

IN STRICTEST CONFIDENCE

To: John Roberts

Copy: Stuart Sweetman

From: Jonathan Evans

Date: 7 December 1998

"Beyond Horizon" presentation to Ministers - 8 December

I attach some briefing for tomorrow's meeting.

The meeting is at 2.30pm at the Treasury. The expected Ministerial attendance is Stephen Byers, Alistair Darling, Peter Mandelson and Ian McCartney. I believe that Jack Cunningham and Lord Falconer have been invited, but are not expected to attend.

I am planning to get together with my co-presenters for half an hour beforehand, so I will probably meet you in the conference room just before 2.30pm.

I also attach a copy of the briefing - hurriedly put together - for David Sibbick on Friday night to brief Peter Mandelson.

Jonathan Evans

~~Copied
Sachin
Keith
Kevin.~~

PR/MC/KH.

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"BEYOND HORIZON" PRESENTATION - 8 DECEMBER

purpose: to give Ministers a better understanding of the issues and options facing the Benefits Agency and Post Office Counters Ltd in the event of the cancellation of Horizon.

(NB: Stephen Byers, who has orchestrated the meeting, has said that he is keen for the meeting not to dwell on reasons for or against Horizon, but to concentrate on what would happen the issues facing us with Horizon definitely and irrevocably cancelled.)

presentation: will be conducted by members of the HMT-led Horizon Working Group:

Sarah Mullen	HMT (introductions)
Sarah Graham	DSS
George McCorkell	BA
Jonathan Evans	POCL
David Sibbick	DTI

the latest version of the presentation is attached, but is subject to some detailed change from DSS/BA.

POCL purpose:

- to show by our approach and manner that we are looking constructively for a solution to the problem created by Horizon's termination (against the background that in some quarters we have been painted as taking a dinosaur-like stance of presenting the only alternative to Horizon as being Armageddon)
- notwithstanding the above, to point out the risks, uncertainties and unpredictability of trying to find a solution which avoids one or all of: substantial network reduction, POCL loss-making or subsidised, ACT introduction delayed
- to highlight, not in an overt way but by implication, that continuing with Horizon carries much less risk than other options.

Outline POCL argument:

- if Horizon falls, POCL would still want to automate its network - the only hope it has of retaining clients and gaining new business into the future. A full replacement system could take (under reasonable assumptions validated by KPMG) until 2004 to be rolled-out
- but BA wants to start ramping up ACT from 2000
- there is therefore a gap of 4 years during which POCL would be losing customers without the technical ability to keep them

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- how could we respond?
 - try to speed up automation timetable - unlikely and certainly cannot be relied upon
 - introduce a simple interim solution in advance of full automation sufficient to enable customers to withdraw cash from bank accounts - this may well be possible technically (although there would be some risks to the ultimate full solution from having had to roll out the interim one as well). The main risk is that POCL would need to pay the banks to operate the service rather than be paid. Is this solution would not help restore the £400million income we would be losing from BA
 - try with ICL to resurrect a "son of Horizon" solution out of the ashes of Horizon without the Benefit Payment Card (the so-called option 2) - while this option is not only extremely unlikely to be possible if ICL cannot agree terms for Horizon, POCL has already raised strong doubts about its validity. Horizon was built around the Benefit Payment Card and to remove it would remove its underlying logic; we would be dealing with a wounded supplier; we should re-tender for an automation solution - ICL could be a tenderer and if their previous expertise gave them an advantage, this would reflect in their bid
 - persuade BA to delay ACT until we had the ability to retain benefit customers: in the Corbett discussions on Horizon, BA have agreed to delay ACT until 2006-2008. We would be looking for them to move to this position if Horizon fell
- none of these responses would provide the perfect solution. All would involve some compromise between BA's and our objectives - involving such features as a continuing "floor payment" by BA to POCL; or HMG acceptance of network reduction or of a loss-making/subsidised POCL
- however POCL would want to work closely with BA in the aftermath of Horizon's cancellation to work up the best solution to put to Ministers.
- other issues: maintaining subpostmaster confidence would be crucially important in order not to put the network at risk. Subpostmasters are very nervous about the Horizon outcome, and would react badly to its termination. They would require some clear and explicit assurances in order to quell their concerns. Similarly with client confidence - we would lose much credibility with other clients who are waiting impatiently for our automation to help unlock efficiencies in their processes (eg DNS, DVLA). Further delay will put more business at further risk

