ORIGINS OF A DISASTER

The Role Of Her Majesty's Government In Shaping Horizon And The Post Office

1998-2000

Version 1, July 2022

Eleanor Shaikh
'ICL’s whole attitude to delivery of the project has been consistently to find reasons not to do what is asked, but to cut corners: this does not bode well for a reassuring view of the future...'

1 Appendix B (document 17) p.284, September 1998
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INTRODUCTION

‘Clearly, the role of our Department, Government and Ministers will be included in the inquiry’\

This research is a living document which will be revised in subsequent versions as more evidence comes to light. It explores the role of the Government in shaping Project Horizon and the Post Office 1998-2000. It considers not only how Government decisions shaped the project’s development but assesses the degree to which Ministers were aware of issues around the system’s data integrity and intermittent instability from the outset.

In the absence of key, undisclosed documents, research began with material already in the public domain; DTI Select Committee reports were an invaluable source of information:

‘The Post Office is one of the UK’s biggest employers, employing around 194,000 people, with an annual turnover of over £6.3 billion. It provides an essential and universal service to every citizen in the land. The last five years have been unusually difficult ones for the Post Office...

It remains in essence a nationalised industry... the Post Office remains under the control of the DTI. Scrutiny of its affairs is therefore one of this Committee’s recurring functions’.²

A number of incisive committee reports followed which attempted to unpick the crisis at the Post Office on the eve of the millennium. Most, if not all, touched upon Project Horizon and its attendant issues as they arose. The National Audit Office, Public Accounts Committee and other bodies also contributed post mortems of the failed Benefits Payment Card element of the project up to May 1999.

It became evident that central Government was fully involved in the genesis of Project Horizon from 1996 and Ministers were informed of its progress and slippage via numerous confidential reports many of which have never, or only recently, been disclosed. But by piecing together information from

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¹ BEIS Minister for Postal Affairs, Paul Scully, House of Commons Deb ‘Post Office Update’ (19 May 2021) c720 <https://www.theyworkforyou.com/debates/?id=2021-05-19d.717.0> accessed 2 December 2021

contemporaneous parliamentary reports and debates, it is possible to trace how Government policy impacted the development of the project. Evidence given by Ministers helps determine the extent of their knowledge of Horizon’s problems during the Benefits Payment Card phase and, in looking at the broader context of Horizon’s origins, time-pressures can be identified which weighed on the programme, necessitating its rollout at the earliest opportunity to avert Post Office’s, and ICL’s, commercial collapse.

Hansard’s many references to the discrete presence of central Government as a shaping force of Horizon’s destiny help to contextualise recently disclosed primary source material which constitutes the second line of research. Dossiers held at the National Archives opened via Freedom of Information offer a second inroad into the secretive layers of Government involvement from the vantage point of the DSS which was a contracted party to the Horizon project up to May 1999. These briefing papers, reports and letters reveal the extent to which multiple Secretaries of State, Ministers and officials from the DSS, DTI, HM Treasury, the Cabinet Office, No. 10 and the Prime Minister were actively involved in defining the path of Project Horizon 1998-1999. They are not available in digital format but Appendices A, B and C comprise extracts from these dossiers and the information they provide is the basis for questions explored in Part 5. When the body of this research was all but complete, a new set of documents was released by the National Archives, this time from Downing Street itself. These dossiers are considered in Part 6 and offer deeper insight into the decisions on Horizon made at the very heart of Government. Excerpts from the Downing Street Dossiers are included as Appendices E-H.

Post Office Board Papers and Minutes from the relevant period are archived at the Postal Museum, also not in digital format; these shed light on Horizon’s genesis from a third angle. These form the basis of the analysis of Horizon’s rollout in Part 8 and extracts are included in Appendix D

This was a complex, fraught, and fast-changing period for the Post Office, years of underinvestment had rendered it operationally and structurally so time-warped that by 1997 the need for modernisation was critical if it was to rise to the challenges of the new century.

There existed deep division among MPs on how best to address these challenges; but beyond the usual party-political banter of blame and defence, there resonated a deep and constant concern over the Government’s management of Project Horizon.

This research attempts to understand the extent to which its blighted beginnings defined the trajectory of the disaster which was to follow.
In the bleak aftermath of a scandal whose far-reaching impacts are still being uncovered, the Government maintains as it has done for many years that Horizon issues are an operational matter of an Arm’s-Length Body. This is not a true reflection of the project’s origins. The Government conceived Project Horizon, it was the project’s joint purchaser and it presided over both the programme and the Post Office at a time which pre-dates the company’s Arm’s-Length status.

Ministers were well-informed of the IT problems which sank Horizon’s sister project, the Benefits Payment Card, just months before the de-coupled version was scheduled for rollout by the Post Office. How closely they monitored its reincarnation in the months that followed is a vital, if unanswered, question.

Under the auspices of a long-awaited Judicial Inquiry, it is crucial to consider what exactly the Government knew of Horizon’s faults when it re-negotiated its contract and committed £480m toward its capital cost in May 1999.

‘The events surrounding the dispute have long been shrouded in darkness, and this Government are determined to bring them into the light’.³

How far back into the darkness this determination reaches remains to be seen.

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With thanks to the anonymous Fujitsu Whistleblower whose 2021 interview for Computer Weekly was the catalyst for this research.

With thanks also to Alan Bates for pointing me in the direction of Dossier JB 3/20 at the National Archives.
TERMS and ABBREVIATIONS

Horizon

- An excerpt from legal advice of 29 July 1998 from Hamish Sandison, joint programme legal advisor at Bird and Bird clarified:

  ‘The Horizon project actually consists of three “Related Agreements”
  - the Authorities Agreement - between the DSS, POCL and ICL Pathway
  - the DSS Agreement - between the DSS and ICL Pathway; and
  - the POCL Agreement - between POCL and ICL Pathway’ ¹

- Numerous contemporary sources use the name Horizon to refer to the project prior to the reconfiguration:

  ‘The BA/POCL automation project (known as “Horizon”) has been under review since the contractor, ICL Pathway, was placed formally in breach of contract after a key contract milestone was missed’ ²

  ‘The sooner the project is up and running, the sooner the taxpayer will benefit from the reduction in fraud which all parties expect to result from Horizon’ ³

- The name Horizon, therefore, is here used to refer to the overall programme from the time of the original contract of 1996, up to and beyond the contractual rewrite of May 1999.

POCL    Post Office Counters Limited
PO      The Post Office
POL     Post Office Limited

Up to 25 March 2001 Post Office Counters Limited (POCL) was a wholly owned subsidiary of The Post Office (PO) and part of The Post Office Group. After the incorporation of Consignia plc the Post

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¹ Appendix B (document 3) p.264
² Appendix B (document 25) p.294
³ Appendix B (document 23) p.291
Office remained the ultimate parent undertaking of POCL by virtue of its 100% interest in Consignia plc4

- Consignia plc was incorporated in January 20015
- On 26 March 2001, and in accordance with the Postal Services Act 2000, The Post Office was transferred to Consignia Holdings plc. POCL became a subsidiary of Consignia plc whilst Consignia Holdings was recognised as the ultimate parent undertaking6

- In October 2001 the name of POCL was changed to Post Office Limited7
- In November 2002 Consignia plc changed its name to Royal Mail plc8
- In 2003 the ultimate parent company was re-named Royal Mail Holdings plc with POL being part of the Royal Mail Group9

- Post Office Counters Limited is here referred to as POCL up to October 2001 after which it is referred to as POL
- Its parent undertaking, the Post Office is referred to as PO up to March 2001 after which it is referred to as Consignia

ICL Pathway Ltd

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6 [n.4] p.25


• a subsidiary of ICL, incorporated in 1995 to undertake the PFI contract with POCL and BA. In 2002 it changed its name to Fujitsu Services (Pathway) Limited

ICL PLC

• UK Computer Services company

Fujitsu Ltd

• Japanese company established to rebuild the national infrastructure after the Great Kanto Earthquake of 1923. Fujitsu held a major shareholding in ICL from 1990, becoming a 100% shareholder in 1998

ACT

Automated Credit Transfer

BA

Benefits Agency

BPC

Benefits Payment Card

CMA

Communications Managers’ Association

CWU

Communication Workers Union

CST

Chief Secretary to the Treasury

DETR

Department of Environment, Transport and the Regions

DSS

Department for Social Security

DTI

Department for Trade and Industry

EPOS/Epos/EPOSS/Eposs

Electronic Point of Sale/Electronic Point of Sale System. These acronyms are used in source material interchangeably. Here EPOS is used for consistency unless quoting directly from a document which uses an alternative form.

FOI

Freedom of Information

HMT

Her Majesty’s Treasury

HPO

Horizon Programme Office, based within POCL

IPOC

Independent Publicly-Owned Company
JFSA                      Justice for Subpostmasters Alliance
KPMG                      Klynveld Peat Marwick Goerdeler, audit and advisory provider
MaPEC                      Major Project Executive Committee
NAO                      National Audit Office
NFSP                      National Federation of Sub-Postmasters
NLF                      National Loan Fund
NPV                      Net Present Value
OBCS                      Order Book Control System
PAC                      Public Accounts Committee
PDA                      Programme Delivery Authority
PFI                      Private Finance Initiative
PIU                      Performance and Innovation Unit established in July 1998 within the Cabinet Office to. The PIU reported directly to the Prime Minister and its steering Board included representatives from No. 10, the Cabinet Office and HM Treasury
POB                      Post Office Board
RAB                      Release Authorisation Board
SPM                      Sub-Postmaster or Sub-Postmistress
SoS                      Secretary of State
VFM                      Value For Money
The UK is undergoing the biggest and most radical change in its infrastructure since the nineteenth century. Today our society increasingly derives its wealth from the efficient use of knowledge.

Thus the need is to create an information technology infrastructure which will enable our society to mobilise its intellectual resources and to handle data and process relevant transactions more efficiently...

The delivery of such an information technology would be easy if one were starting from a clean sheet’

Fujitsu CE, Richard Christou¹⁰

PART 1

1996: GENESIS OF A ‘KILLER APPLICATION’

‘the Horizon programme was the wrong decision in the first place’ ¹

The years 1998-2000 mark a chapter in Horizon’s story which the current Government and its forebears would have us overlook. Two decades after its ill-fated genesis, the Department for Business Energy and Industrial Strategy reminds us that Horizon is an operational detail of an Arm’s-Length Body over which it has neither control nor responsibility.

Yet during this defining early period, Horizon was significantly more than an operational issue; it was the foundation stone of the Government’s strategic plan for a modern and sustainable Post Office. It was a state-of-the-art programme of national significance procured by the Government to modernise a vital strand of the nation’s infrastructure, one which was to support ‘processes which are vital to the smooth running of society’.²

As such, the Government of the day was deeply involved in the development of Horizon; Ministers made, and failed to make, fundamental decisions which shaped the project as it was reconfigured from one doomed project into another. Ministers oversaw the development of an IT system which, from its release in 1999, generated irregularities in branch accounts and spawned a scandalous deception which went on to ruin multiple generations of hundreds families.

Horizon’s story began in the early 1990s, though the impulse for its creation was seeded decades earlier. It was Post Office engineers who, drawing on a the company’s heritage of pioneering technical research, collaborated with the UK Government to build computers used for processing military intelligence at Bletchley Park during World War II.³ By the early 1950s, as the Government’s interest in computers expanded from military to civilian application, it began investing in ‘digital

¹ Chief Secretary to the Treasury, Stephen Byers, December 1998, Appendix C (document 3)
computing machines’ to undertake routine administrative tasks across its departments. The ‘mechanisation of large scale clerical operations’ could facilitate the delivery of public services, such as benefits payments, in line with the new responsibilities which Attlee’s Welfare State had placed upon Government. The National Physical Laboratory developed the Automatic Computing Engine ‘one of the largest and most powerful machines in the world’ and throughout the 1950s NPL technology was used by a number of Government departments including the Post Office, the Board of Trade and the Ministry of Pensions.\(^4\) By the 1960s, as the Government realised this laboratory work was best delegated to the emerging computer industry, the centralising and coordinating role of the NPL was consigned to an advisory function. With its demise, the possibility of orchestrated and compatible IT systems across Government was lost for a generation, as a deluge of fragmented and dis-integrated systems engulfed its back offices, reinforcing segregation along departmental lines and hindering, rather than enhancing, the flow of information.

The origins of ICL, meanwhile, lay in a 1968 merger initiated by the Minister of Technology who sought to nurture British enterprise and support a presence in the nascent international computer industry. The company was originally part government owned, it enjoyed an ‘unofficial preferred-supplier status in the public sector’ and received a number of ‘launching aid’ grants to the tune of tens of millions of pounds to assist in lean years.\(^5\) According to one source, during the late 1970s ‘any government department could buy any mainframe computer it liked as long as the box had ICL on it’.\(^6\)

Fast forward to the late 1980s when advances in Information Technology had evolved from the level of mundane ‘automation’ to reach the intoxicating realms of digital communication. IT now had the potential to transcend Government’s archaic departmental boundaries and to support aspirations of ‘joined-up’ delivery of ‘e-Government’ services to all of its citizens – so long as incompatible departmental mindsets could be brought into alignment.


\(^5\) ‘ICL PLC-Company Profile, Information, Business Description, History, Background Information on ICL PLC’ (Reference For Business) <https://www.referenceforbusiness.com/history2/68/ICL-PLC.html> accessed 7 December 2021

\(^6\) [n.4] p.65
Riding this wave, and building on its Next Steps initiative which had prioritised the need for 'overall strategies for investment in IT',

Conservative Ministers embarked on the Horizon programme in 1993. Three months before the Horizon contract was signed between the DSS, Post Office Counters and ICL- Pathway, the Conservative Prime Minister, John Major, announced a new Ministerial group with the following terms of reference:

'To identify and take forward significant cross-departmental initiatives to ensure that developments in information technology are exploited to the full in the national interest'.

In the same year, the newly formed Central Information Technology Unit (CITU) published its Green Paper: ‘Government Direct: Electronic Delivery Of Government Services’ which heralded ‘radical and wide ranging reform’ to be ‘founded on the new possibilities offered by information technology’. Such reform was intended to ‘change fundamentally and for the better the way that government provides services for citizens and businesses. Services will be more accessible, more convenient, easier to use, quicker in response and less costly to the tax payer. And they will be delivered electronically’.

Established in 1995 with a remit to ‘analyse potential ICT-mediated links between the departments and the internet based central portal between government and citizens’ the CITU was based in the Cabinet Office. A letter accompanying the Post Office’s formal response to the CITU’s November 1996 Green Paper from PO MD, Jerry Cope, read:

'We agree with Government that this is a very exciting project, and The Post Office considers itself to be a natural one-stop shop partner in the delivery of government services, both by electronic and conventional means, into the future...The Post Office with its private sector partners, would very

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8 Appendix B (document 25) p.294
11 CITU, 1996/97 p.12, ibid. p.93-5
much welcome the opportunity to work with the CITU on the development of an experiment to help take forward your thinking in this area'.

Already, in its formal response to the CITU, the Post Office was offering the prospect of Horizon as deus-ex-machina, the revolutionary digital platform from which a common venture with its co-investor, the Government, might be launched:

‘The Government has already facilitated the investment under PFI in a major new computer network based on post offices. Government together with Post Office Counters Limited, the PFI supplier (Pathway) and subpostmasters would benefit from exploiting it fully’.13

But the same month, February 1997, also saw the first rewrite of the Post Office/ICL-Pathway/DSS contract and a mutual agreement to postpone Horizon’s delivery due to difficulties encountered by its developers. It was not a propitious birth.

By March 1998 the CITU had a representative on the Horizon Working Group; by the summer it was advising the Montague Expert Panel on ‘the wider Government information systems agenda’ during the Panel’s scrutiny of Horizon’s viability in July 1998.14 And a letter from the Minister of the Cabinet Office, David Clark, to the Minister of Welfare Reform, Frank Field, of 1 July 1998 regarding Horizon’s delays offered: ‘...I have also asked my Central IT Unit to provide your officials with any necessary help and advice in carrying forward our collective thinking on these matters’.15 The disaster which was Horizon did not happen in the splendid isolation of an Arm’s-Length Body, its genesis was woven into the very fabric of decision-making at the heart of two Governments, on the cusp of a world-wide IT revolution.

**The Purpose of Horizon**

The Horizon Programme was initiated in 1993 with the aim of delivering a secure and efficient way of paying benefits using a magnetic strip card, the Benefits Payment Card (BPC). It was also anticipated the BPC would significantly reduce the fraud to which the order book system was

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13 ibid. Post Office Response p.5

14 Appendix A (document 1, p.5) p.230

15 Appendix A (document 14) p.258
particularly vulnerable; for years, criminal activity had seen the Benefits Agency haemorrhaging unsustainable annual losses:

‘The misuse of order books and girocheques was at the start of the project estimated to cost the taxpayer over £150 million in fraud each year, though from 1996 a system of electronic stop notices implemented in the London area started to reduce this. Payment fraud losses are now estimated at some £100 million’.16

This projected saving was the means by which Horizon was to be funded and the wider gains promised by the programme were manifold.

In 1999/2000, post offices made around 760 million payments of 24 different benefits worth £56 billion17 but still, at the end of the twentieth century, these payments were made at post offices using cheque or order books ‘...the most inefficient and insecure means of distributing money known to man’.18

These books were an anachronistic hangover from the ration-book era and little more sophisticated than their forerunner:

‘...most of our payments at the moment are still made through Giro cheque or order book and in physical appearance—your Committee may wish to see this—this is a ration book issued in 1940, the benefit payments are made by this method 60 years later so there is very little between them. They have not changed that much. This one is in colour, this one is in black and white, but apart from that they have not changed at all’.19

Horizon was conceived as a compromise between:

‘... the DSS clear preference to pay benefits via ACT and bank accounts...

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17 ibid. p.5


19 DSS Secretary of State, Alistair Darling, oral evidence session (July 1999) DTI Select Committee Eleventh Report ‘The Horizon Project For The Automated Payment Of Benefits Through Post Offices’ (September 1999) para.139 <https://publications.parliament.uk/pa/cm199899/cmselect/cmtrdind/530/53002.htm> accessed 2 December 2021
- DTI concerns to protect POCL’s interests and the Post Office network...

The funding rationale of the project was built on the achievement of the DSS/BA fraud savings. This in effect means that DSS/BA are paying for the automation of the Post Office’. 20

The programme was also intended to provide the DSS/BA ‘with the means to account fully for their vast programme expenditure, now nearing £100 billion a year’. 21

And, for its part, ‘POCL aims to maintain its income from benefit payments and other transactions with benefit customers, replace old systems, modernise the network and develop new services and commercial opportunities, with Pathway as a partner’. 22

Horizon was drawn up, therefore, as a joint project between two contracting Authorities, the Benefits Agency and the Post Office; the contract was signed by BA, POCL and ICL-Pathway in 1996, it was worth around £1 billion and was to last until 2005.

And those on the Post Office’s frontline, those who were to embody ‘technology with a human face’ 23 and who bore the onus for delivering this transformation were the nation’s willing army of Sub-Postmasters and Sub-Postmistresses:

‘the system needs new blood. In the final analysis, it will stand or fall on the abilities and enthusiasm of sub-postmasters and Counters staff, and their willingness to adapt their business practices to a modernised network’. 24

But the expectation of these men and women to effect the Post Office’s glorious technical revolution was underscored by Post Office’s insidious, contractual transference of risk onto the very people on whom its future depended. Onto the shoulders of those who served their communities as the interface between the Government and its citizens, was placed sole and unlimited liability for the consequences of any defects which might lurk undetected in Horizon’s recesses and corrupt their branch accounts.

20 Appendix C (document 29) p.348
21 Appendix A (document 2, p.9) p.238
22 HMT Montague Report, Appendix A (document 1, p.2)
23 Post Office Response (n.12) p.7
‘...at the end of the day there has to be a human face attached to that automation...’  

25 PO CE, John Roberts, oral evidence session (June 1999) para. 116 (n.19)
Not only conceived to bridge two Government departments, Horizon was born astride the party political divide. The project boasted dual political parentage owing to a development phase which spanned the seismic shift in the political landscape of May 1997. The general election saw the mantle of responsibility for Horizon pass from Conservative Ministers who had launched the project to their ascendant Labour counterparts; whilst one administration was responsible for procuring an ultimately unachievable programme, it was their successors who, on the honeymoon of their landslide election victory, embraced its dazzling ambition. New Labour honoured the project’s objectives and for a further two years carried a torch for its vision and its deliverability. But as the project descended deeper into crisis, this shared political provenance became the caveat through which each party sought to evade accountability; both disowned Horizon’s failure and displaced the political fallout inherent in its reconfiguration onto their adversaries across the political abyss.

‘Why did the new Government that had come in in May 1997 not scrap the scheme straight away? Were they giving the scheme a chance to succeed or what? It was so clear it was going to fail, why did they not just scrap it?...It was a doomed project, was it not?’

New Labour did not immediately abandon the project because it shared and advanced the principles which had set Horizon’s gargantuan wheels in motion. The 1999 White Paper ‘Modernising Government’ outlined a conscious and centrally driven approach to inter-departmental integration under New Labour’s e-Government strategy:

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1 Appendix C (document 8, p.9) p.320

‘...we have incompatible systems and services which are not integrated. We must do more if we are to obtain the real benefits of information age government...’.

Labour Ministers continued with the programme because they too drove a hard strategy of e-Government to swiftly harness the potential of Information Communication Technology for the integration and delivery of Government services. One of the Government’s five commitments in its 1999 White Paper was, according to the PAC, to introduce information age government which would: ‘use new technology to meet the needs of citizens and business, and not trail behind technological developments’.

‘We are developing a corporate IT strategy for government. IT systems have tended to be developed separately by different public service agencies; we need now to encourage them to converge and inter-connect’.

This was the cross-party, aspirational landscape in which Project Horizon was conceived; brainchild of one administration, adopted and nurtured by its successors. Incoming Ministers had inherited in Horizon the perfect vehicle for their vision, or so they believed, until they looked more closely and ‘were extremely concerned by what they discovered’. Readily taking over the reins of the programme from their Conservative counterparts, Labour Ministers nonetheless publicly adopted the rhetoric of the bold new dawn that it promised, in a tenor reminiscent of Wilson’s ‘White Heat of Technology’ speech:

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4 ibid. p.13 (20)

5 ibid. p.46 (7)


7 Matthew Francis ‘Harold Wilson’s ‘White Heat Of Technology’ Speech 50 Years On’ *The Guardian* 19 September 2013 <https://amp.theguardian.com/science/political-science/2013/sep/19/harold-wilson-white-heat-technology-speech> accessed 8 December 2021. The article contains a link to the historic 1963 speech in which the future Prime Minister embraced the prospect of new technologies and paid tribute to those at its vanguard referring to ‘the Post Office engineers, who have pioneered some of the major developments in automation and who, thanks to the combination of our trade union skill and of public ownership in the Post Office, lead the world in these developments’.

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‘The future lies in the Horizon project’.  

The White Paper presented Horizon as a jewel in New Labour’s visionary crown:  

‘The Post Office will be equipped with a modern on-line IT platform to facilitate electronic provision of government services across post office counters’.  

‘We need joined-up government. We need integrated government. And we need to make sure that government services are brought forward using the best and most modern techniques, to match the best of the private sector...including...single contacts which link in to a range of government Departments and especially electronic information-age services’.  

Such was the fanfare of the introduction to ‘Modernising Government’ signed by the Minister of the Cabinet Office, Jack Cunningham. But whilst urging for ‘integrated government’, Cunningham was one of a number of Ministers who, just three months previously, had attended a last ditch inter-Ministerial meeting on the future of Horizon. Spectacularly failing, once again, to reconcile diverging departmental interests and to reach agreement in December 1998, Cunningham and his colleagues had no choice but to refer the decision to the Prime Minister. The reality of Horizon was anything but ‘joined-up’; and the reality of the Post Office was anything but readiness for the information age which its Secretary of State, Peter Mandelson, saw advancing:  

‘It has long been recognised that the postal sector worldwide has entered a new and turbulent age. Competition for business will be fierce. With greater uncertainty will come opportunities for expansion. Change is absolutely necessary if the Post Office is not to fall behind. Globalisation of postal services, the growth of electronic mail and the internet, changing customer demands and greater liberalisation of markets are the key drivers of change worldwide. The main uncertainty is not whether markets will become more competitive, but how far and how fast’.  

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8 [DTI Parliament Under-Secretary of State, MP Alan Johnson, House of Commons Deb ‘Sub-post Offices’ (12 April 2000) c417](https://www.theyworkforyou.com/debates/?id=2000-04-12a.369.2) accessed 2 December 2021  
9 ‘Modernising Government’ (n.3) p.49  
10 ibid. p.5  
11 Appendix C (document 10) p.325  
12 [DTI Secretary of State, Peter Mandelson, House of Commons Deb ‘Post Office’ (7 December 1998) c21](https://www.theyworkforyou.com/debates/?id=1998-12-07a.21.0) accessed 2 December 2021
In 1998, the Prince of Darkness reigned over a Post Office which fumbled in its own darkness of pre-computerisation, its operations ill-equipped to capitalise on the opportunities of this ‘new and turbulent’ world. And much as Blair’s Government appeared to welcome the challenges which faced the network and its pioneering Killer Application, the confident bravura of his Ministers bore little correlation to a project which mirrored the turbulence and uncertainty of the times. For behind closed doors, and known to Ministers, Horizon was a project which floundered hopelessly from the outset; it was a project mired in difficulty, controversy and secrecy and even as Mandelson spoke in December 1998, negotiations between his Government, the Post Office, the DSS and ICL were at crisis point. The project had failed to achieve a key milestone two months previously when the Live Trial, postponed from November 1997, was deferred once again and the entire Horizon programme teetered on the brink of collapse. And there it remained, parked on its cliff edge, for five more months of prevarication before Ministers decided on its radical reconfiguration and contractual re-write in May 1999.

The Post Office itself was equally in need of life-saving resuscitation.

‘There is a need for urgent action to modernise the network’ announced the June 2000 Performance and Innovation Unit Report. By the late 1990s, actions at the Post Office to harness the opportunities of an ever-evolving IT revolution were long overdue and the Prime Minister commissioned his PIU Review to inform Government decisions over its future. Blair’s introduction to the report was unequivocal:

‘That’s why I asked the Performance and Innovation Unit (PIU) to look ahead: to pinpoint the challenges, and to draw up a strategy for the future of Britain’s Post Office network. What this report shows is a network which has become over-reliant on a few lines of business. And a network that has not kept pace with technological change and which is in need of modernisation’.

At the time his party took office, the Post Office was accustomed to looking backwards not forwards; a once-royal provenance tethered its corporate mindset to a bygone age, whilst more recent

14 PIU ‘Counter Revolution: Modernising The Post Office Network’ (June 2000) p.82
15 PM Tony Blair, ibid. p.2
history had seen it stymied by the underinvestment and neglect which had characterised eighteen years of Conservative rule:

‘Postman Pat’s black and white cat would have provided better stewardship of the Post Office over the term of the previous Government’\textsuperscript{16}

During that time an estimated 3,500 branches had closed whilst a Conservative Treasury had plundered Post Office profits on a scale vociferously condemned by their successors:

‘...by 1995, the Treasury had taken £1 billion from the Post Office. Over the next two and a half years, an additional £1 billion was taken from the income received by the Post Office. That money could have been used to invest in the network’ DTI Secretary of State, Stephen Byers, 12 April 2000, House of Commons.\textsuperscript{17}

Moreover, any drive toward the Post Office’s modernisation would need the loyalty of its workers and cooperation of their unions. But the Post Office was an institution disabled by hostile industrial relations, scarred by years of mismanagement:

‘Industrial relations in the Post Office are poor. An unacceptably high proportion of days lost through industrial action in the UK is attributable to the Post Office...The Minister told us “industrial relations in the Post Office have been nothing short of a disaster in the last few years. Two thirds of industrial action in the United Kingdom centres around the Post Office...” ’.\textsuperscript{18}

The Post Office could have transitioned to automation and re-invented its business model long before 1996 had profits been re-invested rather than siphoned off by HM Treasury. A document entitled ‘Looking Ahead to Counter Automation’ of January 1989 reveals early explorations in computerisation of the network; it is described as ‘A guide for branch managers and sub-postmasters


\textsuperscript{17} DTI Secretary of State, Stephen Byers (n.6) c379

\textsuperscript{18} DTI Select Committee Third Report ‘The Post Office’ (January 1998) para 33. There is no link to the Minutes of Evidence for an oral session of 26 November 1997 when questions relating to the progress of Horizon were asked of DTI Minister Ian McCartney. Memoranda included in the Minutes of Evidence and Appendices are listed but not included; a FOI request to BEIS has not located this material. Other witnesses at the oral evidence session included PO Chair, Michael Heron, PO CE John Roberts, and Managing Director Finance, Richard Close <https://publications.parliament.uk/pa/cm199798/cmselect/cmtrdind/380iii/ti0302.htm> accessed 2 December 2021

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taking part in the Thames Valley Counter Automation Project, a pilot for the Counter Automation system.\textsuperscript{19}

It is the greatest irony that the pilot came to nothing because it was deemed too expensive to automate the Post Office as a solo venture. Combining it with DSS systems and IT upgrades was considered the most forwarded-thinking and cost-efficient solution. But it was one whose complexity lay steadfastly beyond the reach of its supplier.

It soon became apparent that the Horizon programme as originally envisioned was one which ICL-Pathway was unable to deliver; at least not within a time frame which upheld the business case for each contracting party. As the company struggled to realise Horizon’s grand design, multiple project milestones were missed and the project fell first months, then years, behind schedule. As a consequence, the business case for the BPC atrophied to the point of its no longer being viable; it became more logical for the DSS to pay benefits directly to bank accounts via Automated Credit Transfer (ACT) as had always been envisaged once the original Horizon contract expired in 2005. So far behind schedule, the rationale of using DSS fraud savings to fund the project now fell apart because the longer the delays, the more insignificant the savings. A tipping point was reached whereby continuing the project was effectively using DSS resources, rather than those of the DTI, to modernise the Post Office and subsidise its faltering business model. The DSS argued that there were swifter, more targeted, cost-effective and achievable routes to sustain the network.

\textbf{2.1 HORIZON’S BIG BANG}

Horizon’s grand design was a cross-party vision of unprecedented scale and ambition, aiming to integrate the Benefit Payment Card with the benefit payment management systems and the Post Office systems with the Post Office management internal IT system.\textsuperscript{20} If the aim to integrate so many functions, and to release them as a single Big Bang Acceptance was over-ambitious, it was an over-ambition which belonged solely to Ministers in their quest for the holy grail of ‘joined-up’. The near-impossible technical aspiration was underpinned by an unattainable strategic aspiration; Ministers’ interminable drive to satisfy the irreconcilable interests of two competing departments, those of the

\textsuperscript{19} Postal Museum Discovery Archive, POST 113/47 (January 1989) \textless \url{https://catalogue.postalmuseum.org/} \textgreater accessed 2 December 2021

\textsuperscript{20} Appendix C (document 8) p.320
Department for Trade and Industry and those of the Department for Social Security, represented a fundamental and fatal flaw of Horizon’s original genesis.

‘The contract was signed and it was all pie in the sky’. 21

‘The scale and complexity of projects is a major influence on whether they succeed or fail. Departments should consider carefully whether projects are too ambitious to undertake in one go. This consideration is particularly important if a project connects with the business operations of other parties, or depends on the development of IT undertaken by other parties’. 22

‘...I think that the project was vast in scale. It involved automating the Post Office for the first time ever. It involved restructuring the DSS’s back end computer systems and then there was the Benefits Payment Card itself. I think it inconceivable that nowadays such a project would not have been broken down into more manageable chunks...I draw attention to the acceptance process. I think that we would avoid a sort of big bang acceptance where you either have to say "yes, this system is ready for national roll-out" or "we must progress more", we would have a phased acceptance process’. 23

‘Big Bang’ was a term used by the PAC in its Report ‘Improving The Delivery Of Government IT Projects’ 24 in which it warned against technical over-ambition and instead urged for an incremental approach to IT initiatives managed in smaller elements, each successive phase being considered in the light of the outcome of the previous one to ‘reduce the complexity of planning, monitoring and control’. 25

In contrast, Horizon’s Big Bang was an audacious Government-sponsored experiment which carried expectations loftier than either its own departments or ICL-Pathway could realise. It was a gamble which descended into freefall as it slipped through the gaping holes of its PFI contract.

21 MP Gerry Steinberg (n.2) para. 20
23 DSS Permanent Secretary, Rachel Lomax, oral evidence session (n.2) para.1
24 (n.22) para. 21
25 ibid. para. 21
2.2 THE LEGACY OF PFI

‘...one of the things that I would not do again is ever create a PFI with three parties...’\(^{26}\)

The fledgling PFI model of procurement was an equally flawed component of Horizon’s genesis which exacerbated all other obstacles. When the invitation for potential bidders for the programme was issued in 1994, it was conditional upon being funded via Private Finance Initiative (PFI); from its origins, and starting with this HM Treasury stipulation for the PFI model of finance, central Government decisions left an indelible print on the programme’s blighted future.

This pre-condition fundamentally skewed the bidding process; ICL’s bid was the weakest on a number of counts but it surpassed rival bids because it was the only contender deemed PFI compliant:

‘The technical evaluator’s overall assessment of the credibility and viability of the Pathway solution was that while acceptable, they ranked behind the other two consortia. The final evaluation identified and confirmed a significant number of risks inherent in the Pathway solution, many of which were potentially high probability and high impact risks and which were factors in the later problems in the project’.\(^{27}\)

‘The purchasers’ evaluation team reported their strong concerns about the reliance on unproven third party software to support Pathway’s solution for post office automation and the benefits payment card system. This matter, they said, generated little confidence in Pathway’s ability to deliver to time and quality and left a question mark over the delivery of the service’.\(^{28}\)

‘The evaluation team reported that Pathway’s performance in managing the demonstration phase of the procurement had been substantially below those of the other two service providers and raised concerns about Pathway’s lack of internal controls. They reported that Pathway had not shown itself to be adept at foreseeing and preventing problems’.\(^{29}\)


\(^{28}\) ibid. p.63

\(^{29}\) ibid. p.65

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‘The evaluation team identified, however, that the ICL bid was PFI compliant and in April 1996 ‘the Project Board accepted that to proceed with Pathway implied a degree of risk but concluded that such risks were manageable...’’ 30

‘...the Department and Post Office Counters selected ICL to supply the system even though they had greater confidence that the other two bidders could deliver it. They did this because only ICL’s bid complied with the PFI that the Treasury laid down’.31

PFI was a relatively new model of finance; initiated in 199232 it brought its own Pandora’s box of challenges. Firstly, its primary purpose of transferring risk to the private sector became an unsustainable burden which ICL sought to rewrite on a number of occasions. Likewise, the Government came to realise that it could not, ultimately, delegate risks pertaining to the delivery of benefits to vulnerable and ‘unbanked’ recipients of benefit payments:

‘Ministers and officials cannot transfer responsibility for the overall service for which they are legally responsible and accountable to Parliament. Some risks, such as the delivery of benefits payments, on which many people depend, are too great for private sector suppliers to absorb and departments therefore must retain a direct interest and involvement in how the service is to be delivered’.33

Additionally, the PFI principle of high level specifications (designed to give the contractor the freedom to initiate solutions) meant that, for Horizon, a host of complexities lay hidden within the contract’s myriad of ‘Agreements to Agree’ only to bedevil and delay the project as soon as they were dropped down:

‘A school of thought in Private Finance at that time was that purchasers should specify their requirements at high level so as not to stifle the scope for bidders to innovate in proposing solutions’.34

With the result that: ‘...when the contract was signed there were 289 “agreements to agree”’.35

30 ibid. p.66
31 PAC Chair, MP David Davis, oral evidence session (n.2) para.5
32 (n.22) para.9
33 (n.27) p.13
34 ibid. p.50
35 ibid. p.52
A spectrum of issues, from minor to significant, lay undetermined from the outset, yet resolution of some ‘was essential to finalise the detailed design of the system and deliver the full service’.36

The NAO was unequivocal in its condemnation: ‘...it is never acceptable to sign a contract with fundamental “agreements to agree” the detail of the service in the future’.37

How these unresolved issues played out and significantly impacted the project is evidenced in many of the National Archive documents; the HM Treasury Montague Report of 1998 found ‘there is no agreed Acceptance Plan or time-scale for acceptance, which puts at risk the timetable for contractual acceptance of the system’.38 According to an ICL Position Paper, the Authorities (BA and POCL) had engaged in a ‘continual process of refining their requirements’ by using the Drop Down process to enhance solutions instead of allowing Pathway to develop its own solutions from high level requirements. The Authorities were accused of presenting ‘hundreds of redrafted requirements’, ICL arguing that this resulted in a ‘bespoke solution of huge complexity’ 39 and that ‘the degree of business analysis that had been carried out by the Authorities prior to the Contract was insufficient to enable the design to be frozen’.40

This is supported by an ICL Memorandum to the DTI Select Committee:

‘Against the original 366 contractual requirements, Pathway has received 323 formal Change Request[s]. Numerous informal changes and “clarifications” to requirements were received, many involving very substantial requirement change necessitating significant system re-design and re-implementation’.41

Allegations of a ‘constantly moving contractual baseline’ 42 were strongly refuted by BA CE, Peter Mathison, in his response of April 1998, but the debacle demonstrated the serious issues arising

36 ibid. p.52 and p.79-80
37 ibid. p.14
38 Appendix A (document 1, p.10) p.230
39 ICL Position Paper issued with a letter from its CE, Keith Todd, to BA CE, Peter Mathison on 6 March 1998 included in dossier JB 3/19, not summarised in Appendices A-C, p.2-3
40 ibid. p5
41 ICL Supplementary Memorandum to DTI Select Committee Eleventh Report (n.25) para.2
42 (n.39) p.7
from such a nebulous PFI contract to which the Government had originally committed itself and its Post Office. Moreover, the contractual wrangle exposed a level of acrimony and confusion which neither side would wish to be aired in public in the event of damaging legal proceedings; for the Government at least, litigation was to be avoided at almost any cost:

‘...any litigation with ICL Pathway will be lengthy, uncertain and messy, and the DSS must expect all of its shortcomings to be fully aired in hostile legal proceedings’. 43

The numerous ‘Agreements to Agree’ of the Horizon contract were a major contributor to the project’s delay, having concealed difficulties far more challenging than originally envisaged:

‘I think that if it was not a PFI project we would have approached it rather differently. I think that more time would have gone into developing any technical design together with the supplier before we went to try to build the project’. 44

‘In May 1996 the contracts were signed, by February 1997 it was realised that the scale of the task that they had undertaken had been under-estimated, there were far more complex considerations than I think were anticipated and the contract had to be redrawn as a result of the fact that some key milestones were going to be missed and the thing had become more complex’. 45

It was not long before the Government acknowledged that PFI was unsuited to its procurement of complex IT:

‘The Treasury has recently examined PFI, concluding that the government would now adopt a presumption against the use of PFI in future IT projects’. 46

‘Many aspects central to IT procurement do not fit well with the central requirements of PFI’. 47

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43 Appendix B (document 3) p.264

44 DSS Permanent Secretary, Rachel Lomax, oral evidence session, February 2001 (n.2) para.1

45 DSS Secretary of State, Alistair Darling, oral evidence session, July 1999 (n.26) para. 139


And it was no accident that by 1999 the revised Horizon contract abandoned its PFI foundation to be set on a more conventional footing and one with only two contracting parties.\(^{48}\) By May 1999 the Government belatedly realised that the quagmire of Horizon’s original PFI contract had only served to exacerbate the problems of its complex design and to intensify the conflicts between the increasingly polarised business interests of all parties.

‘The big issues at stake involved a number of Government departments: DTI as the sponsor of the Post Office and the Treasury and No.10 got involved as well as the DSS. We all had quite legitimately different approaches to all of this. Also, the commercial issues for ICL, which was coming up to flotation, were also very big and very significant and needed to be taken seriously’.\(^{49}\)

Horizon was the misshapen progeny of these conflicting authorities, it bore the scars and weaknesses of their cross-fire. But by the time the Government acknowledged that over-complexity, in all respects, was adversely impacting delivery, the crippling legacy of the PFI contract had been dealt.

‘The Government has made it clear that the main factors behind its decision to reconfigure the Horizon project were that the complexity of the project continued to threaten its successful delivery so that there was an urgent need to streamline the project...’\(^{50}\)

Prior to this enlightenment, and the May 1999 reconfiguration of Horizon, it was Ministers who owned the overarching responsibility for the programme, they sanctioned Horizon’s untenable Big Bang, they prescribed its structure of finance and they oversaw every step of its development. The Government’s deep vested interests in the long-term success of Horizon meant it could not be otherwise.

‘The current Government has placed IT at the centre of its programme of renewal and reform of public services’.\(^{51}\)

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\(^{48}\) oral evidence session, June 1999 (n.26) para.126 and oral evidence session, February 2001 (n.2) para. 72

\(^{49}\) DSS Permanent Secretary, Rachel Lomax, oral evidence session (n.2) para.2


\(^{51}\) (n.22) para.11
But how rigorously and systematically its Ministers discharged any duty of oversight was not within scope of the NAO Report and was only of passing interest to those Committees who reflected upon the failures of the BPC.

2.3 MINISTERS’ ‘DIRECT INTEREST’

‘Some risks, such as the delivery of benefits payments, on which many people depend, are too great for private sector suppliers to absorb and departments therefore must retain a direct interest and involvement in how the service is to be delivered’.

There is no question that Ministers retained a ‘direct interest’ and ‘involvement’ in Project Horizon; its doomed BPC phase was maintained on life-support long after a cost-benefit rationale weighed in its favour because Ministers were blinkered by their inexorable agenda of ‘joined-up’ Government which had been the project’s primary shaping force from the outset. Many priorities weighed in on the debate on Horizon’s future: some Ministers were driven by the conviction that the BPC was the only way to rescue an ailing post office network; some were mindful of the need to acquiesce Japan as a substantial inward investor in UK plc. But whatever their agenda, for too long an intransigent, Ministerial myopia refused to accept that Horizon’s tripartite foundation, built upon divergent interests of three contracting parties, was the insurmountable obstacle that it evidently proved to be. Not even HM Treasury who led the secretariat of the Horizon Working Group at the time of the Montague Report could offer a united front in its approach to Horizon, its public expenditure section vying with the HMT industry section over a project which inspired division as much as collaboration. And for too long this tunnel vision led Ministers to ignore concerns raised on multiple occasions by the DSS over Horizon’s deliverability. Instead, the department’s warnings were repeatedly subsumed beneath the wider Government agenda and its alarm bells passed unheeded by HM Treasury.

‘In the real world of government, organisational silos do not simply dissolve under the weight of the business logic of ICTs. On the contrary, there are many reasons why the functional segmentation of service delivery has become deeply embedded in the institutions of government. Each part of

52 (n.27) p.13

53 Appendix A (document 7, p.3) p.249
government possesses its own mission statement, its own business aims, its own information and business systems...and its own budgetary and stewardship responsibilities’.54

A legacy of slow-changing and competing silos, not a paradigm of agile joined-up government, defined the relationship between the DSS, DTI and HM Treasury over Horizon in 1998-1999. The DTI and DSS were simply not ready for their arranged marriage and the ill-managed courtship created a conundrum which stymied Ministerial decision-making for almost two years. It was an indecision which was corrosive to all. Most significantly, by May 1999 the legal grounds on which the Government had once laid claim to its right to terminate Horizon had all but dissipated into thin air; its negotiating position had become so weakened by Ministerial inaction that the Government was left with little option but to continue with a pared-down version of a faulty product:

‘The strength of the Government’s legal position in relation to ICL, when we come to a formal negotiation (which we will under any option), is beginning to look significantly more vulnerable the longer a decision is deferred’.

And whilst Ministers deliberated, the Post Office nudged ever closer toward its financial nadir. By the spring of 1999 under the prospect of managed migration to ACT, and with no certainty of Government subsidy, the Post Office could ill-afford the time or capital to shelve Horizon and develop a new system from scratch. It edged nearer to an end-game position where accepting an imperfect IT system seemed its only viable option.


55 Appendix C (document 8, p.3) p.320
PART 3

1998-1999: GOVERNMENT’S OVERVIEW OF HORIZON’S DEVELOPMENT

‘There is a constant monitoring of the performance and attainability of this project by the Government’ ¹

Horizon’s development did not occur in a vacuum or at a comfortable ‘Arm’s-Length’ distance from Government; the Post Office’s Arm’s-Length status was not enshrined in statute until the summer of 2000. There were three years previous to this juncture during which Ministers monitored Horizon with hawk-like intensity. To this day the Government prefers, for reasons that are obvious, to edit itself out of this chapter of Horizon’s epic saga but there is every reason to believe that its Ministers were fully aware that Horizon was subject to serious issues of integrity both prior to and soon after rollout. The Government from whom they derived their authority was part-owner of the project; it owned the Modernising Government Agenda of which Horizon was a flagship; it owned the Post Office; it owned the responsibility to make social benefits payments, the accurate delivery of which depended on Horizon’s integrity. It owned the gilts which in 1999 were used to meet almost half of Horizon’s capital costs. And it was their Government, not the Post Office, who owned the decision to continue with a reconfigured version of a programme which its own Secretaries of State had deemed unfit for purpose.

If Ministers were unaware of significant technical issues at the coalface of this project from 1998-1999 from a vantage point which included the chairmanship of the Horizon Working Group, if the DTI did not know about software problems that even the Post Office Board was reporting, repeatedly, between 1999 and 2000, then the Government was seriously failing in its duty of oversight and in its stewardship of public resources. And if it comes to light that the Government did in fact know of such technical issues and failed to assure itself that adequate mitigations were put in place, not only is it rendered deeply culpable in events leading up to Horizon’s rollout, but it is rendered complicit in a cover-up which has spanned two decades to spawn the gravest miscarriage of justice in British legal history.

¹ DTI Secretary of State, Peter Mandelson, oral evidence session (4 November 1998) quoted in DTI Select Committee Eleventh Report ‘The Horizon Project For The Automated Payment Of Benefits Through Post Offices’ (September 1999) para.3 <https://publications.parliament.uk/pa/cm199899/cmselect/cmtreind/530/53002.htm> accessed 2 December 2021
The NAO Report outlined the reporting channels which existed through which Ministers could monitor any problems at the nerve centre of Project Horizon. A Project Steering Committee included the ICL CE, the Pathway MD, the POCL MD and Benefits Agency CE, Peter Mathison. Below the Steering Committee was the Project Board which included members from BA, POCL and ICL. The Joint Delivery Authority (PDA), comprising both DSS and POCL personnel, reported on progress to the Project Board until April 1998 when the PDA was replaced by a POCL Horizon Team on the recommendation of PA Consulting. From this time onward, POCL managed the ICL contract. POCL’s Horizon Project Manager reported fortnightly to the DSS CAPS Board and attended the monthly Board whilst working level links were maintained at joint liaison meetings on implementation and technical issues. Correspondence in Appendices A-C evidences the direct line of communication between Mathison and the DSS Permanent Secretary, Ann Botwell, who in turn communicated regularly with the DSS Secretary of State on the programme.

Additional to the Horizon Working Groups and formal reports, general oversight of the project was therefore maintained through a number of channels; it was a complex warren of accountability which was simplified as the project developed, but it was always closely connected to Government.

Documents opened by the National Archives and summarised in Appendices A-C chart the close liaison between DSS project co-ordinator Sarah Graham, PFD SP Proj; the DSS Secretary of State; DSS Permanent Secretary and BA Chief Executive with regular sharing of information on Horizon’s delays and technical difficulties.

According to evidence given to the Public Accounts Committee by both the Post Office and the DSS, regular contact existed between the parties:

‘Below the level of the top group there was almost daily contact between ourselves and the Department [DSS] talking about what was going on and talking about risk. The project manager who was running this for us was then attending the CAPS board to report on a monthly basis what was going on’.  

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'...the Horizon people reported to the CAPS Project Board on a monthly basis. In the Department [DSS] we had an opportunity to monitor their performance on what they had to deliver to meet our interface. They came regularly, every month, and I think Pathway attended most times with them'.

Such communications were complemented by a number of formal reports and programme status updates, by meetings and reports of the Horizon Working Group and by face-to-face dialogue between Ministers and Horizon’s contracting parties. From as early as mid 1997 when concerns were first raised with Ministers outside of the DSS, there was no dearth of information to support their decision-making.

3.1 PROGRESS REPORTS ON HORIZON

As difficulties emerged across the project, a number of reports were commissioned from all parties to assess the viability of Horizon. Most were available to the Government to inform it of Horizon’s progress and repeated delays:

3.1.1 THE PA REPORT

The PA Review was an independent report sponsored by ICL, Post Office Counters and the Benefits Agency, concluding its review in October 1997.

Its findings were published to a 'very restricted circulation list' (Mentors Report, below) but were referred to in the NAO Report:

‘In July 1997 the Chief Executive of the Benefits Agency, Peter Mathison, and the Permanent Secretary of the Department of Social Security, Ann Botwell, met ICL to register concern at the further slippage and the uncertainty surrounding future releases of software. As a result, Pathway, the Department and Post Office Counters Ltd commissioned PA Consulting to provide an independent review of weaknesses and risks in the programme...’

Amongst its findings the NAO summarised:

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4 DSS Director of Information Systems and Commercial Management George McCorkell, ibid. para. 154

5 (n.2) p.71
‘Post Office Counters Ltd had made satisfactory progress, though PA registered concerns about the resources available to manage the roll-out of the infrastructure, and the skills available for managing both the implementation and the continuing service’.  

‘The extent of development work that Pathway needed to do had been seriously misjudged and Pathway were still implementing new management arrangements and disciplines to reflect their enhanced understanding of the demands of the programme. There was uncertainty about delivery, due in part to the deferral of known problems and system functionality to later releases of software. Though PA had received satisfactory answers to their questions on the robustness of Pathway’s technical solution, there would continue to be reservations until the final design was completed’.  

3.1.2 THE PROJECT MENTORS REPORT

At the behest of BA and POCL, the joint programme lawyers Bird and Bird commissioned an independent review of Horizon by Project Mentors in the spring of 1998. It sought to determine the causes of the delays in the programme and it informed the legal advice given by Bird and Bird to the Director of BA/POCL Programme, Peter Crahan, in March 1998 regarding grounds for terminating Project Horizon should the Authorities seek to do so. Attached to the Bird and Bird advice was the twenty-one page Mentors report in ‘interim draft version’. The authors of the Mentors report had appraised the PA Report and those of its findings which Project Mentors considered important included:

‘We believe that there are direct causes of slippage but these need to be set in the context of a small number of underpinning root causes. The root causes are Marginal business cases, Agendas in conflict and PFI structural problems. The direct causes are Resourcing, Development and control disciplines, Requirement clarification and solution drift and The Escher dependency’.  

The Mentors Report gave details of the delays to Horizon’s release 1c, originally scheduled for 30 June 1997, which suffered three slippages before being released to 200 post offices on 2 November 1997, eighteen weeks later than anticipated. Although not a contractual release, this

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6 ibid. p.72  
7 ibid. p.72  
8 Draft Mentors Report, p.10, archived in DSS dossier JB 3/19, not summarised in Appendices A-C
delay had prompted four programme reviews: that of PA Consulting; PDA (internal); POCL (internal and French Thornton) and Pathway (internal).

Pathway release 1e, a contractual Live Trial milestone which had been scheduled to commence on 8 September 1997 and to complete on 21 November 1997 had still not been achieved at the time of writing in March 1998. The failure of ICL Pathway to achieve this contractual milestone was considered by Bird and Bird, in the light of the Mentors Report, to be largely ICL’s fault and provisional legal advice was that this may constitute grounds for termination.

The Mentors Report noted that findings of the Pathway Programme Review, triggered by the slippage of the release of 1c, were presented to the PDA Board in July 1997. The presentation included a Programme Audit, a review of Security and Release 1c testing.

Key findings of the Programme Audit included:

(a) ‘Too much overlap and compression in the phased releases’

(b) ‘Need more time between releases to improve productivity and quality’ p.8.

The ICL Pathway Security Review included:

(a) ‘Very limited time to develop and test’

(b) ‘End-to-end testing is comprehensive and difficult’ p.8.

The Testing Review noted:

‘Need to change testing strategy for future releases’ p.9.

The Mentors Report also confirmed that ‘No date has yet been proposed for release 2+ which is to complete the contracted functionality’ p.4-5, and identified the issue not only of slippage but of ‘the transfer of elements of functionality to subsequent releases’ p.5.

3.1.3 THE MONTAGUE REPORT

This was commissioned by the Horizon Working Group of 1998 to help determine whether Horizon was technically viable and if so, how quickly it could be completed and at what cost to Government.9

9 Appendix A (document 1) p.230
According to ICL:

‘In early 1998, because of what it regarded as excessive interference and bureaucracy, ICL approached HM Treasury to register its concern. As a result, the Treasury Expert Panel under Adrian Montague of the PFI Taskforce was established to assess the commercial and technical feasibility of the project. This Panel reported its findings in July 1998...’\(^\text{10}\)

In the words of DSS Permanent Secretary, Rachel Lomax:

‘Adrian Montague, Head of the Treasury Task Force, is brought in to give advice on whether this project is deliverable at all, and, if so, on what sort of time scale’\(^\text{11}\).

Circulated to a Ministerial core which consisted of representatives from HM Treasury, DTI and DSS in July 1998, the Montague Report was disclosed ‘on a provisional basis’ only to the DTI Select Committee for its Eleventh Report of 1999. Due to the sensitivity of its contents, the Committee was permitted to make only the most superficial of comments upon its findings.

‘Annex A to the Montague Report set out a number of options and offered a detailed assessment of the two which it deemed to be the only practicable ones: Option 2, ”partial restructuring” — that eventually adopted by the Government — which was seen as having the disadvantages of the perpetuation of a high cost paper-based method of payment...and Option 1, ”full restructuring”’.\(^\text{12}\)

The Montague Report, and the Working Group Review which it informed, have recently been disclosed by the National Archives; they are considered in more detail in Part 5 and excerpts are included in Appendix A.

**3.1.4 THE CORBETT REPORT**

Also commissioned to review the progress of Project Horizon, this report was delivered by Graham Corbett of the Monopolies and Mergers Commission in October 1998:

\(^{10}\) ICL Memorandum to the DTI Select Committee Eleventh Report (n.1) submitted alongside oral evidence (June 1999) para. 12


\(^{12}\) (n.1) para.10
'In September 1998 Graham Corbett, Deputy Chairman of the MMC, was appointed by the Treasury as the troubleshooter recommended in the Montague Report to "facilitate discussions between the three parties [ICL, BA and POCL] on an acceptable way forward".\textsuperscript{13}

The Corbett Report, like the Montague Report, was shared with the DTI Committee on a provisional basis only:

‘Following the latter session, we sought copies of the 3 principal reports on the programme, which had been referred to in evidence to us: the PA Consulting Group Report of October 1997, the report of July 1998 by an expert panel chaired by Adrian Montague (the Montague Report) and the report of October 1998 from the independent troubleshooter, Graham Corbett. Copies were made available on a provisional basis in early September. On 13 September the DTI confirmed that they were to be regarded as provided in confidence "in order to assist the Committee's understanding of the background to the project and to the decision which Ministers collectively reached". \textit{We have therefore reluctantly agreed not to quote extensively from the three documents, nor reported them to the House; we have however drawn on their contents to inform our conclusions}’ (emphasis as in original).\textsuperscript{14}

\textbf{3.1.5 TREASURY REVIEWS}

There were a number of additional HM Treasury-led reviews after those of Montague and Corbett, the latest of which was to inform Ministers prior to their decision on the future of the project in the spring of 1999 (see Part 6).

According to Post Office CE, John Roberts: ‘\textit{As you know, it is not just us and ICL Pathway but the DSS and therefore the Treasury who have a role in this, and there is a review going on which is being run by the Treasury. I hope that the review is going to report soon because then that will take the cloud away from the project - I hope}’.\textsuperscript{15}

\textsuperscript{13} ibid. para.11

\textsuperscript{14} ibid. para.6

This may be the review on which DTI Minister Peter Mandelson was reluctant to be drawn when questioned by MP Jim Cunningham:

‘Can we go on to the issue of Pathway. Has the Treasury completed its review of Pathway, joint finance initiative? (Mr Mandelson) It is not exclusively a Treasury—you are talking about the automation project?’ ...

MP Jim Cunningham: ‘When will we know exactly when this Treasury review is about to be completed and when is it going to be completed?

(Mr Mandelson) It is not, as I say, exclusively a Treasury review. It does not quite have the status that you are attributing to it.

MP Jim Cunningham: I am trying to focus on the Treasury review.

(Mr Mandelson) There is no formal fixed term review. There is a constant monitoring of the performance and attainability of this project by the Government’.  

According to the Post Office: ‘Intensive negotiations are now taking place between all the parties, to establish the technical and commercial viability of this proposal. The Treasury are tasked with producing a final report to go to the Prime Minister by the end of April [1999]’.  

3.2 HORIZON WORKING GROUPS

At least three Horizon Working Groups were convened during the project’s development, spanning both sides of the May 1999 watershed. The first was established in order to address DSS concerns which were raised with HM Treasury as early as September 1997 and brought to the attention of the Prime Minister by DSS Secretary of State, Harriet Harman, in a letter of February 1998.


18 Appendix A (document 2).p.238

19 Appendix B (document 2).p.261
'Given the sheer size, complexity and cost of the project, its importance to 28 million Post Office customers a week and 17 million benefit recipients, Ministers concluded that a fundamental review of the project was needed. Accordingly, in March 1998, Ministers established an interdepartmental working group comprising officials from DTI, DSS, Treasury and The Central Information Technology Unit to advise on the way forward for the project. By then, the project was running 21 months behind the timetable agreed in February 1997.

The working group established an independent panel of experts to consider whether the project was technically viable, the likely timetable for completion and cost to Government...In the light of the panel’s report, the working group conducted (in July 1998) that, if Ministers decided to continue with the project...management of the project should be strengthened; and a "troubleshooter" should be appointed to work with the three parties’.20

The original Working Group comprised a core of HMT, DTI, DSS and Cabinet Office representatives:

‘Now following the Independent Panel’s conclusions in the middle of 1998 the working group—comprised of officials from the three Departments represented here and the Cabinet Office—’.21

According to DSS’s Sarah Graham, this Working Group was Treasury-led.22

And it was also referred to by the NAO as having been established to assess ‘whether the project was technically viable...’23

If charged with assessing technical viability one might assume the Working Group gave close attention to evidence pertaining to Horizon’s technical performance; the recently disclosed Working Group Report of July 199824 and Montague Report25 on which the Working Group based its

20 Joint DTI, DSS, HMT Memorandum, DTI Select Committee Eleventh Report (n.1) submitted alongside oral evidence (14 June 1999) paras 8-10
21 HM Treasury Chief Secretary, Alan Milburn, oral evidence session (July 1999) DTI Select Committee Eleventh Report (n.1) para.145
22 Appendix A (document 3) p.243
23 (n.2) p.29-30
24 Appendix A (document 2) p.238
25 Appendix A (document 1) p.230
recommendations, give some indication of the level of technical detail which was available to Ministers and which ought to have informed their decisions on Horizon’s future (see Part 5 and Part 6).

A second, thirty-page Horizon Working Group Report of November 1998 has also recently been disclosed, alongside one from December 1998. 26

It would appear that these were produced by a second incarnation of the Working Group convened in November 1998; an inter-Departmental group which drew its remit from the Chief Secretary to the Treasury was renamed as the Horizon Progress Tracking Group. 27

The last documented Horizon Working Group was established at the time of the reconfiguration of Horizon:

‘The new working group announced by the DTI Minister of State, Ian McCartney on 28 May 1999 will be our first direct involvement in the project at this level. We hope it will help develop a sensible solution to the problems encountered so far during the development and trial of the Horizon project’. 28

‘...we now have become involved in those discussions as a result of an invitation by the Minister for the Post Office, Ian McCartney, setting up a working group as a result of an agreement which was made and which the Post Office themselves signed on the 24th of last month’. 29

The CWU General Secretary went on to confirm a Ministerial presence at the Working Group, an observation supported by the NFSP General Secretary, Colin Baker, who referred to the ‘Horizon Working Group which is chaired by Ian McCartney’. 30

The Horizon Working Group was later chaired by DTI Minister Alan Johnson:

‘The Government has established the Horizon Working Group, chaired by Alan Johnson, Minister for Competitiveness, with membership drawn from the key stakeholders in the post office counters network; namely the Post Office, the National Federation of Subpostmasters, the Communication

26 Appendix B (document 25) p.294 and Appendix F (document 5) p.472
27 Appendix C (document 1) p.308
28 Joint CMA/CWU Memorandum DTI Select Committee Eleventh Report (n.1) submitted alongside oral evidence session (June 1999) paras. 4 and 16
29 CWU General Secretary, Derek Hodgson, oral session (June 1999) DTI Select Committee Eleventh Report (n.1) para.46
30 Colin Baker, ibid. para.18
Workers Union and the Communication Managers Association, to monitor and oversee the successful implementation of the project and to contribute to its successful commercial exploitation’.  

Here is formal acknowledgement of a ministerial presence overseeing ‘successful implementation of the project’ at the precise time Post Office Board Minutes reveal significant technical problems were impacting the Board’s decision to rollout Horizon.  

‘We sit with the National Federation of Sub-Postmasters and with the Post Office on the Horizon working group to find ways, in partnership, of utilising that invaluable, crucial network’.

According to the Post Office Board minutes of December 2000 the Horizon Working Group was still meeting, and still had a Ministerial presence, at the end of 2000. It would appear, according to email correspondence with Alan Johnson that the Horizon Working Group established in May 1999 was not concerned with technical aspects of the programme but rather with maximising the commercial opportunities of Horizon. Prolonged delays in the programme’s acceptance and rollout from July 1999, however, would have had obvious strategic and commercial impacts, and it is implausible to suppose that the Working Group was not aware of these delays or sought explanation as to their cause.

Parliamentary curiosity in the activities of the Horizon Working Group at the time was swiftly deflected:

‘Mr. Ashdown: To ask the Secretary of State for Trade and Industry if he will publish the report of the Horizon Working Group on post office business issues submitted to the Cabinet Office in December 1999; and if he will make a statement.


32 Appendix D (documents 34-51) p.411-p.436


34 Redacted Board Minutes disclosed via FOI (What Do They Know) <https://www.whatdotheyknow.com/request/post_office_board_minutes_2000#incoming-1853230> accessed 2 December 2021

35 Appendix I p.570
Mr. Byers: The document concerned represents work in progress and contains commercially sensitive information’.  

The DTI Select Committee also noted that it had not seen Horizon Working Group reports, despite its authority to ‘send for persons, papers and records’:  

‘We have not seen the detailed conclusions of the working group, which evidently constituted a gloss on the Panel’s Report: their reported opposition to additional payments to ICL, whether by an extension of the period of transaction payments or an alteration in their level, boded ill for the programme’s survival...’  

37 DTI Select Committee Eleventh Report (n.1) Terms Of Reference  
38 DTI Select Committee Eleventh Report (n.1) para 10
PART 4

MAY 1999: HORIZON’S RECONFIGURATION – A CENTRAL GOVERNMENT DECISION

"The most rational option would probably be termination"¹

Under the terms of its PFI contract, ICL was to receive no payment until Horizon had successfully achieved Acceptance. Any programme delays, therefore, impacted ICL’s funding position and as they lengthened, ICL sought to revise to the terms of the Horizon contract:

‘The system has been optimised to an extent far beyond that contemplated in the original contract and, although we have satisfied the increasingly (and, arguably, in some cases unnecessarily) complex requirements of the Sponsors, the result has been that the prospective revenue earning period grew steadily shorter and our costs increased’

‘ICL cannot, and cannot reasonably be expected to, continue on this basis...a very early decision to revise the terms of the contract is absolutely essential’.²

But ICL’s Position Statement of March 1998 to this effect brought the project abruptly to an impasse. ICL’s business case for Horizon was losing traction (and it could not, therefore, secure the necessary additional finance) without increasing its charges or extending the length of the contract; the DSS however (though not the Post Office), were fully bound by EC GATT regulations, preventing the department from accepting ICL’s proposals unless they were themselves responsible for the delays which had impacted on the project’s business case. Ministers failed to bridge this divide and in the autumn of 1998 Horizon’s future still hung in its limbo of uncertainty; the Post Office was contingency planning in case Ministers should decide to terminate the entire project³ and by December POCL was asked to make a joint presentation with the DSS to HM Treasury on the likely impact of termination on their respective organisations.⁴ By this time central Government was masterminding the project on a strategic level via a core group which included both DTI and DSS

¹ Letter from 10 Downing St communicating the Prime Minister’s final decision on the future of Horizon, Appendix C (document 39)
² Appendix A (document 12) p.256
³ Appendix D (document 16) p.392
⁴ Appendix D (document 21) p.397
Secretaries of State. Fujitsu entered the negotiating ring on behalf of its subsidiary ICL whilst HM Treasury spearheaded the dialogue on behalf of the Government to broker a way forward. In doing so, it was acting on the highest authority:

‘In late January [1999] a senior Treasury official, Steve Robson, was appointed with the Prime Minister’s authority to devise an alternative solution. ICL Pathway fully co-operated with him. His proposed solution was to preserve the Post Office infrastructure and eliminate the magnetic stripe card, paving the way for the possible introduction of a smartcard and a simple banking role for POCL…’.

According to a DSS briefing note, Robson was attending weekly meetings with ICL and the DSS by March 1999.

The autumn of 1998 was punctuated by intense inter-departmental debate on the future of Horizon. The Government, struggling to reconcile its own internecine conflicts over the project, sought agreement with ICL who, by this stage, had presented its final proposal which included diluting the conditions of Horizon’s Acceptance criteria. Ministers appeared united in their opposition to such a condition which featured in a Progress Report of November 1998, as well as being debated at an inter-Ministerial meeting in November 1998. Diluting Horizon’s Acceptance criteria was flatly refused by the DSS Secretary of State whose department feared it would be most impacted by any resultant compromise in system quality. Ministers also rejected the financial and commercial aspects of ICL’s proposal, as well as its attempts to transfer risk back to the public sector in a manner which ran counter to a fundamental principle of PFI. Nonetheless, HM Treasury clung steadfastly to its olive

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5 Appendix D (document 20) p. 396
7 Appendix C (document 31) p.351
8 Appendix B (document 23) p.291
9 Appendix B (document 25) p.294
10 Appendix B (document 28) p.302
11 Appendix C (documents 6 and 11) p.316 and p.327
12 Appendix B (document 28) p.302
branch and continued its negotiations with ICL/Fujitsu. It was widely accepted that ending the contract in its entirety would spell the downfall of ICL.

HM Treasury had no intention of driving ICL into insolvency; a raft of Government projects were on the table which were dependant on the company’s long term creditworthiness. In November 1998 it was announced that DTI had awarded a £200m contract to an ICL-led consortium for ‘Project Elgar’.

In December 1997 the Lord Chancellor’s Department signed its own disastrous PFI contract with ICL for ‘Project Libra’; procured for the magistrates’ courts the project bore uncanny resemblance to the failed BPC. And in August 1999 at the very moment the Post Office Board was refusing to Accept Horizon on account of its failure to perform, HM Customs and Excise was signing a £680m PFI contract with ICL. To the Government, Horizon was one small piece of a larger synchronous ICL jigsaw on which its precious Modernising Government Agenda was overly reliant.

Such was HM Treasury’s overbearing control of negotiations, in February 1999 the PO Board ‘expressed extreme concern’ that both itself and the DSS ‘had been excluded from recent Treasury discussions with ICL’; Mike Kinski, Chairman of the Remuneration Committee, ‘also expressed concern,

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14 The contract for Project Libra, under which ICL was to supply an IT system to integrate the national Magistrates’ Courts’ IT systems, was signed by the Lord Chancellor’s Department and ICL in December 1998. The project was the focus of a scathing PAC Report which uncovered close correlations with Horizon’s early development; costs soared from the tendered bid of £156m to £390m (fig. 1); the PFI contract was renegotiated a number of times at the behest of ICL and software was abandoned before delivery. ‘History repeated itself, did it not, because they [ICL] did exactly the same with Social Security and they did exactly the same with you’ (MP Gerry Steinberg, oral evidence session, para.78). Questions were raised by the PAC as to why the contract had been awarded to ICL in the light of its ‘appalling record’ over the failed BPC ‘...the possibility that the problems with the Benefits Payment Card might have reflected on ICL’s technical competence to deliver the Libra contract was not adequately investigated’ (conclusion (5)). The Department was criticised for its tolerance of ICL’s poor performance (ICL’s Poor Performance, 14) and because it ‘failed to take decisive action when ICL did not deliver...’ (Summary). ICL elicited fierce criticism ‘...this is an absolute horror story...it just shows that the company was a total fiasco’ (MP Gerry Steinberg, oral evidence session, para. 83). PAC Forty-Fourth Report ‘New IT Systems For Magistrates’ Courts: The Libra Project’ (October 2003) <https://publications.parliament.uk/pa/cm200203/cmselect/cmpubacc/434/43402.htm> accessed 4 December 2021

shared by the other non-executives, that the control and direction of the Horizon programme no longer appeared to be held within The Post Office’.  

A DSS Briefing Report of the same month noted, under the heading: ‘Content of Treasury Discussions with ICL’:

‘As you know, neither DTI nor ourselves (no more than POCL and BA) have been kept closely informed of the discussions’.  

Negotiation and decision-making with regards to Horizon were now clearly under the aegis of central Government and intensely secretive.

‘Right from, say, August 1997, which is the first time it came to Ministers’ notice outside the DSS, there have been numerous discussions with ICL and officials from the DSS, the Benefits Agency and from the Post Office and from the DTI, there has been correspondence exchanged, punctuated by further discussions...There were numerous discussions, telephone conversations and meetings taking place over that Christmas period [1998]. I know that, I think it was on Christmas Eve and New Year’s Eve, the three of us [Darling, Byers and Milburn] were involved in clearing positions for our officials to take and there were discussions going on right throughout the spring of this year, because I repeat the point, we were anxious if at all possible to try and resurrect what looked like a project which was beyond resurrection’.  

Chief Secretary to the Treasury, Alan Milburn, confirmed that high-level negotiations between the Government and ICL had continued throughout the spring:

‘...on 29th January [1999] officials met with ICL for the first time following the discussions we had over the Christmas period to discuss how we could best ensure that we could get something from the Horizon Project. ICL were fully in the loop and we tried to look at a number of options between January and May to see what provided the best way forward...Between January and April/May we had a number of discussions with ICL involving the Benefits Agency, involving the Post Office, involving

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16 Appendix D (document 24) p.400  
17 Appendix C (document 26, p.1) p.345  
ministers, to try to find the right way forward...’, one of the Government’s objectives being to see ‘whether or not we could simplify the project and reduce the risks inherent in it’.¹⁹

The quasi-feudal relationship between HM Treasury and the Post Office had long been a contentious issue. Under the Conservative Government of 1979-1997, HM Treasury had appropriated vast swathes of the Post Office’s annual profits via ‘External Financing Limit’ (EFL),²⁰ an arrangement which drew heavy criticism from opponents for its onerous and arbitrary nature:

‘Each year for the past 23 years, the Post Office has returned a profit to the Treasury, hitting its external financial limit targets time and again. Since 1981, the Post Office has contributed £2.4 billion to Government finances’.²¹

‘...it contributes to a ludicrous extent to the national Exchequer. If hon. Members look at the Post Office accounts for the past five years, they will find that it has been paying roughly 75 per cent. of its net profits to the Treasury...’²²

The financial artery which bore such lucrative pickings for the Treasury was further motivation for its keen self-interest in forging Post Office’s future and parliamentarians of the day were quick to suspect that its invisible ‘dead hand’ was behind the decision to reconfigure Project Horizon. In the words of DTI Secretary of State, erstwhile Treasury Secretary: ‘We cannot risk the whole Post Office reform package starting to unravel because of Horizon’;²³ HM Treasury’s sights were always trained on the wider, long-term Government agenda.

The NAO report merely hinted of HMT’s involvement:

‘The decision to cancel the Payment Card project was the culmination of an Inter-Departmental review of options, beginning in early 1998. The Treasury and the Departments of Trade and Industry

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¹⁹ Chief Secretary to the Treasury, Alan Milburn, ibid. para. 168


²³ Appendix C (document30) p.350
and Social Security, as well as Pathway and the two principal purchasers, were all involved in
developing the way forward’.\textsuperscript{24}

But even HM Treasury failed to reconcile the competing vested interests of all parties and was
forced to refer the final decision to the Prime Minister, Tony Blair. In consultation with his Chancellor,
Gordon Brown,\textsuperscript{25} and having met in person with Fujitsu’s Vice Chairman, Michio Naruto, in April
1999\textsuperscript{26} it was the Prime Minister who cast the deciding vote on Horizon’s future.

‘The Prime Minister has asked for an update, on which he is expecting to decide one way or
another about the future of the project, by the end of April’.\textsuperscript{27}

Blair’s decision was not one welcomed by the Post Office:

‘...I talked about the Treasury review and I did say that we were quite clear that the Post Office
preference was, and consistently had been, for the original proposal’.\textsuperscript{28}

The role of the Prime Minister and HM Treasury in determining the future of Horizon is
considered in more depth in Part 6 in the light of the Downing Street Dossiers.

The Prime Minister’s decision brought his Treasury under heavy fire:

‘The decision represents a Treasury victory: the Treasury has secured a long-desired goal, which
is the sacrifice of the sub-post offices to achieve a short-term cut in the cost of delivering benefits’\textsuperscript{29}

On the decision to reconfigure Horizon, MP Angela Browning observed ‘What this is all about is
a £400 million smash-and-grab raid by the Treasury...As always, when the Treasury wants to claw
some money from the Department of Trade and Industry, DTI Ministers and their Secretary of State roll
over and play dead. They put up no defence; they do not even consider the consequences of what that


\textsuperscript{25} Appendix C (document 39) p.370

\textsuperscript{26} Appendix C (documents 32 and 35) p.354 and p.358

\textsuperscript{27} Appendix C (document 31, p.1) p.351

\textsuperscript{28} PO CE, John Roberts, oral evidence session (June 1999) DTI Select Committee Eleventh Report ‘The Horizon Project For The Automated Payment Of Benefits Through Post Offices’ (September 1999) para.112 <https://publications.parliament.uk/pa/cm199899/cmselect/cmtrdind/530/53002.htm> accessed 2 December 2021

\textsuperscript{29} Peter Lilley (n.21) c650
withdrawal will mean. Instead, they let the Treasury have its way; they do the Treasury's bidding, and when the problems flood in they set up committee after committee and scheme after scheme to try to shore up the damage'.

Whilst Ministers procrastinated, the grounds for termination which had materialised when ICL failure to deliver an operational Live Trial in November 1997, became steadily weaker for the public sector parties. In July 1998 ‘The Programme lawyers view is that the Government’s case is a strong one’; BA/POCL believed this entitled them to terminate the entire project and claim up to £200 million in compensation. But they were later warned ‘Provisional advice from the joint programme lawyer is that to stretch the decision beyond “mid-September” [1998] could increase our vulnerability quite significantly to a claim for damages from ICL Pathway, for failure to negotiate in good faith in the commercial proposals they put to us originally last December [1997]...they were given a clear understanding that an inter-Ministerial decision would be reached before the Summer recess’. Had Ministers set in motion the process to terminate sooner, the Post Office might have brooked the delay of procuring a bespoke new IT system. But by the time Ministers conceded the BPC was never going to satisfy Acceptance criteria, their legal grounds for termination had been eroded by their failure to negotiate in good faith; two further proposals from ICL, this time of 9 and 18 December 1998, were also neither formally accepted nor rejected by the Government.

So by 1999, the window in which to terminate Horizon in its entirety had passed; procuring a new system now would set back the computerisation of the network (and the Government’s Post Office Reform Package) years, whilst counter-litigation could delay progress still further:

‘The potential for litigation and programme blight is greater under Option 2. The attitude of the parties suggests there is the almost certain prospect of litigation, prompted either by BA (on grounds of breach of contract through delays by Pathway) or by Pathway (on grounds of termination by BA for

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31 Working Group Review, Appendix A (document 2, p.9) p.238

32 ibid. p.5

33 Appendix B (document 14) p.279

34 Appendix B (documents 2 and 16) p.261 and p.282

35 Appendix C (document 32) p.354
convenience through de-scoping the requirement) or by POCL (against BA), or possibly by the other contractors who were unsuccessful in the initial bidding. In any event, long, acrimonious and costly legal disputes would be likely, during which progress on any replacement programme would be blighted’.36

In dogged pursuit of a modernising e-government agenda, and in protection of its favoured IT supplier to that end, the Government chose to ignore the inconvenient truths of Horizon’s instability. Its determination for the project to succeed, despite the more rational decision to terminate, led to unsupportable procrastination and an inevitable narrowing of options to the point that, by May 1999, the Government could either:

(a) cancel Horizon in its entirety; thereby forcing ICL into liquidation; risk the inward investment in UK Plc by Japan; trigger damning political backlash; delay computerisation of the network and precipitate acrimonious legal action in which ICL might expose the Government’s chronic mishandling of the project, or:

(b) accept an IT system it knew to be faulty and hope for the best.

The Government chose the latter option, pinning all hope on the salvaged version of Horizon as the only route out of its impossible, self-imposed predicament. Ministers masterfully presented the scaled-down project as New Labour’s gift to the nation, the Killer Application which was to revolutionise the centuries-old layers of the Post Office’s operations and open its doors to life-saving commercial opportunities:

‘That is why the Government have been assisting POCL, through the Horizon programme, to spend nearly £½ billion to produce an on-line service facility to those post offices—some of them are not even on electricity at present—so that they can have electronic transmission and can provide banking services and help’.

36 Appendix A (document 1. p.24) p.230
‘If we can facilitate the entry of post offices into the Horizon Link electronic transmission age, there is a massive opportunity to offer financial services to those at present excluded from them in our rural society’.\textsuperscript{37}

‘The Horizon project to computerise 18,000 post offices by 2001 will give them modern, on-line IT systems and give the network the capacity to re-introduce banking facilities in the rural areas from which banks have withdrawn them’.\textsuperscript{38}

‘The first is through the Horizon project which links up all post offices on line for the electronic transmission of money. That is secure, safe, cheap and convenient. An ACT transaction costs us 1p while a Giro transaction costs us —1.36. That Horizon platform means that post offices can offer banking facilities. They are already doing so for Alliance & Leicester, Lloyds TSB and Barclays, and other banks are considering that course. As regards such facilities, they receive a transaction payment, which is more than they receive for DSS payments’.\textsuperscript{39}

‘And the real challenge actually for myself as a Secretary of State for Trade and Industry and for the Post Office is to make sure we can capitalise on the Modernising of Government agenda because there will be a whole raft of new opportunities there, and I happen to believe that the 19,000-strong national network of post offices is in an ideal position to be the interface between government and the communities we are serving’.\textsuperscript{40}

But in arriving at this decision, what weight was given by the Prime Minister and his Chancellor to the persistent failure of ICL to deliver the project and to the alarming number of known technical issues the company had failed to resolve? What weight was given to concerns raised by the Benefits Agency Accounting Officer, himself a member of Horizon’s Project Steering Committee, who had twice sought Ministerial Direction for the project’s continuance and was preparing to request a third Direction?

\textsuperscript{37} DSS Parliamentary Under-Secretary of State, Baroness Hollis, House of Lords Deb ‘Post Offices: Payment Of Welfare Benefit’ (12 April 2000) c183-4 <https://hansard.parliament.uk/Lords/2000-04-12/debates/e827c979-ba92-48b8-82b3-4639d7c8555e/LordsChamber> accessed 2 December 2021

\textsuperscript{38} MP Diana Oregon, House of Commons Deb ‘Postal Services Bill’ (15 February 2000) c856 <https://api.parliament.uk/historic-hansard/commons/2000/feb/15/postal-services-bill> accessed 2 December 2021

\textsuperscript{39} Hollis (n.37) c185

\textsuperscript{40} DTI Secretary of State, Stephen Byers, oral evidence session (14 July 1999) para 198 (n.25)
And critically, if the ‘independent experts’ who had assured Ministers of the viability of the BPC as recently as November 1998 were so demonstrably mistaken in their assessment, to whom did HM Treasury, the Prime Minister and his Chancellor turn for assurance that the last vestige of this disastrous programme, Post Office’s truncated version of Horizon, was fit for purpose?

A Progress Report of November 1998,41 which was prepared by the Treasury-led secretariat of the Inter-Departmental Working Group noted under ‘Risk Analysis’:

‘DSS/BA believe that the risks around deliverability of Horizon in option 1 are very significant given the history of the project’. Yet still, the authors of the Progress Report maintained ‘Option 1 [continuation of the programme ‘as is’] has been validated by independent experts who judged it to be technically viable, robust and future proof’

The ‘experts’ could not have been further from the truth. Not all were convinced; an anonymous handwritten note in the adjacent margin questioned ‘Is this valid??’

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41 Appendix B (document 25, p.10) p.294
PART 5

1998-1999: ANSWERS TO KEY QUESTIONS HELD AT THE NATIONAL ARCHIVES

‘Why do we believe that the project will miraculously become delay – and problem – free?’

Documents at the National Archives which are available for public view, but not in digital format, give insight into Project Horizon from May 1996 to May 1999. They are collected in a series of DSS dossiers under the heading ‘BENEFITS AGENCY AND POST OFFICE COUNTERS LIMITED AUTOMATION PROJECT; MINUTES OF MEETINGS, BRIEFING PAPERS AND COPIES OF REPORTS INTO THE VIABILITY OF THE PROJECT’. Ten relevant dossiers have been identified which constitute a rare insight into the difficulties which dogged the project and prompted DSS Ministers to raise their concerns with HM Treasury and the DTI as early as September 1997.

Given the volume of source material, this research focuses on three dossiers which relate to major junctures of the project:


iii) November 1998-May 1999: Events leading up to the Ministerial decision to cancel the BPC and to reconfigure Horizon.

