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Rt Hon Ian McCartney MP
Minister of State



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To Members of the Horizon Working Group;

Stuart Sweetman / Dave Miller POCL
Derek Hodgson / John Baldwin CWU
Terry Deegan / Tony Harris CMA
Colin Baker / John Peberdy NFSP

17 June 1999

HORIZON WORKING GROUP

I am sorry for the delay in circulating the minutes of the Horizon Working Group, held on 8 June, but these are now enclosed.

As arranged, the next meeting is on Tuesday 22 June 10.30 - 11.30 am, at the DTI Conference Centre (the entrance is to the left of the main building entrance), 1 Victoria Street, London. Please could you ask your offices to confirm who will be attending.

Many thanks.

Yours sincerely,

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Geoff Moore
Assistant Private Secretary

dti

Department of Trade and Industry

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NOTE OF A MEETING OF THE HORIZON WORKING GROUP

8 JUNE 1999

DTI, 1 VICTORIA ST, LONDON

Present:

Ian McCartney MP, Minister of State, DTI (Chairman)
Frank Doran MP, Parliamentary Private Secretary to Ian McCartney
Stuart Sweetman, Post Office Counters Ltd (POCL)
Dave Miller, POCL
Derek Hodgson, General Secretary, Communication Workers Union (CWU)
John Baldwin, CWU
Terry Deegan, General Secretary, Communication Managers' Association (CMA)
Tony Harris, CMA
Colin Baker, General Secretary, National Federation of Subpostmasters (NFSP)
John Peberdy, NFSP
David Sibbick, Director, Posts, DTI
Isabel Anderson, Postal Services Directorate, DTI
Geoff Moore (notetaker), DTI, Assistant Private Secretary to Ian McCartney

Main points:

1. Mr McCartney began by acknowledging that negotiations on the Horizon project had been protracted and difficult. He hoped that, following the announcement on 24 May, the Working Group could keep discussions on track for a successful agreement by 16 July. The Group would bring together the various strands and give political accountability. From the Government's viewpoint there clearly needed to be more effective monitoring and oversight of the project.
2. Mr McCartney said it was important for the Working Group to receive full government backing, which required there to be clarity about the work that was to be undertaken. Mr McCartney said the Group members were all stakeholders in the success of the project and would have equal status, although he was in the Chair.
3. Mr McCartney asked whether those present agreed with the proposed agenda for the meeting; that first he and then each party to the Group would outline their views on the draft terms of reference; Mr Sweetman and Mr Miller would then give a short presentation on the latest position on the negotiations with ICL and the Benefits Agency (BA), and that finally, Mr McCartney would seek agreement on the future work programme of the Working Group. The group agreed.
4. Mr McCartney then outlined the terms of reference that he proposed, as circulated the day before;

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In relation to carrying forward the work on the POCL/ICL Horizon project:

- to oversee the negotiations between POCL and ICL which will develop the letter of agreement signed between the parties on 24 May into a Codified Agreement governing the contractual relationship under which the project will be taken forward, together with the consequential arrangements between POCL and the Benefits Agency; and to facilitate solutions to any problems which may arise;
- to oversee, to contribute actively to, and to facilitate solutions where problems arise, the completion of the development phases of the Horizon project, and in particular the smooth and timely roll-out of the system to all offices within the post office network, and the subsequent satisfactory migration of benefit payments from the present paper-based methods to more modern, ACT-based, methods of payment also accessible through post offices; and
- to contribute through ideas, contacts and other practical measures, to maximising the commercial potential of the Horizon infrastructure and the future viability of the post office network as a whole.

5. Mr Sweetman said that he welcomed Mr McCartney's introductory remarks and would not seek to alter the terms of reference.

6. Mr Baker said that he did have a fundamental point to raise. The wording of the second term of reference "methods of payment *also* accessible through post offices" would send the wrong signal to post office staff and subpostmasters. Where was the long-term protection for the network?

7. Mr Hodgson said that although no-one would doubt Mr McCartney's commitment to the network, the Government did not come out of the progress on the project so far in a good light. It was well known that Ministers had sometimes held differing views. The Working Group seemed to be a genuine exercise, but he was concerned that its work might be undermined by the interests of other Departments. He would also like to be clear on whether option B3 precluded the development of the smart card, or whether the work of the Group was in practice bound by constraints that the whole Group may not be aware of.

8. Mr Deegan also paid tribute to the commitment of Mr McCartney and the DTI team and was fully supportive of the Minister's desire to see successful automation. There was clearly a huge gap to plug in terms of supporting the network financially, and some creative ideas were needed. He believed that the creation of the Working Group would help to provide reassurance that there was now a determination to see the project brought to a successful conclusion. There were two issues to be addressed: automation and developing a sufficient volume of business to keep POCL viable. The Working Group could be a valuable platform for encouraging new Government business, especially electronic Government.

