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HORIZON PROJECT: AGREEMENT BETWEEN POCL AND ICL

Issue

1. **The detailed agreement between Post Office Counters Ltd (POCL) and ICL for taking forward the restructured Horizon project was signed by the parties this morning.** POCL does not, however, have in place the consequential back-to-back agreement with the Benefits Agency which the Post Office Board had hitherto insisted should be a pre-condition of signing with ICL.

Recommendation

2. To note.

Background

3. The agreement signed today between POCL and ICL, foreshadowed in the earlier agreement in principle signed between the two parties on 24 May, runs until 2005 and gives detailed (the agreement itself is more than 8 inches thick) and full effect to the decision by Ministers that the Horizon project should go ahead in a

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restructured form without the benefit payment card. It represents the sweeping away of all outstanding issues between the two sides, and POCL now expect the acceptance procedures to be completed satisfactorily by 16 August with national rollout of the system starting the following week.

4. The Post Office Board had previously insisted that POCL should not sign with ICL until agreement was also reached with BA on the consequential changes to the BA/POCL contract. BA and POCL negotiators remained some way apart on a number of issues - acceptance testing, guaranteed minimum payments, and above all the payment rates for operating BA's order book control system (OBCS); and towards the end of last week Ministers intervened to try to find a compromise solution. However the 24 May agreement stipulated that if a full agreement was not signed by 30 July, ICL had the right to withdraw from the project and to collect compensatory payment of £150 million. In the end, and against the background of excellent progress made with ICL and an understanding that Ministers would continue to seek a fair settlement with BA on POCL's behalf, the Board agreed that POCL should sign with ICL.

Comment

5. After a slow and resentful start, POCL have I think surprised themselves at the progress they have been able to make with ICL, both in contractual discussions and in resolving a large number of outstanding technical issues. It is very early days yet, and at risk of accusations of wishful thinking, I nevertheless detect in this early progress perhaps some vindication of Ministers' decision to simplify the contractual relationship by taking the Benefits Agency out of the frame, and to simplify the technical content of the project by removing the benefit payment card.

6. By the same token, however, if POCL are at last beginning to lift themselves out of the depression into which they sank as a result of the decision to allow BA to move to ACT from 2003, it will now be very important to them for Ministers to reach a compromise that at least gives them some modest gains over what is currently on offer in their negotiations with BA. If they see Ministers walking away from them now that the agreement with ICL has been safely delivered, they will see that as a cynical breach of faith and it will be a bitter pill for them. They have a mountain to climb if the hugely ambitious programme for rollout of the system to 40,000 counter positions in nearly 19,000 offices is to be completed on schedule, and if they are to drive forward in a positive and optimistic spirit the search for new business to help plug the £400 million a year hole in their finances that the loss of BA revenue will create. A positive sign from Ministers now stands to produce benefits well beyond its modest cost; a negative sign could not fail to damage the healing process.

DAVID SIBBICK