All excerpts in Appendices A-C have been selected according to their relevance to a number of key questions, below. They map the active involvement of central Government in shaping Horizon and the mounting trail of uncertainty which Ministerial indecision left in its wake.

1 Appendix C (document 16) p.333

2 Appendix A (document 2, p.9) p.238

3 Dossier JB 3/20, Appendix A p.230

4 Dossier JB 3/21, Appendix B p.260

5 Dossier JB3/22, Appendix C p.308
The documents have been opened under Freedom Of Information requests, via the National Archives, with the permission of the donor Department (DWP) which superseded the DSS in June 2001. Having withdrawn from its contractual ties with the Horizon Project in May 1999, this department had arguably less reason to withhold potentially incriminating documents pertaining to Horizon’s origins. The existence of these dossiers, however, suggests that parallel files must have existed- and may still exist- at BEIS (formerly DTI/BERR/BIS/), at HM Treasury and at the Cabinet Office which span from 1997 to Horizon’s rollout and beyond. Until such time as they are disclosed, the insider view of Horizon’s genesis stops at May 1999.

A letter of 1 July 1998 from the Minister of the Cabinet Office, David Clark, to the Minister of Welfare Reform, Frank Field, expressing disappointment at the ‘lack of progress’ on Horizon, gave measure of its visibility at the highest echelons of Government, ending: ‘I am copying this letter to the Prime Minister [Tony Blair], Gordon Brown [Chancellor of the Exchequer], Alistair Darling [Chief Secretary to the Treasury], Harriet Harman [DSS Secretary of State], Geoffrey Robinson [HMT Paymaster General], and Ian McCartney [Minister of State for Competitiveness].’

Horizon and its ‘lack of progress’ was on everyone’s radar.

The dossiers at the National Archives, comprising hundreds of documents, yield clear answers to a number of key questions regarding the role of Government in shaping Horizon and the level of oversight exercised through its senior Ministers.

5.1 QUESTION 1: WERE MINISTERS AND GOVERNMENT OFFICIALS AWARE OF THE SERIOUS DELAYS AND DIFFICULTIES WHICH MARRED PROJECT HORIZON FROM 1997 TO MAY 1999 AND WERE THESE COMMUNICATED TO THE RELEVANT SECRETARIES OF STATE, TO HM TREASURY AND TO THE CABINET OFFICE?

ANSWER: YES

There are numerous examples of formal reports, programme status updates and letters which evidence the visibility of operational difficulties of Project Horizon at the highest levels of central Government, with varying degrees of detail on technical issues.

5.1.1 One of the most significant reports on Horizon to be recently disclosed was commissioned by HM Treasury and completed in July 1998; authored by a panel of independent

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6 Appendix A (document 14) p.258
experts it is known as the Montague Report and is filed in dossier JB 3/20 under the heading ‘BA/POCL AUTOMATION PROGRAMME REVIEW, HM TREASURY INDEPENDENT PANEL REPORT, ADRIAN MONTAGUE, BILL ROBINS, ALEC WYLIE, JULY 1998’.7

The panel’s findings were shared with the inter-departmental Horizon Working Group (comprising of officials from HMT, DTI and DSS) whose recommendations in turn informed an inter-Ministerial core tasked with deciding the future of Project Horizon.8

The HM Treasury panel is referred to in a letter of May 1998 from the HM Treasury Paymaster General, Geoffrey Robinson, to Frank Field, Minister of State for DSS (Welfare Reform). In the letter, Robinson shared Field’s concerns over the future of Project Horizon whilst reassuring him that: ‘Our officials have been keeping us closely in touch with progress. The Expert Panel reviewing the deliverability of the project is now set up and scheduled to deliver its report by 19 June [1998]. The Working Group will report to us within a week of receiving the Panel’s report. We should then be in a position to meet and take decisions on the first week of July’.

The Paymaster General’s letter was copied to the Prime Minister; he did convene a preliminary meeting9 but Ministers did not meet until the fourth week of July to decide Horizon’s fate and astonishingly made no clear decision on the future of the project for a further ten months.

The Expert Panel had been established in response to concerns raised by Ministers over the Horizon programme as early as September 1997 and DSS Secretary of State, Harriet Harman, had brought it to the personal attention of the Prime Minister, Tony Blair, in a letter of February 1998.10 This appears to have been the catalyst for HM Treasury’s review. Chaired by Adrian Montague, Head of the Treasury Public Private Sector Task Force, the Panel considered a number of options for Project Horizon ranging from continuing ‘as is’, to reconfiguring the project without the BPC, or to its complete cancellation.

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7 Appendix A (document 1) p.230
8 Appendix A (document 2) p.238
9 Appendix A (document 7) p.249
10 Appendix B (document 2) p.261
The Montague Report\textsuperscript{11} identified key areas for improvement on strategic and operational issues which threatened the project’s completion within an acceptable time-scale unless urgently addressed. Although the report upheld the programme’s technical viability, it revealed a project in significant difficulty on strategic, critical path and operational levels. Though shared with Ministers, its contents were considered too sensitive for full disclosure to ICL, to the DSS or to POCL and it was shared on a provisional basis only with the DTI Select Committee.

‘...there are no end-to-end descriptions of the system and process architectures, which makes it difficult to plan and manage the programme. Without these, and a master critical path activity network, alignment between the parties will always be difficult and contentious’ p.14.

‘The HPO [Horizon Programme Office] must drive for resolution of all the issues we have identified as on the critical path...before end July [1998], if there is to be any chance of improving the forecasts we have made for completion of the Horizon programme’ p.14.

With regard to the HPO: ‘There is evidence of under-resourcing in terms of numbers of people, the necessary skills mix and funding. While BA and Pathway are buying in the resources and skills they need, POCL are using in-house staff where possible. If the HPO is to drive the programme as a whole, it is essential that key roles in it are resourced to standards comparable with those being achieved across the rest of the programme’.

‘In our opinion, there are not enough high calibre staff in the HPO particularly in key positions such as programme office: only a few HPO staff have relevant experience in managing such a large and complex programme’ p.15.

Among the programme’s strategic issues, considered fundamental to the project ‘...with severe risk of its failure if they remain unresolved’, the Montague Panel identified:

‘- POCL must also convince the other parties of its organisational capacity for rollout and service delivery...’

‘- the lack of a single owner for the project is a major drawback’ p.18.

Under the critical path issues which were identified:

\textsuperscript{11} Appendix A (document 1) p.230
‘There is a further group of issues whose resolution is essential for the parties’ agreement about programme milestone dates, especially the start of live trial and national rollout. Agreement is needed quickly and should not wait for commercial and legal discussions to be complete’ p.19.

Also under this category:

‘...big issues of uncertainty relate to:

... the ability of the parties to agree to acceptance criteria and process so that acceptance is achieved in a timely way’ p.19.

‘Pathway also has work to do to convince the other parties that:

- the essential nature of the security requirement has been taken seriously;...

- there is a consistent, complete and scaleable technical design’ p.19.

Under Operational Issues (‘We would have expected these to have been resolved at working level’) were mentioned ‘problems with EPOSS’ p.20.

In conclusion, the Panel recommended:

‘In summary, if there is a commitment to the programme at the highest level (ie with the strategic issues resolved), the main risk lies in the ability (or otherwise) of the 3 parties to clear all the critical path issues (listed below for convenience) by end July’ p.20.

It was a long list. Twenty four issues were to be resolved by the end of July 1998. Two Outstanding Issues were listed as ‘Issues with EPOSS’ and ‘Issues with Reference Data’. (Concerns over reference data were again brought to the attention of the DSS Permanent Secretary in September 1998. 12)

Ministers did not even meet to decide the fate of the project until 23 of July 1998 by which time circumstances were hardly conducive to consensus; four days later and four days before Parliament’s summer recess, the Government busied itself with a major Cabinet reshuffle. On 27 July 1998 a new Secretary of State assumed the mantle of the DSS (Alistair Darling replacing Harriet Harman). The Minister for Welfare Reform, Frank Field, who had exercised great scrutiny over Project Horizon and whose voice of reason went largely unheeded, resigned. A new Secretary of State took the helm at the

12 Appendix B (document 15) p.280
DTI (Peter Mandelson replacing Margaret Becket). A new Minister for the Cabinet Office arrived on the scene (Jack Cunningham replacing David Clark) and a new Chief Secretary to the Treasury took his place centre stage (Stephen Byers replacing Alistair Darling).

But it is apparent that, despite the observations and warnings of the Montague Report and notwithstanding its urgent recommendations to resolve the project’s difficulties by the summer of 1998, no Ministerial decision was forthcoming on its future until the project reached its crisis point, ten months later, and agreement was reached at 3am on the morning of 24 May 1999. Until then, with every passing week of procrastination Horizon sleepwalked further toward rollout, sliding inexorably down its convoluted path to the point of no return. With every month of Ministerial indecision, the business case for all parties disintegrated further and any legal grounds for cancellation, to which the Government may once have been entitled, ebbed almost to nothing.¹³

‘...the further we go down this path, the less possible it will be for Government to pull out’.¹⁴

The National Archive dossiers contain many other documents to evidence the information which was brought to the attention of senior Ministers not only at the department for DSS but also at the DTI, Cabinet Office, Treasury and to the Prime Minister himself. Concerns regarding delays and technical problems were brought to the attention of central Government on multiple occasions prior to its deciding the future of Horizon in May 1999.

Other notable examples include:

5.1.2 An inter-Ministerial meeting of June 1998 which began with DSS Minister, Frank Field, warning of the need ‘to recognise that ICL have had serious difficulties and there are still important issues about the robustness of plans for the roll-out into Post Office’.¹⁵

5.1.3 A letter of September 1998 from BA CE, Peter Mathison, to DSS Permanent Secretary, Ann Botwell: ‘Put simply, I believe Option 1 [continuation of Horizon ‘as is’] will continue to fail, demand extra resources which I do not have, and place the secure delivery of benefit Payment at risk’.

‘What we have seen indicates they [Pathway/POCL] are experiencing problems, for example with reference data. There is a strong possibility that progress currently reported is being achieved by

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¹³ Appendix A (documents 3 and 14) p.243 and p.258
¹⁴ Appendix B (document 17) p.284
¹⁵ Appendix A (document 4) p.245
postponing activities which push problems back to a later phase of the plan. This must be storing up high risk of further delay.

We are more directly involved in the first phase of end to end testing. This started on the 10 August and has already experienced significant delay eg the new functionality for urgent payment is not working an obviously critical and basic requirement’.

‘All of this, together with 25 years experience of a wide range of major projects, leads me to conclude there is a high risk of further significant slippage to the start of national rollout, significant delays during rollout, with the possibility of full rollout never being achieved’.

5.1.4 A Briefing of March 1999 from Sarah Graham, PFO Sp Proj, to DSS Secretary of State, Alistair Darling, reported: ‘...since December, timetable delays have become so significant that a further major review is now called for...’. It went on: ‘you will be aware that a key milestone agreed in the course of the Corbett negotiations around the testing timetable, was missed in December; and there have been consequent difficult discussions between the parties about the implications of that slippage for the overall timetable; our view there is now an additional difficulty [sic], which could mean a two month delay in the planned start of “live trial” - which in turn effect [sic] the date by which ICL could hope to win formal “acceptance” (with the key funding implications that carries). The problem lies around the Model Office Test, which has to be approved by all three parties before the “live trial” can begin; the faults reported at the end of the Model Office Test are greater than they were at the start of the testing. Post Office nonetheless are willing to accept that the programme can now proceed to “live trial”, whereas DSS/BA do not...’

‘Acting on your authorisation from our meeting on 4 March, I have copied this submission to Stephen Ward, Lord Falconer’s Private Secretary who works on this [Minister of State for the Cabinet Office].’

5.1.5 A document entitled BRIEFING FOR THE PRIME MINISTER’S MEETING WITH FUJITSU of April 1999 from BA Project Director, Vince Gaskell, which is copied to DSS Permanent Secretary, Rachel Lomax, and BA CE, Peter Mathison, gave an update on the current programme status:

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16 Appendix B (document 15) p.280
17 Appendix C (document 31) p.351
Today was the Release Authorisation Board (RAB), to decide whether to proceed with the start of the Single Benefit Live Trial. As you know we have gone to considerable lengths in recent weeks and months to persuade POCL about the level of assurance we would need to agree to proceed with the Live Trial.

That assurance has not been forthcoming and we had to make that clear to POCL and ICL at the RAB today and therefore withhold our agreement to proceed. I will be writing to POCL setting down the reasons why this is the case and Hamish has a draft for me to consider.

Urgent discussions are now taking place to try to find a way forward but it is clear to me that there will now have to be a delay to the start of the Live Trial and a resulting impact on the start of the National Rollout and later phases of the Programme.

This will further damage everyone’s business case for continuation. The timing is unfortunate but this is a key Programme milestone and views/decisions had to be made. I have spoken to Alistair Levy should any approach be made to SoS before our submission’.

‘Clearly some of the above, including current Programme issues will need to be included in briefing the Prime Minister and we do need to brief our SoS carefully.

We need to meet with DTI and HM Treasury this week to raise our concerns and try to agree a common agenda in moving forward’.

5.1.6 If there is any doubt as to whether senior Ministers were aware of the serious technical difficulties with Horizon before its reconfiguration, they are allayed by the Eleventh Report of the DTI Select Committee of September 1999. As part of evidence-gathering for the report, the Committee questioned three Ministers of State during an oral evidence session of 14 July 1999: DSS Secretary of State, Alistair Darling; DTI Secretary of State, Stephen Byers, and Chief Secretary to the Treasury, Alan Milburn. The Committee was forthright in questioning its unprecedented triumvirate of senior witnesses, to whom it referred as the Three Tenors, to determine the causes of Horizon’s disastrous

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18 Appendix C (document 35, p.2) p.358
history up to May 1999. Their inquiries uncovered a consensus of opinion regarding the failure of ICL to deliver a project which functioned with reliable accuracy:

‘...there were hundreds of problems with it in terms of inaccuracy and difficulty...’ 20

‘...it was perfectly obvious there were technical problems—as Stephen Byers and I have said when it was tried in laboratory conditions, if you like, it was still making too many errors to be safe to use...we did not dump the BPC, it was not there to be dumped, it just was not operating, it was not delivering’. 21

All three Secretaries of State agreed that the instability of the BPC rendered it unfit for purpose; their duty to ensure the accurate payment of benefits left the Ministers no choice but to reject the faulty system:

‘...if you get so much as a 1 per cent failure in accuracy of the payments, that would mean that 7.5 million people would get the wrong benefit... We do have a duty. We deal with some 70 per cent of the population every day and I think we have a public duty to ensure we get a system which is as accurate and secure as possible’. 22

‘Increasingly what became clear to all of us was that the BPC was undeliverable...’ 23

‘Can I say that I am not sure it is a question of choosing to dump it, I think in the end it was inevitable that we could not go ahead with it out of necessity, because it simply was not going to work...I have to say, when I took my decision along with Alan and Alistair about our approach, it was not just the additional costs which I had in mind, it was the fact that I did not believe the Benefits Payment Card could operate. It was the complex technology, it was building on the need to have an automated platform, and then the technology on top of that, then in the live trial in the autumn of last year the milestone had not worked, had not gone ahead, so there were all of those problems. So in the end I had to say it was an inevitable decision’. 24

20 DSS Secretary of State, Alistair Darling, oral evidence session (July 1999) ibid. para. 154
21 DSS Secretary of State, Alistair Darling, ibid. para. 166
22 DSS Secretary of State, Alistair Darling, ibid. para. 159
23 Chief Secretary to the Treasury, Alan Milburn, ibid. para. 147
24 DTI Secretary of State, Stephen Byers, ibid. para. 161
The Three Tenors were singing from the same hymn sheet; each conveyed resounding failure without betraying details, honouring the confidentiality which had so successfully shielded Horizon from parliamentary scrutiny from the outset. They did not elaborate on ‘all of those problems’ but they left the Committee in no doubt that they were there.

For its part, the Committee struggled to reconcile this view with the advice which it knew the Government had received from Anderson, from PA Consulting and from its own independent reviews which allegedly gave assurance of Horizon’s robustness. The Working Group Report of November 1998, prepared by a Treasury-led secretariat, cited DSS concerns over Horizon’s ‘very significant’ risks but it weighed these against the advice of ‘independent experts’ who, the authors maintained, validated the system. This advice gave grounds for Horizon’s continuation.

The stark disconnect between advice that the Government claimed gave it assurance of Horizon’s technically feasibility, versus the reality of its increasingly obvious unfeasibility, was never fully addressed by the Committee. But doubts must be raised over the quality of advice on which the Government was basing its decisions, advice which was manifestly thrown into question by the repeated failures of Model Office Testing. Advice which contradicted the warnings issued by its own personnel within the DSS department, those who maintained direct reporting links into the heart of the project and who sought to alert HM Treasury to what they saw:

‘I believe our Secretary of State is aware of my views and hence his acceptance that I will require formal direction if Option 1 is chosen. However, this programme will be subject to an NAO report and a PAC review. During this process I assume senior officials in Treasury and DTI will be asked to account for their decision if they recommend OPTION 1 to their Ministers.

It is important that we ensure those senior officials are fully aware of my conclusion of the probable outcomes of continuing with the card project…

I would ask Stephen Hickey to make sure Treasury officials consider this…’

When the Government agenda demanded the entire project be kept afloat in the autumn of 1998, it advanced the opinion of its ‘experts’. Retrospectively, when the project failed and Ministers

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25 ibid. para. 142

26 Appendix B (document 25) p.294

27 Appendix B (document 15) p.280
were called to account for their decisions, they maintained they had heeded, and acted upon, the warnings of risk:

‘It is worth reminding the Committee that when we had a live trial of the Benefit Payment Card last autumn [1998] it failed...None of the three of us wanted a situation where people turned up to get their benefits paid and were denied payment for one reason or another. As Alan has said, the report we got from the interdepartmental group made it very clear that there was a substantial risk that would be the case, and we were not prepared to take the risk of putting financially vulnerable people in the situation where they were not receiving their benefits’.

The reality was that Ministers did not abandon the BPC in the autumn of 1998, they drove its development further, heeding only the advice which reinforced their preferred option. And the inability to make sound judgements on the basis of all available evidence did not bode well for the reassurances the Government gave for the reconfigured Horizon in May 1999.

The following document indicates the level of available technical detail which informed Ministers as they deliberated on Horizon’s future at the BPC’s eleventh hour.

5.1.7 On 15 April 1999 a fifteen-page report was submitted by Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, in preparation for his imminent inter-ministerial meeting on Horizon’s future. It was written in response to ‘Papers you requested following yesterday’s discussion on the current position’ and included ‘a brief account of the position of the project covering the state of the trials and delays’. It was copied to DSS Permanent Secretary, Rachel Lomax, and BA CE, Peter Mathison.

With regards to Horizon’s current status, Graham covered ‘recent difficulties in testing the next ICL Pathway Software release’ and ‘preparations for the Live Trial for ICL’s product’:

‘3. Following technical testing of the latest ICL Software New Release 2 (or NR2) four separate Model Office and end to end tests have been undertaken. Each of these tests have taken approximately one month to complete. At the end of each run all significant incidents were corrected and proved through ‘target’ testing. In theory, the next Model Office test should

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28 DTI Secretary of State, Stephen Byers (n.19) para 158

29 Appendix C (document 36) p.360
have produced a relatively clean run. However, in practice, each of the subsequent Model Office tests has raised as many new incidents as generated through the previous runs.

4. Initial test runs of the software should have been completed by mid December 1998, but because of the above problems testing was halted for two months whilst ICL took steps to put right large numbers of major faults. This was overseen by POCL.

5. As we entered the formal and what should have been the final Model Office run in Feb/March we made it known to the Horizon team our considerable concerns about the creation of new incidents and gave a view that it might be necessary to have an additional run of Model Office. In the event a further 200+ new faults were identified. Some of these were critical and would directly affect the correct or timeous payment of 1% of benefit payments in a Live Environment.

6. Further targeting testing has taken place to fix all major faults identified but to date we have not seen a clean run of Model Office. Our definition of a clean run has been set at no incidents which would provide incorrect or delayed payments and only a modest number of background system problems.

7. POCL have rejected that view arguing that the targeted tests have dealt with all known faults, further tests will be costly and will delay the start of the Live Trial and National Roll Out’.

This information was passed to Darling, at his request, just weeks before Horizon was reconfigured into a system intended for rollout by POCL in August 1999.

This report of 15 April 1999 indicated that, at the time of writing, a Live Trial of the BPC was due to commence on May 10 1999, and that the software was to be ‘monitored closely’ for 15 weeks during the Live Trial. This directly undermines the impression given to the DTI Select Committee by the three Secretaries of State in the session cited above. 30 Three senior Ministers led the Committee to believe that the failed Live Trial of the BPC in late 1998 led to a Ministerial decision soon after:

30 (n.19)
‘...it was clear by January this year that the Benefits Payment Card simply could not be
delivered’.31

‘...a very important milestone was missed, as a result of that, it was becoming increasingly clear
that the three-year delay that we had already suffered could well be even longer...when we looked at
the issue in January there was a very clear conclusion that needed to be reached...’.32

‘Actually by the beginning of this year I think there was a fairly healthy scepticism that it was
looking undeliverable’.33 This is an account echoed in the Joint DTI, DSS, HM Treasury Memorandum
which refers to ICL’s failure to deliver the key milestone of October 1998 which ‘raised again
Ministers’ concerns that the project in its existing form was simply too complex and looked
undeliverable’.34 But it is not consistent with evidence in dossier JB 3/22.

The National Archive documents provide evidence that the BPC was kept under development
for a further five months, long after the Secretaries of State claimed that ‘substantial risks’ identified
by the interdepartmental group in late 1998 were too great for Ministerial appetite. The reasons for
this are considered in more detail in Part 6.

5.1.8 Correspondence between Milburn and Byers in February 199935 confirm their shared
intention to keep open the option of launching the BPC, despite later claiming that they knew by this
time it was seriously flawed. A planning meeting was held between the DSS and ICL on 22 February
1999 to agree on a revised timetable for the next card release36 and a final Model Office run of
February/March went ahead with a view to Live Trial on 10 May.37 The continued development of the
BPC after January 1999 is corroborated by the ICL Pathway Ltd Annual Accounts 1999-2000: ‘At the

31 DTI Secretary of State, Stephen Byers, ibid. para. 161
32 DTI Secretary of State, Stephen Byers, ibid. para. 170
33 Chief Secretary to the Treasury, Alan Milburn, ibid. para. 140
34 Joint DTI, DSS, HM Treasury Memorandum submitted to DTI Select Committee Eleventh Report (n.19) alongside oral evi-
dence session (June 1999) para.12
35 Appendix C (documents 22 and 23) p.341 and p.342
36 Appendix C (document 25) p.344
37 Appendix C (document 36) p.360
start of the year under review, the company was still engaged on the development and testing of its system relating to its original contract entered into on 15 May 1996...’.

Why was information regarding the continued development of the BPC for months after it was known to be ‘beyond resurrection’ withheld from the Select Committee? And does the fact that representatives from three Government departments, the Post Office and ICL Pathway all failed to make this disclosure, either in oral evidence or in written submission, indicate a complicit agreement between the parties not to do so?

5.1.9 Moreover, in a letter to the Prime Minister of 24 February 1999, the Chief Secretary to the Treasury, Alan Milburn, and Lord Falconer failed to disclose the crucial information of the BPC’s failings when seeking Blair’s agreement to proceed with discussions with ICL. The content of their letter was strongly criticised by the DSS:

‘The letter ignores the risks around continuing with the Benefit Payment Card...It might at least have mentioned Alistair’s serious concerns about the BPC. Is the Prime Minister aware of the PAC issues etc which will arise if we continue “as is”?’. This replicates exactly the way in which DSS concerns regarding Horizon’s viability had been sidelined by HM Treasury in the autumn of 1998 when the DSS complained to HM Treasury that the draft paper for submission to the Prime Minister was not a fair reflection of the reality:

‘Ministers must have before them the following key considerations’

‘...there is no confidence in even the revised timescales proposed for the project: the track record of both ICL and POCL strongly suggest the likelihood of further slippage. The revised timetable has already slipped in some areas’.

‘We must ensure that Ministers understand the issues’.

‘This is a disgraceful representation - it makes no mention of the fact that it is ICL/Pathway who have failed miserably to deliver functionality to enable the card to be rolled out’.

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39 Appendix C (document 27) p.346

40 Appendix B (document 19) p.287
HM Treasury, it appeared, was playing a high stakes game of hide and seek with the evidence of ICL failure which the DSS was desperate to advance.

The Prime Minister had already made it known that, in the event of negotiations failing, he did not wish Horizon to be aborted because of the detrimental impact upon ICL and ‘UK Plc’ but would ‘favour continuing with the project even if that means including the Benefit Payment Card product’.\(^{41}\)

5.1.10 In a letter of February 1999 to the Chief Secretary to the Treasury, Byers went so far as to state that his support for the Treasury’s proposal was conditional upon the option of the Benefit Payment Card being kept open as a backstop. These were the convoluted dynamics by which this sinking flagship was kept afloat; the DTI Secretary of State insisting that the DSS keep developing, and if need be launch, an IT system which he already knew to be unacceptably inaccurate. Referring to BA’s recent suspension of work on the multi-benefit aspects of the BPC he argued ‘My agreement to the proposal contained in your letter is conditional on the BA continuing to cooperate in development of the BPC...We cannot afford to allow the bpc option to slide away from us unless and until we are absolutely clear that all the elements set out in my letter to you yesterday including a package which is acceptable to the Post Office Board as a commercial proposition can be got right’. Byers maintained that if ‘we risk losing Option 1 before your option is clearly within our grasp, then we should accept that we move as rapidly as possible to Option 1’.\(^{42}\)

Option 1 was to continue ‘as is’; Option 1 meant the launch of the Benefits Payment Card.

5.1.11 A briefing report of 1 March 1999 submitted to the incoming DSS Permanent Secretary\(^ {43}\) made clear that the launch of the BPC was still a possibility, one which would necessitate a third Ministerial Direction.

5.1.12 Finally, a letter from DTI Secretary of State, Stephen Byers, to Chief Secretary to the Treasury, Alan Milburn, of 16 April 1999 referred to the Option of continuing with the BPC: ‘most of the technology is available. It is probably the cheapest of the options and could still be a gateway to Option B’.\(^ {44}\) Contrary to what senior Ministers led the Select Committee to believe, they were still

\(^{41}\) Appendix C (document 29) p.348

\(^{42}\) Appendix C (document 23) p.342

\(^{43}\) Appendix C (document 29) p.348

\(^{44}\) Appendix C (document 37) p.367
considering the launch of the BPC, despite its disastrous performance, if negotiations with ICL failed to deliver an acceptable alternative.

The intentions and implications of this modus operandi are noteworthy. Ministers maintained a secret readiness to launch an imperfect system, perhaps in the hope that workarounds could somehow render it ‘good enough’. Was this the stance the Government took between July 1999 and January 2000 when advising the Post Office whose Board was reluctant to Accept or launch Horizon in the light of clear evidence of underlying instability? Did Horizon’s contractual amendments of May 1999 and September 1999 make provision for mitigation strategies to manage known faults and their associated risks?

5.2 QUESTION 2: WHAT WAS THE IMPACT OF MINISTERIAL INDECISION ON THE FUTURE OF HORIZON?

ANSWER: SIGNIFICANT

5.2.1 A five page letter of April 1998 from the Minister for Welfare Reform to the HM Treasury Paymaster General made clear the urgency for clarity on Horizon’s future:

‘...it is my view that we should work to take a decision on the future of the project at the earliest opportunity, and certainly no later than the end of June [1998]. If we do not do so - for example because a clear view of the Post Office’s business strategy will not be established for some considerable time - it should be in the full knowledge that we could even so be taking a decision by default: every day we allow the project to continue without a clear decision could seriously undermine our position to a point where termination – except at great cost to Government – would cease to be a feasible option’. 45

5.2.2 ‘We now need to meet urgently and to take decisive action before the recess’. 46

5.2.3 An ICL Position Statement of July 1998 was attached to a letter from its CE, Keith Todd, and copied to the Treasury Paymaster General and DTI Minister for Competitiveness. Todd, too, argued for a Ministerial decision on the future of Horizon at the earliest opportunity:

45 excerpt from dossier JB 3/19 not summarised in Appendices A-C

46 Appendix A (document 9) p.252
‘Ministers should take careful note that the prolonged delay in moving forward to the next stage of roll-out has had a drastic impact on the financial viability of this programme...’

‘...unless there is a clear, unequivocal commitment soon by the Sponsors to move forward rapidly on this automation programme, it will not be possible for ICL to raise the financial support necessary to maintain our ongoing, heavy investment in the programme beyond September. In short, the BA/POCL automation programme has become unbankable’

‘...time is running out. We hope that Ministers will recognise the vital importance of moving forward rapidly on this project’.47

5.2.4 ‘- the further we progress with the project, the more difficult it will be to withdraw from the project sensibly and put an alternative in its place; in effect, a decision to continue will be taken by default, which you may not be prepared to accept;

- the longer we delay, the greater the risk of incurring potential legal liability for failure to respond in good faith, as required to do under the contract, to commercial proposals put to me by ICL last December.

- Ministers have known about delays and additional costs to the project since last summer: a year has passed with no substantive action’.48

5.2.5 A draft letter to the Prime Minister read: ‘One of the first issues to cross my desk is the failing £1 billion PFI project to automate Post Offices and introduce a Benefit Payment Card. We need to take an urgent decision on this’.

‘In the meantime, decision on the project is urgent if we are to safeguard the Government’s contractual and negotiating position with ICL, and to reduce the risk of Government exposure to costly litigation’.

‘This is a critical, and high profile, project which has been floundering for too long’.49

5.2.6 The urgency for Ministerial decision was echoed in a response from ICL Pathway MD, John Bennett: ‘I asked him whether there was anything that POCL or BA were doing or failing to do which

47 Memorandum attached to letter from ICL CE, Keith Todd, Appendix A (document 12)
48 Appendix B (document 2) p.261
49 Appendix B (document 4) p.266
was slowing Pathways rate of progress. His answer related only to the need for the Ministerial decision on the major options before us’.\(^{50}\)

5.2.7 The onus was on the Government, informed by its Montague and Working Group Reports, to commit to an option which would unlock Horizon’s impasse: but divergent agendas of the DSS and DTI, coupled with a lack of decisive leadership at a strategic level, left a dangerous vacuum, articulated most succinctly by the DSS Secretary of State in November 1998:

‘endemic problem with this project - structured around different, and at times conflicting objectives for Post Office and DSS/BA - ICL are well aware of this and are able to drive a coach and horses through the middle - we need to have an agreed Government line as a pre-requisite to pursuing productive negotiations with ICL’.

‘An urgent inter-Ministerial meeting is necessary, on “Good Friday” terms – nobody leaves until a way forward is decided’.\(^{51}\)

5.2.8 ‘It was imperative that Ministers decided a way forward without delay’.\(^{52}\)

5.2.9 ‘...enough is enough...and to go on negotiating longer than that is ridiculous; it is now a year since ICL were put in breach of contract...’.\(^{53}\)

Sarah Graham, PFD Sp Proj, who appeared to coordinate the DSS Horizon Project from her ‘central/strategic’ role (though her remit is never specified), referred to the need for a ‘strategic framework within Government for re-engineering the next phase of the project successfully’.\(^{54}\) But leadership passed from pillar to post as various departments, Government-appointed facilitators, an Inter-Ministerial core and ultimately the Treasury stepped in and out of the fray. No choice was made on whether to continue, cancel, or reconfigure Horizon and the impacts of undue delay were manifold:

\(^{50}\) Appendix B (document 7) p.270
\(^{51}\) Appendix B (document 21) p.289
\(^{52}\) Appendix B (document 22) p.290
\(^{53}\) Appendix B (document 27) p.299
\(^{54}\) Appendix A (document 6) p.247
5.2.10 ‘Time is short and every day that passes without a resolution adds to the cost and the risk inherent in this project’.55

5.2.11 ‘Government is being strung out by ICL until a position is reached when it will be more difficult and more embarrassing for a halt to be called to the project. The strength of the Government’s legal position in relation to ICL, when we come to a formal negotiation (which we will do under any option), is beginning to look significantly more vulnerable the longer a decision is deferred’.56

5.2.12 ‘The longer we delay the greater the very real risk that decisions will increasingly be made for us by default...’.57

5.2.13 In allowing Horizon’s drift, the Government signalled its tacit acceptance of ICL’s repeated failure to deliver; this weakened its own position with regard to termination which had been strong in 1998 as a consequence of ICL’s failure to achieve a contractual milestone in November 1997. By February 1999 it was feared:

‘they [ICL] are clearly positioning themselves to be able to sue us on the basis that each of their failures has been accepted by Sponsors’ [sic] through our conduct in agreeing to replace and extend the timetable. Even if we do not get into a legal battle, I feel certain they will use this position to maximise their negotiating power...I understand the Joint Programme Lawyer supports my view’.58

5.2.14 ‘...as we have always advised, the longer a clear way forward is delayed, the more the strength of the Government/public sector position is eroded...’.59

5.2.15 ‘...events surrounding the existing project’s development which point to its grinding to a halt by April of its own accord, because of the lack of any contractual basis on which to proceed’.60

55 Appendix C (document 2) p.310
56 Appendix C (document 8, p.3) p.320
57 Appendix C (document 14) p.330
58 Appendix C (document 25) p.344
59 Appendix C (document 26) p.345
60 Appendix C (document 31) p.351
5.2.16 By November 1998, as difficulty descended into crisis, HM Treasury asserted itself at the project’s helm\(^61\) and engaged directly in talks with ICL.\(^62\) Yet still consensus on Horizon’s future lay tantalisingly out of reach.

5.2.17 Only one voice, that of Minister of State for Competitiveness, Ian McCartney, spoke of the impact of Ministers’ Horizon indecision on the fate of Sub-Postmasters and Sub-Postmistresses:

‘We simply cannot allow ourselves the luxury of continuing to avoid a decision by tabling each time some new variation on which to commission further work. The continuing delay and uncertainty is already causing serious damage and hardship. The 18,000 subpostmasters, who have collectively sunk £1 billion of their own money in the business, are finding it increasingly difficult to sell their business when they wish to retire or move on. The number of such offices remaining unsold on the market is unusually high. Reinforcing this, the number of net closures within the network (offices which have closed and for which the Post Office has been unable to find replacement subpostmasters) in the seven months since the beginning of April is running at some 50% above the level of previous years. Most of them are those which for social reasons we least want to lose. The General Secretary of the National Federation of Subpostmasters is in no doubt that the largest single factor behind these depressing figures is the continued uncertainty about the future of the Horizon project and the associated introduction of the bpc’.\(^63\)

5.2.18 By March 1999:

‘Given the extended history of the Horizon project, I am clear we must ensure that all parties engage in the negotiations with urgency at the highest level to agree something concrete within the period...’\(^64\)

5.2.19 By April 1999 Fujitsu Chairman warned the Prime Minister ‘...it is unfortunately the case that there is only a short time left to reach a final agreement on Option B1 and thus save this project’.\(^65\)

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\(^{61}\) Appendix B (document 28) p.302

\(^{62}\) Appendix C (document 26) p.345

\(^{63}\) Appendix C (document 14) p.330

\(^{64}\) Appendix C (document 30) p.350

\(^{65}\) Appendix C (document 32) p.354
5.2.20 The final decision to abandon the Benefit Payment element of Horizon was not made until 11 May 1999. The timing coincides with Horizon’s scheduled Live Trial of 10 May for which the DSS refused its permission to proceed. A briefing of 11 May referred to a communication of 10 May from the Chief Secretary to the Treasury regarding the Ministers’ stance which kept the Prime Minister ‘fully in touch with the latest position’.

5.2.21 We do not know the contractual details of the re-configuration of Horizon in May 1999, but there is no doubt that the Government had seriously undermined its own negotiating position by failing to reach a decision, as promised, in July 1998:

‘...decision on the project is urgent if we are to safeguard the Government’s contractual and negotiating position with ICL, and to reduce the risk of Government exposure to costly litigation. ICL Pathway and their Fujitsu parent company have been led to expect a decision at the end of July [1998]. We can probably buy a few weeks more time on the back of the recent change of Ministerial responsibilities; but beyond that we run a severe risk of a damages claim from ICL, because of our failure to negotiate in good faith in response to the commercial proposals they put to the Government at the end of last year’.

5.3 QUESTION 3: WAS THE PRIME MINISTER ALERTED TO DIFFICULTIES WITH THE HORIZON PROGRAMME PRIOR TO DETERMINING ITS FUTURE?

ANSWER: YES

5.3.1 The Prime Minister, Tony Blair, was personally involved in the decision to reconfigure Project Horizon. As early as February 1998, DSS Secretary of State, Harriet Harman, had alerted Blair to problems regarding Horizon: ‘there is a serious risk that this project will fail to deliver its objectives – or will not do so within a timetable that will make it worthwhile’.

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66 Appendix C (document 39) p.370
67 Appendix C (document 38) p.369
68 Appendix B (document 4) p.266
69 Appendix B (document 2) p.261
A number of subsequent communications were copied to the Prime Minister\(^{70}\) whilst others were addressed directly to him, or make reference to direct communications with him.\(^{71}\)

5.3.2 It was the failure of senior Ministers to arrive at a consensus on Horizon’s future, despite the recommendations of the Montague Report and the Working Group Review, which led to a referral to the Prime Minister for his formal steer:\(^{72}\)

‘There was an almost full house of Ministers present: CST in the Chair, Peter Mandelson, Ian McCartney, Jack Cunningham, Alistair Darling; officials were Adrian Montague (Head of the HMT PFI task force), there to report on the discussions with ICL he has been spearheading; Sarah Mullen, HMT, who has been doing the work on pulling together the Horizon Progress Tracking Group Report; David Sibbick, Director of Posts from DTI; CST’s and Mandelson’s Private Secretaries; and me for DSS. Geoff Mulgan from No.10 Policy Unit was also present.

Unfortunately Lord Falconer was unable to attend’.

‘Ministers could not reach a consensus on the route forward; and it was therefore decided to refer the issue to the Prime Minister...'\(^{73}\)

5.3.3 There are multiple references to the Prime Minister’s direct influence on the course of events in the latter stages of negotiations:

‘given the Prime Minister’s decision that we should work with ICL…’\(^{74}\)

5.3.4 ‘Once the Prime Ministerial “go ahead” has been received it will be important to secure openness between us and Treasury about how best to proceed’.\(^{75}\)

5.3.5 ‘Following up the Prime Minister’s agreement to move forward on the so-called “Treasury Option”’.\(^{76}\)

\(^{70}\) Appendix A (document 9) p.252; Appendix C (documents 5,11, 37) p.315, p.327, p.367

\(^{71}\) Appendix B (documents 4, 17, 19, 28, 29); Appendix C (documents 14, 17, 19, 24, 26, 30, 32, 35)

\(^{72}\) Appendix C (documents 10, 12) p.325 and p.328

\(^{73}\) Appendix C (document 10) p.325

\(^{74}\) Appendix C (document 18) p.335

\(^{75}\) Appendix C (document 26) p.345

\(^{76}\) Appendix C (document 28) p.347

(Page 80 of 579)
5.3.6 ‘Discussions with ICL on redeveloping the project were authorised by the Prime Minister on 1 March’.

‘The Prime Minister has asked for an update, on which he is expecting to decide one way or another about the future of the project, by the end of April’.77

5.3.7 It was the Prime Minister’s preference for the BPC to be dropped in favour of the Smart Card option, but he wished the option of the BPC to remain open:

‘If these negotiations fail, however, the Prime Minister has earlier indicated that he would not wish the project to be abandoned because of its effect on ICL and “UK Plc”, and that he would therefore favour continuing with the project even if that means including the Benefit Payment Card product’.78 Such a stipulation, from the highest authority in the land, prolonged the endless death rattle of the fatally flawed BPC.

5.3.8 ‘One of the Prime Minister’s concerns has been to keep the existing option involving the Benefit Payment Card as a realistic prospect on which Ministers could fall back if they so chose’.79

5.3.9 Deliberations were made at the DSS over whether to inform the Prime Minister directly of significant issues associated with the BPC: ‘It would be re-assuring if we could be certain that the Prime Minister is aware of...the difficulties that persist for DSS/Government if a solution is built around the former - all the problems around continuing with the Benefit Payment Card remain’.80

5.3.10 A document of April 1999 which reported the Release Authorisation Board’s refusal to permit proceeding to Live Trial due to ICL’s failure to meet a key project milestone concluded:

‘Clearly some of the above, including current programme issues will need to be included in briefing the Prime Minister and we do need to brief our SoS carefully’ 81

5.3.11 A ‘Without Prejudice’ letter from Fujitsu Chairman Tadashi Sezikawa of 7 April 1999 was addressed to the Prime Minister and began:

77 Appendix C (document 31) p.351
78 Appendix C (document 29) p.348; Appendix C (document 10) p.325
79 Appendix C (document 31) p.351
80 Appendix C (document 19) p.337
81 Appendix C (document 35) p.358
‘I am sure you have been informed that Mr Keith Todd, the Executive Chief Executive Officer of ICL, wrote to the Secretary of State for Trade and Industry on 25th and 30th March to say that unless the UK Government had approved Heads of Agreement for the future of this project by close of business on 31st March, he would tell the ICL plc Board, and thereafter Fujitsu (as ICL’s Shareholder), that work in the project should stop. Disappointingly, no such agreement was reached and (following discussions with, and the support and approval of, the ICL plc Board) Mr. Todd has made such a recommendation to us. I am writing to let you know Fujitsu’s position in this matter so that you may have time to consider the matter before you see Mr. Naruto (Vice Chairman of Fujitsu, moreover Chairman of ICL) on 12th April’.  

5.3.12 A briefing for the Prime Minister’s meeting with Michio Naruto, Vice Chairman of Fujitsu on 12 April 1999, is missing although three further documents made reference to the meeting.  

5.3.13 Finally, a two page letter of 11 May 1999 from the Principle Private Secretary at 10 Downing Street gave the Prime Minister’s final thoughts on Project Horizon’s future before its reconfiguration:

‘The most rational option would probably be termination. But given where we were starting from with ICL, it would probably be best to commit now to Option B3 [a scaled-down version of Horizon without the BPC] and agree to do further intensive work on Option B1 over the next three months’.

‘He [the Prime Minister] was content for the Chancellor to go over his concerns in more detail with Lord Falconer and other interested parties, to try to fund an agreed way forward. Any solution should meet three key political requirements:

i. we do not want a huge political row, with the Post Office or the Sub-Postmasters’ lobby claiming that the entire rural network had been put in danger by the Government;

ii we should not put ICL’s whole future at risk; and

iii it would be important to ensure that the Government has a fully defensible position vis-a-vis the PAC.

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82 Appendix C (document 32) p.354

83 Appendix C (documents 33, 34 and 35) p.356, p.357 and p.358. The briefing has now been disclosed in the Downing Street Dossiers, Appendix F (document 30) p.511
The Chancellor said that he would discuss the way forward with Lord Falconer and report back to the Prime Minister.’

5.4 QUESTION 4: WHAT WEIGHT WAS GIVEN TO THE INTERESTS OF ICL/FUJITSU AND OF JAPANESE INWARD INVESTMENT WHEN DECIDING THE FUTURE OF HORIZON?

ANSWER: CONSIDERABLE

A number of documents made reference to the intention to protect these interests involving Ministers up to and including the Prime Minister (this objective also resonates through the Downing Street Dossiers):

5.4.1 ‘The Paymaster General [Geoffrey Robinson] was clear that an important consideration was...what the costs might be to UK Plc, should ICL be seen to fail to deliver.’

5.4.2 ‘Strong prejudice from HM Paymaster General to regard ICL interests above parochial DSS or DTI ones - and indeed above wider Government social policy interests’.

5.4.3 The option of termination: ‘is the logical one and has much to commend it, in that it frees public sector parties to re-assess their position from the viewpoint of 1998 and ensure that the IT products are as well-suited to the Government’s needs as possible; however, the potential damage to ICL that must follow for their business prospects and for UK plc, and the risk that litigation with ICL could not be avoided, do not make this a preferred option’.

5.4.4 Indeed, after visiting Fujitsu in Japan in September 1998, Ian McCartney confirmed: ‘Fujitsu had said that they were committed to ICL and to this particular project, but that if the Government cancelled the project, it would put at risk the flotation of ICL. That would in turn put jobs and investment at risk’.

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84 Appendix C (document 39) p.370
85 Appendix A (documents 2 and 11) p.238 and p.255; Appendix C (documents 3,5,8,11,12,13,16)
86 Appendix A (document 4) p.245
87 Ibid.
88 Appendix A (document 9) p. 252
89 Appendix B (document 20) p.288
5.4.5 ‘If the whole project was cancelled (Option 3) Pathway would suffer a loss of around £250m...A write off of anything like this size would clearly be material. There seems little doubt that it would put at risk for many years any chance of a successful ICL flotation (planned for 2000)’.

‘There is also a risk that cancellation might prejudice Fujitsu’s attitude to future investment in the UK. Japan accounted for some 9.4 per cent of inward investment in the UK in 1996. Despite the closure of their semi-conductor plant, Fujitsu remain the single largest Japanese investor in the UK and are highly sensitive to the outcome on Project Horizon. There is a serious risk that cancellation might prejudice not only Fujitsu’s but other existing and potential investors’ future investment in the UK’ 90

5.4.6 ‘Geoff Mulgan from No.10 Policy Unit gave the Prime Minister’s initial view (which he has shared with me earlier) that, given his worries about the effect on ICL/Fujitsu and the Post Office network, he was inclined to continue with the project, but wished there was a solution that stopped us being tied to the Benefit Payment Card (BPC) so closely...’ 91

5.4.7 The ‘immediate and serious consequences’ to ICL of terminating Project Horizon, and the risk of associated damage to ‘UK plc’ was voiced by the DTI Secretary of State:

‘Presentationally, fairly or unfairly, we would be accused of ruining a highly successful UK company. It would also put us in conflict with a major UK investor (Fujitsu) who, with its affiliates, employs around 22,000 people in the UK. This could even impact more widely on Japanese investment here’ 92

5.4.8 The Foreign and Commonwealth Office articulated the position in more depth in an (incomplete) letter to the DTI’s Secretary of State:

‘I have seen your letter of 23 December to the Prime Minister on the pressing need for a decision on the future of the BA/POCL Counters Automation project, Horizon.

It is not for me to comment on much of the debate, which is clearly a matter for HM Treasury, DTI and DSS. But one aspect - the potential impact on inward investment from Japan - does concern us.

90 Appendix B (document 25, p.23-24) p.294
91 Appendix C (document 10) p.325
92 Appendix C (document 37) p.367
It is already clear from the reporting of our Ambassador in Tokyo that Fujitsu - probably the single most important Japanese investor in the UK - are very unhappy with the way this case has been handled.

‘Beyond our relationship with Fujitsu, there is a wide concern about the way the UK is perceived by Japanese investors. By continuing to delay the decision we seriously risk creating a deeply damaging perception of bad faith and poor handling of a major company - with, no doubt, the media and others jumping to the conclusion that we are vindictively responding to Fujitsu’s closure of the semi-conductor plant in the Prime Minister’s constituency.

1998 was a good year for the bilateral relationship with Japan, and Japanese investment is very much at the centre of this relationship. I am very concerned about the prospect of starting the year in such a damaging way, not least when Robin Cook has just assured his Japanese colleague that we attach high importance to the inward investment from other countries and appreciate the assessment of Japanese companies that the UK was an attractive location for them’.93

5.4.9 The rising stakes which were aligned with Horizon’s fate were starting to register on international scale:

‘Our Ambassador in Tokyo, Sir David Wright, has reported that he is coming under increasing pressure from Mr Naruto, Vice Chairman of Fujitsu, ICL’s parent company, for the Government to make its intentions clear...If we continue to gratuitously irritate a major inward investor in high-tech industries in the UK in this way, we shall serve only to damage irreparably our own international competitiveness’.94

5.5 QUESTION 5: WERE MINISTERS AWARE OF CONTRACTUAL ISSUES AROUND HORIZON’S ACCEPTANCE, OF ICL’S INTENTIONS TO RELAX ACCEPTANCE CRITERIA AND OF THE POTENTIAL RISKS OF DOING SO?

ANSWER: YES

The chapter of Horizon’s Acceptance after May 1999 is taken up in Part 8 but it should be seen in context of the debate over diluting Acceptance criteria which opened in 1998. According to DSS archive material, Ministers were keenly aware of the risks and actively involved in the debate; indeed

93 Appendix C (document 17) p.334

94 Appendix C (document 14, p.2) p.330. See also Appendix F (documents 20 and 23) p.494 and p.499
one of the few issues on which Ministers did agree was that ICL’s proposal to relax Acceptance should be flatly rejected.

5.5.1 It was in the interests of ICL to relax Horizon’s Acceptance criteria in order to accelerate the programme’s launch; the PFI contract stipulated there were to be no payments until the Acceptance and release of the system. As early as July 1998 ICL Chief Executive, Keith Todd, urged for speed: ‘The best way forward is to roll out the infrastructure as quickly as possible...Failure to do so will significantly damage ICL and its flotation, and the project’s Sponsors’. 95

5.5.2 Lack of movement prompted a subsequent letter, also from Todd, this time to the Chief Secretary to the Treasury. It referred to a document which made ‘proposals to establish procedures for accepting the system which are fair to both the public sector customers and to ICL, and will also expedite the delivery of the system’. 96

5.5.3 The proposal ‘to scale down the standards required and bring forward the timetable for BA/POCL acceptance of the system’ was not welcomed at the DSS: ‘relaxing the acceptance criteria; early acceptance is crucial to ICL in order to “bank” the project; but it is not acceptable to Government to reduce the current fairly standard criteria, particularly for a project involving £90 billion benefit payments to 20 million people...’. 97

5.5.4 ‘ICL Pathway’s proposals on Acceptance would mean that the Contracting Authorities would be locked into the system before it has been fully tried and tested. BA and POCL have already made very significant concession on Acceptance as part of the Corbett proposal ie in waiving their termination rights at Acceptance of NR2 which does not deliver the full contracted requirements. Both parties are not willing to bring forward acceptance before the end of the Live Trial. Both parties are prepared to consider a modest increase in the number of allowable faults but not in the magnitude being proposed by ICL’.

95 Appendix A (document 11) p.255
96 Appendix B (document 23) p.291
97 Appendix B (document 24) p.292
'Acceptance is a very critical point in the whole programme and under ICL’s proposals would result in significant reduction of POCL or BA’s rights to termination thereafter. Acceptance is a serious issue to resolve properly'.

5.5.5 A briefing note submitted from DSS Sarah Graham to DSS Secretary of State and copied to the BA CE, gave details of advice which had been given to ICL that: ‘in order to raise the money they need on the project, the project needs to be restructured significantly’. In particular, ICL needed to:

‘relax the “acceptance” requirements: ICL want the project accepted at design stage, ie. before it is tested to see if it works in a live trial. This, in order to make the project “bankable” at an earlier stage’.

But Graham argued it was:

‘(a) ridiculous to have less rigorous testing than standard for a project of this scale of importance, given the business that hangs on it - delivering people’s livelihoods to them;

(b) lessons from NIRS2: even with rigorous acceptance testing, it still didn’t work in the field!’

An appendix to this document gave more detail on ICL’s November 1998 proposals with regards to Acceptance.

Under ‘Key changes on Acceptance of the System’:

‘(i) Systems test to be related successful with 230 Category B faults outstanding. Current limit is 9. A category B fault is “a fault which must be fixed but there is a clerical work around”

(ii) Acceptance to be achieved on passing systems test (ie. running this system in a test environment), without full contracted functionality. Current contract gives acceptance after a “Live Trial” (ie. monitoring the system operating in the “Live” environment for three months), with full contracted functionality’.\(^99\)

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\(^98\) Appendix B (document 25) p.294

\(^99\) Appendix B (document 27) p.299
Opposition to relaxing the Acceptance criteria was taken up by the DSS Secretary of State in a letter to the Chief Secretary to the Treasury:

‘On the specific conditions that the proposals seem to involve, I could not agree to the proposed approach to “acceptance testing”. ICL persist in asking for acceptance on the basis of a laboratory test of the systems, as opposed to a live trial - particularly important when for our customers it is the service that is the crucial end product. In fact, the approach being suggested by ICL is almost exactly that followed under the NIRS2 project, where the system was fully accepted in a test environment, but did not work in the field. I am not prepared to sign up to another NIRS2 experience. In any event, when we are talking about a system which is affecting around 15 million people, many of whom are dependent on timely and accurate payment of their benefits for their livelihoods, the political risks are huge if the system is not tested properly before hand to make sure it works. This is a risk I am not prepared to take’.¹⁰⁰

Darling’s objection to the proposals to dilute Horizon’s acceptance criteria continued, this time his concerns were copied to the Prime Minister and Lord Falconer:

‘We all agree, I believe, that ICL’s proposals to dilute the “acceptance” criteria for the project must be rejected...Certainly I cannot responsibly accept any dilution in the “acceptance” criteria for the BPC, which would put us at risk ensuring that the service provided by the system will work. If the system fails, it will be I and my Department who will be held accountable by the 15 million people who will receive Card payments - many of whom are vulnerable and dependent on benefits for their livelihoods. I am particularly conscious of the risks around “acceptance” criteria from our recent experience with Anderson Consulting on the system for National Insurance contributions (NIRS 2), where an almost identical approach was adopted to that now proposed by ICL. It is a risk I am not prepared to take on the Benefit Payment Card’.

The Secretary of State’s letter of 16 December 1998 was copied to the Prime Minister, Tony Blair; DTI Secretary of State, Peter Mandelson; the Chancellor of the Duchy of Lancaster, Jack Cunningham; DTI Minister of State, Ian McCartney and Minister of State at the Cabinet Office, Lord Falconer.¹⁰¹

¹⁰⁰ Appendix C (document 6) p.316

¹⁰¹ Appendix C (document 11) p.327
5.5.8 The BA CE (also its Accounting Officer) was equally reticent in his refusal to relax Horizon’s acceptance criteria.¹⁰²

5.5.9 The problem was not resolved by the spring of 1999. Further project slippage had occurred in December 1998 and by March, the DSS were reporting ‘an additional difficulty, which could mean a two month delay in the planned start of “live trial”’.¹⁰³ This impacted on the timing for formal acceptance and a clear divergence of opinion opened up between POCL and the DSS. The briefing continued:

‘The problem lies around the Model Office Test, which has to be approved by all three parties before the “live trial” can begin; the faults reported at the end of the Model Office Test are greater than they were at the start of the testing. Post Office nonetheless are willing to accept that the programme can now proceed to “live trial”, whereas DSS/BA do not...’

5.5.10 A briefing of April 1999 sent to the DSS Secretary of State and copied to the BA CE gave more detail of the conflicting approach to the level of testing required through Model Office before Live Trial and Acceptance:

‘As we entered the formal and what should have been the final Model Office run in Feb/March [1999] we made it known to the Horizon team our considerable concerns about the creation of new incidents and gave a view that it might be necessary to have an additional run of Model Office. In the event a further 200+ new faults were identified. Some of these were critical and would directly affect the correct or timeous payment of 1% of benefit payments in a Live Environment.

Further targeting testing has taken place to fix all major faults identified but to date we have not seen a clean run of Model Office. Our definition of a clean run has been set at no incidents which would provide incorrect or delayed payments and only a modest number of background system problems.

POCL have rejected that view arguing that the targeted tests have dealt with all known faults, further tests will be costly and will delay the start of the Live Trial and National Roll Out.’

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¹⁰² Appendix C (document 7) p.318
¹⁰³ Appendix C (document 31) p.351
The BA view is that only with a further run of testing of the end to end system will give the level of assurance needed...

In the event, the DSS remained resolute over the question of Acceptance whilst ICL and the Post Office had made clear their intended direction of travel.

5.6 QUESTION 6: WERE CONCERNS OVER THE CAPABILITY OF THE POST OFFICE TO OVERSEE AND MANAGE HORIZON’S RELEASE BROUGHT TO THE ATTENTION OF MINISTERS?

ANSWER: YES

Documents in the DSS dossiers point to a company seriously ill-prepared for its new mantle of responsibility; half of the quotations below derive from the HM Treasury Expert Panel Report and the HM Treasury led Horizon Working Group Review which were specifically intended to inform Ministers of the programme status.

5.6.1 ‘As preparations for national rollout proceed, the need to clarify the resourcing and functioning of POCL’s Service Management organisation will become increasingly urgent’.  

5.6.2 ‘There remains a great deal of work to be done by POCL to develop its programme and service management capabilities. POCL’s planning, both for implementation and service management of the programme, does not appear to have been given sufficiently high a priority within the PO Group. It needs to be properly resourced in terms of numbers and skills’.

5.6.3 ‘...there are not enough high calibre staff in the HPO [POCL’s Horizon Project Office] particularly in key positions such as programme office: only a few HPO staff have relevant experience in managing such a large and complex programme’.

5.6.4 ‘A second area of risk at POCL concerns the state of its organisational readiness to accept an automated network. POCL themselves note that this programme ‘requires a significant culture change’. This must be registered as a potentially costly risk to the programme until such time as POCL sets out detailed plans for implementing any organisational change for automation. These plans must

104 Appendix C (document 36) p.360
105 Appendix A (document 1, p.11-12) p.230
106 Appendix A (document 1, p.14) p.230
107 Appendix A (document 1, p.15) p.230
be able to demonstrate that the confirmed Pathway plans for national rollout can be supported before this risk can be safety removed”.108

5.6.5 ‘POCL senior management needs to be strengthened, ideally by bringing in someone with a good track record in running a retail network.’109

5.6.6 ‘...the panel identified a number of fundamental strategic issues (such as the ability of POCL to manage this large project) which are fundamental to the programme and says there is a severe risk of failure if they remain unresolved...’.110

5.6.7 ‘A lot will rest on the capacity of POCL to manage the implementation phase. We believe this will need new management with business expertise at the top’.111

5.6.8 ‘There are major organisational and structural changes required in POCL for the Programme to be sustainable’.112

5.6.9 ‘POCL have no previous experience of implementing a technologically based project of this scale nor against an accepted aggressive rollout near rate across the whole network. Additionally we have seen no progress on the urgent steps identified as required to support the Service Management area. There must be a risk that rollout may never complete...’.113

‘The Treasury Working Group and Panel identified a need to significantly strengthen POCL’s senior management and organisation. I have seen no evidence that this has happened’114.

5.6.10 ‘there are still genuine reservations about ICL’s - and POCL’s ability to deliver the Card element of the project, even on the revised timetable; and therefore we also have concerns about securing the safe delivery of benefits to the 18 million or so people affected’.115

108 Appendix A (document 1, p.17) p.230
109 Appendix A (document 2, p.8) p.238
110 Appendix A (document 2, p.11) p.238
111 Appendix A (document 2, p.25) p.238
112 Appendix A (document 5, p.2) p.246
113 Appendix B (document 15) p.280
114 ibid.
115 Appendix C (document 29) p.348
5.6.11 The problems were recognised by the Post Office itself; Board Minutes of January 2000 noted under **MANAGEMENT DEVELOPMENT FRAMEWORK**:

‘Currently The Post Office was only just keeping pace with what was required and had a base of managers who were no longer suited to the business’s new commercial and strategic role’.

5.6.12 Post Office Counters ‘need to make major and radical cultural changes in its overall management (including at Board level), if the project is to succeed’.

5.6.13 A draft letter sent in July 1998 to the office of the DSS Minister concluded:

‘Finally, I hope we can agree that a priority for any way forward that involves the Post Office is an early and radical change in senior Post Office management. The behaviour of the Board recently has shown their lack of strategic thinking to an extent that fully justifies an urgent change of the team’.

The Government did introduce three NEDs to the POCL Board from mid 1998 but whether this was sufficient to effect a ‘culture change’ is unknown.

5.6.14 Doubts over the POCL Board were echoed in Parliament. As DSS Minister of Welfare Reform, Frank Field, who had had personal involvement in Horizon, recalled:

‘...my responsibility for the benefits card, like for so many aspects of the Department of Social Security, lasted only 14 weeks.

However, I have a tale to tell about the state of the project that I inherited. I did not merely talk to colleagues and read the papers; I visited the project partners. Had it been my responsibility to do so, I would have sacked the members of the Post Office board, who were appalling people. They were short-sighted and partisan. They were genuinely unwilling to enter into a discussion that I was trying to have on how to secure the long-term future of sub-post offices. They thought themselves smart; they thought themselves clever. They doubtless accepted their fine salaries, but I doubt whether they served

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116 Appendix D (document 51) p.436
117 Appendix B (document 2) p.261
118 ibid
post offices or sub-post offices well, and I am disappointed that many of them are still in post today. Perhaps someone else will deal with them’.119

PART 6

THE DOWNING STREET DOSSIERS

‘...we have recommended that a way should be found to make Horizon work. We have encouraged Stephen Byers to become closely involved as an arbiter, with Jack Cunningham also briefed in case some ‘enforcing’ is needed at a later stage’

The Downing Street Dossiers contain papers from the Prime Minister’s Office during the time of Tony Blair’s premiership which were released by the National Archives on 29 December 2021; this is significantly later than the release of other source material and for this reason they are considered in a self-contained section. These documents, dating from May 1997 to July 1999, shed a more penetrating light on the central government decisions, outlined in Part 4, which culminated in Horizon’s reconfiguration.

The documents are available for public view, but are not in digital format. Extracts from four of the Downing Street Dossiers are included in Appendices E – H (originally filed as Parts 2 – 5). Part 1, spanning May 1997-April 1998, has not been reviewed. Documents in the Appendices are listed chronologically and extracts have been selected on the basis of their relevance to: Horizon’s known technical problems; the role of the Prime Minister and HM Treasury in steering the direction of the project; the levers of control used by the Government to coerce the Post Office towards Ministers’ desired outcome; the protection of ICL/Fujitsu interests in decision-making and the known weakness of the Post Office’s management.

The documents reveal how the views and personal intervention of the Prime Minister were sought on multiple occasions in an effort to reconcile the disparate interests of the Treasury, Cabinet Office, DTI, DSS, Post Office and ICL/Fujitsu over Horizon. They reveal how it was the Prime Minister’s ‘clear policy direction’;\(^2\) based on his personal insistence on protecting the future of ICL,\(^3\) which

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1. Briefing to the Prime Minister from the No.10 Policy Unit, Appendix E (document 4), 14 September 1998. Stephen Byers was Chief Secretary to the Treasury and Jack Cunningham was Minister of State for the Cabinet Office
2. Appendix F (document 24) p.501
3. Appendix G (document 22) p.546
ensured Horizon was not cancelled in its entirety.\textsuperscript{4} It was the Prime Minister’s steer which set the parameters of a new set of negotiations beginning in January 1999, despite a clear strategy for exiting the Horizon contract having been given by the Law Officers in late 1998 and despite there being significant grounds for doing so. And whilst Blair’s divided Ministers reneged on promises to reach a decision on Horizon, they were out-maneuvered by their tech giant supplier; the Government was sent into a spiral of diminishing options whose destination was a sub-optimal deal around a reconfigured Horizon which the Post Office itself vociferously rejected:

‘The Post Office were adamantly opposed. POCL continue to argue that they do not want to proceed with a wounded supplier...’\textsuperscript{5}

6.1 THE PRIME MINISTER’S INVOLVEMENT IN A PROJECT WITH KNOWN TECHNICAL PROBLEMS

6.1.1 OCTOBER- DECEMBER 1998: INFORMATION REGARDING HORIZON’S TECHNICAL PROBLEMS WAS PASSED TO TONY BLAIR

The DTI Select Committee received evidence in July 1999 that Ministers shared doubts over Horizon’s deliverability in October 1998. Their loss of faith was triggered by the system’s failure to reach a key milestone, the Live Trial, already delayed since November 1997:

‘It is worth reminding the Committee that when we had a live trial of the Benefit Payment Card last autumn [1998] it failed...None of the three of us wanted a situation where people turned up to get their benefits paid and were denied payment for one reason or another. As Alan has said, the report we got from the interdepartmental group made it very clear that there was a substantial risk that would be the case...’\textsuperscript{6}

The Committee was not told, however, that when Byers, Milburn and Darling failed to reach a consensus on Horizon’s future, the problem had been escalated to the Prime Minister, Tony Blair.

\textsuperscript{4} Appendix F (documents 6, 15, 16, 17, 21, 28); Appendix G (document 1) p.515

\textsuperscript{5} Appendix G (document 14) p.535

Documents in the Downing Street Dossiers reveal that at the time Blair was being called upon to steer the future Horizon, a programme in which his Government had £4 billion worth of investment, intimations of Horizon’s technical problems were also arriving on his desk from the No.10 Policy Unit and from HM Treasury.

In October 1998, the Prime Minister received a briefing which warned of a ‘less than perfect’ BPC and a ‘threat of future technical problems’ which its author feared may materialise if ICL failed to commit fully to a project which now bore little prospect of commercial return. Although opinion was divided, the view of the No.10 Policy Unit was that ‘cancellation is becoming more attractive’.

A second briefing, also from his No.10 Policy Unit was sent to Blair less than two months later. This was more forthright in its warnings. It referred to:

‘The problems that have beset this project may well continue; continuation would lock the government in for 10-12 years to what many see as flawed system’

‘...overall, Horizon now looks increasingly flawed’

‘...although short-term considerations and expediency point strongly towards making a deal with ICL, this will in the long-run prove unsatisfactory, leaving the Post Office and government dependent on a hugely expensive, inflexible, inappropriate and possibly unreliable system’.

The report’s author, Geoff Mulgan, recommended the cancellation of the BPC and the negotiation of a new option with ICL, even if this risked pushing the supplier to withdraw from the contract entirely. The No.10 Policy Unit advised that the case for cancellation warranted this risk. The alternatives presented to the Prime Minister were: Option 1, continuing Horizon with the BPC; Option 2 negotiating a deal which excluded the BPC; Option 3, termination. Mulgan asked:

‘Do you wish to give a steer?’

Blair jotted an initial response on the document:

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7 Appendix F (documents 18 and 22) p.490 and p.497
8 Appendix E (document 7) p.455
9 Appendix F (document 3) p.468. It appears likely, though not confirmed, that the No.10 Policy Unit had representation on the Horizon Working Group established in November 1998, Appendix E (document 2) p.449

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'I would favour option 1 but for tech’s statement that the system itself is flawed. Surely there must be a clear view on this. Speak to me on Mon. i.e. reading the enclosed papers, it all focuses PTO on the terminal deal. But there the risks are pretty even, probably coming down on the side of continuing. The real heart of it is the system itself'.

Evidently Mulgan’s warnings were significant enough to arouse Blair’s concern. But whatever assurances, if any, Blair received at this point on the ‘flaws’ remain a mystery, because in his formal response to his Policy Unit, the Prime Minister bypassed the issue of Horizon’s integrity entirely. Given the potential impacts of failure in a system designed to handle the nation’s social security payments and intended to serve as Government’s electronic gateway to its citizens, it is an extraordinary evasion. All the more so given that, at this exact time, the Post Office Board and the DSS were aware of ‘large numbers of major faults’ surfacing during Horizon’s Model Office testing. Authors of the December Working Group Report to Ministers also reported on this failed milestone. But Blair stipulated that the BPC must be kept open as an option and in his response to the Policy Unit’s warnings, he simply referred to Horizon’s ‘obsolescence’. This was a term wholly at odds with the Montague Report’s assurance of the system’s being ‘future proof’, but from here on obsolescence was the euphemism used by Blair and his Government for the failed BPC. It gave Ministers a pretext for decommissioning part of Horizon without offending the reputational sensitivities of ICL/Fujitsu.

It had not been ‘obsolescence’ which had caused ICL to miss programme milestones in the autumn of 1998; neither was obsolescence the root cause of new faults which were surfacing in Model Office testing since then. Nor was obsolescence the reason why ICL sought to dilute Horizon’s

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10 Appendix F (document 3) p.468
11 Appendix F (document 6) p.476
12 Appendix D (document 20) p.396
13 Appendix C (document 36) p.360
14 Appendix F (document 5) p.472
15 Appendix F (document 6) p.476
16 Appendix G (document 5) p.520
17 Appendix F (documents 13 and 22) p.483 and 497
18 Appendix G (document 5) p.520
acceptance criteria, proposing an increase in the number of allowable Category B incidents from 10 to 230 in November 1998. Ministers did not appear to be asking why the supplier sought such significant relaxation of the acceptance criteria.

But any rumour of the technical failure of the BPC could have compromised ICL’s reputation and the Government’s ambitions for the company to become a ‘leading edge systems integrator’ in global markets. Moreover, Ministers knew that being able to present a rose-tinted spin on Horizon was one of the few levers they possessed for settlement negotiations with Fujitsu:

‘...it would be important not to say publicly that the public sector parties have terminated the contracts, as the form of public statement to be made about the reasons for cancellation of the project will be a valuable bargaining chip in settlement negotiations with ICL’.

‘If ICL are prepared to seek a negotiated settlement then part of our negotiating leverage will be how termination is presented publicly. If, however, they intend to litigate, then the Government will have no alternative but to make it clear that termination was due to failures on the part of ICL to deliver to time or budget...’

Outwardly, Downing Street was tiptoeing round the white elephant of ICL’s failure, curating a carefully sanitised version of Horizon’s narrative. Inwardly, it was fielding inescapable warnings of system instability which continued to circulate around No.10 and No.11. Somewhere, and for some time, this evidence must have been retained as insurance against the ever-present risk of litigation.

6.1.2 JANUARY 1999: THE PRIME MINISTER’S NEW YEAR STEER FOR HORIZON

As the project delivered itself to another impasse in late December 1998, the dilemma was once again laid on the Prime Minister’s desk. Blair’s blessing was sought by the No.10 Policy Unit and, as the nation hung up its stockings on the eve of Christmas 1998, fervent messages flew between Downing Street and the Prime Minister’s Chequers retreat.

19 Appendix F (document 5) p.472
20 Appendix E (document 1) p.446
21 Appendix G (document 5) p.520
22 see also Appendix E (documents 4 and 6); Appendix F (documents 3, 6, 12, 13, 19, 24, 25 and 30); and Appendix G (documents 9, 11, 12, 16, 17, 18, 19, 20, 21, 24 and 27)
23 Appendix F (document 13) p.483
Three Secretaries of State were on high alert, all of them later told a Parliamentary Select Committee that by late 1998 it was clear to them that Horizon ‘was in danger of running into computer fiasco territory’.

Yet Blair’s steer was unequivocal and it ran stridently counter to prevailing opinion. It was the Prime Minister who determined that, rather than withdrawing from the BPC contract altogether, along either of two routes laid down by the Law Officers, negotiations should continue to explore how Horizon’s scope might be extended:

‘His clear preference would be to avoid cancelling the project, but to go for a variant of your Option 1 and Option 2. We should retain the BPC but seek to ensure that over time it delivers real benefits and provides an effective transition path to a satisfactory long term position. If necessary the Prime Minister thinks it may be sensible to give ICL a financial incentive to improve the BPC in this way’.

Blair wanted to explore the prospect of a Smart Card component which might serve wider political aims of welfare reform, of access to basic financial services and of improved electronic government services. And despite ICL’s clear track record of abject failure on Horizon, he wanted to develop the project along these lines, potentially using the BPC as a transitional phase. Either way, the ‘possibly unreliable’ BPC was to be kept in play as a backup in the event of negotiations failing:

‘As we discussed on the phone, given the continuing disagreements about how best to proceed it would be sensible for Ministers to meet next week and try to reach a common view, guided by the Prime Minister’s steer that

- he would like to see the project developed to facilitate the earliest possible move to a smart card

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24 HM Treasury Chief Secretary, Alan Milburn, oral evidence session (n.6) para.140

25 Appendix F (document 5) p.472

26 Appendix F (document 6) p.476; see also Appendix F (documents 15, 16 and 17) p.486, p.487 and p.488

27 Appendix F (documents 10 and 28) p.480 and p.509; see also Appendix A (document 15) p.259: ‘The Prime Minister is also particularly interested in the development of “smart cards” and their potential for improving the quality and efficiency with which government services are delivered’.
- but if ICL will not agree to this, we should continue on the basis of the current project rather than pull the plug completely’. 28

This ran contrary to the advice of the No.10 Policy Unit which made it clear that the Government should firstly formally reject ICL’s December offer, and with it the BPC, before proceeding with new negotiations. 29 The drawing up of new specifications mid-contract, would inevitably make an exit strategy more convoluted. Blair, however, ignored Mulgan’s advice in an extraordinary intervention which bore far-reaching consequences.

When grounds for cancellation were self-evident, when strategies for termination had been communicated to the Solicitor General and Treasury Counsel, 30 when the VFM scales were tipping toward cancellation, 31 and when Blair had been warned of technical problems, he decided not only that all options on Horizon should be kept open, but that more should be added. The revised list of options now consisted of:

- A  continuation of the BPC along the lines of the ICL offer of December 1998
- B1  Smart Card option with broader objectives
- a variation of the above two options which may or may not retain the BPC
- C  cancellation of the entire project, also termed the ‘nuclear option’. 32

There was as yet no plan for a scaled-down, reconfigured Horizon.

6.1.3 BLAIR’S DECISION ON HORIZON BROUGHT MORE DIVISION

In line with Blair’s steer of January 1999, a Smart Card option for Horizon was to be explored 33 under the aegis of Steve Robson, Head of Treasury’s Finance, Regulation and Industry Directorate. 34 But if it was hoped that wider and improved functionality could be developed within the same

28 Appendix F (document 16) p.487; see also Appendix F (document 17) p.488
29 Appendix F (document 3) p.468
30 Appendix F (document 7) p.477
31 Appendix E (document 7) p.455; Appendix F (document 5) p.472; Appendix C (document 8) p.320
32 Appendix G (document 2) p.516
33 Appendix F (document 15) p.486
34 Appendix F (document 19) p.492
financial envelope as the BPC, Robson gravely overestimated the strength of the Government’s negotiating position. This Smart Card proposition was eventually rejected on VFM grounds but the scale of its cost was not grasped until April/May 1999; by the time Ministers realised it was ‘currently unaffordable with a net present value (NPV) estimated at £870 million more than option A’, Horizon had idled through four long and wasted months of wrangling and division at a cost to the DSS of £15m a month and to Fujitsu of an additional £50m in development costs. In reality, the Government’s proposal for the new Smart Card option demanded a rewriting of the original specification of the programme; whatever the outcome, therefore, ICL/Fujitsu would seek to recoup from the public sector a significant portion of the £300m development costs already sunk in the BPC.

The delay was testing the patience of ICL/Fujitsu to its limit; a letter from ICL of December 1998 warned:

‘In reality, if the “public sector” doesn’t now start to act in good faith, then the disaster scenario will play out’.

But the Government did not respond in good faith; whilst Ministers deliberated they failed to formally respond to ICL’s final offer of 18 December, a sleight which left ICL/Fujitsu bewildered and dismayed.

Legal advice contained in the Working Group Report for Ministers of December 1998 had been explicit. If the Government sought an exit strategy, it should either issue a notice of three months to ICL for termination, or else serve notice using a ‘time of the essence’ mechanism. The latter would give ICL the opportunity, however unlikely, of fulfilling the programme but under the terms of Horizon’s existing contract, ‘not of any contract which might have been varied under any discussions.

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35 Appendix F (document 17) p.488; Appendix G (document 18) p.541
36 Appendix G (document 5) p.520
37 Appendix G (document 9) p.528
39 Appendix G (document 26) p.551
40 Appendix F (document 2) p.467
41 Appendix F (document 20 and 23) p.494 and p.499
42 Appendix F (document 5) p.472

(Page 101 of 579)
between the parties’. Poignantly, the DSS argued that no one could define with any certainty exactly what that contract was.\footnote{ibid.}

But instead of releasing the public sector from Horizon at that point, Blair’s intervention muddied the waters, mid-contract and mid-crisis, by attempting to extend and re-shape an already devilishly complex and flawed programme.

A poignant observation of the No.10 Policy Unit, edited from the final version of its ‘lessons learned’ debrief noted:

*The worst possible outcome is for the PM and Chancellor to become involved at the very last moment without having had time to master the issues*.\footnote{Appendix H (document 1) p.557}

It was a disastrous decision and one which opened yet new fronts in the battle over Horizon’s future, dividing those who favoured developing the project further (Lord Falconer, DTI, and the No.10 Policy Unit)\footnote{Appendix F (document 25) p.503} versus those who clung to the BPC (the Post Office)\footnote{Appendix G (document 5) p.520}; HM Treasury was *divided at official level*;\footnote{Appendix F (document 3) p.468} its Head of Finance led negotiations for the Smart Card whilst it veered towards the BPC on VFM grounds, arguing strongly *against throwing good money after bad*.\footnote{Appendix G (document 18) p.541} The DSS, which was vehemently opposed to any option which involved the BPC, even as an interim solution, sat in neither camp; whilst Fujitsu, excluded from the discussion, struggled to comprehend the Government’s interminable indecision. Irate communications were directed at the British Ambassador in Tokyo who fielded them to No.10:

*HE EXPRESSED FUJITSU’S COMPLETE DISBELIEF AND LACK OF UNDERSTANDING AT HMG’S DECISION-MAKING PROCESS UNQUOTE. FUJITSU COULD NOT COMPREHEND HOW HMG COULD CONTEMPLATE DESTROYING ICL UNQUOTE. IF THE PROJECT FAILED, THE FLOTATION OF ICL WOULD BE UNDERMINED AND FUJITSU WOULD RECONSIDER ALL ITS OPTIONS ON ICL. THIS MIGHT, ACCORDING TO TODD, INCLUDE SALE*. 
‘THE COMPANY DOES NOT UNDERSTAND HMG’S HESITATION. RELATIONS BETWEEN US AND FUJITSU ARE ALREADY DAMAGED’.49

6.1.4 THE COMPLEXITY OF FINANCIAL PROJECTIONS

Blair’s intervention, his insistence on keeping open the BPC whilst exploring alternatives, brought new layers of complexity, uncertainty and delay to an already fragmented and precarious negotiating table. Financial projections from here on became so multi-faceted and conditional upon so many incalculable factors, no reliable VFM comparisons could be made between the alternatives for Horizon. NPV calculations, on which decisions committing £billions of public expenditure were being made, became lost in a quagmire of incalculable variables. Even the costs of litigation with ICL which might materialise under the cancellation scenario, were on a broad spectrum, tipping from a potential award of £200m damages to the public sector, to a potential £330m in favour of ICL.50

The costings and predicted revenues of all options were now in constant flux:

‘The figures were based on assumptions which are pretty uncertain’.

‘KPMG’s figures also assume that the BPC project would run to time and budget from now on. Based on the history of this project so far, I have no reason to believe that this would be the case’ 51

‘Costings have fluctuated greatly in recent days...’.

‘It is important to recognise that the costings of this option are indicative at this stage, and indeed have been subject to enormous fluctuation over recent days...’ 52

‘Falconer said that in view of past experience of dramatic movement in the costings, there was little prospect of further work leading to more accurate numbers...’ 53

‘The magnitude of the cost differential between Option B1 and the alternative options is great and considerable uncertainty surrounds the revenues...’.

49 Appendix F (document 20) p.494; see also Appendix F (document 23) p.499

50 Appendix G (document 27) p.553

51 Appendix F (document 27) p.508

52 Appendix F (document 30) p.511

53 Appendix G (document 3) p.517
'The value of post office franchises would plummet, and replacement franchises would simply not be available. The effects of these unplanned closures on the integrity of the network as a whole can only be guessed at this stage...'.\textsuperscript{54}

'all of the VFM modelling is subject to significant uncertainties'.\textsuperscript{55}

'...while the costs and benefits of B1 depend on whether the flow of new 'modernising government' spending actually materialises, on the capacity of POCL to use the technology well, and on the project not running into further delays, the estimated costs of the other options are even less certain – and could be significant underestimates'.\textsuperscript{56}

A glimpse into the financial conundrum was afforded by an advisor hoping to bring clarity to No.10 on the very morning Horizon’s future was to be decided:

'Timing of ACT does affect VFM figures. Cases presented are what we regard as reasonable and do-able, on basis of advice from our independent advisors KPMG; and on the basis that POCL and BA co-operate to manage the move to ACT.

Even if move to ACT was delayed, this would still show option B3 and C as better VFM.

e.g. we have modelled an variation [sic] of option B3 which assumes no marketing of ACT before 2003. This reduces the NPV by £160m NPV – but this is still better VFM than option B1 by £245m NPV.

likewise our worst case modelling of option C (which assumed movement to ACT over three years from 2001/2) shows that delay to ACT of two years to 2003/4 worsens the VFM by £215m NPV. But this is still better VFM than option B1 £140m NPV’.

‘We have included an additional £104m NPV against option B1 on the basis of POCL’s estimate of what B1 might offer relative to A in winning Modern Government business. This was only after we pressed them very hard, so must be a question of how far they believe it.

modelling of option B3 and option C do not include any revenues from Modern Government (or conversely the cost of a Smart Card)’\textsuperscript{57}

\textsuperscript{54} Appendix G (document 5) p.520
\textsuperscript{55} Appendix G (document 14) p.535
\textsuperscript{56} Appendix G (document 18) p.541
\textsuperscript{57} Appendix G (document 21) p.545
The Policy Unit later hinted that it had been dealing with information too complex or inaccurate for decision-makers to process:

‘Part of the role of tying down financial and other forecasts may need to be more formally contracted out, with clearer responsibility for accuracy. There is also a need to draw on the many visual and other methods developed within business for explaining complex financial data to boards’. 58

6.1.5 BRIEFING FOR THE PRIME MINISTER’S ON ICL FAILURES

All the while, doubts over the technical integrity of the BPC continued to surface and were drip-fed into the inner sanctum of No.10. In January 1999 Alistair Darling, DSS Secretary of State and the Minister most directly involved in the programme, warned Blair in a face to face meeting of the ‘huge risks involved’ in continuing with the BPC. 59 And an HM Treasury briefing for the Prime Minister, in advance of his meeting with the Fujitsu Vice Chairman, flagged ‘recent difficulties with testing procedures’. Blair was advised to remind Fujitsu that it was ICL’s failure to perform on the existing contract which had precipitated the project replan, 60 whilst news of further delays, a tangible sign of ongoing difficulty, were also communicated to the Prime Minister:

‘There has already been a further three month delay since November, and further delays are a possibility with knock on effects on costs to the public sector...’. 61

But most incriminating of all was the ‘ICL PATHWAY: LIST OF FAILURES’ which was sent to the Prime Minister by the HM Treasury Chief Secretary on 22 April 1999. 62 The one-page document laid bare significant issues which had haunted Horizon’s protracted history, but ultimately did nothing to dissuade Blair from his objective of setting the project on a new, reconfigured course:

‘Independent reviews of the Horizon project by external IT experts have all concluded (most recently this week) that ICL Pathway have failed and are failing to meet good industry practice in taking this project forward, both in their software development work and in their management of the process.

