Received · Sunday 23/5

Dr Neville Bain Esq.,
Chairman
The Post Office
148 Old Street
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Dear Dr Bain

HORIZON

As you are aware, there has been a long and detailed examination of this project. My Ministerial colleagues and I consider that the right way forward is to reconfigure the project without the benefit payment card rather than to terminate it. The attached documents set out the core elements of such a reconfigured project.

You will also be aware that Fujitsu have made clear that they are only prepared to hold open the offer in these documents until midnight today, Sunday 23 May 1999. The offer would involve them taking a significant provision in their Accounts which will be published on 25 May. If the offer is not accepted today, their provision will be larger and they have said that, in these circumstances, they would only be prepared to reconfigure the project in this way on the basis of a considerably higher price than that currently on offer.

My colleagues and I believe it is desirable that the Post Office signs the deal on offer today. It offers early automation of post offices and a platform from which to carry forward Post Office Counters(POCL) strategy of network banking and modern government services.

In your letter of 18 May you raised certain issues about proceeding in this way.

First, the timing of the move by the benefits Agency to compulsory ACT. Such a move offers substantial efficiency savings to the Benefits Agency and the impact of delay is very costly. Despite this I have agreed with my colleagues that, if the Post Office were to sign the deal on offer today, the move would not start until 2003 and

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would not be completed until 2005. Prior to 2005, there would be no change in the present arrangements under which benefit recipients can freely choose the payments method which best suits their needs unless a change has the prior agreement of the Post Office.

Second, funding and income. The cost of the reconfigured project is expected to have a significant impact of the finances of POCL in the next few years. In recognition of this, the Government would be willing to agree that £480 million of the cash investments, including gilts, held by the Post Office should be transferred to POCL on the signing of the Codified Agreement in July. POCL could draw down the £480 million at their discretion to cover their funding and income gap. This money would otherwise pass to the Government together with the rest of the £2 billion plus of these investments in 2002-2003 as announced last December.

No doubt POCL would seek to exploit automation to attract new business and income. The more successful they are in this regard, the longer the £480 million would, of course, last.

Looking beyond the next 5 years, POCL's position will depend of how successfully implements its strategy. The financial implications are not something we can sensibly address today.

Third, the use of the infrastructure for Government services. It is clearly the hope of Ministers that the Post Office will be successful in retaining and winning business on merit. We firmly believe that competition for this business should be on the basis of a level playing field between all potential suppliers. We do not believe that it is in the interests of delivering efficient and effective services to customers that competition should be biased either in favour or against a particular supplier. The Post Office should do well in such environment in view of its unrivalled national network and the public trust which it enjoys.

Against this background I hope that your Board will be willing to sign the enclosed letter and schedules today.

Yours sincerely,

GRO

for Stephen Byers

(Approved by the Secretary of State and signed in his absence)