dobson, the possibility of a smartcard- based interface between the citizen and the National Health Service utilising the Horizon platform. **This work should, I suggest, also be central to the remit of the Working Group, and can be ongoing for as long as it appears productive.**

5. The fourth issue is how POCL is to be funded in the medium and longer term future once some £400 million pounds of revenue from BA (and no doubt further revenue streams, for example DVLA), begin progressively to walk out through the door from 2003. This is of course a much wider issue than the £480 million pounds we will contribute to the capital cost of the Horizon project. To the extent that POCL, with help from the Working Group, is able to drum up new sources of revenue from exploiting the Horizon platform, POCL's funding gap will be less would otherwise would have been the case, but is still likely to remain significant. The options facing Ministers will lie between large - hopefully controlled - reductions in the network; direct subsidy to replace the lost revenue streams; or reserving to POCL areas of Government business which POCL will then be paid for delivering. **This broader issue on the future of POCL and how it should be financed is the subject of a separate and parallel submission to you this weekend.** It is an issue which will need to be decided in consultation with a number of your colleagues. The report of Martin Baker's Steering Group leading to the 7th December statement on the future of the Post Office was informed by the work of a Working Group on Counters Issues, with very broad interdepartmental and government agency representation. **I suggest that it is again in such a wider forum that this work needs to be taken forward rather than in Mr McCartney's much more restricted and non governmental working group. I have therefore excluded it from my propose terms of reference, which are:-**

SUGGESTED TERMS OF REFERENCE

In relation to carrying forward the work on the POCL/ICL Horizon project:

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- **To oversee the negotiations between POCL and ICL which will develop the letter of agreement signed between the parties on 24 May into a Codified Agreement governing the contractual relationship under which the project will be taken forward; and to facilitate solutions to any problems which may arise;**
- **To oversee, to contribute actively to, and to facilitate solutions where problems arise, the completion of the development phases of the Horizon project, and in particular the smooth and timely rollout of the system to all offices within the post office network; and**
- **To contribute through ideas, contacts and other practical measures, to maximising the commercial potential of the Horizon infrastructure, thereby to the future viability of the post office network as a whole.**

SUGGESTED MEMBERSHIP

DTI (Mr McCartney to chair, support and secretariat provided from CGBPS1; other Directorates - CII, Legal, IBB, FRM may also wish/need to be represented, or to see papers), POCL, CWU, NFSP. ICL would not formally be a member, but would be invited to attend meetings as appropriate.

MEETINGS

Once every three weeks (additional ad hoc meetings as necessary) during the negotiation and development/rollout phases; less frequently thereafter.

6. If you are content with these proposals, I will draft letters of invitation to the Post Office, CWU and NFSP; together with a letter to ICL telling them of the arrangement.

DAVID SIBBICK