58 Appendix H (document 1) p.557
59 Appendix F (document 22) p.497
60 Appendix F (document 30) p.511
61 ibid.
62 Appendix G (document 10) p.530
To date, in the development stages of the project:

- all planned release dates have been missed - including the key contractual milestone for completion of the operational trial for which ICL Pathway were placed in breach in November 1997.

- on current working plans, updated as recently as September 1998, the first milestone thereafter - Model Office Testing - was delayed by 2 months.

- every release has been subject to reductions in the originally planned functionality.

- and even when each release has gone live, there have been faults and problems which have resulted in the need for Pathway to reimburse DSS

- in the current trials the known problems have risen from 46 in November 1998 to 139 at the end of March 1999; and currently 146 have not been resolved

- nearly 16 million people should by now be paid by the benefit payment card. In fact, only 30,000+ people are currently being paid by the benefit payment card - for one benefit only

- roll out of the system to 19,000 post offices should have been completed at the end of 1998. But only limited functionality is available currently in 204 post offices.

- delays to the programme have already cost the Government over £200m in savings they would otherwise have expected to make’.

As a warning to the Prime Minister of potential future problems, this litany of failure could hardly have been clearer. In the light of ICL’s track record, and of its failure to concede that the BPC was undeliverable, any promises the company gave regarding the integrity of Horizon after reconfiguration should have been treated with the utmost caution. ICL/Fujitsu assurances should have been subject to the most rigorous independent testing.

Accompanying the List Of Failures, were a number of other documents sent to Blair from his Chief Secretary; some are missing from the dossier but those which are included did nothing to strengthen ICL’s credibility, nor did they inspire confidence in any part of Horizon.

‘...ICL have failed to deliver, and have been in breach of contract since 1997. They have asked the Benefits Agency and the Post Office for more time and more money, and have consistently failed to meet deadlines’

63 ibid.
'It is crucially important that the system works'

'It soon became apparent that ICL had overstretched themselves: they underestimated the technical requirements and despite backing from Fujitsu did not have sufficient financial cover'

'...far from improving their performance there have been further delays and missed milestones...’

‘On current plans, it may be completed three years late at the end of 2001; but the problems with current testing make even this look unlikely’

‘ICL did not have to sign the original contracts. They took on the project willingly, in the hope of substantial profit. Government and the taxpayer should not be expected to bail them out, if they have made an error of judgement’

‘Whole series of independent reports which confirm that fault lies at ICL's feet’.

Nonetheless, under Blair’s steer it was imperative to secure an outcome which protected the future of ICL and honoured the relationship with Fujitsu; indeed it became the second most important policy objective of the project, ranked above the Treasury’s public spending interest and the modernising Government agenda.

One HM Treasury document submitted to the Prime Minister reminded him:

‘Fujitsu is one of the largest overseas investors in the UK. Government has made it clear at the highest levels how much this investment is valued’.

The No.10 Policy Unit reminded him that: ‘...the UK has virtually all of Fujitsu’s European investments and even more investment than the US’.

Not only did Fujitsu employ more personnel in the UK than in the US but the company was welcomed with open arms by the DTI as ‘... a good citizen, linking with DTI/Trade Association

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64 Appendix G (document 11) p.531

65 Appendix G (document 18) p.541; see also Appendix E (document 1) p.446; Appendix F (documents 1, 3, 5, 9, 12, 13, 20, 23, 24, 26, 29 and 30); Appendix G (documents 5 and 11) p.520 and p.531

66 Appendix G (document 11) p.531

67 Appendix F (document 30) p.511

68 Appendix F (document 23) p.499
initiatives, working groups and clubs, and has expressed a wish to play a bigger role in government initiatives.\(^69\)

### 6.2 END-GAME

#### 6.2.1 APRIL 1999: A NON-ICL SOLUTION

As it slowly dawned that Option A, the BPC, was undeliverable, and as it slowly became apparent that Option B, the Smart Card, was too costly (£700 - £870 more than the BPC),\(^70\) HM Treasury officials turned their attention to termination and a ‘non-ICL’ option. Their ‘**FINAL HM TREASURY REPORT TO MINISTERS APRIL 1999**’ was produced just days before the deadline of 23 April, the original date by which Fujitsu wanted a decision on Horizon from the Government.

The report, on the basis of which Ministers were to decide the future of Horizon, painted a worrying picture:

‘...the report of the independent panel last summer concluded that Option A is technically viable and “future proof”, and should be successfully delivered assuming firm management of the project and commitment and goodwill on all sides. That is probably still the case now (although DSS/BA would disagree). But since the report there have been further problems with testing and plans have slipped. ICL have already missed the first milestone in the timetable agreed in the course of the Corbett negotiations; and BA point to faults that emerged in the latest testing of the Model Office as an indication of further delays of at least six months...’.

’Since December, there have been further disagreements. POCL had deferred the final run of testing by 2 months to allow ICL to fix the major problems. BA are not yet satisfied that all problems have yet been identified or resolved: the routine testing has thrown up a number of new faults in the system. ICL and POCL contest this view.’\(^71\)

The reality was now pointing toward an alternative:

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\(^69\) Appendix E (document 1) p.446  
\(^70\) Appendix G (document 5) p.520  
\(^71\) ibid.
'Given the position on Option B1, and the doubts over whether Option A can actually be delivered, Treasury officials believe that termination of the contract with ICL to pursue an alternative strategy is the best way forward for the public sector collectively'.

'Under this option, the current Horizon contract would be abandoned...'.

'As a separate and uncoupled effort, POCL would move-up on their longer-term vision to offer simple financial transactions at post office counters as an agent operating on behalf of banks and other financial intermediaries. POCL would undertake a fresh effort to procure an automation platform that could then be better tailored for the capabilities required to offer a valued service to prospective partner banks, which neither Option A nor Option B is optimised to do'.

The notion of 'salvage' featured more as an incidental detail, it was not strictly an option for Ministers but a possible outcome which might arise from discussions between the POCL and ICL themselves after cancellation:

'Treasury officials are strongly of the view that termination of the contract with ICL in order to pursue an alternative solution offers the only way forward. It offers a clean break; it simplifies the commercial relationship between POCL and ICL should they find something to salvage (if that is a sensible and affordable way forward)'.

The authors of the Treasury Report outlined the legal steps for termination which would entail serving notice - if ICL refused to negotiate - or 'to seek to reach a negotiated settlement, possibly involving salvaging some elements of the project (but this would be for POCL to negotiate with ICL)'.

The three-option position was re-iterated by the No.10 Policy Unit on 20 April 1999, there was no mention of a scaled-down reconfiguration:

'From the perspective of government as a whole, there is agreement that pursuing B1 is the preferable option if it is affordable and deliverable. Neither cancellation, nor continuing with Option A, is seen as credible either in policy terms or politically'.

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72 ibid.

73 Appendix G (document 4) p.519
The three-options were echoed by the HM Treasury Chief Secretary in his letter to the Prime Minister of 22 April. Again, Milburn made no reference to the possibility of the Post Office salvaging basic IT along the lines eventually chosen. The stark choice was between: the Smart Card; the BPC or termination. And in the light of the unaffordability of the first and the undeliverability of the second, Milburn’s recommendation for termination was unequivocal: ‘Charlie, Stephen, Alistair and myself are all in agreement that this is the best way forward’.

There remained just twenty-four hours until the Fujitsu Board’s deadline. In desperation the Government bought itself until 10 May by offering to contribute towards ICL’s development costs in the interim. It was hoped that, by the extended deadline, Ministers could find a way to fund the Smart Card:

‘We must now pursue urgently with all the parties the large affordability gap associated with Option B1’.

Any decision over salvage, if there was to be one, should have belonged to the Post Office and ICL, post termination. But the decision on Horizon did not rest with the Post Office, nor even with Ministers; it now belonged to the Prime Minister. And Blair, despite being informed of ICL’s failures, had no interest either in termination or in a ‘better tailored’, non-ICL solution. But he had been warned:

‘ICL Pathway have failed and are failing to meet good industry practice in taking this project forward, both in their software development work and in their management of the process’.

6.2.2 MAY 1999: FUJITSU’S CHECKMATE

By late April, Ministers remained divided over Horizon’s future, making it impossible for the Government to define, let alone hold, a final negotiating position. Whilst it deliberated, control of the time frame passed to Fujitsu and by early May the company was deploying the final moves of its negotiating strategy to maximise its own endgame position. A Treasury Report of 5 May brought the

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74 Appendix G (document 9) p.528
75 ibid.
76 Appendix G (document 12) p.533
77 Appendix G (document 10) p.530
unwelcome news that ICL had formerly withdrawn its final BPC offer of December 1998; alarmingly for the Government this marked the end of its one and only fallback option. ‘Having rejected the main ‘B1’ option, the government was therefore pushed into negotiations over an alternative option on which very little detailed work or costing has been done’. 

In the same 5 May report, and for the first time, the Treasury advanced the case for ‘B3’, a fourth option which was proposed as a radically scaled-down reconfiguration of Horizon consisting of only ‘the basic Horizon infrastructure’.

6.2.3 MAY 1999: THE FOURTH WAY

There remained just five days until Fujitsu’s 10 May deadline, by which time, agreement had to be reached before ICL filed its annual accounts with Companies House on 12 May. The authors of the 5 May HM Treasury Report referred to the salvage scenario having been considered the in their 20 April report ‘...as a possible outcome of discussions around a settlement to terminate the contracts...’ but it was not a formal option. It had been adumbrated by ICL in April 1999 as nothing more than a holding option, pending a decision on Option B1 versus B2. As a final solution this offered ICL a much-diminished role and Treasury officials were concerned that a scaled-down version of Horizon would be rejected by ICL as uncommercial.

But more challenging for the Government was the attitude of the Post Office to a scaled-down Horizon:

‘The Post Office were adamantly opposed. POCL continue to argue that they do not want to proceed with a wounded supplier; and that if the benefit payment card or POCL benefit accounts were scrapped then it would be more sensible to procure a new infrastructure’.

An extension of the deadline for a decision from 10 to 11 May only prolonged the dissent. The DTI and Lord Falconer remained staunch supporters of the Smart Card, HM Treasury and the DSS were

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78 Appendix G (document 14) p.535
79 Appendix H (document 1) p.557
80 Appendix G (document 14) p.535
81 Appendix C (document 32) p.354
82 Appendix G (document 14) p.535
opposed and the guiding light of the Prime Minister was sought once again in a flurry of communications on 10 May.

‘We have been unable to agree on an option’ reported HM Treasury, ‘We would be grateful for your views’. 83

‘What to do next?’ asked the beleaguered No.10 Policy Unit, inviting the Prime Minister to make a decision. 84

For the Prime Minister, too much was riding on the Post Office’s already much-delayed automation: the raft of reforms heralded in the 1999 Post Office White Paper; the credibility of the Modernising Government agenda; the reputation of ICL; ambitions for PFI; and the priceless nerve of Japanese investors; all of these were preconditions which New Labour needed to tease the green shoots of its social and economic renewal.

There was a distinct knowledge base concerning Horizon’s problems which stretched right into the heart of Downing Street. But known technical risks had to be weighed against wider political, social and economic agendas which would be compromised by Horizon’s termination:

‘...of the three options termination would be most damaging to the Government’. 86

By Blair’s own admission, his decision had always been a balancing act:

‘The Prime Minister said that if we were starting from a blank piece of paper he could see the attractions of dropping the BPC but we were not in this position. So there was a balance of risks. The only real way through that he could see was to try to ensure that we had got some long-term value out of the BPC’. 87

Diktat demanded that a way should be found to make Horizon work.

In a briefing faxed to the Prime Minister on the evening of 23 April 1999, the HM Treasury Chief Secretary proposed that, whilst endeavouring to finance the Smart Card option, he would explore a

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83 Appendix G (document 17) p.539
84 Appendix G (document 18) p.541
85 Appendix E (document 1) p.446; Appendix F (documents 3 and 20) p.468 and p.494
86 Appendix G (document 2) p.516
87 Appendix F (document 22) p. 497
fall back option with the DTI and DSS; this was the beginning of exploration to radically pare down Horizon in the ‘salvage operation’ which became the Fourth Way or B3, the configuration of legacy Horizon as we know it.\(^{88}\)

The proposal was first floated by the DSS on 15 April when the Smart Card option was looking increasingly unaffordable. Named ‘OPTION B3/“THE FOURTH WAY”’ it was described as ‘a late entrant’ and ‘devised a matter of days ago’. This option proposed dropping the BPC but utilising ‘much of the existing Horizon system developed by ICL Pathway’ including the Electronic Point Of Sale System (EPOS) and the Order Book Control System (OBCS).\(^{89}\)

There were two critical issues with the Fourth Way. First of all, the Post Office did not want a reconfigured Horizon; its protestations echoed time and again:

‘The Post Office have previously maintained that if they lost the BPC they would wish to retender’ 24 February 1999.\(^{90}\)

POCL ‘prefer option A to either of the alternatives (B1 or B2)’ 9 April 1999.\(^{91}\)

‘The Post Office remain firmly of the view that despite the difficulties referred to earlier in this report, Option A remains their preferred way forward’ 20 April 1999.\(^{92}\)

When option A, the BPC, was ruled out by Ministers, the Post Office’s preference switched to B1, the Smart Card or complete cancellation, not to B3, the scaled-down reconfiguration:

‘You need to know that the Post Office want B1’ 6 May 1999.\(^{93}\)

‘All this points clearly to backing B3 if ICL and POCL can come to a sensible deal - both at present say they do not want B3. If they cannot, we must terminate’ 6 May 1999.\(^{94}\)

\(^{88}\) Appendix G (document 12) p.533
\(^{89}\) Appendix C (document 36) p.360
\(^{90}\) Appendix F (document 25) p.503
\(^{91}\) Appendix F (document 30) p.511
\(^{92}\) Appendix G (document 5) p.520
\(^{93}\) Appendix G (document 16) p.538
\(^{94}\) ibid.
‘POCL reject option B3 at the moment and ICL have indicated that it is likely to be expensive. POCL would prefer termination and to obtain a new system better suited to their needs. In order to make progress on B3 we would have to rule option B1 off the table and make plain that termination was the only alternative. However, when this was done over the weekend, POCL still preferred termination. It is unlikely we could force POCL to do B3’ 10 May 1999.

‘The Post Office favour B1. They have said that they are not interested in B3 and would prefer termination (Option C)’ 10 May 1999.

‘Option B3 provides an automated platform for POCL to develop its business in the future, is clearly more affordable than B1, but is currently opposed by the Post Office and possibly by ICL’ 10 May 1999.95

‘...the Post Office board are adamant that they would prefer cancellation’ 10 May 1999.96

Up until the day before Blair decided to reconfigure Horizon, the Post Office were adamantly against this proposal and ICL’s position was unknown.

The second crucial issue surrounding the Fourth Way was that the EPOS functionality had not been trialled in the field when the agreement to reconfigure Horizon was made in May 1999. It had been due for release in a Live Trial of NR2 on 10 May (delayed from a planned January 1999 release97), which was the day on which the Government had given its ‘cast iron guarantee’ to make its decision on Horizon’s future.98 In the event, the DSS withheld its permission for the May 10 trial to proceed.99 This meant that, when Heads of Agreement were signed on 24 May 1999 and when the final contract was signed with ICL at the end of July 1999, the EPOS functionality could not have undergone the 15 week trial period originally envisaged for NR2. Yet Blair’s decision was unequivocal: the letter drafted by No.10 which accompanied his decision on Horizon of 11 May 1999 and was to be sent to ICL determined;

95 Appendix G (document 17) p. 539
96 Appendix G (document 18) p.541
97 The Montague Report, Appendix A (document 1) p.230
98 Appendix G (document 9) p.528
99 (n.38) p.73
‘in stage one, the POCL would, subject to agreeing acceptable terms, contract for the supply of the Horizon automation platform, including the EPOS and OBCS systems’.\textsuperscript{100}

Despite the known undercurrent of failure which had plagued this project for years; despite a major component of Horizon, its EPOS system, never having been tested in the live environment; and despite the Post Office’s adamant opposition to reconfiguration, the Prime Minister drove on with his sticking-plaster deal. Optimistically his decision also made provision for continued explorations into Option B1. There was no logic in ‘de-risking’ a project by scaling it down, only to plan for its increased functionality at a future date.

This is how the plan to reconfigure Horizon was conceived and executed; it was botched together in unseemly haste under pressure of a final deadline imposed by Fujitsu. It was a sub-optimal remnant, salvaged from a fatally flawed prototype and never the preferred option of any party, least of all ICL or the Post Office:

‘POCL believe that the hardware and software is probably sub-optimal as the platform for providing network banking and Modern Government services, but would need several months’ work to have a clear view. They are therefore unable to take a view on whether the Horizon hardware and software is preferable to the system they might procure following termination’.\textsuperscript{101}

This is how, at the determination of the Prime Minister, an untested core of dubious provenance came to be the IT backbone of the nation’s iconic Post Office; it was a politically expedient deal which cemented ICL/Fujitsu as the trusted supplier of IT in the foundations of New Labour’s Modernising Government agenda. Presented as a triumph, it was in fact a last-ditch, fourth choice deal secured by a Government defeated and in checkmate.

\textsuperscript{100} Appendix C (document 39) p.370. A second draft letter, which also refers to the contract for the EPOS and OBCS systems, was sent to ICL from the Treasury Chief Secretary, Appendix G (documents 23 and 24) p.548 and p.549. NR2 (Software New Release 2) was scheduled to deliver the EPOS functionality: ‘...the major new part of the software provides Electronic Point of Sale facilities’ Appendix C (document 36). The Live Trial of NR2 was to have gone into 304 pilot offices on May 10 1999, having undergone four Model Office runs. During each of these tests, however, new faults had surfaced, some 200 faults having emerged in the final run of February/March 1999. The DSS stipulated it needed to see a clean run of Model Office, but decided not to block preparations for the Live Trial: ‘The trial period is for 15 weeks when the software will be monitored closely’ Appendix C (document 36) p.360. In the event, it refused permission to proceed to the Live Trial.

\textsuperscript{101} Appendix G (document 27) p.553
‘Having rejected the main ‘B1’ option, the government was therefore pushed into negotiations over an alternative option on which very little detailed work or costing has been done’.

The Heads of Agreement reached on 24 May 1999 was a Government-orchestrated deal which gave a reluctant Post Office no choice but to take its £480m dowry and wed its equally reluctant supplier. There is an unanswered question as to what legal rights were retained by the Post Office to terminate on grounds of non-performance after May 1999 and what protocol was established in the event of there being disagreement between the parties over Horizon’s performance. The Government originally stipulated that, until a contract was signed ‘all parties must reserve their rights with respect to past performance of the Horizon project’. It would appear, however, that rights of redress for earlier issues were relinquished not at the end of July but under the Heads of Agreement of May 1999:

‘the purchasers did not sue for damages because the agreement reached with ICL in May 1999, by mutual consent and in agreement with Ministers, was in full and final settlement of their claims against Pathway and Pathway’s claims against them’.

But the deal was still not finished.

At the time of Blair’s decision, the cost of the reconfigured system had not yet been agreed with Fujitsu and Ministers’ forecasts had been built on over-optimistic guesswork. ICL/Fujitsu knew this was the Government’s only option and used their upper hand to recoup some of the development costs of the BPC. The cost of reconfiguration to the Post Office came in at £1.2-1.3 billion more than the original contract and humiliatingly the Government was given 24 hours to sign what represented an unconditional agreement.

‘The price of ICL’s offer is considerably higher than we assumed in our modelling of B3, with the payments very heavily front-loaded. The NPV of the offer is considerably worse than termination. In addition, we are concerned at some contractual issues’

‘...compared to our modelled B3, the offer is £320 million worse in NPV terms’
‘Compared to termination, the offer again looks poor value for money’.106

The Government knew it needed time to assess the new configuration for suitability:

‘We would probably then know within a few weeks whether B3 was viable’.107

And HM Treasury estimated it would need three months ‘for proper scrutiny of what are complicated documents’.108

These were unacceptable terms and a disaster for the Government. Compared with cancellation, and even factoring in the uncertain costs of litigation it was reported that:

‘termination, followed by purchase by POCL of a comparable off the shelf automation/network banking technology, and a move to ACT from 2003, has an NPV some £200 million better than the ICL offer’.109

There is no further documentation in the Downing Street Dossiers regarding the Treasury’s counter offer or the final deal, or indications of further input from the Prime Minister; but we do know that by 21 May, the Government reached an agreement with ICL110 on a price for the reconfigured Horizon and a level of conditionality which gave a period of grace until the end of July to determine if the system was fit for purpose.

The deal was announced on 24 May 1999 by the DTI Secretary of State, in full knowledge that, at the time, no-one could guarantee the performance of the reconfigured Horizon or its suitability as a vehicle for the Post Office’s commercial future. But it was presented with bravura as a fait accompli. The Government had no intention of backing out of the May deal which it had fought so hard to secure, a second U-turn on Horizon would have been presentationally impossible. So instead, attention would be focused on ensuring that the Post Office did nothing to unravel the deal:

‘But, in contrast to the 1996 situation, it is now POCL who are the unwilling partner in this “deal”

106 ibid.
107 Appendix G (document 18) p 541
108 Appendix G (document 27) p 553
109 ibid.
110 (n.38) p.33
‘in the longer term, and the next stages of the forthcoming negotiation, we will need to help ensure that the “deal” does not in effect get unstitched, for example, by POCL attempting to impose new conditions on ICL or ourselves/the public sector that make the deal unworkable’.\footnote{Appendix C (document 41) p.373}

Political will demanded that Horizon must be rolled out. But how could the Post Office be ‘enforced’ to this end? How was the Post Office coerced into embracing the reconfigured Horizon and was it ever ‘encouraged’ by its shareholder to relax Acceptance criteria in order to ‘make Horizon work’?

6.3 THE GOVERNMENT’S LEVERS OF CONTROL OVER THE POST OFFICE

HM Treasury was always clear: the final decision over Horizon’s future belonged to Ministers and it expected cooperation and commitment from all parties in the direction it chose to take the project:

‘They [BA and POCL] must also accept that if at the end of the process Ministers decide to proceed with the project they must commit themselves wholeheartedly to its success, equally if the vfm picture suggests an alternative route forward there will be a similar commitment from both BA and POCL.’\footnote{Appendix E (document 2) p.449}

In actuality, neither the Post Office nor the DSS had been enthused by the prospect of re-scoping the project at the end of 1998 and an Interdepartmental Working Group Report of December 1998 warned Ministers that the Post Office did not support continuing with Horizon if the BPC were dropped.\footnote{Appendix F (document 5) p.472} So determined was the Post Office to retain the BPC, in fact, that in December 1998 its Board approved draft Partnership Heads of Agreement with ICL,\footnote{Appendix F (documents 5, 10 and 25) p.472, p.480 and p. 530} under contractual terms which had already been rejected by Ministers.\footnote{Appendix G (document 5) p.520} That they were willing to do so, in the light of Horizon’s failure to achieve another project milestone in December, was in itself a worrying sign:
‘Initial test runs of the software should have been completed by mid December 1998, but because of the above problems testing was halted for two months whilst ICL took steps to put right large numbers of major faults. This was overseen by POCL.’ 116

It was also an alarmingly independent act of defiance which Ministers were swift to quash. 117

With neither BA nor POCL pliant to the Treasury’s will, the Government realised coercion might be needed to protect its policy objectives for Horizon. A briefing to the Prime Minister later that month sounded the alarm:

‘During this second stage, it will be important to keep the overall Governmental interest in sight. This will require that Ministers in the DSS and DTI impose substantial pressure on the BA and POCL respectively to ensure that they play a constructive role in negotiations rather than solely protecting their interests’. 118

There are multiple references to the reluctance of the Post Office to toe the Government line on Horizon after December 1998; as late as April 1999 it even refused to provide business analyses which the Treasury needed for its VFM calculations on alternative options. 119

But if it was hoped that a little sweet-talking from the Prime Minister would bring the Post Office into alignment, 120 Ministers seriously underestimated the belligerence of its Board and when direct messaging failed the Treasury’s mind turned to financial inducement:

‘how might we direct the incentives so as to ensure that the preferred option is delivered?’ 121

6.3.1 HM TREASURY’S SWEETENERS

HM Treasury had within its gift a myriad of sweeteners with which to coax the Post Office into its desired position. By the spring of 1999 Ministers’ aim was to end the Post Office’s attachment to the BPC option and persuade it to increase its financial commitments to the Smart Card option. This, it

116 Appendix C (document 36) p. 360; see also Appendix D (document 20) p.396
117 Appendix F (document 25) p. 503
118 Appendix F (document 13) p.483
119 Appendix G (document 6) p.525
120 Appendix F (documents 21, 24, 25 and 28) p. 496, p.501, p.503 and p.509
121 Appendix G (document 15) p. 537
was hoped, might bridge the affordability gap which otherwise left the proposal far outside the financial parameters of the original Horizon project; the Post Office refused to pledge more than £37m.

Direct subsidy was a last resort; Ministers began by considering more discreet means of channeling funds to the Post Office. Among those considered were:

1:- relaxing the dividend payable to the Exchequer.\(^{122}\)

2:- Delaying the ‘untying’ of government Departments from their business commitments to the Post Office until 2003.\(^{123}\)

3:- Delaying the Post Office monopoly from £1 to 50p by three years, to April 2003 ‘worth £30m 00/01, £60m 01/02 and £100m in 02/03’.\(^{124}\)

4: Allowing the Post Office to retain interest from gilts ‘until March 2006 (worth £107m per year)’.\(^{125}\) Proposals in the draft White Paper had included removing this income stream from the Post Office.\(^{126}\) The release of gilts themselves was not suggested until mid-May 1999.

5:- Delaying the transition to ACT.\(^{127}\)

6:- Delaying liberalisation.\(^{128}\)

7:- Performance related funding: ‘Transitional funding will need to be structured to incentivise ICL and POCL to deliver option B1 on time’.\(^{129}\)

It was thought that any combination of these strategies could provide the Post Office with sufficient income whilst it developed alternative revenue streams to compensate for the loss of revenue from the BPC. It was hoped that, if it could be demonstrated that the Post Office

\(^{122}\) ibid.

\(^{123}\) Appendix H (documents 5 and 6) p. 565 and p. 566

\(^{124}\) Appendix G (document 13) p. 534

\(^{125}\) ibid.

\(^{126}\) Appendix G (document 8) p. 527

\(^{127}\) Appendix G (document 18) p. 541

\(^{128}\) ibid.

\(^{129}\) Appendix F (document 30) p. 511
could maximise such streams, HM Treasury would give its blessing to the Smart Card option. The fundamental problem with this strategy, however, was the well-documented weakness of the POCL management; it was not thought to possess the necessary commercial acumen to fully exploit the potential of the Smart Card.

6.3.2 REPLACEMENT OF THE POCL MANAGEMENT

As a measure of last resort, replacing the management was seriously contemplated on a number of occasions by Ministers; it marked the level of their desperation as they struggled to ‘make Horizon work’. It also marked their painfully low level of confidence in the competency the POCL leadership.

The Montague Report had intimated in July 1998 that the Post Office was far from ready for the mantle of responsibility which Horizon thrust upon it: ‘POCL must also convince the other parties of its organisational capacity for rollout and service delivery…’. The authors considered this one of a number of strategic issues of fundamental importance to the project ‘…with severe risk of its failure if they remain unresolved’.

Their concerns were echoed over the summer in a joint report of the No.10 Policy Unit and HM Treasury. The authors recommended that the project should proceed but on the basis that ‘the management of POCL generally and the project in particular will be revamped’. By September 1998, HM Treasury Chief Secretary, Stephen Byers, was requesting DTI Secretary of State, Peter Mandelson, to oversee ‘plans to strengthen POCL’s management of the project’ and ‘plans to give the management of POCL a much stronger commercial focus’. Mandelson agreed but it was not enough; by the following month the No.10 Policy Unit were reporting that: ‘The Post Office work on improving management and preparing the way for a more transparent funding regime has been weak’. It was becoming evident that more extreme action may be required.

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130 Appendix A (document 1) p.230
131 Appendix E (document 4) p.451
132 Appendix E (documents 2 and 3) p.449 and 450
133 Appendix E (document 7) p.455
The ultimate lever of control wielded by the Government, and one given serious consideration, lay in its authority to remove the entire management of POCL. When it became obvious by April 1999 that the financial viability of B1 depended on the capability of POCL to develop and deliver Modern Government services through the Smart Card, the HM Treasury Chief Secretary saw only one option:

‘...there were real question marks over whether POCL’s existing management were capable of delivering these revenues. He therefore proposed a strategy in which new management was brought in from outside the Post Office to run POCL...’.\(^{134}\)

It was a move supported by the DSS Secretary of State; indeed, his suggestion of paring down Horizon to a basic IT infrastructure for the Post Office was originally to buy time for new POCL management to be put in place.\(^{135}\) The No.10 Policy Unit acknowledged that earning sufficient revenues from the Smart Card ‘will depend on new personnel and structures in POCL’.\(^{136}\) Mulgan, like HM Treasury, was hopeful that adopting the Smart Card option would ‘set in train a radical overhaul of POCL to introduce new management, and to incentivise them to maximise the returns from Horizon’.\(^{137}\)

The HM Treasury final report of mid-April 1999 went one step further, advocating that all options, not just the Smart Card, demanded the entire overhaul of the POCL management.

‘...under all options, there is a clear need to properly incentivise POCL and its management to reduce network cost, sharpen their business strategy and aggressively pursue new business. A radical reform is required’.\(^{138}\)

‘Treasury officials believe strongly that we should place little confidence in the existing management of POCL to successfully achieve any of the options outlined above, including the adoption of an effective strategy and new IT project following termination. All would require radical reform to the management of POCL. What we would have in mind would involve:

\(^{134}\) Appendix G (document 3) p. 517

\(^{135}\) ibid.

\(^{136}\) Appendix G (document 4) p.519

\(^{137}\) ibid.

\(^{138}\) Appendix G (document 5) p.520
- bringing in new management from outside of the Post Office’.

‘This would represent radical reform. But we judge that this is the only way that any way forward could be made to work’ [emphasis as in original].

There was a certain unanimity on the issue. Of HM Treasury’s lead negotiator, it was reported:

‘Steve Robson’s view is that we may need to sack the POCL management and get in some good new blood if we are to bridge the affordability gap because this depends on POCL fully exploiting the commercial potential of the Smart Card. It goes without saying that Treasury officials would also strongly favour advising POCL to enter into a PPP with a private partner to deliver this. But they advise that changing POCL’s leadership structure is still off the rep[ort].’

Even the Prime Minister’s Principal Private Secretary referred to the Post Office management in a note to Blair as ‘completely inept’.

Ultimately, however, not even the prospect of replacing the entire POCL management was enough to swing Brown’s VFM scales in favour of Blair’s Smart Card Option; and the ‘radical reform’ never materialised.

And at the end of the day, it was infinitely more expedient to ‘direct’.

6.3.3 THE POWER OF MINISTERIAL DIRECTION

The Government possessed levers of control over the Post Office even after its inauguration as a public corporation in 1969. It was an ill-defined authority of which both Blair and his No.10 Policy Unit were well aware:

‘The intention is to replace the current – unclear – legal structure of the Post Office with one more appropriate for a modern, forward looking business. The Post Office as a corporation is currently governed by legislation which is either unique to it or specific to nationalised industries. This legislation, which interweaves the regulatory and ownership powers of the Government, provides for

139 ibid.
140 Appendix G (document 12) p.533
141 Appendix H (document 1) p.557
intervention in the business that is not consistent with our aim of bringing much greater clarity and transparency to the respective roles of the Government, Post Office and Regulator.’

‘Ministers and officials sometimes intervene in the Post Office’s affairs, delaying or overriding management decisions.’

Exercising such influence did not sit comfortably with the Arm’s-Length relationship which Ministers were planning to construct and even Blair’s Principal Private Secretary spotted the contradiction. Forcing the Post Office to adopt the Smart Card:

‘...cuts right across the Post Office’s commercial strategy, despite the fact that we have just announced we are giving them more commercial freedom’.

But in extremis, if persuasion and enticements failed to win over Post Office’s recalcitrant Board, the Government retained the option of a formal power to ‘direct’ under the Postal Services Act of 1969. This was a lever which was considered on several occasions in the latter stages of negotiation, both to force the Post Office to accept the Smart Card and later to compel it to accept the reconfigured Horizon. For obvious reason, it was a power best used covertly.

The Final Treasury Report of April 1999 confirmed the Post Office’s position that it would not commit further funding to the Smart Card option, its limit was a voluntary contribution of only £37m toward costs of Smart Card option. It was a stance which rendered the option unaffordable. But the DTI Secretary of State was a staunch supporter of the Smart Card option and was prepared to override the Post Office’s decision in the hope that this would convince HM Treasury to support the proposal.

‘... my Secretary of State would be willing to sign a direction to the Post Office to take on the costs of funding the financing deal mentioned at paragraph 9 of the CST’s paper [Option B1]. This would amount to a cost of approximately £160 million over years 5-10 of the project

Although I understand the Post Office could never agree to these terms on a commercial basis, they would accept such a direction which they would have time to plan for’

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142 Appendix H (document 9) p.569
143 Appendix E (document 8) p.457
144 Appendix F (document 24) p.501
145 Appendix G (documents 5 and 17) p.520 and p.539
‘...my Secretary of State would be willing to sign a direction to the Post Office to contribute the additional £160m to the Exchequer’.146

On the same day, Lord Falconer, also an advocate for the Smart Card, made it known to the Prime Minister that, in support of this option:

‘...if HMT so wished, Post Office would be willing to contribute £160m directly to the contract’.147

This was not the Post Office spontaneously succumbing to the goodness of its heart, this was the Post Office reacting to a surreptitious Ministerial direction. The Smart Card proposal ultimately fell by the wayside; but not before proving that the Government possessed the power to direct the Post Office, and the readiness to exercise its power.

It is not clear for certain if a direction was issued at the final hurdle of Horizon’s restructure in May 1999 to coerce the Post Office into the reconfiguration deal. But it was evidently being considered and intimations of the tactic reached the CWU General Secretary, to his complete dismay:

‘Even more disturbing is that, if my understanding is correct, in order to compel the Post Office to implement an agreement of which it was not a part and which it believed was commercially unacceptable, the Secretary of State for Trade and Industry seriously considered using a "direction" under the terms of Section 11 of the Post Office Act 1969’.148

One day before the deadline to decide Horizon’s future, the No.10 Policy Unit was still deliberating on how a direction might be used to persuade the Post Office Board to accept a scaled-downed Horizon system:

‘However the Post Office board are adamant that they would prefer cancellation. It would therefore be necessary either to give them a direction or to offer a big financial incentive, probably £100m’.

‘Might need Byers to direct Post Office Board...’

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146 Appendix G (document 19) p.543
147 Appendix G (document 20) p.544
148 Appendix H (document 2) p.561
‘...either with a direction or some financial sweeteners to encourage them to accept B3 (in our view a direction to impose B3 would alienate the board and directly contradict the government’s promise to give them greater commercial freedom)’.\textsuperscript{149}

On the morning of the decision itself, an email to Blair’s Principal Private Secretary warned:

‘Directing the PO to pursue Option B3 would be a severe blow for a future PPP, since it would be regarded as an uncommercial future for POCL. Would also adversely affect value of POCL to a private partner. C [cancellation] would not involve a direction’.\textsuperscript{150}

The Post Office Board minutes fall silent on the decision-making rationale of its members at this critical time. Minutes of the special meeting of 27 April 1999 and of 23 May 1999 are not archived and members were given oral updates or communications which were circulated ‘on a personal basis’.\textsuperscript{151}

What is clear, however, is that right up until 10 May 1999, the day before Blair made his decision, the Post Office was recorded both by HM Treasury\textsuperscript{152} and the No.10 Policy Unit\textsuperscript{153} as preferring cancellation over the reconfiguration of Horizon. Whether by direction or by financial enticement, coercion was involved when the Post Office ‘changed its mind’. Over a final weekend of wrangling prior to the 24 May 1999 agreement, HM Treasury unexpectedly plundered the family silver, releasing £480m worth of the Post Office’s gilts into the Horizon deal on 23 May 1999.\textsuperscript{154} According to a draft of the Post Office White Paper,\textsuperscript{155} these funds were not scheduled to be transferred until after the commercial restructure of the Post Office and after the necessary legislation had been put in place. The proposal to use the gilt-edged stock to fund the capital costs of Horizon did not feature in any archived costings prior to 23 May.

The Post Office knew that ultimate control of the company rested with Ministers:

\textsuperscript{149} Appendix G (document 18) p.541
\textsuperscript{150} Appendix G (document 21) p.545
\textsuperscript{151} Appendix D (documents 29, 30 and 32) p.405, p.406 and p.408
\textsuperscript{152} Appendix G (document 17) p.539
\textsuperscript{153} Appendix G (document 18) p.541
\textsuperscript{154} Appendix D (document 36) p.417
\textsuperscript{155} Appendix G (document 8) p.527
‘...there is no area over which Government as owner could not ultimately control...’¹⁵⁶

And this dynamic was unlikely to change before the Prime Minister’s super-objective regarding Horizon had been achieved. Horizon’s contractual agreement, Horizon’s Acceptance and Horizon’s rollout were decisions of such critical political importance, they could not have been trusted solely to a leadership which had shown itself to be so ‘completely inept’.

But the Government was already trampling over one of the primary lessons it had extracted from the Horizon disaster:

‘As a rule no complex IT project should ever proceed when one of the main parties involved is not fully committed’.¹⁵⁷

6.4 DOWNING STREET’S MEA CULPA

The Downing Street Dossiers contain an arresting and searingly honest debrief of the Horizon project.¹⁵⁸ It was sent to the Prime Minister on 20 May 1999 from the No.10 Policy Unit and its authors made no attempt to conceal or to defend the litany of misjudgements which had shaped the Horizon project to date. Blair agreed there were lessons to learn¹⁵⁹ and although it is unknown if the deeper dive which Mulgan recommended ever took place, this analysis alone is sufficient to demonstrate that Horizon was a system born not of design but of division, of inertia and of misinformation; it is the closest we get from Downing Street to a moment of self-reflection and self-blame for the Horizon shambles, albeit fleeting.

‘By most criteria Horizon has been a fairly disastrous project. It:

- was misconceived from the start
- has faced continual delays and problems
- has over the last year taken up huge amounts of ministerial and official time
- has delivered in the end a far from optimal solution’.

¹⁵⁶ Appendix D (document 54) p.439
¹⁵⁷ Appendix H (document 1) p.557
¹⁵⁸ Appendix H (document 1) p.557; Appendix H (document 3) p.563 confirmed that the Prime Minister read this briefing
¹⁵⁹ Appendix H (document 3) p. 563
‘Identifying timebombs. Horizon was one of the timebombs which should have been identified soon after the election. There may be a need for regular audits, from the centre, to identify projects or policies that are running into serious problems, particularly ones that cut across departments’.

‘Fallbacks: In the case of any large project of this kind it is essential to prepare serious fallback options. Although, following No 10 prompting, some work on fallbacks was done last autumn, no further fallbacks were subsequently developed. Having rejected the main ‘B1’ option, the government was therefore pushed into negotiations over an alternative option on which very little detailed work or costing has been done’.

‘Commercial freedoms: it will always be hard to give public enterprises true commercial freedom. But it cannot be right for ministers and generalist officials and advisors to have to make decisions about extremely complicated commercial and technological strategies’.

‘In the case of Horizon, although consultants were used at various times, at key moments of decision proper advice was missing’.

‘Information: nearly all the facts presented to ministers turned out to be unreliable. Moreover data was presented in ways that were difficult for ministers to understand’.

‘The Post Office. Throughout this process the relative lack of competence of the Post Office and their failure to develop a proper business strategy has been a key failing’.

‘Courage. Perhaps the most important lesson is a more general one: namely that when a project is clearly failing government needs to be bolder about cutting its losses, and tougher in its negotiating stance. There was a clear case for termination 12 months ago, although the Treasury and DTI favoured continuation. In effect, inertia led to continuation, since no-one at the centre had a sufficiently clear remit or reason to terminate’.

A poignant observation which appeared in a draft of the document, but was edited from the final version, read:

‘if ministers cannot reach agreement on a project with public spending implications, it is vital that at an early stage the Prime Minister and Chancellor set the parameters for reaching a decision.'
The worst possible outcome is for the PM and Chancellor to become involved at the very last moment without having had time to master the issues’. 160

When the Prime Minister read this document, sometime between 20 and 27 May 1999, the project’s future was still undecided. It hung in the limbo between the Heads of Agreement, reached on 24 May 1999, and the signing of the contract with ICL at the end of July; the Government had itself negotiated this period of grace.

The NR2 release which was to include the EPOS system had never seen a Live Trial nor, as far as can be determined, even passed a clear run of Model Office testing. 161

Given that the reconfiguration was a direct result of the technical flaws of the parent project, this two-month period was the critical window in which the most rigorous independent scrutiny was called for. This was the time to apply the Policy Unit’s lessons, to seek ‘proper advice’, to test the ‘timebomb’, to ‘audit from the centre’ and to watch over the Post Office’s ‘lack of competence’. This was the time for open and honest dialogue with the Post Office Board, this was the time for the Government to determine the root cause of the Post Office Board’s refusal to sign the Horizon contract on the grounds of non-performance.

It is odd that, in the context of Horizon’s chequered history, there is nothing in the Downing Street Dossiers to indicate that anyone, ever, voiced concerns of even an outlying, theoretical possibility that the salvaged Horizon may have inherited issues of integrity from the parent project.

The system was to be a lynchpin of the Post Office’s and New Labour’s future and its reputation had to be anchored to the findings of Montague, regardless of the significant issues which had surfaced during subsequent testing and undermined the report’s findings. Once the Prime Minister had made his decision of May 1999, there was to be no more doubt about the system; no more division, delay or dissent. Inconvenient truths pertaining to the system’s integrity had to be worked around and airbrushed from view. With the exception of a brief glimpse into Horizon’s failings which slipped out under cover of parliamentary privilege, 162 Ministers and officialdom fell into line behind the Government’s sanitised narrative of Horizon. Once the ink was dry on Blair’s deal, Ministers and

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160 Appendix H (document 1) p.557
161 (n.100)
162 (n.6)
their successors closed ranks in a united front of denial and evasion which was to hold fast during twenty years of torment.

The Government knew ICL’s track record of failure and had already conceded that the reconfigured Horizon was ‘far from optimal’, but it also knew that the network faced uncontrolled collapse if the Post Office did not accept the system. Its two foremost policy objectives, of protecting the network and the interests of ICL/Fujitsu were immovable and Ministers appeared to have no intention of applying the Policy Unit’s ‘lessons’ until they had delivered Horizon project over the finishing line.

On a wing and a prayer, they forced a flawed IT system onto the Post Office, fully aware of the weakness of the POCL’s leadership and of its need for radical reform. It was a leadership which not only wielded draconian powers, but was about to be granted even greater autonomy, under proposals which the No.10 Policy unit had already warned the Prime Minister against:

‘...there is something incongruous about the government retaining the position of sole shareholder while at the same time disclaiming any interest in how the assets are managed’.

All that was needed for Horizon’s perfect storm was for the Government to divest itself of any responsibility of ‘operational’ oversight in a move which even Blair’s Principal Private Secretary recognised as conceptually flawed:

‘...to give the Post Office management both more freedom from its only shareholder (HMG) and more freedom to do what it likes commercially is a recipe for disaster which we would never advocate in any other context. All managers need some effective external scrutiny from somewhere!! They cannot simply be left to get on with whatever they want, free from any effective accountability’.

Why, ultimately, did the Government relinquish so much authority to a leadership it knew to be inept? It is entirely feasible that granting the Post Office such unfettered operational freedom was part of the price the Government paid in order to persuade the Post Office to accept Horizon.

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163 Appendix H (document 1) p.557
164 Appendix E (document 12) p.462
165 Appendix E (document 8) p.457
6.5 DOWNING STREET AND THE TIMELINE OF DWINDLING OPTIONS

- **14 September 1998:** A No.10 Policy Unit briefing for Tony Blair recommended continuing with the Horizon project, including the BPC element, citing the uncertainty of litigation and the lack of Post Office or DSS fallback plans as grounds for continuation.\(^\text{166}\)

- **15 September 1998:** In response, Tony Blair confirmed his support for continuing with the BPC project until a troubleshooter had reported within one month.\(^\text{167}\)

- **October 1998:** A key milestone for the start of live trials, deferred since November 1997, was missed. This led Ministers to conclude that the project may be undeliverable.\(^\text{168}\)

- **October 1998:** Tony Blair was warned by the No.10 Policy Unit that it was now significantly more likely the government would have to cancel Horizon as there was no longer an economic case for continuing the project.\(^\text{169}\) Blair sought advice from Lord Falconer.\(^\text{170}\)

- **18 November 1998:** Tony Blair was copied in on a draft HM Treasury letter to ICL in which the Treasury Chief Secretary rejected its 9 November offer as ‘unthinkable’. Byers stipulated that ICL had until 9 December to reach a deal. If it failed to do so, the Government would, in view of ICL’s failure to deliver, move to an alternative. He concluded that the prospects of agreement had substantially diminished and that the public sector should not be expected to bail ICL out of the consequences of its failure to perform.\(^\text{171}\) The final draft of the letter was sent on 20 November.\(^\text{172}\)

- **9 December 1998:** A No.10 Policy Unit briefing for Tony Blair recommended dropping the BPC and referred to Horizon as a potentially flawed system. Its author, Geoff Mulgan, asked Blair if he wished to give a steer.\(^\text{173}\)

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\(^{166}\) Appendix E (document 4) p.451

\(^{167}\) Appendix E (document 5) p.453

\(^{168}\) Joint DTI, DSS, HM Treasury Memorandum submitted to DTI Select Committee Eleventh Report (n.6) alongside oral evidence session (June 1999) para.12

\(^{169}\) Appendix E (documents 6 and 7) p.454 and 455

\(^{170}\) Appendix E (document 9) p. 459

\(^{171}\) Appendix E (document 10) p.460

\(^{172}\) Appendix F (document 5) p.472

\(^{173}\) Appendix F (document 3) p.468

(Page 131 of 579)
- **11 December 1998**: An Interdepartmental Working Group Report for Ministers scrutinised ICL’s final offer of 9 December 1998. It reported that the Law Officers had been approached for advice on a suitable exit strategy from the Horizon contract and that officials had prepared fallback options. It warned that a programme milestone would be missed on 14 December.\(^{174}\)

- **14 December 1998**: Horizon project milestone was missed.\(^{175}\)

- **14 December 1998**: Tony Blair signalled his wish to continue with Horizon, determining that the BPC should be retained and that ICL should be incentivised to develop the scope of the Horizon project to secure its longevity.\(^{176}\)

- **16 December 1998**: A letter from the DSS Secretary of State to HM Treasury was copied to the Prime Minister. It reiterated his reluctance to continue with the BPC given ICL’s failure to deliver.\(^{177}\)

- **18 December 1998**: In a letter from the No.10 Policy Unit to the DSS Secretary of State, Geoff Mulgan shared his concerns over Horizon but warned that the alternatives presented risks to wider Government interests, so that a way should be found to make Horizon work.\(^{178}\)

- **22 December 1998**: The DSS Secretary of State alerted the HM Treasury Chief Secretary that he could not accept a negotiating strategy which relied on the BPC as a fallback option on the grounds that acceptance criteria for the Horizon system were unacceptable.\(^{179}\)

- **23 December 1998**: A ministerial reshuffle saw Alan Milburn instated as the new HM Treasury Chief Secretary, replacing Stephen Byers who became DTI Secretary of State. This was said to have prevented a final agreement being reached.\(^{180}\)

- **24 December 1998**: A briefing from the No.10 Policy Unit, and supplementary note from his Principal Private Secretary, alerted Tony Blair to an impasse in negotiations.

\(^{174}\) Appendix F (document 5) p.472

\(^{175}\) Appendix F (document 7) p.477

\(^{176}\) Appendix F (document 6) p.476

\(^{177}\) Appendix F (document 8) p.478

\(^{178}\) Appendix F (document 9) p.479

\(^{179}\) Appendix F (document 11) p.481

\(^{180}\) Appendix F (document 13) p.483
In order to unlock the deadlock, both sought a ruling from Blair that, if agreement could not be reached on the alternative Smart Card option, then the current BPC Horizon project would go ahead. A handwritten reply indicated that Blair was in agreement.\textsuperscript{181}

- \textbf{6 January 1999}: Tony Blair gave his approval to the No.10 Policy Unit and the Cabinet Office for discussions with ICL on developing a Smart Card option for Horizon to proceed. He confirmed that the project would revert to the BPC option in the event of an agreement not being reached.\textsuperscript{182}

- \textbf{14 January 1999}: Blair signalled his desire for the DSS and DTI Ministers to discuss how to engage the Post Office constructively in negotiating an alternative to the BPC.\textsuperscript{183}

- \textbf{25 January 1999}: A letter to Tony Blair from the Treasury Chief Secretary advised that, in order to retain an upper hand in negotiations, the Government should not formally respond to ICL’s final offer of 18 December.\textsuperscript{184}

- \textbf{January 1999}: Telegrams from the British Ambassador to Japan for No.10 warned of the potential negative impacts of cancelling Horizon on ICL, on relations with Fujitsu, and on the UK as an investment location.\textsuperscript{185}

- \textbf{28 January 1999}: Tony Blair attended a meeting to discuss Horizon with the DSS Secretary of State, Lord Falconer and the No.10 Policy Unit. Blair put forward his preferred option, which was to start with the BPC then graduate to a Smart Card but was warned by Alistair Darling of the ‘huge risks involved’ in continuing with the BPC.\textsuperscript{186}

- \textbf{24 February 1999}: A joint letter to Tony Blair from the Treasury Chief Secretary and Lord Falconer sought the Prime Minister’s permission for proceeding with negotiations on the Smart Card option. It was suggested they be conducted under the aegis of HM Treasury Steve Robson. It was noted that the Post Office Board had already approved the BPC under ICL’s contractual offer of

\footnotesize{\textsuperscript{181} ibid.}
\footnotesize{\textsuperscript{182} Appendix F (documents 15, 16 and 17) p.486, p.487 and p.488}
\footnotesize{\textsuperscript{183} Appendix F (document 17) p.488}
\footnotesize{\textsuperscript{184} Appendix F (document 19) p.492}
\footnotesize{\textsuperscript{185} Appendix F (documents 20 and 23) p.494 and p.499}
\footnotesize{\textsuperscript{186} Appendix F (document 22) p.497}
December 1998 but, in the event of the BPC being removed from the contract, the Post Office would wish to retender.  

- **1 March 1999:** Tony Blair agreed that proposals to develop the Horizon project along the lines of the Smart Card option promised significant benefits and that ICL should be informed that the Government was committed to the new approach. Going forward, he wanted specifications to be agreed by officials from HM Treasury, the DSS and DTI. A final decision would be made around the end of April. Blair asked to be kept in close contact with negotiations.  

- **9 April 1999:** Tony Blair was warned by HM Treasury that the Smart Card option for Horizon may be considerably more expensive than the BPC. The briefing also cited difficulties which had occurred during Horizon’s recent testing procedures and which could add delays of six months to the BPC. It was reported that the project had already slipped by three months since November 1998.  

- **12 April 1999:** Tony Blair met with the Fujitsu Vice Chairman (who was also the ICL Chairman) to discuss Horizon. Originally convened to discuss ICL/Fujitsu plans for continued expansion in the UK, the main topic of the meeting was Horizon. Naruto reported that the Fujitsu Board would decide on 23 April if it wanted to continue to support the new Smart Card option for Horizon and he hoped that a legally binding agreement could be secured before this date. Blair was informed that £300m had already been invested in Horizon and that a further £5m–£10m a month was being spent on the project.  

- **19 April 1999:** During a Ministerial meeting to determine the future of Horizon, the HM Treasury Chief Secretary proposed that new management be brought in from outside the Post Office to run POCL; this would enable POCL to deliver higher revenues and reduce the affordability gap of the Smart Card option. He considered the only choice was between this or cancellation. The DSS Secretary of State suggested, for the first time, that the Post Office might retrieve basic IT from the

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187 Appendix F (document 25) p.503  
188 Appendix F (document 28) p.509  
189 Appendix F (document 30) p.511  
190 ibid.  
191 Appendix G (document 1) p.515
Horizon project which would allow time to devise a strategy based on new POCL management. HM Treasury Chief Secretary reserved the right, in the event of the Smart Card proving unaffordable, to recommend termination to the PM.192

- **Mid-April 1999:** The Final HM Treasury Report on Horizon strongly recommended termination of the contract with ICL and a non-ICL solution. It was thought that the Post Office might salvage something of the system, if sensible and affordable, but that this could only be determined by the Post Office and ICL themselves after termination of the Horizon contract. There were reports of further major problems to have arisen during routine testing of the BPC since December 1998. It was estimated that the alternative Smart Card option was £700m-£870m more expensive than the BPC and could not be justified on VFM grounds. HM Treasury officials therefore recommended termination of the Horizon contract and the pursuit of a non-ICL solution. Annex B suggested POCL might, as a result of a negotiated settlement, procure components of Horizon to serve as an automation platform for its core products.193

- **21 April 1999:** Ministers convened to decide the future of Horizon in advance of the 23 April Fujitsu Board meeting. It was decided the Government should seek an extension until 12 May in order to devise a funding package for the Smart Card. The HM Treasury Chief Secretary, Lord Falconer, and both DTI and DSS Secretaries of State were in agreement that they should recommend termination of the Horizon contract.194

- **22 April 1999:** An ‘**ICL Pathway: LIST OF FAILURES**’ was sent to Tony Blair from the Treasury Chief Secretary.195

- **23 April 1999:** The Fujitsu Board met to decide whether to continue to underwrite the Horizon project. Members chose to register a provision of £300m in the company’s annual accounts and to extend the deadline for the Government’s decision on Horizon until 10 May.196

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192 Appendix G (document 3) p.517
193 Appendix G (document 5) p.520
194 Appendix G (document 9) p.528
195 Appendix G (document 10) p.530
196 Appendix G (document 12) p.533
23 April 1999: Blair was informed of the Fujitsu Board decision. It was agreed that the Government would contribute to ICL’s interim costs, capped at £8m. The HM Treasury Chief Secretary advised urgent action to reduce the affordability gap of the Smart Card option whilst HMT Steve Robson’s view was that to do so, it may be necessary to sack the POCL management. Milburn proposed to explore a fallback option with the DTI and DSS. 197

5 May 1999: An HM Treasury report made the case for the first time for a possible a ‘fourth option’ which could emerge from settlement discussions whereby a truncated version of Horizon might be salvaged for the Post Office. The Treasury had first introduced this option in its Final Report of April 1999, 198 but had included it only in Annex B; it had considered that ICL would not see this as a commercially viable option. 199

10 May 1999: A briefing for the Prime Minister from the Treasury Chief Secretary informed him that ICL had withdrawn its December 1998 offer as the basis on which to continue with the BPC. Blair was informed that neither POCL nor ICL supported the pared-down reconfiguration of Horizon. 200

10 May 1999: Tony Blair was informed by HM Treasury that Ministers had been unable to reach a consensus on the future of Horizon and that the deadline for a decision had been extended from 10 to 11 May. 201

10 May 1999: Tony Blair was informed by the No.10 Policy Unit of the impasse in negotiations due to the failure of Ministers to reach agreement on Horizon. Blair was informed that the Post Office was adamant in its preference for cancellation of Horizon over reconfiguration and was advised that its Board would therefore need a direction or a suggested £100m incentive to agree to reconfiguration. Blair was invited to make a decision on the basis of the ‘admittedly imperfect information at hand’. 202

197 ibid.
198 Appendix G (document 5) p.520
199 Appendix G (document 14) p.535
200 Appendix G (document 16) p.538
201 Appendix G (document 17) p.539
202 Appendix G (document 18) p.541
- **10 May 1999:** The DTI Secretary of State informed Tony Blair of his willingness to direct the Post Office to provide an additional £160m towards the costs of the Smart Card option. 203

- **10 May 1999:** Lord Falconer informed Tony Blair that the PO had agreed to commit a further £160m toward the cost of the Smart Card option. 204

- **10 May 1999:** BPC Live Trial was scheduled to commence for 15 weeks during which time the software was to be monitored closely. The Live Trial was to have seen the installation of the latest Software New Release (NR2) into 304 post offices; the major new part of the NR2 software provided EPOS functionality. This software release had surfaced major faults during the test runs of late 1998 and, according to the DSS, never subsequently achieved a clear run of Model Office. 205 The DSS withdrew its authorisation for the Live Trial to go ahead on May 10 1999. 206

- **11 May 1999:** Tony Blair informed the Treasury Chief Secretary that the Smart Card option should be rejected on VFM grounds. It was decided that the Government should commit to a pared-down, reconfigured version of Horizon with a view to continuing to explore the Smart Card option for three months. 207

- **11 May 1999:** A draft letter from the Treasury Chief Secretary to ICL communicated the Government’s decision on Horizon and agreed, as a gesture of good faith, to meet half of ICL’s cash costs incurred in reconfiguring Horizon over the next four months. 208 It was hoped that acceptable contractual terms for the scaled-down Horizon could be agreed in this timescale. 209

- **12 May 1999:** The Post Office met the DTI Secretary of State and requested to meet Treasury officials to discuss the proposal. 210

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203 Appendix G (document 19) p.543
204 Appendix G (document 20) p.544
205 Appendix C (document 36) p.360
206 (n.38) p.73
207 Appendix G (document 22) p. 546
208 Appendix G (document 23) p.548
209 Appendix G (document 24) p.549
210 ibid.
- **13 May 1999**: A letter from ICL to the DTI Secretary of State demanded that legally binding Heads of Agreement be in place within 24 hours. Fujitsu sought a meeting with the Prime Minister the following day.\(^{211}\)

- **14 May 1999**: A briefing for No.10 from HM Treasury advised that, according to ICL’s offer of the previous day, Horizon’s reconfiguration would cost considerably more than had been assumed (£320m more than modelling and £200m more than the cost of cancellation and the purchase of a new system). HM Treasury had prepared a counter offer for ICL and advised against signing a contract within twenty-four hours because of the need for further scrutiny of its terms. No.10 was informed that POCL believed the hardware and software was probably sub-optimal for fulfilling banking and Government services and would therefore need several months to determine if this deal was preferable to cancellation.\(^{212}\)

- **20 May 1999**: The day before the Government reached agreement with ICL on 21 May,\(^{213}\) a summary of lessons from the Horizon project was submitted to Tony Blair by the No.10 Policy Unit. It proposed a fuller assessment of lessons be conducted urgently by Sir Richard Wilson.\(^{214}\) A letter from Blair’s Principal Private Secretary confirmed that the Prime Minister had seen the analysis of Horizon lessons.\(^{215}\)

- **21 May 1999**: The Government reached agreement with ICL on Horizon.\(^{216}\)

- **22/23 May 1999**: HM Treasury, the DTI and the Post Office Board finalised funding and issues.\(^{217}\)

\(^{211}\) Appendix G (documents 25 and 26) p.550 and p.551

\(^{212}\) Appendix G (document 27) p.553

\(^{213}\) (n.38) p.33

\(^{214}\) Appendix H (document 1) p. 557

\(^{215}\) Appendix H (document 3) p.563

\(^{216}\) (n.38) p.33

\(^{217}\) Appendix C (document 41) p.373
- **23 May 1999**: The DTI Secretary of State approved the use of £480m of the Post Office’s past surpluses for Horizon.\(^{218}\) The Post Office Board convened a ‘special meeting’.\(^{219}\)

- **24 May 1999**: The Post Office and ICL signed Heads of Agreement on Horizon. Until the signing of a formal contract, the Post Office retained the right to terminate the programme subject to a payment to ICL of £150m.\(^{220}\) The Government was party to the May 24 Agreement.\(^{221}\) As a part of the agreement, a Horizon Working Group, chaired by the Postal Minister, was established to monitor and oversee the implementation of the project.

The Downing Street documents so far released take us only so far as July 1999. A continuation of Horizon’s timeline from the Post Office Archives, however, indicates the level of engagement between the Post Office, Ministers, HM Treasury and the No.10 Policy Unit at the time when critical decisions over the Horizon’s contract and Acceptance criteria were being made. The process was characterised by more delay and uncertainty due to Horizon’s severe technical issues which were visible at Post Office Board level from July 1999 and by January 2000, if not before, to the Postal Minister.

- **2 June 1999**: The DTI Secretary of State gave his assurance to the Chancellor of the Exchequer that his department would endeavour to facilitate a workable and effective contract between the Post Office and ICL.\(^{222}\)

- **10 June 1999**: The DTI Secretary of State met the Post Office Chairman to discuss recent developments with Horizon. The Post Office sought to rebuild relationships with HM Treasury.\(^{223}\)

- **14 June 1999**: The DTI Select Committee heard evidence from ICL, the Post Office and POCL for its Eleventh Report report on the Horizon Project.\(^{224}\)

\(^{218}\) Appendix D (document 36) p.417

\(^{219}\) Appendix D (document 32) p.408

\(^{220}\) Appendix D (document 33) p.410

\(^{221}\) Appendix D (document 53) p.438

\(^{222}\) Appendix H (document 5) p.565

\(^{223}\) Appendix D (document 32) p.408

\(^{224}\) (n.6) oral evidence session 14 June 1999
- **21 June 1999**: Meeting of a new Horizon Working Group, established and chaired by the Postal Minister.\(^\text{225}\)

- **27 June 1999**: The Chairman of the Post Office wrote to the Postal Minister seeking clarity in the relationship between the Post Office Board and its Shareholder. He received a response in April 2001 which failed to define an adequate corporate governance framework for the company.\(^\text{226}\)

- **4 July 1999**: The HM Treasury Chief Secretary requested that the DTI Postal Minister make every effort to secure agreement between POCL and BA in advance of the 16 July ICL deadline.

- **14 July 1999**: The DTI Select Committee heard evidence from HM Treasury Chief Secretary and Secretaries of State for DTI and DSS for its Eleventh Report report on the Horizon Project.\(^\text{227}\)

- **16 July 1999**: Deadline for the codification of Heads of Agreement into a Horizon contract.\(^\text{228}\)

- **19 July 1999**: The Post Office Board attended an Awayday meeting to consider the Horizon contract, to be signed by 31 July 1999.\(^\text{229}\)

- **20 July 1999**: Board Minutes reported that the Post Office Board acknowledged system incidents of sufficient number and severity for Horizon to fail its Acceptance criteria. As a result of unresolved technical issues the Board refused to approve signing the contract with ICL. The decision to sign the contract was remitted to the Post Office Chairman and CE.\(^\text{230}\)

  The Post Office Board determined to send a letter to the Post Office Minister to fully inform him of members’ concerns over Horizon, in advance of the Ministerial meeting on Horizon the following day.\(^\text{231}\)

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\(^\text{225}\) Appendix D (document 32) p.408  
\(^\text{226}\) Appendix D (document 58) p.444  
\(^\text{227}\) (n.6) oral evidence session 14 July 1999  
\(^\text{228}\) Appendix D (document 35) p.415  
\(^\text{229}\) Appendix D (document 34) p.411  
\(^\text{230}\) ibid.  
\(^\text{231}\) ibid.
- **21 July 1999**: The Post Office CE and MD met the Postal Minister to discuss the Post Office 1999-04 Strategic Plan. If questioned on current performance the CE intended to give an ‘open and realistic’ assessment of the current position.\(^{232}\)

- **July 1999**: A Post Office Board Monthly Performance Report referred to the automation of POCL; installation of Horizon into 4,000 offices by the end of March 2000 was deemed ‘subject to Government decision’.\(^{233}\)

- **21 July 1999**: Ministers met to discuss the future of Horizon\(^{234}\) in advance of the formal signing of the contract between PO and ICL by 31 July 1999.

- **27 July 1999**: Youth Justice and Criminal Evidence Act was passed with prospective provisions pending legislation. Section 60: ‘Section 69 of the Police and Criminal Evidence Act 1984 (evidence from computer records inadmissible unless conditions relating to proper use and operation of computer shown to be satisfied) shall cease to have effect’.\(^{235}\) Both the Post Office and DTI had submitted responses to the Law Commission consultation supporting the repeal of Section 69.\(^{236}\)

- **28 July 1999**: The Codified Agreement was signed by the Post Office and ICL/Fujitsu.\(^{237}\) From this point on, the Post Office would incur a fee of £450m if it cancelled Horizon on grounds of convenience; in the event of Horizon failing Acceptance, no payment would be due. Under the

\(^{232}\) ibid.

\(^{233}\) Appendix D (document 37) p.418

\(^{234}\) Appendix D (document 34) p.411


\(^{237}\) Appendix D (document 50) p.433
contract, Acceptance was scheduled for 18 August 1999 followed by rollout on 23 August 1999; the latest date for Horizon’s Acceptance was 15 November.238

- **29 July 1999**: MP Alan Johnson replaced Ian McCartney as the Postal Minister; McCartney became the Minister of State for the Cabinet Office.

- **18 August 1999**: Horizon Joint Acceptance Board decided that contractual acceptance conditions had not been met due to significant faults and that rollout should be postponed until November 1999.239

- **Mid-August 1999**: A revised deal on Acceptance was agreed with ICL to facilitate Acceptance.240 Under this First Supplemental Agreement Acceptance was deferred pending a decision on 24 September.241 Live Trials were to continue to a maximum of 900 pilot offices242 although national rollout was postponed until November.243

- **August 1999**: The Post Office submitted evidence to the DTI Select Committee which referred to outstanding faults in Horizon and reported the system’s failure to achieve the first key milestone of Acceptance.244

- **6 September 1999**: The Post Office Chairman and MD met with the Postal Minister and senior officials from HM Treasury and the No.10 Policy Unit to discuss the Post Office Strategic Plan.245

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238 Appendix D (document 34) p.411  
239 Appendix D (document 40) p.421  
240 Appendix D (document 38) p.419  
241 Appendix D (document 37) p.418  
242 Appendix D (document 50) p.433  
243 Appendix D (document 40) p.421  
244 Appendix D (documents 38 and 41) p.419 and p.424  
245 The Post Office and ICL agreed terms and signed a revised contract on 28 July 1999. Both Parties are working together to implement the new arrangements. The first key milestone is acceptance of the system which was due to be achieved on 16 August. This was not achieved by ICL and there is now a revised programme of work to enable ICL to mitigate the outstanding faults in the system. ICL hope to gain acceptance by the end of September and there is some limited further roll out of automated Post Offices planned to help this process. National Roll out has not yet commenced. ICL have until 15 November to gain formal acceptance. Appendix 8, Supplementary Memorandum submitted by the Post Office, DTI Select Committee Twelfth Report ‘The 1999 Post Office White Paper’ (September 1999) <https://publications.parliament.uk/pa/cm199899/cmselect/cmrtrind/94/9402.htm#evidence> accessed 16 May 2022  
246 Appendix D (documents 40 and 41) p.421 and p.424
- **14 September 1999**: Post Office Board Minutes recorded members’ serious doubts over the reliability of the Horizon software. A meeting was scheduled with the Postal Minister later in the month to discuss the Board’s bonus scheme.\(^{247}\)

- **21 September 1999**: A meeting was scheduled for the Post Office to assess ICL’s performance.\(^{248}\)

- **24 September 1999**: A final meeting was convened to decide on Acceptance and rollout.\(^{249}\) It was concluded that Horizon had failed to reach Acceptance criteria on recurrent issues of system stability and accounting integrity.\(^{250}\) It was thought that software errors could pose significant customer service implications if rolled out. Three formal change control notes to the existing contact were subsequently signed on 24 September by POCL and ICL constituting the Second Supplementary Agreement.\(^{251}\) This enabled conditional Acceptance and rollout to continue, subject to additional obligations being placed on Pathway. By the time rollout was suspended in November 1998, Horizon had been installed in 1,856 offices. It is unclear if rights of termination were relinquished by the Post Office after agreeing to conditional Acceptance under the Second Supplementary Agreement. POCL did, however, retain the right to suspend the resumption of rollout in January 2000 pending resolution of issues of corrupted data transfer.\(^{252}\)

- **September 1999**: The latest contractual date for Horizon’s Acceptance was 15 November 1999.\(^{253}\) But in May 1999 the Government had offered to pay 50% of ICL’s cash costs for four months whilst Horizon underwent its reconfiguration.\(^{254}\) Had this offer been actioned, the funding arrangement would have expired in September 1999. Acceptance would have released the payment to ICL of £68m.\(^{255}\)

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\(^{247}\) Appendix D (document 40) p.421  
\(^{248}\) Appendix D (document 38) p.419  
\(^{249}\) ibid.  
\(^{250}\) Appendix D (document 50) p.433  
\(^{251}\) Appendix D (documents 42 and 50) p.425 and p.433  
\(^{252}\) Appendix D (documents 46 and 50) p.429 and p.433  
\(^{253}\) Appendix D (document 37) p.418  
\(^{254}\) Appendix G (document 23) p.548  
\(^{255}\) Appendix D (document 34) p.411
- **26 October 1999**: Post Office Board Minutes referred to a meeting with senior Government officials scheduled for the following week.  

- **30 November 1999**: The Postal Minister approved the Post Office 1999-2004 Strategic Plan. It was based on the commercial exploitation of Horizon.

- **November 1999**: The Government announced its decision for the Post Office to become a plc.

- **November 1999**: A Post Office Board Executive Report cited Horizon’s unresolved data transfer corruption issues which needed to be resolved prior to rollout.

- **December 1999**: A POL Executive Board Monthly Report cited uncertainty over whether Horizon met Acceptance criteria.

- **7 January 2000**: A formal review was scheduled to assess whether Horizon’s acceptance criteria had been met; resumption of rollout was dependent on this decision. Due to uncertainties no decision was made.

- **11 January 2000**: The Postal Minister attended the Post Office Board meeting at which Paper POB 007x was discussed. It reported that ICL was executing a cost minimising strategy, forcing the Post Office to escalate contractual discussions to senior levels within ICL before the contractor delivered acceptable performance. The Board Paper referred to Horizon’s accounting integrity issues which had not been resolved. Rollout was due to recommence on 24 January 2000. The Post Office Board is not recorded as authorising Horizon’s rollout at this meeting. There is no record in the Postal Museum documents of the date or conditions upon which rollout formally recommenced.

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256 Appendix D (document 43) p.426
257 Appendix D (document 45) p.428
258 Appendix D (document 54) p.439
259 Appendix D (document 46) p.429
260 Appendix D (document 49) p.432
261 Appendix D (document 44) p.427
262 Appendix D (documents 48, 49 and 51) p.431, p.432 and p.436
263 Appendix D (document 50) p.433
264 Appendix D (document 51) p.436

(Page 144 of 579)
- **February 2000**: The rollout of Horizon was underway at the rate of 300 offices per week. Issues of system freezes and data integrity were addressed through contract changes.\textsuperscript{265}

\textsuperscript{265} Appendix D (document 52) p.437
In May 1999, ten months later than Ministers had promised to decide on the future of Horizon, the Government unceremoniously terminated the Benefits Payment Card element of the project. It did so under the pretext that programme delays had rendered its technology outdated; but the underlying reasons for these delays- the unholy alliance of technical failure and Ministerial indecision- were never made public; not whilst political and commercial interests outweighed those of transparency and accountability.

As part of the May 1999 agreement brokered by Ministers, the DSS would relinquish its status as contracting party, ICL was persuaded to absorb write-off costs of £180m and the Government ruled that the Post Office should proceed with the remaining limb of the Horizon project to computerise the network.

The Government determined that the DSS should proceed directly to ACT for the payment of benefits, a system which was to be phased in from 2003. Under the ACT proposal, claimants were no longer obliged to visit a post office to collect their benefits: ‘Payment direct into banks accounts by ACT (already used by 28% of claimants) would deliver all the main benefits of the card but would cost around £400m a year less for BA to administer’.

This was an outcome which the Post Office had resolutely fought against; it was reluctant to lose the footfall of claimant customers which the BPC would have guaranteed and knew itself unable to bear the financial weight of Horizon’s capital and operating costs without the co-investment of the DSS; not even with almost half a billion pounds of additional Government funding. And whilst the Government presented Horizon Mark Two to stakeholders and the nation alike as the fairy god mother poised to deliver the Post Office from all its woes, the long-term effects of shelving the BPC were profound. Not only would the Post Office lose revenues and footfall, it was cashing in £480m of historic Post Office profits held as Treasury gilts thereby losing the interest and

1 Appendix C (document 8, p.10) p.320
2 Working Group Report, Appendix A (document 2, p.4) p.238
cushion of security they provided.\(^3\) All this, on top of a pension crisis which loomed in the distance,\(^4\) total operating costs for Horizon of £500m\(^5\) and an immediate Horizon impairment write down of £571m which hit the 1999-2000 Annual Accounts like a wrecking ball.\(^6\) The gravity of the situation was reflected in subsequent POCL Annual Accounts:

‘At 25 March 2001, the company’s liabilities exceed its assets by £227m (2000 £260m)’.\(^7\)

‘The incremental costs of running the Horizon system has turned counter services into a fundamentally unprofitable operation—a position that will be exacerbated by the move of Benefits Agency transactions away from the counters network after April 2003. This will reduce revenue by some £400m (30%). In addition, the absence of advance Benefits Agency funding will adversely impact the business’ working capital by some £750m after three years.’\(^8\)

‘...there is a fundamental uncertainty concerning the outcome of the funding discussions with Government as to whether or not the Company and the Group can be considered to be a going concern. The plans of the Group require total funding of some £2.4bn over the next three years. The Group is in active discussions with Government about how future cash requirements are to be funded. Government approval to fund the renewal plan and a decision on the funding of the social Post Office network is critical to the continuing operations of the Company and the Group’\(^9\)

Any projected savings which the original Horizon programme had been designed to deliver were all but lost on the merry-go-round of government expenditure; administrative savings to the

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\(^3\) DTI Select Committee Thirteenth Report ‘The Post Office And The Future Of The Network’ (November 2000) para. 5 <http://www.publications.parliament.uk/pa/cm199900/cmselect/cmtrdind/724/72406.htm> accessed 2 December 2021
\(^4\) ibid. para. 5
\(^5\) Appendix D (document 36) p.417
\(^6\) Post Office Counters Ltd Annual Accounts1999-2000, p.3. The £571m impairment was later adjusted to one of £577, Appendix D (document 45) <https://find-and-update.company-information.service.gov.uk/company/02154540/filing-history/Mjg4OTM1NjBhZGlxemtjeA/document?format=pdf&download=0> accessed 3 December 2021
\(^9\) ibid. p.4, point 9
DSS were only ever going to be lost income to the Post Office, and the subsidy which the Government was forced to introduce to replace the Post Office’s lost income negated any savings at the DSS. Subsidy was the new scaffold for the nation’s ancient monument; but determined for it to be a temporary measure, the Government demanded that the Post Office swiftly re-invent its business model. This was no small undertaking, the cancellation of the BPC had resulted in an anticipated loss of revenue to the Post Office network of 30-40%, a scenario which risked catalysing branch closures, estimated to be anywhere between 5,000-8,000.

In reality, the original Horizon project had been conceived to rescue the Post Office from collapse by artificially supporting, rather than transforming its lopsided and backward-looking business model; the project had perpetuated an over reliance on the custom of its biggest client, the Benefits Agency, which represented 36% of Post Office’s business.  

This is the backdrop of the groundswell of dissent which lapped at the heels of politicians on 12 April 2000. Years of uncertainty around the Horizon project, the lack of Ministerial leadership and a delayed decision to abort the BPC component, had exacerbated an already fragile network and it was interpreted by many as the commercial death knell for the Post Office.

Horizon’s stormy passage from conception through to reconfiguration and rollout left its dark, indelible signature across the pages of Hansard, whose annals record the discontent of the Commons, Lords and DTI Committee alike. They reveal how inquiries into Horizon’s progress from concerned parliamentarians were met with minimal disclosure on numerous occasions; and they record how the Government’s unexpected and ill-explained U-turn decision of May 1999 took frustrations to a new level of dissent and sent ripple effects across the length and breadth of the land. The uncertainty which now hung over an already unstable national institution triggered one of the largest petitions ever to have landed on the Government’s doorstep; it was hand-delivered to Downing Street by two thousand Sub-Postmasters and Sub-Postmistresses from across the kingdom in the spring of 2000.

The clouds which loured over their livelihoods had been gathering in Whitehall since Horizon’s reconfiguration in the spring of 1999:

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‘The sorry saga of the Pathway project, which was supposed to link Benefits Agency and DSS payments to a swipe card, has severely damaged the viability of thousands of sub-post offices throughout the country. The debacle of mismanagement, added to the rivalry between Departments, has led to the demise of the project, the loss of £1 billion to the taxpayer, and the risk of closure for thousands of rural post offices. It is because the Government have failed to get a grip on their legacy from the Conservatives that the replacement Horizon project will arrive years later still. Hundreds more sub-post offices will close—and, to make matters worse, the delay in automation could result in 10,000 rural post offices losing £350 million of business when the Benefits Agency and the DSS convert benefit payments to automatic transfer in 2003’.11

‘...it is hardly surprising that, since 1979, over 3,500 sub-post offices have gone out of business and that the rate is continuing at some 200 a year. The approach is removing vital services in poor and socially excluded communities every week of the year. With the closure of bank branches, it is accelerating the failure of thousands of small shops throughout the country. The Government have a duty to ensure that sub-post offices can retain their core business and develop new flexible services through modern technology... Any further delays in modernising the system will place at risk the future of thousands of sub-post services...’.12

Debate on the crisis rumbled through the winter of 1999-2000:

‘The possibility of wholesale closure of post offices has become a major social and political issue’.13

‘We are talking about tackling benefit fraud and thus gathering a not inconsiderable saving, about addressing social and financial exclusion and about promoting sustainable communities. The Horizon project, of which I am sure all hon. Members know something, is the method and mechanism by which that can be achieved. There is no alternative but to computerise the network. The vital questions are how that is to be done, at what speed, and whether we can get the best

12 Chidgey, ibid. c660
application from the project software and hardware, rather than allow it to become a missed opportunity’.14

And as debate succeeded debate, parliamentarians struggled to square the impossible circle of the Post Office’s new predicament; the loss of essential streams of income whilst simultaneously being saddled with the unsolicited burden of financing Horizon without DSS support. The company was required to conjure new revenue streams in a time frame which was looking increasingly unachievable:

‘the decision to put computers into post offices was a Conservative policy which the current Government inherited. Nobody is saying that technology is not important, but it is no good giving post offices technology, with all that it affords them, while chopping 30 per cent. off their revenue with another policy’.15

‘I was struck by a quotation from the managing director of the Post Office in the press on 30 January, to the effect that, unless the branch network could be subsidised, he would expect up to 8,000 branches to have to close. That was not an alarmist politician; that was someone running the system’.16

7.1 12 APRIL 2000

The controversy generated by the reconfiguration of Horizon was never more tangible than on 12 April 2000; it was a pivotal day and one whose events humiliatingly awoke the Government from its slumber into action. Ministers were finally pressured into guaranteeing cast iron subsidy for the Post Office, a lifeline of which their 1999 White Paper had merely teased.

On 12 April 2000 the future of the Post Office was debated in Westminster Hall, in the House of Commons and in the House of Lords, whilst questions regarding its uncertain future were levelled at the Prime Minister, Tony Blair, during PMQs. Blair even played host to the General Secretary of

14 ibid. c50


16 DTI Shadow Spokesperson, MP Vince Cable, House of Commons Deb ‘Postal Services Bill’ (15 February 2000) c831. MP Alan Johnson corrected Cable, crediting the quotation to PO CE, c832) <https://api.parliament.uk/historic-hansard/commons/2000/feb/15/postal-services-bill> accessed 2 December 2021
the National Federation of Sub-Postmasters on this day\textsuperscript{17} as Ministers of all political persuasions were stirred to their feet by the prospect of a contingency of two thousand discontented postal workers arriving in Downing Street to present their petition of three million signatures.

‘...the present lobby is probably the first mass lobby that the Government have encountered. Behind it stand 3 million people who have signed the petition; and behind those 3 million stand an incalculable number of millions of others who agree with them. They come from all parts of the kingdom and from all political persuasions and none. It is a genuinely felt lobby. It is not just an effort by a small group of people to peddle a vested interest. It represents a genuine mood in the country’.\textsuperscript{18}

This ‘genuine mood in the country’ was the fallout of the Government’s mishandling of the Horizon project, whose partial collapse was widely blamed for plunging the Post Office network into yet deeper crisis. At the same time, Ministers argued that the element of the project they had salvaged from the wreckage was to be the Post Office’s saving grace; it was no coincidence that on 12 April 2000:

‘...the junior Minister wrote to hon. Members today to extol the virtues of the Horizon programme’.\textsuperscript{19}

As fate would have it, 12 April also marked a year to the day since the Prime Minister had met Fujitsu’s Vice Chair, Michio Naruto, in a desperate, last-ditch attempt to reclaim vestiges of a project blighted with known and overwhelming technical difficulty. But by April 2000, public confidence in the future of the network and in the Government’s strategy for its revival was, unlike Mr Naruto’s, at breaking point:


\textsuperscript{18} MP Oliver Letwin, House of Commons WH Deb ‘Sub-post Offices’ (12 April 2000) c71 <https://hansard.parliament.uk/commons/2000-04-12/debates/95da12d3-0549-4ca9-ad4a-65ecfbb29f5f/Sub-PostOffices> accessed 3 December 2021

\textsuperscript{19} MP Roger Gale House of Commons Deb ‘Sub-post Offices’ (12 April 2000) c392 <https://www.theyworkforyou.com/debates/?id=2000-04-12a.369.2> accessed 3 December 2021
‘...does the Prime Minister recognise that what has brought thousands of sub-postmasters here today, with a petition with 3 million signatures, is the fact that the Government are presiding over a record number of closures and a threat to thousands more post offices?’.

