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HM Treasury

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FAX MESSAGE FROM PUBLIC-ENTERPRISE PARTNERSHIPS TEAM

Tel No: GRO

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(hr Mem
hr 3pm
to be to
discuss)

✓ To: Sarah Graham Fax No: GRO

✓ To: David Sibbick Fax No: GRO

✓ To: Jeremy Crump Fax No: GRO

To: Iris Wood Fax No: GRO

To: George McCarkeil Fax No: GRO

To: Geoff Malyon Fax No: GRO

To: Jonathan Evans Fax No: GRO

To: Chris Nicholson Fax No: GRO

Department/Building

Date 7/10/98

Number of pages (including this one) 10

MESSAGE

Horizon Working Group:

Minutes & 2nd Meeting follow + timetable

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FROM : Stuart Culverhouse (PEP)
DATE : 7 October 1998
EXTN : 4507
ROOM: 27/G

ADAM SHARPLES (PEP)**cc :** HMT

Harry Bush (FRI)
Adrian Montague (PFPT)
Ross Newby (PFPT)
Sarah Mullen (PEP)
Joseph Halligan (SS)
Elisabeth Hambley (TAD)
Robert Ricks (TAD)

Sarah Graham (DSS)
David Sibbick (DTI)
Isabel Anderson (DTI)
Jeremy Crump (CITU)
Mark Gladwyn (CITU)
George McCorkell (BA)
Jonathan Evans (POCL)
Chris Wood (Cab Office)
Geoff Mulgan (No. 10)
Chris Nicholson (KPMG)

HORIZON WORKING GROUP MEETING: 25 SEPTEMBER 1998

The second meeting of the Horizon Working Group took place on Friday 25 September. The minutes are attached.

The next meeting is scheduled for 2pm, Monday 12 October.

Stuart Culverhouse

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2nd MEETING OF HORIZON WORKING GROUP

Minutes of 25 September Meeting

Agenda

- 1/ The work programme on fallback options (Sarah Graham)
Sarah produced a paper for discussion, "BA/POCL automation project: Alternative options for ministers' consideration" with covering minute "BA/POCL automation project: Inter-Departmental Working Group", 25th September
- 2/ Legal advice (Robert Ricks)
- 3/ Update on DTI work programme (David Sibbick)
- 4/ Progress in negotiations (Sarah Graham)

Attending

HMT

Adam Sharples (Chair)	Sarah Graham (DSS)	Jeremy Crump (CITU)
Stuart Culverhouse	David Sibbick (DTI)	Geoff Mulgan (No 10)
Joseph Halligan	Isabel Anderson (DTI)	Jonathan Evans (POCL)
Robert Ricks	George McCorkell (BA)	Chris Nicholson (KPMG)

Action

- Sarah Graham, working with BA and POCL, to develop a programme for ACT, for discussion at next meeting (para 6).
- Chris Nicholson to produce a paper, working with POCL and DSS as necessary, on the impact on POCL of shifting to ACT, for discussion at next meeting (para 7).
- KPMG/POCL to provide update on alternative technology platform at the next meeting (para 9).
- Graham Corbett to use his authority as necessary to ensure ICI's cooperation on analysing fallback options (para 12).
- Jeremy Crump to see if there is anything to be taken forward from earlier work on wider government objectives (para 14).

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- Secretariat to produce a list of key dates and deadlines (para 15).
- Robert Rich to seek lawyers' confirmation of the broad procurement position in Option 2 (para 18).
- Robert Rich to focus lawyers attention on the Group's view of the strength of any ICL claim against the public sector parties and seek confirmation (para 20).
- David Sibbick to circulate specification on transparent accounting for POCL (para 27).

Next Meeting: Scheduled for 2pm, Monday 12 October

Discussion

Before the meeting commenced, Chris Nicholson (CN) was asked to provide an update on KPMG's involvement. As well as supporting Graham Corbett, KPMG had been asked to work on fallback options looking particularly at POCL's estimates of their profits, costs and the PO network under the two fallback options; DSS's programme for implementation of ACT; POCL's technological requirements if the project were cancelled; and viability of a solution without the benefit card. KPMG would be meeting the parties.

