

RWW/1/105

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From: DAVID SIBBICK
DIRECTOR POSTS

GRO

151 Buckingham Palace Road

GRO

30 April 1999

30-4.
1. Mr Paul
2. Mr Foggo
3. Mrs Chubb
30/4

BA/POCL AUTOMATION PROJECT: HORIZON: FUNDING.

1. You asked me to pursue with the Post Office a means of bridging the gap in the first 5 years of Option B1 between the project costs and the BA savings which could be available to fund them. This bridging finance to cover the Government underfunding in the early years would then be repaid from Government overfunding in the later years. There need be no net additional cost to the Post Office overall, but the pressure on the Treasury over the next few years would be eased.

2. I spent much of yesterday afternoon with POCL, whose finance team were working with advice from the PO's advisers, Schroders, and their auditors, Ernst and Young. ICL had sent along their own financial advisers, Hambros, to help contribute to a solution.

3. POCL's answer arrived at 8.45pm last night. They are not willing to look at a commercial solution, because of the temporary negative effects on their balance sheet, and simply look to the Government to find the necessary funding throughout the period. Their solution to Treasury difficulties in the early years is DTI launch aid! The relevant paragraph is sidlined on the second page of Tim Brown's to me which I am faxing to your office separately.

4. I have told POCL that their response is disappointing in the extreme, and I will pursue further with Neville Bain/John Roberts today. But time is rapidly running out, and you need to put a paper to your colleagues on Tuesday if you wish to counter the arguments which the Treasury can now be guaranteed to table in favour of

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termination. POCL's evident lack of commitment to Option B1 risks handing the argument to the Treasury on a plate.

5. I spoke late yesterday evening to Richard Christou, ICL's Finance Director who has been leading the negotiations with POCL. He found POCL's position as depressing as we do, and wondered whether it was driven by a tactic to try to force the Government back into Option A, which has always been the PO's preferred way forward, rather than face termination. He stressed that if so it was a mistaken tactic - ICL no longer believe that Option A is deliverable given the past history and the evidence in recent weeks that the "disfunctional relationships" continue and if anything have become more blatant. ICL may write formally recording this position within the next day or two. Richard contrasted POCL's position with that of ICL, who had literally bet the company on this project and had incurred borrowings of £300million and massive financing charges, had stayed with the project despite all the difficulties and delays, and had so far not received a single £1 in revenue.

6. Activity will continue over the weekend, and I will report further on Tuesday.

7. Finally, you should be aware that Treasury officials are now claiming that most of the BA savings are not available to fund Option B1, since they have already been deployed for other purposes. This is because Treasury expenditure plans take credit for the savings that should, but for the delays to the project, already be flowing from Horizon (effectively now Option A). Since however it is the Treasury itself that is most vociferous that Option A is undeliverable, those savings are clearly off the table, and all options start from the same baseline, which is the "do nothing" scenario. Mr McCartney has aptly characterised the Treasury argument as "economic illiteracy".

DAVID SIBBICK