The same day, opposition in the Commons started as it meant to go on, with a vengeance:

‘Today, 2,000 sub-postmasters are in London because they fear for the future of their businesses’.

DTI Shadow Secretary of State, Angela Browning begged to move ‘That this House condemns the Government’s failure to provide a coherent strategy for the future of sub-post offices; expresses concern that nearly a year has elapsed without any solutions to the problems created by the arbitrary announcement to withdraw income from community post offices in return for the payment of benefits...’

She went on:

‘That does not sound to me like the view of a Government who are sitting down and talking to sub-postmasters about their problems. It is certainly not the opinion of the 3 million people who signed the Western Daily Press petition. Whatever the Prime Minister and other Labour Members say, there is now such a groundswell of opinion—clearly demonstrated by the size of the petition presented to Downing street—that the Government must either rethink, or come up with alternative suggestions pretty smartly’.

The same concerns echoed in the Lords Chamber:

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21 DTI Shadow Secretary of State, Angela Browning (n.19) c369

22 Browning, ibid. c369

23 Browning, ibid. c373
‘The many thousands of people gathered in Central Hall will be glad to hear that they will continue to receive benefits in the same way after 2003...At present post offices receive 40 per cent of their income through handling welfare payments. It is a great concern’.24

‘My Lords, is it not a fact that the Government originally intended that welfare payments would continue to be made through post offices and that a sudden change in that policy has created uncertainty and grave doubts among sub-postmasters and their customers about the future?’25

Meanwhile the Westminster Hall debate of 12 April 2000 was launched by MP Peter Lilley who, as former DSS Secretary of State, had first championed the Benefits Payment Card under the auspices of his Conservative Government. Lilley had been deeply opposed to its cancellation:

‘The issue will not go away, and nor will I. More important, public concern expressed in one of the largest-ever petitions to be presented to No. 10—it was signed by 3 million people—will not go away. The fear of sub-postmasters and sub-postmistresses who are lobbying Parliament today will not go away...’.26

Lilley argued that by shifting the payment of benefits away from the Post Office, the Government had jeopardised the future of the network without the slightest overall cost benefit.

‘Since we last debated this issue, such concerns and fears have grown enormously...It is increasingly apparent that the initial decision was the opposite of an example of joined-up government. The Treasury, the Department of Trade and Industry and the Department of Social Security had not reconciled their conflicting interests or thought through how ordinary people would be affected, and they had not recognised how the knock-on effects would cancel out any benefits’.27

On Horizon’s future he argued:

‘It is important to recognise that the truncated Horizon project handles only the internal accounting and management services of post offices. As yet, it does not function sufficiently to take

25 Lord Ezra, ibid. c185
26 MP Peter Lilley (n.18) c59
27 MP Peter Lilley (n.18) c59
on additional business. Post Office Counters Ltd. intends to seek tenders later this year from companies that are willing to write the software to make such additional business possible. In short, having amputated from the original Horizon project the ability to transmit money from the Benefits Agency direct to post offices, the Govt now propose an ambitious new scheme to graft on to the Horizon project the ability to transmit money between post offices and every bank in the country’.28

‘The Govt refused to tell us why the contract did not work and whether there was anything wrong with it, other than to say that there were no technical problems and that it was some managerial quagmire’.29

And by the power of public protest, Ministerial consciences were piqued and subsidy miraculously materialised; less than a week later, DTI Secretary of State, Stephen Byers, admitted that events of 12 April 2000 had been the catalyst for the drafting of an additional amendment to the Postal Services Bill which now set in stone the Government’s commitment to establishing a subsidy framework to rescue the network:

‘Considerable pressure was, of course, caused by last week’s half-day Opposition debate, but that pressure was perhaps not so great as that caused by the 3 million signature petition organised by the sub-postmasters, or the very effective lobby of Parliament that they conducted last Wednesday. That probably brought far more pressure to bear on the Government than did a three-hour debate on these important issues’.30

‘For the first time, we will have in statute the power for the Secretary of State to make such payments’.31

7.2 ‘LEADERSHIP FROM THE TOP’

What mechanisms of accountability were in place to scrutinise Minister’s chronic mishandling of the Horizon programme which reverberated so tangibly, with such profound national consequence? Against what protocol for the procurement of Government IT was their success or

28 MP Peter Lilley (n.18) c61
29 MP Peter Lilley (n.18) c62
31 Byers, ibid. 840
otherwise to be measured? And most importantly given Horizon’s blighted history, who was to know if the reconfigured Horizon was fit for purpose, or whether Ministers’ assurances were driven by the wishful thinking of a Government in desperate need of extricating itself from an impossibly tight and humiliating corner?

Throughout the entire, convoluted process of procurement and reconfiguration, had Ministers demonstrated any adherence to recommendations advanced by the Cabinet Office report of April 2000: ‘Review Of Major IT Projects, Successful IT: Modernising Government In Action’?32

To the contrary, Horizon was the latest, though not last, in a long procession of high profile Government IT procurement disasters which had triggered this review. And the post mortem, known as the McCartney Report after the Cabinet Office Minister who presided over its work, could draw a wealth of lessons from the mistakes of Horizon’s disastrous story. The footprint of its Big Bang served to forge Whitehall’s best practice in IT procurement only because it was such a spectacular example of worst practice. As DTI Minister of State 1997-1999, Ian McCartney was all too familiar with Horizon’s problematic history; at a meeting in June 1998 he had asked whether the projected delays to the project were ‘primarily to do with technical problems attribution to ICL or whether it was more to do with the need for the 3 parties to resolve a number of issues on the way’.33 McCartney, like Cunningham, had attended the crisis inter-Departmental meeting of December 1998 at which consensus on Horizon’s future lay resolutely beyond Ministerial reach; he also fleetingly chaired the Horizon Working Group from May 1999.

In his report, McCartney made specific reference to Project Horizon on multiple occasions as an example of how not to manage a Government IT initiative:

‘The lack of a single point with overall responsibility for the project caused difficulties from the beginning, as the different organisations had varying degrees of commitment to the project objectives. This became more apparent as the project progressed and the benefits eroded. Conflict management, prioritisation and resolution processes were also adversely affected’.34

33 Appendix A (document 4) p.245
34 (n.32) p.15, p.44 and Annex H p.106-7
One of McCartney’s recommendations, entitled ‘Leadership from the top’ maintained:

‘It is vital to raise awareness among Ministers and senior officials of the way that their leadership and decision-making affect the environment for project delivery, and the roles they play in individual projects and programmes. This included their part in encouraging a culture of openness, so that potential difficulties are highlighted early and lessons learned’.  

The report went so far as to recommend ‘Professional development events’ for Ministers and senior civil servants aimed at ‘informing them of their role in, and responsibility for, major IT projects and programmes’.  

The first such event was scheduled to take place in May 2000 by which time Post Office’s genie had already escaped from its bottle to wreak havoc in branch accounts across the land; but here was tacit recognition of the responsibility of Ministers to oversee successful delivery of large and often critically important IT projects.

But lessons of the past had simply not been ingrained in policy or in practice and a cycle of repeat offending prevailed. Only three months previously, in January 2000, the Public Accounts Committee had issued its own damning post-mortem on a litany of failed Government IT projects. It reported being ‘…very concerned at the number of Government IT projects that are not delivered on time or at all, are completed over budget, and either fail to match specifications or require significant changes before they are satisfactory… The Committee and its predecessors, as well as the Comptroller and Auditor General, have reported on problems with Government IT projects on more than 25 occasions during the 1990s… The appearance of this report, which draws on these published reports, reflects the Committee’s concern that failure to deliver Government IT projects jeopardises the success of the Government’s broad and ambitious programme of ‘Modernising Government’. Of particular concern is that:

(a) fourteen of these reports have been published in the lifetime of this Committee;

(b) problems continue to occur in areas where the Committee has made recommendations in the past; and,

35 ibid. p.14, 2.2
36 ibid. p.14
(c) similar problems have occurred under successive new methods of procurement, including most recently, Private Finance Initiative deals’.37

The Chair of the PAC reiterated the point during an oral session on the failed Horizon Project:

‘...may I remind witnesses that the Report that this Committee wrote, both on PFI projects and on IT projects, was drawing on a large amount of experience which the Committee believed Whitehall should have learned from before this project was even started’.38

The NAO also observed that ‘government has found learning from and applying its previous experience in project management very difficult’.39

Here was evidence from multiple sources that Departments were failing to learn lessons from repeated mismanagement in their procurement of Government IT. The disaster of Project Horizon was not an isolated event; it was, however, in a league of its own:

‘Cancellation of the Benefits Payment Card, at a cost of over £1 billion in lost fraud savings, nugatory expenditure and write-down of assets and costs, must rank as one of the biggest IT failures in the public sector’.40

But Whitehall’s was a culture in which a self-perpetuating acceptance of failure cushioned the fall of Ministers, Accounting Officers and civil servants alike; a culture whose forgiving embrace reached as far as the Government-appointed Post Office elite and which lingers to this day.

‘...no-one was shown the door as a result of getting it wrong. That is about right is it not?’

‘I would expect to see someone hanging from a lamp post for £571 million of getting it wrong, but we understand that no-one has’.41

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40 PAC Third Report (n.38) para. 31

41 MP Alan Williams questioned DSS and Post Office representatives, oral evidence session (n.38) paras. 61 and 65
Without personal consequences for failure there was precious little incentive for improvement; Project Libra being a classic case in point.\textsuperscript{42}

A candid confession made by Harriet Harman hinted at the inexperience which hampered Ministers at the accession of New Labour, as they emerged from eighteen years in the wilderness of opposition. As DSS Secretary of State, Harman bore responsibility for the Horizon Project for fifteen months and she was made fully aware of its serious problems at a time when cancellation was still a viable option:

‘You can’t really turn round to the permanent secretary and the head of your private office and say,

“Actually, I haven’t a clue what I am doing, this is going to go from bad to worse.” So you can’t discuss it with them either’.

‘There were a number of big projects, operational projects, computer contracts, all sorts of things, and she [the DSS Permanent Secretary, Ann Botwell] wanted to know whether to go ahead with them or whether they would all be rolled back. That is fair enough but that didn’t help me at all. All it did is make me shake in my shoes thinking, “Blimey, I haven’t a clue whether I want these huge computer projects to go ahead or not. I don’t know anything about them’.

‘...but I really learned, the hard way, by 2001. By that time, I was an absolutely cracking minister, because I had had the opportunity to get it wrong and learn how to get it right’.\textsuperscript{43}

\textsuperscript{42} see Part 4 (n.14) p.51

PART 8

1999-2000: HORIZON’S ROCKY ROAD TO ROLL OUT

‘...it would be crazy to accept a system without full testing’

8.1 THE EMPEROR’S NEW CLOTHES

The 1998-2000 chapter of Horizon’s story falls into two distinct phases, one either side of the Heads of Agreement which the Government and ICL signed on 24 May 1999, concluding a year of Ministerial prevarication and at long last consigning the Benefits Payment Card to the unforgiving pages of history.

From this time on, it was imperative for Horizon to succeed. It was equally crucial for the Government, the Post Office and Fujitsu to present the truncated version as a wholly separate and reliable entity, un tarnished by association with the BPC from which it had been decoupled. The infrastructure that Horizon promised was Ministers’ single defence against the scenario of imminent and uncontrolled decline of the Post Office network; it was the Atlas which was to support the Post Office’s world and everything within the company’s orbit pivoted upon Horizon’s robustness.

The day agreement was finally reached between the Government and ICL, a triumphant statement from the DTI Secretary Of State reiterated Horizon’s shared value to Government and Post Office alike:

‘An important part of our Modernising Government agenda it will bring Government closer to the people. We have moved a major step closer to our vision of a modern, thriving nation-wide network of Post Offices for the 21st Century’.^2

But Horizon was conceived and built upon the premise of inter-connectivity; were there not residual elements of the original software inherited by POCL after the collapse of the parent project? Were there not technical problems common to both phases and visible to those who orchestrated the reconfiguration?

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^1 Minister of State for the Cabinet Office, Appendix C (document 10) p.325

^2 Appendix C (document 42) p.374
There is evidence to suggest a continuum of instability which spanned both phases of the Post Office’s Horizon system, a pattern of incidents which was visible both to the PO Board and to the Government. But these were inconvenient truths which, if broadcast, would undermine the entire Post Office Reform package proffered by New Labour.

Described by Fujitsu as the ‘largest non-military IT system in Europe’, Project Horizon was equally: ‘…probably one of the most technically demanding projects of its sort we have seen and you will see anywhere across Europe’.

Many of these ‘technical demands’ had been obscured from view by the two hundred and eighty-nine Agreements to Agree buried in the original PFI contract. By the time they had been extrapolated and their complexity more fully appreciated, it was apparent that existing ICL software was inadequate to fulfil the Government’s bespoke requirements. New software development brought new risk to an ever-evolving scenario which challenged the in-house expertise of ICL:

‘This project initially proceeded on the basis of proposals from bidders that it would involve mainly the integration of existing software packages. In the event, the greater than expected complexity of the service requirement obliged Pathway to develop much more new software than they had planned…The extent of new software development had major implications for the degree of difficulty of the project, since this is a high-risk activity with high failure rates, especially in large organisations’.

‘In order to de-risk the software development and improve the management of software releases Pathway has committed resources both at a significantly higher level and with a different skills mix than it had envisaged at the outset, requiring a total re-design of the project team structure and processes’.

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At the same time that these reports were recording the ‘high-risk’ nature of software development during Horizon’s early phase, a senior Fujitsu developer, and for some time Horizon EPOS development manager, was encountering fundamental problems around Horizon’s EPOS and Riposte systems whilst he worked on Horizon April 1998-2000. His anonymous Whistleblower account of 2021, reported by Nick Wallis both in Computer Weekly\(^7\) and in his book *The Great Post Office Scandal*\(^8\) warned of their potential to compromise system integrity:

8.1.1 On EPOS:

Horizon’s EPOS system, the Whistleblower divulged, was built with ‘no design documents, no test documents, no peer reviews, no code reviews, no coding standards’\(^9\).

He revealed that the Fujitsu-designed EPOS software was written onto the Riposte system but that an inexperienced team was working without an application interface, there was ‘no agreed data catalogue’, nothing to enforce message integrity. According to the Whistleblower, this was a recipe for disaster:

‘If a message was given a new data field, but this wasn’t retrospectively applied, the counter software could retrieve an old message with what it would now perceive to be a missing data field. The reaction of the application would be unpredictable....If the application’s not checking that the contents are correct, which they weren’t because they weren’t writing them properly, then the message store is completely corrupted with garbage’\(^10\).

So significant were the EPOS system problems that the Whistleblower recommended to his superiors that they abandon its cash account software altogether:

‘You’ve got to throw the cash account away and you’ve got to rewrite it’\(^11\).

According to Nick Wallis: *The cash account wasn’t an account in the traditional sense of the word. It was a program which crawled through every transaction on each Horizon terminal in each branch at the end of the day’s trading. It then came up with a figure which should correspond exactly with the amount of physical cash on the premises. That figure was then automatically uploaded to the Post*

\(^7\) (n.3)

\(^8\) Nick Wallis *The Great Post Office Scandal* (Bath Publishing 2021) p.3 and p.11-14

\(^9\) (n.3)

\(^10\) (n.8) p.13

\(^11\) ibid. p.14
Office’s central servers overnight. It is a relatively simple task to describe, but not necessarily to execute. Given its central importance to the financial integrity of the Horizon system, it had to be bullet-proof. It wasn’t. The code was not good enough’.12

And as a consequence, the Whistleblower maintained ‘the testers were raising bugs by the thousand’ on his arrival at Fujitsu to work on Project Horizon in April 1998.13

This account is consistent with observations made by the HMT Montague Report of July 1998 which refers to EPOS issues on a number of occasions:

‘problems with EPOSS’14 were among operational issues, the panel ‘expected these to have been resolved at working level’. The HM Treasury experts foresaw that EPOS issues might adversely impact the BPC: ‘the rollout of EPOSS, if it requires process changes at the counter, runs the risk of disruption to the benefit payment service’15 whilst ‘Issues with EPOSS’ recur in a list of Outstanding Issues for resolution in Annex D of the Montague Report.

EPOS was retained as a core feature of POCL’s truncated version of Horizon; ‘Electronic Point of Sale Functionality’ being hailed by the PO Board in July 1999 as the first ‘Key element’ of its new contract with ICL.16 It had been scheduled for release on 10 May 1999 as part of the NR2 Live Trial.17 According to this briefing report of 15 April 1999, the Live Trial scheduled for 10 May 1999 was to include the implementation of NR2 into 304 post offices and ‘the major new part of the software provides Electronic Point of Sale facilities’ (EPOS). In the event, the DSS refused permission for the Live Trial to proceed; even if it had gone ahead, the EPOS system could have been tested for a maximum of only two weeks in the live environment before the Government agreed on reconfiguration and presented the truncated version of Horizon, including EPOS, as fully fit for purpose.

12 ibid. p.14
13 (n.3)
14 Appendix A (document 1, p.20) p.230
15 ibid. p.13
16 Appendix D (document 34) p.411
17 Appendix C (document 36) p.360
8.1.2 On RIPOSTE:

According to the same Fujitsu Whistleblower:

‘...the big flaw in Horizon was the way data was being written to Riposte’.

“Riposte wasn’t really a database, it was a messaging system based on an XML structure where you write messages down into the message store, and then Riposte took care of replicating them”

“The first thing that you should always do with a system like that is design and agree a data dictionary and a message library repository, basically to say: these are the messages that are allowed to be written to the message store and they all provide the following function.

It’s almost like an API [application programming interface] so that you have a list of allowed messages that can all be written to the correct format with the correct content.

You should also have a layer of software that lies on top of the message store that checks that any application above it which is trying to write a message, conforms to the agreed data dictionary. Otherwise, you can just write freestyle to the message store, which is what they were doing. There was no application interface in there, no agreed data catalogue or anything.”.18

The Montague Panel had already alerted Ministers to the limitations of the Riposte system, reporting:

‘One caveat is that the whole system is basically designed as a batch system. It can, and does, go on-line but the Riposte system is not centred around On-Line Transaction Processing (OLTP); it works on a regular collection (harvesting) of messages. The architecture may be able to support a reasonable OLTP performance (and Pathway may have tested this) but it is not part of the contracted functionality. Real-time on-line applications, such as those used by the National Lottery, could therefore require major changes to the system’.19

But a further significant risk posed by the Riposte system, and one which was also brought to the attention of Ministers, was the dependency it created of Fujitsu on a third party, the American company Escher, who provided and supported the Riposte software. Evidence heard during the cross examination of Torstein Godeseth (Fujitsu ‘s Chief Architect of Horizon, questioned on 8 March 2019

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18 (n.3)

19 Appendix A (document 1, p.12) p.230
during the Horizon Issues Trial, link below), threw light on Fujitsu’s response to a Riposte bug, also known as the ‘Riposte lock or unlock problem’ which could affect balancing in branches. An internal email of February 2006 from Fujitsu’s Ann Chambers with regards to this bug stated that one branch ‘had hit this Riposte lock problem 2 or 3 times within a few weeks. This problem has been around for years’. Chambers went on to say that it ‘affects a number of sites most weeks, and finally Escher say they have done something about it’ although Chambers remained doubtful that they had fixed the problem.

According to Gosedeth, too: ‘I would agree that the underlying bug had been there for a considerable time, probably since Horizon went in’.20

So Fujitsu acknowledged its dependency on Escher for resolution of a Riposte issue which had not been addressed for a number of years. The HM Treasury Montague Report had highlighted the potential risk of this exact issue in 1998, observing:

‘...there is a concern that the system is (necessarily) heavily dependent on the third party middleware product ‘Riposte’. This risk will persist and steps must be taken to manage this risk over the operational lifetime of the system...’.21

The Mentor Report of early 1998, and the PA report to which it referred, had also noted potential risks pertaining to Escher dependency:

‘We believe that there are direct causes of slippage but these need to be set in the context of a small number of underpinning root causes. The root causes are Marginal business cases, Agendas in conflict and PFI structural problems. The direct causes are Resourcing, Development and control disciplines, Requirement clarification and solution drift and The Escher dependency’.22

Moreover, according to the NAO report, a risk that ‘Pathway’s solution is dependent on sole source third party software (from Escher Riposte)’ was identified as ‘High probability’ and ‘High impact’ by the Purchasers as early as September 1995.23 ‘The purchasers’ evaluation team reported

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21 Appendix A (document 1, p.11) p.230

22 p.10, document archived in dossier JB 3/19 not included in Appendices A-C

23 (n.5) p.90
their strong concerns about the reliance on unproven third party software to support Pathway’s solution for post office automation and the benefits payment card system. This matter, they said, generated little confidence in Pathway’s ability to deliver to time and quality and left a question mark over the delivery of the service’. It would appear that these significant and, as it transpired, well-founded, concerns were marginalised because HM Treasury’s stipulation for PFI compliance in the procurement process rendered ICL’s the only legitimate bid.

Riposte was integral to Legacy Horizon. As a messaging system, it was responsible for storing all data in Post Office branches and replicating it to data centres. If Riposte was flagged as a risk in need of managing ‘for the operational lifetime of the system’ in a Government report on Horizon of July 1998, did Ministers subsequently seek reassurance over the arrangements between Fujitsu and Escher in the event of problems with Riposte arising?

The Issues around EPOS and Riposte which the Montague Panel had identified, continued to haunt Horizon long after May 1999; what steps had the Government taken to ensure that all outstanding issues identified in the Montague Report which pertained to non-BPC elements of Horizon, had been rectified by May 1999?

The success of the Government’s salvage operation depended on the scaled-down version of Horizon having escaped unscathed; this is what Ministers hoped for and this is what they presented. We do not have access to any audits of the de-coupled Horizon around the time of May 1999, evidence which could have given Ministers the necessary assurance that the residual Horizon system was fully fit for purpose; the Government was, after all, making a substantial commitment towards its capital cost. But if there were legitimate grounds for Ministers’ confidence, if Horizon Mark Two was fully fit for purpose, we would expect to see a smooth and timely transition toward Acceptance and rollout, we would expect to see a Post Office Board united in praise of its pristine, state-of-the-art system.

\[24\] ibid. p. 63
We would not expect to find reports of a Board so divided that it refused to sign the ICL contract in July 1999 because of outstanding, critical technical issues; nor would we expect to see a discrepancy of £1m registering in a Post Office branch account in the same month.

We would not expect to find that in August 1999 ICL had to concede it had failed the last stage A Acceptance; that Acceptance in September 1999 was only conditional, pending resolution of ‘the most serious outstanding rectification issues’; or to see system instability in November 1999 ‘characterised by screen freezes/lock outs’ alongside a requirement to achieve ‘data transfer without corruption’.

Even a cursory glance at the available material reveals a portrait of a system as unpredictable and unfixable as the parent project from which it was hewn. And if Ministers were aware of severe system instabilities during the BPC phase of the project- as some unequivocally were- how vigilantly were they monitoring POCL’s version of Horizon to ensure it was fully functional before it went live?

What critical information passed between the DTI and the Post Office’s Board during the next chapter of Horizon’s story?

Close communications with DTI, Post Office’s Sponsor Department, were maintained throughout the time that Horizon limped from one protracted deadline to the next; in May 1998 the Minister had agreed to ‘ensure no breakdown of communications between The Post Office, DTI, his private office and the Treasury’. Meetings between the Post Office and either the Postal Minister; the DSS Minister; the President of the Board of Trade; the DTI or the Deputy Prime Minister, are recorded on 14 January 1998, 26 February 1998, 5 May 1998, 16 June 1998, 15 July 1998, August 1998, 8 September 1998, 3 December 1998, 21 February 1999, 5 March 1999, 10 June 1999, 21 July 1999, 6 September 1999 and early November 1999 (with ‘senior Government officials’). This is in addition to POCL’s presentation to the Treasury Review Group, participation in discussions under the

25 Appendix D (document 34) p.411
27 Appendix D (document 37) p.418
28 Appendix D (document 42 and 49) p.425 and p.432
29 Appendix D (document 8) p.384
30 Appendix D (document 9) p.385
aegis of Graham Corbett in the autumn of 1998, appearance before the DTI Select Committee in June 1999 the attendance of the DTI Minister at PO Board meetings of 15 February 1999 and 11 January 2000, and his chairmanship of the Horizon Working Group from May 1999.

This was not an Arm’s-Length Body operating in isolation from its Sponsor Department; a pattern of frequent, high level communications with the DTI was already established by the time the Post Office Board wrestled over its decision of whether to sign the revised contract with ICL or to authorise Horizon’s Acceptance. Such was the level of engagement in fact, the PO Board complained in November 1999 that ‘Government intervention hampered development and day to day operations’.33

At this time, even PO auditors were appointed by, and reported to, DTI: ‘The auditors of the Post Office are appointed by DTI. Currently they are Ernst and Young. They report to DTI and obviously we see what they are saying, but the independence stretches that far so that their main task is to have that link between themselves and the Department and therefore the Secretary of State’.34

Though largely covert, a high level of engagement between the Post Office and the Government was sustained through the next, critical chapter of Horizon’s story.

8.2 ACCEPTING THE INEVITABLE

Necessary though it was both for the Government and for the Post Office to present the reconfigured Horizon as a faultless entity arising Phoenix-like from the ashes of the BPC, evidence has surfaced which points towards a very different scenario.

A six-page Post Office Disclosure Note aired during proceedings at the Court of Appeal in March 2021 revealed details of Horizon’s technical issues postpartum and the delays surrounding Acceptance and release 1999-2000. In summary, Tim Malony QC concluded:

31 Appendix D (document 17 and 19) p.393 and p.395
32 (n.4)
33 Appendix D (document 45) p.428
‘So, we say it is plain, my Lords and my Lady, from the very outset that there were difficulties with the integrity of Horizon, which were obvious at the highest levels of governance in the Post Office’.  

In fact, Horizon’s serial delays and difficulties had been visible at the highest levels of Post Office’s governance long before July 1999. Full Board Minutes and Papers from the relevant period are archived at the Postal Museum; excerpts from January 1998 to November 1999 are included in Appendix D. They track the Post Office’s difficulties with Horizon and the decision-making leading up to its conditional Acceptance in September 1999; they contain no reference to, or evidence of, Horizon being more problem-free or more risk-free as a consequence of its separation from the BPC. There is nothing, in fact, to corroborate the Government’s view that the truncated version of Horizon which the Post Office inherited had emerged unblemished from its traumatic birth; it simply argued that a smaller project posed smaller risk.

To the contrary, these documents chart a journey which was characterised, from as early as 1998 through to January 2000, by a continuum of delay and unresolved, medium/high priority technical issues which led the Board to doubt ICL’s ability to deliver Horizon on a number of occasions.

8.2.1 Spring 1998

An entry into a revised Post Office business case review of Horizon of April 1998 is measure of the scale of difficulties presented by EPOS. The analysis included a list of risks which had increased between December 1996 and March 1998 and it reported a £10m increase in ‘EPOS operating costs’. This is just months before the Montague Report had registered as outstanding ‘Issues with EPOSS’ which the experts had expected to have been resolved at working level. They described its function as ‘the ‘glue’ connecting together other services at the PO counter’. EPOS was a system which was retained after the cancellation of the BPC, but its problems were visible prior to reconfiguration and were recognised in the HM Treasury Report discussed by Ministers.

36 Appendix D (document 7) p.383
37 Appendix A (document I. p.8) p.230
At a meeting in February 1998 between the Post Office Chief Executive, John Roberts, and the DSS Permanent Secretary, Ann Botwell, it was jointly agreed that, with respect to an impending programme target: ‘any failure to meet this key milestone, would result in a complete loss of confidence in ICL’. 38

But the slippage continued, reported in PO Board Minutes of May 1998, 39 followed by a Corporate Plan which identified ‘delay to the Horizon deployment programme, occasioned by the complexity of the software...’ .40

8.2.2 Autumn 1998

A Live Trial milestone was missed in October 1998 41 and a cryptic note in the PO Board minutes of November 1998 read:

‘Automation was essential to the future success of Counters. However, this imperative would not cause the business to compromise the system quality and reliability’.42

The following month, PO Board minutes reported ongoing delays and a mounting risk of termination:

‘Day to day management of the programme was now compounding other difficulties. ICL had just confirmed that software due to be released shortly would require further laboratory testing. This would delay the programme by between 1-2 months and move rollout from July to September. This would further damage ICL’s credibility’.

‘News of the additional delays and increase in funding made it appear increasingly unlikely that the programme would proceed. It now had to be regarded as doubtful that Fujitsu would be prepared to proceed when the financial risks were so great’.43

38 Appendix D (document 3) p.379
39 Appendix D (document 8) p.384
40 Appendix D (document 11) p.387
41 Appendix D (document 8) p.384
42 Appendix D (document 18) p.394
43 Appendix D (document 20) p.396
At this point, POCL oversaw the work to rectify the problems which had emerged during the December 1998 Live Trial as 'ICL took steps to put right large numbers of major faults'.

8.2.3 March 1999

A PO Horizon Programme Board Paper of March 1999 reported: ‘Due to lack of adequate visibility of the ICL Pathway design, and the lack of support from the contract to leverage this visibility, we have been unable to gain a high level of assurance in the adequacy or suitability of the service.’ Under ‘Action’ the authors observed:

‘All other approaches having failed – final entreaty has been made for cooperation from Pathway to make available appropriate level of documentation’.

8.2.4 June 1999

This is the backstory to the meeting between the POCL MD, Stuart Sweetman, POCL Chairman, John Roberts and ICL in June 1999 ‘to confirm Horizon accountability and seek reassurance on ICL’s capability to deliver the programme’. Why was reassurance on deliverability being sought, and why was it being sought after the decision to reconfigure Horizon? The POCL Annual Accounts of 1998-1999, signed off in June 1999, recorded ‘that reasonable endeavours will be made to finalise the development and implementation of the system’. This was hardly a ringing endorsement for an IT system which apparently bore no more guarantee of deliverability after its May 1999 reconfiguration than it had done before.

There is sharp contrast between this sequence of events and John Roberts’ public declaration to the DTI Select Committee of the same month. Roberts was Chief Executive of the Post Office Board and Chair of POCL; with regards to Horizon he maintained:

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44 Appendix C (document 36, point 4) p.358
45 (n.8) p.15
46 Appendix D (document 32) p.408
‘...the original project for the last 12 months was actually delivering what it should have done and it was hitting the milestones it should have hit’.48

This marks the beginning of the Post Office’s brazen denial of Horizon’s problems and the start of its audacious manipulation of the truth. Here, in June 1999, the Post Office Chairman gave evidence to a Government Committee which ran totally counter to the evidence it was to hear from three Secretaries of State. The Post Office was applying its first layer of whitewash over Horizon’s story and it did so on the watch of Ministers who were fully informed of Horizon’s darker truths.

Here began the flat-earth, corporate myopia which controlled Horizon’s narrative for the next twenty years.

Board Minutes of June 1999 recorded:

‘A meeting with the Secretary of State to discuss the working relationship with DTI following recent developments with Horizon, had been arranged for 10 June’. The Board also noted: ‘It was important that The Post Office was seen to be supportive of DTI and was prepared to work with them to rebuild relationships with the Treasury.

It was also important to work with both Secretary of State and the Minister, rather than focus on one or other individual. If appropriate, the Chairman would write to the Secretary of State after the meeting to confirm understanding of the key issues’.49

8.2.5 July 1999

Despite the triumphant fanfare on which Horizon’s reconfiguration was announced, commitment to the May 1999 Agreement between the Government and ICL was not a foregone conclusion; the Post Office reserved the right to termination and its decision of whether to commit to the Agreement was to be made by the end of July 1999, pending review.50 The decision was to be informed, it would appear, by the Live Trial scheduled to commence in early May, during which questions over Horizon’s deliverability could be addressed:

48 oral evidence session (n.4) para. 28
49 Appendix D (document 32) p.408
50 Appendix D (document 52) p.437
‘...there are 300 post offices currently going through final trial testing before we try the roll out. The equipment they have got and the software they have got remains in place. They are using them early so we can check out any issues about useability...’

POCL was anxious for continuation at all cost and a July 1999 paper was submitted by POCL to the PO Board recommending it agree to signing the revised ICL contract despite Horizon’s significant negative NPV impacts:

‘The Board is invited to note:

i) the impacts of continuing or terminating Horizon

ii) that continuing, while bad, is better than termination’.

Despite acknowledging ‘The continued deployment of counter automation is of crucial importance’, however, the PO Board refused to sign the Codified Agreement with ICL in July 1999 on account of Horizon’s unresolved technical issues and remitted its authority to do so to the PO Chair and Chief Executive. The Board’s objections were detailed in full relief in the Minutes of July 1999 as the programme on which the Government’s entire vision for the Post Office hinged, was once again poised at a critical juncture:

‘System roll-out was scheduled for 23 August 1999 with acceptance needed by 18 August. There were three categories of acceptance each with a threshold which would determine whether or not rollout could proceed: high, medium and low. One incident within the high category, or more than twenty incidents within the medium category, would result in the system not being accepted. Currently there were 270 incidents of which 1 was high and 29 were medium. Of greater concern was the inadequate training of employees...’

‘A number of sub-postmasters were experiencing difficulties operating the system and in particular with balancing’.

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51 oral evidence session (n.4) para. 88
52 Appendix D (document 35) p.415
53 Appendix D (document 34) p.411
54 ibid.
It would appear that the number of allowable medium priority incidents was now double what it had been in April 1999, at which time an Authority had the right to terminate if ten or more medium severity incidents remained uncorrected at the end of Live Trial.55

‘Members were concerned that a number of technical issues remained unresolved and that the BA contract position was still unclear. These were two critical issues and needed to be progressed before the Board would be content for the contract with ICL to be signed’. Minutes reported that Members ‘were content that the final decision on whether or not to sign the contract be remitted to the PO Chairman [Neville Bain] and Chief Executive [John Roberts]’.56

Details of the PO Board’s concerns over Horizon at this meeting were revealed in the Six Page Disclosure Note cited at the Court of Appeal in 2021.57 What did not surface was the PO Board’s intention to relay these concerns directly and immediately to the Government:

‘Ministers were meeting on 21 July [the following day] to discuss Horizon and it would be important to ensure that the Post Office’s Minister, Ian McCartney was fully aware of the Board’s concerns. This would be communicated through a letter from the Chief Executive’.58 Moreover, PO CE, John Roberts, and PO MD Strategy and Personnel, Jerry Cope, were scheduled to meet the Minister Ian McCartney in person on 21 July to present the 1999-2004 Strategic Plan:

‘If questioned on current performance, the Chief Executive would provide an open and realistic assessment of the current position...’59

The first Annex of the Strategic Plan discussed with the Minister on 21 July 1999 acknowledged the precarious contractual status of the Horizon programme:

‘On the 24th May an understanding was reached on the Horizon Project which has a major impact on both the commercial strategy of The Post Office (Network Banking and Government Gateway), and on its ability to sustain the nationwide network of post offices. A formal agreement with ICL is still to be signed. There remains the option, if the Post Office and ICL agree on the codification of

55 Appendix C (document 36) p.360
56 (n.53)
57 (n.35)
58 (n.53)
59 ibid.
the 24th May understanding, for The Post Office to terminate the project subject to a payment of £150m to ICL, allowable for EFR purposes. ⁶⁰

The imminent decision on Horizon, the consequences of which were to have a ‘major impact’ on the commercial strategy of the Post Office, was laid directly before the Postal Minister less than a week before the deadline to sign.

Separately, a projected milestone cited in a PO Board Monthly Performance Report of the same month, July 1999, referred to:

‘installing 4,000 post offices with Horizon by the end of March 2000, subject to Government decision’. ⁶¹

Subsequent POB Monthly Performance Reports which refer to the same projected milestone do not cite the mandatory Government authorisation for Horizon’s installation, suggesting that the ‘Government decision’ was made around the time of July 1999.

Was the decision for the Post Office to sign the ICL contract on 28 July 1999 actually a Government decision and is this what Ministers discussed at their 21 July meeting on Horizon? Was direction given to this effect to the Post Office CE, John Roberts, when he met the Postal Minister in person on the same day? Roberts signed the ICL contract days later, overriding the clear lack of consensus of his Board.

PO Board minutes of the same month recorded: ‘A concern over matters reserved to the Board has been based on Government’s handling of Horizon...This ‘hands on’ approach by Government was typical of their handling of Nationalised Industries’. ⁶²

The Government could not be seen to be interfering in Post Office’s ‘operational matters’ but indications are that, when it came to Horizon, it was doing exactly that. At every critical juncture of the system after its reconfiguration, the signing of the ICL contract in July 1999, the decision on System Accept in September 1999 and at the authorising of rollout in January 2000, Ministers were in close dialogue with the Post Office. Decisions of such national consequence could not have been made by the Post Office alone. The Government could simply not allow 9,000 branches to be wiped off the

⁶⁰ Appendix D (document 33) p.410
⁶¹ Appendix D (document 37) p.418
⁶² (n.53)
network in the event of the PO Board now abandoning Horizon in its entirety;\textsuperscript{63} until ACT was fully in place, these branches were the only channels through which the Government could pay benefits to the majority of vulnerable citizens, those who had not already opted for ACT, in communities across the land. Warnings of an ‘uncontrolled collapse’ of the network which ‘could present serious problems for the secure national delivery of benefits’ had already been sounded by the BA CE.\textsuperscript{64} But in the light of clearly visible, unresolved technical issues which threatened the integrity of Horizon after May 1999, what independent assurances did the Government seek on the system’s fitness for purpose before directing the Post Office?

The day after the ICL contract was signed, Ian McCartney, Postal Minister and Chair of the Horizon Working Group, whose knowledge of the programme stemmed from at least November 1997\textsuperscript{65} was re-deployed to the Cabinet Office.\textsuperscript{66}

At this critical moment in the turbulent story of Horizon’s rollout, the DTI Minister was replaced by Alan Johnson in what was construed by PO as ‘a deliberate move’.\textsuperscript{67}

\textbf{8.2.6 August 1999}

But a new Minister did not alleviate old problems. August 1999 delivered no further progress, the POL Counters Monthly Report of this month recording:

‘In POCL’s view there were 3 high severity acceptance incidents and 12 medium severity acceptance incidents (6 of which had no agreed rectification plan), the contractual acceptance condition had not been met’.\textsuperscript{68}

A \textit{BUSINESS IMPACT ANALYSIS} of August 1999 identified one of these high severity issues as ‘\textit{TIP [Transaction Information Processing] derived cash account not equal to electronic cash account received by TIP}’

\textsuperscript{63} Appendix D (document 16) p.392
\textsuperscript{64} Appendix B (document 15) p.280
\textsuperscript{65} Ian McCartney was called as a witness in November 1997 before the DTI Select Committee for its Third Report ‘The Post Office’ (January 1998) <https://publications.parliament.uk/pa/cm199798/cmselect/cmtrdind/380iii/ti0302.htm> accessed 2 December 2021
\textsuperscript{66} UK Parliament 2021 ‘MPs and Lords’ <https://members.parliament.uk/member/448/career> accessed 3 December 2021
\textsuperscript{67} Appendix D (document 40) p.421
\textsuperscript{68} Appendix D (document 38) p.419
Under ‘Business Impact’ it was reported that the Post Office ‘has not seen a detailed description of the faults creating the missing data, neither has it seen any description of how and when these faults will be fixed’

‘These gaps in data will ultimately be reflected in balance sheet accounts’.69

According to Nick Wallis: ‘Fujitsu had admitted to the report’s authors that they ‘do not yet understand the root cause of the problem.’

Other high severity problems included back-end data losses causing accounting discrepancies, transactions being lost before they could even be written to the cash account, system freezes and ‘lock ups,’ printer failures, and general losses of accounting integrity’.70

A POB Monthly Performance Report, also of August 1999, revealed the gravity of the consequences:

‘At the Joint Acceptance Board of 18 August, ICL were advised that because they had not met a number of acceptance criteria POCL would not enter into a contract with them until these had been rectified.

The decision has resulted in the roll-out being postponed to November, this has meant that further work is now taking place with an extra 147 offices being involved in roll-out. This will help to identify whether acceptance has been reached. The final decision on acceptance will be made at a meeting on 24th September, the conclusions of this meeting will be reported in next month’s board paper’.71

It is unclear whether this failure occurred before or after a revised deal on Acceptance which was made in mid-August 1999:

‘A revised deal on acceptance of the system was agreed with ICL in mid August. The aim of so doing was to facilitate the acceptance and roll-out of a robust system before Christmas. As part of the deal ICL accepted that they had failed the last stage A acceptance. ICL now have until 15 November to gain acceptance’.72

69 (n.8) p.16
70 ibid, p.16
71 Appendix D (document 39) p.420
72 Appendix D (document 37) p.418
Either way, it would appear that Acceptance criteria were again relaxed (for at least the third time) in order to facilitate the speedy release of a product which may otherwise never have achieved Acceptance. ICL had been proposing this since November 1998;\(^{73}\) for ICL, arriving at the promised land of Acceptance would guarantee the much delayed first £68m payment for its product:

‘It has always been a high priority in ICL to get the system operational and to get business across the network otherwise we had no income at all’.\(^ {74}\)

But its proposals on relaxing Acceptance criteria had not been embraced unreservedly:

‘ICL Pathway’s proposals on Acceptance would mean that the Contracting Authorities would be locked into the system before it has been fully tried and tested. BA and POCL have already made very significant concession on Acceptance as part of the Corbett proposal ie in waiving their termination rights at Acceptance of NR2 which does not deliver the full contracted requirements...Both parties are prepared to consider a modest increase in the number of allowable faults but not in the magnitude being proposed by ICL’.\(^ {75}\)

ICL’s proposals for further diluting Acceptance criteria had been vociferously opposed by the DSS and other Ministers on account of the implications for system integrity of doing so.\(^ {76}\) POCL had fewer qualms, however, and in its urgency to see Horizon operational at the earliest opportunity, it had already signalled its readiness to compromise on the issue of Acceptance.\(^ {77}\) Like ICL, it too hastened to the promised land of Acceptance.

Once the contract had been signed in July 1999, the Post Office Board faced this further, unenviable choice over system Acceptance. On one hand, if it refused to Accept Horizon, the Post Office’s modernisation programme would be set back years and it could see a contraction of the network estimated at 9,000 branch closures.\(^ {78}\) On the other, the Board could be exposing the Post Office to the unknown risk of accepting a faulty IT system, one whose previous incarnation had been

\(^{73}\) Appendix B (document 23) p.291

\(^{74}\) oral evidence session (June 1999) (n.4) para. 97

\(^{75}\) Appendix B (document 25) p.294

\(^{76}\) Appendix B (documents 24, 25, 27) Appendix C (documents 3,4,6,7,8,10,11,13,31)

\(^{77}\) Appendix D (document 23) p.399

\(^{78}\) Appendix D (document 16) p.392
rejected by the DSS for consistently failing Model Office testing\(^{79}\) and was now failing to achieve Acceptance criteria even after its May 1999 reconfiguration.

Due, for the second time, to present its 1999-2004 Strategic Plan to the Government for approval in September 1999, and tasked with delivering the Strategic Plan thereafter, this was not a decision the Post Office Board could have made without again consulting its Sponsor Department. The Government had steered Horizon’s trajectory for years, it’s Ministers had invested months of intense, high level negotiations to secure its future, in the belief that the future of the Post Office, of ICL and of Japanese inward investment hung on the success of Horizon’s rollout. It was not about to be trumped by the Post Office Board at the final hurdle.

The Post Office alerted the DTI Select Committee to its predicament over Acceptance in an update later that month:

> ‘In evidence submitted to us on 27 August 1999, however, the Post Office told us that the first key milestone, of acceptance of the system had not been achieved by the due date of 16 August and that it was now hoped to achieve it by the end of September, with formal acceptance due by 15 November.[85] While those concerned expressed general confidence that the roll-out of automation would proceed smoothly, and that the apparently ambitious target of converting 300 post offices a week in the year 2000 was achievable, the failure to meet the first milestone cannot but cause concern in a project with such a chequered history. We look to Ministers to inform us in response to this Report of the progress being made with the revised contract’ (emphasis as in original).\(^{80}\)

The DTI Committee knew of the PO Board’s August 1999 deferral of Horizon’s Acceptance, even though it occurred after its oral evidence sessions of June and July 1999, because the Post Office submitted this supplementary evidence. This evidence is not included in the Eleventh Report either as a Memorandum or Appendix, it is not quoted or referred to at any other point. Why did the Post Office consider it necessary to update the Committee in this submission, why was its evidence not disclosed and what reasons did the Post Office give for Horizon failing to achieve Acceptance criteria in mid-August?

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\(^{79}\) Appendix C (document 36) p.360

\(^{80}\) DTI Select Committee Eleventh Report (n.4) point 20 ‘Roll-out of automation’ and Conclusion (g)

(Page 178 of 579)
The answer may lie in a memorandum submitted to the companion DTI Twelfth Report, also of September 1999, which does in fact refer to ‘a revised programme of work to enable ICL to mitigate the out-standing faults in the system’. 81 The Department made a formal response to the Committee Report so it must have received the information.82 The passage cited above from the Eleventh Report indicates that the information passed to the Committee regarding this failure gave its members serious grounds for concern. It prompted a specific call on Ministers to keep the DTI Committee updated on Horizon’s progress whilst planting a red flag over the failed Acceptance in the light of its inauspicious origins.

8.2.7 September 1999

The Department, therefore, had been alerted to the August Acceptance failure and were being advised to monitor the situation. The meeting between the Post Office, the DTI Postal Minister, Alan Johnson, ‘and senior officials from the Treasury and 10 Downing Street’ on 6 September 1999 would have presented the perfect opportunity.83 This meeting was just days after the Post Office’s secret submission to the Select Committee and had been convened to present the Post Office’s five year Strategic Plan to its Sponsor Department; a plan which was wholly dependent on the company’s successful commercial exploitation of Horizon and one which was subject to Government approval.84 Equally, the Government’s entire Post Office Reform package was dependent upon the compliance of the PO Board in realising its strategic vision and upon its launching Horizon at the earliest opportunity.

81 ‘The Post Office and ICL agreed terms and signed a revised contract on 28 July 1999. Both Parties are working together to implement the new arrangements. The first key milestone is acceptance of the system which was due to be achieved on 16 August. This was not achieved by ICL and there is now a revised programme of work to enable ICL to mitigate the outstanding faults in the system. ICL hope to gain acceptance by the end of September and there is some limited further roll out of automated Post Offices planned to help this process. National Roll out has not yet commenced. ICL have until 15 November to gain formal acceptance’. Appendix 8, Supplementary Memorandum submitted by the Post Office, DTI Select Committee Twelfth Report ‘The 1999 Post Office White Paper’ (September 1999) <https://publications.parliament.uk/pa/cm199899/cmselect/cmtrdind/94/9402.htm#evidence> accessed 16 May 2022


83 Appendix D (document 40) p.421

84 The following year, PO Board Minutes of September 2000 reveal that 18 Government officials, including the Minister, attended the Strategic Planning Meeting with the Post Office
There was little over two weeks before the Post Office’s September 24 deadline to Accept Horizon, what course of action would HM Treasury have advised the Post Office to take when it met to discuss the Strategic Plan? Was Government’s approval of the plan, conferred in November 1999, conditional upon Post Office’s Acceptance of Horizon?

Of all the Post Office’s available evidence regarding Horizon’s instability, how much was passed to Ministers at this moment in time? Conversely, given their knowledge of Horizon’s chequered history and their intention to exploit Horizon as a portal for multiple Government services, how actively did Ministers seek out this evidence? We know HM Treasury had consistently marginalised DSS concerns regarding Horizon’s technical problems; in February 1999 HM Treasury had even failed to inform the Prime Minister that the BPC was technically unviable and had continued contingency planning for its launch nonetheless. So in which direction did it steer the Post Office in September 1999 and did the Board have any choice other than to do the Treasury’s bidding?

By now the Post Office was so adversely impacted by the Government’s termination of the BPC, it was wholly dependant on HM Treasury to sustain the business as a going concern:

‘The Government’s decision on Horizon/ACT has upset the natural equilibrium of the PO network. This is because Horizon costs and earlier loss of BA income throws the business into loss, and forces cost recovery measures alongside the securing of profitable new business. Furthermore, from the agents perspective, loss of footfall combined with loss of Post Office income jeopardises the basic viability of their business. This combination creates the high risk of unmanaged change within the network, where the individual circumstances of the agent determines whether a particular outlet continues or not, irrespective of whether that outlet contributes to The Post Office or not. Such unmanaged change is not in the interests of The Post Office and our customers. It potentially undermines our brand and means we lose control of a customer access channel’.

The Post Office was beholden to Ministers to deliver it from the black holes which were consuming its balance sheet from all sides, losses which threatened the reach of the network and

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85 Appendix D (document 39) p.420
86 Appendix D (document 45) p.428
87 Appendix B (document 19) p.287
88 Appendix D (document 47) p.430
could only be arrested by significant Government subsidy. The Post Office could simply not afford to act unilaterally in terminating the ICL contract in the autumn of 1999; nor, arguably, had it the authority to do so.

Faced with clear indications of Horizon’s failure to perform or to achieve Acceptance criteria post-reconfiguration, was there really no suspicion in Ministerial minds that they were witnessing a continuation of the integrity issues which had sunk the flagship BPC just months before? Was there no recognition within Government of an apparent continuum of instability, visible before and after the reconfiguration of Horizon and spanning as far back as concerns over Horizon’s ‘robustness’ which had troubled the authors of the PA Report in 1997? 89

When did the collective Ministerial amnesia set in, or did it only appear to do so?

By September 1999, PO Board Minutes recorded that failed Acceptance had not impeded the live trial, despite the Board expressing doubts as to the logic of proceeding: ‘The decision to continue has not been taken lightly’. POCL’s Horizon Programme Director, who had forecast Acceptance in August, determining Horizon to be ‘robust and fit for service’ 90 was evidently on a different page:

‘When the Board met last July (PO99/79), POCL’s Horizon Programme Director had been confident that system acceptance would occur as planned on 18 August. Unfortunately, three high priority acceptance incidents around training, stability of the system (lockups and screen freezes) and quality of accounting data, remained unresolved and whilst ICL did not accept the categorisation of these incidents, they had nevertheless resulted in acceptance being deferred until 24 September.

A decision on national rollout had also been deferred although POCL had agreed to continue with live trials with the number of offices operating the system extended to 900’.

‘However, system stability and accounting was still being analysed and rectification was not expected before December.

Under the terms of the revised contract, signed at the end of July, the final acceptance date was 15 November 1999 and it remained uncertain whether the plans that were currently in place would enable this deadline to be met.

89 (n.5) p.72
90 Appendix D (document 34) p.411
Counters was clear that the system would only be accepted if it achieved the necessary service standards.’

It was noted that:

‘The continued rollout of the system to a limited number of offices was at no cost to Counters who would not make any payments to ICL until the system has been accepted. However, the logic behind this approach was questioned as serious doubts over the reliability of the software remained. It was also felt that by continuing unchecked it might also be harder ultimately to refuse to accept the system’.

The Board reiterated ‘the fact that the system would not be accepted if it did not work. Roll out would not go beyond 900 offices. Notwithstanding this, the decision to continue would be reviewed’.

These Board minutes of 14 September indicate a vigilant, cautious Board, one whose members seriously questioned the reliability of Horizon’s software and were fully aware of problems which threatened a November Acceptance and which may not be stabilised before December. This was a Board strongly resolute that it would not accept a system unless it had achieved ‘the necessary service standards’.

And yet, just ten days later, on 24 September, it did just that. Acceptance occurred, though the formal contractual deadline for Acceptance was not until 15 November 1999, despite the fact that Horizon was never recorded in PO Board minutes as having achieved its Acceptance criteria.

What, or who, had changed the mind of the Post Office Board in that ten day period?

Shortly after the 6 September meeting between the Post Office, the Postal Minister, senior officials from the Treasury and 10 Downing Street, the Post Office Board appeared to totally change its stance with regard to Accepting Horizon.

The Government knew that Acceptance had occurred:

‘Post Office Counters formally accepted the Horizon system in September’.

And in this response to the Committee’s Eleventh Report the Government gave its assurance that the new Horizon Working

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91 Appendix D (document 40) p.421
92 (n.82) Appendix 1(g)
Group, chaired by Minister for Competitiveness, Alan Johnson, had been established ‘to monitor and oversee the successful implementation of the project’.

What the Government failed to disclose, however, was that the September Acceptance was conditional and had been achieved only by modifying the Horizon contract once again:

‘The contract changes allow POCL to minimise the risks arising from the most serious outstanding acceptance issues, by making progress on their rectification a pre-condition for resumption of roll-out after the Christmas 1999 break’.93

‘...on 24th September 1999, ICL Pathway were adjudged to be failing on three criteria. After reviewing risks, the decision was taken to grant conditional acceptance to ICL Pathway subject to additional obligations being placed upon them’.94

8.2.8 November 1999

Horizon’s high severity technical problems continued to loom large over the autumn of 1999 and a suspension of rollout, which was originally intended to last 4-6 weeks,95 was now scheduled from 8 November 1999 – 24 January 2000. The traffic light indicator on POCL’s Milestone Timetable for Horizon, which had been consistently amber since July 1999, was only momentarily green in the Monthly Report of October 1999. By November it was amber once again:

‘The traffic light for this milestone has changed to amber this month to reflect the current uncertainty around Horizon meeting the acceptance criteria’.96

Was the Government not monitoring this, as advised by its Select Committee? Did it not wish to know the cause of delays to rollout, or to know if the rectifications upon which Acceptance depended were being delivered?

A PO Board Chief Executive Report recorded, in November 1999, that rollout was by no means a certainty:

93 Appendix D (document 42) p.425
94 Appendix D (document 45) p.428
95 Appendix D (document 34) p.411
96 Appendix D (document 44) p.427
'The system (in)stability, characterised by screen freezes/lock-outs, is now just at acceptable levels but improvements to the helpdesk and data transfer without corruption are still required before roll-out can continue from 24th January'.

These were precisely the problems which had prevented Acceptance in July. They had not been resolved, the Chief Executive reporting in October only that ‘remedial work’ had occurred. Incrementally and irreversibly, POCL was accepting a system which barely achieved its relaxed Acceptance criteria and was subject to issues of data integrity which had never been rectified. But Conditional Acceptance was authorised, as an irreparably faulty system was shoe-horned into the destiny which Government policy had pre-ordained.

From the perspective of the Fujitsu Whistleblower, issues could not be resolved because the Horizon software was fundamentally and irrevocably flawed: ‘...an important element of the Horizon system did not function correctly and could not be fixed’. He observed that the software was originally written as a prototype with which to win the Horizon contract, but instead of being subsequently scrapped and rebuilt, the prototype was retained as a primary building block. According to the Whistleblower, it was inherently unstable; the absence of a message library repository and agreed data catalogue rendering the core system irreversibly compromised:

'I broke it down and said, “You can keep these bits at a push if you have to. But that bit in the middle, these bits of the engine, the gearbox, you need to throw them away and rebuild them. Starting with the cash account”.'

Here, in November 1999, the effects of Horizon’s engine problems were visible at the highest levels of the Post Office hierarchy. They had been visible since July 1999 and would remain so until at least January 2000. But still the Post Office drove on to seal its Faustian deal.

Branch discrepancies were starting to appear; £43,000 in November 1999 at Dungannon for which Fujitsu records showed:

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97 Appendix D (document 46) p.429
98 Appendix D (document 40) p.421
99 (n.3)
100 ibid.
‘POCL are concerned that the cause is still unknown and that this will affect this and other outlets’.

‘No fault can be found and developments do not expect to be able to find a fault with the evidence available. There is no additional information available as evidence’.101

And in the meantime the giant cogs of Post Office’s ‘security community’ gathered momentum and shifted imperceptibly up a gear or two. Under ‘POST OFFICE SECURITY’ the September 1999 Board Minutes had made a timely observation:

‘The Post Office operated its own prosecuting authority with no reliance upon the Crown Prosecution Service or Police. 700 people were employed within The Post Office’s security community’.102 Perhaps the increase in the rate of prosecutions of branch staff had been noticed, jumping to 50 in 1999, more than the total number of prosecutions in the previous eight years.103

8.2.9 January 2000

The ‘Harnessing Technology’ document considered by the PO Board at its meeting of 30 November 1999104 recorded that there would be a formal review of the Horizon programme status on 7 January. But even by early 2000, resolution had not materialised:

‘There is still some uncertainty around the Horizon project, due to the system’s performance. The meeting to agree the way ahead took place in the first week of January and POCL are hopeful that the traffic light status will be green by period 10’.105

Was this the reason for the Postal Minister, Alan Johnson, attending the critical PO Board meeting of 11 January 2000?106 Under ‘Chairman’s Business’ its Minutes reported:

101 (n.26) [236-241]
102 Appendix D (document 40) p.421
104 Appendix D (document 44) p.427
105 Appendix D (document 48) p.431
106 Appendix D (document 51) p.436
‘Alan Johnson MP, the Minister with responsibility for the Post Office, was attending for the final thirty minutes of the meeting’, Horizon being one of the issues which the Chairman wished to raise with him.

The last report to be considered, which would have been in the presence of the Minister, was headed ‘AN UPDATE ON THE HORIZON PROGRAMME’.107

‘The rollout of Horizon was due to recommence on 24 January. A great deal of work had been undertaken to rectify difficulties identified in three areas:

- system stability;
- accounting integrity; and
- the provision of support to offices.

Although as yet uncertain, it was anticipated that these issues would not prevent rollout recommencing’.

‘...on 24th September 1999, ICL Pathway were adjudged to be failing on three criteria. After reviewing risks, the decision was taken to grant conditional acceptance to ICL Pathway subject to additional obligations being placed upon them’.

‘Further monitoring and discussion is continuing on ICL Pathway’s performance against the three failed criteria, and a final decision on resumption of rollout will be taken in mid-January 2000’.

The Executive Summary was authored by Dave Miller, the Horizon Programme Director who had been so mistaken in his assurances that Horizon was ‘robust and fit for service’ back in July 1999, and it was sponsored by Stuart Sweetman, Group MD Customer and Banking Services. The full report went on to elaborate on these issues, noting that the ‘significant faults’ in ICL Pathway’s service identified in August had led to a Supplementary Agreement and that the failures of September 1999 were attributable to:

‘- Helpdesks – provision of support to offices failed to meet contracted service levels;
- System Stability – software errors were observed during live trial which could have significant customer service implications when the system is fully rolled out;’

107 Appendix D (document 50) p.433
- Accounting Integrity – the lack of demonstrable controls within ICL Pathway were leading to an unacceptably high level of data with integrity problems.

3.1.3 After reviewing risks it was decided that despite these recurring problems there were significant business benefits to be gained from rollout to a larger number of offices, but that this should be subject to additional obligations on ICL Pathway.

‘Post Office Counters Ltd retaining the option to suspend resumption of rollout in January 2000, if the criteria at 3.1.2 are not met’.

So, towards the end of an eleven-week cessation of rollout, there was still no certainty that system stability had been, or would be, achieved. It is on record that the Postal Minister, Alan Johnson, had clear visibility of the technical problems, including software errors, which threatened accounting integrity, had warranted ‘a great deal of work’ and were serious enough to cast doubts over national rollout.

The Government had pledged that the Horizon Working Group, chaired by Alan Johnson, was tasked with monitoring and overseeing ‘successful implementation of the project’. As former member of the DTI Select Committee, Johnson was well-versed in the problematic history of Horizon; he is named as a member of the Committee in its Third Report of January 1998 which recorded the programme’s delays and sought an update on its ‘progress and problems’.

By January 2000 he could see for himself.

The Minister attended a Board meeting for what was perhaps the most significant thirty minutes in the Post Office’s entire three hundred and forty year history. The PO Chair had specifically wished to discuss Horizon with Johnson and, days before the catastrophic decision on national rollout was actioned, the Minister found himself not at Arm’s-Length, but fully briefed, at the very epicentre of decision-making, at the imminent launch of the Post Office’s nemesis.

108 (n.82) Appendix 1(g)
109 (n.65) Minutes Of Proceedings and para. 40
‘It was a prototype that had been bloated and hacked together afterwards for several years, and then pushed screaming and kicking out of the door. It should never have seen the light of day. Never’ ¹¹⁰

¹¹⁰ (n.3)
PART 9

COVERING THE TRACKS

‘...if serious problems developed in the two years since they have had stewardship of the scheme, they kept them a well hidden secret’¹

Secrecy, in the guise of commercial sensitivity or legal privilege, has been Horizon’s trusted accomplice throughout every chapter of its story. Secrecy has served the Government, the Post Office and Fujitsu as the most effective weapon against any who challenged their complicit narrative of Horizon’s infallibly:

‘We get a bit fed up in this Committee with people hiding behind the cloak of confidentiality when frankly we do not see there is any commerce involved, it is just secrecy’.²

The DTI Secretary of State, Stephen Byers, responded:

‘We accept that principle absolutely but you will understand, Chairman, that we receive information which is given to those reviews by parties who want the information to be treated commercially in confidence. Now if they are prepared to lift that then I think that makes our life a lot easier’.³

But this was a secrecy which in 1999, as in 2022, serves to protect rather than to thwart Ministerial intent.

The culture of non-disclosure protected vying interests of all contracted parties- even from each other- and it permeated Whitehall from top to bottom. Until NAO and PAC involvement, the stamp of ‘Strictest Confidence’ shielded the entire project from legitimate parliamentary scrutiny; yet these investigations did not commence until the summer of 1999 and the reconfigured Horizon was not within their scope.

² DTI Select Committee Chair, Martin O’Neill, oral evidence session (July 1999) para. 152, DTI Select Committee Eleventh Report ‘The Horizon Project For The Automated Payment Of Benefits Through Post Offices’ (September 1999) <https://publications.parliament.uk/pa/cm199899/cmselect/cmtrdind/530/53002.htm> accessed 2 December 2021
³ DTI Secretary Of State, Stephen Byers, ibid. para. 152
So tight was the lid on disclosure that nothing of the chaos exposed in the National Archive material reached parliamentarians of the day, as they dutifully sought to challenge Ministers on the grounds of Horizon’s VFM. Their only intimation of difficulty was Horizon’s repeated pattern of slippage which cast an unwelcome shadow of uncertainty across post offices in their constituencies across the land.

But in its response, the Government meted out only the vaguest of assurances to MPs and when it finally decided to reconfigure Horizon, it delivered the headline news with the barest of detail.

Just months before, in December 1998 when the entire project, and indeed ICL itself, were poised on the verge of collapse, DTI Secretary of State Peter Mandelson presented his fig-leaf facade by way of an update to the Commons:

‘It is true that we have been concerned about the substantial delay suffered by the project, and we are monitoring its progress. I hope that it will be able to catch up, and that it will be brought to a proper conclusion and completion in due course’.

The absurdity of such secrecy, which obscured every aspect of this project, did not pass unnoticed. When MP Vince Cable sought to determine the proportion of payments made by the DSS to the Post Office which covered technological improvement he was told by the DSS it was a ‘commercial secret’:

‘That raises a fundamental issue. We are dealing with a transaction between a Government Department and a state agency which the Government choose to regard as a matter of Government confidentiality...we have great difficulty understanding what is going on, because the Government simply refuse to divulge the split between the technological gain and the remainder of the fee income’.

Yet even in May 1999, at the height of its hidden crisis, Horizon’s cloak of invisibility held its own: a written response to a question on the ICL Pathway Project of 14 May 1999 elicited the response of:

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'The Benefits Agency, Post Office Counters Ltd. and ICL Pathway continue to work together to progress the project. Contractual and commercial matters remain confidential to the parties'.

MP Iain Duncan Smith complained of the dearth of information on Horizon’s progress in a House of Commons sitting, just hours before the Government announced its volte face of May 1999:

‘The Secretary of State talks about the pathway project knowing that his Department has had a massive involvement in it, but he gives us no information on the situation...Now we are told that the Government are going to make a statement, but not to the House. Will the right hon. Gentleman tell us the current situation? Let us hear the answer here first...The usual channels have twice produced anodyne answers, such as the statement that the programme is due to go ahead with no problems. Never has there been an admission of a problem in a written answer’.

But on this historic day of the formal signing of Horizon’s revised Agreement, the Government baulked from announcing the cancellation of the BPC to the Commons:

‘DSS Secretary of State, Alistair Darling: Later today, my colleague, the Secretary of State for Trade and Industry, will be making a statement on the matter—

MP Leigh: To the House?

Darling: No, he will not be making it to the House’.

According to The Independent, this prompted DTI Shadow Secretary of State, John Redwood, to accuse the Government of a “snub to democracy”; “It refuses to tell Parliament because they have made a complete mess of smart cards”; whilst ‘in one of her strongest rebukes to the Government, the Speaker, Betty Boothroyd, said that she was “dismayed to hear” that an important statement on the

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6 MP Angela Eagle, written response <https://publications.parliament.uk/pa/cm199899/cmhansrd/vo990514/text/90514w03.htm> accessed 3 December 2021


8 ibid. c5
Horizon project was being made outside the Commons chamber. “This House deserves greater respect in those matters”.

Similarly, two days after the Government reached agreement with ICL, a response during a House of Lords debate made no reference to the seismic reconfiguration:

‘Lord Avebury asked Her Majesty’s Government: What is the status of the Pathway project to computerise social security benefit through the Post Office’ to which the DSS Parliamentary Under Secretary of State replied: ‘To date, 204 post offices have been automated in the north-east and south-west of England. The Benefits Agency, Post Office Counters Ltd. and ICL Pathway continue to work together to progress the project’.  

And during Prime Minister’s Questions of the same day, Blair too closed ranks and elegantly airbrushed Horizon’s reconfiguration from public consciousness:

‘MP Mark Todd: Will the Prime Minister ensure that the network of small town and rural post offices does not fall victim to the correct abandonment of the Horizon project earlier this week? That was an ill-conceived and public relations-led Tory information technology project which failed. Will my right hon. Friend assure me that my post offices will stay open?  

The Prime Minister: I can assure my hon. Friend that we remain committed to a nationwide network of post offices...We announced earlier this week that the network of almost 19,000 post offices will be equipped with a modern, on-line IT system by 2001. That will enable rural post offices to modernise their existing services and secure their viable long-term future.’

It was is if Horizon’s disastrous parent project had never happened.

The Government’s account of Horizon was finally presented to the Commons on the same day that the petition of three million signatures landed on the steps of No.10 in April 2000, but its retrospective gloss did little to appease the anger of those- including the DTI Select Committee- to whom empty assurances had given a false impression at every stage of the project. Byers’ story was

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delivered without the slightest intimation that delay was attributable to the numerous technical difficulties to have beleaguered Horizon:

‘Under this Government, £500 million is being invested in the Horizon project and computerisation. We are helping the Post Office to adapt to the changes that are taking place, but that means taking what are often difficult decisions...

By early 1997, still under the Conservative Administration, it was clear that the project was in difficulties. We inherited those difficulties. In late 1997, the project was incurring cost overruns of £600 million and was three years behind schedule and we had to consider whether it could be continued. We undertook a detailed review and in 1998 we tried to put the project back on course, but slippages continued. In October 1998, the key milestone for the start of live trials of the system was missed yet again. There were real and increasing concerns that, even if the card could be delivered, the technology was becoming increasingly out of date’.

‘Following a further review early in 1999, we decided that the benefit payment card could not continue, because the problems had become overwhelming’.

‘...I want the local post office to interact directly and electronically with business, and to be a channel of delivery for electronic government. With the new technologies that we are giving to the post office network, all that is possible’.

The veil of secrecy was as much to conceal failure as it was to protect legitimate commercial confidence; ICL’s failure to deliver reliable software; POCL’s failure to exert sufficient operational strength; the Government’s failure to manage the contract and oversee progress. The denial of problems and the lack of explanation around Horizon’s delays and its reconfiguration infuriated MPs but the chorus of dissent unleashed in the debate of July 1999 was stifled in ways reminiscent of Horizon’s later years. The same powerful vested interests reigned then, as today, over immeasurable expanses of undisclosed material.

The Government’s secrecy was summarised by MP Tony Baldry:

‘The history of the Government’s relationship with the Horizon project is a sorry tale. In April last year, the DTI told the Select Committee that “the Government is committed both to the maintenance of a nationwide network of post offices and to providing a secure, convenient and cost-effective means of...’

12 DTI Secretary of State, Stephen Byers (n.5) c380
paying benefits to customers. That is why the Horizon automation programme is designed to do what it is designed to do. Post Office Counters Ltd and the Benefits Agency are continuing to work closely with ICL Pathway to progress the Horizon programme and the Government is monitoring development closely.” No scintilla of a suggestion appears that there was any problem with the Horizon programme at that time. In November, the then Secretary of State for Trade and Industry—the right hon. Member for Hartlepool (Mr. Mandelson)—appeared before the Select Committee. He said: “There have been delays, but the Benefits Agency and the Post Office continue to work closely with ICL and the Government is closely monitoring progress”...That was only a few months ago, and again, there was no scintilla of a suggestion of any problems. Suddenly, out of the blue at the end of May, there was a complete change of plan. In effect, what has happened is that Ministers have, for whatever reason, changed their mind in the middle of a major contract. One suspects that they were rolled over by the Treasury. ICL, the contractor, must have been left with a substantial loss. I imagine that the only reason why it has not issued litigation is that its parent company, Fujitsu, hopes to float some time next year and would like to retain the Government as a major client...It is a scandal and we need to get to the bottom of it. There is no way that Ministers can pretend that it was the previous Government’s problem...”.

The debate opened the floodgates to a wave of parliamentary anger over the Government’s handling of Horizon, MP Nick Gibb contributing:

‘Government have either known about the problems with Horizon all along, and hence have misled the House in written answers, or they did not know that there was a problem, so they were not on top of their job’.

‘My hon. Friend is right not to be convinced by the Government’s explanation of the failure of the Horizon project’...‘He is also right to say that the Government’s handling of the Horizon project is a scandal’...‘That piece of Government incompetence will cost taxpayers £940 million—the equivalent of three new hospitals. It is a piece of incompetence that, by the Government’s own admission, will result in £320 million of extra social security fraud’.

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14 ibid. c668

15 ibid. c669
‘The Government’s policy on the future of our post offices is in complete disarray because of incompetence and cowardice: the incompetence of Ministers who are unable effectively to manage the detail of a computerisation programme, the consequences of which will put at risk thousands of rural sub-post offices...’.

The Shadow Secretary of State for DTI observed:

‘The record shows that right up until May this year no one in the DTI Front-Bench team, either in written or oral answers to hon. Members on both sides of the House, gave any indication that there was likely to be a problem with this system, let alone that the problems were so severe that it would be abandoned within three weeks of ICL making a public statement’.

‘If there were problems with this system in the past two years, one would have expected Ministers to have flagged that up in parliamentary answers. Even in the letter in which it is announced that the system is to be abandoned entirely, there is no explanation and no allegation that it was because of incompetence and serious problems with the computer’.

MP Peter Lilly also argued that the Government had misled Parliament over Horizon:

‘It is clear that the Government either have known all along that there are problems and have been deliberately misleading the House, or have not known because they have not been on top of their jobs and have not been competent. Perhaps when the Minister winds up, he will be able to explain the contradiction between what the Government are now telling the House and what they have said in written answers for the past two years’.

Lilly noted the inconsistency ‘between what Ministers have been saying today and assurances that they gave the House on 5 occasions over the last 18 months. This is a very serious matter’.

Whilst MP John Battle inquired: ‘Perhaps the right hon. Gentleman will tell us about the roots of what went wrong with Horizon?’.
MP Bob Laxton, also dissatisfied with the Government’s failure to come clean, added:

‘I was particularly concerned about the fact that the contract for a computer project of this magnitude was signed in May 1996, and after only nine months, I understand, went through major renegotiation. I readily understand the comment that it was part of managing the project, but there is a lot of difference between tweaking and managing a project and rewriting a contract. We do not have access to the information - which is privileged - on how decisions on the project were made. Moreover, the other day, members of the Select Committee on Trade and Industry were unable to get answers to our questions on the matter because the relevant documents were not available to either Department of Trade and Industry Ministers or to the Secretary of State’.  

MP Christopher Chope, too, was conscious of the dichotomy between what the House had been told and the reality of Horizon:

‘We have heard today—and from the Secretary of State yesterday—red herrings about renegotiations in February 1997. This time last year, it was satisfactory for the Government to refer to the contract in 1996, and there was no talk of modifications, changes or difficulties. I am not convinced by the Government’s story on this’.  

Nothing rang true for these MPs in the lines that the Government had publicly taken on Horizon; nor was their scepticism unfounded.

‘...they kept discreetly quiet about the Horizon project. That is a suspicious indication that there is another agenda’.  

The DTI Select Committee had made a direct request for transparency as early as January 1998:  

‘There have however been recent reports that the programme is running two years behind schedule. It is crucial for the future of the national network of sub-post offices that the ICL Pathway automation project be taken through to a successful conclusion: we seek a detailed account of progress and problems in the Government’s response to this Report’ (emphasis as in original).  

21 ibid. c661  
22 ibid. c662  
23 (n.1) 635  
Eight months on and the reluctance of Ministers to provide any meaningful information to the Committee was self-evident:

Chair, Martin O’Neill "I would like to ask one last question because I feel no session on the Post Office with you would be complete without it. The Pathway Programme. Where stand we on the Pathway Programme at the moment? Is there progress being made or are we still in that kind of first year status that we seemed to be in for a long time?"

(Mr McCartney) [DTI, Minister of State] We are still committed to the creation of an information technology network in 18,000 post offices. As a Government we are working both as a Department with the Post Office and the Post Office partners which include of course the Benefit Agencies, one of the biggest customers, and that work is progressing to try and ensure we get in place such a network. It is critically important to the future of the Post Office that it does.

178. So are we in first gear, or have we moved into second?

(Mr McCartney) I think we went through all the gears.

179. I know, but we have also been in reverse as well.

(Mr McCartney) No, not since I have been in the job.

Chairman: Well that is as diplomatic and Delphic an answer as you have given us this afternoon."

When the DTI Committee was permitted to see the Montague and Corbett reports of Project Horizon (but not until after it had cross-examined the three Secretaries of State) it regretted not being able to reproduce them on account of commercial sensitivity. The Committee recognised the need for discretion, but upbraided the Government for its pattern of secrecy nonetheless:

‘It has been suggested that, over the past two years, Ministers have been less than candid in their responses to the House and to this Committee on the problems confronting the Horizon project. The Secretary of State for Social Security, in 1997 the Chief Secretary at the Treasury, confirmed in evidence to us that Ministers outside the DSS - primarily the Treasury and DTI - had been focussing on the programme since August 1997: it had been clear from then, if not sooner, that “there were major

Having reviewed the evidence given to us, we do however consider that a fuller reflection of the process of review which was underway, and of the serious problems with the programme, could and should have been presented to Parliament and to this Committee’ (emphasis as in original).

But the Department stood firm:

‘To have highlighted prematurely the serious problems with the project would have risked damaging the confidence of those involved in it. There were also difficult issues of commercial confidentiality surrounding both the existing contract and negotiation of revised terms’.

It is clear is that from the outset, a conspiracy of silence and an active, even coordinated, strategy to keep questions over Horizon’s technical issues beyond parliamentary and public scrutiny was in play.

It is important, from the standpoint of 2022, to take stock of the cover up which was disseminated by the Government in the very first chapter of Horizon’s problematic story. In order for any Inquiry to reach a full understanding of the root causes of the Horizon disaster, it must take into account the foundations that were laid by a Government which, from the outset, rigorously and consciously denied the programme’s technical failures and concealed the extent to which it was aware of them. For BEIS, successor Department of the DTI, to solely or collaboratively define the remit of an Inquiry so as to leave its own behaviours out of scope (as it has evidently sought to do) is to manipulate and evade, yet again, the structures of accountability on which the functioning of Government and indeed of our society depends.

The covertness of Project Horizon was not confined to parliamentary disclosure, it was evidenced on many levels; the NAO report identified instances of non-disclosure between BA and POL which, as joint contractors in the procurement, could only hinder progress:

26 DTI Select Committee Eleventh Report (n.2) para. 5
The project was unusual in that one of the joint purchasers is a service provider to the other. Post Office Counters Ltd provided benefit encashment services to the Department of Social Security, and both organisations sought to maintain a degree of commercial confidentiality from the other.  

In its reflection on the NAO report, the DTI Select Committee noted this culture of non-disclosure commenting:

‘This is about your relationship with the Department at a much later stage in this process, particularly the last sentence, which is quite an interesting one, “The Department actively sought, but did not obtain, an open, shared risk management process from the Post Office Horizon team, who maintained direct reporting arrangements between themselves and Pathway.” That is not joined-up government, is it? It seems to me that since you are co-conspirators in this there is something not quite right about all of this. Can you explain why you took this view?’.

Sarah Graham, SPD Sp Proj, who was closely involved with the project at the DSS and briefed senior officials on programme updates, acknowledged the cloak and dagger nature of her work:

‘The “central/strategic” role, which I have been asked to carry forward, has up until now been kept deliberately obscure. This, because of the extreme sensitivity that has needed to be applied to our activities in this area, certainly around the contingency planning work; although I have been able to “come out of the closet” to some extent since the setting up of the Treasury Working Group and the Independent Panel of which all parties (including ICL Pathway) are aware’.

Later, as difficulties intensified and the prospect of litigation gathered momentum, communications within each party became more guarded and Graham warned:

‘Just a reminder that we need to bear in mind all the time that anything we write down may become discoverable in the course of any subsequent litigation with ICL.

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30 Appendix A (document 6, p.3) p.247
I am aware that in some of our recent discussion of the way forward, and how we approach accounting officer issues and the appearance before the Select Committee etc, we may not always be as conscious as we should of this dimension.

I have already asked Ron to double check the HMT-led Working Group Report. I should be grateful if he could similarly keep a stringent eye on us in other documentation’. 31

And when on a number of occasions, the CE (and Accounting Officer) of BA alerted his Permanent Secretary, Minister, or Secretary of State to his need for Ministerial Direction, the prospect of premature PAC (and therefore public) scrutiny was considered one to be avoided.

‘...we need also to take account of my expectation that the Chief Executive of the Benefits Agency [as its Accounting Officer] would require a formal direction to proceed with Option 1; this would result in an early public exposure via the Public Accounts Committee of a range of concerns including the performance of Pathway and the capability of Post Office Counters Limited’. 32

Evidently the performance of Pathway and the capability, or otherwise, of POCL were contentions to be kept out of the public domain:

‘...there is concern that the issue of a further Direction should not become public/known to ICL – this could harm our negotiating position with ICL/Pathway’. 33

The Post Office’s approach to disclosure was no more generous; the PO CE argued the case for it not to supply the NAO directly with information giving the PAC a glimpse into the Post Office’s secretive corporate culture:

PAC Chair, MP David Davies: ‘I understand that while the NAO had access to certain documents on the Post Office’s involvement in the project which were held by other parties, you did not provide them with access to your own records and declined to give them information, even in meetings. Why was that?’ 34

31 Appendix B (document 1) p.260
32 Appendix A (document 9) p.252
33 Appendix B (document 14) p.279
34 oral evidence session (n.29) para.14
‘The National Audit Office does not have access to us...in the same way as I would not allow any other company’s auditors access to the Post Office, I have taken that line with the NAO’.35

Davies reminded him: ‘Accountability is only as good as the information provided and you are here responsible for providing a public service’.36

‘On the basis of what you have just told me I can well understand why it was that you wanted to keep the NAO out, I understand very well—we might have found out about this a lot earlier’.37

The NAO confirmed its lack of authority in this regard; referring to its own Report on the BPC:

‘The study focused on the role of the Department of Social Security and of the Benefits Agency in the project. The National Audit Office has no statutory rights of access to Post Office Counters Ltd’.38

So, seminal though it is, the NAO Report made its findings on Horizon without having access to any information on the Post Office which the Post Office itself did not wish to disclose. According to Post Office Board minutes, a Government review recommended that the NAO be granted access to the Post Office.39 We may only speculate as to the likelihood of the Horizon scandal surfacing sooner had the Government adhered to the recommendation and opened the Post Office’s infamous Suspense Accounts to NAO scrutiny.

On a number of occasions the PO CE, John Roberts, alluded to ‘oral’ or ‘personal’ updates to the board,40 to avoid leaving a paper trail of sensitive information. His report of October 1998 had forewarned:

‘Our current discussions are extremely commercially sensitive, and so I will provide the Board with a separate update on any significant developments over the coming month’.41

35 ibid. para 15
36 ibid. para 17
37 MP Alan Williams, ibid. para 73
38 (n.28) p.75
39 Appendix D (document 57) p.443
40 Appendix D (documents 21 and 27) p.397 and p.403
41 Appendix D (document 17) p.393
Board minutes of April 1999 itemised key issues the Chair wished to raise. The first, Horizon, was not documented, a Secretary’s note adding ‘The remainder of this minute has been circulated to Members on a personal basis’. The CE Report of the same month confirmed: ‘Intensive discussions have continued between POCL, ICL, HM Treasury and DSS on the future of the Horizon project and I will update the Board orally on the current position’.

Minutes of a special board meeting and records of an ‘Awayday’ discussion are not included in the Postal Museum catalogues although it is noted that an Awayday session of 19 July considered the Horizon contract in detail and that:

‘Non-Executives were now content that major issues were addressed by way of the Awayday sessions’.

