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10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

1 March 1999

1. *Mr Leese*
2. *Mr Langley*
3. *Mrs Chubbard* *file*

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Dear Paul,

HORIZON

The Prime Minister was grateful for the minute submitted jointly by the Chief Secretary and Lord Falconer on 24 February.

The Prime Minister is slightly concerned about the NPV calculations set out in Annex B, together with the greater risks of the proposed new approach (so-called Option 2a). However, he recognises that KPMG's costings are uncertain and the margins of error are quite large. He also agrees that the new approach could offer significant benefits, for example by providing the Post Office with a platform for the provision of electronic government services, something to which the Prime Minister attaches considerable importance. N

On balance, the Prime Minister therefore agrees that we should now indicate to ICL that in principle we are very keen to pursue the new approach; and that Treasury, DSS and DTI officials should now agree a detailed specification for the new project and a clear negotiating remit.

N The Prime Minister would like to be kept in close touch with the negotiations. Given the inevitable uncertainty at this stage about the full cost and potential upsides of Option 2a, he believes it would be sensible to take stock of where the discussions have got to by the end of April, before finally deciding to go down this route. N

In the meantime, the Prime Minister agrees that it will be essential to send a clear message to the Post Office that we want them to work seriously on the new approach. Given other diary commitments, there is little immediate prospect of the Prime Minister speaking to the Chairman or Chief Executive of the Post Office himself. He would therefore be grateful if Stephen Byers could speak to them as soon as possible and ensure that they engage constructively. He will then follow this up with a short letter.

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I am copying this to Tom Scholar (H.M. Treasury), Rod Clark (Department of Social Security), Antony Phillipson (Department of Trade and Industry), Mark Langdale (Cabinet Office) and Sebastian Wood (Cabinet Office).

To: n,

GRO**JEREMY HEYWOOD**

Paul Williams, Esq.,
H.M. Treasury.

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