After the formal presentation, there will be a discussion - which could easily expand into a wider conversation. Additional points to put across could be:

- we want Horizon, but not at any price, and ICL must change tack from their stance to date

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- we get the impression that ICL have built up a methodical and detailed portfolio of accusations to level at the public sector (especially BA) in the event of litigation. Thus any litigation option is very risky (NB meeting with Treasury counsel to try to take forward the preferred litigation route is tomorrow at noon)
- we are ready if necessary to make network reduction - but Ministers should not underestimate the strength of negative feeling this would generate amongst customers
- we are ready to work closely with DSS/BA to find a solution - there business is and will be of great importance to us.

DRAFT PRESENTATION

beyond Horizon

the issues and options facing
the Benefits Agency and Post Office Counters Ltd
if the Horizon programme is cancelled

a presentation to Ministers

3 December 1996

HMT

a citizens' benefit and banking service 2005

- every post office automated and offering banking services as well as the current range of services
- people able to collect their benefits in cash from post offices/shops/banks and a number of other outlets - whichever is most convenient
- 99% of the population with their own bank account, with access to the benefits that can bring, for example direct debit payments; and will have the opportunity to take up an offer of a Single Personal Account with Government
- these services achieved by active partnership between banks/private sector, the Post Office and Government, and the people

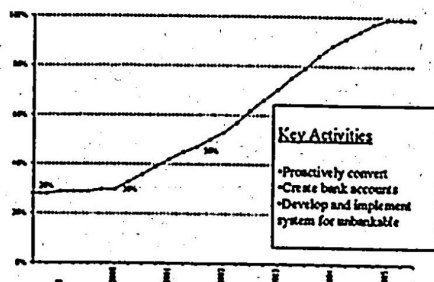
Sarah Graham

the "prize" for Government

- an automated post office network able to match Government's ambitions for it; and to support longer-term commercial opportunities for the Post Office
- simple, safe - and modern - way of delivering the billions of taxpayers' money paid out each year
- active support for the wider Government agenda: "Modernising Government", welfare reform and combating financial exclusion

Sarah Graham

Phase 3 - Complete Conversion
Oct 2001 - Dec 2004



George McCorkell
(Subject to change)

what are the issues for POCL?

crucial to automate the network, while

- maintaining customer footfall - 19 million benefit customers use post offices - and
- maintaining the confidence of subpostmasters and clients

in order to manage network in a controlled way, and retain business stability without subsidy

Jonathan Evans

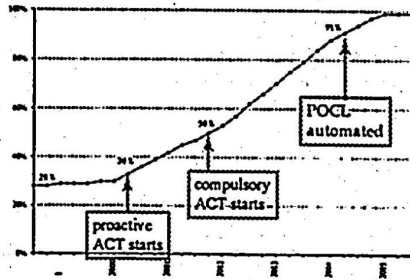
new POCL automation

	1999	2000	2001	2002	2003	2004	2005
Establish in quality and							
Transparency and							
Development of first release							
First funding							
Rollout							

SOURCE:
10-07 report
by KPMG

Jonathan Evans

new automation - fit with ACT



Tullman Evans

can we bridge the gap?

- speed up full automation - *unlikely and risky*
- introduce interim banking technology - *technically possible, but would POCL make any money?*
- delay ACT - *defers BA's savings*

at present, we do not have a solution free from significant risks

Tullman Evans

what would POCL want to do?

- in the light of Horizon's demise, determine best option for automation
- establish commercial relationships with banks
- work closely with BA on timing of ACT, and the manner of its introduction

direction clear - but precise outcome uncertain

Tullman Evans

the challenge



David Sobel