Finally, the party which perhaps stood to lose the most from any disclosures of technical problems proved itself the most successful in protecting Horizon’s secrets. The ICL-Pathway/Fujitsu dimension of Horizon’s story, protected by impenetrable confidentiality agreements, lay far beyond the reach of any parliamentary investigation.

According to ICL’s Head of Marketing Communication, Anna Campopiano, the ‘ICL Pathway contract that we were delivering, was one of the most important contracts that ICL had ever signed’.

‘This was never meant to be a technological cul-de-sac...We see this as a flagship for ICL’.

It was imperative for ICL’s prospects of floatation that Horizon be perceived as an unmitigated success. So tight was its grip on disclosure that, but for a handful of conscientious Whistleblowers, questions over Horizon’s integrity never seeped into the public domain; nor even, until 2019, into a court of law.

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42 Appendix D (document 29) p.405
43 Appendix D (document 30) p.406
44 Appendix D (document 32) p.408
45 Appendix D (document 34) p.411
46 ibid.
47 Countrywide Communications Ltd v ICL Pathway Ltd [1999] Case No 1996 C. No 2446 (QB) <https://www.casemine.com/judgement/uk/5a8ff8db60d03e7f57ece8b5> accessed 3 December 2021
48 oral evidence session (June 1999) para. 109 (n.2)
A letter from ICL Chief Executive Keith Todd to the DSS Minister of July 1998 warned of the potential damage of Project Horizon to ICL’s prospects of flotation, fears which were not unwarranted:

‘The announcement of the abandonment of the benefits card coincided with ICL’s publication of its annual results. The provision of £180m for costs associated with the scheme was the major factor in converting profits of £82m into losses of £129m.’

Plans to float ICL had been reported, amongst others, by Tech Monitor in 1999. As it transpired, the impact of the Horizon project combined with poor financial performance signalled the end of ICL’s dreams of floatation and the company was instead subsumed into its parent undertaking Fujitsu. The failure to secure floatation led to Todd’s resignation from ICL the following year:

“In the light of Keith Todd’s close identification with the flotation of ICL, he had tendered his resignation as chief executive,” a statement from ICL said.

He was replaced as CE by ICL’s Director of Corporate Affairs, Richard Christou, who was also its ‘leading legal strategist in litigation cases – and a very skilled operator as we have good reason to know from previous legal battles with ICL’.

The reputational impact of the failure of the BPC fell heavily on ICL:

‘Do you think your reputation has suffered loss?

49 Appendix A (document 11) p.255


51 CBR Staff Writer ‘ICL To Outline Flotation Plans’ (Tech Monitor, 10 May 1999) <https://techmonitor.ai/technology/icl_to_outline_flotation_plans> accessed 3 December 2021


54 Appendix C (document 26 p.2) p.345
(Mr Oppenheim) It certainly did. I think we have managed to pull a little bit of it back...It has been a very bruising experience for us, that is for sure. There was a time when ICL’s name was mud as a result of this. £180 million was certainly a massive hit...’

Whatever potential difficulties were to arise on Project Horizon after its reconfiguration, ICL would be keeping them tightly under wraps. Under the leadership of Christou, in-house solicitor turned Global President for Fujitsu, who advises the company on legal matters to this day, the brand had learned to cover its tracks with forensic precision. And to Fujitsu, the Government and the Post Office, the complicit cover of darkness meant technical failure and operational incompetence need never stand in the way of profit, reputation or further lucrative contracts.

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55 ICL Pathway Director, Commercial and Finance, Tony Oppenheim, questioned by MP Ian Davidson, oral evidence session (n.29) para.165
PART 10

2000: THE DAWN OF ARM’S-LENGTH

‘Part of our issue is that we have had an identity crisis: we do not know what we are; we do not know whether we are a business, a public service, or whatever. That is why often we end up where we are’ 1

Whilst the realisation of Project Horizon was promising to transform the reach of the Post Office’s business empire, the relationship between the Post Office and the Government was being radically redefined. An Arm’s-Length status was being devised alongside new commercial freedoms which were to catapult the company into the new millennium; between 1998 and 2000 these two threads of Post Office’s developing story, the dream of commercial freedom and the nightmare which was Horizon, were inextricably linked. And the authority to determine the course of each rested with central Government.

Successive administrations have cited the Post Office’s ‘Arm’s-Length’ status to add credence to their claims of having no responsibility for oversight of Post Office’s ‘operational matters’. Whether it can sensibly be argued that Horizon was no more than ‘operational’ during this defining chapter of its history is debatable; but the question of how and when the Post Office’s Arm’s-Length status materialised has bearing on any analysis of the origins of the Horizon disaster. How was it possible for the Government to create and/or interpret its Shareholder role in such a way that an ‘operational’ crisis could be ignored until it had so damaged the company, it was unable to operate as a going concern without ‘critical intervention’?

‘The Post Office is committed to the successful delivery and timely completion of the Historical Shortfall Scheme. However, the cost of the Scheme is beyond what the business can afford.

The Government will therefore provide sufficient financial support to Post Office to ensure that the Scheme can proceed, based on current expectations of the likely cost. The BEIS Secretary of State

1 Consignia Chair, Allan Leighton, oral evidence session of DTI Select Committee (April 2002) para. 42, filed independently of any report <https://publications.parliament.uk/pa/cm200102/cmselect/cmtrdind/769/769toc.htm> accessed 4 December 2021
for Business, Energy and Industrial Strategy is providing this support in his capacity as sole shareholder in the Post Office’.

‘Without this support the Post Office would be unable to deliver fully the Historical Shortfall Scheme and it would be unable to continue to operate its network as we know it today. This is a critical intervention that benefits current and former postmasters and the millions of customers that rely on their local post office branch’.  

The Post Office’s splendid isolation of Arm’s-Length status was engineered by the same Government whose indecision and mismanagement had paralysed ‘operation’ Horizon; it was devised by the same Government which was fully informed of Horizon’s ruinous technical problems before its reconfiguration and one which knew that technical problems persisted after reconfiguration, overshadowing rollout until at least January 2000.

The same Government which knowingly allowed the release of a faulty IT system- on which POCL’s entire operations depended- went on to redefine itself as an Arm’s-Length Shareholder without a modicum of operational responsibility. It was a masterful feat of escapology, effected through the Postal Services Act of July 2000, a hastily constructed piece of legislation which released both Government and Post Office from the chains which had harnessed them together from time immemorial.

Regarding the speed of the Bill’s inception, Post Office’s Board noted: ‘the core of which was due to be drafted by 20 January [2000] to go before the Legislation Committee on 25 January. First reading was scheduled for 28 January and Royal Assent by end of July.

Parliamentary Counsel had already raised concerns over the viability of the timetable...’

If Horizon was the state-of-the-art vehicle for the Post Office’s new ventures, the Postal Services Bill swiftly sketched the map for its maiden voyage into a brighter future:

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3 Appendix D (document 51) p.436
‘The QUEEN, being seated on the Throne, and attended by Her Officers of State (the Lords being in their robes)…”My Government will introduce a Bill to enable the Post Office to improve its services and to compete more effectively in UK and overseas markets”’.

The Bill, devised to snip the centuries-old apron strings which had curtailed the Post Office’s freedoms since the year of the Restoration, was passed through Parliament in the 1999-2000 session and received Royal Assent on 28th July 2000. It made provision for the new legal structure upon which Post Office’s relationship with the Government was to be redefined and granted the much-needed commercial liberty with which to effect its own reconfiguration.

The arguments for restructuring were well-versed and well-founded; the Post Office limped far behind both its competitors and its European counterparts and the urgent need for its modernisation was a recurring theme for the DTI Select Committee:

‘The Post Office warned us that "substantial progress is needed speedily". The Chief Executive of the Post Office stated in its Annual Report that "It is essential that 1997-98 sees a fundamental change in [the Post Office’s] ability to compete - a change which can only be enabled by alterations to the legal framework within which it operates". It has long been an accepted maxim that the status quo is not an option for the Post Office’.  

The Committee urged for:

‘...radical structural reform which we, the Post Office and many others seek and which alone can give the guarantee of stability which the Post Office needs’ (emphasis as in original).

The promise of greater commercial freedom for the Post Office had been championed in New Labour’s Manifesto of 1997; by January 2000 Ministers were in a position to honour their pledge:

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7 ibid. para.20

‘We are committed to establishing a framework to enable the Post Office to develop to its full potential by providing the greater commercial and financial freedom that the business needs to tackle the triple challenge of globalisation, liberalisation and new technology, while ensuring that we retain the vital social obligations that make the Post Office such an important detail in the social fabric of our country’.9

It was a direction welcomed by the Post Office; its Chair Neville Bain affirming the re-structure was ‘a springboard to meet and beat the growing competition all around us’.10

But the hybrid corporate structure eventually chosen for the Post Office was controversial; critics of the day were quick to point to the lack of clarity regarding its structure of governance and their concerns, time has proven, were well-justified. The statement which announced the new structure was so vague it triggered a debate the following week at which the DTI Shadow Secretary of State begged to move:

‘That this House is concerned that the Government’s proposed arrangements for the Post Office put at risk its long-term viability by failing to free it from state control while also failing to maintain accountability’.11

Lines of accountability were insufficiently clear in the Government’s new framework to guarantee oversight of any operational matters which might threaten the delivery of the Strategic Plan; no checks and balances were in place by which the Horizon catastrophe might have been arrested in its tracks. Which begs the question, was the Post Office’s corporate DNA, as re-written in 2000, either appropriate or adequate for a government-owned business which bore such weighty social purpose?

The Post Office had undergone numerous re-incarnations down through the ages of its operation. If ex-Postal Minister Alan Johnson’s memory was a little blurred on Horizon’s technical

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problems, he retained a remarkably clear recollection of the history of Post Office’s operational independence which dated back to 1969.\textsuperscript{12}

But if the Government had established a theoretical base for Post Office’s operational independence in 1969, in practice it was as paradoxical in 2000 as it is today:

‘On the one hand, Ministers are saying that they will not become involved in the day-to-day running of the system; on the other hand, they are establishing a basic strategy and primary objectives for any organisation, which means that they must be involved in how that day-to-day running takes place’.\textsuperscript{13}

The 1969 restructure had delivered no clarity regarding how or when the Government might involve itself in the affairs of the Post Office. In July 1999, MP Vince Cable had sought Ministerial intervention to address what he presciently identified as an unfairly asymmetric contractual relationship between Sub-postmasters and the Post Office:

‘The first such issue relates to the circumstances in which a sub-postmistress or sub-postmaster can be dismissed or have their office terminated. The background is a unique, complex and difficult legal structure. The 17,000 or 18,000 people who work as sub-postmasters and sub-postmistresses provide employment for services; they are officeholders with emoluments. They fall into a distinct semi-employment, semi-contractual legal category - a hybrid...when it works badly, with unenlightened or authoritarian management, it works extremely badly. A postmaster can be pitched out of his post office with no legal protection and no independent source of appeal.

I ask the Minister to approach Post Office Counters Ltd. in order to require it to introduce a genuinely balanced relationship with its sub-postmasters and sub-postmistresses, establishing for them a quasi-judicial appeal process of the kind that they would enjoy if they were employees. That would rectify the many cases of often severe injustice’.\textsuperscript{14}

In doing so, Cable came remarkably close to the kernel of the future crisis when he found:

\textsuperscript{12} Appendix I, p.570
\textsuperscript{13} MP Richard Page (n.8) c638
'What is strange is that those who have a contractual relationship with the Post Office—the sub-postmasters and postmistresses—do not have a right of appeal in the normal sense. Many of them have tried, as my constituent has, to go through an appeal process using an industrial tribunal, but that has not been accepted as valid in law. There is no proper appeal system in cases where management exercise their powers capriciously and improperly'.

Yet even then, Cable’s warning of ‘severe injustice’ meted by ‘capriciously and improperly’ executed management powers, was met with the Government’s platitude of the Post Office’s ‘operational independence’:

‘Since the Post Office was established as a public corporation in 1969, it has been the policy of successive Governments that decisions relating to the day-to-day running of the postal businesses, such as the contractual terms and the arrangements between sub-postmasters and Post Office Counters Ltd., are the operational responsibility of the Post Office Board and management. The Government’s role in Post Office matters is confined to broad issues of general policy and to overall financial control’.

But the Government, it appeared, could shift the goalposts whenever it wished; its defining involvement in shaping and launching an IT system, a project which manifestly bridged the operational and strategic divide, was significantly more than a ‘broad issue of general policy’. The Post Office Board complained of the Government’s perceived micro-managing of its affairs in Minutes of the very same month:

‘A concern over matters reserved to the Board has been based on Government’s handling of Horizon and the role of the Board in developing a commercial way forward. This ‘hands on’ approach by Government was typical of their handling of Nationalised Industries and would not easily be changed’.

But wherever the boundaries of the nominal operational independence dating from 1969 lay, there was no such thing as an ‘Arm’s-Length’ relationship between the Post Office and the Government ‘Shareholder’ before the Postal Services Bill of 2000, not during all the years of Horizon’s

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15 ibid. c1153
16 DTI Under-Secretary of State, MP Dr Kim Howells, ibid. c1156
17 Appendix D (document 34) p.411
development, nor up to and including its national rollout. The Post Office’s Arm’s-Length status was conferred a full year after its Board first refused to sign the contract with ICL; Ministers ran for the hills after, not before, they knew Post Office’s truncated Horizon was marred by significant technical problems.

‘Our starting point is that the relationship between the Post Office and Government has to change’...‘a radical new form of public sector enterprise, operating at arm’s length from Government, needs to be created. That new framework will contain the following features. The Government’s role in the Post Office will be restricted to the strategic level, both on matters of commercial direction and on setting social objectives. The Post Office board will become clearly accountable for its success or failure in running the business’.

‘There will be a new arm’s-length strategic relationship between the Post Office and Her Majesty’s Government’.

The proposals for Arm’s-Length were echoed by DTI Minister for Competitiveness, Alan Johnson:

‘The Post Office touches people’s lives like no other industry and is part of the country’s infrastructure like no other business’...‘Under the reforms, for the first time, we will create an arm’s length relationship with Government, based on a five-year strategic plan, giving the Post Office greater freedoms...’

‘Under the White Paper reforms, Post Office plc will be independent, publicly owned, and able to attract, quickly and effectively, the necessary interest from financial institutions that understand the plc model’.

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19 ibid. c26

20 (n.9) c620

21 ibid. c621
‘The early progress with the Horizon automated platform now in prospect should enable Post Office Counters to offer substantial enhancements to the services that it can offer clients and customers...’.

Johnson was well aware of the severity of Horizon’s technical problems; less than a week before he stood extolling the virtues of an Arm’s-Length relationship to the Commons, he was ensconced on the Post Office Board as it discussed Horizon’s ongoing issues of system stability and accounting integrity. He knew they were critical enough to risk further delay to national roll-out.

The precise form that this new ‘Arm’s-Length’ corporate identity was to take was announced in the Government’s White Paper of July 1999 ‘A World Class Service For The 21st Century’. This White Paper formed the basis of the Bill which was later presented to the House, it prepared the foundation for the Post Office to become a PLC with the Government retaining all shares, whilst honouring a long-term intention for Royal Mail to be privatised. The delaying of the publication of the White Paper for several months due to uncertainties over Horizon’s future was indication of how intimately these threads of Post Office’s future were intertwined:

‘The White Paper needs to present a positive message of the Post Office Counters’ network. But we cannot do this while negotiating with ICL over the modification to the Horizon project...If we publish the White Paper now there is a large hole on Post Office Counters...’.

When it eventually arrived, both Paper and Bill provoked fierce debate across Commons and Lords alike; the nature of the proposed relationship between Government and Post Office came under particular attack.

MPs criticised the Government’s proposals for the new corporate structure as being ill-defined or self-contradictory; they sought clarity on the circumstances of shareholder intervention, and on how the Government might reconcile potential divergences of interest between itself and the Post Office. Their concerns prefigured those of two decades later when the issue of Shareholder responsibility assumed a new and critical significance in the embers of the Horizon disaster; but from 1999 to 2000, their warnings passed unheeded.

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22 ibid. c624
23 Appendix D (document 51) p.436
24 Appendix C (document 30) p.350
Questions were also raised over the Government’s decision for the Post Office to become a Publicly Limited Company (PLC) rather than an Independent Publicly-Owned Company (IPOC):

On this issue, the Shadow DTI Secretary of State urged the House to decline a second reading of the Postal Services Bill:

‘because it introduces an unsatisfactory structure of ownership’...‘There has been muddle and confusion in much of what the Government have said. They have produced a hybrid structure of a Government-owned plc with a regulator and a consumer body...The Bill is ill prepared and sloppily drafted because the Government want to rush it through’.\(^{25}\)

‘...we are dealing with a hybrid structure and we have no relevant experience to allow us to judge how it will proceed’.\(^{26}\)

‘...the Secretary of State...has created a confused structure’.\(^{27}\)

The same doubts were cast by MP Alan Duncan as he observed:

‘At its worst, it is a timid and potentially deceitful Bill—deceitful in respect of the structure chosen and the consequences that Ministers claim will arise from it.

The fact is that the proposed structure is not a full public limited company. As my hon. Friend the Member for Tiverton and Honiton (Mrs. Browning) said, it is a hybrid structure that is full of conflicts and contradictions’.\(^{28}\)

He went on:

‘Such a bizarre structure cannot endure. It would be absurd if one Minister in one office at the DTI had to decide whether or not the Post Office could borrow money, while another Minister in the office next door - behind the Chinese wall—decided whether or not to refer some merger to the Competition Commission. The structure is untenable—a crazy pretence’.\(^{29}\)


\(^{26}\) DTI Shadow Secretary of State, Angela Browning, ibid. c816

\(^{27}\) Browning, ibid. c819

\(^{28}\) MP Alan Duncan, ibid. c865

\(^{29}\) Duncan, ibid. c865
...and on:

‘My right hon. Friend explained the conflict between commercial and Treasury priorities, which will permanently bedevil the structure for which the Bill provides’.  

‘The structure before us is a mess. It is a pretence of a structure’.  

And MP Stephen O’Brien ominously foresaw:

‘Many battles await us in Committee’.  

Twenty years later, as BEIS and POL stood contemplating their dysfunctional relationship over the wreckage of the Horizon crisis, did it occur to either that a corporate structure which allowed failings of such magnitude to escalate unchecked was from the outset a fundamentally flawed corporate structure?

O’Brien added his criticism of the proposed ‘hybrid structure’:

‘I wonder how many Labour Members have ever served in a boardroom, let alone in the boardroom of a fully independent UK public company. If they had, they would know that one cannot evaluate risk and take commercial decisions in the best interests of the company when at the same time one has to look over one’s shoulder at the crushing hand of Government...The Bill, an unholy compromise, a halfway house and half-hearted measure, will be like the difference between what we should have—a skilled, competitive risk-judging high diver prepared to take the plunge—and what we are presented with in this Bill—the instant thrill-seeking, headline-grabbing bungee jumper, secure in the knowledge that he can always bounce back into the arms of Government. So much for the Government’s genuine intent to release the Post Office from their clutches into the real, competitive, commercial, international world of the future’.  

‘Bouncing back into the arms of Government’ was exactly POL’s default response in the aftermath of its Horizon crisis. And it was the knowledge that it could do so, and the surety that it

30 Duncan, ibid. c866  
31 Duncan, ibid. c866  
32 Stephen O’Brien, ibid. 854  
33 Stephen O’Brien, ibid. 854
could never be allowed to financially collapse, which underpinned POL’s reckless and extravagant approach to litigation and indeed the entire Horizon crisis. Therein lay its hamartia.

The point was taken further by MP Angela Browning when she warned of bottomless shareholder pockets potentially being used to underwrite business incompetence:

‘Many questions arise from the White Paper and I should be grateful if the Secretary of State would address as many of them as possible. May I deal first with matters pertaining to the Royal Mail? The plc will be subject to company law, as he said. Will the Government allow it to go bankrupt if it does not manage its financial affairs properly, or will they step in and underwrite the £75 million borrowing facility?’

If the Government are prepared to do that—we should like a specific answer—anyone who lends will be lending virtually risk free, which, in other words, is a gilt-edged security.’

DTI Secretary of State, Stephen Byers, defended the Government’s position on the proposed structural changes, countering:

‘The Bill completes the implementation of the package of reforms set out in the Government White Paper on Post Office reform which I published in July last year’. 35

‘The Bill has four main objectives. It will give the Post Office the scope to modernise and run a fully commercial business in the 21st century. It will achieve that by converting it from a statutory corporation to a public limited company, with ownership remaining with the Crown. That will complement the greater financial flexibility that we intend to give the Post Office’. 36

‘We are investing half a billion pounds in equipping all post offices with a modern, on-line computer system that will enable them to provide a wider and better range of services. The Horizon platform will enable the Post Office to extend substantially its arrangements with banks and building societies. The platform has the potential of reinstating banking services in rural communities’.

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35 (n.25) c 802

36 Byers, ibid. c803

37 Byers, ibid. c812
But to what extent was this ‘radical new form of public sector enterprise, operating at arm’s length from Government’ a contributing factor in Post Office’s Horizon crisis as it unfolded before a succession of detached, impassive Postal Ministers? Predicted from its inauguration to fail, was this model of ownership ever fit for purpose? Was ‘operational independence’ from an inert Shareholder ever the answer for a company vested with a priceless social mission, one whose ability to act as Government Gateway was wholly dependent on the operation of hand-me-down IT riddled with ‘thousands’ of bugs? The fallacy of detachment was a politically and financially motivated sleight of hand which opened a tenuous loophole for the Shareholder through which to shirk its responsibilities towards the millions of its citizens – the real shareholders – who were dependant on Post Office’s lifeline services. And it was a loophole through which it abandoned hundreds of others to the merciless regime of a rogue Prosecutor.

‘The great thing about shareholders is they can do what they want when they want, and say what they want—and very often do’.  

The core dilemma had been how to grant commercial freedoms within a public sector framework and, when the question had been subjected to the scrutiny of the DTI Select Committee, its recommendation had been unequivocal:

‘In the past three years, it [the DTI Select Committee] has held innumerable sittings during which we have considered the subject of the Post Office. It has produced three extensive reports, covering every aspect of the issue. In each report, its members have been unanimous in stressing that the solution for the Post Office is to make it an independent publicly owned company. How can a company that is 100 per cent. state owned be remotely independent?’

‘We do not propose to repeat the arguments advanced by our predecessors and others in favour of an independent publicly owned company, paying a commercial dividend to the Treasury, with Articles of Association and perhaps a parliamentary Charter, and a Regulator. Both the Post Office and the unions support such a structure, as do many of the commercial bodies with an interest, whether customers or competitors... We reiterate the recommendation made by our predecessors in March 1995,

38 Nick Wallis ‘The Great Post Office Scandal’ (Bath Publishing 2021) p.11
39 (n.1) para.70
40 (n.25) c840
and subsequently widely endorsed, that the Post Office be converted into an independent publicly-owned company’ (emphasis as in original). 41

Neither did the Communication Workers Union (CWU) nor the Communications Managers’ Association (CMA) favour the PLC model, despite generally welcoming the structural reforms advanced in the Postal Services Bill:

‘Although the model for this ownership (plc status) is not the one which we preferred and advocated...’. 42

The chosen corporate structure appears to have been an HM Treasury decision and one which contradicted the advice of stakeholders for reasons which remain unclear.

In the debate which followed his statement on the newly released White Paper, the DTI Secretary of State was able to shed little light on the question of PLC versus IPOC:

‘We did consider in detail the arguments for establishing an independent publicly owned company. Much research has been done into that model, but we found fundamental weaknesses over management and ownership issues and lines of responsibility, and we fell back on a well-known type of business organisation—the plc’. 43

But his assurances failed to allay fears of a ‘messy hybrid’ 44 with tangled lines of accountability:

‘Many of us still have to be convinced that the public limited company route down which my right hon. Friend is taking the Post Office is the right route. Who will exercise the role and responsibilities of shareholders?...

What has happened to the historic surpluses of the Post Office, amounting to almost £2 billion? Under his proposals, they seem to be parked at the Treasury’. 45

Byers confirmed:

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41 (n.6) para.10
42 Joint CWU/CMA Memorandum submitted alongside oral evidence session of (12 July 2000) para.10 (n.6)
43 (n.34) c1189
44 MP Michael Fallon, ibid. c1189
45 MP Jim Cousins, ibid. 1190
‘As for the historic surpluses, they will be retained by the Treasury…’ 46

The following week, MP David Chidgey commented on the Treasury’s role in defining the Post Office’s new corporate structure and its financial motivation for doing so:

‘It seems to me that converting the Post Office into a plc is the result of pressure from the Treasury’. 47

‘...Treasury influence is clearly present, and it is here to stay. The Treasury is bridling at losing Post Office profits, and is determined to retain an option to cash in Post Office shares when the coffers start to empty’. 48

He was insistent that HM Treasury was behind the decision against making the Post Office an IPOC:

‘The Secretary of State has lost his fight with the Treasury for an independently owned public corporation which is free from state control, leaving the Treasury free to dip its hand in the till’. 49

MP Tony Baldry likewise maintained proposals for the Post Office to be made a plc rather than an IPOC were designed to preserve Treasury controls and concluded by quoting The Economist:

‘The results are an uneasy and probably unworkable political fudge’. 50

These are unsupported fragments, but they open up the prospect of HM Treasury being the shaping force behind the reconfiguration of the Government’s relationship with the Post Office; HM Treasury as engineer of an Arm’s-Length, sleeping Shareholder role, detached from all matters operational. But HM Treasury was the ministry which enjoyed the clearest line of sight into Project Horizon’s heart of darkness; HM Treasury had commissioned the Montague Report which identified Horizon’s technical problems and flagged inadequacies of the Post Office’s operational capability. HM Treasury was aware that Horizon’s problems did not cease in May 1999 because in the autumn of

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46 DTI Secretary of State, Stephen Byers, ibid. 1190
47 (n.11) c657
48 Chidgey, ibid. c658
49 Chidgey, ibid. c660
50 ibid. c664
1999 its officials had met the Post Office Chair to discuss the Five Year Plan\textsuperscript{51} at the very moment Horizon was failing to achieve Acceptance. But the Government was on a mission to deliver its covenant. And the Government chose not to see that gifting an imperfect IT system to a secretive, ill-prepared and financially desperate corporation, prior to divesting itself of any obligation for operational oversight, was launching the Post Office, and all who sailed in her, on a trajectory toward almost certain disaster.

The PLC proposal sparked equally animated debate in the Lords:

‘Having heard the Secretary of State say today that the concept of an independent, publicly owned corporation was fundamentally flawed, I would welcome the comments of my noble friend the Minister on those fundamental flaws, because the matter of commercial freedom and all the other aspects of the White Paper could easily have been dealt with without the creation of a plc’.\textsuperscript{52}

In his reply Lord Sainsbury, DTI Parliamentary-Under-Secretary of State, acknowledged the inadequacy of the Post Office’s corporate identity to date:

‘The plc format is clearly understood, is backed by legislation, and everyone understands it. The problem with the argument for an independent, publicly owned corporation is specifying exactly what that means. It could mean a body that is exactly the same as the body we have today, with the same lack of definition’.\textsuperscript{53}

Lord Ezra sought clarity on accountability under the PLC structure: ‘I should like to probe further about the relations of the Government with the new board; the Government representing the shareholders, the nation. We heard that the Government will agree a five-year, rolling strategic plan. How will the Government call the Post Office to account on this?’\textsuperscript{54}

Lord Monkswell was equally sceptical:

\textsuperscript{51} Appendix D (document 40) p.421
\textsuperscript{52} Lord Clarke, House of Lords Deb ‘The Post Office’ (8 July 1999) c1033 <https://hansard.parliament.uk/Lords/1999-07-08/debates/a810e1eb-9d22-4b1f-bec6-564443206896/LordsChamber> accessed 4 December 2021
\textsuperscript{53} Lord Sainsbury, ibid. c1033
\textsuperscript{54} Lord Ezra, ibid. c1034
‘The statement says that the directors of the new Post Office plc will owe their duty to the company. That cannot be right. Surely they will owe their duty to the shareholders of the company, who are the 55 million British citizens in this country’. 55

Sainsbury’s reply gave little indication of how theory might be realised in practice:

‘In plc law, the duty of the directors is to the company, and through the company to the shareholders. As the Post Office will be a publicly-owned company, the directors’ duty will continue to be a duty to the Government and the people of this country’. 56

But the decision was made and the Bill proceeded:

‘Part IV of the Bill...will convert the Post Office into a public limited company that is able to be more responsive to market demands and to customer demands. A regulated, Government-owned plc is what the Bill proposes. The plc model is widely understood and clearly sets out the duties of directors to the company. It helps to establish the clear separation of the functions of ownership and of management’.

‘The Bill provides for a Post Office with a modern commercial structure while keeping it within public ownership...It provides the commercial freedoms that will enable our Post Office to become a major global player, while ensuring that we retain the important social obligations...’ 57

The lack of definition raised concerns at the Post Office, its Board repeatedly pressing the Government for clarity over the new Shareholder relationship. Without it, the process of drawing up the Post Office’s Memorandum and Articles of Association proved contentious. The Post Office strongly resisted the provision of a Special Share, by which the Government might exercise control, on the grounds that this undermined the principle of ‘Arm’s-Length’. 58 Equally, the Board understood ‘that there is no area over which Government as owner could not ultimately control’ the Post Office. 59 Additional levers were superfluous. On the issue of the

55 Lord Monkswell, ibid. c1036
56 Lord Sainsbury, ibid. c1037
57 DTI Secretary of State, Stephen Byers (n.10) c814-15
58 Appendix D (document 55) p.441
59 Appendix D (document 54) p.439
Special Share, the Government backed down, but uncertainly remained. The PO Chair subsequently waited ten months for a ministerial response to his letter ‘on the subject of corporate governance – the eventual and much-delayed reply to the Chairman’s original letter of 27 June 2000, in which he had proposed a clear set of defined roles for the shareholder and the Board. The DTI’s reply was inadequate, leaving Consignia without an agreed governance framework in place in respect of its dealing with the shareholder. The Board agreed that the Chairman should pursue the issue with DTI making clear the unacceptability of the situation’.61

By the following year, the Chair was all but resigned to the permanent lack of definition surrounding the Government’s role within the Post Office’s governance structure, reporting ‘He had had an unsatisfactory exchange with officials about producing an agreed memorandum of understanding about the Board’s and Government’s respective roles in terms of Corporate Governance. He now intended to let the matter lie for the time being’.62

And there the matter lay, in all its contradiction and obscurity until in 2020 the Government presented its Post Office Shareholder Relationship Framework, some twenty years too late.63 In the intervening years, the spectre of an unparalleled, corporate absolutism had asserted itself through the fault lines of the company’s governance structure. For behind the façade of its public-spirited purpose and its royal association, the Post Office’s alter ego spread its insidious wings. The absence of Shareholder oversight in all matters operational became its greatest facilitator; the indifference of successive Postal Ministers gave tacit approval to the Post Office’s reign of terror, whilst all the time Horizon’s trail of destruction was never entirely hidden from their view.

In 2002 the DTI Select Committee were still making valiant attempts to determine the parameters of the Government’s new Shareholder role and define its levers of control.

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60 The Secretary of State’s Special Share was not incorporated into the Post Office’s Articles of Association until 2007, Companies House <https://find-and-update.company-information.service.gov.uk/company/02154540/filing-history> accessed 11 January 2022

61 Appendix D (document 58) p.444

62 Appendix D (document 59) p.445

‘I am just not clear about your status as sole shareholder, how much you can push them if you feel they are going wrong, whether you can make suggestions to say, “We have misgivings and we think that perhaps you can try something else”, but at the end of the day what can you actually do if they say, “Well, yes, okay, Minister,” or to the Head of Postal Services, “we accept that you have misgivings, but because of the way things are set up, we will actually still go ahead and you will judge us on our results”’. 64

Answers were not forthcoming.

‘What we would like to explore with you this morning is the relationship between the DTI and Consignia [Post Office’s new name] as the sole shareholder because some of us are not really very clear. We read in the FT and other papers about shareholder revolts, we read about shareholders of other companies expressing views as to the salaries which should be paid—a whole range of issues—and we get the impression that the Government in its new role is perhaps not as proactive as some shareholders in other organisations might be, but to what extent do you feel that you should intervene as the sole shareholder in the affairs of Consignia? Are there parameters that you have been set as the Government?’ 65.

The Minister struggled to give a coherent, let alone illuminating, answer:

‘I think the new environment post and the implementation of the Postal Services Act 2000 in which some of the old criticisms suggested that ministers were determined to micro-manage the business has now given way to some observations to the contrary, and I think in fact what we are aiming for is an appropriate relationship which reflects the reality of commercial freedom whereby management are able to run the business effectively and, on the other hand, recognising that the Government retains a clear role as shareholder in terms of the Postal Services Act’. 66

Ultimately, the Arm’s-Length status of the Post Office and the role of the Shareholder with respect to its ‘radical new form of public sector enterprise’ remained ‘in issue’ because the Government never squared the circle of Post Office’s commercial/social remit:

64 MP Linda Perham, DTI Select Committee, questioned Douglas Alexander, Minister for e-Commerce and Competitiveness during oral evidence session (7 May 2002) para.252 (n.1)

65 DTI Select Committee Chair, Martin O’Neill, questioned Douglas Alexander, para.244, ibid.

66 Alexander, para.244, ibid.
'This is a big point because it is fundamentally where things have been in issue in the past: you cannot say, "Well, this is a commercial entity and it is at arm's length and, by the way, can you check everything with us before we do it because we want to make sure you are doing it in the right way..."."\(^{67}\)

In 2000, the Government who had overseen the disastrous origins of the Horizon project now laid the flawed foundations for its corporate guardianship. And, under the pretext of ‘operational independence’, a perverse logic to which it clung to the bitter end, it left a cavity in the line of accountability in which the Horizon crisis was able to take seed, spread unchecked like knotweed across the length and breadth of the network and ultimately bring a vital national institution to its knees. In March 2019 BEIS’s ordinary shares in Post Office Limited were valued at £256 million.\(^{68}\) Today they are worth less than the cost of a second class stamp:

‘The fair value of the investments, held by the Core Department, as at 31 March 2021 was £nil (31 March 2020: £145 million)’.\(^{69}\)

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\(^{67}\) Consignia Chair, Allan Leighton, oral evidence session (16 April 2002) para.74, ibid.


SUMMARY

THE GREAT BRITISH BETRAYAL

‘Identifying timebombs. Horizon was one of the timebombs which should have been identified soon after the election. There may be a need for regular audits, from the centre, to identify projects or policies that are running into serious problems...’

No.10 Policy Unit, May 1999

Documents in the National Archive dossiers reveal the level of Government awareness of Horizon’s, and Post Office’s, significant problems up to May 1999. They reveal that in 1998, the Treasury-led Montague Panel reported concerns over EPOS and over the Escher/Riposte dependency, both systems which were integral to Post Office’s Horizon before and after the termination of the BPC. They indicate that in November 1998 HM Treasury overruled concerns raised by the DSS over the system. HM Treasury instead accepted the advice of ‘independent experts’ who gave assurance that Horizon was ‘technically viable and robust’ only to discover, by late 1998, that their experts were wrong. The Government understood that both ICL and POCL were commercially motivated to dilute Horizon’s Acceptance criteria and it understood the potential risks of doing so. The documents reveal that, contrary to the impression given to the DTI Select Committee by three Secretaries of State, the Government continued to develop the BPC until May 1999, in full knowledge of its faults, with the intention of rolling it out if an alternative way forward had not been agreed with ICL/Fujitsu. The dossiers indicate that the Government was aware of serious concerns over the operational ability of POCL to deliver Horizon’s rollout. They also lay bare the final, truncated configuration of Horizon as a last-minute contender in HM Treasury’s list of options and one which the Post Office vehemently opposed.

In the light of these revelations, the question must be asked, how responsibly and rigorously did the Government monitor the Post Office and the rollout of Horizon after May 1999? Where are the system audits which evidence Horizon’s fitness for purpose when the Government committed £480m to the project in May 1999 and when it made subsequent payments toward its capital cost?

1 Appendix C (document 21)
What course of action did the Government advise the Post Office take when its Board refused to sign the ICL contract in July 1999 and when it refused Horizon’s Acceptance in August and September 1999, citing serious doubts over the reliability of the software? Were the concerns of the Post Office Board overruled in the same way as those of the DSS had been? Did Ministers exert pressure on the Post Office to accept the latent risks of an unstable IT system in 1999 because they hoped system errors could be ‘worked around’, fully cognisant that by July 2000 all matters ‘operational’ would become the devolved responsibility of an Arm’s-Length Body? Did the Government’s unease surrounding this hidden, awkward chapter of Horizon’s story underpin its subsequent abject failure to address the Horizon crisis for more than twenty years?

“This issue began I think about in 1999. When I came to office [2010] it had been kicked around by ministers for over a decade”.

We have no answers because since 1998 Horizon’s story has been characterised by silence and evasion, by non-disclosure and redaction, by commercial sensitivity and confidentiality commitments, by shredding, by the shield of legal privilege and by the rule of sub judice. Cumulatively, and perhaps collaboratively, these tools have been used to obscure Horizon’s truths by those with vested interest in maintaining the myth of its robustness.

Long after Ministers’ direct involvement in the origins of Project Horizon, Governments from across the political spectrum have stood robustly in denial of their powers to unpick the layers of untruth. Successive Governments have defied impassioned calls to intervene or to investigate, failing even to identify who knew what in Post Office’s dysfunctional line of accountability, after the truth was outed by Judge Fraser.

Successive Governments have displayed a common and consistent reluctance to uncover the facts, sitting quietly on Second Sight’s findings, whose final 2015 report they retained and refusing the Statutory Inquiry demanded by MPs as early as 2015. Not until its hand was forced by the

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groundbreaking ruling of the Court of Appeal in April 2021, did the current Government concede to anything more than a non-statutory inquiry. Its original Terms of Reference, which excluded the Government’s role in the scandal, was a conspicuous attempt to airbrush itself from Horizon’s narrative. But the mists of time do not erase traces of the profound interconnection between Her Majesty’s Government, the Post Office and Project Horizon during the defining period of 1998-2000.

In April 2000, the Prime Minister recalled: ‘When we came to office, there was probably no greater shambles than the Horizon project’; but what Blair had witnessed was only its beginning. Within two years, he and his Ministers set in motion a crisis far greater and darker than the shambles they had discovered on coming to power.

Had Horizon been fit for purpose when the Government sealed its fate in May 1999, the Post Office and its Sub-Postmasters and Sub-Postmistresses might have stood a fighting chance. But it was never fit for purpose; not in November 1998, nor April 1999; not in July 1999, nor when it failed Acceptance in August 1999 and failed again in September. In January 2000 it still struggled with system stability and accounting integrity, which the Government well knew. But still Ministers decreed an Arm’s-Length status for the Post Office, and still the Government rescinded its duty of oversight over all matters operational.

Before Ministers retreated to Whitehall’s ivory tower, they gave the Post Office, a company they knew to be in crisis and in flux, sole guardianship of a flawed Killer Application, ‘a prototype that had been bloated and hacked together afterwards for several years, and then pushed screaming and kicking out of the door. It should never have seen the light of day. Never’.

But pushed out it was and the Post Office inherited an IT timebomb which, after decades of denial and malpractice was destined to detonate. When it did so, it tore through every rule book on corporate governance, it sent shock waves through our judicial system and left its shrapnel permanently embedded in the lives of thousands of Sub-Postmasters and Sub-Postmistresses. Yet

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every Minister who has ever crossed paths with the Horizon scandal has walked from the rubble unscathed.

The protagonists of this early era, the guardians of Horizon’s secrets, continued on the illustrious paths of their political careers; Ian McCartney, went on to become Minister of State for DWP, successor department of the DSS (which, having rejected the BPC on account of ‘hundreds of problems with it in terms of inaccuracy’ went on to prosecute Sub-Postmasters in its own right, on Horizon evidence). McCartney also served as Minister of State for DTI, as did Peter Mandelson, 2008-2009. Alan Johnson and Alistair Darling went on to serve as both Secretary of State for DWP and DTI. Darling, along with Mandelson, Lilley, Cunningham and Clark joined Falconer in the Lords; whilst Blair, Brown, Byers, Darling, Falconer, Johnson, McCartney, Mandelson and Milburn all enjoy lifelong membership of the Privy Council. Those who had been privy to Horizon’s troubled origins remained in positions of influence and authority when apocryphal accounts of injustice began to emerge.

Horizon’s is a story greater than a scandal at the Post Office, greater than the story of a faulty IT system and greater than its millions of documents which may yet yield secrets of questionable legal practice. Above all of these, Horizon is the story of the grievous betrayal of thousands of Sub-Postmasters, Sub-Postmistresses and their families by the British Government. Betrayed in 1999, betrayed in 2022 and betrayed by every intervening Government whose neglect of Horizon issues was rooted in the protection, above all, of its own interests, those of the Post Office, and those of its deep, symbiotic relationship with ICL/Fujitsu.

The Government’s legal and negotiating position was far weaker in May 1999 than it had been in 1997 because Ministers had consistently accepted ICL’s failure to perform. After months of indecision, the Government could no longer terminate without footing a £450m penalty for ‘cancellation for convenience’ or else risking acrimonious litigation. With the NAO and PAC investigations already on the Ministerial radar, neither of these were feasible options. The Government could only escape its predicament by forcing the Post Office to purchase a truncated

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version of Horizon, in the hope that future banking functionality could be bolted onto its already unstable foundations.

We may only guess what agreement was reached between the Prime Minister and Fujitsu’s Vice Chair, Michio Naruto, behind closed doors in April 1999, but the Heads of Agreement signed shortly after opened the prospect of new and lucrative contracts for ICL/Fujitsu riding on projections of Horizon’s additional functionality. Naruto was honoured as a Commander of the British Empire soon after and Fujitsu went on to fulfill its aspiration of becoming a major supplier of IT to the UK Government, starting with a £680m HM Customs and Excise contract signed within months of the reconfiguration.

These were Fujitsu’s rewards for absorbing £180m BPC write-off costs; this was its recompense for losing the BPC contract and for not pursuing legal action against the Government.

The May 1999 deal was a resounding triumph for a company which had so spectacularly failed to deliver; it was a heavy blow for the Government, forced to make amends for the unprecedented mess it had made.

All three parties, Fujitsu, the Government and the Post Office knew of Horizon’s serious issues of integrity before and after its reconfiguration, but any concerns were subsumed under wider political agendas and the driving commercial ambitions of all.

And the gesture of goodwill and exoneration which the Government extended to the IT giant in the spirit of shared endeavour has never, to this day, embraced those who bore the real cost of its faulty Horizon system, our nation’s Sub-Postmasters and Sub-Postmistresses.

‘While it makes evident sense for ICL to continue with the work it has already begun, the impression remains of an essentially political deal to ensure that ICL has a substantial contract with the

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Post Office, at a price which seems to have been largely determined in advance of contractual re-
negotiations, as a means, however inadequate, of making up some of the £180 million written off by
ICL in their 1998-99 accounts’.10

‘The main architectural issues are scaleability and robustness’

HM Treasury Montague Report on the viability of Project Horizon, July 1998 11

10 DTI Select Committee Eleventh Report ‘The Horizon Project For The Automated Payment Of Benefits Through Post Offices’ (September 1999) para.18 <https://publications.parliament.uk/pa/cm199899/cmselect/cmtrdind/530/53002.htm> accessed 2 December 2021

11 Appendix A (document 1, p.11) p.230
In a letter of 6 May 1998 from the HMT Paymaster General, Geoffrey Robinson, to the DSS Minister of State for Welfare Reform, Frank Field, Robinson shared Field’s concerns over the future of the Horizon project whilst giving reassurance that: ‘Our officials have been keeping us closely in touch with progress. The Expert Panel reviewing the deliverability of the project is now set up and scheduled to deliver its report by 19 June [1998]. The Working Group will report to us within a week of receiving the Panel’s report. We should then be in a position to meet and take decisions on the first week of July’.

The Expert Panel to which he referred had been established in the light of concerns over the programme which had been raised with the Treasury by Ministers as early as September 1997. The Panel was chaired by Adrian Montague, Head of the Treasury Public Private Sector Task Force and was to report to a Working Group of officials from HMT, DTI and DSS in what is referred to as the Montague Report. It is a thirty-three page document filed in JB 3/20 under the heading ‘BA/POCL AUTOMATION PROGRAMME REVIEW, HM TREASURY INDEPENDENT PANEL REPORT, ADRIAN MONTAGUE, BILL ROBINS, ALEC WYLIE, JULY 1998’.

Based on its findings and the subsequent recommendations of the Working Group, an inter-Ministerial core was to decide how to continue with the Horizon Project. They considered a range of options from continuing ‘as is’, to re-configuring the project without the Benefits Payment Card or to complete cancellation.

‘BA aims to eliminate benefit encashment fraud, provide better accounting and management information, reduce administration costs and improve service delivery. POCL aims to maintain its income from benefit payments and other transactions with benefit customers, replace old
systems, modernise the network and develop new services and commercial opportunities, with Pathway as a partner’ p.2.

But the Report went on:

‘In the light of concerns over progress, this Panel, chaired by the head of the Treasury Task Force on Private Finance, was set up to make an independent assessment of whether the programme was technically viable, if so how quickly it could be completed and at what cost’ p.2.

‘The programme is complex, probably the biggest of its kind. Its scale, and particularly the development work required, were underestimated initially’ p.2.

‘There must be some risk around scaleability and robustness because the system has had to be tested at the level of component parts…’ p.2.

‘The new Horizon Programme Office in POCL has a vital role. The parties need to ensure it has the power and the resources to drive forward the whole programme end-to-end and to resolve critical outstanding (and future) issues’ p.2.

The Report acknowledged receiving presentations from all parties including being ‘briefed on the wider Government information systems agenda by the Central IT Unit (CITU)’ p.5.

‘...the need to commit to a firm baseline and plan becomes critical over the next few weeks’ p.10.

‘The main architectural issues are scaleability and robustness...a solution of this scale and scope with so many different platforms and products has, as far as PA is aware, no precedent’ p.11. [PA consulting had made an assessment of the project in 1997]. PA consulting ‘has assisted us with detailed technical and programme planning investigations...’ p.5, and had been appointed by the Treasury to act as consultants to the Panel, p.28.

‘Given the size of the system, there is an unavoidable risk that it cannot all have been tested end to end in earnest’ p.11.

‘...there is a concern that the system is (necessarily) heavily dependent on the third party middleware product ‘Riposte’. This risk will persist and steps must be taken to manage this risk over the operational lifetime of the system...’ p.11.
‘...POCL has not been able to describe to PA exactly how the proposed Service Management organisation will be resourced nor say how it will fit into POCL’s organisational structure. What is clear however is that the system will demand a degree of central control and management not evident in the present regionally based POCL organisation. As preparations for national rollout proceed, the need to clarify the resourcing and functioning of POCL’s Service Management organisation will become increasingly urgent’ p.11-12.

‘One caveat is that the whole system is basically designed as a batch system. It can, and does, go on-line but the Riposte system is not centred around On-Line Transaction Processing (OLTP); it works on a regular collection (harvesting) of messages. The architecture may be able to support a reasonable OLTP performance (and Pathway may have tested this) but it is not part of the contracted functionality. Real-time on-line applications, such as those used by the National Lottery, could therefore require major changes to the system’ p.12.

‘Until POCL decides which banking applications are to be provided, how they are to be provided and, if using a smart (or other) card, on which technologies and standards they are to be based, there will remain some uncertainty about how economically the system will support such a venture and whether the Ripost architecture poses any limitations’ p.13.

Significant, unresolved issues identified included:

‘there is no agreed Acceptance Plan or time-scale for acceptance, which puts at risk the timetable for contractual acceptance of the system’ p.10.

‘There is no end-to-end schedule for the entire programme agreed between the parties, and no end-to-end critical path analysis has been done. We consider this to be a serious deficiency in the management of the programme’ p.13.

Factors which might increase the likelihood of slippage included:

- ‘detailed acceptance criteria and the process for acceptance have yet to be agreed’ p.13.

- ‘programme management arrangements are still not satisfactory’ p.13.

Risks to achieving the proposed ‘beat’ rate of 300 offices per week included:

‘the rollout of EPOSS, if it requires process changes at the counter, runs the risk of disruption to the benefit payment service’ p.13.
‘agreement between the parties about the criteria for rollout completion may be hard to achieve’ p.14.

‘In order to de-risk the software development and improve the management of software releases Pathway has committed resources both at a significantly higher level and with a different skills mix than it had envisaged at the outset, requiring a total re-design of the project team structure and processes’ p.14.

‘There remains a great deal of work to be done by POCL to develop its programme and service management capabilities. POCL’s planning, for both implementation and service management of the programme, does not appear to have been given sufficiently high a priority within the PO Group. It needs to be properly resourced in terms of numbers and skills’ p.14.

‘The programme is characterised by inefficient decision making processes. The way change requests are managed is a particular problem’ p.14.

‘The Horizon programme office (HPO) has a vital role, but it is not yet operating as planned - for example joint commercial teams are meeting while the technical and implementation boards are not...’ p.14.

‘...there are no end-to-end descriptions of the system and process architectures, which makes it difficult to plan and manage the programme. Without these, and a master critical path activity network, alignment between the parties will always be difficult and contentious’ p.14.

‘The HPO must drive for resolution of all the issues we have identified as on the critical path...before end July [1998], if there is to be any chance of improving the forecasts we have made for completion of the Horizon programme’ p.14.

With regard to the HPO: ‘There is evidence of under-resourcing in terms of numbers of people, the necessary skills mix and funding. While BA and Pathway are buying in the resources and skills they need, POCL are using in-house staff where possible. If the HPO is to drive the programme as a whole, it is essential that key roles in it are resourced to standards comparable with those being achieved across the rest of the programme’ p.15.

‘In our opinion, there are not enough high calibre staff in the HPO particularly in key positions such as programme office: only a few HPO staff have relevant experience in managing such a large and complex programme’ p.15.
'We have not found any evidence of a process that ensures sharing between the parties of experiences and lessons learnt. The HPO should manage the learning process (from R1c and from testing and trial activities still to come) to ensure all parties learn appropriately’ p.15.

‘...we are not yet convinced that the HPO is locked into POCL’s organisation, management and decision making processes sufficiently to ensure timely decision making on programme issues’ p.16.

‘We believe that POCL continues to take an over-cautious approach to resourcing this major programme...’ p.17.

‘A second area of risk at POCL concerns the state of its organisational readiness to accept an automated network. POCL themselves note that this programme ‘requires a significant culture change’. This must be registered as a potentially costly risk to the programme until such time as POCL sets out detailed plans for implementing any organisational change for automation. These plans must be able to demonstrate that the confirmed Pathway plans for national rollout can be supported before this risk can be safety removed’ p.17.

‘In summary, it can be seen that the financial return from the project has deteriorated significantly for all parties. Pathway, on the basis of the figures it has provided, would make an overall loss if the contract continued on its present terms. For BA and POCL, the NPVs of the programme, although positive, have been substantially eroded, and in POCL’s case may have become marginal’ p.17.

Part III identified ‘Residual Issues and Risks’ in strategic, critical path and operational spheres. ‘The programme from the start seems to have had two distinct sponsor visions, with no clear Government - wide view. There has been no clear single owner of the programme. Perhaps as a consequence of this, we have seen a lack of grip at project level (at least until early ‘98), leading to poor conflict management and a lack of prioritisation. There is some evidence of this changing, but the change needs to accelerate’ p.18.

‘The relationship between the parties can be characterised by a low level of confidence in various aspects of the eventual solution and in each other’ p.18.
Among the programme’s strategic issues, considered fundamental to the project ‘...with severe risk of its failure if they remain unresolved’, the Panel identified:

‘- POCL must also convince the other parties of its organisational capacity for rollout and service delivery...’ p.18

‘- the lack of a single owner for the project is a major drawback’ p.18.

Under the critical path issues which were identified: ‘There is a further group of issues whose resolution is essential for the parties’ agreement about programme milestone dates, especially the start of live trial and national rollout. Agreement is needed quickly and should not wait for commercial and legal discussions to be complete’ p.19.

Also under this category ‘...big issues of uncertainty relate to: ... the ability of the parties to agree to acceptance criteria and process so that acceptance is achieved in a timely way’ p.19.

‘Pathway also has work to do to convince the other parties that:

- the essential nature of the security requirement has been taken seriously; ...

- there is a consistent, complete and scaleable technical design’ p.19.

Under Operational Issues (‘We would have expected these to have been resolved at working level’) were mentioned ‘problems with EPOSS’ (p20). Although no further details were given, the significance of EPOS was indicated by an earlier reference: ‘Electronic Point-of-Sale Service (EPOSS) for electronic cash register functions - the ‘glue’ connecting together other services at the PO counter’ p.8.

The Panel considered six potential scenarios for proceeding with the project, which it whittled down to the two most likely options: ‘full-restructuring’ which would retain the BPC (Option 1), or partial restructure which would see the BPC cancelled the (Option 2). Although the latter was the preferred DSS option, it was not actioned until May 1999.

‘The potential for litigation and programme blight is greater under Option 2. The attitude of the parties suggests there is the almost certain prospect of litigation, prompted either by BA (on grounds of breach of contract through delays by Pathway) or by Pathway (on grounds of termination by BA for convenience through de-scoping the requirement) or by POCL (against BA), or possibly by the other contractors who were unsuccessful in the initial bidding. In any event, long, acrimonious and costly legal disputes would be likely, during which progress on any replacement programme would be blighted’ p.24.
In conclusion, the Panel recommended:

‘In summary, if there is a commitment to the programme at the highest level (ie with the strategic issues resolved), the main risk lies in the ability (or otherwise) of the 3 parties to clear all the critical path issues (listed below for convenience) by end July’ p.20.

ANNEX A of the Montague Report considered the issues around all options for each party without recommending a preferred option. The Panel did, however, make recommendation for a troubleshooter to be appointed ‘directly responsible to Ministers and with their full confidence’ p.26.

‘The troubleshooter could have a longer term role if Ministers wanted some external monitoring of progress against the agreed plan’ p.27.

ANNEX D of the report is titled ‘Outstanding Issues’ and identifies each as strategic, critical path or operational and named the lead party with responsibility for resolution.

‘Issue

I. Requirements

Finalisation of NR2+ contents description
Resolution of outstanding A2As [Agreements to Agree]
Robust service management organisation
Security requirement taken seriously
Interface management
Position of non-economic offices

II. Performance and viability

Consistent and complete technical design
Baselined plan for delivery of contracted functionality
Issues with EPOSS [lead responsibility POCL]
Issues with reference data [lead responsibility POCL]
NR2 limited to 4000 outlets
Large scale FAD code changes
Scaleable design

Future proof design

Service management products available and scaleable

R1c validation - are lessons being captured?

NR2 acceptance for live trial by Jan 99

Card rollout and production

CAPS performance

Management of Pathway subcontractors

III. Timescale

Reasons for previous (and future?) slippage

300 beat rate

Change control processes

Oct-Dec 98 contingency

Sufficiency of 11 weeks for live trial

Speed of acceptance process’

This ninety-one-page Review was produced by the Working Group. The Working Group had set up the Independent Panel under the chairmanship of Adrian Montague. At this time the Working Group was made up of officials from HM Treasury, DTI, DSS and the Central Information Technology Unit (p.10) and it was tasked with reviewing the entire BA/POCL Automation Project. Section 6 of the Working Group Review comprises the Montague Report. In this document the Group laid out three choices for Ministers to consider, continuation (Option 1), cancellation of the BPC (Option 2) or termination of the entire project (Option 3).

‘The review was commissioned because of concerns, particularly on the part of DSS Ministers, that the project was badly behind schedule, over-budget and indeed might not be viable. We were asked to consider:

- whether the project is technically viable; and if so, how quickly it can be completed and at what cost to government;

- the direct and indirect costs of cancellation or of any alternative available to deliver the project’s objectives’ p.3.

‘The decision will have far-reaching consequences for the way benefits are paid to around 19 million people, and for the viability of the Post Office network...’ p.4.

Considering the impact of the decision on Horizon’s future, the authors compared the differing interests of each public sector party. For the DSS:

‘The BPC will save perhaps £110 million a year on fraud and allow proper auditing, but will cost about the same to administer as the current system. Payment direct into banks accounts by ACT (already used by 28% of claimants) would deliver all the main benefits of the card but would cost around £400m a year less for BA to administer and would provide a better platform for welfare reform’ p.4.

But the Review found that, for the Post Office network:

‘The central dilemma is that 80% of BA’s administrative cost in paying benefits is income for POCL, and that income, together with the steady flow of claimants through post offices, is vital to the commercial viability of the network...POCL estimate that if all BA income were lost, up to half the
current number of 19,000 offices could close, and the remaining offices would need a subsidy to stay open. This is a highly sensitive issue...’ p.4

The Review took account of the contractual obligations of BA/POCL and the costs of termination. The public sector parties believed ICL’s breach of contract entitled them to withdraw and claim compensation of up to £200 million, though it was thought that ‘ICL would contend with equal force that BA and POCL share the blame for delays’. The authors reported ‘The Programme lawyer’s view is that the Government’s case is a strong one, but any litigation would inevitably be messy and uncertain’ p.5.

Considering the implications of the various options, the Working Group Review asked:

‘What would be the impact on ICL and the UK computer industry? Failure of the project would undoubtedly be very damaging to ICL and might even bring the company down. ICL have 270 staff working directly on the project, and hope to market their system overseas. Fujitsu has plans to float ICL by 2000 which would be set back’ p.6.

Advising against entire cancellation of the project, the review noted ‘POCL would be starting from scratch in developing counters computerisation, and the delay could be a serious blow to its business prospects...on the other hand POCL could invest in the latest generic banking/retailing systems which on their own are likely to be considerably cheaper than a system built around the requirements of the benefits payment card’ p.7.

The Working Group advised that whilst revised terms for ICL might allow for an extension of contracts, there should be no increase in the level of payments already contracted, ‘...if ICL cannot accept these terms, or if the negotiations cannot be satisfactorily concluded within two months, Ministers should sanction the public sector parties withdrawing from the contracts on the grounds of ICL Pathway’s non-performance and we should implement option 3’ (entire cancellation) p.8.

‘POCL senior management needs to be strengthened, ideally by bringing in someone with a good track record in running a retail network’ p.8.

‘Whichever option is chosen, it is important that Ministers should give an early steer’ p8.

The Review presented a history of the project to date, outlining the original business case for each public sector party in:
- providing a more secure and efficient way of paying benefits, with potential fraud savings of £185 million a year;

- providing the DSS/BA with the means to account fully for their vast programme expenditure, now nearing £100 billion a year;

- automating PO Counters, to make current business more efficient and help them win new business. The project also helped to secure the PO network by providing a secure revenue stream from POCL’s biggest customer until the middle of the next decade’ p.9.

But the Review went on to identify a twenty-one month slippage since a revised project timetable of February 1997, delay which was attributed to ICL by independent consultants Project Mentors. This triggered an escalation of concern: ‘In September 1997, DSS Ministers became sufficiently concerned to draw this to the attention of Treasury and DTI colleagues...’ p.9.

‘On 21 November 1997, a key milestone was missed by ICL Pathway for completing an operational live trial, and the public sector parties placed ICL Pathway in breach of contract. Since then there have been further delays to the programme, and ICL have sought extensions to the contract or increases in charges. In May this year, DSS/BA issued a further notice of ‘cure’ to ICL Pathway in order to protect their negotiating position’ p.9.

‘Against this background, the Secretary of State for Social Security [Harriet Harman] wrote to the Prime Minister [Tony Blair] in February [1998] that ‘there is a serious risk that this project will fail to deliver its objectives- or will not do so within a timescale that will make it worthwhile’. She proposed early discussions to find an agreed way forward, emphasising the urgency of a decision...’ p.9.

It was to be a further 15 months before a definitive decision over Horizon’s future was made.

‘In response to later correspondence the Chief Secretary proposed that before decisions were taken, an interdepartmental working group led by the Treasury should be asked to prepare an agreed analysis of the options...’ p.10.

‘This approach was agreed by other Ministers. This report is the result of that work’ p10.

‘...the Panel identified a number of fundamental strategic issues (such as the ability of POCL to manage this large project) which are fundamental to the programme and says there is a severe risk of failure if they remain unresolved...’ p.11.
The Group Review echoed the risks identified by its Expert Panel around ‘scaleability and robustness’, ‘the system is (necessarily) heavily dependent on a third party ‘middleware’ product called ‘Riposte’.

‘The main reason why ACT has not been pursued in the past has been that Ministers have not been prepared to accept the damage to the Post Office network that would result. This was a key factor in the decision to pursue the Horizon project’ p.17.

The three options were considered in respect of: feasibility and risks around delivery; impacts on Government objectives for welfare reform and more widely; impact on the post office network; impact on public spending; and impact on ICL (p.23).

Considering ‘whether the problems which have dogged the programme so far can be resolved’ the Working Group determined:

‘A lot will rest on the capacity of POCL to manage the implementation phase. We believe this will need new management with business expertise at the top. DSS/BA are very reluctant to remain exposed to those risks…’ p.25.

‘...POCL could not realistically be ready by 2004 to replace £400 million of revenue from BA with other income streams. So in order to keep the current network of post offices, a transitional period would be needed which would involve the payment of a large subsidy to POCL’ p.29.

‘Cancellation of the project could affect perceptions of the UK Government as a partner and hence future inward investment from Japan where Fujitsu are influential. (Japan accounted for some 9.4 per cent of inward investment into the UK in 1996). There could well be an impact on Fujitsu’s future strategy for the UK; they are currently planning an £800 million expansion to their semiconductor plant in the North East’ p.32.

A table, p.39, indicated that 36% of Post Office’s income 1997/98 was derived from the Benefits Agency (including Northern Ireland Social Security Agency): ‘...the benefits business is particularly significant in that it puts cash into the hands of customers visiting the post office’ and co-located retail.

‘BA and POCL, through their legal advisors Bird and Bird, commissioned an independent of the programme [sic] by consultants Project Mentors. They concluded:

...Pathway seriously under-estimated the effort and time needed to develop the services...
...Pathway have been responsible for the delays to the programme, since the replan in February 1997, that caused the November 1997 breach by not allocating sufficient resources to compete their contracted obligations within the agreed timescale...’ p.48.

A six-page document from Sarah Graham, PFD Sp Proj, was sent to the Minister of State, Frank Field, and copied to DSS Secretary of State, Harriet Harman; DSS Permanent Secretary, Ann Botwell, and BA Chief Executive, Peter Mathison.

‘...the meeting has been called by HM Paymaster General at your request; other Ministers attending are Ian McCartney, DTI and David Clarke, Cabinet Office [Minister for the Cabinet Office and Chancellor of the Duchy of Lancaster]. There will be official support, as you wished, drawn from the 3 main departments: David Sibbick from DTI who you have already met; Adam Sharples, acting as the Secretary for the HMT-led Working Group. Adrian Montague, the head of the Public/Private Sector Task Force at the Treasury who has led the Independent Review will also be there’. The purpose of the meeting was defined as ‘to review the issues and give any first reactions and steers, to facilitate the planned inter-Ministerial decision on the project in early July’ p1.

‘As the Ministerial team decided in January [1998] if there were no other considerations, we would like:

- termination of contracts for ICL failure to perform;
- new DTI/DSS strategy for POCL and BA’ p.3.

‘As recognised in the 27th February [1998] letter from the Secretary of State to the President of the Board of Trade [Margaret Beckett], there are wider issues at stake:

- the potential widespread impact of the decisions involved require an agreed view across Government;
- other Government departments than DTI/DSS/HMT have an interest anyway eg. DETR in the rural policy implications; DfEE, whose payment systems ride on the back of ours; Wales, Scotland and Northern Ireland etc;

...need to avoid overly adverse affects on UK Plc, in handling ICL’s failures’ p.3

‘The DSS position remains that:

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- given the delays and additional costs incurred already (£300 million since the February 1997 re-plan; and around £500 million within the Panel’s estimate of delivery time); and:

- given the continuing risks around the future delivery of the project;

we cannot justify continuing with the project, given ICL’s failure to deliver’ p.5.

‘Following tonight’s meeting, we will put forward to you a timetabled actionplan for work between now and your next inter-Ministerial decision making meeting currently scheduled for w/c 6 July’ p.6.
Appendix A, Document 4: ‘BA/POCL AUTOMATION PROJECT: INTER-MINISTERIAL DISCUSSION’

June 1998

This three-page document authored by Sarah Graham, PFD Sp Proj, recorded minutes of the previous day’s meeting.

The DSS Minister for Welfare Reform, Frank Field opened the meeting, warning of the need ‘to recognise that ICL have had serious difficulties, and there are still important issues about the robustness of plans for the roll-out into Post Office’ p.1.

The position of DTI Minister of State for Competitiveness, Ian McCartney, was referred to as:

‘his primary objective for the meeting was to establish Ministers’ agreed objectives, of which he saw there to be three:

- to tackle social and financial exclusion;
- to establish a cost-effective benefit payment system, eliminating fraud at point of encashment;
- to sustain a nation wide network of Post Offices; not just through Government business but through building new businesses eg. financial services etc.

On this basis, the Minister was doubtful that there was any realistic way forward which did not involve the completion of the Horizon project...’ p.1-2.

‘...on the Panel’s suggested further delay of 9 months, he probed whether this was primarily to do with technical problems attribution to ICL or whether it was more to do with the need for the 3 parties to resolve a number of issues on the way’ p.2.

‘The Paymaster General [Geoffrey Robinson] was clear that an important consideration was...what the costs might be to UK Plc, should ICL be seen to fail to deliver’ p.2.

Under ‘Points to note’:

‘Strong prejudice from HM Paymaster General to regard ICL interests above parochial DSS or DTI ones - and indeed above wider Government social policy interests’...

‘the Minister for Posts seems to have made up his mind that Horizon should be delivered at all costs...’
Appendix A, Document 5: BRIEFING TO THE DSS FROM BA ‘POTENTIAL ACCOUNTING OFFICER DIFFICULTIES WITH BA/POCL PROGRAMME’ 24 June 1998

A three-page document from BA CE and Accounting Officer, Peter Mathison, to DSS Permanent Secretary, Ann Botwell, sought a decision by Ministers on the findings of the Treasury-led Working Group before the summer recess:

‘It is important that this timescale is achieved as the PFI supplier may well ‘play dirty’ if high-level decisions are not forthcoming’ p.1.

‘The current programme is over 2 years behind schedule and we have already lost in excess of £300m of the fraud savings agreed with the Treasury. The PFI supplier, ICL Pathway, have been notified that both the BA and POCL consider them to be in breach of contract for failing to complete the Operational Trial of the system by November 1997 as contracted. Despite this, we have agreed to work with Pathway to deliver against plans which would see delivery of the next major release (Pathway Release 2.0) by October 1998. Slippage is occurring against even this latest plan’ p.1.

‘There are major organisational and structural changes required in POCL for the Programme to be sustainable’ p.2.

Mathison outlined the DSS preferred approach, ‘agreed with DSS Ministers’, which would entail ‘Calling an immediate halt to the benefit payment card project’ p.2.

‘Whatever the decision, or whatever the outcome, we need a clear rationale which I can defend before the Public Accounts Committee and the planned NAO investigations of the programme. I would have particular difficulty in defending any option which:

- Extended the current contracts to a PFI supplier who has clearly failed to deliver;...
- Risked legal challenge for contravention of EU Procurement Directives;
- Required additional DSS/BA expenditure against a backdrop of delays and continuing risks around ICL Pathway and POCL’s ability to deliver the programme’ p.3.

‘I know that the above views are shared at the centre of the Department and have been raised with Ministers. Whilst this is reassuring, given the understanding I have of my responsibilities as accounting office [sic] my view is that I would need to be directed to take forward any option which I could not defend in these critical areas’ p.3.

A six-page draft document from Sarah Graham, PFD Sp Proj, to the DSS Permanent Secretary, Ann Botwell, and copied to BA CE, Peter Mathison, sketched a number of responses to the imminent Ministerial decision on the future of the programme; either on its continuation, its restructuring without the BPC, or its cancellation.

‘The HMT-led Working Group is still working on the assumption that Ministers will be in a position to take a decision on the best route forward on the project before the summer recess, and an appropriate announcement can be made in the House’ p.1.

Graham considered the potential impacts on the DSS ‘central, strategic departmental role’ and the ‘project management’ role, p.2.

With regard to the DSS input into Project Management, two aspects are identified:

- ‘progressing the project, day to day management, linking into the Horizon Project office, negotiations with our POCL partners and ICL around the project etc;’

- ‘providing expert information and knowledge to inform the central/strategic thinking’ p.3.

‘The “central/strategic” role, which I have been asked to carry forward, has up until now been kept deliberately obscure. This, because of the extreme sensitivity that has needed to be applied to our activities in this area, certainly around the contingency planning work; although I have been able to “come out of the closet” to some extent since the setting up of the Treasury Working Group and the Independent Panel of which all parties (including ICL Pathway) are aware’ p.3.

With regard to DSS input on the strategic level: ‘...if our preferred Option 2 is chosen [cancellation of BPC] this will be a high profile, busy and important job, with the following main elements:

i) guardian of the content of whatever must underpin the Ministerial decision;...

v) continuing cross-Government and cross-policy management, but probably at an enhanced level;...

vii) liaison and close touch with the developing project and its management’ p.3-4.
Whichever outcome for Horizon was to be determined by Ministers, Graham suggested a ‘facilitator’ and ‘a steering group, to oversee the whole process on Ministers’ behalf’ p.5. She referred to PFD’s ‘close and necessary working with the HMT-led Working Group’ to date and forecast that from July: ‘...the focus of the work may well move, if not away from HMT and the PFI elements, to some extent to a wider arena, certainly to DTI and including No. 10 (and its Policy Unit), also the Social Exclusion Unit and cross-Government initiatives on Universal Banking; as well as creating the strategic framework within Government for re-engineering the next phase of the project successfully’ p5.

In this seven-page document from Sarah Graham, PDF Sp Proj, to the DSS Minister of State, Frank Field, outline was given of the three main options for the project’s future. The first was a continuation of Horizon ‘as is’, the second a re-configuration without the BPC, the third, the fallback position of complete cancellation. The briefing was copied to DSS Secretary of State, Harriet Harman; DSS Permanent Secretary, Ann Botwell and BA CE, Peter Mathison.

Under ‘Issues’ Graham noted: ‘Strategy for ensuring DSS interests are properly played into the preliminaries leading up to the Ministerial decision’ and continued:

‘Officials have become increasingly concerned in the last few days that the position of the HMT-led Working Group has shifted away from a growing understanding of, and sympathy for, the DSS position to one which gives much greater prominence to the Post Office network interests at the expense of a proper presentation of our position’ p.1.

The DSS preference was for the second option, but Graham raised concerns that the HM Treasury led Working Group Report did not convey a balance of views:

‘We are also generally concerned that the Working Group report does not properly reflect your and the DSS position and arguments, despite frequent and regular written and oral input over the last few weeks’, p.3.

‘...the public expenditure part of the Treasury and the Chief Secretary can be expected to provide support for the DSS position [cancellation of the BPC] given the public expenditure issues at stake. But the HMT led Working Group Chairmanship and Secretariat are based in the Industry section of HM Treasury, along with Adrian Montague, the head of the Public Private Sector Task Force; their interests seem to us to be reflected in the bias of the Working Group towards the interests of ICL on the one hand and the Post Office on the other’ p.3.

This document indicated that the Working Group report was due for issue ‘today’, 21 July 1998, after which ‘HM Paymaster General is meeting Treasury officials on Thursday [23 July] to discuss the Working Group’s report. We understand the Chief Secretary will also be present’ p.3.
It concludes: ‘We have been advised by Treasury officials responsible for public expenditure that it might be helpful to our case for you to write in advance of that meeting’, p.3. A draft letter was attached along these lines which was sent the following day as document 9, below.
A three-page briefing from Sarah Graham, PFD Sp Proj, to DSS Minister of State, Frank Field, of ‘in preparation for your meeting with Ministerial colleagues’. In it, Graham responded to the newly-released Working Group Report (Appendix A, document 2, above) and her briefing was copied to DSS Secretary of State, Harriet Harman; DSS Permanent Secretary, Ann Botwell, and BA CE, Peter Mathison:

‘...the Working Group report does not adequately represent DSS views’ p.2.

‘As anticipated, the Treasury Public Expenditure team prefer Option 3 (cancellation of whole project); informal soundings among CITU colleagues suggests that they and the Chancellor of the Duchy of Lancaster would support Option 2 (termination of BPC) because it is most likely to support universal banking and “Smart Card” technology - now of interest to the Prime Minister. No.10 Policy Unit have no firm view at this stage” p2..

‘...we may only have 6 working days left before the summer recess, by which time we need to have a clear route forward’ p.3.
Appendix A, Document 9: LETTER TO HM TREASURY PAYMASTER GENERAL FROM DSS MINISTER:
‘BA/POCL AUTOMATION PROJECT: TOWARDS AN INTER-MINISTERIAL DECISION ON THE BEST ROUTE FORWARD’ 22 July 1998

A three-page letter from DSS Minister of State, Frank Field, to HMT Paymaster General, Geoffrey Robinson was copied to the Prime Minister, Tony Blair; Chancellor of the Exchequer, Gordon Brown; President of the Board of Trade, Margaret Beckett; Chancellor of the Duchy of Lancaster, David Clark; the Chief Secretary to the Treasury, Alistair Darling and the Minister of State for Competitiveness, Ian McCartney. In it, Field argued that a decision to pursue Option 1, the continuation of the Horizon programme, would necessarily incur a Ministerial direction:

‘...we need also to take account of my expectation that the Chief Executive of the Benefits Agency [as its Accounting Officer] would require a formal direction to proceed with Option 1; this would result in an early public exposure via the Public Accounts Committee of a range of concerns including the performance of Pathway and the capability of Post Office Counters Limited’ p.3.

On the option of the cancellation of the entire project: ‘...which must be our ultimate fall-back position, on grounds of ICL’s failure to perform; this outcome is the logical one and has much to commend it, in that it frees public sector parties to re-assess their position from the viewpoint of 1998 and ensure that the IT products are as well-suited to the Government’s needs as possible; however, the potential damage to ICL that must follow for their business prospects and for UK plc, and the risk that litigation with ICL could not be avoided, do not make this a preferred option’ p.2.

‘I remain strongly committed to finding a way forward which involves the Post Office. But I am reluctant to continue to use DSS resources as the support mechanism. I am still more reluctant to see taxpayers’ money continuing to be invested in unnecessary and time-limited bespoke technology and processes, particularly when the purpose could appear to be primarily to lock social security recipients into continued use of post offices in order to generate footfall’ p.3.

‘We now need to meet urgently and to take decisive action before the recess’ p.3.

A seven-page draft document from DSS Accounting Officer, Peter Mathison, dated both 27 & 28 July 1998, is addressed to DSS Secretary of State, Harriet Harman and copied to DSS Minister of State, Frank Field, and DSS Permanent Secretary of State, Ann Botwell. It indicated there was still no Ministerial decision on Horizon’s future:

‘Issue: The need for an Accounting Officer direction in the event of a Government decision to continue with the Benefit Payment Card element of the project, as proposed in option 1 of the Treasury Working Group Report’ p.1.


‘I need to alert you to the fact that, in the event of a decision to pursue this option, I expect to require from you a written instruction. As you will know, such instructions are required in circumstances where an Accounting Officer does not feel able to defend a course of action as representing value for money in respect of the resources for which he is accountable. While I would of course comply with the instruction, I am required without delay to communicate the request for such an instruction and the instruction itself to the Comptroller and Auditor General. This material then becomes the subject of public scrutiny, in the course of the Public Accounts Committee’s scrutiny of Departmental work’ p.2.

‘I have a number of serious concerns about continuing with the project, and certainly the Benefit Payment Card element of it. These concerns centre on the lack of justification in either public expenditure or policy terms for continuing with a project where the key supplier, ICL Pathway, has failed to deliver on its contractual commitments, and where to continue requires the further commitment of significant Government and DSS resources in a way that I believe carries undue risk’ p.2.

Due to the project’s history of slippage and the likelihood of more delay at the implementation stage, Mathison argued: ‘I do not see how I can justify continuing with the project; and from an Accounting Officer point of view, the preferred option must be cancellation (Option 3)’ p.3.

‘To summarise, as the DSS Accounting Officer for this project, the obvious and defensible course in terms of stewardship of the resources devoted to this area, is to move to cancellation. However,
taking into account Government’s wider responsibilities and policy objectives, I believe an option which allows us to withdraw from the BPC element of the project is defensible’ p.7.

A two-page letter from ICL Chief Executive, Keith Todd, to DSS Minister of State, Frank Field, contains a three page ICL Position Statement (Appendix A, document 12, below) and urges for a Ministerial decision on the future of the project at the earliest opportunity: ‘The best way forward is to roll out the infrastructure as quickly as possible... Failure to do so will significantly damage ICL and its flotation, and the project’s Sponsors’ p.1.

Todd concluded: ‘Unless we can get an unequivocal commitment soon from the Sponsors, it will not be possible for ICL to raise the additional funding necessary for the programme to continue beyond September. Therefore I hope that you and your Ministerial colleagues will recognise the vital importance of moving forward rapidly on this project’ p.2.

This three-page statement laying out ICL’s position was enclosed with the above document. A copy had also been sent to the Treasury Paymaster General, Geoffrey Robinson, and to the Minister of State for Competitiveness, Ian McCartney. It argued:

‘The Sponsors have not allowed ICL to manage the contract in the way required under the PFI regime, without interference. Until after the PA consulting report last September a team, 150 strong, named the Project Design Authority (a body set up and managed and staffed from the Benefits Agency, despite the fact that the design risk, along with other risks in the project, had been transferred to ICL as described above) insisted on negotiating every decision in detail, on pain of rejection of the system if its requirements were not satisfied. As a result of the PA Report, the PDA has been disbanded, but the damage has already been done. The system has been optimised to an extent far beyond that contemplated in the original contract and, although we have satisfied the increasingly (and, arguably, in some cases unnecessarily) complex requirements of the Sponsors, the result has been that the prospective revenue earning period grew steadily shorter and our costs increased’ p.2.

‘ICL cannot, and cannot reasonably be expected to, continue on this basis...a very early decision to revise the terms of the contract is absolutely essential’ p.2.

‘...this is not a technological dead end - it is a vital piece of the nation’s infrastructure for the 21st Century’ p.3.

‘Ministers should take careful note that the prolonged delay in moving forward to the next stage of roll-out has had a drastic impact on the financial viability of this programme’ p.3.

‘...unless there is a clear, unequivocal commitment soon by the Sponsors to move forward rapidly on this automation programme, it will not be possible for ICL to raise the financial support necessary to maintain our ongoing, heavy investment in the programme beyond September. In short, the BA/POCL automation programme has become unbankable’ p.3.

‘...time is running out. We hope that Ministers will recognise the vital importance of moving forward rapidly on this project’ p.3.
The following day, the above position statement was re-sent to the incoming Secretary of State, Alistair Darling, along with a one page covering letter from ICL Chief Executive, Keith Todd, seeking a Ministerial decision on this ‘very urgent matter’ lest it had ‘slipped between the cracks’ of the Cabinet re-shuffle.
A one-page letter from the Chancellor of the Duchy of Lancaster and Cabinet Minister for Public Service, David Clark, to DSS Minister for Welfare Reform, Frank Field was sent on the day Clark left the Cabinet. It read:

‘Thank you for copying me your letter of 22 June to Goeffrey Robinson.

Given my interest in the electronic delivery of government services, I share your disappointment in the lack of progress that has been made with this project. I therefore strongly support your view that the DSS should move swiftly to establishing a generic banking-based system of paying benefits for all your benefit recipients. This would be fully consistent with the approach to the electronic delivery of government services which we have been developing as part of my Better Government initiative.

I would be pleased to discuss this with you further, and I have also asked my Central IT Unit to provide your officials with any necessary help and advice in carrying forward our collective thinking on these matters.

I am copying this letter to the Prime Minister, Gordon Brown, Alistair Darling, Harriet Harman, Geoffrey Robinson, and Ian McCartney’.

A one-page letter from Assistant Private Secretary to the Prime Minister, Clare Hawley, to the Private Secretary of the Chancellor of the Duchy of Lancaster, Mark Taylor, was copied to the Private Secretaries of Cabinet Ministers and the Cabinet Office:

‘The Prime Minister was grateful for the Chancellor of the Duchy of Lancaster’s Letter on the electronic delivery of Government services.

While there has been progress in some areas on this, it is clear that there is much more to be done.

...The Prime Minister is also particularly interested in the development of “smart cards” and their potential for improving the quality and efficiency with which government services are delivered. He is aware of the pilots CITU has been leading in this area and would be interested if CITU could develop a paper for the autumn on the potential for developing these ideas. In particular, he would be interested to know how the government can make the most of its economies of scale, and the potential for public/private partnerships with the Post Office and/or the companies developing these services commercially’.
APPENDIX B

EXTRACTS FROM NATIONAL ARCHIVE DOSSIER JB 3/21:

‘BENEFITS AGENCY AND POST OFFICE COUNTERS LIMITED AUTOMATION PROJECT MINUTES OF MEETINGS, BRIEFING PAPERS AND COPIES OF REPORTS INTO THE VIABILITY OF THE PROJECT’

24 JULY 1998 – 16 DECEMBER 1998

Dossier JB 3/21 comprises an extensive collection of over 400 pages of briefings and letters which evidence urgent attempts ‘ad nauseam’ (Sarah Graham, PFD Sp Proj) to find a way forward for the programme. Below are extracts which detail specific Ministerial involvement in the decision over Horizon’s future, delays, technical issues or uncertainties around acceptance criteria; these represent only a small proportion, however, of documents in JB 3/21. They chart the uncertainty and deep division over Horizon’s future at this time including the complex deliberations over the need for a formal direction to cover BA CE, Peter Mathison, in his capacity as Accounting Officer, a step which was feared would trigger unwelcome parliamentary/public scrutiny of the project.