2. On the timetable, Adam Sharples (AS) suggested that the three strands of work needed to be completed and pulled together by Friday 16th October. This would leave the following week to finalise the Group's advice to Ministers, so that a report can be submitted to Ministers on Friday 23rd October

Item 1 The work programme on fallback options (Sarah Graham)

3. Sarah Graham (SG) introduced her paper. It was agreed that the two main objectives were to allow Ministers to judge whether the fallback options were practical/doable in terms of timescale, etc, and to make the fallback options sufficiently robust to be costed, so that Ministers could gauge the VFM of the different options.

4. The Group looked at the work on the fallback options under four headings:

To develop a programme for working with ACT

5. This would need to look at periodicity, migration and the implications for the banking system. SG noted the practical difficulties of taking the latter part of this forward, without being

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able to talk frankly with the banks given the commercial sensitivities. Although links do exist between government and the banks, it may be worthwhile using consultants, such as KPMG, to help do this.

6. Action: SG to take forward with KPMG and POCL and circulate papers for discussion at the next meeting.

The impact on POCL of a shift to ACT

7. Action: KPMG to take forward, working with POCL and DSS, to produce a paper for discussion at the next meeting.

Alternative technology platform

8. This strand involves estimating the cost of providing a platform for banking services, etc, if Horizon is scrapped under Option 3. POCL have done this work and KPMG are engaged to assess this work, reporting back to the Group.

9. Action: KPMG/POCL to provide a progress update at the next meeting.

Viability of Option 2, using Horizon without a Benefit Card

10. This concerns the technical and commercial viability of Option 2, asking the question "If there is no BPC, would Horizon be a sensible solution for POCL in technical and commercial terms?" This issue is being addressed by KPMG. George McCorkell (GM) noted that this work should take account of where the Post Office itself wanted to go.

11 Jonathan Evans (JE) explained that if the BPC was cancelled, POCL would wish to review its options and requirements and retender. AS suggested that if the Horizon system was worth pursuing, it would be surprising if taking out one component would require starting again from scratch. Restarting would delay by several years, so to continue without the BPC must be a serious contender for a fallback option. DS noted that even though Option 3 may be better for POCL, ministers may prefer Option 2. AS concluded that it was as important to assess the viability of Option 2 thoroughly, with KPMG.

12. SG noted ICL's concern that information provided in negotiations should not be used to develop fall back options. Information required for Option 2 might draw on information included by ICL on Option 1, some of which might be commercially sensitive and was subject to some

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special arrangements being drawn-up in conjunction with the "standstill" agreements. ICL had stated that they did not want information given in the negotiations in Option 1 feeding into the Group's work on fallback options without their knowledge. AS noted that Graham Corbett's terms of reference, which ICL agreed, make clear that such information must be made available. It was agreed that if there is any difficulty in obtaining information from ICL, Graham Corbett should tell ICL they have a requirement to cooperate, pointing to the clause in the terms of reference

13 David Sibbick (DS) raised the question of discussions with ICL on carrying on the project under Option 2. AS noted that the negotiations concern only Option 1. A judgement on the commercial basis for Option 2 would have to be made based on the work of KPMG with POCL and ICL.

14 AS asked if these headings encompassed everyone's understanding of what needed to be done. Jeremy Crump (JC) expressed concern that the Government's wider objectives, as specified on page six of SG's paper, did not readily fit under the four headings. AS asked what more could be done on this. JC agreed that CITI would review the work done so far and see what could be added.

15 SG asked the Group to produce a timetable of key dates and deadlines. The Secretariat will *actually about the damage done to Govt's budget Govt objective, if the PC collapsed.*

Item 2. Legal advice (Robert Ricks)

16 Robert Ricks (RR) reported that Graham Corbett had asked for legal advice, for which Eleri Wones, from the Treasury legal team, had been appointed.

17 A meeting of lawyers was planned for Tuesday 29th to discuss EU procurement law. Lord Falconer, at a meeting on Monday 21st, made clear that he does not want procurement law to drive the negotiations. SG expressed dissatisfaction that that meeting proceeded without the presence of any lawyers who had knowledge of the contracts and with responsibility to the contracts sponsors. SG asked that their presence/consultation should be ensured in future. AS apologised for this, noting that the meeting had been called at short notice by Lord Falconer's office.

