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RWW/6/01.

To:

DAVID SIBBICK
CGBPS

ci: PS/Mr McCartney
PS/Sir M Scholar
Mr Macdonald
Mr Baker CGBPS
Ms Britton CGBPS
SpAds

From:

CHRISTOPHER WOOLARD
Private Secretary to the Secretary of State
GRO 1 Victoria Street

GRO

12 May 1999

1. Mr Dault
2. Ms Foggs 1215.
3. Mr Churchyard / file (notes)

HORIZON: MEETINGS WITH ICL AND THE POST OFFICE - 12 MAY 1999

You and I were present when the Secretary of State met ICL and the Post Office. Mr Corry also joined us for the meeting with the Post Office.

ICL

2. Keith Todd, George Hall and Richard Christou called to see the Secretary of State at 10 am. Todd said he was keen to understand what lay behind the letter issued by HMT at midnight.

3. The Secretary of State said the Government had three aims:

- to achieve automation of the PO network, in a way that commercially and socially the PO could sign-up to. Automation should have the flexibility to cope with the future
- to find a way of doing that which was commercially acceptable to ICL
- and in a way that the public purse could afford it.

Alongside these issues we were also conscious of the potential for damage to PFI and inward investment.

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4. Continuing, he said that a decision had been taken at the highest levels of Government that B1 was not affordable at the moment. There was the need to avoid a vacuum. There was now an option on the table in which ICL were still involved, that offered automation to the PO and in parallel with which there could be discussions about the functions available on the future platform. The Government's aim was to give ICL something that they could go back to Fujitsu and say "we haven't got Horizon, nor agreement to the smartcard, but we have got something that might be commercially advantageous".

5. Todd asked if work on the magnetic stripe card should stop tomorrow. The Secretary of State said that that was a matter for negotiation. It might not be part of any deal. You commented that it was your personal view that there would be limited value in continuing to develop it. Todd then asked if the Post Office wanted option B3. The Secretary of State replied that the PO had of course wanted B1. However, he would be seeing them later and he believed that they would think this was better than nothing.

6. Todd asked why he should draw any comfort from the 4 month negotiating period mentioned in the letter when it had been impossible to get anywhere in 18 months. The Secretary of State said the important difference now was that we had been able to scope with ICL and within Whitehall what was possible and what the financial envelope was.

7. Todd said that personally he disagreed with the decision, but customers must state what they wanted and now had done so to a degree. The Secretary of State said it was important that there was an acknowledgement in the letter of the merits of B1. There was still a lot to play for.

8. Todd said the immediate problem was that they had to file the ICL Pathway accounts today and these would contain a provision. Fujitsu had to conclude by Friday where the hit would fall in their group accounts. He appreciated the time and effort the Secretary of State had expended on their behalf, but he did not know how it would go with Fujitsu.

9. The Secretary of State stressed that although he had personally favoured B1, here was an option to negotiate what happened to the PO network, option A costs and how the network might be used to take forward Modern Government. The time here could help.

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10. Todd said the letter was silent on redundant costs of option A. He could see no reason why the PO would negotiate a satisfactory settlement. The Secretary of State said this would have to be a matter for negotiation more broadly. But here was a way forward that kept ICL, PO and HMG on board. The alternative would be termination, armies of lawyers and a PR disaster that no one wanted.

Post Office

11. Neville Bain and John Roberts called to see the Secretary of State at 12.15. The Secretary of State once again ran through the present position, the government's aims, and that B1 was not affordable. Termination would be a bloody affair. He needed a view from the Post Office.

12. Bain said he had been unable to update the board on what B1 really meant, let alone B3 or a variant of it. Their early sight of B3 had led him to conclude that it was ill conceived and commercially not sensible. In order to give an indication, they would need to see something on paper. Roberts said that they would need to sit down and thrash this out with Treasury officials. You commented that it might only be possible to come up with some numbers at this stage.

13. Bain responded angrily and gave a frank view of the value of Treasury numbers. Throughout this exercise he had felt the victim of a conspiracy between HMT and KPMG. Under questioning from you, Roberts admitted that the numbers for B1 had been "harder". The key issue for Post Office was the timing of the move to ACT. The Secretary of State said if that was the case, PO should go on the front foot and look at dates like 2003.

14. Roberts asked if there was a specific proposal that ministers had agreed to. If so, they could start putting numbers to it. The Secretary of State said a specific option had not been agreed. What was clear was that there would be a platform. There was something to keep ICL in. The negotiating period could be used to salvage the better points of B1. However, sitting here now, he couldn't tell PO what the outcome would be in 3-4 months time. There was still the risk that Fujitsu/ICL would walk away.

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15. Bain asked what happened to the expenditure to date. The Secretary of State said that some of that would be picked up by the Treasury. It was a matter for negotiation. Bain said there was a serious issue for the Post Office of what value remained in the system under B3. The PO had to file its accounts in June and they needed to indicate if there were and post balance sheet items. The Secretary of State said that if PO went for B3, at least expenditure on back room systems wouldn't be wasted. Roberts agreed that the PO would try and create a solution based around B3.

16. Bain commented that there was an obvious interface with the White Paper. The Secretary of State said we could use wording like "we have a commitment to a platform and further discussions to see how we can take advantage of the Modern Government agenda". Issues of cost would not need to be in the White Paper. Bain said he understood, but if there were additional financing requirements, there could be huge problems in terms of the strategic plan. Roberts said there was already a danger that the PO board wanted to pull the plug on the £2m per week development costs.

17. Finally, there was a general discussion on handling. Bain said he would be positive at the sub-postmasters' conference this weekend. All agreed we should try and avoid the danger of the White Paper being swamped by horizon if things went wrong. If it did, the PO would take the line that the project had been 3 years overdue, and it was now time to move forward etc.

18. Roberts stressed the need to pin this down and then cost the option. The Secretary of State replied that if we could move forward, he was confident that he would get some sort of assurance on ACT in 2003.

CHRISTOPHER WOOLARD