

RESTRICTED: POLICY AND COMMERCIAL

THE POST OFFICE

6 April 1999

The Rt Hon Stephen Byers MP
Secretary of State for Trade & Industry
1 Victoria Street
LONDON
SW1H 0ET

DR NEVILLE BAIN
Chairman

148 Old Street
LONDON
EC1Y 9HQ

Telephone: GRO
Fax: GRO

Dear Stephen,

HORIZON

You will know the Post Office Board is keeping a very careful eye on how the discussion on Horizon are progressing. There are, of course, serious limitations in monitoring this progress as we do not have for the new options the normal financial information that affects our business. This information either has not yet been identified or remains confidential to HM Treasury. However, I thought I would let you know how we see things following last week's round of discussions.

Under the group led by Steve Robson of Treasury, I know that our people are working very strenuously and at pace with public sector colleagues, their advisors, and ICL to put together a solution that works, is simple and easy for all customers, is adequately future-proofed, and that will be commercially acceptable. Ministers will soon want to compare this, so called, "Option B" with either continuing with the benefit payment card, or terminating.

However, there is a very real issue that could prevent a successful outcome. We are taking forward the customer/technical specification and are in dialogue with ICL to understand the new set of costs and risks towards a new set of contracts. There is a very limited window in which to complete this, and time is very short. ~~However, we have no clear view at all of who will pay the Post Office for the services involved, nor how much, nor for how long, nor how this will be resolved by Government.~~ No business could approve a business case, or take such a fundamental strategic decision properly in these circumstances. We simply do not have the information of expected cashflows to make any commercial judgement on any alternative to Option A.

RESTRICTED: POLICY AND COMMERCIAL

To be clear, under Option A (the benefit payment card route), POCL would have been assured for the duration of the extended contract period of a revenue stream from BA of around £400m a year - from which, in part, to pay ICL's charges - scaling down in the last years. Under Option B (the smartcard/banking route) it already looks clear that ICL's charges will be higher, to us, and a set of new risks could well fall to the Post Office too, yet POCL's income from "running" these new basic accounts and providing cash withdrawal services to beneficiaries (with or without a banking partner) is completely uncertain. From the Post Office viewpoint, this lack of clarity is simply unsustainable. On the other hand, Government, through the DSS, will be making substantial savings from moving to Automated Credit Transfer.

These issues have been raised with Treasury and, of course, we understand that Government cannot make final settlements until all the sums involved have emerged from the ongoing negotiations. But we need to bring this issue to a head rapidly so that POCL would, at least, not be worse off than would be the case under Option A for the timetable agreed during the "Corbett" discussions.

The Post Office Board has at its two past two meetings seriously questioned with our executives the decision to continue incurring costs of Horizon with so much uncertainty. From a corporate governance point of view, this could become unacceptable and the non-executives may well press for termination rather than accepting an option that cannot yet be evaluated financially, and may even disadvantage us.

Given the very pressing deadlines and the compressed timetable, this matter needs to be fixed urgently to enable us to take proper commercial decisions which will stand up to any outside scrutiny. Could you please add your weight to the pressure we are putting on the Treasury to make this happen.

With kind regards
Yours sincerely

GRO

DR NEVILLE C BAIN
Chairman