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18. JC also expressed concern over whether Option 2 would breach existing contracts. Legal advice to date was that it would not. RR would have to put this to the lawyers meeting for information.
19. There followed a detailed discussion of whether more could be done to establish a common legal view on the strength of the public sector parties' case against ICL over alleged breach of contract. SG noted that Peter Mandelson had referred to DTI legal advice that the public sector case was not strong. She queried the legal advice that supported this view since DSS/BA were not aware of any. POCL reported that they had sought advice from Slaughter and May, who confirmed that the public sector has a strong case. SG reminded the Group of the two independent assessments (covering pre and post Feb 1997) commissioned by the joint programme lawyer, with the specific purpose of identifying if there was any substantive weaknesses in the BA/POCL case: both assessments strongly supported the strength of the Government's position. DS confirmed that the public sector position is strong, that delay was caused by ICL. However, he noted that DTI lawyers have suggested that there was a risk that ICL could demonstrate that it was the public sector that had delayed. He referred to a letter from the PO solicitor to the DTI that noted the public sector has had no access to ICL's documentation and that it was premature to rule out the possibility of a successful claim and therefore it was not possible to substantiate claims that ICL was at fault. GM also added that if ICL have a claim, then by the very nature of the contracts, we must have such documentation.
20. AS summarised the proceeding discussion, suggesting that the cross Government view supported the joint programme lawyers advice, that the Government has a strong case; that if there is litigation, it would be messy; and the outcome would necessarily be uncertain. These points were agreed. The Group sought clarification that this understanding is correct. GM also asked for anybody who has documentation that questions the strength of the Government position to bring it to the Group's attention. |||
21. The Group were alerted to a letter from ICL Pathway to Ross Newby that appeared to concede that any claims prior to the February 97 re-plan had in effect been settled by that re-plan.
22. The discussion then focused on whether BA and POCL could have a common legal team representing the joint public sector interest (as suggested by SG), or whether they should be separately represented (as suggested by RR). SG said that there was no question of DSS/BA suing POCL and POCL should accept that the reverse is equally true. JE noted that POCL needed to

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be clear where it stood and would seek advice separately on this issue. AS concluded that POCL needed to seek their own legal advice but BA and POCL needed to work together to prepare against ICL and it was inconceivable that Ministers would sanction legal action by POCL against BA.

Item 3 Update on DTI work programme

23. JE reported on what the Post Office was doing to satisfy the DTI's requirements on project management, wider commercial objectives, partnerships and extending banking services. On the first two points, the PO were putting together a paper on what POCL had done since April. He explained that since then all milestones had been met.
24. JE queried the critical comments about POCL's management of the project (recorded in the minutes of the previous meeting). AS explained that this reflected the report of the Independent Panel and a judgement that not enough progress had been made in realising the potential of Horizon to provide wider services. Ministers needed to be convinced that the deficiencies evident in July had been remedied.
25. DS explained that Peter Mandelson had seen the PO's Chief Executive and explained what Ministers were looking for from the PO within the next month.
26. DS had talked to KPMG about exploring partnership options with PO and McKinsey.
27. Action: DS agreed to draw up and circulate to the Group a specification for the work required on transparent accounting for the costs and benefits of the PO network.

Item 4 Progress in negotiations (Sarah Graham)

28. SG noted that a joined up BA/POCL approach had been established. Graham Corbett had spent time with the parties, both individually and together. All parties had convened that morning to discuss process; and in particular to establish with KPMG the work to be done to provide a "baseline" on which valuing options to underpin a potential commercial deal could be modelled. At the meeting arranged for Wednesday 30th, each party was due to present their objectives from the negotiations. DSS and BA were happy with the way discussions were proceeding.

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29. The CST has asked for a weekly meeting with Graham for a progress report

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BA/POCL Automation Project Review - Timetable

03/10/98

04/10/98

05/10/98

06/10/98

07/10/98

08/10/98

09/10/98 DSS/KPMG/CITU to circulate papers for WG meeting

10/10/98

11/10/98

12/10/98 Working group meeting - 2pm

13/10/98

14/10/98 HMT to circulate outline of Working Group Report

15/10/98

16/10/98 Deadline for reports on each strand of work and negotiations (GC/DSS/DTI/KPMG)

17/10/98

18/10/98

19/10/98 Working group meeting - 10 am

20/10/98 HMT to circulate draft of Working Group Report

21/10/98

22/10/98 Comments on draft report - meeting if necessary

23/10/98 HMT to finalise Working Group Report

24/10/98

25/10/98

26/10/98

27/10/98

28/10/98

29/10/98

30/10/98

31/10/98

01/11/98