A one-page briefing note from Sarah Graham, PFD Sp Proj, to PFD’s Stuart Lord and BA Project Director, George McCorkell, is copied to the DSS Permanent Secretary, Ann Botwell, and to BA CE, Peter Mathison:

‘Just a reminder that we need to bear in mind all the time that anything we write down may become discoverable in the course of any subsequent litigation with ICL.

I am aware that in some of our recent discussion of the way forward, and how we approach accounting officer issues and the appearance before the Select Committee etc, we may not always be as conscious as we should of this dimension.

I have already asked Ron to double check the HMT-led Working Group Report. I should be grateful if he could similarly keep a stringent eye on us in other documentation’.
Appendix B, Document 2: BRIEFING FROM PFD SP PROJ: ‘BENEFITS AGENCY/POST OFFICE COUNTERS JOINT AUTOMATION PROJECT: TOWARDS AN URGENT INTER-MINISTERIAL DECISION’

27 July 1998

An eight-page briefing note from Sarah Graham, PFD Sp Proj, was addressed to the incoming DSS Secretary of State, Alistair Darling and copied to the Ministers’ office, (John Denham now having replaced Frank Field); DSS Permanent Secretary, Ann Botwell; BA CE, Peter Mathison; BA Project Director, George McCorkell and joint programme lawyer, Bird and Bird’s Hamish Sandison.

It listed its issues as:

‘i) Briefing on this £1 billion PFI project which is already 2 years over time and budget.

ii) Pressing for the necessary inter-Ministerial decision before the summer recess.

iii) Draft letter to send to Ministerial colleagues, alerting them to the urgency’ p.1.

Referring to the Cabinet re-shuffle of the same day Graham noted: ‘You will already be familiar with much of the background to this, through your involvement as Chief Secretary’.

As background, the document reported: ‘In September 1997, DSS Ministers became sufficiently concerned to draw this to the attention of the Treasury and DTI colleagues, and discussions took place between the two parties, facilitated by PA Consulting, to see what could be done to minimise the delays. On 21 November 1997, a key milestone was missed by ICL Pathway for completing an operational live trial, and the public sector parties placed ICL Pathway in breach of contract. Since then there have been further delays to the programme, and ICL have sought extensions to the contract or increases in charges, to a value of around £180 million (which have been firmly rejected). In May this year, DSS/BA issued a 13 week notice of ‘cure’ to ICL Pathway, in order to protect their negotiating position and to facilitate termination if necessary.

In January this year, Ministers received from officials a lengthy assessment of where the project stood; the issues that needed to be taken into consideration in deciding whether or not to proceed with it; and the shape of a possible alternative route forward, should the project fail for whatever reason. At that point, the Ministerial team had a clear preference to terminate the project on grounds of increased costs, continuing delays and doubts about the delivery of the security elements of the specification - fundamental to the whole DSS business and policy case for undertaking the project in the first place. Ministers were also clear that any alternative solution for the delivery of benefits should
involve the Post Office, given its importance to so many of our customers as well as the wider reasons for sustaining a national Post Office network. Ministers were aware that there were broader issues at stake than parochial departmental interests, and even those of DTI as the sponsor Department for our POCL partners in the project: these broader issues include the potential relationship with universal banking initiatives and the associated impact on policies to combat social exclusion; the link with rural policies and with the Chancellor’s developing strategy to rejuvenate deprived inner city areas.

Against this background, the then Secretary of State for Social Security [Harriet Harman] wrote to the Prime Minister in February that ‘there is a serious risk that this project will fail to deliver its objectives - or will not do so within a timetable that will make it worthwhile. She proposed early discussions to fund an agreed way forward. Subsequently, you proposed that an interdepartmental working group led by the Treasury should be asked to prepare an agreed analysis of the options, including an assessment of:

- whether the project is technically viable; and if so, how quickly it can be completed and at what cost to government...’ p.2-3.

Graham noted that the report of the Treasury-led Working Group deemed the project technically viable but subject to an overall delay of up to three years and ‘even that timetable will be vulnerable, because Post Office Counters’ need to make major and radical cultural changes in its overall management (including at Board level), if the project is to succeed’ p.3.

Graham urged for an inter-Ministerial decision before the summer recess, arguing:

- the further we progress with the project, the more difficult it will be to withdraw from the project sensibly and put an alternative in its place; in effect, a decision to continue will be taken by default, which you may not be prepared to accept;

- the longer we delay, the greater the risk of incurring potential legal liability for failure to respond in good faith, as required to do under the contract, to commercial proposals put to me by ICL last December.

- Ministers have known about delays and additional costs to the project since last summer: a year has passed with no substantive action’ p.5.

Attached is a draft letter which Graham suggested the Secretary of State may wish to send to Ministerial colleagues, it is not known if the letter was sent. It concluded:
'We cannot continue in a position whereby we do not have a contract with ICL that relates to current work plans and timetables; where our negotiating position is fast eroding for failure to respond in good faith, as required to do under the contract, to commercial proposals put to us by ICL last December; where our business case is falling away fast, and we will be hard placed to make a defensible story before the public accounts committee; and if we allow the project to drift further we are in effect taking a decision by default to continue, which I cannot agree to do. It would be possible for DSS to take action unilaterally, but clearly this is not our preferred way forward.

Finally, I hope we can agree that a priority for any way forward that involves the Post Office is an early and radical change in senior Post Office management. The behaviour of the Board recently has shown their lack of strategic thinking to an extent that fully justifies an urgent change of the team’ p.8.
Appendix B, Document 3: LEGAL ADVICE FROM THE JOINT PROGRAMME LAWYER TO BA/POCL 29

July 1998

A three-page letter of Legal Advice from the joint programme lawyer Hamish Sandison of Bird and Bird to BA/POCL Programme Head of Contracts, Pat Kelsey, considered the grounds for, and implications of, partial or total cancellation of the Horizon Project. It began:

‘The Horizon project actually consists of three “Related Agreements.”
- the Authorities’ Agreement – between the DSS, POCL and ICL Pathway;
- the DSS Agreement – between the DSS and ICL Pathway; and
- the POCL Agreement – between POCL and ICL Pathway’

It went on:

‘On balance, I believe that there is sufficient evidence to justify termination on the basis of ICL Pathway’s breach.

ICL Pathway admittedly failed to complete Operational Trial by the contractual due date of 21 November 1997. Under the Authorities’ Agreement, if Operational Trial has still not been completed by the end of a 13 week cure period, either or both of the contracting authorities may give notice of termination of their respective contracts with immediate effect. The DSS will be in a position to terminate because of ICL’s failure by August 12th. (POCL consider themselves to be in that position already, but I am doubtful of their view.)’

‘However, the fact that ICL Pathway has failed to complete Operational Trial by the contractual due date does not of course mean that it is liable for breach of contract or that the contracting authorities are entitled to terminate. On the contrary, ICL Pathway will argue that the DSS and POCL are responsible for the delays, and it will vigorously contest any attempted termination.

To verify its belief that ICL Pathway was in breach, the BA/POCL Programme on my advice commissioned an independent report earlier this year by Project Mentors Limited. This found that ICL Pathway was responsible for the delays culminating in its failure to meet the 21 November 1997 due date, and that the contracting authorities had not caused or materially contributed to those delays. This report carries a health warning: it was based only on access to people and documents on the government side and did not include access to ICL Pathway’s staff or documentation. That said, it provides strong and independent support for the government’s position.'
Of course, any litigation with ICL Pathway will be lengthy, uncertain and messy, and the DSS must expect all of its shortcomings to be fully aired in hostile legal proceedings’.
A four-page briefing note from Sarah Graham, PFD Sp Proj, to incoming DSS Secretary of State, Alistair Darling, was copied to the Minister of State; DSS Permanent Secretary, Ann Botwell, and BA CE, Peter Mathison. It included a revised draft letter for the Prime Minister, Tony Blair and Ministerial colleagues; its timing was marked ‘Immediate: the letter to the Prime Minister and Ministerial colleagues should go today’ p.1.

‘Given the urgency of the decision and the need to engage the Prime Minister’s attention as soon as he returns from holiday you may wish to address your letter directly to him’ p.1.

‘You agreed that a suitable letter should be sent to ICL. ICL have now written directly to you requesting an urgent decision...’ p.2.

‘Stephen Byers has suggested a meeting with you and Peter Mandelson, in advance of the Prime Minister’s return from holiday’ p.2.

The draft letter began:

‘Prime Minister

BA/POCL AUTOMATION PROJECT

One of the first issues to cross my desk is the failing £1 billion PFI project to automate Post Offices and introduce a Benefit Payment Card. We need to take an urgent decision on this. The PFI contractor for the project, ICL Pathway, are in breach of contract, and have been running further and further behind with their parts of the project, which is now expected to be completed 3 years later than planned.

I am clear that the route forward involves cancelling the project, at least in its present form, due to ICL Pathway’s failure to deliver on time. However, this project is also of great importance to the future of the Post Office network. It may therefore be necessary to find a compromise solution which allows DSS to withdraw from the Card elements but allows Post Office automation to proceed.

Moving to an ACT-based banking system for paying benefits could deliver towards £1/2 billion savings a year, once it is up and running. Now that ICL have failed to deliver on time, the Benefit Payment Card element of the project - which we inherited from our predecessors - is simply standing in
the way of this. Against this background, the opportunity to make such savings is not one we can afford to delay: it could make a substantial contribution to reducing this Department’s share of Government spending, without taking money away from people who receive benefit and could help us meet expectations for visible welfare reform.

The Post Office will oppose cancellation of the Payment Card and any promotion of ACT-based payments. They fear for their income stream, thirty percent of which is currently provided by this Department. We need to consider how Government might wish to fund the Post Office network if DSS’s indirect subsidy is removed. The issue should be separately addressed from the future of this project and should be decided in the light of the Post Office review. My preliminary view is that there will be distinct advantages in making any subsidy more transparent and ensuring that Government has some influence in deciding what parts of a network (such as rural offices and offices in deprived urban areas) might be protected, as opposed to the “scatter gun” effect that current arrangements allow.

In the meantime, decision on the project is urgent if we are to safeguard the Government’s contractual and negotiating position with ICL, and to reduce the risk of Government exposure to costly litigation. ICL Pathway and their Fujitsu parent company have been led to expect a decision at the end of July. We can probably buy a few weeks more time on the back of the recent change of Ministerial responsibilities; but beyond that we run a severe risk of a damages claim from ICL, because of our failure to negotiate in good faith in response to the commercial proposals they put to the Government at the end of last year. From 12 August it is also open to DSS to terminate the contract due to ICL’s failure to perform. In the absence of an immediate decision I therefore need to provide a formal direction to the Chief Executive of the Benefits Agency to continue (for now) with the project: as the Accounting Officer he cannot otherwise justify failing to terminate our contract from that date.

This is a critical, and high profile, project which has been floundering for too long. It is unfortunate that with the little time left before the recess, we will not reach the necessary joint decision on the way forward. I suggest we put a date in the diary now to do so on your return.

I am copying this to Peter Mandelson [DTI Secretary of State], Gordon Brown [Chancellor of the Exchequer], Stephen Byers [Chief Secretary to the Treasury], Mo Mowlam [Secretary of State for Northern Ireland], Jack Cunningham [Minister of State for the Cabinet Office and Chancellor of the Duchy of Lancaster] and Sir Richard Wilson [Secretary of the Cabinet and Head of the Home Civil Service].

A two-page briefing note from Indra Morris, PFD Sp Proj, to the Private Secretary of the DSS Secretary of State, Alistair Darling, listed actions arising from an earlier meeting with the Secretary of State. They included:

‘Action 1: Revise draft letter from SoS to colleagues (Prime Minister, Chancellor, Chief Secretary, SoS for Trade and Industry, SoS for Northern Ireland, Also copied to Cabinet Secretary (letter provided but on hold pending outcome of inter-ministerial meeting 30/7)’ p.2.

‘Action 2: Provide draft Direction for SoS to send to Peter Mathison [BA CE], directing him not to terminate contracts (due to ICL’s breach) when Cure Notice expires (12 August 1998) but continue until Ministers’ [sic] reach a decision’ p.2.


‘Action 4: Arrange for a letter to be sent (by whom to be confirmed) to ICL communicating that the decision on the future of the project will be taken during, rather than prior to, the recess...’ p.2.

‘Action 5: Make arrangements to ensure Ministers are available and scheduled to reach a decision by end of August...’ p.2.

A one-page letter from Alistair Darling, Secretary of State for DSS, to BA CE and Accounting Officer, Peter Mathison, gave formal direction not to cancel the BPC contract with ICL. It was copied to DSS Permanent Secretary, Ann Botwell and the DSS Minister of State:

‘Thank you for your submission dated 30 July 1998 explaining your Accounting Officer position on the joint BA/POCL automation project; and in particular your inability to justify from an Accounting Officer perspective, continuing with the Benefit Payment Card contract with ICL Pathway when the 13 week notice of “cure” served by DSS/Benefits Agency to ICL Pathway in May expires on 12 August.

I fully understand your position as Accounting Officer. I have today met with the Chief Secretary to the Treasury and the Secretary of State for the Department of Trade and Industry and reminded them of the urgency of reaching a decision and the financial and contractual operatives for doing so.

The future of the project has to be a decision taken by Ministers collectively. However, the changes of Ministerial responsibilities last week in all the key Departments involved, along with the personal commitments of Ministers as we move into the Parliamentary recess, means that we cannot sensibly commit to finalising an agreed Government view on this important issue, until later next month.

In the circumstances, I therefore instruct you not to cancel the contract at this stage, and to authorise the Benefit Agency’s continuation with the project until a joint Ministerial decision is reached, or until 14 September, whichever is the soonest. At that stage we will review the position.

I am copying this letter to Sir John Bourn Comptroller and Auditor General, DSS Ministers, Ann Botwell and Jonathan Tross’.

A one-page briefing note from Stuart Lord, PFD, to BA CE, Peter Mathison, recorded:

‘John Bennet [MD ICL Pathway] and a team from Pathway gave a presentation to Ann Botwell [DSS Permanent Secretary] on Tuesday 28 July. George McCorkell [BA Project Director] and I were also present.

There are two points which I wish to capture for the record.

- John Bennet initially implied or stated an interest in a quick roll-out of the service as currently operating in the 205 post offices. But in response to questioning, he acknowledged that in a real business sense, taking account of issues such as functionality, security, contingency, and continuing errors in the system, this was not a realistic business proposition.

- I asked him whether there was anything that POCL or BA were doing or failing to do which was slowing Pathways rate of progress. His answer related only to the need for the Ministerial decision on the major options before us’.

A five-page letter from the Private Secretary of the Chief Secretary to the Treasury, to the Principle Private Secretary of the DSS Secretary of State, recorded a meeting which was held on 30 July 1998 between their respective Secretaries of State. Also present were the DTI Secretary of State, Peter Mandelson and Ian McCartney, DTI Minister for the Post Office. The letter was copied to the Cabinet Office.

Setting out the history of the project, it was reported that the DSS Secretary of State, Alistair Darling, noted ‘that the contract had been renegotiated in February 1997 when it became clear that things were going wrong. When, in November of that year, it became clear that a key milestone had not been met, the DSS had become entitled to issue a cure notice’ p.1.

Consideration had been given at the meeting to the implications of various outcomes from the differing perspectives:

‘The Secretary of State for Trade and Industry commented that the Government also had to take full account of the likely consequences for ICL if a decision were taken to terminate the contract. ICL were likely to respond with litigation. The Minister of State added that he was due to be visiting Japan in the first half of September, and would need to know before then how the Government was taking this project forward’ p.3.

The Chief Secretary to the Treasury, Stephen Byers ‘would also speak to DTI Ministers further about their vision for the future of POCL and the activities that they would carry out in 8-10 years time. His understanding was that Post Office managers’ own thinking on this matter was rather confused and unclear. Some clarity was necessary before a decision could be taken on the right technology for POCL’ p.5.

A three-page briefing note from Sarah Graham, PFD Sp Proj, to BA CE, Peter Mathison, and copied to the Permanent Secretary, Ann Botwell, recorded details of the inter-Ministerial meeting held on 30 July 1998 to discuss the future of the project. In attendance were Chief Secretary to the Treasury, Stephen Byers; DTI Secretary of State, Peter Mandelson; DTI Minister for the Post Office, Ian McCartney and DSS Secretary of State, Alistair Darling. Graham included feedback from the Private Secretary to Alistair Darling, Rod Clark, ahead of the formal record of the meeting, document 8, above.

‘Ian McCartney presented the case for Option 1, continuing with Horizon; and the ICL/UK Plc and POCL lines he has presented before.

Our Secretary of State put the case strongly for an urgent decision to cancel the project, and all the arguments (including the strong legal ones) for pulling out without further ado…’

Under ‘Reported Outcomes’

‘All parties agreed they wanted to “manage” towards a more sensible way forward (Secretary of State therefore will not be writing around on the basis of the draft I put forward last week)” p.3. It is not known if this is a reference to the draft letter to which document 2, above refers, or to that attached to document 4, above.

‘also need to think about where the Post Office will be in 8-10 years time and how best to get there, against the background of ICL failure to deliver on the automation project so far;

(Note the Chief Secretary has subsequently written about these matters to Ian McCartney (31 July copied to Alistair Darling), commissioning specific work by 14 August);

Ministers need to agree a way forward by the end of August, to put to the Prime Minister on his return from holiday’ p.3.

Under ‘Other points’

‘Ian McCartney is going to Japan in the first week in September and will doubtless be meeting Fujitsu: he will wish to have a clear line by then’.

A three-page briefing note from Indra Morris, PFD Sp Proj, to PFD colleagues, members of the BA CAPS team and the joint programme lawyer, Hamish Sandison summarised ‘High level Dates\Activities’ leading up to an expected inter-ministerial decision on the project. ‘SoS’ refers to the DSS Secretary of State, Alistair Darling.

The proposed August/September schedule included:

‘6\8 Submission to SoS: circulate framework + request for contributions
7\8 Submission to SoS: first contributions to due
10\8 tbc Financials: BA\PFD meeting with HMT
11\8 Submission to SoS: first draft circulated for QA
12\8 Submission to SoS: comments due on draft
14\8 Future of POCL: DTI reply to HMT letter due
14\8 Submission to SoS...
17\8 tbc SoS: meeting with officials
19 or 20\8 First inter-ministerial meeting
24 or 25\8? Second inter-ministerial meeting - decision in principle?
28\8 Paper (agreed by inter-ministerial team) to Prime Minister
w/c 31\8 tbc Discussion with Prime Minister
4\9 PM’s decision?
tbc Ian McCartney visits Japan
7\9 Communication of ministerial decision to DSS\ICL\POCL
11\9 Joint-ministerial (DSS\DTI\HMT) presentation\communications\ and PR activity
14\9 SoS’s interim direction expires
w/c 28\9 Labour Party Conference’ p.2-3.
Appendix B, Document 11: LETTER FROM ICL PATHWAY TO BA 7 August 1998

A two-page letter from ICL Pathway Managing Director, John Bennett, to BA Projects Director, George McCorkell and copied to DSS Permanent Secretary, Ann Botwell, addressed concerns over the Release 1c system. This was prompted by BA’s challenge to ICL on its presentation to the HMT Panel regarding the readiness of this system for scaling up (see document 12, below).

‘At our meeting last week with Dame Ann Botwell [DSS Permanent Secretary] and Stuart Lord, you voiced serious concerns with respect to the capability of the Pathway Release 1c system to support more than the current 204 Post Offices. This ran counter to our own conviction that the current system is indeed fit for wider exploitation’.

‘I commissioned a clear and complete assessment of the potential risks in the event that we were requested to scale up its implementation to, say, 2000 Post Offices.

All aspects of the existing 1c system were examined. It is our assessment that in nearly every case, a simple linear increase in the appropriate hardware or manpower resource is all that is required, e.g. increased help desk staff, additional Network Router capacity. However, there are areas which require more specific attention: CAPS Contingency, Data Centre Contingency and Security’ p.1.

On Data Centre Contingency: ‘The ability to provide full fail-over and recovery of the Pathway Data Centre systems in Wigan in the event of extended interruption or loss of service.

At release 1c, only the Wigan centre is in operation. Full data centre contingency will be implemented with the introduction of the Bootle Data Centre at New Release 2. The Bootle Data Centre is already fully serviced with the equipment and network capacity to provide full contingency. It is currently being used to host the Test and Integration and Model Office systems, but this work could be transferred to one or more of the other ICL secure sites where test environments are already established. Doing so would free the Bootle Data Centre for Release 1c contingency operation. This would involve a significant effort by Pathway but could be accomplished safely within 4 to 6 weeks’ p.2.

On Security, with regards to ‘The increased potential for a breach of security with higher volumes of post offices and payment cards’:

‘It is probably a reasonably safe assumption that those individuals actively seeking to violate the security of the Benefit Payments system will continue to focus their attention on Order Books in use at the remaining 90% of (pre-Horizon) post offices. If new security risks are identified then it remains
possible to implement incremental improvements quickly, either to the software or to the operational controls’ p.2.
Appendix B, Document 12: LETTER FROM BA TO ICL PATHWAY 12 August 1998

A one-page letter from BA Projects Director, George McCorkell, to ICL Pathway MD, John Bennett, responded to ICL’s defence, above, with regards to its submission to the Montague Review Panel on the readiness for Release 1c. The letter was copied to DSS Permanent Secretary, Ann Botwell:

‘Your submission to the HM Treasury Independent Panel stated, and I quote, “Pathway believes that Release 1c is safely capable of handling several thousand outlets, for payment of multiple types of benefit, for the period of time before the next major release becomes available”. I understand this is a view you have also expressed to senior officials and Ministers across government.

I am pleased to see you now recognise that significant development, testing, implementation and support work would be required by Pathway to achieve this.

In addition to the points made in your letter there are, as we have pointed out before, further weaknesses with Pathway Release 1c. Any proposal to deploy this release on a wider basis would require full impact analysis (by both BA and POCL) to ensure all weaknesses were addressed.

Thank you for clarifying this issue’.

An eleven-page briefing note from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, was copied to the Minister of State; DSS Permanent Secretary, Ann Botwell, and BA CE, Peter Mathison.

‘...the main focus of work to support the necessary inter-Ministerial decision has shifted to:

a) DTI/POCL, who have been asked by Stephen Byers to clarify the future requirements of the Post Office... and b) No 10 Policy Unit, who are exploring variants on a cancellation option’ p2.

Graham outlined the three options for the project laid out by the HMT Working Group; option 1 which would entail a continuation of the entire project under modified terms, option 2 whereby the BPC would be cancelled leaving ‘POCL to offer ICL the task of bolting on a banking facility to the “Horizon” automation platform’, or option 3 which would see the cancellation of the entire project, p.2.

Graham continued: ‘this decision is needed urgently:

- This issue has been on DSS Ministers’ agenda for twelve months and has been a cross-government issue since the beginning of this year;

- ICL have said in their letter to the Minister of State, dated 27 July, that it will not be possible to raise the additional funding beyond September, unless they receive unequivocal commitment soon; they can be expected to lobby vigorously from that time;

- Ian McCartney will be visiting Japan (and Fujitsu) in w/c 7 September;

- the timing of the decision needs to avoid “noise” around the party conference;

- your Direction to Peter Mathison not to proceed with cancellation of the contract, expires on Monday, 14 September’ p.10.

Graham noted uncertainty over ‘...how the Chief Secretary is planning to progress matters in order to present a recommended way forward to the Prime Minister on his return from holiday at the end of the month’ p.10.
‘In the absence of any clear guidance at this stage from CST’s office, you may wish to consider an approach on the telephone, to:

- explore CST’s current thinking and re-emphasise the urgent need for a decision’ p.11.

A three-page briefing note from Sarah Graham, PFD Sp Proj, to the Private Secretary of the DSS Secretary of State outlined the implications of the delayed Ministerial decision on the Horizon project with regards to the Ministerial Direction due to expire on 14 September 1998. Graham considered the ‘pros and cons of the Chancellor’s involvement in the project’ in the absence of the Chief Secretary to the Treasury, Stephen Byers, p.1.

‘Should we expect the Chancellor to take a view anyway, given the Prime Minister’s intended involvement?’ p.2.

The potential legal implications of further delay were also laid out:

‘Provisional advice from the joint programme lawyer is that to stretch the decision beyond “mid-September” could increase our vulnerability quite significantly to a claim for damages from ICL Pathway, for failure to negotiate in good faith in the commercial proposals they put to us originally last December;...they were given a clear understanding that an inter-Ministerial decision would be reached before the Summer recess; Secretary of State has now written explaining that we will not, because of the re-shuffle, be able to reach a decision before mid-September; but to take it beyond that could be very difficult to defend, in the joint programme lawyer’s view’ p.2.

‘...there is concern that the issue of a further Direction should not become public/known to ICL – this could harm our negotiating position with ICL Pathway...’ p.3.

‘...the argument on increasing vulnerability to damages becomes increasingly compelling;

- the need for a decision no later than w/c 14 September [1998] becomes stronger’ p.3.
Appendix B, Document 15: LETTER FROM BA CE TO DSS PERMANENT SECRETARY: ‘CARD PROJECT’

4 September 1998

A four-page letter from BA CE Peter Mathison to DSS Permanent Secretary, Ann Botwell, was copied to BA Project Director, George McCorkell, and expressed his ongoing concern regarding his Accounting Officer responsibilities given: ‘Put simply, I believe Option 1 will continue to fail, demand extra resources which I do not have, and place the secure delivery of benefit Payment at risk...’ p.1.

‘I believe our Secretary of State is aware of my views and hence his acceptance that I will require formal direction if Option 1 is chosen. However, this programme will be subject to an NAO report and a PAC review. During this process I assume senior officials in Treasury and DTI will be asked to account for their decision if they recommend OPTION 1 to their Ministers.

It is important that we ensure those senior officials are fully aware of my conclusion of the probable outcomes of continuing with the card project...

I would ask Stephen Hickey to make sure Treasury officials consider this...’

Mathison’s attached note regarding the risks of continuing with the programme ‘as is’ (Option 1) referred to the Montague Report maintaining:

‘The Treasury Panels’ best estimate for a start of National Rollout was January 2000, assuming all outstanding issues with Release 2 and Release 2+ were resolved by the end of July. This has not happened. For example we still do not have any plan or dates for Release 2+ functionality’ p.2.

‘We are finding difficulty in monitoring Pathway/POCL current progress in Model Office testing where we have limited direct involvement at this stage. The reports we receive are somewhat superficial and high level. What we have seen indicates they are experiencing problems, for example with reference data. There is a strong possibility that progress currently reported is being achieved by postponing activities which push problems back to a later phase of the plan. This must be storing up high risk of further delay.

We are more directly involved in the first phase of end to end testing. This started on the 10 August and has already experienced significant delay eg the new functionality for urgent payment is not working an obviously critical and basic requirement. It is now clear this phase cannot now meet its planned date. Discussions are underway with yet again descoping the proposed outcome
The Treasury Panel concluded the proposed 300 post offices per week beat rate had been properly planned for by Pathway but caveated this with concerns on the demands thus will place on the POCL organisation. Given that POCL are still insisting on full functionality in every office, I believe this remains a significant risk with high probability of delay to completion of rollout: POCL have no previous experience of implementing a technologically based project of this scale nor against an accepted aggressive rollout beat rate across the whole network. Additionally we have seen no progress on the urgent steps identified as required to support the Service Management area. There must be a risk that rollout may never complete, leaving BA with a mixed card and paper based system with the heavy administrative costs that implies.

The Treasury Panel concluded “there must be some risk around scaleability and robustness”. Another indication of the possibility that full national coverage may never be achieved.

All of this, together with 25 years experience of a wide range of major projects, leads me to conclude there is a high risk of further significant slippage to the start of national rollout, significant delays during rollout, with the possibility of full rollout never being achieved’ p.3.

Under the heading ‘POCL’ Mathison went on:

‘The Treasury Working Group and Panel identified a need to significantly strengthen POCL’s senior management and organisation. I have seen no evidence that this has happened’ p.3.

‘This lack of management attention to development and early implementation of a sustainable future for the PO against an existing decline of c. 300 PO per year must give risk of a progressively uncontrolled collapse of the network. This could present serious problems for the secure national delivery of benefits’ p.4.
Appendix B, Document 16: LETTER TO HM TREASURY SECOND PERMANENT SECRETARY FROM DSS PERMANENT SECRETARY: ‘BENEFITS AGENCY / POST OFFICE AUTOMATION PROJECT’

September 1998

A three-page letter from DSS Permanent Secretary, Anne Botwell, conveyed the above concerns of Peter Mathison, her responsible Accounting Officer and her own concerns as Departmental Accounting Officer to Robert Culpin, Second Permanent Secretary of HM Treasury. It is copied to Cabinet Secretary, Richard Wilson; HM Treasury Permanent Secretary, Andrew Turnbull and DTI Permanent Secretary, Michael Scholar:

‘Unfortunately, ICL have persistently failed to deliver, the project is running seriously late and the costs for DSS are mounting alarmingly. Legal advice is that the failure is clearly ICL’s (although they would dispute this). ICL’s own costs are also rising and the project is now a certain loss-maker for them too...Whether we continue the project, or end it because of ICL’s default, the delays mean that there will be additional unfunded administration costs in the interim which DSS cannot meet: but these will be considerably lower under the cancellation route’ p.1-2.

‘To continue the project in view of its past history and future prospects (there has been further slippage even since July) presents such value for money problems that Peter Mathison has concluded that he would have no option but to take steps to end it because of ICL’s failure, unless instructed otherwise by Ministers. My Secretary of State has already issued one Direction to protect the AO’s position while Ministerial discussions continue. This expires next Monday, 14 September. This deadline is one reason why ministers need to reach a speedy decision. The other is the risk of ICL walking away and having their legal position strengthened by being able to argue that the Government - which has known since the start of the year - has failed to negotiate in good faith. I attach a note from Peter Mathison which highlights his concerns. If Ministers decide that the project should continue substantially unchanged my Secretary of State will need to issue him with a Direction to continue the project. This will, of course, be followed by a full NAO investigation and, we anticipate, severe criticism in due course from the PAC. (The NAO are, of course, aware of the existing Direction).

Against this background - which has been clearly and repeatedly explained to Treasury colleagues - I must also express my concern about the handling of the issues. Of course, Ministers collectively must make their decisions on the basis of all the implications, for the Post Office, for ICL, for DSS and for the taxpayer. That is why the Treasury-led official Working Group in July identified a middle
way, which would have allowed Post Offices to be automated without the payment card and which we believe could be developed without an AO direction. We were dismayed that the draft paper for Ministers...downplays the Accounting Officer and value for money concerns and in effect dismisses any middle route which Ministers might want to consider. I hope, therefore, that even at this late stage we can collectively strive to ensure that the seriousness of the issues are fully recognised and that the full facts are clear to Ministers when they meet” p.2.
Appendix B, Document 17: BRIEFING FOR DSS SECRETARY OF STATE FROM PFD SP PROJ: ‘BA/
POCL AUTOMATION PROJECT: TOWARDS AN INTER-MINISTERIAL DECISION’ 4 September 1998

A seventeen-page briefing note from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, expressed disappointment with the draft paper due to be presented to the Prime Minister. Graham’s briefing was copied to the DSS Minister of State; DSS Permanent Secretary, Ann Botwell and BA CE, Peter Mathison:

‘You are aware that the Number 10 Policy Unit remitted their draft paper for the Prime Minister to the Treasury team who wrote the inter-Departmental Working Group report. We received the draft last night. It was greeted here with frank disbelief, that a paper intended for the Prime Minister which presumably is meant to attempt to reflect the views of the 3 parties, should so resolutely fail to represent the news [views] of DSS, its customers and the taxpayer. We are responding strongly.

The clear intention of the draft is to present the facts and arguments in a way that makes it difficult to do anything but seek to continue with the project, ignoring for example the legal and contractual constraints that may not even make this achievable. Informal feedback is that Number 10 Policy Unit too is now veering towards supporting an option to continue with the project’ p.2.

Graham goes on to list reasons which justify the cessation of the BPC element of the project:

‘ICL’s whole attitude to delivery of the project has been consistently to find reasons not to do what is asked, but to cut corners: this does not bode well for a reassuring view of the future; this was most obviously the case around the security issues for the project which were fundamental to the whole DSS’s rationale for undertaking the Benefit Payment Card project in the first place;

- the DSS view of ICL’s behaviour is endorsed by 2 studies commissioned from independent consultants by the Joint Programme Lawyer; although these consultants did not have access to ICL papers, they have now examined the situation both pre- and post- the February 1997 re-plan, and are clear ICL is responsible for the delay in all material respects;

- the further we go down this path, the less possible it will be for Government to pull out - and colleagues should be aware that they are in effect writing an open ended cheque on this project...’ p.3-4
a decision to continue with the project looks particularly foolhardy when there are other options available which could equally secure the objectives for the Post Office to achieve automation and for UK plc to provide some face-saving and actual benefit for ICL" p.4.

A five-page briefing report from Sarah Graham, PFD Sp Proj, to Stephen Hickey, also PFD Sp Proj, and BA Project Director, George McCorkell, confirmed the appointment of a troubleshooter as recommended in the Montague Report:

‘Graham Corbett, deputy chairman of the Monopolies Commission and ex-Finance Director of Euro-tunnel, has just been appointed as the “advisor” by Stephen Byers [Chief Secretary to the Treasury] this afternoon’ p.1.

Graham went on to suggest the remit of the new inter-Departmental Group might include setting ‘a clear timetable for work, checkpoints and progress-chasing’ p.3.

Under ‘Membership of the Working Group’ she continued ‘As proposed in Stephen Byers’ letter, the Group will include No.10 Policy Unit representation, as well as many of the old (and feeling older) players for the HMT-led Working Group – David Sibbick (DTI), me (for DSS), Adrian Montague (Head of the HMT Public/Private Sector Task Force). Significantly, however, Adam Sharples rather than Harry Bush [HMT] will be in the chair’ p.4. The first meeting of the inter-Departmental Working Group was scheduled for 17 September 1998.

A four-page communication from Stephen Hickey to HM Treasury’s Harry Bush expressed deep concern that the draft paper for submission to the Prime Minister did not fairly reflect the DSS position:

‘...the reaction here is one of frank disbelief...There is an extraordinary omission of the preferred option that DSS proposed...’ p.1.

He elaborated: ‘Ministers must have before them the following key considerations’ which included ‘there is no confidence in even the revised timescales proposed for the project: the track record of both ICL and POCL strongly suggest the likelihood of further slippage. The revised timetable has already slipped in some areas. And POCL have shown no signs of taking the urgent management steps identified in the report;

- the Pathway delays already mean substantial unavoidable additional costs to DSS. Each month’s delay costs £10m’ p.1-2.

‘to persist with the current project, after ICL’s failure to deliver, therefore raises serious Accounting Officer issues. It would be self-evidently risky and wasteful of public funds’ p.2.

‘There is a separate issue for Government as to whether or not it wishes to act in the support of the Post Office: but to do so indirectly, through a discredited and non-performing programme is arguably one of the least effective ways of targeting such support’ p.2.

‘We must ensure that Ministers understand the issues’

Hickey did ‘not attempt to offer all our detailed comments’ on the draft paper intended for the Prime Minister but, of the few he attached, he included:

‘5.3 This is a disgraceful representation - it makes no mention of the fact that it is ICL/Pathway who have failed miserably to deliver functionality to enable the card to be rolled out’ p.4.

‘Para 13 – should bring out more clearly the extent of the slippage; it sounds as though this is just a bit of movement to the right. Pathway’s delivery has slipped further in time to the right than the time that has elapsed!’ p.4.

A six-page document from the Private Secretary of the Chief Secretary to the Treasury, to the Principal Private Secretary of the DSS Secretary of State, recorded discussions of a meeting on 9 September 1998. Convened to discuss the options paper produced by the No.10 Policy Unit and HM Treasury, it was attended by the Chief Secretary to the Treasury, Stephen Byers; DSS Secretary of State, Alistair Darling; the Chancellor of the Duchy of Lancaster, Jack Cunningham; DTI Secretary of State, Peter Mandelson; DTI Minister of State, Ian McCartney; David Miliband and Geoff Mulgan of the No.10 Policy Unit.

The Chief Secretary to the Treasury was said to agree with the paper’s recommendations that:

‘- the Benefits Agency and Post Office Counters Limited should continue with the project, provided ICL Pathway commit to suitable commercial terms’

‘- the Post Office would strengthen the management of POCL to give a much stronger commercial focus’

‘- the Government would appoint a “troubleshooter” to oversee negotiations, and make sure the action needed to get the project on track is taken urgently’ p.2.

Ian McCartney reported on his recent visit to Fujitsu: ‘Fujitsu had said that they were committed to ICL and to this particular project, but that if the Government cancelled the project, it would put at risk the flotation of ICL. That would in turn put jobs and investment at risk’ p.4.

‘The Chancellor of the Duchy of Lancaster said that he broadly agreed with the recommendations in the paper. However, he said it was most important to learn the lessons from the past failures of this project’ p.4.

A five page briefing from Sarah Graham, PFD Sp Proj to BA Peter Mathison recorded a meeting between DSS Secretary of State, Alistair Darling, and Lord Falconer, Minister of State at the Cabinet Office of the same day:

‘...there was close agreement about the need to get a decision urgently’ p.1.

The DSS Secretary of State made a point regarding:

‘- endemic problem with this project - structured around different, and at times conflicting objectives for Post Office and DSS/BA - ICL are well aware of this and are able to drive a coach and horses through the middle - we need to have an agreed Government line as a pre-requisite to pursuing productive negotiations with ICL’ p.4.

Agreed outcomes of the meeting included:

‘An urgent inter-Ministerial meeting is necessary, on “Good Friday” terms – nobody leaves until a way forward is decided’ p.4.

November 1998

A two-page letter from the Assistant Private Secretary of the Cabinet Office Minister of State, to the Principal Private Secretary to DSS Secretary of State, Alistair Darling, referred to the meeting between Darling, Lord Falconer and the Principal Private Secretary to the Chancellor of the Duchy of Lancaster, Jack Cunningham, minuted in Appendix B, document 21, above. The four Government objectives agreed upon were: preservation of the Post Office network, delivery of benefits, VFM, and ‘to act in the wider interests of “UK Plc”’ p.1.

‘It was further agreed that there should be a meeting of the Ministerial Group, chaired by the Chief Secretary to the Treasury (with the Secretary of State for Trade and Industry, the Secretary of State for Social Security, the Minister for the Cabinet Office, and the Minister of State, Cabinet Office). It was imperative that Ministers decided a way forward without delay’ p.2. It was suggested that one Minister, possibly Lord Falconer, be designated as ‘sole channel for discussions with ICL on achieving the Government’s objectives’ p.2.
Appendix B, Document 23: LETTER TO CHIEF SECRETARY TO THE TREASURY FROM ICL 9

November 1998

A letter from ICL Chief Executive, Keith Todd, to Chief Secretary to the Treasury, Stephen Byers referred to four attached documents regarding ICL proposals for a way forward for Horizon following ‘constructive discussions’ with POCL. The four documents are not included in Dossier JB3/21. One, entitled “Acceptance” is described as making ‘proposals to establish procedures for accepting the system which are fair to both the public sector customers and to ICL, and will also expedite the delivery of the system’ p.1.

‘The sooner the project is up and running, the sooner the taxpayer will benefit from the reduction in fraud which all parties expect to result from Horizon’ p.2.

An eleven-page briefing from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, was in preparation for the Inter-Ministerial meeting on 17 November. It considered the recent ICL set of proposals, including those on acceptance criteria, which had not yet been agreed with POCL:

- ‘acceptance criteria - proposals to scale down the standards required and bring forward the timetable for BA/POCL acceptance of the system - after which we are committed to the project’ p.1-2.

Graham went on to assess the proposals from the DSS/BA perspective:

- ‘relaxing the acceptance criteria; early acceptance is crucial to ICL in order to “bank” the project; but it is not acceptable to Government to reduce the current fairly standard criteria, particularly for a project involving £90 billion benefit payments to 20 million people, many of whom depend on correct payments for their livelihoods;
- increasing ICL’s guarantee of payment no matter what their performance;
- requiring the public sector sponsors to underwrite the proposed ICL loan arrangements’ p.2.

‘One particular aspect of the proposals of which you should be aware, is that responsibility for the contracts with ICL would be assumed by POCL from “acceptance”, i.e. from the time that ICL’s development of the system is completed - on present plans in July 1999. DSS/BA have said they have no problems with this approach in principle, provided that POCL are prepared to take on (post-“acceptance”) all the obligations and other liabilities for delivery that ICL currently hold under its contracts with DSS/BA, and that any legal and policy concerns can be addressed’ p.2-3.

Under ‘positions of other Departments and their Ministers’ Graham set out the differing approaches to the way forward for the Horizon project, that of the Cabinet Office, DTI, HMT and No.10 Policy Unit and noted the Treasury Secretariat of the Inter-Departmental Working Group was preparing a paper to put to Ministers in advance of their 17 November 1998 meeting. Graham attached an ‘aide-memoire’ note of issues which ‘may have escaped the formal evaluation process’.

Her points included:

- why should ICL performance improve dramatically in the future over the past?... Either the project is in the end going to cost much more than is envisaged, to get the quality and timely product
we need; or, just as likely, it will not be delivered on time or in totality; or most likely of all, a mixture of both’ p.7.

‘...the Independent Panel (which reported in July) quite rightly recognised the difficulties inherent in a project, designed around different and often mutually conflicting objectives; continuing with the project merely cements these...’ p.8.

‘Government could be accused of a lack of clear strategy around either the future of the Post Office network or of benefit delivery – Government could easily be seen as the victim of ICL as it fumbles for a strategic way forward on either front’ p.11.

A thirty-page report considered the objectives of the Horizon Project ‘initiated in 1993’ and assessed the recent ICL proposals for unlocking the current impasse in negotiations. It compared a range of possible options and considered their associated risks. According to a briefing note from Sarah Graham, PFD Sp Proj, (Appendix B, document 26 below) the report was prepared by the Treasury-led secretariat of the Inter-Departmental Working Group. It began:

‘The BA/POCL automation project (known as “Horizon”) has been under review since the contractor, ICL Pathway, was placed formerly in breach of contract after a key contractual milestone was missed [November 1997]. The project is now over two years late. An inter-departmental report to Ministers (July 1988) [sic; 1998] and an HMT/No.10 Policy Unit report for the Chief Secretary (September 1998) considered the options for taking the objectives of the project forward’ p.3. It was noted that a further report had been presented to Ministers on 23 October 1998.

As a result, the Chief Secretary to the Treasury, Stephen Byers, agreed to a two week reprieve for ICL to further their discussions with POCL. The proposals which emerged from these discussions were relayed in Keith Todd’s letter to the Chief Secretary to the Treasury of 9 November (document 23, above). In this Progress Report, Ministers were asked to decide whether ICL’s proposals met the criteria set out by the Chief Secretary to the Treasury in October 1998, and to consider if ICL’s proposals represented sufficient movement to justify further negotiation. Prior to assessing the ICL proposals: ‘it is worth briefly revisiting the reasons why a decision on a way forward is urgently required’ p.4.

As background, Ministers were reminded of Horizon’s history of slippage:

‘Against the background of severe delays to the project (attributable to ICL Pathway) Ministers became very concerned that there was a serious risk that the Horizon project would fail to deliver its objectives or would not do so in a timescale that would make it worthwhile to proceed.

These concerns have prompted a number of inter-departmental reviews of the project and possible alternative options. These reviews have provided an opportunity for Ministers to revisit and update the government’s policy objectives for the Horizon project’ p.4.

Of the four papers submitted by Keith Todd, one met the CST’s request for a non-binding Heads of Agreement and was considered acceptable. Taken with the further three papers which constituted ICL’s proposal, however it was perceived to be ‘an attempt by ICL to reduce its risk’ p.5.
Proposals regarding revised commercial terms, funding and system acceptance were deemed ‘clearly unacceptable’ but it was suggested that subsequent dialogue had offered a glimmer of hope with possible signs of movement from ICL. Its proposals had included payments in advance rather than in arrears and a revised acceptance process which ‘could lock the parties into a system before it had been fully tried and tested and would result in a significant reduction of POCL or BA’s rights to termination’ p.6-7. It was noted that, on this basis, DSS/BA did not believe an acceptable deal could be struck whereas HM Treasury’s view was that ICL were likely to move further.

Under ‘Risk Analysis’:

‘DSS/BA believe that the risks around deliverability of Horizon in option 1 are very significant given the history of the project’. A marginal, handwritten note beside ‘Option 1 has been validated by independent experts who judged it to be technically viable, robust and future proof’ asked ‘Is this valid???’ p.10.

Annex A of the Report, under ‘Acceptance’, stated:

‘ICL Pathway’s proposals on Acceptance would mean that the Contracting Authorities would be locked into the system before it has been fully tried and tested. BA and POCL have already made very significant concession on Acceptance as part of the Corbett proposal ie in waiving their termination rights at Acceptance of NR2 which does not deliver the full contracted requirements. Both parties are not willing to bring forward acceptance before the end of the Live Trial. Both parties are prepared to consider a modest increase in the number of allowable faults but not in the magnitude being proposed by ICL.

ICL have also proposed the appointment of a named expert (Peter Copping from PA) to help resolve disputes on acceptance between the parties. BA and POCL are willing in principle to accept expert facilitation (though they do not necessarily yet accept the nominee proposed by ICL) but cannot agree that the expert has the right to make binding decisions on behalf of BA and POCL.

Acceptance is a very critical point in the whole programme and under ICL’s proposals would result in significant reduction of POCL or BA’s rights to termination thereafter. Acceptance is a serious issue to resolve properly’ p.14.
Under ‘Comments on Funding Proposal’:

‘The major issues of concern on the funding proposals (aside from other concerns on ICL’s other commercial proposals) are:

- Acceptance: the proposal is that we should sign before acceptance. It is unlikely that any lender would lend before acceptance and we should not sign up to these changes before banks are on board.
... ‘set-off’: we are unable to set-off any liquidated damages owed for performance failure against any compensation to Pathway and/or their lenders. This is not normal’ p.15.

A list of secondary funding issues included:

‘Performance reductions: it is proposed that deductions are capped. This could leave substantial cost with POCL in coping with persistent poor performance’ p.16.

Also under ‘Comments on Funding Proposal’ it is noted: ‘From an accounting perspective, no significant risk has been transferred to ICL. It is, therefore, probable that the PO will need to recognise this as an asset with corresponding liabilities’ p.16.

Annex C ‘RISK ASSESSMENT’

Here the potential risks for each option were compared and the function of a ‘rigorous acceptance process’ featured prominently as the primary risk management strategy.

Under Option 1 (continuation with the programme ‘as is’) the first potential risks listed were: ‘BPC technology does not meet BA’s requirements’ and ‘non-BPC technology does not meet PO’s requirements’. For both, the risk management strategy was identified as: ‘rigorous acceptance process’ p.20.

Under Option 2 (loss of BPC, earlier move to ACT) the first potential risk listed was: ‘non-BPC technology does not meet PO’s requirements’ for which the risk management strategy was identified as ‘rigorous acceptance process’ p.21.

Under Option 3 (as Option 2 but with delayed implementation of ACT) the first potential risk listed was: ‘new technology does not meet PO’s requirements’ for which the risk management strategy was identified as ‘rigorous acceptance process’ p.22.
Annex D considered potential impacts of the options on ICL and Fujitsu:

‘If the whole project was cancelled (Option 3) Pathway would suffer a loss of around £250m...A write off of anything like this size would clearly be material. There seems little doubt that it would put at risk for many years any chance of a successful ICL flotation (planned for 2000)’ p.23.

‘There is also a risk that cancellation might prejudice Fujitsu’s attitude to future investment in the UK. Japan accounted for some 9.4 per cent of inward investment in the UK in 1996. Despite the closure of their semi-conductor plant, Fujitsu remain the single largest Japanese investor in the UK and are highly sensitive to the outcome on Project Horizon. There is a serious risk that cancellation might prejudice not only Fujitsu’s but other existing and potential investors’ future investment in the UK’ p.24.

Annex F made recommendations for ways in which negotiations might be moved forward. They were to be conducted directly between POCL and ICL whilst:

‘...a senior Treasury official (Adrian Montague) will be available to act as a long-stop facilitator between the parties but will not be part of the actual negotiations’ p.26.

Under ‘progress reporting’ it was recommended:

‘POCL to report progress on negotiations to a Progress Tracking Group, the purpose of which will be:

- to ensure the outcome of the negotiations is within the remit set by Government
- to review progress of the negotiations in order to brief Ministers
- to provide facilitation to the negotiations where requested

Membership of the Progress Tracking Group to be HMT (chair), DTI, DSS along with POCL’ p26.


A three-page briefing from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, offered a response to the Working Group Report (Appendix B, document 25, above) in preparation for the Inter-Ministerial meeting the following evening. The briefing note is copied to the Minister of State; DSS Permanent Secretary Ann Botwell; BA CE, Peter Mathison and BA Project Director, George McCorkell.

Under ‘other points worth raising’ Graham noted:

‘- ICL must share our view of the riskiness of the project, since they are seeking to transfer their liability in a big way back to Government: Government to underwrite (future and past) loans up to the value of £480m; payments to be made in advance rather than in arrears, and with a much lower level of performance expectancy; termination rights to be restricted post acceptance; and acceptance criteria to be significantly reduced over what would normally be required in a project of this importance and scale;

- if this is the best ICL can come up with, given the original 16 October deadline either they have no belief that the Government will pull the plug on this or “they are playing a deliberate game of stringing things out [“] to a point where it will be almost impossible for Government to do anything but continue’ p.3.

An eight-page briefing note from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, was in preparation for the Inter-Ministerial meeting that evening. It was copied to the DSS Minister of State; DSS Permanent Secretary, Ann Botwell; BA CE, Peter Mathison and BA Project Director, George McCorkell.

It assessed the ICL proposals of 9 November 1998 stating under ‘HEADLINES’:

‘- No way that ICL proposals represent a commercial deal acceptable to Government:

under the Corbett proposals Government had offered arrangements worth £116 million npv to ICL (most of this funded by DSS/BA funding, who would pay ICL an additional £250 million cash and POCL an additional £750 million cash).

- ICL are now asking Government to put in additional funding worth £300 million npv to ICL, in exchange for an ICL claimed loss of £100 million npv - which in reality they intend to claw back through additional business on Horizon. POCL believe their strategic partnership is worth this level of npv to ICL.

- the figures, bad as they are, mask a much worse situation whereby, for the banks to fund the loans ICL need (£280 million from start roll out (July 1999) to contract completion (2000), plus £200 million already borrowed) they need a package of significant transfer of risk from ICL to Government ie. Government/public sector to underwrite lones [sic]; totally re-writing the original contract specification, transfer of risk etc; no way that this would be acceptable either in common justice, prudent use of taxpayers money, giving the right messages on PFI; or even possible under EU procurement law.

- enough is enough; if this represents ICL’s best offer at this stage of the game, remembering the original 16 October deadline - it is unlikely that we will achieve any significant further shift in the next 2-3 weeks; and to go on negotiating longer than that is ridiculous; it is now a year since ICL were put in breach of contract and discussions were initiated between the three Chief Executives involved - Keith Todd, Stuart Sweetman and Peter Mathison;

- time to abandon Option 1…’ p.2.
‘...as agreed with Corbett, DSS has already given all they can; further concessions on money or risk transfer must flow through POCL/DTI/HMT who continue to seek to rescue Option 1’ p.3.

Graham recommended that, if negotiations were to continue:

‘...initial discussion should focus on ACCEPTANCE and FUNDING issues; Government cannot meet ICL demands in these areas; no point in further commercial concessions until ICL accept this’ p.3.

There is a summary of the implications of the ICL proposals of 9 November 1998. It notes under ‘TRANSFER OF RISK TO GOVERNMENT’:

‘Hambrors have advised ICL that, in order to raise the money they need on the project, the project needs to be restructured significantly, in particular to:

(i) transfer risk back to the public sector eg. by: requiring Government to underwrite the further £280 million loans ICL will need over the life of the project; and also that the £200 million loans they already have (though guaranteed by Fujitsu); this means that, if the project fails and ICL Pathway went into liquidation banks would be able to call on Government to pay up to this amount.

(ii) relax the “acceptance” requirements: ICL want the project accepted at design stage, ie. before it is tested to see if it works in a live trial. This, in order to make the project “bankable” at an earlier stage:

(a) ridiculous to have less rigorous testing than standard for a project of this scale of importance, given the business that hangs on it - delivering people’s livelihoods to them;

(b) lessons from NIR2: even with rigorous acceptance testing, it still didn’t work in the field!

(v) reduce ICL acceptance of risk: key feature of the original £200 million fraud liability, due to the ICL system (this is peanuts anyway considering we are talking about a system delivering £90 billion worth of benefit payments) ICL are now proposing that “onus of proof” of such fraud shifts to us – virtually impossible to prove’ p.4-5.

Appendix A of this briefing gave more detail on ICL’s November 9 1998 Proposals with regards to Acceptance.
Under ‘Key changes on Acceptance of the System’:

‘(i) Systems test to be related successful with 230 Category B faults outstanding. Current limit is 9. A category B fault is “a fault which must be fixed but there is a clerical work around”

(ii) Acceptance to be achieved on passing systems test (ie. running this system in a test environment), without full contracted functionality. Current contract gives acceptance after a “Live Trial” (ie. monitoring the system operating in the “Live” environment for three months), with full contracted functionality.

(iii) Acceptance to be given without any undertaking that “Soft Extended Verification Procedure” a vital part of ICL security design will ever be available’ p.6.

Under ‘Key Commercial Changes’:

‘Guaranteed payments to be made even if the system has not been made available in Post Offices due to Pathway failure. Current guarantee payment only apply if the system has been successfully installed’ p.6.
Appendix B, Document 28: BRIEFING FROM HM TREASURY FOR DSS SECRETARY OF STATE:

‘BA/POCL AUTOMATION’ 18 November 1998

An eight-page document from the office of the Chief Secretary to the Treasury to the Principal Private Secretary of the DSS Secretary of State, Alistair Darling and marked ‘extremely sensitive’, recorded the inter-Ministerial meeting of the previous day. These minutes reveal how close the project came to termination. The letter was copied to: the Private Secretary of the Prime Minister, Tony Blair; the PPS of the Chancellor of the Duchy of Lancaster, Jack Cunningham; the PPS of the Minister of State at the Cabinet Office, Lord Falconer; the APS of DTI Minister of State, Ian McCartney; the PS of Cabinet Secretary and Head of the Home Civil Service, Sir Richard Wilson and Geoff Mulgan of the No 10 Policy Unit. The letter is quoted in full:

BA/POCL AUTOMATION

‘The contents of this letter are extremely sensitive, and should be shown only to those officials with a strict need to know.

The Chief Secretary met your Secretary of State, the Chancellor of the Duchy of Lancaster (Jack Cunningham), the Minister of State at the Cabinet Office (Lord Falconer), and the Minister of State at the DTI (Ian McCartney) on 17 November. Adam Sharples and Sarah Mullen (both HM Treasury) and Geoff Mulgan (Policy Unit) were also present, as were Private Secretaries (David North, Geoff Moore, you and me).

Sarah Mullen presented the Ministers with a situation report and possible options (a copy of the handout is enclosed). She said that although ICL’s current offer was clearly unacceptable, the important question was whether we should terminate now or give ICL a further time to meet our concerns.

The Minister of State at the Cabinet Office opened the discussion by saying it was still unclear to him that ICL had actually moved. For example, had they exposed themselves to further risk? Had they offered to put in more money? Or were they expecting the public sector to underwrite the costs of third party financing by passing on the costs to us? Your Secretary of State also asked whether, in effect, the Government was not only being asked to underwrite both the existing £200 million of loans provided by Fujitsu to ICL but also the further £280 million of third-party financing they needed to continue?

Adam Sharples replied that whilst ICL had accepted a negative NPV on the expected revenues from the project and some sharing of profits with POCL on additional business, it was clear that they
were expecting the public sector to underwrite a significant proportion of the financing for the deal. This was entirely unacceptable. However, the big question was whether ICL had shown sufficient movement to warrant a further time-limited period of discussion.

The Chief Secretary pointed out that ICL had actually failed to raise non-resource financing three years ago. He also said that in reaching a decision on the way forward it was important that the public sector was, and was seen to be, reasonable and that the Government could satisfy the PAC that it had done everything it could to secure an agreement that was value for money in commercial terms for the public sector. Although he did not think ICL could do it, he believed this meant giving ICL another short period to come up with an acceptable solution in terms of vfm and transferring risk back to ICL.

Your Secretary of State said that other aspects of ICL’s current proposal concerned him. For example, ICL were now expecting him to agree to the project and roll-out of the system with no live trial. This was unacceptable because it transferred significant risk back onto the public sector. Both the Chief Secretary and the Chancellor of the Duchy of Lancaster agreed that this was unacceptable.

Continuing, your Secretary of State said that by agreeing to further negotiations, he was concerned that the Government may have lost the initiative they had had in the Summer. If it was decided to continue negotiations and then subsequently terminated the contract, it would be more difficult to argue that this was on the basis of ICL failure to perform as identified in November 1997. The Minister of State at the Cabinet Office agreed that this was a possibility.

The Minister of State at the DTI said he was looking for two action points from the meeting. The first, was another period of negotiation to see whether ICL, and their shareholder Fujitsu, were willing to move further to underwrite the financing gap. His preference would be to make it clear to ICL that the Government was serious in seeking a commercially acceptable solution in specific areas otherwise it would pull the plug. He thought a 14 or 21 day time-limit for discussions would make this point. Second, he wanted work to start on a clear exit strategy if negotiation failed. It was important that the Government could move quickly if the next stage of negotiations failed.

The Minister of State at the Cabinet Office did not think we should be too specific about the areas where we wanted ICL to move as this could be interpreted as is trying to meet in the middle ground. In his view, we should just say that the public sector was not moving from the already generous revised offer set out by Graham Corbett on 12 October.
Your Secretary of State asked why we had chosen the end-date of 16 December for revised negotiations. He saw some problems with this. Not only did it continue negotiations for another four weeks, but also run into the Christmas period. This could make collective decision making difficult after 16 December. If any extension were to be granted, he would be unwilling for it to go beyond a clear cut-off of 9 December. The Chief Secretary, the Chancellor of the Duchy of Lancaster and the Minister of State at the Cabinet Office agreed with your Secretary of State and were happy with a revised deadline of 9 December.

The Chancellor of the Duchy of Lancaster said that he could agree with the suggested way ahead, using the conditions set out by the Treasury (see the last slide of the handout) subject to one change and one clarification. On the change, he thought we should delete the bracketed clause in the fourth tiret of the handout. In his view, the public sector had moved far enough and it was simply a question of whether ICL were prepared to move to us. The Minister of State at the Cabinet Office agreed. On the clarification, the Chancellor of the Duchy of Lancaster wondered why POCL were now being asked to lead the negotiations.

Adam Sharples said that this was the key to restructuring the deal in a simpler form. A bilateral discussion would draw a line under BA’s future financial exposure and make clear that the commercial risk would, in future, be borne by ICL and POCL. From then on, the BA would become a “customer” of the post office and their role would centre on discussions of risk of delivery.

The Chancellor of the Duchy of Lancaster thought that this could increase the risk of further delay to the negotiation. His strong preference would be for the Government to have an agreed position and that one Minister - in his view, the Chief Secretary - should make it clear to ICL that a line had been drawn and that unless they could meet the revised position set out by Corbett, the project would be terminated. However the Minister of State at the DTI said that there would need to be some discussion between the public sector and ICL to discuss other aspects of a deal not within the Corbett proposal such as acceptance testing and that POCL would be best placed to respond to ICL’s proposals (but first clearing their lines with BA).

The Minister of State at the DTI said that we should inform Fujitsu that we were serious and, if so, [sic] and raised the question of how we should do it. He believed that we should not leave this to ICL because Fujitsu were such a major player in other parts of British industry and it was important that they knew where Ministers were coming from.
Geoff Mulgan agreed. He thought it vital that Fujitsu were aware of our seriousness and, if it was agreed, termination of the contract did not come as a surprise. It was agreed by all Ministers that a senior DTI official (Alastair Macdonald) should tell Fujitsu that the Government were serious in terminating the contract if ICL could not meet the public sector’s requirements.

Your Secretary of State said that before a final decision was made, it was important to realise that there were two separate issues which needed to be considered and addressed: should we try to salvage the contract and what was the Government’s overall objective for the Post Office? Both were inextricably linked, but the former was the most immediate and this was where the two departments differed for quite understandable reasons. His preference would be not to continue, but he would agree to a further period of negotiation, provided it was clear that he would not sign up to something that was unacceptable to the BA. On the latter question, his own view was that the Government needed to address the issue immediately as they would be asked whatever happened next. If it was decided to terminate the contract, the issue of maintaining the rural post office network in its present form would arise. Whereas, if the contract continued in some agreeable format, the Government would still need to be able to answer the question of what would happen in 2007 when the Post Office’s major customer - the BA - moved over to compulsory ACT. The Chief Secretary and the Chancellor of the Duchy of Lancaster agreed.

The Minister of State at the DTI thought that this was difficult and that the two issues could and should be separated. It was important that consideration on the viability of this project did not cut across the wider Post Office Review which had now been completed and was due to be submitted to the Prime Minister in the near future. In his view, we should focus on the commercial case for continuing with the project.

Summing up, the Chief Secretary said he would circulate a draft letter to Keith Todd within the next day which made clear:

- that ICL’s commercial proposals and proposed risk transfer were totally unacceptable;
- but that the Government would give ICL a final period to respond to show it was prepared to make a last effort to salvage the contract, provided ICL could secure adequate finance to take forward the project without transferring the risk back to the public sector, and moved to meet the public sector position set out by Graham Corbett on 12 October;
- this final stage would have to be agreed by 9 December. If not, then discussions would move quickly to an endgame; and

- all discussions should continue to be conducted through officials.

Continuing, the Chief Secretary said that, after this letter had been sent, a senior HMT official should express the Government’s seriousness about termination if ICL could not meet our position. In addition, a senior DTI official (Alastair Macdonald) would talk to Fujitsu to emphasise [sic] the gravity of the situation. He also asked if officials of the official working group could continue to work up options 2 and 3 over the next few weeks. He would maintain a close interest in progress on this issue and would want weekly reports sent to him. It was essential that Ministers were in a position to implement the fallback options if an agreement with ICL on option 1 could not be reached. It was also clear that, in the event of termination, an agreed line on the alternative automation strategy for post office counters and the future of the rural post office network was essential.

I am copying this letter to Jeremy Haywood (PS/Prime Minister), David North (PPS/Chancellor of the Duchy of Lancaster - Jack Cunningham), Mark Langdale (PPS/Minister of State at the Cabinet Office - Lord Falconer), Geoff Moore (APS/Minister of State at the DTI - Ian McCartney) and to Sebastian Wood (PS/Sir Richard Wilson) and Geoff Mulgan (No 10 Policy Unit’).

The letter was signed by Paul Williams, Assistant Private Secretary, Office of the Chief Secretary to the Treasury.

A two-page briefing from Sarah Graham, PFD Sp Project, to DSS Permanent Secretary, Ann Botwell, and BA CE, Peter Mathison concerned ‘ACCOUNTING OFFICER ISSUES’ and cited its issue as ‘Potential need for an AO Direction, if Ministers decide to continue with the project, including the Benefit Payment Card element of it’ and noted: ‘Timing: Current: to inform ongoing discussions between Ministers, and the projected paper for the Prime Minister, on the case for continuation with the project in full’.

Graham reported the advice she had sought from the NAO, who in turn had consulted the Comptroller and Auditor General, regarding whether or not a Ministerial Statement to the House might avoid the need for a Ministerial Direction. Accountability issues were said to be under examination by the Performance and Innovation Unit. In the spirit of ‘joined-up’ Government it was thought there was no established precedent for the question around whether wider Government policy considerations might over-rule those of a Departmental Accounting Officer.

‘Against this background, I have started on briefing Secretary of State [Alistair Darling] that the Accounting Officer(s) concerned in DSS will need a formal direction to proceed, in the event that Ministers jointly decide to continue with the project, including the Benefit Payment Card...I have also noted the Permanent Secretary’s [Ann Botwell] specific request to ensure that we cover this point in any note that goes forward to the Prime Minister on the future of the project’ p.2.
APPENDIX C

EXTRACTS FROM NATIONAL ARCHIVE DOSSIER JB 3/22:

‘BENEFITS AGENCY AND POST OFFICE COUNTERS LIMITED AUTOMATION PROJECT MINUTES OF MEETINGS, BRIEFING PAPERS AND COPIES OF REPORTS INTO THE VIABILITY OF THE PROJECT’

11 NOVEMBER 1998 – 25 MAY 1999

Documents in this dossier cover the most intense period of negotiation and decision-making which culminated in the re-structuring of Project Horizon in May 1999. They reveal significant conflicts of interest between Ministers, POCL, BA and ICL/Fujitsu and an impasse which ultimately necessitated the personal intervention of the Prime Minister, Tony Blair.


A five-page document from Sarah Graham, PFD Sp Proj, offered an ‘Update on current position’ and briefed on ‘Work in hand/planned’. It summarised:

‘At the Ministerial meeting on Tuesday evening, 17 November [1998], Ministers decided that:
- the public sector could not agree to anything remotely resembling the proposals put forward by ICL with their letter of 9 November; in particular the gap between what ICL were willing to offer in funding terms and the public sector offer (ie. what lay on the table at the end of the Corbett discussions) was far too far apart; and the suggested risk transfer was not acceptable, particularly given ICL’s failure to perform;
- nonetheless, in order to satisfy the PAC that the Government has done everything to secure an optimum deal around this project before considering alternatives, Government should give ICL one last chance to make a significant move;
- on this basis ICL should be given until 9 December to come up with a new deal;
- over the same period, officials (under Stephen Byer’s direct oversight) should ensure there was a viable alternative way forward and agreed exit strategy/arrangements in place for 9 December, should the discussions fail around a way forward on the project “as is”’ p.1.
Under the heading ‘Where are we now?’ it was noted that the Chief Secretary to the Treasury, Stephen Byers, had deputed a Treasury official, Adrain Montague, to ensure that the negotiations process ‘was clarified and agreed by Ministers’. ‘In addition, Steve Robson will see ICL initially to explain the process envisaged…’ p.3.

‘...the Inter-Departmental Working Group of officials has now been ‘re-badged’ (for the third time in its long life!) into the Horizon Progress Tracking Group’ p.3.

Graham gave more detail of the Group:

‘The Group had its first meeting on Friday 20 November [1998]. Its remit is drawn from the Chief Secretary, who has undertaken at the Ministerial meeting to ensure that by 9 December, a feasible alternative option and its presentation had been worked up as fully as possible, along with a strategy/arrangements for an end game’ p.3.

To fulfil its remit the Group undertook to:

- ‘produce a letter from the Chief Secretary to Keith Todd initiating an “end game”, should there be no agreed way forward by 9 December on Option 1 (or earlier): this would be taken forward by the Treasury Legal Advisor (Robert Ricks) with a group of interested lawyers and administrators’ p.4.

- ‘presentation of a decision around cancelling the project: (building on Annex G to the Inter-Departmental Working Group Update Report circulated on 16 November under cover of a submission of that date from me to the Secretary of State); and bearing in mind the £££ value of what the Government says about the project’s failure, in any legal settlement with ICL...’ p.4.

‘The next meeting of the Horizon Progress Tracking Group will be at the end of this week’ p.5.
Appendix C, Document 2: LETTER TO THE TREASURY CHIEF SECRETARY FROM ICL 25 November 1998

A two page letter from ICL CE, Keith Todd, to Chief Secretary to the Treasury, Stephen Byers, urged for agreement on the restructuring of the Horizon contract by 9 December 1998. It concluded:

‘I look forward to hearing from your official representative. Time is short and every day that passes without a resolution adds to the cost and the risk inherent in this project’ p.2.

A three-page document from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, offered an updated ‘Briefing for the re-arranged presentation on an alternative option, should the project fail’. As background, Graham noted:

‘The presentation scheduled for last Thursday had to be cancelled because DTI Ministers were unable to attend. However, the presentation was heard by Chief Secretary who summed up by saying...his personal view was that:

- the Horizon programme was the wrong decision in the first place’ p.1.

‘However, Treasury officials’ subsequent advice was that CST would still prefer to find a way of continuing the project, if at all possible’ p.1.

Under ‘Other Issues’:

‘Discussions with ICL: at the time of writing there have been several meetings between Adrian Montague, the public sector and ICL (since Stephen Byers’ letter giving them one last chance to come up with improved offer on continuing the project). At these meetings, the public sector have been clarifying their views on the acceptance and funding proposals put forward by ICL so far, to ensure that ICL understand our position and are under no illusions about what might/might not be acceptable to us. There has also been a meeting between ICL and POCL about funding. So far no further proposal has been received from ICL but it appears that: a) they are still looking for a relaxation from the public sector approach to “acceptance” which we cannot responsibly give; and b) Fujitsu do not appear to be prepared to provide backing should the project fail at some later date for whatever reason. We understand that Keith Todd is currently in Tokyo...’ p.3.

‘Fujitsu involvement: you will be aware that Fujitsu have approached the British ambassador in Tokyo, and have written to him the “standard” ICL letter - claiming they are “misunderstood”; that the delays are the public sectors fault; that DSS/BA are the true culprits, because they have never wanted the project anyway; and have added a veiled threat about future wariness of backing PFI projects. The Government advice to the Ambassador is to say nothing, and avoid getting drawn into what could become negotiations...’ p.3.
‘Legal Issues: there is continuing debate between POCL legal advisors and DSS/BA legal advisors about the best way to terminate the project, should Ministers decide jointly to call a halt following this latest round of discussions with ICL. Our advice allows us to terminate immediately and thus stop spending money on the project as soon as possible; whereas POCL advice involves a much more risky strategy whereby DSS/BA (POCL) may well get drawn into significant further expenditure on the project before termination, which could not be justified. As a result the two different views are currently referred to the Law Officers for their advice. It is important that the Law Office understand the Ministerial priorities involved, and I understand the HMT Legal Advisor has alerted Lord Falconer’.
Appendix C, Document 4: LETTER TO THE TREASURY CHIEF SECRETARY FROM ICL 9 December 1998

ICL had submitted proposals for revised contractual terms on 9 November 1998, prompting a letter of response from the Chief Secretary to the Treasury, Stephen Byers, of 20 November in which he urged the contracting parties to arrive at Heads of Agreement. This four-page Without Prejudice letter of from ICL’s Chief Executive, Keith Todd, is the reply to Byers in which it was argued: ‘...there have been no definitive negotiations given the prohibition imposed by Ministers. This has made it impossible to reach Heads of Agreement’ p.1. Todd went on to outline ICL’s final offer:

‘The contents of this letter have been discussed with Fujitsu and the Chairman of the ICL plc Board. Both support my proposal but I must stress that it should be regarded as ICL’s best possible offer. I have no hope of persuading my shareholder or my Board to give me further room to move’ p.1.

On Fujitsu’s financial backing:

‘First ICL, with the support of Fujitsu, is prepared to fund the whole project. This represents an investment of £600m’ p.1.

‘We have given your officials papers explaining ICL’s revised proposals for Funding and Acceptance’ p.3.

Under the heading ‘Acceptance’:

‘Following detailed discussions, progress has been made on Acceptance. The parties have agreed that Acceptance will be completed prior to the start of National Roll-Out and is not linked to NR2+.

ICL considers that the relevant guarantees on volumes of transactions should be differed at the start of the National Roll-Out. This has been accepted by POCL, for its part, but not by BA.

There is agreement that an Independent Expert will be appointed to assist in the rapid resolution of acceptance disputes.

An issue remains about the exact powers of the Expert. ICL considers that the Expert should be empowered to make decisions which are binding on the parties, and should be implemented at once to avoid programme delay. Any party who did not wish to accept the decision should be able to reopen it subsequently through resort to arbitration, legal proceedings or subsequent agreement. This is already common practice in the traditional complex infrastructure projects...’ p.3.
‘Finally, an issue remains in relation to the number of allowable incidents at Acceptance. ICL asks that this is resolvable through a technical working group, but considers that the Expert, acting with the persons described above, resolve any disputes’ p.4.

A two-page letter from DTI Secretary of State, Peter Mandelson, to the Chief Secretary to the Treasury, Stephen Byers, justified his preference for continuing Horizon in its entirety in the context of the Government’s broader policy agenda:

‘I was disappointed that our meeting yesterday was again unable to reach a clear decision on the way forward for the BA/POCL automation project. The continued uncertainty is becoming increasingly damaging for all the parties concerned. As I see it, the choice is a straightforward one:

- to continue with Horizon, we will need to secure heads of agreement. Within two to three years Horizon will have equipped the Post Office with a modern IT system, capable not only of handling the benefit payment card, but also front-end banking facilities in conjunction with the commercial banks. This will help us to implement our social banking policies, and to bring modern electronic government into communities which other organisations simply do not reach.

- or we can take a major step into the unknown, delaying the modernisation of the Post Office Counters network...The damage to the confidence of the sub-postmasters and the knock-on effect of network closures, will produce political fall-out...Our relations with Fujitsu, a major inward investor into the UK over the past decade, would be severely damaged, as would be the credibility of PFI’ p.1.

‘I believe the only sensible choice is to proceed with the Horizon project. It is the way forward which offers the least commercial and technological risk. We still need further clarification of certain elements of the ICL package and there is still some scope through further discussions with the company to secure improvements to elements that are of key importance to us, particularly acceptance procedures. Adrian Montague should pursue these aspects urgently’ p.2.

‘Ian McCartney and I stand ready to contribute in any way we can. I regard it as one of my highest priorities to put in place the automated system that will provide the unique channel for delivering our ambitions on social banking and modern government’ p.2.

Mandelson copied his letter to the Prime Minister, Tony Blair; DSS Secretary of State, Alistair Darling; Chancellor of the Duchy of Lancaster, Jack Cunningham and the Minister of State at the Cabinet Office, Lord Falconer.
Appendix C, Document 6: LETTER FOR THE TREASURY CHIEF SECRETARY FROM THE DSS


A three-page letter from DSS Secretary of State, Alistair Darling, to Chief Secretary to the Treasury, Stephen Byers, was sent in preparation for a pending Ministerial meeting. It read:

‘Keith Todd [ICL CE] has written to me with a copy of the letter he sent you on Wednesday setting out ICL’s final offer in response to your letter of 20 November. I understand that this letter constitutes the essential components of the proposed offer, on which ICL are not prepared to move further; and that this letter is underpinned by 3 supporting papers on acceptance testing, funding and commercial proposals (ie. pricing etc) on which they are prepared to negotiate the detail.

In preparation for our meeting on Monday, you and colleagues may find it helpful to have my initial reactions to the proposals as I understand them.

The main element of the ICL offer which appears to be new, is the Fujitsu “support” for the £600 million that may be needed to fund the project over its life. If this is to be of value, Fujitsu must be prepared to give a firm guarantee that can be legally enforceable. Anything less would leave the Government very vulnerable should the project fail for whatever reason. I would certainly want to be clear about the nature of the Fujitsu commitment when making our decision on Monday. We would also need to establish more clearly what the implications of this support would be for the level of risk now being accepted by ICL under this proposal’ p.1.

‘On the specific conditions that the proposals seem to involve, I could not agree to the proposed approach to “acceptance testing”. ICL persist in asking for acceptance on the basis of a laboratory test of the systems, as opposed to a live trial - particularly important when for our customers it is the service that is the crucial end product. In fact, the approach being suggested by ICL is almost exactly that followed under the NIRS2 project, where the system was fully accepted in a test environment, but did not work in the field. I am not prepared to sign up to another NIRS2 experience. In any event, when we are talking about a system which is affecting around 15 million people, many of whom are dependent on timely and accurate payment of their benefits for their livelihoods, the political risks are huge if the system is not tested properly before hand to make sure it works. This is a risk I am not prepared to take’ p.2.

‘In discussing on Monday how best to proceed and deciding our route forward, it is worth noting that the project timetable has slipped yet again. The first milestone to arrive since the timetable was
last reviewed (as recently as October, in the course of Corbett discussions) is just about to be missed. There will be knock-on effects on the overall delay to the project of State least 2-3 months, but in practice likely more, given that by then we begin to bump up against the Millennium, with the IT priorities that involves. This does not bode well for the grasp that ICL have of a realistic timetable’ p.2.

‘Finally, we should remind ourselves of how much this project has already cost Government, and the total bill with which we will be faced if we accept the ICL proposals. My Department alone has estimated its losses to date at more than £300 million; and in agreeing to consider Option 1, as proposed by Corbett, we are in effect foregoing £800 million savings in the welfare administration bill we would otherwise have achieved over the next 10 years’ p.3.

The ICL proposals outlined to the Chief Secretary to the Treasury on 9 December 1998 (Appendix C, document 4, above) provoked a rigorous response from BA Chief Executive, Peter Mathison. In this three page briefing note to DSS Secretary of State, Alistair Darling, and copied to the DSS Permanent Secretary, Ann Botwell, Mathison was strident in his criticism:

‘You are shortly to meet with Ministerial colleagues to reach a decision on whether to cancel or continue with this contract...’ p.1.

‘As the senior accounting official for the contracts that the DSS/BA have with ICL/ Pathway and POCL I have a duty to ensure you are aware of my views’ p.1.

Mathison urged for the Ministerial decision to be made in the light of the original contract (amended February 1997), against which:

‘Pathway have failed miserably to meet the date for live trials and continue (even as I write) to fail to meet their own revised dates for when they will achieve this fundamental milestone.

The offer that the two public sector parties put on the table (the Corbett agreement) endorsed by Ministers gave ICL/Pathway £116m additional income at an NPV of 8.5% through extending the DSS contract by 3 years and the POCL contract by 5 years. In cash terms this three year extension cost DSS an additional £250m in payments to ICL and an additional £750m in payments to POCL.

The delay in achieving national rollout also means the DSS will lose £300 million in fraud savings and must continue to fund a project with a current running cost of over £10m per month.

We have an extremely strong legal position at this moment, with regard to ICL being at fault. I have protected the Governments position by taking the appropriate legal steps. This means THE starting position should be the Public Sector could sue ICL for £200m WE SHOULD ENSURE THAT THIS STARTING POSITION IS CLEARLY UNDERSTOOD BY YOUR COLLEAGUES [emphasis as in original] as any consideration of moving away from the current position might not appear to be as considerable as it really is.

Turning to the ICL “offer”. I must admit that as a professional accountant, with experience of contract commercial terms, I admire how they have re-presented what is essentially the same package as though they are giving a lot away...’ p.1-2
‘There are conditions which I find totally unacceptable:-

Acceptance - ahead of the proven capability of the end to end system to make secure payments and ensure reliable delivery for all benefit payments. We surely have learned a lesson from NIRS2. The reason we are in deep trouble on NIRS2 is because we agreed acceptance on the exact basis ICL now want to change to. This risk cannot be covered by financial remedies - it is the DSS who carry the risk of not being able to make payments to any of the 15 million members of the public each week.

Independent Expert - for the same reason as above, this is not acceptable. I have used this method before on a different type of contract. In this case we are talking about a secure delivery system not about who bears the cost of development and attribution of risk. In addition, as Accounting Officer I could not abdicate my responsibilities for ensuring that service delivery to 15 million people and protection of £1.5 billion a week of taxpayers money is secure and safe’ p.2.

‘In overall terms, I cannot see any business case for continuing. The project continues to incur delays through Pathway’s inability to deliver the next release’ p.2.

‘Finally, I am acutely conscious that the Auditor General has recently written to the Chairman of the Public Accounts Committee and that the NAO are on standby to investigate. I do not see how I could justify a decision to continue with this project.

I am sorry for the length of this note but as you are aware, this is a decision that will have repercussions for the next 10 years and possibly beyond’ p.3.
Appendix C, Document 8: BRIEFING FOR THE DSS SECRETARY OF STATE FROM PFD SP PROJ:
‘BA/POCL AUTOMATION PROJECT: TOWARDS AN INTER-MINISTERIAL DECISION’ 14 December 1998

An eleven-page briefing from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, briefed for the Inter-Ministerial meeting of later that day. Graham began:

‘You have already seen and considered the latest ICL proposals of 9 December constituting their “best and final” offer. As a result you wrote to colleagues on 11 December making the following key points:

- the commercial proposals made no material change to the November 9 proposal;
- acceptance cannot be authorised until there has been a successful live trial of they [sic] system and final responsibility for acceptance cannot be delegated to an Expert;
- Fujitsu’s support of the project must include a legally enforceable performance guarantee.

We now know that POCL, supported by DTI, recommended acceptance of the offer and continuation of the project on that basis’ p.1.

Graham originally attached four Annexes to the briefing of which only one, Annex A, is included in JB3/22. Graham described Annex A as an “aide-memoire” with key points Darling may wish to make known to colleagues, arguing the case against the ICL offer of 9 December and against the continuation of the project.

‘On the strength of your earlier authorization, I have put this “aide-memoire” to Lord Falconer [Minister of State at the Cabinet Office] and Geoff Mulgan at No.10. Unfortunately, Lord Falconer is now unable to attend the inter-Ministerial meeting; but he will be trying to speak to Dr Cunningham [Chancellor of the Duchy of Lancaster] beforehand, and brief him on the basis of the “aide-memoire”.

I understand that Lord Falconer also spoke to CST [Chief Secretary to the Treasury, Stephen Byers] over the weekend, urging the case for Option 2 (preserving the project “in name”; but replacing the BPC element to a banking facility). On the basis of that conversation he has put round a note to you and colleagues earlier today’ p.2.

‘We would advise, once again, that your objective for the meeting should be to persuade your colleagues that the time has come to call a halt to the project; that enough is enough; and that Government is being strung out by ICL until a position is reached when it will be more difficult and
more embarrassing for a halt to be called to the project. The strength of the Government’s legal position in relation to ICL, when we come to a formal negotiation (which we will do under any option), is beginning to look significantly more vulnerable the longer a decision is deferred: Ministers also told ICL that they could expect a decision in July, following the first Treasury Review; it is now December; a further period of discussions will take us into mid-January, given the Christmas holiday. Ministers have known about delays to the project for 15 months, during which period they have increased from from 1 to nearly 3 years. The latest position is that even those milestones that were agreed as recently as October this year, in the course of the thorough Corbett review of the project timetable, have now slipped.