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9. Mr McCartney said he would respond to all these points. He emphasised the need to concentrate on what was on the table - option B3, and to achieve a positive outcome on this. The Group was constituted as it was - without, for example, other Government Departments - to keep the Group focused, and the 'grit out of the oyster'. Of course, there may be times when dialogue with other parties, including other departments, the Benefits Agency and of course ICL would be necessary and the Group as a whole could decide who to include in the discussions.

10. Mr McCartney said that there were issues such as the need for agreement across Whitehall on the services that the network would be asked to provide, but the critical role of the Group was to secure success of the automation platform - this was the foundation for building new business relationships.

11. On Mr Baker's point about long-term security for the network, Mr McCartney pointed out that even the benefit payment card would have been a relatively short-term solution, which was never envisaged to have a long-term future given the accelerating trend for new benefit recipients to opt for ACT.

12. Mr Baker accepted Mr McCartney's point that the job now was to secure the success of the platform, but argued that the Post Office should be flagged up in the terms of reference as the preferred first port of call for benefit recipients.

13. Mr McCartney suggested that taking out the word "also" from the last line of the second term of reference would address Mr Baker's concerns. This was agreed and the terms of reference were adopted as at annex A to this note.

14. Mr Sweetman then updated the Group on POCL's discussions with ICL. After signing the letter of intent on 24 May, since 1 June, POCL's and ICL's representatives (Slaughter & May and Hambrose respectively) had been discussing the way forward. The aim of a legal agreement, building on the letter of intent of 24 May, the original 1996 agreements and the (approximately 100) contractual changes made to them in the course of the last few years, was achievable. The nature of the project was now very different - it was not PFI any more (with the responsibilities that entailed for ICL) and so POCL needed to be clear about what it was buying for its £550m. As far as POCL was concerned, the PO Board's meeting on 19 July was the date to aim for. ICL were unlikely to have any difficulty with this three day extension of the deadline.

15. Mr Miller outlined discussions that POCL was having with BA. The issues included (a) the question of guaranteed payments, of which POCL was seeking continuation beyond 2003 when payments transferred to ACT; (b) the price to be paid to POCL by BA for the Order Book Control System - as the benefit payment card was now out of the picture, the price should change; (c) POCL's liability for fraud, which they sought to contain within a figure of not much above £200,000.

16. Mr Baker asked about the £550m that POCL had contracted to pay for the project - where was this coming from? Mr Sweetman said the letter of intent was complex but essentially POCL would pay £68m on their acceptance of the system, then

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four staged payments of £120m (all figures are not inclusive of VAT), with some retentions payable in later years. Of the £550m, £480m would come from the Government's agreement that POCL could liquidate this amount from accumulated reserves and the rest from the PO's budget, somehow. There would be further costs to pay to ICL in the order of £400m to £500m. Mr Baker said the 'somehow' was what worried him. Mr Sweetman replied that that was POCL's strategic challenge, since the current business plan could not support this.

17. Mr Hodgson also challenged where the accumulated reserves were - POCL did not have reserves. Mr Sweetman replied that these would come from Post Office reserves, as agreed with Treasury. Mr Hodgson argued that this meant a loss to the Post Office by losing the interest on the investments. Mr Sibbick confirmed that the Government had agreed that the Post Office could spend £480 million from the £2 billion or so of Post Office accumulated reserves on the project. Mr Hodgson pointed out that there was clearly a sizeable funding gap for the project, but more importantly for the Counters business as a whole, and Mr Sweetman confirmed that this was so. He handed a graph round to the Group members which showed POCL's view of the impact of option B3 on their projected ten year profit.

18. It was then agreed that the Group should focus on its future work. Mr McCartney suggested dates for three future meetings, to be held at 1 Victoria Street. These were subsequently confirmed as being:

- Tuesday 22 June 1999 at 10.30am - 11.30am, at which there would be a report-back by POCL on discussions with ICL and BA, and broad agreement would be sought on the way forward after July;
- Wednesday 7 July 1999 at 3pm - 4pm, at which the likely outcome of the negotiations would be reviewed;
- and 27 July 1999 at 3.30pm - 4.30pm, at which agreement would be sought on the milestones for the continuing Horizon programme.

Thereafter, the aim would be to have monthly meetings. Mr Moore would liaise with all parties to set these meetings up.

19. Notes of this and the other Working Group meetings would be circulated to the participants by Mr Moore.

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ANNEX A

**TERMS OF REFERENCE OF THE DTL POCL, CWU, CMA AND NFSP
HORIZON WORKING GROUP**

Agreed 8 June 1999

In relation to carrying forward the work on the POCL/ICL Horizon project:

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- to contribute through ideas, contacts and other practical measures, to maximising the commercial potential of the Horizon infrastructure and the future viability of the post office network as a whole.