RWW/1/05

RESTRICTED - POLICY AND COMMERCIAL

To:

DAVID SIBBICK
DIRECTOR POSTS

From:

CHRISTOPHER WOOLARD
Private Secretary to the Secretary of State
Room GRO Victoria St
GRO

28 April 1999

ci: PS/Mr McCartney
Sir Michael Scholar
Mr Macdonald
Mr Baker CGBPS
Mrs Britton PORT
Mr Corry SpAdv
Ms Moore SpAdv

1. Mr Foggo 4/5.
2. Mr Fawell 4-5
3. Mr Churchyard / file - contents

BA/POCL AUTOMATION PROJECT: HORIZON: MEETING WITH DR NEVILLE BAIN AND JOHN ROBERTS ON WEDNESDAY 28 APRIL 1999.

You were present along with Judy Britton, Dan Corry and I when Dr Bain and Mr Roberts met the Secretary of State and Mr McCartney. Before the meeting the Secretary of State had discussed handling tactics with you based on your briefing note of 27 April. On the present figures, the Secretary of State considered the problem was not so much the cost as the profile of the costs. If some way could be found of smoothing the costs, then the problem might be solved. He also believed that we should try and accommodate the 36 hours' notice requested in Bain's letter of 27 April.

2. The Secretary of State opened the meeting with Bain and Roberts by detailing the current situation and the 10 May deadline. He was able to assure Bain that the £8m funding for ICL's continuing costs (although channelled via POCL) would be met by HMT, although he advised them not to pay until they had this in writing from HMT. He asked them to look at the profiling of option B1 to see if it could be "smoothed" via recycling BA savings, help from ICL, perhaps more PO borrowing agreed by HMT or a reduction in the EFL. There was a strong case that the £180m "termination cost" should be paid by HMT.

3. Dr Bain said he was happy to pursue options. In particular he wondered if it would be helpful to look at this in the wider context of the White Paper. Retaining the £1 monopoly until 2003 would generate another £100m, whilst not removing Gilts would generate a further £107m in interest. The nightmare scenario for the Post Office would be to be "salamied". Bain stated once again the case for option A. He stressed

BEIS0000358

that they would pursue option B1, but could not ask the board to take on additional risk without additional income; it had to be commercial. The Secretary of State noted that there was a chance to put in place something better than the bpc.

4. Mr Roberts stressed that all the Post Office might be able to offer was "bits and pieces" by comparison to the overall costs, and that his numbers did not include £200m plus of risk. Given ICL's track record he was concerned about the latter. You noted that much of the risk was being removed with the exit of BA and the bespoke elements of the bpc. Dr Bain said that in fairness, ICL had met all their delivery targets since renegotiation. Mr Roberts acknowledged the need to have something in place of the context of the White Paper if Horizon was lost.

5. The Secretary of State said it was his intention to publish the White Paper during the "inter-purdah period" before 20 May. In his view the White Paper was a vehicle for presenting wider public policy, but he acknowledged that there were issues of concern to the Post Office that he would have to deal with in parallel even though they would not appear in the White Paper. There would be no surprises for the Post Office. He wanted to talk again with them by the middle of next week.

6. What the Secretary of State wanted was a paper to put to his fellow Ministers on Horizon that put DTI and Post Office "on the front foot". He agreed with Mr Roberts that officials should liaise closely.

7. Following the meeting the Secretary of State spoke with you. He would like to see a worked-up proposal that would be acceptable to PO and ICL that would "smooth" the costs involved for the Treasury (with advice on any implications of how that might be done). The Secretary of State would like that revised advice by Friday morning (10am). Happy to discuss.

CHRISTOPHER WOOLARD