

RWW/11/05

**RESTRICTED - POLICY AND COMMERCIAL**

To:

SECRETARY OF STATE

MR MCCARTNEY } copies

} separate

From:

DAVID SIBBICK

DIRECTOR POSTS

GRO

151 Buckingham Palace Road

**GRO**

9 April 1999

1. Mr Foggo 12/4.

2. Mr. Paul 12-4.

3. Mr. Chubbard 1/11

ci: Sir Michael Scholar

Mr Macdonald

Mr Baker

Mrs Britton

Mr Fraser

Mr Sklaroff

Mr Hosker

Dr Hopkins

Mr Osborne

Mr Brebner

Mr Leese

Mr Whitehead

Ms Anderson

Mr Corry

Ms Moore

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**BA/POCL AUTOMATION PROJECT: HORIZON: UPDATE****Issue**

1. This submission updates you on the latest developments on Horizon, against the background of the Prime Minister's meeting on Monday with Mr Naruto, Chairman of ICL and Vice Chairman of Fujitsu, **and your meeting the following day with the Managing Director of ICL, Keith Todd.** It also covers the letter from the Chairman of Fujitsu to the Prime Minister dated 7 April (Annex A), and the letter dated 6 April from the Chairman of the Post Office to you (Annex B). A copy of my previous submission dated 1 April updating you on progress with Horizon is attached for convenience at Annex C; and a copy of the comprehensive briefing prepared for the Prime Minister's meeting with Mr Naruto is at Annex D.

Annexes  
not  
attached.**Fujitsu's letter of 7 April**

2. The letter of 7 April from the Chairman of Fujitsu advises the Prime Minister that unless option B1 (abandoning the Benefit Payment Card and migrating benefit recipients instead to a smart card based "benefit account" accessible only at Post Offices) is adopted by legally binding agreement by 23 April, Fujitsu will withdraw from the project. It is on 23 April that the Fujitsu Board will meet to sign off the 1998-1999 consolidated Group accounts. Without a legally binding way forward on Horizon, the company auditors will insist on a provision of around £300 million in the ICL accounts - sufficient to make that company insolvent - which will flow through

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into the Fujitsu consolidated accounts. The letter is regarded by No. 10 as background to Monday's meeting, and will not receive a separate reply.

**Neville Bain's letter of 6 April**

3. Neville Bain's letter to you of 6 April makes clear that whilst Option A would be funded by a substantial revenue stream (of around £400 million per year) from the Benefits Agency throughout the contractual period (to 2007), Option B1 carries with it no such funding stream. Until the Post Office Board understands how the Government intends to fund POCL, there is no basis on which they can take a decision on the business case for Option B. It is clear that the minimum that the Board will require is a firm assurance from Government that POCL would be no worse off under Option B than would have been the case under Option A. DTI, Treasury and DSS officials hope to agree shortly a paper on funding options for Ministers to consider before responding to the letter from Neville Bain.

**Progress to date**

4. Although Option A (the benefit payment card) is nominally still on the table, ICL have made it clear that they no longer regard it as a viable way forward. They have privately explained that the constant hurdles BA have thrown in the path of the project - the latest is their refusal to agree to the start of live trials, potentially delaying the project by a further six months, even though POCL believe the results of the tests to be within acceptable limits - have convinced them of the futility of attempting to bring the project to a satisfactory commercial conclusion by this route.

5. POCL and ICL have agreed against the background of the strictly limited remaining time that they will concentrate on a single option, B1. Under this variant, BA would pay benefits via BACS (a key DSS/BA objective) into PO-badged benefit accounts (probably managed by Girobank as a subcontractor to ICL). Whilst intensive commercial negotiations on this option continue over the coming weekend, a joint team of ICL/POCL lawyers will prepare draft heads of agreement. There are, however, a large number of issues still to be decided, not least the question of where fraud risk will lie and whether it can be lessened by the use of pinpads, and the major decisions for Government on funding referred to above. Nevertheless, the hope is that by Monday the Prime Minister will be in a position to tell Mr Naruto that good progress has been made in defining an alternative way forward, and that although much remains to be done, the Government now expects to be in a position to make a final decision before 23 April. This is set out in greater detail in the brief for the Prime Minister at Annex D, which also contains suggested lines to take at the meeting. **These should also serve for your meeting with Keith Todd on Tuesday, though we will submit further advice on Monday when we know the results of the**

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**negotiations over the weekend and of the Prime Minister's meeting with Mr Naruto.**

6. The remaining difficulties should not be underestimated. Present indications are that Option B1 will prove substantially more costly than Option A, and it is far from clear that the Post Office Board will see a sufficiently strong business case for Option B (though the outcome of Ministers' consideration of funding for POCL could be decisive here).

DAVID SIBBICK