What is it that makes this project so precious to continue? The main reasons appear to be:

- to protect a national PO network;
- to sustain ICL as a player in UK plc.

There are better ways of achieving these objectives than continuing with this expensive, complex and risky project...’ p.3.

‘From the presentation that officials gave to Ministers last week, it is accepted that there is a doable alternative over which Ministers could have much closer control, but in terms of formulating the policy objectives for Post Offices and Benefits Agency which would inform its design; and in terms of improving the management arrangements over those currently in place. The latest VFM assessment also tips the balance away from continuation towards an alternative.

We suggest your line should follow a two-pronged approach:

- reminding colleagues of the riskiness about proceeding; the costs involved; and the dubious outcomes (you may wish to have to hand the attached “aide-memoire” on these issues, prepared for your last inter-Ministerial meeting - Annex B)’ p.3. Annex B, C and D are missing.

‘HMT have pulled together an overview paper which seeks to identify the key issues you and your colleagues will need to address at your meeting on Monday, and providing an overview assessment of the ICL proposals, along with the pros and cons of continuing with the project or calling a halt’ p.5.

‘Lord Falconer favours an option which drops the Benefit Payment Card element of the project, and offers ICL the opportunity to work with the Government and POCL to install banking facilities in
parallel with a move to ACT-based payment of benefits...We assume that DTI’s endorsement of the 9 December proposal comes with Peter Mandelson’s approval: he is thought to be particularly concerned about the business impact on ICL/UK plc of a decision to halt the project. Ian McCartney has now written to CST [Chief Secretary to the Treasury, Stephen Byers] (copying in the Prime Minister). I am hoping to get an up-to-date view from No. 10 in time for our briefing meeting with you this afternoon’ p.5.

In summary Graham noted:

‘We may be in a “last-ditch” situation at the inter-Ministerial meeting this afternoon’ p6, and advised:

‘As a fall-back position, you will wish to be clear about your conditions for continuation:

- acceptance of the project must be linked to a full live trial of the system
- the additional funding DSS/BA will require must be provided by HMT; with a commitment to meet any future costs that may arise from delays’ p.6.

ANNEX A:

As above, Graham referred to this annex as an ‘aide-memoire’ and reported forwarding it to Lord Falconer, Minister of State at the Cabinet Office, and to Geoff Mulgan at No.10. According to Graham, Lord Falconer intended to brief Dr Cunningham, Chancellor of the Duchy of Lancaster, on the basis of this ‘aide-memoire’.

‘Remember why we’re here: this project has a history of serious slippage’ p.7.

‘suggest that starting point should be:

- write off the past ie. ICL must accept the losses to date, due to their failure (line taken by Corbett)’ p.7.

‘... now that we know more about ICL’s funding position on the project (not known prior to Corbett) - the losses it already carries and the estimated future investment it needs, requiring a budget of £600 million over the life of the project - it may simply be the case that there is not a commercially viable way forward on this project acceptable to Government...’ p.7.

‘If we are to continue with the project, DSS will be contractually committed to pay POCL and ICL £4 billion over the next 10 years. Cannot see what Government are buying for this money. The costings
of continuation shows that POCL will in 10 years time be losing more money than if we did nothing. The NAO will be standing by to audit the project. I cannot see how we can defend a decision to continue to the PAC’ p.8.

‘specific proposals around “project acceptance” - must be refused: what ICL want is precisely why we are in trouble on NIRS2; should be no reason for them anyway, now that Fujitsu are guaranteeing the funding (9 November requests for early “acceptance” based on need to get limited-resource funding from Banks, without Fujitsu backing).’ p.8.

Under the heading ‘Let’s step back and look at the broader picture’:

‘We are going on with a mis-conceived project inherited from the last Government…’ p.9

‘Decision to continue with the project assumes that, however much continuation costs, it is “safe”. Is this true? Look at ICL’s performance since last November [1997] when they were put in breach by the public sector parties. You would think they would be making every effort to prove how good they are. If they are, their performance could hardly be convincing! The delay has increased from 1 year to nearly 3 years in their estimates of the programme over this period. And the latest delay, even since Corbett (October), tells its own story. If they were not trying to make their best effort, what sort of partner is this for Government? Either way there is every reason to lack confidence in the successful delivery of this project. There are too many bits to be tied up together: the Benefit Payment Card end with the benefit payment management systems; the Post Office systems with the Post Office management internal IT system; there must be at least a case for simplification, if nothing else.

We shall be judged as a Government on what we do with this project…” p.10

‘who is going to make the announcement about continuation? We need to present a joint view, but I would personally find it very difficult if you were expecting me to lead on the statement’ p.10.

‘Enough is enough. ICL is leading us by the nose and gradually edging us into a position where we are accepting a level of funding which condones their failure…” p.11.

Recommending drawing a line under the Benefits Payment Card, Graham concluded ‘if colleagues cannot agree that approach today, make certain that everyone understands that DSS/BA are going to give no more money/take more risk than offered under Corbett: anything more on either count must come from HMT/DTI/POCL’.

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A one-page letter from the Minister of State at the Cabinet Office, Lord Falconer, to the Chief Secretary to the Treasury, Stephen Byers, indicated his preferred way forward:

‘The benefit card element of Horizon has a limited useful life and has been the chief cause of the delays and difficulties in the project thus far. It seems to me that we should be seeking means to provide ICL with an incentive to continue with Horizon but with a contract more orientated to moving as swiftly as possible to fully automated banking’.

The letter was copied to: the Chancellor of the Duchy of Lancaster, Jack Cunningham; DSS Secretary of State, Alistair Darling; DTI Secretary of State, Peter Mandelson; and DTI Minister of State, Ian McCartney.

A three-page briefing from Sarah, PFD Sp Proj, to DSS Permanent Secretary, Ann Botwell, was copied to BA CE, Peter Mathison. Its purpose: ‘Update on an Inter-Ministerial meeting held last night, Monday 14 December’.

‘The meeting was arranged to decide whether or not to go forward with the project on the basis of the ICL proposals submitted on 9 December; or whether to call a halt, on grounds of ICL’s failure to deliver.

There was an almost full house of Ministers present: CST [Stephen Byers] in the Chair, Peter Mandelson, Ian McCartney, Jack Cunningham, Alistair Darling; officials were Adrian Montague (Head of the HMT PFI task force), there to report on the discussions with ICL he has been spearheading; Sarah Mullen, HMT, who has been doing the work on pulling together the Horizon Progress Tracking Group Report; David Sibbick, Director of Posts from DTI; CST’s and Mandelson’s Private Secretaries; and me for DSS. Geoff Mulgan from No.10 Policy Unit was also present.

Unfortunately Lord Falconer was unable to attend.

The outcome was:

- Ministers could not reach a consensus on the route forward; and it was therefore decided to refer the issue to the Prime Minister;
- the line-up was as follows:
  - our SoS and Dr Cunningham firmly opposed accepting the “deal”;
  - Peter Mandelson (and Ian McCartney) favoured acceptance;
  - CST was against accepting the “deal” as currently proposed, but did not rule out finding a way forward on Option 1.
  - before referring the options to the Prime Minister, Adrian Montague should seek to clarify the position on:
  - ICL’s position on the “acceptance” proposals, which in their current form were unacceptable to DSS/BA - and there was strong support from Dr Cunningham (and to a lesser extent from CST) for the DSS position’ p.1-2.
The Chief Secretary is planning to put forward a letter to the Prime Minister this Thursday, 17 December; we will be involved in the drafting; but I anticipate that our Secretary of State [Alistair Darling] will wish to put forward his own letter to inform the Prime Minister’s thinking’ p.2.

‘Dr Cunningham was strongly supportive of the DSS/BA position, certainly in terms of finding the latest proposal from ICL unacceptable; he summarised at one point saying that:

“...it would be crazy to accept a system without full testing”’ p.2.

‘Geoff Mulgan from No.10 Policy Unit gave the Prime Minister’s initial view (which he had shared with me earlier) that, given his worries about the effect on ICL/Fujitsu and the Post Office network, he was inclined to continue with the project, but wished there was a solution that stopped us being tied in to the Benefit Payment Card (BPC) so closely and which might move us to an ACT-based payment method earlier; Dr Cunningham pointed out that this was in effect wishful thinking: the whole point about deciding to go ahead with the project is that we will be tied in to the BPC for the next decade - that is what a deal with ICL on Option 1 would be about’ p.2.

‘I understand that Lord Falconer had read the Prime Minister’s views to mean support for Option 2 (which he supports). Lord Falconer cannot understand why HMT officials’ advice is that ICL will not be interested in Option 2 until Option 1 is off the table (everyone is clear why POCL will not be willing to engage in serious consideration of an alternative option until there is no prospect of continuation with the Card/associated guaranteed levels of funding from DSS/BA).

CST has a call out to Lord Falconer for late this afternoon: it appears CST may be open to persuasion in favour of calling a halt. Lord Falconer is intending to speak to Peter Mandelson this afternoon. If he cannot broker agreement he will probably write himself to the Prime Minister setting out his views’ p.3.

‘I will attempt to keep you updated; it has been difficult recently because much of the activity has been a mixture of nebulous and fast moving!’ p.3.
Appendix C, Document 11: LETTER TO THE TREASURY CHIEF SECRETARY FROM THE DSS
SECRETARY OF STATE 16 December 1998

A four-page letter from DSS Secretary of State, Alistair Darling, to Chief Secretary to the Treasury, Stephen Byers, argued against continuation of the BPC and expressed reservations around proposals for revised acceptance criteria. Referring to the recent inter-Ministerial meeting, he cited areas of mutual agreement which included seeking a solution which ‘helps sustain ICL as a major player in the UK IT sector and ensure that our good relations with Fujitsu – and the Japanese investment market generally - are maintained’ p.2.

‘DSS Accounting Officers tell me they will need a formal Direction in order to continue with the Benefit Payment Card element of the project: we understand from NAO that to plead wider Government policy interests is unlikely to provide adequate cover for the Accounting Officers, under Parliamentary scrutiny. The Public Accounts Committee in any event has commissioned an NAO VFM enquiry...with the inevitable questioning of the reasons for supporting ICL in the face of its failure...’
p.3.

‘We all agree, I believe, that ICL’s proposals to dilute the “acceptance” criteria for the project must be rejected... Certainly I cannot responsibly accept any dilution in the “acceptance” criteria for the BPC, which would put us at risk ensuring that the service provided by the system will work. If the system fails, it will be I and my Department who will be held accountable by the 15 million people who will receive Card payments - many of whom are vulnerable and dependent on benefits for their livelihoods. I am particularly conscious of the risks around “acceptance” criteria from our recent experience with Anderson Consulting on the system for National Insurance contributions (NIRS 2), where an almost identical approach was adopted to that now proposed by ICL. It is a risk I am not prepared to take on the Benefit Payment Card’ p.4.

The letter was copied to the Prime Minister, Tony Blair; DTI Secretary of State, Peter Mandelson; the Chancellor of the Duchy of Lancaster, Jack Cunningham; DTI Minister of State, Ian McCartney and Minister of State at the Cabinet Office, Lord Falconer.
A six-page briefing note from Sarah Graham, PFD Special Projects, to DSS Secretary of State, Alistair Darling included a draft of the above letter (Appendix C, document 11). The briefing was copied to the DSS Minister of State; DSS Permanent Secretary, Ann Botwell and BA CE, Peter Mathison.

‘Following Monday’s meeting, it was agreed that the resolution of a way forward on the Horizon Project should be put to the Prime Minister for his formal steer. The process being taken forward by the Chief Secretary [Stephen Byers] is:

- preparation of a factual paper setting out the pros and cons of continuation and the alternative(s), to be circulated around Ministers tonight/first thing tomorrow asking them which way they wish to vote;

- a note from CST to the Prime Minister, putting forward the results of that vote, the underpinning factual paper - plus, I assume, the CST’s own views - to go forward to No. 10 later on tomorrow.

In the meantime, I understand there is concern being expressed in some quarters - specifically by Lord Falconer and CST himself - about putting forward this issue to the Prime Minister without some potential solution to offer. I understand that CST, after talking to Lord Falconer yesterday afternoon, and building on the Prime Minister’s initial informal steer to support ICL/Fujitsu, is looking to a solution which re-affirms commitment to the project and to ICL; but seeks to engage with ICL to find an alternative which better meets the Government’s objectives - in other words, Option 2, but re-packaged to give prominence to a re-commitment to ICL/Fujitsu’ p.1-2.

A four-page letter from DSS Secretary of State, Alistair Darling, to Chief Secretary to the Treasury, Stephen Byers, bears a hand-written note: ‘copy of letter - text as issued’. The letter was copied to the Chancellor of the Duchy of Lancaster, Jack Cunningham; Minister of State at the Cabinet Office, Lord Falconer; DTI Secretary of State Peter Mandelson; DTI Minister of State, Ian McCartney and from the No.10 Policy Unit, David Miliband and Geoff Mulgan.

‘I have now seen the recent letter from Keith Todd to you of 18 December, setting out (albeit very briefly) ICL proposals around exploiting the Horizon system in order to support “Better Government” initiatives and help achieve other important objectives - such as achieving substantial progress towards bank accounts for all - in the Government’s policy agenda’ p.1.

Darling laid out the common ground on proposed ways forward and confirmed the mutual objectives which included ‘ensuring that ICL/Fujitsu remain a thriving and productive part of UK plc’. He qualified his agreement, however, with the caveat: ‘I could not sign up to a negotiating strategy which agreed to Option 1. When Ministers last met, we were adamant that the acceptance conditions were just not acceptable; that remains the case.

Your “stabilisation” process is, in fact, complete acceptance of Option 1 unamended. And there is as yet no agreed commitment, even in Government, to any variation on it. I remain reluctant to commit us to a ten year contract for a card that no one - not even ICL - now wants’ p.3.

DTI Minister of State for Competitiveness, Ian McCartney, wrote a two-page letter to the Prime Minister, Tony Blair, which began:

‘I have been seriously concerned at our handling of the decisions on the future of the BA/POCL counters automation project, Horizon. The Christmas break is upon us, yet despite a series of meetings and several rounds of correspondence, a decision remains beyond our grasp.

On Monday, Stephen Byers put forward a suggested compromise that seemed to command a broad measure of support. Certainly we in DTI would have been context to sign up for it. Yesterday Alistair Darling submitted a counter-proposal which essentially revisits an option we had already discarded - namely that of continuing with the Horizon infrastructure whilst dropping the benefits payment card (bpc) and introducing early compulsory ACT. His variation on this already discarded theme appears to be that we should compensate ICL for the £200 million or so that they have spent on developing the bpc by overpaying [emphasis as in original] them something approaching that amount (for there would otherwise seem little attraction for ICL in the proposal) for accelerating the adaptation of the Horizon infrastructure for the delivery of electronic Government’ p.1.

‘We should also be clear that ICL and POCL are already committed to the adaptation of the Horizon infrastructure for electronic Government as a key element in their newly agreed public/private partnership, and ICL have already agreed to commit an additional £78 million to it’ p.1.

‘We simply cannot allow ourselves the luxury of continuing to avoid a decision by tabling each time some new variation on which to commission further work. The continuing delay and uncertainty is already causing serious damage and hardship. The 18,000 subpostmasters, who have collectively sunk £1 billion of their own money in the business, are finding it increasingly difficult to sell their business when they wish to retire or move on. The number of such offices remaining unsold on the market is unusually high. Reinforcing this, the number of net closures within the network (offices which have closed and for which the Post Office has been unable to find replacement subpostmasters) in the seven months since the beginning of April is running at some 50% above the level of previous years. Most of them are those which for social reasons we least want to lose. The General Secretary of the National Federation of Subpostmasters is in no doubt that the largest single factor behind these depressing
figures is the continued uncertainty about the future of the Horizon project and the associated introduction of the bpc.

Our Ambassador in Tokyo, Sir David Wright, has reported that he is coming under increasing pressure from Mr Naruto, Vice Chairman of Fujitsu, ICL’s parent company, for the Government to make its intentions clear. Mr Naruto was asked by my Department to make a special effort to try to rescue the Horizon project by offering legally binding funding and performance guarantees exceeding £600 million. Fujitsu, despite its domestic difficulties, responded promptly and positively, and fails to understand why the British Government cannot now give its answer. If we continue to gratuitously irritate a major inward investor in high-tech industries in the UK in this way, we shall serve only to damage irreparably our own international competitiveness” p.2.

Against this background I very much hope that my colleagues will now feel able to endorse Stephen’s proposal. The longer we delay the greater the very real risk that decisions will increasingly be made for us by default - decisions by individual subpostmasters, and ultimately by ICL themselves” p.2.

McCartney copied his letter to Stephen Byers; to DSS Secretary of State, Alistair Darling; to the Chancellor of the Duchy of Lancaster, Jack Cunningham and to the Minister of State for the Cabinet Office, Lord Falconer. On this day, Stephen Byers left his position as Chief Secretary to the Treasury to take up his new role as Secretary of State for the DTI.

Following dialogue between Lord Falconer, Darling and Byers over Christmas 1998, it was decided that officials from DSS, DTI, POCL, HM Treasury and the Cabinet Office should meet on 11 January to decide a way forward and agree on a “menu of items for discussion” with which to negotiate with ICL and secure the restructured Horizon project. The Prime Minister was copied into their communications.

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Appendix C, Document 15: BRIEFING FOR THE DSS SECRETARY OF STATE FROM PFD SP PROJ:
‘BA/POCL AUTOMATION PROJECT: TOWARDS AN AGREED WAY FORWARD’ 12 January 1999

A three-page briefing from Sarah Graham, PFD Sp Proj to DSS Secretary of State, Alistair Darling, was copied to the Minister of State; DSS Permanent Secretary, Ann Botwell and BA CE, Peter Mathison. Stephen Byers had now been replaced as Chief Secretary to the Treasury by Alan Milburn; Byers becoming Secretary of State for DTI. Graham outlined:

‘...I have had some further discussions with officials at HMT. It appears the Chief Secretary is deliberately planning to take a lower profile role than his predecessor in brokering a way forward: rather than attempting to take a lead in funding a solution, he sees his role more as a facilitator for you and Stephen Byers’ p.1.

‘I have told officials at HMT that I would not see you being able to agree to continuing with the Benefit Payment Card (BPC), without referring the issue to the Prime Minister- an outcome we would prefer to avoid’ p.2.

Under ‘Proposed way forward’:

‘...there may well be a role for the Chief Secretary to play in responding to ICL and providing the Ministerial focus for our dealings with them; alternatively this central role could be assumed by one of the Cabinet Office Ministers, if that is preferred’ p.2.

Under ‘Proposed approach for discussion with colleagues’:

‘- continuing with the project “as is” is not either the safe or speedy option that POCL wish to say it is – it is already three years late; even since the discussions in November the timetable has slipped yet again’ p.2.
Appendix C, Document 16: BRIEFING FOR THE DSS SECRETARY OF STATE FROM PFD SP PROJ:
‘BA/POCL AUTOMATION PROJECT: TOWARDS AN AGREED WAY FORWARD’ 13 January 1999

A seven-page briefing note from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, was copied to DSS Minister of State; DSS Permanent Secretary, Ann Botwell and BA CE Peter Mathison. It was sent in preparation for a meeting with DTI Secretary of State, Stephen Byers, which had been postponed from 11 to 14 January 1999.

Graham began by outlining the preferred DSS way forward (involving the cancellation of the BPC) which would entail ‘some quick further work from POCL (and DSS/BA) on the positive impact of the “compromise” proposals (NB their Board will need to be instructed by Ministers, if this is to be done positively)’ p.2.

Under the title ‘Suggested broad line of argument’ Graham asked:

- why do we believe that the project will miraculously become delay - and problem - free? Even since November, there has been further slippage. Next time there’s trouble it will be our responsibility - no chance of attributing blame to ICL, previous administration etc;

  if the project fails, it will be the DSS Secretary of State who carries the can - not the POCL Board or DTI Ministers - why should you be forced to continue with BPC against your better judgment, in effect because of POCL veto?’ p.3.

A strategy was suggested to achieve the desired outcome: ‘...to take forward this strategy, and give it the necessary credibility, force and authority: - you and Stephen Byers could jointly invite John Roberts/POCL and Keith Todd/ICL to consider Ministers’ preferred way forward’ p.4-5.

Under ‘Fall back position’:

‘If you fail to secure this outcome, you will need to open up the debate once again to the wider group of Ministerial colleagues; and/or put our case direct to the Prime Minister’ p.5.

Under the heading ‘Most likely lines of attack’ Graham pre-empted the resistance of Geoff Mulgan/No.10 Policy Unit and forwarded the argument:

‘ICL would be mad to move away at this juncture given the reassurance we can give that:

  - Government wants to work with ICL

Appendix C, Document 17: LETTER FROM THE FOREIGN AND COMMONWEALTH OFFICE TO THE DTI SECRETARY OF STATE 15 January 1999

The first page of a letter from the Foreign and Commonwealth Office to DTI Secretary of State, Stephen Byers is archived in JB3/22 and reads:

‘I have seen your letter of 23 December to the Prime Minister on the pressing need for a decision on the future of the BA/POCL Counters Automation project, Horizon.

It is not for me to comment on much of the debate, which is clearly a matter for HM Treasury, DTI and DSS. But one aspect - the potential impact on inward investment from Japan - does concern us.

It is already clear from the reporting of our Ambassador in Tokyo that Fujitsu - probably the single most important Japanese investor in the UK - are very unhappy with the way this case has been handled. As you suggested in your letter, having stepped in to give the guarantees colleagues had urgently pressed for, Fujitsu find the continuing delays in reaching a decision incomprehensible.

Beyond our relationship with Fujitsu, there is a wide concern about the way the UK is perceived by Japanese investors. By continuing to delay the decision we seriously risk creating a deeply damaging perception of bad faith and poor handling of a major company - with, no doubt, the media and others jumping to the conclusion that we are vindictively responding to Fujitsu’s closure of the semi-conductor plant in the Prime Minister’s constituency.

1998 was a good year for the bilateral relationship with Japan, and Japanese investment is very much at the centre of this relationship. I am very concerned about the prospect of starting the year in such a damaging way, not least when Robin Cook has just assured his Japanese colleague that we attach high importance to the inward investment from other countries and appreciate the assessment of Japanese companies that the UK was an attractive location for them’.

The author is unidentified but a second copy of the letter archived in Prem 49/1010 is complete. Its second page reads:

‘I am sending a copy of this letter to the Prime Minister, Alan Milburn, Alistair Darling, Jack Cunningham and Charles Falconer.

Derek Fatchett’
Appendix C, Document 18: BRIEFING FOR THE DSS SECRETARY OF STATE FROM PFD Sp Proj:
‘BA/POCL AUTOMATION PROJECT: TOWARDS AN AGREED WAY FORWARD’ 19 January 1999

An eight-page briefing note from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, offered an update on the current position and suggested points for Darling’s imminent meeting with DTI Secretary of State, Stephen Byers. Page 7 is missing.

Graham considered the need for a proposal which provided sufficient business incentive for ICL in the event of Option 2 (cancellation of the BPC element of Horizon and moving straight to a generic Smartcard) being chosen in preference to Option 1 (continuation of the programme ‘as is’) so as to compensate ICL for some of the commercial benefits which were included in Option 1:

‘This is particularly difficult, because it is part of the Government’s case, and proper management of PFI projects, to be seen to be expecting ICL to take some hit for its failure to deliver’ p.2.

There appeared to have been a movement away from the option of cancellation ‘given the Prime Minister’s decision that we should work with ICL’ p.2, although it was retained as a fall-back position for the purposes of negotiation.

It was suggested by Graham ‘that Government may need to provide “guarantees” to ICL about the Smartcard business that could come their way...I am exploring this with CITU’ p.2.

In Annex A, Graham suggested points with which Darling might persuade Byers of the commercial acceptability of Option 2 to ICL. Restructuring the programme would offer ICL the incentive of: ‘working in clear partnership with Government in enabling it to implement some of its “Better Government” initiatives’ p.4.

In Annex B, Graham suggested ‘opening lines’ for negotiations between ICL and the public sector: ‘Government starts form the premise that we have the right to terminate the contracts for ICL’s failure to deliver’ but went on ‘But we do not want to terminate the contracts altogether - the basic objectives remain and Government is concerned to build on the energy and commitment that all parties have given to the project; and to support ICL as an active player in the UK IT market’ p.6.

A route forward is sought whereby, in the event of cancelling the BPC (Option 2) ‘the same amount of Government funds would be available for this alternative proposal’.
ANNEX C:

‘Stephen Byers will need considerable persuasion to commit outright to a decision to drop the BPC, without some measure of reassurance that there will be a fall-back position which could include a return to Option 1’ p.7.
Appendix C, Document 19: BRIEFING FOR THE DSS SECRETARY OF STATE FROM PFD SP PROJ:
‘BA/POCL AUTOMATION PROJECT: TOWARDS AN AGREED WAY FORWARD’ 29 January 1999

In this five-page document from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, and copied to the DSS Permanent Secretary, Ann Botwell, consideration was given to communicating the situation to the Prime Minister.

The Issue of the briefing was: ‘Follow up to letter of Jeremy Heywood of 28 January, setting out Prime Minister’s reactions to Chief Secretary’s minutes of 25 January; and confirming his intention to speak to Neville Bain, the Chairman of the Post Office [a meeting which, it would appear from later documents, did not materialise].

Timing: For immediate consideration, to enable action if wished before the Prime Minister meets the Chairman of the Post Office’ p.1-2.

Graham continued:

‘When you spoke to the Prime Minister with Lord Falconer, Geoff Mulgan and Jeremy Heywood after Cabinet yesterday, the Prime Minister appeared to support a solution which did not involve the Benefit Payment Card; and said he would speak to the Chairman of the Post Office accordingly’ p.1. But a note subsequently put round by Heywood seemed ambiguous as to whether the Prime Minister was supporting a “Smart” BPC or a generic Smartcard.

‘For whatever reason the P.M’s note is crafted in the terms it is, there must now be concern that the discussion with the Post Office Chairman could, in the event, be used by the Post Office/POCL to prejudge the issue about what kind of Smartcard solution will be found, by involving the Prime Minister in giving his tacit agreement to their vision of a Smartcard ie. a “smart” Payment Card. Such a position would be unlikely to be opposed by Geoff Mulgan, should he be present at that meeting’ p.2.

‘It would be reassuring if we could be certain that the Prime Minister is aware of:

a) the difference between a “smart” Benefit Payment Card and a generic Smartcard that does not specifically pay benefits;

b) the difficulties that persist for DSS/Government if a solution is built around the former – all the problems about continuing with the Benefit Payment Card remain’ p.2.

‘There remains the issues around the Prime Minister’s awareness of the downsides of the Benefit Payment Card solution. You may wish to consider passing Lord Falconer as an “aide memoire”

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the draft memorandum put forward to you on 26 January (copy attached for easy reference) - or at
least the points contained in paragraph 2’.

The attached “aide memoire” is a draft letter from DSS Secretary of State, Alistair Darling to the
Prime Minister, Tony Blair (‘PERSONAL’). Paragraph 2 read:

‘...I am writing, however, at this stage to flag up with you some serious concerns I believe
Government will have to address if we are pushed back into a situation of committing to a solution
which involves a prior move to the Benefits Payment Card’.

Concerns included:

‘...the difficulties that will face us then if the project runs into further trouble - which is highly
probable given the progressive delays so far (a further 6 weeks in the last two months alone, bringing
the delay in total up to 3 years) which we cannot then excuse as part of an earlier administration’s
plans’ p.3-4.

And: ‘...the very real concerns that still exists about the actual delivery of the project to all
19,000 Post Offices’ p.4.

‘I may need to talk to you about the Benefit Payment Card situation before you are asked to
endorse a final decision about the right way forward, I very much hope this will not be necessary’ p5.

‘I am anxious for this note not to be circulated around Whitehall for obvious reasons, particularly
at this sensitive time’ p.5.
Appendix C, Document 20: BRIEFING FOR THE DSS SECRETARY OF STATE FROM PFD SP PROJ:

‘BA/POCL AUTOMATION PROJECT: TOWARDS AN AGREED WAY FORWARD’ 11 February 1999

A four-page briefing from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, was copied to the Minister of State and Permanent Secretary, Ann Botwell:

‘I understand from Peter [HM Treasury official, Peter Schofield] that, subject to Ministers’ collective agreement that this is the agreed way forward, the next stage will be to prepare a more detailed specification of the project and negotiating brief prior to entering into formal negotiations with ICL; and that he intends to involve DTI and DSS (David Sibbick and I) in this process’ p.1.

‘I understand that the current difficulties between POCL, BA and ICL over the timetable and plan for the project was raised with you this morning. As you may know, DTI (David Sibbick), HMT (Peter Schofield) and I are all doing our best to minimise any potential difficulties between the parties at this sensitive time; and George McCorkell has written to the Horizon Project Manager in an attempt to defuse the situation...’ p.2.

Attached was a draft letter for Darling to send to the Chief Secretary to the Treasury. The letter, which was sent the following day, began:

‘As agreed with you, Stephen [DTI Secretary of State, Stephen Byers] and Charlie [Minister of State at the Cabinet Office, Lord Falconer] at the discussion yesterday morning after Cabinet, I have now had an opportunity to consider the note setting out a possible way forward for the Horizon project...’

A three page letter from DTI Secretary of State, Stephen Byers, to the Chief Secretary to the Treasury, Alan Milburn, was copied to the Minister of State at the Cabinet Office, Lord Falconer; DSS Secretary of State, Alistair Darling; DSS Minister of State and DSS Permanent Secretary, Ann Botwell. In the letter, Byers offered broad support for an option outlined by HM Treasury on the way forward for Horizon but warned:

‘We would also need to look very carefully with the Post Office Board at the implications of POCL assuming responsibility for the risk of fraud because your option could involve shifting this responsibility from ICL to POCL’ p.2.

‘I do, however, consider that there are so many financial, commercial, technical and contractual conditions to be got right that we must not risk arriving prematurely at sub-optimal answers which we shall subsequently live to regret. The history of this project is surely warning enough that this time we must get the pre-conditions right” p.2.

A two page letter from Chief Secretary to the Treasury, Alan Milburn, to DTI Secretary of State, Stephen Byers was copied to DSS Secretary of State Alistair Darling and Minister of State at the Cabinet Office, Lord Falconer. It began: ‘I am grateful for the support on your letter for the Treasury Option as set out in the paper circulated at the end of last week’ p.1.

‘The next stage in the process will be a complex one as, with the help of BA and POCL, we produce a detailed technical specification of the new options and begin negotiations with ICL. We have to accept that this process could well take some time, and in the meantime uncertainty will remain over the project. I agree we should try to keep Option 1 [which included the BPC] on the table for as long as we can, not least for negotiation purposes. But the Post Office must be told that the Government’s firm decision is in favour of the Treasury approach otherwise they are unlikely to take it forward seriously and constructively’ p.1.

An immediate response from DTI Secretary of State, Stephen Byers, to the Chief Secretary to the Treasury, Alan Milburn, expressed concern that ‘BA have recently put on hold work on the multi-benefit aspects of the bpc, and that this is already impacting on ICL’s development programme’ p.1. He clarified that his support for the Treasury Option (Option 2, cancellation of the BPC) was conditional upon keeping open Option 1 (continuation of the project ‘as is’). ‘My agreement to the proposal contained in your letter is conditional on the BA continuing to cooperate in development of the BPC’ p.1.

He continued: ‘We cannot afford to allow the bpc option to slide away from us unless and until we are absolutely clear that all the elements set out in my letter to you yesterday including a package which is acceptable to the Post Office Board as a commercial proposition can be got right’ p.2. Byers argued that if ‘we risk losing Option 1 before your option is clearly within our grasp, then we should accept that we move as rapidly as possible to Option 1’ p.2.

He concluded:

‘The continuing uncertainty will inflict increasing damage on all three contracting parties – and I have this morning received a letter from the Chairman of the Post Office spelling out the growing difficulties that the delay is causing them – but also on the confidence of sub-postmasters, already shaken by repeated stories in the press of the imminent collapse of the Horizon project’ p.2.

The letter was copied to DSS Alistair Darling, Secretary of State; Minister of State at the Cabinet Office, Lord Falconer and DTI Minister, Ian McCartney.
Appendix C, Document 24: BRIEFING FOR THE DSS SECRETARY OF STATE FROM PFD SP PROJ:
‘BA/POCL AUTOMATION PROJECT: CURRENT ISSUES’ 22 February 1999

A three page briefing note from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, was copied to the DSS Minister of State and Permanent Secretary Ann Botwell. It began:

‘The way is now open for the Chief Secretary and Lord Falconer to send their planned note to the Prime Minister, seeking his agreement, prior to taking forward at official level under Steve Robson the next stage of the talks’ p.1.

Graham considered the next stage would likely comprise: ‘A firm and fast negotiation with ICL in an attempt to make some progress very quickly and to reach a stage that will approximate to ‘heads of agreement’ by mid-March or so’ p.1.

‘...it had been the intention to ask the Prime Minister to activate his offer to see the Chairman of the Post Office, to give a clear steer on the Government’s preferred way forward...given the further delay in the timing, due to difficulties over procuring DTI agreement to the way forward, it may now be very difficult to secure a Prime Ministerial meeting without holding up the timetable further’ p.2.

‘ICL are now refusing to meet POCL and DSS/BA except on an ‘open’ basis (i.e. with lawyers), instead of the usual “without prejudice” one’.
Appendix C, Document 25: EMAIL TO THE DSS SECRETARY OF STATE FROM BA: ‘BA/POCL AUTOMATION PROJECT’ 23 February 1999

An email from BA Chief Executive, Peter Mathison, to DSS Secretary of State, Alistair Darling, took up the issue of ICL’s changed position (Appendix C, document 24 above), whereby ICL now required its lawyers be present at meetings:

‘Although I have seen some recent Ministerial correspondence on this project, I am not aware of the detail of current discussions between Treasury and ICL.

However, it would appear to me from ICL Pathway’s response at a planning meeting yesterday that they have significantly changed their position and I can only assume that this has arisen through something that has been said to them during the Treasury discussions.

At yesterday’s planning meeting, ICL stated they were not prepared to accept the meeting was on a “without prejudice” basis, whereas all through the past 15 months, all parties have prefaced the start of any meeting or discussion on that basis.

Clearly this was unacceptable to either BA or POCL and the planning meeting which was to try and agree a further revised timetable for the next card release following the two month slippage last December was abandoned’ p.1.

‘Given ICL’s change in stance yesterday, I need to advise you that in my view this indicates that they are clearly positioning themselves to be able to sue us on the basis that each of their failures has been accepted by Sponsors’ [sic] through our conduct in agreeing to replace and extend the timetable. Even if we do not get into a legal battle, I feel certain they will use this position to maximise their negotiating power as we try to agree a way forward for the project. I understand the Joint Programme Lawyer supports my view’ p.1.

‘In order to try and protect the Government’s position, I consider it important we are brought up to date and are directly involved in the Treasury/ICL discussions at the earliest opportunity’ p.2.
Appendix C, Document 26: BRIEFING FOR THE DSS SECRETARY OF STATE FROM PFD SP PROJ:

‘BA/POCL AUTOMATION PROJECT: DISCUSSIONS WITH ICL’ 23 February 1999

A three-page briefing from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling and copied to DSS Permanent Secretary, Ann Botwell, covered ‘Some further background on the current HMT discussions with ICL, following up Peter Mathison’s note to you of earlier today’.

It began:

‘You are already aware of the discussions going on at Project Management level with ICL about the future timetable for the project in the light of the slippage in delivering one of the key milestones in the working timetable agreed (on a without prejudice and subject to contract basis) in the course of the Corbett discussions’ p.1.

Graham made reference to discussions between HM Treasury’s Steve Robson and ICL’s CE, Keith Todd, and Richard Christou.

Under ‘Content of Treasury Discussions with ICL’:

‘As you know, neither DTI nor ourselves (no more than POCL and BA) have been kept closely informed of the discussions’ p.1.

‘Richard Christou, although billed as ICL’s [sic] Director of Corporate Affairs, is their leading legal strategist in litigation cases – and a very skilled operator as we have good reason to know from previous legal battles with ICL’ p.2.

‘...the plan now is to seek the Prime Minister’s agreement to proceed with discussions on the basis of the paper you were shown after Cabinet 10 days ago. Provided that agreement is forthcoming quickly, we can then equally quickly proceed to the next stage - involving DSS Benefits Agency and POCL in drawing up a detailed specification, prior to entering formal negotiations with ICL’ p.2.

‘In addition, as we have always advised, the longer a clear way forward is delayed, the more the strength of the Government/public sector position is eroded...Once the Prime Ministerial “go ahead” has been received it will be important to secure openness between us and Treasury about how best to proceed” p.3.
Appendix C, Document 27: BRIEFING FOR THE DSS SECRETARY OF STATE FROM PFD SP PROJ:

‘BA/POCL AUTOMATION PROJECT’ 26 February 1999

A three-page briefing from Sarah Graham, PFD Sp Proj, was addressed to DSS Secretary of State, Alistair Darling, and copied to DSS Permanent Secretary, Ann Botwell. The briefing was regarding: ‘Issue: Milburn/Falconer letter to the Prime Minister’ and was critical of the information presented to the Prime Minister regarding the various risks and financial implications of the different options on Horizon’s future. The letter in question is at Appendix F, document 25:

‘The letter ignores the risks around continuing with the Benefit Payment Card...’ p.1.

‘...completely neglects the fact that ICL are in breach of contract and owe us £200m for their failure to deliver’ p.2.

‘...it might at least have mentioned Alistair’s serious concerns about the BPC. Is the Prime Minister aware of the PAC issues etc which will arise if we continue “as is”? ’ p.2.
Appendix C, Document 28: BRIEFING FOR THE DSS SECRETARY OF STATE FROM PFD SP PROJ:

‘BA/POCL AUTOMATION PROJECT’ 4 March 1999

A heavily annotated, three-page briefing from Sarah Graham, PFD Sp Proj, to DSS Secretary of State, Alistair Darling, was copied to DSS Permanent Secretary, Ann Botwell, and noted its Issues as: ‘Following up the Prime Minister’s agreement to move forward on the so-called “Treasury Option”’ p.1.

It continued:

‘Following up the Prime Minister’s agreement that we move forward as described on the CST/Falconer letter of 24 February, Steve Robson called a meeting with Benefits Agency and POCL representatives to communicate that formally; and to ensure there was clarity about what the immediate next steps should be…”

These were said to include:

‘these discussions to have reached a position by mid-April (i.e. equivalent to heads of agreement), to allow Ministers and the Prime Minister to give the “go ahead” (or not) to the way forward by the end of that month’ p.1.

‘In parallel, and drawing on the developing specifications, HMT with DTI and DSS will need to draw up:

- the funding parameters...

- a suitable negotiating strategy’ p.2.

‘Stephen Byers is seeing Post Office Service management today, to signal the senior Government’s wish to find a way forward based on the so-called “Treasury Option”’ p.2.
A six-page briefing note from Sarah Graham, PFD Sp Proj, to incoming DSS Permanent Secretary, Rachel Lomax, was copied to BA CE, Peter Mathis. The briefing gave the new Permanent Secretary a summary of the project to date and its current position. Under Issues was listed ‘some emerging concerns around handling of Ministers’ preferred way forward’ and Graham warned of a potential need to seek a formal Ministerial Direction in the event of the DSS preferred option on the future of Horizon being rejected.

Under ‘Summary and brief background’ Graham outlined:

‘The project was delivered in 1993/4 as a compromise between:

- the DSS clear preference to pay benefits via ACT and bank accounts...
- DTI concerns to protect POCL’s interests and the Post Office network...

The funding rationale of the project was built on the achievement of the DSS/BA fraud savings. This in effect means that DSS/BA are paying for the automation of the Post Office’ p.2.

Under ‘The DSS view’:

- ‘there are still genuine reservations about ICL’s - and POCL’s ability to deliver the Card element of the project, even on the revised timetable; and therefore we also have concerns about securing the safe delivery of benefits to the 18 million or so people affected’ p.3.

Referring to the discussions carried out under the aegis of Graham Corbett in October 1998 which had been conducted to explore ‘whether there was a commercial deal acceptable to Government that could be struck’, the summary continued:

‘The outcome of these discussions was not satisfactory to Ministers, but formed the basis of the option to continue with the Project including the Benefit Payment Card. ICL put forward some further proposals in early December, on which they have not yet received a formal reply. But again, following a further Ministerial change over Christmas, and much further activity, Ministers (with the Prime Minister’s agreement) have now authorised Steve Robson at HMT to explore whether an alternative option, without the Benefit Payment Card, could be viable.

Accordingly, over recent weeks, Steve Robson has been discussing with ICL the possibility of an
alternative way forward on the project which would not involve the Benefit Payment Card... A viable, outline proposition has now been agreed with ICL; and Stephen Byers, as well as our Secretary of State is content for formal negotiations to be opened with ICL on this basis. As of this morning, the Prime Minister has also agreed...p.4.

‘If these negotiations fail, however, the Prime Minister has earlier indicated that he would not wish the project to be abandoned because of its effect on ICL and “UK Plc”, and that he would therefore favour continuing with the project even if that means including the Benefit Payment Card product’ p.4.

Regarding the potential need for an Accounting Officer Direction:

‘The Chief Executive of the Benefits Agency has sought and received two Accounting Officer Directions, whereby he has been directed by a Secretary of State not to take steps to terminate DSS/BA contracts with ICL Pathway or otherwise take action likely to jeopardise the nature of the current discussions authorised by Ministers between the three parties’ p.5.

‘In the event of discussions around an alternative way forward failing and the DSS ending up ‘by default’ with a commitment to the BPC, ‘Peter Mathison is clear that he will need a formal Direction to continue’ p.5.

A two-page letter from DTI Secretary of State, Stephen Byers, to the Prime Minister, Tony Blair, was copied to the Chancellor of the Exchequer, Gordon Brown; DSS Secretary of State, Alistair Darling; Minister of State at the Cabinet Office, Lord Falconer and Cabinet Secretary and Head of the Home Civil Service, Sir Richard Wilson. In this letter, Byers urged for a delay in the publication of the Post Office White Paper in the context of uncertainties over Horizon and suggested it be released only after ‘heads of agreement’ with ICL over Horizon were settled:

‘The White Paper needs to present a positive message of the Post Office Counters’ network. But we cannot do this while negotiating with ICL over the modification to the Horizon project. I therefore aim to publish the Post Office White Paper if at all possible after the Scottish and Welsh elections but before the period of purdah prior to the European elections (ie between 7 and 19 May), and to press the parties very strongly to settle heads of agreement on the Horizon project by the end of April to meet this time scale’ p.1.

‘If we publish the White Paper now there is a large hole on Post Office Counters which will be instantly recognised, and the good news will be eclipsed by the bad. Strengthening the line in the White Paper, in terms of a secure future for the network based on the Horizon platform, will greatly strengthen ICL’s hand in negotiations if we have not by then reached agreement with them on the key parameters.

But we cannot delay the White Paper for very long - we need to implement a European Directive very soon, and get the secondary legislation through and the independent regulatory structure in place before the summer recess. We cannot risk the whole Post Office reform package starting to unravel because of Horizon. I believe we will therefore have to publish in May even if there is no settlement on Horizon’ p.1.

‘Given the extended history of the Horizon project, I am clear we must ensure that all parties engage in the negotiations with urgency at the highest level to agree something concrete within the period. As requested in the last paragraph of the Jeremy Haywood letter, I have today spoken to both Neville Bain at the Post Office and Keith Todd at ICL to obtain their firm commitment’ p.1.

‘My office will be letting yours have a short letter which Jeremy Haywood indicated you would wish to send to Neville Bain and Keith Todd following up my conversation’ p.2.
Appendix C, Document 31: BRIEFING FOR THE DSS SECRETARY OF STATE FROM PFD SP PROJ:

‘BA/POCL AUTOMATION PROJECT: TAKING FORWARD MINISTER’S PREFERRED OPTION’ 22 March 1999

A seven-page briefing from Sarah Graham, PFD Spec Proj, to DSS Secretary of State, Alistair Darling, was copied to DSS Permanent Secretary, Rachel Lomax, and BA CE, Peter Mathison. It was submitted: ‘To provide an update on progress’ and ‘To alert you to emerging areas of potential concern and proposed action’ p.1.

Graham referred to weekly meetings between HMT’s Steve Robson, DSS and ICL.

‘Discussions with ICL on redeveloping the project were authorised by the Prime Minister on 1 March. The agreed approach was based on the draft proposals put forward to him under cover of a note from the Chief Secretary and Lord Falconer on 24 February. I attach a copy of those proposals as seen by the Prime Minister and agreed by you for convenience’ (the proposals are not included in this dossier; nor is the document from Steve Robson to POCL’s MD, Stuart Sweetman, which this briefing also indicated was attached) p.1.

‘The Prime Minister has asked for an update, on which he is expecting to decide one way or another about the future of the project, by the end of April’ p.1.

Time-pressures were intensified by the imminent publication of the Post Office White Paper which ‘needs to include a clear view on the way forward on Horizon’ p.2, and by ICL’s need to give reassurance to their- and Fujitsu’s- auditors by the end of March: ‘the view is confirmed by the news that Fujitsu are sending over a squad of experts to examine for themselves the prospects for the alternative option’ p.2.

Timings were also exacerbated by:

‘events surrounding the existing project’s development which point to its grinding to a halt by April of its own accord, because of the lack of any contractual basis on which to proceed...’ p.2.

Other concerns which Graham raises include:

‘The Treasury team, however, seem to wish to concentrate on finding a cheap solution without necessarily taking on board either the wider DSS interests or the wider Government interests’ p.3.

‘Both POCL and ICL are still preferring an option around continuing with the Benefit Payment Card because of the greater certainty on revenue streams that that will bring’ p.4.
Beside the heading ‘Funding the project’ is a handwritten message which reads ‘testing the model office – disastrous’ p.4.

The briefing continued:

- ‘the funding proposals put to Ministers around the BPC option in December are unlikely to be able to be made to stick: since December, timetable delays have become so significant that a further major review is now called for, with knock-on funding effects (see para 16 below) these, in addition to the potential funding implications of the failure at that stage to agree “acceptance criteria”’ p.5.

Under ‘Project Progress’:

‘One of the Prime Minister’s concerns has been to keep the existing option involving the Benefit Payment Card as a realistic prospect on which Ministers could fall back if they so chose. As explained above, the broad funding and timetable assumptions on which this view are based, can no longer hold; so that the prospects of keeping the Benefits Payment Card as workable option are fast eroding. There are two current developments in particular that severely jeopardise these prospects’ p.5.

The first is identified as ‘further potential slippage in the timetable’:

‘you will be aware that a key milestone agreed in the course of the Corbett negotiations around the testing timetable, was missed in December; and there have been consequent difficult discussions between the parties about the implications of that slippage for the overall timetable; our view there is now an additional difficulty, which could mean a two month delay in the planned start of “live trial” - which in turn effect the date by which ICL could hope to win formal “acceptance” (with the key funding implications that carries). The problem lies around the Model Office Test, which has to be approved by all three parties before the “live trial” can begin; the faults reported at the end of the Model Office Test are greater than they were at the start of the testing. Post Office nonetheless are willing to accept that the programme can now proceed to “live trial”, whereas DSS/BA do not, but have bought some extra time by agreeing to let ICL have a further fortnight to demonstrate sufficient capability to move to live trial; it is highly unlikely that they will be able to do so and at that stage there will be a real difficulty over finding an agreed basis over which to proceed’ p.5-6.

The second development is summarised: ‘At the same time, there has been a failure to find a way forward around the contractual basis for continuation: there is no contractual agreement on the definition of the software release that is undergoing Model Office testing; this means that, even if the
Model Office Testing did prove satisfactory, we cannot automatically accept the software release without agreement on its contractual status; ICL are pressing for full contractual acceptance which we cannot give until the contractual status of the software is agreed; again we are trying to find a compromise solution, but Richard Christou the ICL Commercial Director has expressed the view that the project will “grind to a halt” of its own accord if we cannot move onto a firm contractual basis for acceptance very soon’ p.6.

‘Acting on your authorisation from our meeting on 4 March, I have copied this submission to Stephen Ward, Lord Falconer’s Private Secretary who works on this [Minister of State at the Cabinet Office]’ p.7.
Appendix C, Document 32: LETTER TO THE PRIME MINISTER FROM THE FUJITSU CHAIRMAN: ‘THE BA/POCL PROJECT’ 7 April 1999

A three-page ‘Without Prejudice’ letter from Fujitsu Chairman, Tadashi Sezikawa, to the Prime Minister, Tony Blair, stated the Fujitsu position on Horizon. It read:

‘I am sure you have been informed that Mr Keith Todd, the Chief Executive Officer of ICL, wrote to the Secretary of State for Trade and Industry on 25th and 30th March to say that, unless the UK Government had approved Heads of Agreement for the future of this project by close of business on 31st March, he would tell the ICL plc Board, and thereafter Fujitsu (as ICL’s shareholder), that work on the project should stop. Disappointingly, no such agreement was reached and (following discussions with, and the support and approval of, the ICL plc Board) Mr. Todd has made such a recommendation to us. I am writing to let you know Fujitsu’s position in this matter so that you may have time to consider the matter before you see Mr. Naruto (Vice Chairman of Fujitsu, moreover Chairman of ICL) on 12th April’ p.1.

‘ICL has made many proposals for a solution over the last year and a half, none of which have yet been accepted’ p.1.

‘ICL’s proposal of 18th December 1998, to carry on with the project under the current specification with the magnetic stripe card, has neither been accepted or rejected’ p.1.

Sekizawa went on to outline the three options which had emerged during the course of HMT’s engagement: Option B1, by which a smart card would be developed to facilitate ACT as well as the provision of the core Post Office infrastructure; Option B2 which was the same as Option B1 but with the added provision of a system by which the Post Office could provide banking facilities to benefit recipients and Option B0, which would deliver only the core Post Office infrastructure until a decision on B1 or B2 was made.

‘I am told that there are some important issues still to be resolved before a firm decision for B1 can be made by the Public Sector. Without such a firm decision, no final agreement can be reached’ p.2.

‘Fujitsu strongly recommends that all remaining issues be resolved and that Option B1 is adopted without delay’ p.2.
‘However, it is unfortunately the case that there is only a short time left to reach a final agreement on Option B1 and thus save this project’ p.2.

‘Fujitsu’s position is that, unless there is a legally binding agreement for the future of this project in place by 23rd April, when the Fujitsu Board approves our 1998-99 consolidated group accounts, these accounts will have to show a provision which will be the Yen equivalent of about £300 million. If this occurs Fujitsu will be required by its shareholders and the market to explain in detail why they have had to make such a huge provision and what the full impact is on their consolidated results and their future trading position’ p.2.

‘In the circumstances, Fujitsu are not prepared to make such a provision and still underwrite the continuing costs incurred by ICL on the development of this system. It is not fair and reasonable, nor commercially sensible, for us to suffer a provision of this magnitude and then continue to invest more money in this project’ p.2.

‘Further, in any event, continued investment in a project where the Public sector could not decide on a clear way forward, cannot be in the best interests of the British tax-payers and, for this reason alone, it would be irresponsible of us to continue without a resolution’ p.2-3

‘I very much hope therefore that the basis for a legally binding agreement, adopting Option B1, will have been reached by the time you meet Mr. Naruto, so that it is ready for signature in the week before the Fujitsu Board meeting’ p.3.

‘However, as ICL will no longer continue to invest in this project, nor can Fujitsu force ICL to invest money, without any binding agreement, I am obliged to inform you that, if no such agreement is reached, ICL will have no choice but to implement its decision to stop work, and Fujitsu will accept ICL’s decision. ICL have spent so much money for so long without a commercially viable agreement, that the matter will now have to be resolved by a proper legally binding agreement’ p.3.
Appendix C, Document 33: LETTER TO THE PRIVATE SECRETARY AT NO.10 FROM THE BRITISH AMBASSADOR TO JAPAN: ‘FUJITSU, ICL AND PROJECT HORIZON’ 7 April 1999

A one-page letter from British Ambassador in Tokyo, Sir David Wright, to the Private Secretary at No.10 regarding the call on him from ICL Chairman. Attached was the letter from Fujitsu Chairman Sekizawa (Appendix C, document 32 above) which was also copied to DTI Secretary of State, Stephen Byers; HMT official Steve Robson and DSS’s Sarah Graham:

‘Fujitsu have now decided to follow up their approach to me with the attached letter from the Fujitsu Chairman to the Prime Minister in advance of the call on the Prime Minister by Naruto on 12 April.

The letter does not add greatly to what Naruto told me on 12 April [sic], but it clearly demonstrates the degree of the company’s concern’. 
Appendix C, Document 34: BRIEFING FOR BA FROM PFD SP PROJ: ‘BA/POCL: TAKING FORWARD MINISTERS’ PREFERRED OPTION’ 7 April 1999

A document from Sarah Graham, PFD Special Project, to BA Project Director, Vince Gaskell, is missing all but the first page. Its Issue: ‘Briefing for the Prime Minister’s meeting with Naruto, Vice Chairman of Fujitsu on Monday 12 April 1999; letter from Sekizawa, Chairman of Fujitsu of 7 April 1999 to the Prime Minister’ p.1.
Appendix C, Document 35: BRIEFING FROM BA TO PFD SP PROJ: ‘BRIEFING FOR THE PRIME MINISTER’S MEETING WITH FUJITSU’ 7 April 1999

‘TIMING: IMMEDIATE’

A four-page document from Vince Gaskell, Benefits Agency Project Director, to Sarah Graham, PFD Sp Proj, and copied to DSS Permanent Secretary, Rachel Lomax and BA CE, Peter Mathison.

With reference to the Sekizawa letter to the Prime Minister, Tony Blair (Appendix C, document 32, above):

‘In considering how best to respond and include in briefing for the Prime Minister there have been a few key developments that you should be aware of’ p.1.

Under the heading ‘POCL Concerns’ Gaskell continued:

‘What was abundantly clear at last weeks meetings at HM Treasury was that the Post Office will not want to engage in any meaningful discussion of any other option but the Benefit Payment Card (BPC) unless they are given levels of assurance about:

- funding certainty in the way that the BPC gives them at present
- confidence that there will be no short term significant loss in footfall’ p.1.

‘...I sought ICL’s views (Tony Oppenheim) about the merits of B1, as now being developed, and continuation with the BPC. His view, quite genuine I believe, is that no one in a senior management position in ICL believes that there is a future for the BPC and therefore they will press for an option (B1) that maximises their chances of a return on their investment’ p.2.

Under the heading ‘The Current Programme’:

‘Today was the Release Authorisation Board (RAB), to decide whether to proceed with the start of the Single Benefit Live Trial. As you know we have gone to considerable lengths in recent weeks and months to persuade POCL about the level of assurance we would need to agree to proceed with the Live Trial.

That assurance has not been forthcoming and we had to make that clear to POCL and ICL at the RAB today and therefore withhold our agreement to proceed. I will be writing to POCL setting down the reasons why this is the case and Hamish has a draft for me to consider.

(Page 358 of 579)
Urgent discussions are now taking place to try to find a way forward but it is clear to me that there will now have to be a delay to the start of the Live Trial and a resulting impact on the start of the National Rollout and later phases of the Programme.

This will further damage everyone’s business case for continuation. The timing is unfortunate but this is a key Programme milestone and views/decisions had to be made. I have spoken to Alistair Levy should any approach be made to SoS before our submission’ p.2.

Under ‘Next Steps’:
‘Clearly some of the above, including current Programme issues will need to be included in briefing the Prime Minister and we do need to brief our SoS carefully.

We need to meet with DTI and HM Treasury this week to raise our concerns and try to agree a common agenda in moving forward’ p.2.

‘Sorry this has been a rushed response and I await our council of war tomorrow’ p.3.

In the event of this news breaking, Gaskell attached a “lines to take” memo. Regarding ‘Extensions to the Software Testing Schedule’, the memo anticipated the question ‘Are Benefits Agency saying that ICL Pathway’s systems are faulty or not up to the job?’ to which the answer was ‘No. Thorough testing is a normal feature of every project of this sort’ p.4.
Three days after the Prime Minister’s meeting with Fujitsu’s Vice Chairman, Michio Naruto, a fifteen-page briefing report (revised 16 April) was submitted by Sarah Graham, PFD Sp Proj to DSS Secretary of State, Alistair Darling. It was copied to DSS Permanent Secretary, Rachel Lomax, and BA CE, Peter Mathison, and was written in preparation for an inter-Ministerial meeting the following week. The meeting was to be convened to determine the future of the project.

‘Issues’ of the briefing are listed as:

‘i) Papers you requested following yesterday’s discussion on the current position:

- a fuller description of the options B.1.2 and B3 “the fourth way”;
- a brief account of the position of the project covering the state of the trials and delays;
- a brief summary of the contractual position in relation to the current trials.

ii) Some additional commentary on the current position’ p.1.

There followed an outline of Option B3 and Option B1.2:

OPTION B3/“THE FOURTH WAY”

Described as ‘a late entrant’ and ‘devised a matter of days ago’ this option was introduced when it became apparent that Option B1.2 (developed by HMT’s Steve Robson, ICL, POCL and DSS) ‘was looking so expensive that it could not be acceptable to Ministers’ p2. Option B3 proposed continuation with Horizon (including Electronic Point Of Sale (EPOS) and Order Book Control System (OBCS) but without the BPC.

Option B1.2 was described as ‘essentially the Benefit Payment Card in technological design but with add-ons’ such as the use of a POCL Smartcard to access a Post Office Account, p.2 and p.7. This option would not preserve the BPC but would utilise ‘much of the existing Horizon system developed by ICL Pathway’.

Pages 11-12 of this briefing detailed the situation one month before the re-configuration of the project and four months before POCL’s anticipated roll-out of the re-configured Horizon.

Under the heading: ‘BA/POCL Programme - Current Status’: 

(Please refer to the original text for further details.)
1. This note provides a brief summary of progress on the current BA/POCL Programme including :-

- recent difficulties in testing the next ICL Pathway Software release
- preparations for the Live Trial for ICL’s product

2. There are differences of view between POCL and BA about the completeness of testing and the readiness for Live Trial that are also summarised in this note.

Testing

3. Following technical testing of the latest ICL Software New Release 2 (or NR2) four separate Model Office and end to end tests have been undertaken. Each of these tests have taken approximately one month to complete. At the end of each run all significant incidents were corrected and proved through ‘target’ testing. In theory, the next Model Office test should have produced a relatively clean run. However, in practice, each of the subsequent Model Office tests has raised as many new incidents as generated through the previous runs.

4. Initial test runs of the software should have been completed by mid December 1998, but because of the above problems testing was halted for two months whilst ICL took steps to put right large numbers of major faults. This was overseen by POCL.

5. As we entered the formal and what should have been the final Model Office run in Feb/March we made it known to the Horizon team our considerable concerns about the creation of new incidents and gave a view that it might be necessary to have an additional run of Model Office. In the event a further 200+ new faults were identified. Some of these were critical and would directly affect the correct or timeous payment of 1% of benefit payments in a Live Environment.

6. Further targeting testing has taken place to fix all major faults identified but to date we have not seen a clean run of Model Office. Our definition of a clean run has been set at no incidents which would provide incorrect or delayed payments and only a modest number of background system problems.

7. POCL have rejected that view arguing that the targeted tests have dealt with all known faults, further tests will be costly and will delay the start of the Live Trial and National Roll Out.

8. The BA view is that only with a further run of testing of the end to end system will give the level of assurance needed that no major new faults will be uncovered because this could:-
- put benefit payments to 60,000 Child Benefit customers at risk during the Live Trial;
- put at risk the accurate payment of over £1m per week to those customers during the Trial Period;
- put at risk the successful completion of the Live Trial; or
- create a situation in which we had to terminate the Project because of failures of the software during the Live Trial that could have been identified earlier in testing.

9. The difference of view between POCL and BA remain with further discussions taking place to try to reconcile the two views. In the mean time, rather than hold up the Programme, the BA have agreed not to stand in the way of preparations for the Live Trial.

10. The next crucial point in the Programme is on 9 May. By then we will have to have resolved our differences, or found an alternative way forward or risk delaying the Live Trial.

Live Trial

11. The Live Trial is due to begin on 10 May. This will involve the authorisation of a further 100 Post Offices bringing the total to 304. It will also include the implementation of NR2 into all 304 Post Offices involving approximately 60,000 Child Benefit customers receiving their benefit by card payment.

12. NR2 has new benefit payments functionality including most critically mechanisms for making payments to customers in the event of systems failures. However the major new part of the software provides Electronic Point of Sale facilities.

[In the event, the DSS refused permission for the Live Trial to proceed].

13. The trial period is for 15 weeks when the software will be monitored closely. At the conclusion of the trial period POCL and BA will need to decide whether to terminate the Project or accept ICL’s product and begin to roll it out to all 19,000 Post Offices and all Child Benefit customers not paid by ACT. Roll out is scheduled to begin at the end of August 1999.

14. A meeting took place on 7 April to give approval to proceed to the Live Trial but BA were unable to give approval in view of the current status of testing.

Ramifications of Not Proceeding to Live Trial
15. If BA continue to withhold approval to proceed the possible implications include:-
- delays to the Programme (at least 2 months on the start of the Live Trial and 6 months delay to National Roll Out to avoid the periods over Christmas and the Millennium);
- further adverse publicity about the Programme;
- lobbying from Sub Postmasters;
- Press speculation;
- Possible litigation by ICL.

Next Steps

16. Our legal and contractual position is set out in a separate memorandum from the joint Programme Lawyer Hamish Sandison. In the mean time further discussions with POCL are planned to see if we can resolve our differences or whether we can obtain the assurance about the NR2 that we have been seeking.

17. We will report on the outcome of these discussions. In the meantime progress on the Project continues’ p.11-12.

The final three pages of this document constitute legal advice from the joint Programme Lawyer with regards to Horizon’s Model Office testing and Live Trial. Sent to Sarah Graham, PFD Sp Proj, and copied to BA Project Director, Vince Gaskell, the advice considered whether or not the parties could legitimately refuse to allow a Live Trial and if so, upon what grounds. It is here quoted in entirety because the information it contains may throw some light on the issues around acceptance with which the PO Board wrestled from July 1999, albeit under the auspices of a revised contract. It is not known if the contractual uncertainties over release authorisation procedure identified in this document of April 1999 were any less problematic in July 1999.

‘I have been asked whether the Authorities (or either of them) have a contractual right to withhold approval for ICL Pathway to proceed to Live Trial’...

‘I have also been asked what the Authorities’ contractual rights are at the end of Live Trial’
The advice reads:

‘EXECUTIVE SUMMARY

The contractual status of Live Trial is problematic. By formally agreeing Acceptance Specifications for the Operational Trial (including Model Office Testing and Live Trial), the Authorities appear to have given up the right to withhold their approval to proceed to Live Trial on the basis of “failed acceptance” of Model Office Testing. The Authorities could withhold their approval to proceed to Live Trial on the basis of the “Release Authorisation” procedure, which empowers them to decide whether to authorise the software release into the live environment. However, this Release Authorisation procedure is based upon documents which have never been formally contracted by the parties. Thus, by relying on these informal agreements, the Authorities would make it more difficult (though not impossible) in litigation to argue that ICL was not entitled to rely on other documents which we have always said were not contractually binding because they were never formally contracted. Ultimately, it is a matter for the Authorities to weigh up the practical risk of proceeding with Live Trial against a legal risk of undercutting their long term litigation strategy.

FAILED ACCEPTANCE

There are two possible grounds on which the Authorities might withhold their approval for ICL Pathway to proceed to Live Trial. The first of these is on the basis of “failed acceptance” of the Model Office Test. This does not look very promising. Although the Related Agreements (see Schedule A07 and C02 of the Authorities’ Agreement) expressly provide that Live Trial shall not commence until Model Testing has been successfully completed, the parties have formally agreed 23 Acceptance Specifications for the various services being tested during Operational Trial which make clear that the “Acceptance Period” for the tests which comprise Operational Trial (including Model Office Test and Live Trial) runs through to the end of Live Trial. What this means is that “failed acceptance” cannot occur before the end of Live Trial, and specifically that failed acceptance cannot occur at the end of Model Office Testing. Thus, although it would not be possible to challenge the contractual status of these Acceptance Specifications (for example because they are subject to some unfulfilled caveats), they were formally agreed through Change Control and I am not therefore optimistic in the face of the agreed Acceptance Specifications that we can use failed acceptance of Model Office Testing as a valid legal basis for withholding approval for ICL Pathway to proceed to Live Trial.
RELEASE AUTHORISATION

The second possible legal ground for withholding approval for ICL Pathway to proceed to Live Trial is on the basis of the “release authorisation” procedure. This looks more promising, although it carries a downside in terms of our litigation strategy. Under the release authorisation procedure agreed by the parties late last year, a ReleaseAuthorisation Board (RAB) has been set up with power to decide whether to authorise major software releases into the live environment. Among the grounds for withholding such authorisation is the existence of outstanding “acceptance incidents” (not “failed acceptance” in the contractual sense discussed above) which would prevent acceptance being achieved at the end of Live Trial. On this basis, assuming the existence of a sufficient number and severity of such acceptance incidents, I believe that either or both of the Authorities would be entitled to rely upon the RAB procedure to withhold their approval for ICL Pathway to proceed to Live Trial.

The downside of this approach is that the RAB procedure has never been formally agreed by the parties through the Change Control process set out in the Related Agreements. Thus, if we were to rely upon the contractual status of the RAB procedure, it would make it much more difficult (though not perhaps impossible) for us in litigation to argue that ICL Pathway was not entitled to rely upon similar informally agreed documents which had not been approved through Change Control. This would allow ICL Pathway to assert contractual status for a whole raft of planning and re-planning documents developed by the parties since November 1997 which we have always argued were not legally binding. As a result, ICL Pathway would be able to claim payment for work done on a contractual basis which we have always asserted was performed at their own risk.

Faced with these competing considerations, the Authorities will have to weigh up the practical risks of proceeding with Live Trial against the legal risks of relying on the RAB procedure and possibly undercutting their long term litigation strategy. On balance, I am inclined to think that the practical risks should be given greater weight than the legal risks. However, that is ultimately a commercial and public policy judgement for BA/DSS and POCL to make. Moreover I should stress that I am not competent to assess whether these risks are serious enough to justify postponing Live Trial, even assuming there is a contractual right to do so. Again, that is a matter for the public sector parties and their technical advisers to decide.”
‘Rights at the End of Live Trial’

‘If the Authorities decide to proceed with Live Trial, what are their legal rights at the end of Live Trial? Here the Related Agreements and the 23 Acceptance Specifications are not at variance. “Failed Acceptance” will occur if one or more high or medium severity incidents are outstanding at the end of Live Trial, and the Authorities will have a right of termination if one or more high severity or 10 or more medium severity incidents (as defined in Schedule AO7 and the Acceptance Specifications) remain uncorrected at the end of that period.

In addition, provided that the Authorities have taken appropriate steps to preserve their existing rights and remedies, it may still be possible to terminate on the basis of ICL’s failure to complete Operational Trial by the due date of 21 November 1997’.

A two-page letter from DTI Secretary of State, Stephen Byers, to the Chief Secretary to the Treasury, Alan Milburn, outlined the options for the future of the programme. It was copied to the Prime Minister, Tony Blair; DSS Secretary of State, Alistair Darling, and Minister of State at the Cabinet Office, Lord Falconer:

‘We are now facing an immovable deadline of 23 April. If by that date we cannot make a decision, one will be made for us by Fujitsu and ICL’s auditors which will make ICL insolvent. I thought it might be helpful if I wrote in advance of our meeting with Alistair Darling on Monday to set out my view of the present situation’. He set out: ‘essentially we have three options remaining’ p.1:

‘Option B “The Smart Card”’

[This corresponds to Option B1.2 of Appendix C, document 36, above]

Byers identified this as ‘…my preferred option’ whilst conceding ‘…there may be significant costs for HMG attached to this option (which our officials and KPMG are currently scoping) which may rule it out’ p1.

Secondly, the decision to terminate was considered:

‘Quite Rightly, for negotiating purposes, we have always retained the ‘nuclear option’ of termination. However we must accept that this would have immediate and serious consequences. ICL would be insolvent and would begin legal action against HMG. Presentationally, fairly or unfairly, we would be accused of ruining a highly successful UK company. It would also put us in conflict with a major UK investor (Fujitsu) who, with its affiliates, employs around 22,000 people in the UK. This could even impact more widely on Japanese investment here. It would also be a high profile failure for PFI. At the very least the loss of the long awaited Horizon project would seriously damage sub postmaster confidence and lead to a rapid contraction of the Post Office network. This would have a wider effect on the Post Office, on which we are, of course, about to publish a long-awaited White Paper’ p.1.

Finally Byers described ‘Option A (The Benefit Payment Card)’:

‘Option A remains the Post Office’s preferred option. However, in the light of BA reservations, ICL has all but given it up, even though most of the technology is available. It is probably the cheapest of the options and could still be a gateway to Option B’ p.2.
‘I do not believe there are any other options. Obviously, this is a serious position, but I am quite certain we must be the ones to take a decision, not Fujitsu ICL by default, and that of the three options termination would be the most damaging to the Government’ p.2.

No reference was made to Option B3 as described in document 36, above, the option which was ultimately chosen by the Prime Minister and his Chancellor.

A handwritten note is inserted into the dossier. It reads:

‘Rachel [DSS Permanent Secretary, Rachel Lomax], these 2 faxes from Sarah Graham [PFD Sp Proj] follow one included in your reading folder before you went to BA Security on Monday’. A handwritten reply signed ‘R’ [Rachel Lomax] reads ‘I’d quite like a word with Sarah today or tomorrow to take stock of all this’.
Appendix C, Document 38: BRIEFING FROM CAPS GOVERNMENT BUSINESS TO BA 11 May

A seven-page briefing note from Chris Mann, CAPS Government Business, to BA CE, Peter Mathison, was copied to DSS Permanent Secretary, Rachel Lomax. It briefed on the issue ‘Article in today’s Independent’ and referred to a piece featured on the newspaper’s front page: ‘ICL Stumbles on Pathway to Hell’.

Mann began: ‘As you will be aware, the Prime Minister has asked for briefing in the event that he is asked about this issue’ p.1.

Under ‘The Facts, NB commercially confidential: NOT TO BE READ OUT’:

‘Prime Minister will be aware that this £1 billion PFI project is now three years late due to ICL’s failure to deliver; and because of this the public sector have been in discussion with ICL for some time now to see if there is a viable way forward’ p.2.

‘Prime Minister is fully in touch with the latest position (Alan Milburn’s notes of yesterday 10 May; and 22 April and 23 April refer)’ p.2.

Mann maintained ‘Much of the material is factually correct’; but the article’s quotation of ICL MD, John Bennet, in which he claimed Horizon to be ‘best in the class of any commercial system’ and ‘it is probably achieving military standards of security’ prompted Mann to comment ‘certainly the claims made for the quality of the system and readiness for future rollout are overstated’ p.3.

Mann concluded ‘Alan Milburn’s paper of last night sets out the current position and Ministers’ preferences for a way forward’ p3 and warns lines may change if a decision is imminent.

A two-page letter from the Principal Private Secretary at 10 Downing Street to the Office of the Chief Secretary to the Treasury gave the final decision on Project Horizon. Attached was a draft of a letter, drawn up by No.10, which was to be sent that evening from HM Treasury’s Steve Robson to ICL Director of Corporate Affairs, Richard Christou,

The letter read:

‘The Prime Minister was grateful for the Chief Secretary’s minute of 10 May.

The Prime Minister has now discussed this with the Chancellor, who set out in more detail the Treasury’s concerns about signing up today to Option B1. The Chancellor said that this would be something of a leap in the dark. For example, it was not clear what discussions had taken place with the banks on the viability of this option; what demand there would be for the new smart card; or how willing benefit recipients who already had bank accounts would be to use the proposed POCL bank accounts. We needed more time to bottom these issues out. It would be wrong to commit the Government now to an option that would cost £400 million more over the CSR2 period than the best alternative. This would simply divert resources away from the Government’s key priorities in the next CSR.

Against this background, the only sensible course of action would be to buy more time to consider all the options in much more depth. The most rational option would probably be termination. But given where we were starting from with ICL, it would probably be best to commit now to Option B3 [continuation of Horizon without the BPC] and agree to do further intensive work on Option B1 over the next three months. He therefore proposed that Steve Robson (HMT) should write to ICL this evening along the lines of the attached draft.

The Prime Minister said that he had not had time to look into all the options in detail. Starting with a clean sheet, it was doubtful whether we would want to devote substantial new resources to a project that appeared to be designed largely to prop up the Post Office network. However, we were not starting from a clean sheet. He was content for the Chancellor to go over his concerns in more detail with Lord Falconer and other interested parties, to try to fund an agreed way forward. Any solution should meet three key political requirements:
(i) we do not want a huge political row, with the Post Office or the Sub-Postmasters’ lobby claiming that the entire rural network had been put in danger by the Government;

(ii) we should not put ICL’s whole future at risk; and

(iii) it would be important to ensure that the Government has a fully defensible position vis-a-vis the PAC.

The Chancellor said that he would discuss the way forward with Lord Falconer and report back to the Prime Minister.

I am copying this letter to Tom Scholar (H.M. Treasury), Antony Phillipson (Department of Trade and Industry), Rod Clark (Department of Social Security), Mark Langdale and Sebastian Wood (Cabinet Office)’.

The draft letter which accompanied the above was to be sent from HMT’s Steve Robson to ICL Director of Corporate Affairs, Richard Christou. It read:

‘Further to my letter of 23 April, I am now in a position to let you know Ministers’ decision on how to proceed with this project.

Ministers would like to take forward the project in two stages.

- in stage one, the POCL would, subject to agreeing acceptable terms, contract for the supply of the Horizon automation platform, including the EPOS and OBCS systems.

- in parallel with the roll out of stage one, POCL would develop a detailed business plan, so as to establish how best to take forward their long term banking strategy. The results of this plan would inform stage two of the project in which POCL would contract to procure whatever additional functionality would be required to deliver this business plan. We would expect this work to take approximately three months’.

A two-page document from Stephen Hickey to John Codling BA; Vince Gaskell, CAPS, and Sarah Graham, PFD Sp Proj, was copied to DSS Permanent Secretary, Rachel Lomax and the Private Secretary of DSS Secretary of State, Alistair Darling.

‘Ministers are in urgent - and highly confidential - discussions on a possible way forward on BA/POCL’ p.1.

Talks were underway between DSS Secretary of State, Alistair Darling, and Chief Secretary to the Treasury, Alan Milburn regarding funding; Hickey sought urgent costing advice around the option which dropped the BPC but retained POCL’s limb of Horizon: ‘the Chancellor is expecting to be informed on the funding position of this option later this afternoon’ p.1.

‘The proposition which we are considering is that the Card would be dropped but that ICL would provide the Post Office with the basic technology infrastructure it needs, including EPOSS (i.e. as always envisaged under Horizon); and with the existing OBCS system extended on a national basis’ p.1.
Appendix C, Document 41: BRIEFING FOR DSS AND BA FROM PFD SP PROJ: ‘BA/POCL AUTOMATION PROJECT’ 24 May 1999

A three-page briefing from Sarah Graham, PFD Sp Proj, to DSS Permanent Secretary, Rachel Lomax; BA CE Peter Mathison and the Private Secretary of DSS Secretary of State Alistair Darling was copied to ‘All Ministers’.

Under ‘Headline News’ it announced: ‘The deal around option B3 was eventually agreed at 3.00 am this morning; the formal signing is arranged for 11 a.m. today’ p.1.

‘...I will be putting round a fuller note in due course to record the agreement for the record - and, for those of you with a masochistic sense of humour, some of the details of the final toings and froings on Friday and over the weekend’ p.1.

It was said that this option ‘significantly de-risks the project by scaling it down.

‘But, in contrast to the 1996 situation, it is now POCL who are the unwilling partner in this “deal” - in the longer term, and the next stages of the forthcoming negotiation, we will need to help ensure that the “deal” does not in effect get unstitched, for example, by POCL attempting to impose new conditions on ICL or ourselves/the public sector that make the deal unworkable’ p.2.

‘The main developments over the weekend were in fact concerned with POCL funding, and issues between HMT/DTI and the POCL Board’.

A draft statement with attached press notice for release by DTI announced the new agreement on Horizon. The draft, with handwritten note ‘final version, agreed with Alistair Darling’ began:

‘The Government today reached agreement in principle with ICL about the continuation of the Horizon project to computerise the Post Office network and automate the payment of benefits. The project, initiated by the last administration, has suffered considerable delays and setbacks and is now running three years late’ p.1.

‘An important part of our Modernising Government agenda it will bring Government closer to the people. We have moved a major step closer to our vision of a modern, thriving nation-wide network of Post Offices for the 21st Century’ p.2.
APPENDIX D

EXTRACTS FROM POST OFFICE BOARD MINUTES AND BOARD PAPERS:

JANUARY 1998 – MARCH 2000

 Below are excerpts from Post Office Board Minutes and Board Papers. The majority are archived at the Postal Museum, not available in digital format, and cover the period January 1998 to May 2001.

 They are listed chronologically and extracts have been selected on the basis of their relevance to issues around Horizon programme delays, technical problems, the acceptance of Horizon, negotiations with ICL and communications with Ministers and Government officials.

 Board Minutes are uncatalogued but are archived under 2010-0139; some have also been released, heavily redacted, via FOI.¹

 Board Papers from the relevant period are archived separately at the Postal Museum and are catalogued as: 69/585 (January 1998- June 1998); 69/586 (June 1998- December 1998); 69/587 (January 1999- April 1999); 69/588 (April 1999- November 1999); 69/589 (November 1999-April 2000); 69/590 (May 2000-December 2000) and 69/591-69/594 for 2001. Among these documents are monthly Post Office Chief Executive Reports and Post Office Board Monthly Reports.

 Extracts from these and other documents are included below, also selected on the basis of relevance to issues of Horizon programme delays, technical problems, the acceptance of Horizon, negotiations with ICL and communications with Ministers and Government officials. Although archived separately, they are here inserted chronologically between Board Minutes for ease of cross-referencing.

 A further tranche of heavily redacted documents was released by POL via FOI in November 2021, a number of which are also included below, inserted in chronological order.

Under ‘POCL LONG TERM ISSUES’:

The Board noted:

‘- following the Board’s previous discussion on Horizon (PO97/132) it has emerged that the DSS would be recommending to Ministers that the programme be terminated. This was primarily as a result of programme delays which had seriously affected the Benefits Agency/DSS business case…’

- It was expected that the DSS would seek to move to more extensive use of Automated Credit Transfer: ‘The impact of ACT on Counters’ business was serious with a third of its income at risk’;

‘- ICL Pathway had confirmed that they were still committed to Horizon and had developed three proposals which would restore financial credibility to their business case…Counters was looking at what partnership opportunities could be developed with ICL and had recently appointed a Programme Director who reported directly to Counters Managing Director [Stuart Sweetman].

Running costs of Horizon were estimated to be £50m per annum ‘which the business had to offset by the development of new revenue streams enabled by the programme’.

Counters ‘was taking legal advice on the contractual obligations of the three parties. It was clear that the Benefits Agency could not unilaterally withdraw from the programme without leaving themselves open to legal action’.

Regarding the DSS position on the termination of Horizon, ‘Mr Roberts [PO CE] was due to meet Ann Botwell, Permanent Secretary at the DSS, at her request, on 14 January’.

The Board also noted ‘threats to the Business’ which were identified in three areas including costs: ‘increasing costs from the Horizon programme’ had, along with other factors, ‘increased cost pressures enormously’ and the inevitable migration to ACT at the end of the BPC contract ‘made the development of a robust five year plan extremely difficult but essential’.

‘Additionally, the current organisational structure needed to be reviewed as did the quality and motivation of Subpostmasters’.
It was noted in discussion that ‘cash management, automation and franchising were three issues of fundamental importance to the business and for the first time all three were under threat’.
Appendix D, Document 2: POST OFFICE BOARD CHIEF EXECUTIVE’S REPORT January 1998

Under ‘4.6 Horizon’ it was reported that conclusions of the PA Consulting review of the programme included:

‘There should be a new management structure under which ICL and POCL should face up to BA as a customer’.

‘Overall, the review concluded that the programme was worth continuing as an infrastructure investment but that it would require a firm commitment from Government. We understand that DSS officials have submitted a briefing to Ministers which recommends withdrawal from the programme. I am meeting with Dame Ann Botwell, Permanent Secretary at the DSS on Wednesday, 14th January and with Ian McCartney on Monday, 26th January and will update the Board following these meetings’.

Under ‘4.3 Horizon’:

‘I met with Dame Ann Botwell CB, Permanent Secretary at the Department of Social Security, on 14th January 1997 [1998]. She made it clear that she was under pressure from her people to withdraw from the Horizon project and was concerned about the ability of ICL to deliver the project or at least to deliver it on time. In her view, however, a simplistic move to Automated Credit Transfer (ACT) was not the answer. Having re-stated our position, we agreed that since it would be both messy and time consuming to withdraw from the ICL contract, we should allow the programme to run to its key milestone in August, making it clear that any failure to meet this key milestone, would result in a complete loss of confidence in ICL.

We have yet to secure a suitable time to update Ian McCartney on our position, following his cancellation of the meeting scheduled for 26th January 1998. I will update the Board orally on any further developments.

I understand that Dame Ann Botwell has had a subsequent meeting with Michael Scholar, Permanent Secretary at DTI’.
Appendix D, Document 4: POST OFFICE BOARD MINUTES 10 March 1998

‘...a recent review of the cost of preparing offices for Horizon had shown an increase from £300 to £900 per office and in total this resulted in a potential provision of £16m’.

‘...the original cost assumptions for preparing offices for Horizon were now two years old and the review just completed with ICL Pathway had been based on a new office profile’.

