

09/07 '98 17:40 FAX GRO

CHIEF EXEC PO

2003

THE POST OFFICE

9 July 1998

Tracy Kervin Kell

Mr Frank Field MP
Minister for Welfare Reform
Room 216
Richmond House
79 Whitehall
LONDON
SW1A 2NS

JOHN ROBERTS CBE
Chief Executive

148 Old Street
LONDON
EC1V 9HQ

Telephone GRO
Fax GRO

Dear Frank,

I enclose a letter I have sent today to Ian McCartney setting out our views on the best way forward with the Horizon project.

If you would find it helpful, I would welcome another discussion with you to expand on any of these points further.

Yours sincerely

GRO

JOHN ROBERTS CBE

09/07 '98 17:39 FAX

GRO

CHIEF EXEC PO

001

THE POST OFFICE

9 July 1998

Mr Ian McCartney MP
Minister of State
Department of Trade & Industry
1 Victoria Street
LONDON
SW1H 9ET

CHIEF EXECUTIVE
148 Old Street
LONDON
EC1V 9HQ

Telephone GRO
Fax GRO

Dear Sam,

I am aware that final decisions on Horizon are imminent. I felt I should set down our position, based on our current understanding of the issues, including discussion with officials and the outcome of the independent panel set up by the Treasury to investigate the Horizon programme.

Our unequivocal view is that the Horizon programme, and with it the Benefits Payment Card, should proceed. Not only are we firmly convinced that this is in the best interests of the commercial future of The Post Office, but also that it will help fulfil Government's wider ambitions. We are in no doubt that the programme is now capable of being implemented successfully - a conclusion also reached by the expert panel.

We also recognise, as does the panel, that there will need to be some discussion and negotiation among the contracting parties, and a further strengthening of programme management arrangements. The Post Office stands ready to play its full part in this. It will be important to ensure that arrangements are reached which do not leave any of the parties in unsustainable positions. As part of these discussions, we will need to plan seriously for the eventual take-up of other services such as universal banking. For us, this means being allowed enough time to put a new commercial model in place before the Benefits Agency makes its major switches to payment through the banks. Otherwise POCL, with its slender margins, could easily get into a position of unprofitability and instability - and with it rapid network decline or the need for subsidy. This is something the Post Office Board could not countenance. We are pleased that the Treasury panel also recognises the need for a transitional period to achieve a viable way forward.

AJR0907982.DOC

09/07 '98 17:39 FAX

GRO

CHIEF EXEC PO

D002

The panel also identified an option of continuing with Horizon but abandoning the Benefits Payment Card. We see this almost as a contradiction - the key design feature for Horizon has been as a platform to support the card - but more importantly we fail to see how this would be a feasible option. In essence, we fear that it would be impossible to support the costs of the Horizon infrastructure without the assured levels of Benefits Agency payments, and the millions of customers, which the card would bring. Moreover, we see that the payment card would be a popular, reassuring and fraud-free step to more widespread use of banking. While we have some ambitious plans for introducing new business to POCL - which would make use of the ICL system - these would be insufficient to support the costs of Horizon, which we would then be bearing alone. All these factors make us conclude that The Post Office could not support this option. If DSS wish to abort the card, it would not necessarily follow that we would wish, or indeed be able, to continue our contracts with ICL.

I fully recognise the complexity of the decision being faced. There are a number of important factors which need to be balanced - long-term value for money for the taxpayer, flexibility and choice for the customer, the reasonable aspirations of the contracting parties and - an aim shared I believe universally - the avoidance of uncontrollable disruptions to the Post Office network. Continuing with Horizon and the card, and in parallel developing new services, offers us all the best chance of achieving that result - and will help create the modern Post Office enterprise for the next century.

I am copying this letter to the Minister for Welfare Reform.

Yours sincerely

GRO

JOHN ROBERTS CBE

AIR0907982.DOC