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**dti**

Department of Trade and Industry

IAN McCARTNEY MINISTER OF STATE  
ROOM 838, 1 VICTORIA STREET  
LONDON, SW1H 0ET

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**FAX**

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**MESSAGE/COVER SHEET**

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**THIS MESSAGE IS FOR: Colin Baker & John Peberdy NFSP****FAX NO:**

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**FROM:**

Geoff Moore

**TEL:**

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**FAX:**

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**DATE:**

29 June 1999

**NO. OF PAGES TO FOLLOW: 5 more****IF YOU DO NOT RECEIVE ALL THE PAGES, PLEASE CONTACT ME  
AS SOON AS POSSIBLE.****MESSAGE:**

Minutes of last meeting of Horizon Working Group follow, and agenda for next meeting on 7 July, DTI conference centre, 1 Victoria Street, 3pm. The meeting after that will be 27 July at 6pm.

9am.

**RESTRICTED - POLICY AND COMMERCIAL****NOTE OF A MEETING OF THE HORIZON WORKING GROUP****22 JUNE 1999****DTI, 1 VICTORIA ST, LONDON****Present:**

Ian McCartney MP, Minister of State, DTI (Chairman)  
Stuart Sweetman, Post Office Counters Ltd (POCL)  
Dave Miller, POCL  
Mena Rego, POCL  
Derek Hodgson, General Secretary, Communication Workers Union (CWU)  
Tony Kearns, CWU  
Terry Deegan, General Secretary, Communication Managers' Association (CMA)  
Tony Harris, CMA  
Colin Baker, General Secretary, National Federation of Subpostmasters (NFSP)  
John Peberdy, NFSP  
David Sibbick, Director, Posts, DTI  
Geoff Moore (notetaker), DTI, Assistant Private Secretary to Ian McCartney (Tel no

**GRO****Main points:**

1. Mr McCartney apologised for the fact that the agenda for the meeting had not been circulated in advance. In future, any papers would be circulated a week in advance. It was confirmed that all present were content with the minutes of the previous meeting held on 8 June.
2. Ms Rego then presented an update for the Group on POCL's negotiations with ICL. The terms of the letter of agreement on 24 May meant that the contract was now largely a 'given', and there was now a process of codification rather than negotiation.
3. Mr Hodgson argued that in fact there had been a fundamental change to the situation - not least because this was now not a PFI project - so this should not be seen as just a matter of codification. Mr Sweetman explained that this fundamental change had already been reflected in the 24 May agreement negotiated essentially between the Treasury and ICL.
4. Ms Rego said that the emerging issues were (a) acceptance; some of the tests in the BA / ICL contract, and in the over-arching BA / ICL / POCL contract, would be lost with the ending of those two contracts, but were nevertheless important means of verifying aspects of the system which POCL would be buying, and therefore needed to be retained. POCL agreed that tests relating to the later removal of the benefit payment elements of the project (in the short-term these would simply be "walled-up" out of harm's way) could be put on one side and dealt with as management risk issues at a later date; (b) infrastructure baselining; the issue here was whether spare capacity on

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the system created by the removal of the benefit payment card could be used to provide additional services without additional costs. There was a need to establish exactly what POCL was buying. ICL have not allowed access to POCL so that they could determine this and have insisted that it is not a contractual issue. They have however indicated that they are willing to talk informally. POCL consider the issue to be too important to the future commercial prospects of the project to rest on a purely informal and unenforceable indication; (c) roll-out; there were reservations about the ability of both sides to achieve the roll-out plan, and this was being revised.

5. Mr Baker said that it was extremely important for the roll-out to be absolutely right; with so many planned per week (300) there would be risk of collapse, otherwise.

6. Mr McCartney said that the roll-out issue was crucial; he was emphatically not prepared to accept getting away from the commitment to 2001. Slippage would make the wider discussions on government usage of the network impossible. If there were problems with software, training etc then these should have been flagged up earlier, and must now be resolved in a way that enabled the 2001 timetable to be recovered.

7. Ms Rego argued that it should not be assumed that POCL expected to miss the date. Mr Miller emphasised that the intention was to hit 2001. Mr McCartney asked for an urgent report on roll-out next week so that it that could be circulated before the next meeting and included on the agenda (action : POCL).

8. Mr Deegan raised the issue of ongoing costs that POCL would incur, following the £68m that would be paid for acceptance. Ms Rego said that there would be ongoing running costs, which were largely fixed (ie not volume related), of around £80m per year. On present projections, POCL could not afford the system. In addition, there would be further development costs. Mr Deegan asked whether as things stood the project was sufficiently advanced to begin to market it. Ms Rego said that better information needed to be extracted from ICL first.

9. Mr Hodgson said he and possibly others in the Group were at a disadvantage in not having seen the heads of agreement of 24 May (Mr Sweetman said that a summary would be produced for the Group, which would of course be commercially confidential; action : POCL). Also, unless 'son of' the bpc was established there would be difficulty in attracting enough business to make the system viable. What work was being done on that?

