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WITHOUT PREJUDICE****BA/POCL AUTOMATION: A WAY FORWARD****Background**

The BA/POCL automation project (known as "Horizon") has been under review since the contractor, ICL Pathway, was placed formally in breach of contract in November 1997 by both POCL and BA, after a key contractual milestone was missed. Following the failure of negotiations (the so-called Corbett discussions) to establish a commercial basis acceptable to Government for proceeding with the contract in October, ICL were given a further period of two weeks for them to make progress in their discussions with the Post Office to develop a public/private partnership as a means of enabling ICL to move further towards the public sector's position. ICL's proposal for the partnership was received on 9 November, along with papers addressing commercial, contractual and financing issues. But Ministers concluded that ICL's wider commercial proposals revealed insufficient movement on their part, and involved a risk transfer that would have been entirely unacceptable to the public sector and would have effectively seen the public sector underwriting the whole deal.

The Chief Secretary therefore wrote to ICL on 20 November giving them a third and final period until 9 December to make an offer which demonstrated that they could secure adequate financing to take the project forward without the public sector bearing unacceptable risk; provided assurances that Fujitsu were standing behind the project; and made an unequivocal move towards the public sector's position as proposed in the earlier negotiations. Ministers also agreed that they need to be in a position to implement the fallback options quickly if an acceptable deal could not be struck. The Chief Secretary therefore asked officials to prepare





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an exit strategy to the same timescale, building on the work already completed on the fallback options and including presentational handling.

ICL wrote to the Chief Secretary on 9 December (and again on 18 December to make a number of further small concessions) with a revised proposal which moved further towards the public sectors' position in NPV terms (including taking on more risk) and offered the required Fujitsu guarantees on funding. The Post Office have agreed to meet the NPV shortfall between ICL's offer and the public sector's position (agreed at Corbett). ICL have also written a paper setting out how Horizon might contribute to the Government's wider policy agenda. The Post Office and ICL have now reached agreement on all of the headline terms of the deal.

This note sets out the possible details of a way forward.

**Way forward**

The way forward would consist of two stages.

**Stage 1** - stabilisation.

Ministers would agree by 24 December:

- to continue the programme with the Benefit Payment Card, with a firm re-commitment to deliver the project on time by all parties;
- to agree commercial terms with ICL on the basis of the 9 December offer updated by Keith Todd's letter of 18 December. (The NPV of



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the project to ICL is now estimated to be -£126m, with the public sectors' additional contribution at £221m NPV);

- that POCL absorb the price increases proposed on BES and OBCS, without passing the cost on to BA;
- that BA honour commitments made to POCL under the Graham Corbett discussions - based on Paul Rich's letter covering draft heads of agreement of 2 December;
- that BA, POCL and ICL will need to agree how the approach to acceptance testing, which has been agreed between ICL and POCL, could be adapted to ensure that BA protect their interest in the system being fully functional before acceptance;
- that POCL sign off the draft Partnership heads of agreement already agreed.

Stage 2 - broadening objectives.

By the end of March 1999, with the commercial arrangements redrawn as above, the parties will have an opportunity to see whether the programme can do more to deliver the Government's present policy objectives. Ministers will ask the Post Office to take forward discussions between the parties in the context of the PPP envisaged with ICL, to explore what more could be done, with the agreement of all parties, to further the following objectives:





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- to pay social security benefits in a way that is as cheap, efficient, fraud free and convenient as possible, consistent with plans for welfare reform;
- to help to maintain a nationwide network of post offices in order to protect the accessibility of government services provided across PO counters;
- to support integrated delivery of existing and new government services and information more generally taking full advantage of new technology, streamlining Government's dealings with citizens;
- to improve access to basic financial services, including banking services, for poorer members of the community and the socially excluded.

Stage 2 would not present an opportunity to undermine or reopen the commercial fundamentals agreed in Stage 1. If it were to prove impossible to reach agreement, then the project would go ahead on the basis of Stage 1 alone.

**21 December 1998**