

RWW/6/01

To:

DAVID SIBBICK
CGBPS

From:

CHRISTOPHER WOOLARD
PS/Secretary of State
for Trade & Industry
Room **GRO**
1 Victoria Street

E-Mail Byers TLO

22 April, 99

ci:

PS/Mr McCartney
PS/Sir Michael Scholar
Mr Macdonald
Mr Baker CGBPS
Mr Macintyre CII
Ms Britton CGBPS
Mr Corry Sp Adv

1. Mr Foggo 4-5.
2. Mr Paul 4-5.
3. Mr Churchyard (file - counter)

MEETING WITH POST OFFICE, 21 APRIL

You were present when John Roberts and Stuart Sweetman of the Post Office met with the Secretary of State and Mr McCartney. Ms Britton, Mr Corry and I were also present.

2 The Secretary of State began the meeting by outlining the current situation and the 23 April deadline. The issues for the Post Office and government were -

- did we want to proceed;
- if so in what format; and
- was termination a serious option.

3 The Secretary of State and Mr Roberts agreed that termination was not an attractive option, and the question was really about finding an acceptable

way forward for all the parties involved.

4 In Mr Roberts' view the most attractive option was A, followed by B1 and then termination. The Post Office wanted option B to work, but not at any price. The main problem was the high (£660m) up front costs, which would need to be borne by the Post Office in the first five years. POCL could not afford that, and nor in light of the White Paper the Post Office want to cross subsidise the business. Sweetman stressed that the Post Office had already built in £800m in option A sustained on the back of "Government Direct" business. He also added that POCL and ICL were 95% of the way there on heads of agreement.

5 Mr Sweetman then ran through the various costs that the Post Office might face. The first was a £180m demand from ICL to cover the cost of abandoning the BPC. This broke down to £50m for abortive software costs, £30m in compensation to suppliers, and £100m in compensation for the loss of income flow to ICL. In the first five years of the contract Mr Sweetman expected to pay out £720m against a recycled cost saving from the Benefits Agency of £55m.

6 Mr Roberts stressed that unlike in option A, the counters business would become loss-making. Overall the Post Office would go from paying a positive EFL to the point where there was no income from the Post Office for HMG. He believed option A was still possible. In particular the Post Office was willing to take over certain DSS functions, for example the card payment system, and become the exclusive route into the contract for ICL. There was some nervousness that the Post Office would be dependent on DSS to provide certain information to fulfil the contract, but that was an area whenever they needed ministerial and not commercial help.

7 Mr McCartney tried to summarise what had been said so far. If we went with option B1 with all the risk on POCL, we would effectively "bankrupt" POCL/the Post Office. If we didn't have agreement and terminated, we would bankrupt ICL. In effect the Secretary of State was being asked to argue with his colleagues for option A. Mr McCartney wondered that given the effort that had gone into option B1, whether presentationally there was any way to draw a link between A and B1. He proposed a two stage policy of option A followed rapidly by option B1. This would have the advantage of giving HMT a way out, in that there would be no further unplanned expense. However it would require the acquiescence of

the Benefits Agency.

8 Mr Sweetman said that the DSS clearly wanted out of option A. The main difficulty was that under option A the Benefits Agency still retained responsibility for the payment from the point of which it was despatched from DSS until the point at which it was received. Under B1 they simply had an instruction into the banking system. Mr Sweetman stressed the need for an automated front end to maintain the wider network. Without it the Post Office was looking at an immediate £350m loss, with an effect on 19m customers, and the loss of up to 8000 Post Offices. He argued that following the Corbett proposals, the Benefits Agency could still move to ACT in 2005. When pressed, Mr Roberts said that the Post Office could guarantee a move to ACT in 2005 and would be prepared to accept the risk whereby a Smartcard was not yet ready.

9 You asked whether that would be enough for ICL. Mr Roberts took the view that if ICL then decided to take "their bat home" that was a decision for them.

10 The Secretary of State concluded that he would speak to colleagues along the lines of the ideas that had been raised at the meeting.

CHRISTOPHER WOOLARD