10. Mr McCartney said the latter question was for discussion after the July agreement. Even before the May agreement, footfall was a big issue. This was not a new area.

11. Mr McCartney said that as he understood the infrastructure issue, POCL was saying that the baseline capacity of the system should be regarded as that which obtained before the benefit payment card was removed, and that new services should be added up to the limit of that capacity without extra charge. What was POCL's interpretation of ICL's position?

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12. Mr Sweetman said that ICL were refusing to accept any reference to this capacity built into the contract. POCL needed the commercial certainty of this before committing the initial payment of £65m to ICL. Mr McCartney asked for a report on this for discussion at the next meeting, and asked POCL to pass on the Group's concern on this issue to ICL (action : POCL). Ms Rego confirmed that if the issue was not resolved, it could adversely affect the agreement sought for July.

13. Mr Peberdy asked for clarification of the difference between 'release authorisation' and 'acceptance'. Mr Miller explained that acceptance is stemmed from the satisfactory completion of a series of contractually predetermined tests, and triggered payment to ICL. Release authorisation unlocked rollout of the system into the field, and was based on overall "fitness for the purpose" of the system.

14. The Group then turned to negotiations with the Benefits Agency. Ms Rego said that BA had agreed to meet to discuss their ACT plans post-2003. BA Ministers would receive a report on this by the end of June. BA had confirmed that they were willing to adapt their existing contracts with POCL to reflect the new circumstances and to try to negotiate the necessary changes with the same timescales as the POCL/ICL agreement. However it was clear from an initial meeting that BA and POCL had differences over the assumptions used by KPMG in modelling the B3 option. There was a gap of over £400m. POCL was looking to BA to share some of the pain. Under the financial model of B3 by KPMG (Treasury's advisors), BA would have a positive Net Present Value of £1.9bn rather than £1.6bn under option A. However, POCL was only seeking around £133m. POCL was not clear whether it could count on Ministerial support for their position against BA.

15. Mr McCartney asked for a report to him next week on where POCL stood on the negotiations (action : POCL). He could then decide how to approach the issue on a ministerial basis.

16. Mr Deegan asked whether there had been any discussion in the negotiations about what BA would pay for continuing to use POCL services. 2003 was obviously a key date in BA's eyes for transfer to ACT. Ms Rego explained that under ACT, BA would pay the banks for delivering benefit payments to recipients' bank accounts using the BACS system. It would then be for POCL to negotiate a fee with the banks for acting as their agent in allowing bank customers to access their bank accounts at post offices. Ms Rego also reported that BA had not had serious discussions with the banking community. Even so, they were assuming 50% transfer to ACT in 2003/4 and 50% in 2004/5. Of course, some percentage of benefit claimants would be 'unbankable' and for these there would need to be some alternative means of payment. POCL would expect to bid for that work.

17. Mr Hodgson asked if he heard correctly that BA would decide on post-2003 this month. Wouldn't this mean the rug being pulled from under the Group's feet? Mr McCartney said this simply meant that DSS Ministers had asked for a report from their officials. Mr Sibbick assured Mr Hodgson that whatever the system that was in place, there was a Ministerial commitment that whoever wanted to continue to draw benefits in cash from PO counters would be able to do so. Mr Baker argued that the Group had

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an important role to play in preventing any action by BA to persuade benefit recipients to move to ACT in advance of 2003.

18. Mr McCartney then reported to the Group that he had written to Ministerial colleagues to tell them about the work of the Group. Jack Cunningham had given support to an interdepartmental study of how the PO network should be funded to replace the loss of BA revenue after 2003. He (Mr McCartney) had set out in graphic detail the consequences of a significant reduction in Government usage of the network. This was designed to concentrate minds. He would report back to the Group next meeting (action : Mr Sibbick) on the response to this letter.

19. Mr Sweetman asked whether it could be helpful to provide a brief to the Group on their 'Government gateway' plans. Mr McCartney agreed that it would, for discussion at the meeting on 27 July (action : POCL).

20. It was provisionally agreed that the next meetings would be 7 July at 3pm, and 27 July at 6pm.

End.



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**HORIZON WORKING GROUP****THIRD MEETING 7 JULY 1999****AGENDA**

1. Minutes of 2nd meeting 22 June 1999.
2. Report by the Post Office on PO/ICL negotiations including:
  - the timescale for rollout given the problems with Wednesday cash balances at sub-post offices; *(+ ASAW)*
  - obtaining from ICL the firmest possible assessment of the amount of spare capacity in the Horizon infrastructure available for additional commercial applications without additional payment; and
  - acceptance testing. *use acceptance!*
3. Discussion of next steps on PO/ICL negotiations.
4. Report by the Post Office on PO/BA negotiations including:
  - payment for OBCS; and
  - BA plans for migration to ACT.
5. Discussion of next steps on PO/BA negotiations.
6. Report by DTI on progress with establishing an interdepartmental study of POCL funding issues.
7. Forward look (includes paper PO will table on Government Gateway ambitions).