

RESTRICTED - POLICY & COMMERCIAL

22/11/05

TO:

PS/PRESIDENT
PS/MR MCCARTNEY

From:

DAVID SIBBICK
DIRECTOR POSTS

BPR GRO

GRO

21 October 1998

cc Mr Scholar
Mr Macdonald
Mr Baker CGBPS
Mr Macintyre CII
Mr Fraser IBB
Mr Wheeler IMT
Mr Sklaroff COM
Mrs Britton PORT
Dr Hopkins CII
Mr Whitehead CGBPS
Ms Anderson CGBPS
Mr Corry SpAdv
Mr Wegg Prosser SpAdv

Ms Chubbard
He

BA/POCL HORIZON PROJECT: UPDATE 21 OCTOBER 1998

There have been several related developments today:

2. First, ICL have written to the Chief Secretary with their substantive response to his letter of 15 October. The letter and its supporting annexes run to 9 pages, but in sum the response **fails to deliver what the Chief Secretary had asked for**, namely a specific offer to help bridge the gap of some £250 million between ICL and the public sector side. Instead, it sets out ICL's view that a satisfactory basis for taking the project forward could be found through some form of joint venture with POCL to exploit fully the commercial potential of the Horizon system. The letter suggests that ICL should take a minority stake in POCL, and further that a third equity holder, with a record of success in the retail distribution of financial services, might also be included.
3. Second, Alastair Macdonald saw Keith Todd and George Hall of ICL at their request this morning. They repeated with some embellishment the burden of their letter to the Chief Secretary, insisting that the POCL business case is ridiculously pessimistic, and that with properly resourced, focused, professional and motivated marketing, the undoubted virtuosity of Horizon could be turned into a money spinner. What ICL needed was the confidence of a structure which integrated them fully into all key aspects - but particularly decision making - of the marketing of Horizon's capabilities. ICL were in urgent discussions with the Post Office at Board level about this.
4. Mr Macdonald noted the points which had been raised (there was some further elaboration of several, particularly on the conduct of the negotiations); and stressed that the position of the public sector side remained as set out in the Chief

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Secretary's recent letters to Keith Todd. He welcomed the discussions between ICL and the Post Office, but counselled against attempts to construct elaborate structures for joint ventures based on equity stakes. These might well not find favour with Ministers, and would consume time better devoted to simpler, practical solutions for working together.

5. Third, in the meantime we received from the Post Office a copy of a proposal for restructuring the contract to give ICL a substantial "up front" payment in order to assist with the project's cash flow problems over the next few months, in return for lower payments later in the life of the project. This proposal **has not been shown or even hinted at to ICL**, and the consensus view thus far has been that it should not be unless and until ICL have shown some willingness to move from their present rigid negotiating position. However, Richard Close, the Post Office Finance Director, and I are to meet Harry Bush and his Treasury team at 9.15 am tomorrow (Thursday) to discuss how the proposal might be funded. If this can be satisfactorily resolved, the time may now be right for previewing it with ICL, making entirely clear that such an offer would be placed on the table **only after ICL had themselves made a significant first move.**

6. I will report further after tomorrow's series of meetings.

DAVID SIBBICK