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Re: ~~the~~ BA/BC

**RESTRICTED - POLICY & COMMERCIAL**

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Secretary of State

From: Sarah Graham, PFD Sp Proj

Date: 8 December 1998

cc: MOS  
PSL  
PSC(AE)  
PSC(ST)  
Special Advisor  
Permanent Secretary  
Peter Mathison, BA CE  
Marilynne Morgan, Solicitor  
Jonathan Tross, DCM  
Paul Gray, PG  
Pete Sharkey, ITSA/ACE  
Stephen Hickey, PFD  
George McCorkell, BA Proj Dir  
Martin Sixsmith, INF  
Ron Powell, Sol Comms  
Peter Crahan, CAPS  
Craig Lewis, CAPS Govt Bus  
PFD Sp Proj Team  
Hamish Sandison, Bird & Bird



File: MP8/Carbons

**BA/POCL AUTOMATION PROJECT: PRESENTATION TO CST AND MINISTERIAL COLLEAGUES**

**Issue:** Briefing for the re-arranged presentation on an alternative option, should the project fail.

**Timing:** For today, Tuesday 8 December 1998 at 2.30pm

**Background**

1. The presentation scheduled for last Thursday had to be cancelled because DTI Ministers were unable to attend. However, the presentation was heard by the Chief Secretary who summed up by saying:

- if there proved to be an acceptable way forward on Option 1, that is what Ministers would be inclined to pursue;
- his personal view was that:
  - the Horizon programme was the wrong decision in the first place;
  - there is a do-able alternative;
  - the alternative we set out is certainly a better way forward for POCL in the medium to long term.

However, Treasury officials' subsequent advice was that CST would still prefer to find a way of continuing the project, if at all possible.

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### Briefing for the presentation itself

2. The purpose of the presentation is to provide the Chief Secretary and the Ministerial team with an opportunity to:

- reassure themselves (we hope!) that there is a do-able option, should it not prove possible to continue with the project;
- acknowledge that there *is* a challenge - to align the Post Office timetable for moving to the installation of banking services with the potential timetable for achieving 100% ACT-based benefit payments;
- assert our joint DTI/DSS intention to resolve this.

3. On the key issue of aligning the tension between the POCL/DSS preferred timetables for moving to an ACT-based system, our concern is to demonstrate that we can move swiftly to an ACT-based system; and that the pressure is for POCL to convince the Ministerial team why they cannot move equally swiftly to a banking-based system. POCL have just commissioned some further work on this from KPMG, which we understand they may claim demonstrates the difficulty of finding an "interim" banking solution to match the DSS/BA potential timetable for moving to an ACT-based system which fits with their longer term plans to introduce on-line banking facilities. Our view is that the KPMG work simply endorses the view that POCL must talk to the Banks - and quickly - in order to find a way forward. We would have little problem in agreeing to, say, a six month delay in our programme, if that was in the greater interest of VFM/policy across Government eg. if Post Office could thereby improve the prospects for protecting their network in the short term. But we would not wish to agree to years and years delay - otherwise we are back at square 1.

4. I expect that Lord Falconer will probe the POCL banking timetable quite closely and you may not need to do so yourself. But if he does not, it would obviously be helpful if you could ask, for example:

- what work has been done to explore the possibilities of moving more swiftly to some kind of banking facility in Post Offices in order to allow Government to achieve the administrative savings from ACT payment methods as soon as possible?
- if the KPMG work looks negative in this regard, you may wish to probe alternatives;
- what discussions have POCL had with Banks/the retail sector?
- what consideration has been given to the advantages of moving early into the emerging banking sector and the effects on new business/footfall for the Post Office?
- has any analysis been done of the effects of moving to banking early on the commercial/social viability of individual Post Offices? For example, there is a reasonable assumption that the installation of banking facilities may prove popular in those very Post Offices which may be threatened under the current regime and which people most want to stay open eg. in rural areas and out of town/non-High Street areas: there could be advantages in Post Office introducing banking in those offices as a priority.

**RESTRICTED - POLICY & COMMERCIAL****Other issues**

5. **Discussions with ICL:** at the time of writing, there have been several meetings between Adrian Montague, the public sector and ICL (since Stephen Byers' letter giving them one last chance to come up with an improved offer on continuing the project). At these meetings, the public sector have been clarifying their views on the acceptance and funding proposals put forward by ICL so far, to ensure that ICL understand our position and are under no illusions about what might/might not be acceptable to us. There has also been a meeting between ICL and POCL about funding. So, far no further proposal has been received from ICL but it appears that: a) they are still looking for a relaxation in the public sector approach to "acceptance" which we cannot responsibly give; and b) Fujitsu do not appear to be prepared to provide backing should the project fail at some later date for whatever reason. We understand that Keith Todd is currently in Tokyo and we are anticipating that ICL *will* come up with some sort of improved offer by 9 December; but on current information, it looks unlikely to meet the public sector's requirements.

6. **Fujitsu involvement:** you will be aware that Fujitsu have approached the British ambassador in Tokyo, and have written to him the "standard" ICL letter - claiming they are "misunderstood"; that the delays are the public sector's fault; that DSS/BA are the true culprits, because they have never wanted the project anyway; and have added a veiled threat about future wariness of backing PFI projects. The Government advice to the Ambassador is to say nothing, and avoid getting drawn into what could become negotiations. But DSS have advised that we cannot let the letter lie on the table unchallenged. Some sort of reply needs to be sent, to protect our position should we come to litigation with ICL. We are currently preparing a reply.

7. **Legal Issues:** there is continuing debate between POCL legal advisors and DSS/BA legal advisors about the best way to terminate the project, should Ministers decide jointly to call a halt following this latest round of discussions with ICL. Our advice allows us to terminate immediately and thus to stop spending money on the project as soon as possible; whereas POCL advice involves a much more risky strategy whereby DSS/BA (and POCL) may well get drawn into significant further expenditure on the project before termination, which could not be justified. As a result, the two different views are currently referred to the Law Officers for their advice. It is important that the Law Officers understand the Ministerial priorities involved, and I understand the HMT Legal Advisor has alerted Lord Falconer. I have already alerted his office to the situation and our preferred strategy, a copy of which is attached for interest. The Law Officers are now themselves taking Counsel's advice. We and others are seeing the Law Officers' Counsel later today, to brief him.

**Further briefing/update**

8. I have asked your office to hold a brief slot in your diary today, so that I can update you if necessary.

9. I hope this is helpful.

**MRS SARAH GRAHAM**

**PFD Special Projects**

**The Adelphi**

**Tel:**

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**Fax:**

GRO
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