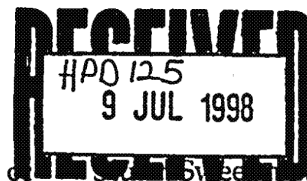


*Treasury Review File*

To Paul Rich

Jonathan Evans  
David Morphey  
Dave Miller*DM*

From Mena Rego

8 July 1998

Subject: TREASURY WORKING GROUP: HORIZON

From the tenor of questions from DTI as well as sight of Hamish Sandison's comments on the draft Working Group Report it is clear that for the Working Group option 2 (ie BA terminating its contract with ICL/Pathway and ceasing the Payment Card - buying off ICL Pathway with compensation and continuation of its contract with POCL including provision of front end banking services) is currently running at least neck to neck with continuation of the programme - if not slightly ahead! This is the option Frank Field has also espoused.

If this is the case then we do need to be very clear in our mind whether we wish to continue with Pathway without a payment card.

The preliminary conclusion of the Deep Pink Team is that it would only be worth POCL continuing with Pathway if:

- 1 The commercial terms for continuation and future partnership working with Pathway are right and any costs of termination/structural change of the solution are met upfront by Government. (NB: cessation of the payment card is likely to mean re design/further delays to the programme).
- 2 Pathway's technical solution is "best fit" for an emerging POCL strategy ie Network Banking, Smartcard services, kiosks etc.

This means that we have to get the message across very clearly to officials/Ministers that we are not a pawn in the game between DSS desire to exit and Treasury/DTI desire to prop up ICL and that if BA cease the payment Card we reserve our right to make our own decision on continuation/extension of the contract or termination and this would depend on our satisfaction on the 2 points above.

As you know I am concerned that DTI continue to maintain Chinese walls between us and the Working Group ie asking for information/clearing numbers but not really indicating the thrust of the Working Group's

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deliberations. Unless Sibbick is more forthcoming with Jonathan, we need to find out what is going on from other sources ie Stuart to Harry Bush?

If we cannot get in to see Ministers ie Field and/or McCartney then we need to put our position formally in writing so that it does not get overlooked or watered down by DTI/Working Group.

I had a conversation with Liam Foley yesterday (he rang). He expressed concern that we were not getting together more on briefing DTI/Treasury etc - I fudged about needing to be seen to be playing it straight etc but challenged him on

- Pathway's continuing references to subsidy - implications for Competition Law etc
- The outrageous nature of Pathway's incentives paper ie hidden price rises of £250m or more
- The need for POCL not just DTI/Treasury to be satisfied that Pathway could provide a suitable Banking solution. He was adamant that they could and said he would be happy to set something up for us to pursue this point with Pathway Do you want to take up this offer?

I know you were holding various meeting with "experts" on our requirements in terms of a Banking solution. Are we any further on this? Will it be part of the 60-90 days McKinsey programme streams? This is a key piece of information in the decision making process whether POCL should continue with Horizon on its own and decisions may be needed in the next few weeks, earlier than the 90 days for the strategy streams.

Can we discuss this afternoon please?

Mena