‘Mr Roberts and Mr Sweetman [PO CE and POCL MD respectively] had recently met Mr McCartney, The Post Office Minister, to outline the current position with regard to Horizon. Work was currently in hand with the DTI to prepare a case which Mr McCartney could send to his colleagues reaffirming the key features and benefits of the programme’.
Appendix D, Document 5: POST OFFICE BOARD CHIEF EXECUTIVE REPORT March 1998

Under ‘4.1 Horizon’:

‘Stuart Sweetman [POCL MD] and I met with Ian McCartney [DTI Minister of State] on Thursday 26 February to outline our current position on the Horizon project. This presentation covered the key features, benefits and current status of the programme and briefed the Minister on our wishes to continue with the development of Horizon and exploit its wider potential in conjunction with the Government and ICL. We are now working with DTI to produce a case for the Minister to send to his colleagues’.
Appendix D, Document 6: POST OFFICE BOARD MINUTES 14 April 1998

It was noted that Dave Miller, POCL Director Horizon Programme, was also present.

Under ‘BA/POCL AUTOMATION (HORIZON)’:

‘Whilst the NPV of the POCL at this point had changed little, the financial position of the other partners had worsened substantially to the point where ICL Pathway wished to renegotiate terms and DSS/BA were thought to favour termination’.

‘A review Board with independent external advice was now a possibility to provide input to a political decision on the project’s future.

The project remained central to POCL’s strategy and Stuart Sweetman [POCL MD] had already briefed DTI thoroughly on the implications for the rural network if it were aborted’.
Appendix D, Document 7: ‘POST OFFICE BOARD BA/POCL AUTOMATION ("HORIZON") BUSINESS CASE’

This document of April 1998 presents a reassessment of POCL’s costs to support and manage the Horizon programme. The recent proposal from ICL Pathway to improve its own business case ‘would result in an unacceptable financial case for the programme’ from a POCL perspective.

‘Negotiation on these proposals have not commenced and will only do so following renewed commitment by DSS/DTI/Treasury Ministers’.

An analysis of changes to the main case included a list of risks which had increased between December 1996 and March 1998. It registered a £10m increase in ‘EPOSS operating costs’.

Under ‘WAY AHEAD/NEXT STEPS’:

‘A detailed re-authority case is being prepared for presentation to MaPEC and the Board. This is planned to be finalised when the political commitment necessary has been obtained and any subsequent negotiations with ICL Pathway and DSS/BA have been completed...In the meantime work continues on the project within current authority levels and should it be necessary an interim authority for specific expenditures will be sought’.
Appendix D, Document 8: POST OFFICE BOARD MINUTES 12 May 1998

‘The Minister had agreed to help speed up the process of decision making and ensure no breakdown of communications between The Post Office, DTI, his private office and the Treasury’.

‘The Minister had accepted the proposed new Board structure but was keen in the next twelve months to appoint new Non-Executive Members...the Minister was clear that he wanted a fresh contribution from new Members’. Action noted for the Post Office Chairman was ‘To convey to the Minister the Board’s disappointment at the decision concerning the Non-Executives’.

‘A meeting with Alan Johnson MP had provided insights into the union and Government review process’.

Action for the Chairman ‘To consider attending the Remuneration Committee’s meeting with Ian McCartney in June’.

‘At its April meeting, the Board had concluded that its interests would not be served by taking immediate action against ICL for contractual failures’.

‘Project slippage now meant that a key milestone date of 5 October could not be achieved with consequences for the whole project timetable. John Roberts and Stuart Sweetman had met Frank Field, the Social Services Minister now responsible for the project for DSS, on 5 May’.

‘Frank Field invited the Post Office to join the DSS in issuing a Cure Notice to ICL to take necessary corrective action to meet the terms of the contract within 13 weeks’. Legal advice from the Post Office solicitor was that the DSS could act unilaterally in issuing a Cure Notice.

‘Ian McCartney had met Frank Field on 11 May and had withdrawn DTI objections to issuing the Cure Notice. It was also understood that Treasury officials had taken a similar position’.

Action for John Roberts [PO CE] ‘To convey the Board’s position to DTI, explaining the reasons’.

Reference was made to a proposed meeting between PO Chairman, Neville Bain, and PO CE, John Roberts, to meet the President of the Board of Trade, Margaret Beckett, on 16 June to discuss ‘current issues’.

‘Stuart Sweetman had made a presentation to the Treasury Review Group’ [the Montague Expert Panel]. It was reported that ‘The likely solution would be a ‘Third Way’ where contracts would be honoured until 2005 with a migration thereafter to a social banking platform for benefits payments’.
Under ‘4.5 Horizon’:

‘DSS issued the letter to ICL Pathway [Notice of Cure], giving 13 weeks notice under the terms of their contract. The letter made it clear that Counters were not involved in issuing this notice. There has been no reaction from ICL, and they continue to participate fully in the Treasury study. Equally, there was no further reaction from Ministers to the Board’s decision not to join DSS in issuing the notice.

The Treasury led review of the programme is expected to be completed at the end of June. Contingency planning work is taking place around 2 scenarios: the cessation of the Benefit Payment Card...and the continuation/extension of the programme to the year 2010. POCL have proposed a third possible approach involving a controlled migration to ACT, in tandem with POCL developing new, automation based, front end banking business, as part of the Government’s drive towards social banking’.
Appendix D, Document 11: A CORPORATE PLAN 1998-2003 drawn up during the time of the Montague Review:

‘Incoming Government ministers have taken the opportunity to review the justification for the project, especially in the light of the delay to the Horizon deployment programme, occasioned by the complexity of the software and the difficulty of meeting the level of security required by the Benefits Agency. At the time of writing the outcome of this review is unknown. But any policy change by the Government on this issue would have profound implications not only for the Horizon project, but for the viability of the nationwide post office network as a whole.

Automation is not only crucial to the retention of benefits distribution business, which accounts for 30% of business done over post office counters; an additional 40% of current POCL volume is from products which will require further differentiation through automation within the plan period. Moreover, the project is crucial to POCL’s aspiration to become banker to the presently unbanked. The original plan was to automate 5000 offices by the end of March 1998; this plan assumes that rollout will begin in April 1999 and be completed in April 2001 at the latest.

The impact of abandonment of the Horizon project and a move to paying benefits by some other means would be a massive loss of the transaction done over post office counters. About 4,700 agents’ offices and 500 Crown offices would have to close; the closures would be concentrated in rural areas and the poorer benefit dependent communities. The closures would involve the loss of about 17,500 jobs, cost £200m in one-off closure costs and redundancy, and would entail an annual trading loss of £200m by 2001.

The Post Office looks to the Government for continued support in ensuring that the current policy is not disturbed or subject to any major review which could damage the Horizon project’.
Reference was made to a pending meeting between PO Chairman, Neville Bain and PO CE, John Roberts with the Minister, scheduled for 15 July.

‘A report from the Treasury review panel conducted by Adrian Montague favouring a faster move to universal banking, now appeared to be just an input to the main Treasury led group making recommendations to Ministers including Ian McCartney, Geoffrey Robinson and Frank Field’.

‘John Roberts had written to Ian McCartney [DTI] and Frank Field [DSS] in support of the panel’s recommendations’.

‘The Business would fight very hard to keep Horizon alive as automation would be an essential part of future POCL strategy’.

Under ‘5.2 Horizon’:

‘The report from the Treasury-led review of the programme has been delayed, but is likely to be issued on Friday 10 July 1998. A meeting of relevant ministers to discuss the report will follow’.

‘Frank Field [Minister for Welfare Reform] is due to attend a demonstration of Horizon in Feltham on 16 July 1998’.
Under ‘5.3 Horizon’

‘The report from the Treasury-led review of the programme has now gone to ministers. This outlines three options; full cancellation, part cancellation and a controlled migration to ACT as discussed at previous Board meetings. The majority reports supports the later option, but a strong minority report from DSS and some Treasury officials support either full or partial cancellation.

Following a meeting between Peter Mandelson, Ian McCartney, Alistair Darling and Stephen Byers, the DTI has been asked by the Treasury some further questions on POCL’s strategic future. Peter Mandelson wants to reply to Treasury by 10 August and we now expect a final decision on the way forward, by the end of the month’.
Appendix D, Document 15: BOARD MINUTES 8 September 1998

‘The shortlist for new Non-Executive Members had been forwarded to the Government’ pending ‘Ministerial consent to their appointment’.

‘In August the Chairman [Neville Bain] and Chief Executive [John Roberts] had met John Prescott, the Deputy Prime Minister. Mr Prescott had been positive about the need for greater commercial freedom’.

‘The Chairman and Chief Executive were meeting Ian McCartney [DTI Minister of State] later that afternoon and the Chairman had separately sought a meeting with Peter Mandelson [DTI Secretary of State]’.

Under ‘Horizon’:

‘Treasury and DTI had submitted to Ministers a joint paper on Horizon. The paper had not been seen by The Post Office, but was understood to put forward two options. The first, which was The Post Office’s preferred option, was to continue the programme with renegotiated terms’.

‘Given the PFI structure of Horizon, The Post Office’s level of investment was low. ICL’s investment to date was understood to be £125m and if the programme were ceased, The Post Office might be forced to carry some of the write-off costs’.

In the light of the Treasury Review and the options it presented, POCL’s ‘Contingency plans were being developed against various termination scenarios’.
Appendix D, Document 16: POST OFFICE BOARD CHIEF EXECUTIVE REPORT September 1998

Under ‘5.1 Horizon’:

‘The Treasury led review group is preparing its final briefing to Ministers, which it aims to submit in the week commencing 7 September. We have been asked to provide additional information on the opportunities that Horizon provides for new products and services and an analysis of how we might expect to manage the damage to the network should Ministers decide to pursue the option of termination.

This analysis concludes that about 9,000 offices would close under such a scenario.

Given the possibility of litigation with ICL, if the Government did decide on termination, we have judged it prudent to make “behind the scenes” preparations for such an eventuality. This preparation is being managed by POCL alone, rather than in conjunction with DSS, with whom we consider there to be a potential conflict of interest. However, our intention will be to avoid legal action and try to sort out any issues with ICL as they arise’.
Under ‘4.2 Horizon’:

‘Following a meeting between ministers at the DTI, DSS and Treasury, Stephen Byers, Chief Secretary to the Treasury, has proposed that ICL, DSS and ourselves be given until mid October, to agree satisfactory commercial terms for continuing the project, including agreement on a robust timetable for implementation. Graham Corbett, Deputy Chairman of the Monopolies and Mergers Commission has been appointed, in a personal capacity, to facilitate these discussions. His terms of reference encompass chairing meetings, commissioning proposals and assessing the robustness of our retrospective claims and contributions. Our current discussions are extremely commercially sensitive, and so I will provide the Board with a separate update on any significant developments over the coming month’.
Appendix D, Document 18: POST OFFICE BOARD MINUTES 10 November 1998

Two new Government-appointed Non-Executive Board Members joined Mike Kinski who had served as a Non-Executive Member of the PO Board since June 1998.

In order to strengthen ICL’s business case for continuation of the programme: ‘Exhaustive discussions had been held with ICL to consider the development of new structural processes and organisational arrangements’. A non-binding Heads of Agreement ‘was the first step towards a closer partnership arrangement with ICL and would provide them with knowledge of potential development opportunities through Government initiatives and smart cards’.

‘If the programme were aborted, ICL would almost certainly take legal action against the Post Office and DSS’.

‘The Secretary of State would shortly be considering three options for the Horizon programme...POCL’s business case remained positive and management control of the programme had improved considerably to the extent that milestones were now being achieved’.

‘Automation was essential to the future success of Counters. However, this imperative would not cause the business to compromise system quality and reliability’.
Under ‘4.3 Horizon’:

‘The month long discussions facilitated by Graham Corbett, between ICL, BA and ourselves, came to an end without an agreement being reached. Stephen Byers wrote to ICL expressing his disappointment that unlike BA and POCL, they had not shown a willingness to move their position during the discussions’.
‘Day to day management of the programme was now compounding other difficulties. ICL had just confirmed that software due to be released shortly would require further laboratory testing. This would delay the programme by between 1-2 months and move rollout from July to September. This would further damage ICL’s credibility.

Authority to negotiate had been transferred from ICL to the parent company Fujitsu. Funding requirements had increased with the latest estimate being £800m, an increase of £200m since November.

News of the additional delays and increase in funding made it appear increasingly unlikely that the programme would proceed. It now had to be regarded as doubtful that Fujitsu would be prepared to proceed when the financial risks were so great.

Government was taking legal advice on terminating the programme something Counters had already undertaken’. 
Under ‘5.7 Horizon’:

‘Detailed negotiations continue about the future of the Horizon project. Stephen Byers, Chief Secretary to The Treasury, wrote to Keith Todd, Chief Executive ICL, on 20 November, expressing the view that the prospects of agreeing a way forward had diminished substantially as a result of a lack of movement on the part of ICL and giving them until 9 December to reach an acceptable Heads of Agreement with POCL and the Benefits Agency. Crucially, this will require progress on funding and the acceptance regime.

We have rejected ICL’s current funding proposals, which seeks to raise non-recourse funding by POCL, in effect leaving us to underwrite the funding required and accept a substantial transfer of risk from ICL. Detailed discussions continue on the funding issue and I will update the Board orally on the progress that has been made.

POCL and the Benefits Agency have been asked to make a joint presentation to Stephen Byers on Thursday 3 December about the likely impact of termination upon our respective organisations’.

‘Since the previous meeting the political scene had changed considerably with the resignation of Peter Mandelson as Secretary of State, the appointment of his successor, Stephen Byers and the appointment of Alan Milburn as Chief Secretary to the Treasury’.

‘A Ministerial meeting was today being held to consider the future of Horizon. It was hoped that the outcome would be announced quickly’.
Appendix D, Document 23: POST OFFICE BOARD CHIEF EXECUTIVE REPORT January 1999

Under ‘Impact of the Horizon/ACT Decision’:

‘The Government’s decision on Horizon/ACT has upset the natural equilibrium of the PO Network. This is because Horizon costs and the earlier loss of BA income throws the business into loss and forces cost recovery measures alongside the securing of profitable new business. Furthermore, from the agents perspective, loss of footfall combined with loss of Post Office income jeopardises the basic viability of their business. This combination creates the high risk of unmanaged change within the network...It potentially undermines our brand and means we lose control of a customer access channel’.

Under ‘5.3 Horizon’:

‘The ministerial re-shuffle which involved the key players at both the Treasury and DTI meant that we did not get the anticipated pre-Christmas, Government decision on the future of Horizon.

A way forward which would allow the programme to continue was proposed by Stephen Byers, in his role as Chief Secretary to the Treasury and supported by DTI ministers. This was based on an agreement reached during December between POCL and ICL, covering the acceptance process and revised commercial proposals in which POCL offered some concessions in return for a reduced level of financial risk around the programme...DSS have not agreed the revised acceptance process.

Our current understanding is that ministers are now aiming to meet in the week commencing 11 January and are under pressure to agree a way forward which would avoid the need for arbitration by No 10’.
Appendix D, Document 24: POST OFFICE BOARD MINUTES 15 February 1999

Attendees for PO99/21-22 included ‘Ian McCartney, Minister of State DTI, Frank Doran, MP, Parliamentary Private Secretary, Martyn Baker, DTI and Geoff Moore, DTI’.

‘Both DSS and Counters had been excluded from recent Treasury discussions with ICL and consequently The Post Office had no reliable information of when or in what form an announcement on the future of the programme would be made. The Board expressed extreme concern over this development.

Costs of maintaining the programme were for Counters relatively modest, at least until the system had been successfully installed. Of real concern, particularly to Non-Executive Members, was the exclusion of Counters from discussions and the lack of Executive control that The Post Office now had in the management of the programme. Whilst for contractual reasons, suspending the project was not an option, it was imperative that a decision on the way forward was taken quickly and in consultation with all interested parties. The presence of Ian McCartney at the Board provided an opportunity to clarify his understanding of the situation’.

Mike Kinski, Chairman of the Remuneration Committee, ‘also expressed concern, shared by the other non-executives, that the control and direction of the Horizon programme no longer appeared to be held within The Post Office.

In response, Ian McCartney agreed that the decision making process and communication could be improved...With regard to Horizon, the strategic importance of the programme was understood but DTI were also placed in a difficult position having to deal with the political implications for other Government departments. It was hoped that an announcement on the way forward would soon be forthcoming.

The White paper was under preparation and the Minister was keen that it be concluded by the end of March. It could not be publicised until the future of Horizon had been determined’.
The Chairman and I had a useful update meeting with Ian McCartney [DTI Minister of State] on 21 January 1999...We all agreed that the strategic plan was the key to our future relationship with Government. We outlined our determination to produce a tightly constructed commercial plan, which the Chairman suggested might be presented by the Board in a half day meeting with DTI and Treasury Ministers’.

Under ‘5.2 Horizon’:

‘There is still no agreed way forward for the Horizon programme, despite several ministerial meetings between DTI, DSS, Treasury and the Cabinet Office. The main area of discussion remains the benefit payment card, which POCL continue to regard as providing the best and earliest route to supporting the Government’s move to electronic transmission of information via a smartcard.

Discussions have been taking place over the last week between ICL Pathway and HM Treasury without the involvement of either DTI or ourselves’. 
Appendix D, Document 26: POST OFFICE BOARD MINUTES 23 March 1999

Under ‘CHAIRMAN’S BUSINESS’:

‘Horizon. A proposal to continue the Horizon project had been produced by Treasury following discussions with ICL. The basis of the proposal to replace the Benefits Payment Card with a Post Office benefit account into which the Benefits Agency would transfer money by ACT...A final report on the proposal was due with the Prime Minister by the end of April’.

‘Treasury continued to take the lead role in preparing the final report’.

‘ICL and its senior executives remained in a precarious position and it was difficult to see how the company would could survive if Horizon failed’.
Appendix D, Document 27: POST OFFICE BOARD CHIEF EXECUTIVE REPORT March 1999

Under ‘5.2 Horizon’:

‘Following discussions with ICL, the Treasury has produced a proposal for the continuation of the Horizon project based upon:

- scrapping the Benefit Payment Card, with the Benefits Agency moving directly to the electronic payment of benefits’

‘Intensive negotiations are now taking place between all the parties, to establish the technical and commercial viability of this proposal. The Treasury are tasked with producing a final report to go to the Prime Minister by the end of April’.

Under ‘5.5 Meeting with Stephen Byers’:

‘The Chairman and I had an initial meeting with Stephen Byers [DTI Secretary of State] on Friday 5 March, which covered progress on Horizon and the Government’s White Paper on The Post Office on which we will provide an oral update’.

‘The budget assumes Horizon will continue in its present format but takes into account latest roll-out timescales. The P&L impact of Horizon - net £51m cost - is placing severe strain on profitability and in the financial headroom required to develop the Vision. Controls will be implemented to offset partially Horizon costs and the decline in core business income’.
Appendix D, Document 29: BOARD MINUTES 27 April 1999

Despite PO99/43 ‘CHAIRMAN’S BUSINESS’ itemising four key issues to raise, only three are documented in these Minutes. Horizon, being the first, was not minuted and a Secretary’s note added ‘The remainder of this minute has been circulated to Members on a personal basis’.
Appendix D, Document 30: POST OFFICE BOARD CHIEF EXECUTIVE REPORT April 1999

Under ‘5.1 Horizon’:

‘Intensive discussions have continued between POCL, ICL, HM Treasury and DSS on the future of the Horizon project and I will update the Board orally on the current position’.
Appendix D, Document 31: POST OFFICE BOARD, PROJECTS APPROVED BY MaPEC [Major Project Executive Committee] AND REQUIRING ENDORSEMENT BY THE BOARD

A five-page report of April 1999 considered plans for expanding the existing POCL Regional Helpline as an interim Network Business Support Centre and the launch of a new Business Service Management Centre:

‘The project is key in delivering the POCL NBSC for the operational network, which would handle all incidents raised by phone from Post Offices...’

Reference is made to POCL’s obligation to provide an operational network support centre by 16 August 1999 ‘the current planned start date for the roll-out of Horizon’.

Among benefits of the proposal identified: ‘The capture and analysis of incidents and eradication of root causes will improve efficiencies within the POCL network and therefore drive down costs’.

Under ‘Risks’:

‘There is a risk that Horizon User Training and User Guidelines will be inadequate and that this will increase demand on the Network Business Support Centre, over the predicted call levels, with, consequently, additional strain placed on the planned resources’.

‘The delivery of a quality ICL Pathway solution is imperative to facilitate the Network Business Support Centre in supporting the POCL Automation Strategy. The risk of this will be managed through the Release Authorisation Process to ensure delivery of a quality product’.
Appendix D, Document 32: BOARD MINUTES 7/8 June 1999

‘The Board approved the minutes and separate record of proceedings of its meeting of 27 April 1999 and the minute of its special meeting of 23 May 1999’.

No ‘separate record’ pertaining to the meeting of 27 April 1999, and no minutes of a ‘special meeting’ on the day before agreement on Horizon’s reconfiguration was reached, are archived in this volume.

‘In advance of their meeting with the Secretary of State [DTI Stephen Byers], the Chairman [Neville Bain] and Chief Executive [John Roberts] would be provided with information on the impact that progressing the revised Horizon programme would have on POCL’s profit and loss account and cash flow. Additionally, the Strategic Plan would highlight, possibly in an annex, the impact of Horizon continuing in the guise of option ‘B’.

For Action by POCL MD, Stuart Sweetman, ‘Circulate the Terms of Reference of the Horizon Working Group established by DTI’.

‘Stuart Sweetman and John Roberts were due to meet Keith Todd [ICL CE] and Richard Christou [ICL Director of Corporate Affairs] from ICL later that afternoon to confirm Horizon accountability and seek reassurance on ICL’s capability to deliver the programme’.

‘A Horizon Working Group has been established by Ian McCartney, The Post Office Minister, and its Terms of Reference would be circulated to Board Members’.

Under ‘Meeting with Secretary of State’:

‘A meeting with the Secretary of State to discuss the working relationship with DTI following recent developments with Horizon, had been arranged for 10 June. The Chairman, John Roberts, Rosemary Thorne and John Lloyd would attend.

It was important that The Post Office was seen to be supportive of DTI and was prepared to work with them to rebuild relationships with the Treasury. It was also important to work with both Secretary of State and the Minister, rather than focus on one or other individual.

If appropriate, the Chairman would write to the Secretary of State after the meeting to confirm understanding of the key issues’.

(Page 408 of 579)
With reference to the Horizon Working Group, the Postal Minister ‘regarded the Group as having authority to work across Government. Terms of reference had been agreed and would be circulated to the Board. The Group was comprised of internal stakeholders but did not include representatives from either Treasury or DSS, who could however, be invited to attend for specific issues’.

‘At some stage Treasury and DSS would have to be included within the workings of the Group but at this stage it was not necessary. The next meeting of the Group had been scheduled for 21 June 1999 and a Trade and Industry Select Committee hearing on Horizon has been called for 14 June’.
'On the 24th May an understanding was reached on the Horizon Project which has a major impact on both the commercial strategy of The Post Office (Network Banking and Government Gateway), and on its ability to sustain the nationwide network of post offices. A formal agreement with ICL is still to be signed. There remains the option, if the Post Office and ICL agree on the codification of the 24th May understanding, for The Post Office to terminate the project subject to a payment of £150m to ICL, allowable for EFR purposes.'

'The continued deployment of counter automation is of crucial importance and roll-out is now due for completion by the Spring of 2001. The Government has said that up to £480m of past surpluses may be used to help fund automation but this will be insufficient to cover the full capital costs to The Post Office of £650m (£590m in the plan period) which includes irrevocable VAT. There may be a further VAT cost if the current Customs and Excise ruling is changed. In addition, the sale of past surpluses implies a further cost of about £40m in lost interest.'
Appendix D, Document 34: BOARD MINUTES 20 July 1999

David Miller, Horizon Programme Director, attended for PO99/78 and 79.

The two key issues which the Chairman wanted to discuss were the White Paper and Horizon: ‘The White Paper had been considered at the ‘Awayday’ as had Horizon which was also included on the Board Agenda’. With reference to the recent appearances of the Post Office before the DTI Select Committee: ‘The unprecedented appearance of three cabinet Ministers (DTI, Treasury and Social Security) at the hearing on Horizon was uneventful with each Minister presenting a consistent position’.

Under ‘Strategic Plan’ [see Appendix D, document 33, above]:

‘John Roberts [PO CE] and Jerry Cope [PO MD Strategy and Personnel] were to make a presentation to Ian McCartney, the Post Office Minister, on the 1999-04 Strategic Plan on 21 July’.

With regards to this meeting:

‘If questioned on current performance, the Chief Executive would provide an open and realistic assessment of the current position, together with how any difficulties were being addressed. The Post Office would at all costs want to ensure that agreement to the Plan was not delayed by issues affecting Horizon’.

With reference to the report ‘ACCOUNTING, FUNDING AND TAX IMPLICATIONS OF THE 24 MAY 1999 HORIZON AGREEMENT POB (99)48’:

‘Under the terms of the agreement, POCL could make use of £480m of gilt investments to fund payments to ICL’.

It was noted that: ‘Reporting the impact of Horizon within the half year accounts and taking this ‘hit’ over the short term as opposed to a five year period was considered the best way forward for The Post Office, although politically it might be unpopular. The timing of any declaration was within The Post Office’s control...’

It was agreed that: ‘Based on advice from Ernst and Young, POCL could impair the Horizon asset by as much as £550m at the half year’.

With regard to the report ‘IMPLICATION ON THE POST OFFICE OF THE 24 MAY 1999 HORIZON AGREEMENT POB (99) 47’: 

(Page 411 of 579)
The Board had considered the Horizon contract in detail at its ‘Awayday’ discussion on 19 July. Four work streams had been identified including ‘Getting the most out of Horizon’ and: ‘An action plan to progress these issues with milestone reporting to the Executive Board would be undertaken’.

The Board had to decide by 31 July 1999 whether it wanted to terminate or sign the revised contract with ICL for the automation of post offices. Key elements of the new contract were:

- Electronic Point of Sale Functionality, automated payments, local feeder systems and Order Book Control Systems (OBCS);
- additional functionality, such as Network Banking and Government Gateway to be added at an extra cost of £120m;
- system rollout by March 2001;
- the contract to terminate on 31 March 2005.

In addition the following payments would have to be made:

- Capital of £480m to be paid, less a 25% retention, over the next two years (retention to be paid over subsequent four years);
- a payment of £68m to be made on acceptance;
- following rollout, operating payments of £95m a year to be made;
- operating costs of 61% fixed, 32% variable with number of outlets and 7% variable with volume;
- unrecovered VAT costs borne by POCL; and

Termination for convenience would result in payments in the order of £450m, but if the system failed acceptance, no payments would be made’.

‘Ministers were meeting on 21 July to discuss Horizon and it would be important to ensure that the Post Office’s Minister, Ian McCartney was fully aware of the Board’s concerns. This would be communicated through a letter from the Chief Executive’ [on 29 July 1999 McCartney became Minister of State for the Cabinet Office, to be replaced by Alan Johnson].

‘System roll-out was scheduled for 23 August 1999 with acceptance needed by 18 August. There were three categories of acceptance each with a threshold which would determine whether or
not rollout could proceed: high, medium and low. One incident within the high category, or more than twenty incidents within the medium category, would result in the system not being accepted. Currently there were 270 incidents of which 1 was high and 29 were medium. Of greatest concern was the inadequate training of employees although a new package had been produced and work on other incidents was underway. At this stage it was expected that there would be no reason for not accepting the system by 18 August’.

‘Excluding the concerns over training, David Miller considered the system robust and fit for service.

A number of sub-postmasters were experiencing difficulties operating the system and in particular with balancing. To help overcome this and in addition to the new training package, additional resource (300 managers) had been allocated to ‘hand hold’ staff as offices came online. This was a considerable but necessary investment to ensure that the human/technology interface worked correctly. It was likely that a small number of sub-postmasters would continue to experience difficulties’.

‘Given that ICL’s future was uncertain POCL had arranged for Fujitsu to provide a written guarantee on future support.

Roll-out to offices would be suspended for a 4-6 week period over Christmas 1999 at which point a review of the process would be conducted’.  

‘Members were concerned that a number of technical issues remained unresolved and that the BA contract position was still unclear. These were two critical issues and needed to be progressed before the Board would be content for the contract with ICL to be signed’.

It was reported that Members ‘were content that the final decision on whether or not to sign the contract be remitted to the Chairman [Neville Bain] and Chief Executive [John Roberts]’.

‘Interim funding of £11.03m could continue until the formal MaPE meeting in September’ [Major Project Executive Committee].

Under ‘Board Effectiveness’:

‘A concern over matters reserved to the Board has been based on Government’s handling of Horizon and the role of the Board in developing a commercial way forward. This ‘hands on’ approach by Government was typical of their handling of Nationalised Industries and would not easily be
changed. With regard to actual matters reserved to the Board, something on strategic acquisition was thought appropriate’.

‘Non-Executives were now content that major issues were addressed by way of the Awayday sessions’.

The two Reports cited above which were presented to the Board to assist its decision-making during the Board Meeting on 20 July 1999 are archived in 69/588; IMPLICATIONS ON THE POST OFFICE OF THE 24 MAY 1999 HORIZON AGREEMENT of July 1999 (Appendix D, document 35, below) and ACCOUNTING, FUNDING AND TAX IMPLICATIONS OF THE MAY 24 1999 HORIZON AGREEMENT of July 1999 (Appendix D, document 36, below).

This report of July 1999, sponsored by POCL MD Stuart Sweetman, recommended that the PO Board agree to the signing of the revised ICL contract:

‘The Board must decide by 31 July 1999 if it can and wishes to terminate or sign the revised contract with ICL for the automation of post offices. The signing of the contract will commit Post Office Counters Ltd to significant financial undertakings....This paper outlines the impact and seeks Board approval to the signing of the contract with ICL’.

‘Heads of Agreement with ICL on the future of Horizon were signed on 24 May 1999. Detailed codification of these Heads into a contract are expected to have been completed by 16 July 1999 prior to the Board’s consideration of its terms on 20 July 1999’. There was ‘an option that if codification was not agreed, POCL could terminate with the payment of £150m to ICL’.

Evaluating potential impacts of the new contract, five possible scenarios were outlined: ‘All scenarios have a negative NPV. The least bad scenario, Horizon and ACT drift, has significant negative cash flows and losses over the next four years. In all other scenarios the cash flows are negative and POCL incurs losses for the next 10 years’.

It was reported that, weighing the options ‘in terms of relative positions, continuing Horizon is least bad’.

Under ‘Financial re-authority’:

‘Following the Board’s decision a business case will be produced and submitted to MaPEC for formal authority for project expenditure. However, the project will reach its Maximum Authorised Expenditure (December 1999) by the end of July. The project requires additional project funds to cover the period to the end of September 1999. The project requires, therefore, approval of payments to ICL and interim funding of £11.03m until formal MaPEC approval’.

Under ‘Recommendations’:

‘The Board is invited to note:

i) the impacts of continuing or terminating Horizon

ii) that continuing, while bad, is better than termination’.
The Board is asked to agree to interim project funding of £11.03m until formal MaPEC in September.

Payments for Horizon were to include a capital sum of £480m to be paid, less a 25% retention, over the next two years and ‘a payment of £68m to be made on acceptance’.

‘termination options available are:

- system fails acceptance, and no payments to ICL;
- for convenience, with payments in the order of £450m’.

This document of July 1999 considered issues around payments to ICL for service and asset, and the use of £480m of gilt investments to fund the payments to ICL. Additional to the £548m costs detailed in Appendix D, document 35, above, it accounted for operating payments of c£500m for the period 2001-2005.

Under ‘Impairment’:

‘Under FRS11 POCL will be required to undertake an impairment review of its assets where there are indications that the future cash flows of the business do not sustain an expected rate of return. Preliminary indications suggest that given the additional cost of Horizon together with the Government’s stated intention in the Secretary of State’s letter of May 23 1999 to move to compulsory ACT, POCL would not be able to earn sufficient return’.

Under ‘£480m funding’:

‘The Secretary of State [Stephen Byers], in his letter to the Chairman of 23 May 1999, allowed The Post Office to use £480m of current investments, and part of past surpluses, to fund the investment in the Horizon infrastructure...The issue is complicated by the difference between Government finances and accounting reality. Government finance terms the accumulation of past surpluses are part of Government finances and are, therefore, at their discretion to use as they see fit. In accounting terms, the investments are an asset of The Post Office’.

The Board is asked to agree that ‘POCL may impair the Horizon asset by as much as £550m at the half year’.
Appendix D, Document 37: POST OFFICE BOARD MONTHLY PERFORMANCE REPORT July 1999

An entry ‘Harnessing Technology/Automation’ appeared in a table of POCL Milestones, listed as one of a number of ‘overall objectives’. The corresponding milestone is identified as:

‘To continue the automation of POCL by:

- successfully completing the live trial of Horizon by the end of September 1999;

- installing 4,000 post offices with Horizon by the end of March 2000, subject to Government decision’.

Below the table is stated:

‘A revised deal on acceptance of the system was agreed with ICL in mid August. The aim of so doing was to facilitate the acceptance and roll-out of a robust system before Christmas. As part of the deal ICL accepted that they had failed the last stage A acceptance. ICL now have until 15 November to gain acceptance’.
‘At the Joint Acceptance Board on 18 August, ICL were advised that because in POCL’s view there were 3 high severity acceptance incidents and 12 medium severity acceptance incidents (6 of which had no agreed rectification plan), the contractual acceptance condition had not been met.

Following the decision on acceptance the rollout to offices scheduled during the first week of national rollout has been postponed to November. Work is underway for rollout to an additional 147 offices to help identify if the required improvements to enable acceptance are taking place. A meeting is planned for 21 September to consider if acceptance can be granted based on Pathway’s performance to that date, and a further meeting fixed for 24 September when the final decision on acceptance (and rollout) will be made’.

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2 ‘What Do They Know’ A total of 27 attachments were disclosed by POL in three batches within this FOI response of November 2021 <https://www.whatdotheyknow.com/request/authorisation_for_the_roll_out_o?nocache=incoming-1906744#incoming-1906744> accessed 28 December 2021
‘At the Joint Acceptance Board of 18 August, ICL were advised that because they had not met a number of acceptance criteria POCL would not enter into a contract with them until these had been rectified.

The decision has resulted in the roll-out being postponed to November, this has meant that further work is now taking place with an extra 147 offices being involved in roll-out. This will help to identify whether acceptance has been reached. The final decision on acceptance will be made at a meeting on 24th September, the conclusions of this meeting will be reported in next month’s board paper’.
‘On 6 September the Chairman [Neville Bain], Jerry Cope [PO MD Strategy and Personnel], and David Burn, Strategy Development Director, had met Alan Johnson, The Post Office Minister, together with senior officials from the Treasury and 10 Downing Street, to discuss the Strategic Plan...’

‘Alan Johnson’s appointment as The Post Office Minister was believed to be a deliberate move. It remained to be seen whether, as a fairly junior Minister, he had the weight to support The Post Office in discussions with other Departments’.

A full review of Business performance and corrective action was to be conducted at a special meeting of the Executive Board on 20 September.

Under ‘CHIEF EXECUTIVE REPORT’:

‘Horizon’:

‘When the Board met last July (PO99/79), POCL’s Horizon Programme Director had been confident that system acceptance would occur as planned on 18 August. Unfortunately, three high priority acceptance incidents around training, stability of the system (lockups and screen freezes) and quality of accounting data, remained unresolved and whilst ICL did not accept the categorisation of these incidents, they had nevertheless resulted in acceptance being deferred until 24 September.

A decision on national rollout had also been deferred although POCL had agreed to continue with live trials with the number of offices operating the system extended to 900.

Progress on training had gone well and the incident had now been downgraded to medium priority. However, system stability and accounting was still being analysed and rectification was not expected before December.

Under the terms of the revised contract, signed at the end of July, the final acceptance date was 15 November 1999 and it remained uncertain whether the plans that were currently in place would enable this deadline to be met. Counters was clear that the system would only be accepted if it achieved the necessary service standards.

It was noted that

The continued rollout of the system to a limited number of offices was at no cost to Counters who would not make any payments to ICL until the system has been accepted. However, the logic
behind this approach was questioned as serious doubts over the reliability of the software remained. It was also felt that by continuing unchecked it might also be harder ultimately to refuse to accept the system.

In continuing with rollout the momentum that had been established with regard to training and education of staff using the system was maintained and valuable operating experience gained.

Stopping for even a short period of time would lose this momentum and also undermine the morale of employees and particularly subpostmasters. The decision to continue has not been taken lightly but has been in the knowledge that financially the business would not suffer and that it in no way altered the fact that the system would not be accepted if it did not work. Rollout would not go beyond 900 offices. Notwithstanding this, the decision to continue would be reviewed’.

Action for Stuart Sweetman [POCL MD] ‘Review the decision to continue with the limited rollout of Horizon to 900 pilot offices’.

Under ‘FINANCIAL OVERVIEW’:

‘The auditors had now accepted that whether or not the ICL agreement was concluded before the half year, it could be accounted for within the Post Office half year accounts’.

Under ‘AUDIT COMMITTEE REPORT’ it was noted that:

‘Audit Committee had highlighted ‘three key areas of concern’, one being: ‘the apparent inadequacies in the working relationship between the businesses and IT providers in major projects’.

Jerry Cope was expected to ‘Provide the Board with a descriptive paper on apparent inadequacies in the working relationship between the Business and IT and how this was being addressed’.

Under ‘POST OFFICE SECURITY’:

‘The Post Office operated its own prosecuting authority with no reliance upon the Crown Prosecution Service or Police. 700 people were employed within The Post Office’s security community’.

Under ‘BOARD BONUS SCHEME’:

‘A meeting between Alan Johnson, The Post Office Minister and Mike Kinski and a non-executive colleague had been scheduled for later in the month. This was to discuss the proposed Board
Members’ bonus scheme for 1999-00 which had still to be agreed following a rejection of The Post Office proposal".
Appendix D, Document 41: PO BOARD CHIEF EXECUTIVE REPORT September 1999

Under ‘5.9 Horizon ICL - Pathway’:

‘The Acceptance Board for Horizon met on the 18th August and concluded that while a great deal of progress had been demonstrated there were still a number of issues needing further work before it could pass the system acceptance test. As a result of this, the national roll-out programme could not commence. The resolution of the problems are being undertaken through facilitated workshops which commenced on 25th August and will run to the 17th September. Contractually, the system must fully pass the acceptance test by 15th November at the latest.

As a consequence it may not now be possible to write off £550m at the half year if acceptance occurs in November’.

Under ‘Post Office Strategic Plan Presentation to Government’:

‘The Post Office’s Strategic Plan was presented to Government on Monday 6th September by the Chairman [Neville Bain] and Jerry Cope [PO Managing Director Strategy and Personnel]. Along with Alan Johnson MP and the DTI, representatives from the Treasury and No.10 Policy Unit were present’.
POCL and ICL Pathway signed three documents (all formally change control notes to the existing contract) on 24 September 1999. On the basis of these changes, POCL was able to agree both acceptance and release authorisation. The contract changes allow POCL to minimise the risks arising from the most serious outstanding acceptance issues, by making progress on their rectification a precondition for resumption of roll-out after the Christmas 1999 break. In addition, they provide greater POCL control of all rectification activities. A series of new projects required to support roll-out has been identified and approved by the Horizon board, and early planning work has commenced. Detailed plans for each project are being developed. An overall summary plan is being maintained and key milestones are being incorporated into the Horizon Integrated Programme Plan. Progress is reviewed at fortnightly programme management meetings.

Up to and including 8 October 1999, there are 978 offices with Horizon systems installed. Roll-out continues over the forthcoming weeks though the proposal is that this will now stop earlier than previously planned for the Christmas break. It is expected that by the end of 1999 approximately 1800 offices will be running the Horizon system. By April 2000 around 4500 offices are planned to be implemented.

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3 ibid.
Under ‘CHAIRMAN’S BUSINESS’ it was recorded that the Chairman wished the Board to address two issues of which one was the ‘Government’s failure to address and respond to important issues that affected the operation and management of the organisation. A list of these outstanding issues had been produced and would be raised with senior Government officials at a meeting arranged for the following week. Inadequate processes, an increased workload and the arrival of a new and inexperienced Minister were all believed to be contributing factors in the delays that were occurring’.

Under ‘CHIEF EXECUTIVE REPORT’:

‘Horizon. Following remedial work around two issues that had previously prevented acceptance (PO99/91), the system had now been accepted with implementation proceeding at a rate of 200 offices per week: Rollout would continue until 8 November at which point it would cease until January thereby allowing a period of analysis and assessment of implementation to date to be undertaken. When implementation re-commenced it would be at a rate of 300 offices per week’.

‘Policy and Innovation Unit (PIU). A study into the Counters Network was to be undertaken by the PIU. The study was an important opportunity to explore the issues highlighted by the Horizon decision and the DSS move to ACT. Jonathan Evans [Post Office Secretary] would represent The Post Office on the Steering Group’.
‘The traffic light for this milestone has changed to amber this month to reflect the current uncertainty around Horizon meeting the acceptance criteria. There will be a formal review around the 7th of January to assess whether acceptance criteria has been met satisfactorily.

However, POCL believe that they are still on target to achieve this milestone’.

\[4\] ibid.
Appendix D, Document 45: POST OFFICE BOARD MINUTES 30 November 1999

‘Alan Johnson, The Post Office Minister, had written to the Chairman confirming, with some caveats, that the 1999-2004 Strategic Plan had been approved’.

‘The Minister had also proposed a critique of The Post Office by City analysts with expertise in the postal sector. The analysis would look at the organisation as if it were a listed company and whilst this could be helpful in exposing how Government intervention hampered development and day to day operations, it would be important to ensure that the work did not compound existing problems and divert management time and attention’.

Unaudited accounts to the half year ending 26 September ‘include the exceptional charge in respect of Horizon of £571m’.

Under ‘FINANCIAL OVERVIEW’:

‘The Horizon exceptional charge would increase from £571m at the half year to £577 at the full year as a result of further impairment charges’.
Under ‘5.2 Horizon’:

‘1856 post offices have been equipped with the Horizon terminals. Installation has now ceased with the advent of Christmas. The system (in)stability, characterised by screen freezes/lock-outs, is now just at acceptable levels but improvements to the helpdesk and data transfer without corruption are still required before roll-out can continue from 24th January. We continue to work with them on resolving these issues’.
Appendix D, Document 47: PO BOARD PAPER November 1999

Under ‘Impact of the Horizon/ACT Decision’:

‘The Government’s decision on Horizon/ACT has upset the natural equilibrium of the PO network. This is because Horizon costs and earlier loss of BA income throws the business into loss, and forces cost recovery measures alongside the securing of profitable new business. Furthermore, from the agents perspective, loss of footfall combined with loss of Post Office income jeopardises the basic viability of their business. This combination creates the high risk of unmanaged change within the network, where the individual circumstances of the agent determines whether a particular outlet continues or not, irrespective of whether that outlet contributes to The Post Office or not. Such unmanaged change is not in the interests of The Post Office and our customers. It potentially undermines our brand and means we lose control of a customer access channel. Managed network change is our preferred way forward in that it retains customer base’.
Appendix D, Document 48: POL BOARD MONTHLY REPORT December 1999

This document was disclosed in redacted form via FOI:5

‘There is still some uncertainty around the Horizon project, due to the system’s performance. The meeting to agree the way ahead took place in the first week of January and POCL are hopeful that the traffic light status will be green by period 10’.

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5 ibid.
‘There are issues around whether Horizon meets the acceptance criteria in terms of system performance. The meeting to agree the way ahead took place in January, and Post Office Network are hopeful that the traffic light status will be green by period 10’.  

6 ibid.
This is the Board Paper discussed in the presence of the Postal Minister, Alan Johnson, at the watershed PO Board meeting of 11 January 2000 (Minutes of which are in Appendix D, document 51, below). The Paper was titled ‘AN UPDATE ON THE HORIZON PROGRAMME’, its purpose being to reassess the business case of Horizon and to ‘provide an update on programme progress, emerging issues and the plans for future commercial enhancements’.

The Executive Summary began:

‘The impact of these changes together with the requirement to account for the Horizon Contract as an impaired asset in the current year, have also had a significant negative impact on Post Office Counters Ltd’s projected profit. Total outturn profit over the five year period commencing 1999/00 is reduced by £960m

Issues and Risks

Under the Codified Agreement, signed on 28th July 1999, Contractual Acceptance of the Horizon system was scheduled to happen by the end of August. However, on 24 September 1999, ICL Pathway were adjudged to be failing on three criteria. After reviewing risks, the decision was taken to grant conditional acceptance to ICL Pathway subject to additional obligations being placed upon them.

The Horizon system has been successfully rolled out to 1,857 offices prior to suspension of rollout for the Christmas period. Further monitoring and discussion is continuing on ICL Pathway’s performance against the three failed criteria, and a final decision on resumption of rollout will be taken in mid-January 2000.

BUSINESS SPONSOR AUTHOR
Stuart Sweetman Dave Miller
Group MD Customer and Banking Services MD Post Office Network

In the full report, under ‘ISSUES AND RISKS’ was a ‘Review of post-acceptance period’:

‘3.1.1 Under the terms of the Codified Agreement, signed on 28th July 1999, Contractual Acceptance was scheduled to happen in August. However, acceptance testing identified significant faults in ICL Pathway’s service and Acceptance was deferred under the First Supplemental Agreement.’
3.1.2 By 24th September 1999, most of the faults had been corrected, but ICL Pathway were still adjudged to be failing on the following three criteria:

- Helpdesks – provision of support to offices failed to meet contracted service levels;
- System Stability – software errors were observed during live trial which could have significant customer service implications when the system is fully rolled out;
- Accounting Integrity – the lack of demonstrable controls within ICL Pathway were leading to an unacceptably high level of data with integrity problems.

3.1.3 After reviewing risks it was decided that despite these recurring problems there were significant business benefits to be gained from rollout to a larger number of offices, but that this should be subject to additional obligations on ICL Pathway. These obligations form the Second Supplementary Agreement whose provisions include:

- Targeted reduction in faults and additional functionality to put integrity controls in place;
- The time and cost adjustments which would have been due to ICL Pathway if Post Office Counters Ltd delayed rollout are now disregarded for a period of 42 days – this significantly mitigates rollout risk;
- Post Office Counters Ltd retaining the option to suspend resumption of rollout in January 2000, if the criteria at 3.1.2 are not met.

3.1.4 The Horizon System has been successfully rolled out to 1,857 offices prior to the suspension of rollout for the Christmas period. The current assessment is that ICL Pathway have achieved acceptable performance levels on the system stability issue, but that further monitoring and discussion is required on helpdesk and accounting integrity issues. As a result, a final decision on resumption of rollout will be taken in mid-January 2000’.

Under ‘3.2 Overview of relationship with ICL Pathway’:

‘3.2.2 The basis of payments included in the Codified Agreement are primarily fixed payments for specified deliverables. As a result, the behaviour of ICL Pathway appears to be a cost minimisation strategy in meeting their contractual requirements. This has meant that Post Office Network Unit management has had to take a firm negotiating line, and has
resulted in contractual discussions being escalated to senior levels before the contractor delivered acceptable performance’.
Appendix D, Document 51: BOARD MINUTES 11 January 2000

This document was released at the Postal Museum Archive in January 2022, but has been disclosed in redacted form via FOI.\footnote{n.1}

Under ‘CHAIRMAN’S BUSINESS’:

‘Alan Johnson MP, the Minister with responsibility for the Post Office, was attending for the final thirty minutes of the meeting’, Horizon being one of the three issues the Chairman intended to raise with him.

The last report to be considered, and in the presence of the Minister, is headed ‘AN UPDATE ON THE HORIZON PROGRAMME POB (00)7x’ (document 50, above).

‘The rollout of Horizon was due to recommence on 24 January. A great deal of work had been undertaken to rectify difficulties identified in three areas:

- system stability;
- accounting integrity; and
- the provision of support to offices.

Although as yet uncertain, it was anticipated that these issues would not prevent rollout recommencing’.

With reference to the Postal Services Bill: ‘the core of which was due to be drafted by 20 January to go before the Legislation Committee on 25 January. First reading was scheduled for 28 January and Royal Assent by end of July.

Parliamentary Counsel had already raised concerns over the viability of the timetable...’

Under ‘MANAGEMENT DEVELOPMENT FRAMEWORK’:

‘Currently The Post Office was only just keeping pace with what was required and had a base of managers who were no longer suited to the business’s new commercial and strategic role’. 

\footnote{n.1}
‘Roll-out continues with 2151 offices fully operational. This is the first week when the implementation rate will be 300 per week following the phased increase from 200 per week prior to Christmas. The previous system freezes, data integrity and help line issues have been addressed, through contract changes which have been agreed by both parties’. 
COMMERCIAL DEVELOPMENT OF THE HORIZON PLATFORM IN POST OFFICE NETWORK

‘In July 1999 the implications of the 24 May 1999 Horizon agreement with ICL and the Government (POB (99)47) were discussed, with the conclusion to continue with the automation programme. Further developments are covered in this paper’.

‘The review of the 24 May 1999 Horizon Agreement explored three continuation and two termination scenarios. The continuation scenario that was selected presented POCL with a forecasted NPV over ten years of £487m...’

‘Within constrained financial resources we have focused on;...

- ensuring the final Government channel strategy recognises the post office network with Horizon as an approved channel’.
Appendix D, Document 54: BOARD PAPER POB (00)17 DISCUSSED AT POST OFFICE BOARD
MEETING OF 14 MARCH 2000: UNDER ‘MEMORANDUM AND ARTICLES OF ASSOCIATION FOR
POST OFFICE PLC’

Under ‘Introduction’:

‘Following the Government’s decision, announced in November 1999, to establish The Post
Office as a plc, we were invited by DTI to prepare draft memorandum and articles of association for
the new company.

The DTI have wanted to use the M&A [Memorandum and Articles of Association] as the vehicle
through which Post Office plc would be granted its powers to operate. This route precludes the need
for such details to appear on the face of the legislation, thereby reducing the risk of prolonged
Parliamentary debate’.

Under ‘Purpose and Content of M&A’s’:

‘As Government would continue to control the new company we took the view that there was no
reason for the M&A to restrict what the company could do’.

Under ‘Government’s Special Share’:

‘While accepting the general thrust of our draft M&A, and notwithstanding the control which
arises by virtue of ownership of the company, Government have decided to use a Special Share in the
company as the means of exercising Government control. This special share would be issuable only to
the Secretary of State, and would be the vehicle by which the “arm’s length relationship”, heralded in
the White Paper, would be put into effect’.

‘Government see the special share as a mechanism for making the nature of the arms length
relationship transparent. For our part, given that there is no area over which Government as owner
could not ultimately control unless it were to dispose of more than 25% of the shares, we have some
reservations about the need for the special share, but in the end this is a matter for Government.
However, we do have concerns over the extent to which prior written consent of the special
shareholder is required, a situation which would give us less flexibility than we currently have and
would not create a real “arms length strategic relationship”.'
Under ‘Current Position’:

‘We have made strong representations to Government seeking amendments to the special share provision to address the issues described above. Following these discussions there have been indications that Government will make concessions in this important area, and revised proposals are expected imminently’.

Under ‘MEMORANDUM AND ARTICLES OF ASSOCIATION FOR NEW POST OFFICE plc’:

‘Strong representations had been made to the Government seeking amendments to the special share provision to address issues identified as potentially being in conflict with the Government’s stated aim of having an “arm’s length relationship” with The Post Office’.
‘Clarity over the role of the Board in relation to Government’ was still ‘a live issue with Government’.

‘There were still unresolved issues in the relationship between the Board and Government. The Chairman had written in June to the Minister raising a number of relationship issues and was still awaiting a reply. He was shortly due to see Sir Michael Scholar, Permanent Secretary at DTI to try to take the discussions further’.
Appendix D, Document 57: POST OFFICE BOARD MINUTES 13 March 2001

‘The Chairman reported that no real progress had been made towards agreeing a new Governance relationship between the Board and Government. The Chairman had written to the Minister with a proposal the previous year, and a substantive reply was still awaited’.

Under ‘CHIEF EXECUTIVE’S REPORT’:

‘Public Accounts Committee: the Chief Executive had appeared twice in the last month at the PAC, facing aggressive questioning on the acquisition of German Parcel and the cancellation of the benefit payment card element of the Horizon project. The PAC was due to produce a report which would lead to a response from the DTI and a Commons debate. The Board expressed concern at recommendations emerging from a Government review which, if agreed, would give the National Audit Office access to the Post Office – a level of scrutiny which a normal commercial company would not face’.
Appendix D, Document 58: CONSIGNIA PLC BOARD MINUTES 10 April 2001

‘the Chairman reported that he had also received a letter from the Minister on the subject of corporate governance – the eventual and much-delayed reply to the Chairman’s original letter of 27 June 2000, in which he had proposed a clear set of defined roles for the shareholder and the Board. The DTI’s reply was inadequate, leaving Consignia without an agreed governance framework in place in respect of its dealing with the shareholder. The Board agreed that the Chairman should pursue the issue with DTI making clear the unacceptability of the situation’.
Under ‘CHAIRMAN’S BUSINESS’ the Chairman reported:

‘He had had an unsatisfactory exchange with officials about producing an agreed memorandum of understanding about the Board’s and Government’s respective roles in terms of Corporate Governance. He now intended to let the matter lie for the time being’.
APPENDIX E

EXTRACTS FROM NATIONAL ARCHIVE DOSSIER PREM 49/476:

‘10 DOWNING STREET’

FILE TITLE ‘POLICY’

SERIES ‘POST OFFICE, PART 2’

6 MAY 1998 – 7 DECEMBER 1998


A twenty-three page report from the DTI Posts Directorate on the technology needed to support the Post Office's ten year strategy outlined:

‘It is not true that Horizon is “bespoke” technology. It consists of standard pentium pcs, NT servers, ISDN lines. The “glue” which holds the system together, the so called middleware, is a proprietary system called Riposte. It is already extensively used by the Post Office, has recently been chosen after competitive tender by the Australian Post Office...The only major bespoke element is the bpc – to meet specific BA requirements’ p.2.

‘There is little doubt that we shall in large measure pay for Horizon, and the bpc, whether we use them or not. ICL can be expected to litigate ferociously if either is withdrawn without full compensation - and their case is not a weak one’

‘We also cannot ignore the serious - perhaps even fatal - damage to ICL (and the employment consequences both directly and at their contractors) of cancellation of the project. There would also be wider implications for our relations with Fujitsu (whose major involvement in the UK, both present and planned is detailed at Annex E) and for inward investment prospects from Japan more generally. Major PFI projects, especially in the IT area would become more difficult. The reverse scenario is that successful completion of the project would position ICL as a major contender for other large projects overseas (as well as in the UK, against overseas competition), and establish the company’s reputation and position in global markets as a leading edge systems integrator’ p.4.

Annex B of the paper outlined services provided by the Post Office to Government Departments which included: the Department of Health; the Ministry of Defence (pensions); the DVLA; and
National Savings. Among the anticipated benefits Horizon would bring to the delivery of Government services were: improved reconciliation and financial control; more detailed and accurate Management Information; reduction in fraud and internal costs; faster and more accurate transaction data; prospect of new services e.g. migration to smart card based services and the provision of a single stream of automated data to support settlement between DSS, SSA and POCL.

‘In addition to assisting Government Departments/Agencies, Horizon will also assist Local Government and regulated industries in which government has an interest (Telecoms, Water, Electricity, Gas) enabling them to more easily achieve set targets (e.g. RPI-X) and objectives (e.g. deregulation)’ p.9.

Annex C analysed how POCL’s cost structure was such that loss-making marginal outlets were reliant on the support from the core network. It warned:

‘If volume, income and customer footfall in that core network were to be subject to sudden and unmanaged fall – for example, as a result of a sudden switch to ACT – and itself become unstable, then the number of offices requiring support is likely to rise in inverse proportion to POCL’s ability to support them. In those circumstances, confidence in the sub post office market would collapse and POCL and Government would face the prospect of uncontrollable network decline, from which large job losses and compensation claims by subpostmasters would result.

Not only would there be serious damage to the post office network and an inevitable decline in customer footfall and probably services in post offices, POCL’s credibility in the marketplace to attract replacement business – or indeed alternative technology partners – could be seriously undermined. In effect, the Post Office brand would be damaged. Much of this damage could be avoided by a controlled and phased reshaping of the network’ p.14.

Annex E was headed ‘FUJITSU’S RELATIONS WITH THE UK’:

‘Fujitsu has a record of serious long term investment in the UK spanning state of the art information age technologies and products. They have stated an intention to expand further in both the UK and Europe, which would build on what has been a fruitful and constructive relationship. Fujitsu has also been a good citizen, linking with DTI/Trade Association initiatives, working groups and clubs, and has expressed a wish to play a bigger role in government initiatives’ p.22.

The ‘spread and depth of Fujitsu’s UK interests’ included Fujitsu Microelectronics Ltd (including a semi-conductor plant in County Durham employing 600 people) and Fujitsu Telecommunications
Europe Ltd employing nearly 800 people in Birmingham and 140 in Belfast, as well as 260 employed directly by Fujitsu working on R&D in the UK. In conclusion it was noted that: ‘ICL and Fujitsu are run as separate entities, but there is a web of commercial agreements between the two’ p.23.
Appendix E, Document 2: LETTER FROM HM TREASURY TO THE DSS: ‘BENEFITS AGENCY/ POST OFFICE COUNTERS AUTOMATION PROJECT’ 10 September 1998

A three-page letter from HM Treasury Chief Secretary, Stephen Byers, to DSS Secretary of State, Alistair Darling, outlined the HM Treasury/Policy Unit recommendations for Horizon and included a draft remit for the proposed troubleshooter. The letter was copied to: the Prime Minister; Minister of State for the Cabinet Office, Jack Cunningham; DTI Secretary of State, Peter Mandelson; DTI Minister of State, Ian McCartney; and Head of the Home Civil Service, Sir Richard Wilson. Byers set out his expectations for Mandelson to take forward with the Post Office:

‘- plans to strengthen POCL’s management of the project,
- plans to give the management of POCL a much stronger commercial focus’ and ‘consider possibilities for further development of the system to support social banking and broader account-like services’ p.2.

‘We would need to see sufficient results within the next month to be assured that each of these elements can be delivered’. The final stream of work requested by Byers was:

‘...to prepare fall-back options based on cancelling the card, and cancelling the whole project. We will need sufficient analysis of these problems to allow us to judge whether the outcome of the negotiations offers the best value for money for the public sector as a whole’ p.2-3.

‘To make sure the threads are properly tied together, I suggest an Interdepartmental Working Group including the Policy Unit should be established.

I must look to you and to Peter to ensure that BA and POCL respectively cooperate fully with this process and enter the negotiations constructively and in good faith. They must also accept that if at the end of the process Ministers decide to proceed with the project they must commit themselves wholeheartedly to its success, equally if the vfm picture suggests an alternative route forward there will be a similar commitment from both BA and POCL’ p.3.
Appendix E, Document 3: LETTER TO HM TREASURY FROM THE DTI 14 September 1998

A two-page reply to Byers’ letter (Appendix E, document 2, above) from DTI Secretary of State, Peter Mandelson, supported the Chief Secretary’s proposals and assured:

‘My objective within the initial timescale of one month will be as a minimum to agree with the Post Office Board the actions that need to be taken on each of the items listed; to ensure that practical measures are put in place as quickly as possible to take these actions forward; to institute arrangements to monitor progress on a regular basis; and to be in a position to report back to colleagues such substantive progress as may have proved possible on each by the end of the first month’ p.1.
Appendix E, Document 4: BRIEFING TO THE PRIME MINISTER FROM NO.10 POLICY UNIT:

‘BA/POCL’ 14 September 1998

A four-page briefing from Geoff Mulgan of the No.10 Policy Unit outlined Horizon’s contractual impasse and considered the options. He began:

‘Alistair Darling raised this issue with you at today’s bilateral’ p.1.

Mulgan continued:

‘The project, known as Horizon, is now 2-3 years behind schedule. ICL is clearly at fault, but the project has also been mishandled within government, with some of the delays clearly the fault of the Benefits Agency’.

‘The issues are very complex. At first glance, it would be more logical to cancel the project, free the DSS to move quickly to ACT, and subsidise the Post Office directly and encourage it to use a tried-and-tested technology. However, in our view, there are decisive arguments for trying to find a way to continue’ p.2.

‘Not nearly enough work has yet been done on what would follow cancellation of Horizon. The Post Office has not prepared an adequate fallback plan for introducing new technologies and banking services, and the DSS has not developed a fully worked-up strategy for moving to ACT. Cancellation is therefore riskier than continuation.

Cancellation would be bound to lead to litigation; lawyers have given conflicting advice about who would win and the extent of exposure, but whatever happens would be messy, and could cost government as much as £200m (I have asked Charlie Falconer to advise on this)’.

‘In the light of these considerations, we have recommended that a way should be found to make Horizon work. We have encouraged Stephen Byers to become closely involved as an arbiter, with Jack Cunningham also briefed in case some ‘enforcing’ is needed at a later stage’ p.3.

‘A joint note prepared over the summer by the Policy Unit and Treasury recommended that we should attempt to salvage the project’ but it was dependant on the basis that ‘the management of POCL generally and the project in particular will be revamped’.

‘It has to be stressed that this approach is very much a second or third best. No one is very enthusiastic about it, and no one will be particularly happy with the result of new negotiations. However the alternatives all look worse’ p.4.
A handwritten note to the Prime Minister from his Principal Private Secretary, Jeremy Heywood, was attached to the above briefing and concluded ‘...we believe the new card can form the basis of bank accounts for the unbanked – a key objective’. The recipient’s handwritten reply: ‘Yes but when? OK let us keep it until S.B. [HM Treasury Chief Secretary, Stephen Byers] reports’.
A one-page letter from Jeremy Heywood, Principal Private Secretary to No.10 Policy Unit, Geoff Mulgan, began:

‘The Prime Minister was grateful for your minute of 14 September. He is content to go along with your advice, at least until the troubleshooter reports back in a month’s time’.
Appendix E, Document 6: BRIEFING FOR THE PRIME MINISTER FROM THE NO.10 POLICY UNIT:  
‘BA/POCL HORIZON’ 16 October 1998

A one-page briefing from No.10 Policy Unit, Geoff Mulgan, titled ‘BA/POCL HORIZON’ summarised for the Prime Minister the contractual impasse which had arisen. Mulgan reminded Blair that negotiations had commenced one month previously in the light of delays and doubts over Horizon’s viability but that now ‘negotiations have reached an impasse’ and reported that ‘To bring matters to a head Stephen Byers will write to ICL on Monday giving them two more days to come back with more acceptable proposals’.

He signalled that a comprehensive report on options was being produced for the following week but in conclusion warned:

‘The key point is that it now appears to be significantly more likely that the government will have to cancel the project’ [emphasis as in original].
Appendix E, Document 7: BRIEFING FOR THE PRIME MINISTER FROM NO.10 POLICY UNIT:
‘BA/POCL - SUMMARY OF POSITION’ 23 October 1998

A three-page briefing from No.10 Policy Unit, Geoff Mulgan, gave more detail on the options for Horizon and comparative costings:

‘There is no deal: the main barrier is money, and the prospects of a return to ICL. The gap is £200m - effectively ICL want the government to cover some of the losses they have already incurred’ p.1.

‘The work on fallback options, mainly done by KPMG, has come on well. The alternatives, involving the use of different technologies and an aggressive push into banking, look more attractive and more realistic than before’.

‘The Post Office work on improving management and preparing the way for a more transparent funding regime has been weak’ p.2.

‘Whereas in early September it appeared that cancellation would cost government as a whole £1bn more than continuation, the latest VFM analysis shows that there is now little real difference between the options...there is no longer a compelling economic case for continuing with the project’.

Mulgan gave the options as: continuing to attempt to secure a deal; or to make a judgement that a deal was unlikely to be achieved. The preferred HMT/DTI option of continuation ran risks which included being ‘left with a less than perfect Benefit Payment Card long into the future; since ICL no longer see a strong commercial benefit in the project, they may not commit fully to it, threatening further delays and technical problems in the future’.

The alternative of cancellation risked ‘a lengthy, and messy, legal battle with ICL’ p.3.

‘The view of the DTI and HMT is that we should still attempt to strike a deal. HMT put the odds of success at around 60:40. DSS would still prefer cancellation. My view is that, although the options are finely balanced, cancellation is becoming more attractive’.

‘Discussions are continuing over the next week with ICL and with the relevant ministers. A full report will be provided for you on 7/8 November’.

A handwritten note to the Prime Minister from his Principal Private Secretary, Jeremy Heywood, was attached to the above briefing:
‘PM

It is very difficult to second guess this one, but my own instinct would be to be pretty risk averse at this point of the economic cycle. To pull the plug on this project could do a lot of damage to ICL & cause a major row without any guarantee of getting anything better. The idea of a joint venture between POCL and ICL must be worth exploring. Worth getting Charlie’s view?’

The recipient responded: ‘Yes but I share yours’.

A four-page briefing from Special Advisor at the No.10 Policy Unit, Geoffrey Norris, was attached to proposals by DTI Secretary of State, Peter Mandelson, on Post Office reform although the attachment is not included in this dossier. The briefing was copied to: Minister of State at the Cabinet Office, Lord Falconer; Chief of Staff, Jonathan Powell; and No.10 Policy Unit, David Miliband.

Mandelson’s ‘radical’ proposals were reported to include greater commercial freedoms for the Post Office, a maintenance of full public ownership of the Post Office ‘for the time being’ and for ‘Ministers and officials to have an arm’s length, strategic relationship with the Post Office’ p.1.

Regarding the lucrative monopoly enjoyed by the Post Office, Norris noted:

‘Its owner, the UK Government, is happy for that monopoly to be exploited; over the past four years the Exchequer has creamed off four fifths of the profits. Ministers and officials sometimes intervene in the Post Office’s affairs, delaying or overriding management decisions’ p.1-2.

Under Mandelson’s proposals ‘Ministers and officials would pull back their involvement in Post Office decision-making’ p.2.

Norris sought the Prime Minister’s approval for the proposals with a view to introducing private shareholders in the medium-term future. This, he argued ‘would foster a more commercial ethos in the organisation and require government to pull right back from intervening in its affairs’ p.4.

But a two-page handwritten note to the Prime Minister from his Principal Private Secretary, Jeremy Heywood, attached to the brief disagreed, adding:

‘...I think there is a very strong case for going further than Peter or Geoffrey suggest and agreeing to a 20% sale to the private sector + 5% put in trust for employees. The alternative they suggest seems to me to be conceptually flawed: to give the Post Office management more freedom from its only shareholder (HMG) and more freedom to do what it likes commercially is a recipe for disaster which we would never advocate in any other context. All managers need some effective external scrutiny from somewhere!! They cannot simply be left to get on with whatever they want, free from any effective accountability. Peter seems to think you can square this circle by introducing a tough new external regulator and agreeing to liberalise parts of the market (while still keeping the P.O. in a privileged monopoly position). But does anyone really believe that if BT had been
left in public ownership, and subject only to OFTEL scrutiny, it would have been transformed in the same way that it has been?” [emphasis as is original].

The recipient’s handwritten response: ‘I agree with you. Perhaps I should see the unions - PTO’. On the reverse: ‘An alternative would be to commission an independent report on best way forward and if it recommends partial sale, then we could do it’.

A one-page note from the Prime Minister’s Principal Private Secretary, Jeremy Heywood, to Minister of State at the Cabinet Office, Lord Falconer, confirmed the Prime Minister had been updated on the failure of negotiations and now sought Falconer’s advice on what approach should be taken:

‘The Prime Minister has seen Geoff Mulgan’s note of 23 October [Appendix E, document 7, above].

The Prime Minister would welcome your views on this issue. His own instinct is that we should be pretty cautious about pulling the plug on the project at this stage in the economic cycle unless we are pretty confident that the alternative strategy will deliver’. 
Appendix E, Document 10: DRAFT LETTER FROM CHIEF SECRETARY TO THE TREASURY TO ICL November 1998

A three-page without prejudice letter which was to be sent from HM Treasury Chief Secretary, Stephen Byers, to ICL CE, Keith Todd, was drawn up by HM Treasury. An attached note, to the PPS of the DSS Secretary of State, Alistair Darling, indicated that the draft had been circulated for comment to the PPS of the Prime Minister; PPS/Secretary of State for DTI, Peter Mandelson; PPS/Chancellor of the Duchy of Lancaster, Jack Cunningham; PPS/Minister of State at the Cabinet Office, Lord Falconer; APS/Minister of State for DTI, Ian McCartney; PS of the Head of the Home Civil Service, Sir Richard Wilson; and No.10 Policy Unit, Geoff Mulgan.

In response to the ICL proposals of 9 November, the HM Treasury position in this draft letter was unequivocal:

‘...the lack of movement on your part on the wider deal over the past two months is extremely discouraging and there remains a wide gap between the two sides’ p.1.

‘It would be unthinkable for the public sector to agree to anything remotely resembling these terms’ p.2.

‘My colleagues and I are forced to conclude that the prospects of agreeing an acceptable basis for continuing this project have diminished substantially. In view of your failure to deliver on schedule and your unreasonable commercial demands we must consider what alternatives are available’.

‘...we are reluctantly prepared to give you until 9 December to reach heads of agreement with the public sector. But let me make it absolutely clear that if an acceptable deal cannot be struck by this date we will be forced without further discussion to move to our alternatives’.

‘Furthermore we would need assurances from your parent company, Fujitsu, that you will deliver and that you have adequate financing to take forward the project without transferring risk back to the public sector. It is simply not acceptable to us that you and they should be expecting the public sector to bail you out of the consequences of your own failure to perform’ p.3.

This two-page communication was sent from Christopher Woolard, Private Secretary to the DTI Secretary of State, Peter Mandelson, to Martyn Bake, CGBPS (Director Consumer Goods, Business and Postal Services).

It was titled ‘POST OFFICE REVIEW - MEETING WITH CHANCELLOR: 17 NOVEMBER’ and it summarised details of the meeting between the Chancellor, Gordon Brown, and DTI Secretary of State, Peter Mandelson, to discuss the latter’s proposals for a more commercially orientated Post Office.

Woolard recorded the ‘general agreement that HMG was presently bleeding the company to death. This had led to under investment in new technology and better practices, which in turn was costing the company market share’ p.1. Proposals to reduce the dividend payable to the Government, however, would impact HM Treasury revenue in the short-term. Mandelson expressed his intention to issue a White Paper in January 1999 and to implement his changes for greater commercial freedoms for the Post Office by April 1999.
Appendix E, Document 12: LETTER TO THE PRIME MINISTER 25 November 1998

A one-page letter from Derek Scott, a No.10 economic advisor, made reference to the recent meeting between the Chancellor, Gordon Brown, and DTI Secretary of State, Peter Mandelson (Appendix E, document 11, above). Scott questioned Mandelson's 'extraordinary view' that a regulator would provide adequate oversight for the Post Office under his proposals for a new ownership structure: ‘...there is something incongruous about the government retaining the position of sole shareholder while at the same time disclaiming any interest in how the assets are managed.

I realise that the politics of this decision are very difficult, but if this rules out the possibility of an immediate shift in the ownership structure of the Post Office we should probably make it clear that we see the end solution as one in which the Post Office is in the private sector’.
Appendix E, Document 13: LETTER TO THE PRIME MINISTER FROM DTI SECRETARY OF STATE:

‘FUTURE OF THE POST OFFICE’ 1 December 1999

In this one-page letter, DTI Secretary of State, Peter Mandelson, sought the Prime Minister’s ‘urgent attention’ with regards to what he argued was Gordon Brown’s ‘unnecessarily cautious and restrictive’ attitude regarding the liberalisation of the Post Office. He maintained the Chancellor’s approach ran contrary to the spirit and intent of a recent HM Treasury Post Office Review and concluded:

‘I am afraid that, after a year of being somewhat messed around by us, the Post Office are not in the mood for more indecision or fudged solutions’.
Appendix E, Document 14: LETTER TO THE PRIME MINISTER FROM THE NO.10 POLICY UNIT:

‘POST OFFICE’ 2 December 1999

A one-page note from No.10 Policy Unit’s Geoffrey Norris was copied to: Minister of State at the Cabinet Office, Lord Falconer; Chief of Staff, Jonathan Powell; and Principal Private Secretary to the Prime Minister, Jeremy Heywood. It began:

‘We are in trouble on the Post Office’: [emphasis as in original].

‘The Chancellor and Peter M [Mandelson] are at complete loggerheads over what reforms we should introduce’.

‘The PO Board is aware Ministers are split’.

‘From the start, the Government’s review of the PO has been dogged by delay and cantankerous disagreement. The PO was damaged by the previous Government’s failure to agree on how it should be reformed, now we appear to be doing the same’.

A handwritten note from Jeremy Heywood, Principal Private Secretary to the Prime Minister is attached and reads:

‘PM

Geoffrey is dead right on this. Gordon’s proposals on commercial freedom for the Post Office are extremely tough.’.
Appendix F, Document 1: LETTER TO THE BRITISH AMBASSADOR TO JAPAN FROM FUJITSU VICE CHAIRMAN: ‘BA/POCL AUTOMATION PROJECT’ 4 December 1998

A three-page letter from Fujitsu Vice-Chair, Michio Naruto, addressed to Her Britannic Majesty’s Ambassador, Sir David Wright, made clear his dissatisfaction with the current state of the Horizon deadlock. He began:

‘Known as the Horizon project, this is one of the largest and most complex IT projects in Europe. It is also one of the earliest attempts to use PFI for a large and complex Information Technology project’ p.1.

‘The project is running two years behind schedule and is heavily over budget. Because this is a PFI project, the risk is being borne by ICL. However, ICL is in dispute with the project’s sponsors. In ICL’s view, the sponsors were responsible for the many changes made to the project’s technical specifications thus causing the bulk of the delays and the additional costs which have ensued.

From the start, this project was not treated properly as a PFI by the two sponsors. A Project Delivery Authority (PDA) of more than 150 officials drawn from the two sponsoring Government Agencies was established whose sole task was to oversee every aspect of the project. But the PDA had no authority to act without seeking prior permission from the sponsors, thus adding to the delays and costs of the project’ p.1-2.

‘Now Treasury Minister Byers is accusing ICL of being in default and of making unreasonable commercial demands’.

‘Fujitsu has been kept fully informed of the unhappy developments in this case. Fujitsu will continue to support Keith Todd and his management team. Fujitsu has already informed DTI officials of
Furthermore, Fujitsu will continue to support ICL in good, well founded PFI contracts such as the DTI Elgar project. But ICL and Fujitsu will now be much more careful about PFI in future, given the developments in Horizon’ p.3.
Appendix F, Document 2: LETTER TO HM TREASURY CHIEF SECRETARY FROM ICL 9 December 1998

A four-page without prejudice letter to HM Treasury Chief Secretary, Stephen Byers, from ICL CE, Keith Todd, outlined the supplier’s revised and final offer, which was supported by Fujitsu, claiming it had been ‘impossible to reach Heads of Agreement’ within the prescribed timescale ‘given the prohibition imposed by Ministers’. A handwritten note addressed to ‘Jonathan’ attached to Todd’s letter from ICL Director of Corporate Affairs, George Hall, warned: ‘In reality, if the “public sector” doesn’t now start to act in good faith, then the disaster scenario will play out’. Further correspondence from Hall suggests the recipient here is likely to have been No.10 Chief of Staff, Jonathan Powell.
Appendix F, Document 3: BRIEFING FOR THE PRIME MINISTER FROM NO.10 POLICY UNIT:

‘HORIZON, ICL AND THE POST OFFICE’ 9 December 1998

This five-page briefing to the Prime Minister from No.10 Policy Unit, Geoff Mulgan, was copied to: the Minister at the Cabinet Office, Lord Falconer; Chief of Staff, Jonathan Powell; No.10 Policy Unit Director, David Miliband; Principal Private Secretary to the Prime Minister, Jeremy Heywood; and No.10 Policy Unit, Geoffrey Norris. The briefing referred to an attached paper (not included in this dossier) said to outline Horizon options and to make two recommendations. Mulgan began:

‘A decision now needs to be taken on whether to proceed with the Horizon project’ [emphasis as in original] p.1.

‘The project is nearly three years behind schedule, having been plagued with problems’.

‘The sums involved are big. Total spending, through DSS contracts, will be around £5bn between now and 2008’.

‘...despite the continued opposition of the Benefits Agency, it will almost certainly now be possible to reach a settlement’.

‘However, the decision is not clear cut. The problems that have beset this project may well continue; continuation would lock the government in for 10-12 years to what many see as a flawed system; cancellation on the other hand would enable the Post Office to take advantage of newer, cheaper and more flexible technology while the DSS could move rapidly to paying benefits into people’s bank accounts. Cancellation would also release £2-3bn over the next decade to be spent in other ways to support and automate the Post Office’ [emphasis as in original] p.2.

Mulgan advised that, in making a judgement, a number of considerations were of ‘paramount’ importance, the first being:

The virtues of the project itself: overall, Horizon now looks increasingly flawed. It is centred around a technology, the Benefit Payment Card (BPC), that is both overengineered - and very expensive - and likely soon to be obsolete. Although they remain underdeveloped, the alternatives, which involve simpler, off-the-shelf banking technology, look increasingly attractive, offering a route to universal banking, automated Post Offices, and better provision of government information’.

Other considerations included the implications of cancellation for:

-the Post Office: ‘...a continuing stream of closures’;
ICL: ‘Cancellation would directly affect 270 jobs in ICL’, ‘a heavy (£200m) loss’, ‘a big effect on their reputation’ and ‘a protracted legal battle with government’ p.3;

Fujitsu and ‘possibly with Japanese investors in general’;

PFI: ‘continuation would set a precedent for renegotiating PFIs that are failing; cancellation would make the funding of large IT projects harder in the future’.

Benefits Agency: ‘DSS estimate that they would save £800m if the project was cancelled’ p.4.

On the way forward:

‘Departments remain divided. Alistair Darling [DSS Secretary of State] remains strongly opposed to continuing. Ian McCartney for DTI will argue strongly for accepting a deal (Peter Mandelson has largely kept out of the discussions). The Treasury is divided at official level...’.

‘At first glance, most of the factors point toward continuation. However my view, which Lord Falconer broadly shares, is that although short-term considerations and expediency point strongly towards making a deal, this will in the long-run prove unsatisfactory, leaving the Post Office and government dependent on a hugely expensive, inflexible, inappropriate and possibly unreliable system’.

Mulgan reported that in the Policy Unit’s view ‘...the best outcome would be a deal with ICL to continue with an automation strategy which drops the Benefit Payment Card but focuses instead on helping the Post Office to provide banking services, but without the many problems associated with the BPC’ [emphasis as in original].

Such a course would be conditional upon firstly rejecting ICL’s 9 December offer (which had been neither accepted nor rejected by the government) ‘However, it will not be possible to reach this position without first rejecting ICL’s offer and making it clear that the government no longer wishes to continue with Horizon in its present form. There would then be a danger that ICL would refuse to negotiate over a deal which excluded the BPC. In other words this option is only feasible if the government is prepared to accept the significant risk that it would in practice lead to complete cancellation.

Our view is that the case for cancellation is, just, strong enough to warrant that risk, although it would need to be announced alongside a strong package of support for Post Offices and for an alternative automation strategy’ p.4-5.
The three choices were outlined as: Option 1, continuing the Horizon contract: Option 2, seeking a deal which excluded the BPC: or Option 3, terminating and pursuing an alternative.

Mulgan concluded his brief to the Prime Minister ‘Do you wish to give a steer?’.

A handwritten response, at the bottom of the final page read:

‘I would favour option 1 but for tech’s statement that the system itself is flawed. Surely there must be a clear view on this. Speak to me on Mon. i.e. reading the enclosed papers, it all focuses PTO on the terminal deal. But there the risks are pretty even, probably coming down on the side of continuing. The real heart of it is the system itself’

A two-page letter from DTI secretary of State, Peter Mandelson, to HM Treasury Chief Secretary, Stephen Byers, registered disappointment at the failure of Ministers to arrive at a consensus on Horizon’s future at a meeting the previous day. Mandelson set out his support for the current programme of work to continue, arguing:

‘There is still some way to go to complete the Horizon project, but the basic development work has been thoroughly evaluated by independent experts who have pronounced it viable, robust and of a design which should accommodate future technological developments’ p.2.

‘I believe the only sensible choice is to proceed with the Horizon project. It is the way forward which offers the least commercial and technological risk’. He supported a deal with ICL whilst conceding more improvements had to be negotiated on key issues: ‘particularly acceptance procedures’.
This fourteen-page report provided an assessment for Ministers of ICL’s ‘best and final offer’ of 9 December, presented the case for and against continuation versus termination, and set out an exit strategy for Ministers in the event of their deciding to terminate Horizon. Annex B (Advice from the Law Officers), Annex C (Presentational Strategy) and Annex D (letters from PO Chairman, Neville Bain and DSS Secretary of State, Alistair Darling) are missing from this dossier. By way of background, the report summarised how, after the Corbett negotiations had failed to establish an acceptable commercial basis on which the Government might proceed, ICL were given two weeks to develop a public/private partnership with POCL as a means of enabling ICL to move closer toward the public sector’s position. ICL’s subsequent proposal, submitted on 9 November 1998, was considered by Ministers to show insufficient movement towards the public sector but on 20 November 1998 the Chief Secretary to the Treasury gave ICL a final period until 9 December for the company to advance its position and reach heads of agreement. Officials prepared fallback options and an exit strategy to the same timescale which, Ministers were advised, ‘must be based on lawyers’ assessment of the strength of the public sector’s case for termination’. Differences in legal advice, however, led the Chief Secretary to instruct the Treasury Solicitor to approach the Law Officers for clarity. Subsequent advice from the Solicitor General, after consultation with Treasury Counsel, Jonathan Crow, was said to be in Annex B of this report.

It was reported that in further negotiations, key obstacles to a deal ‘have centred on the overall NPV gap between the public sector and ICL; the level of risk transfer to the public sector; and the acceptance testing process’. ICL’s ‘best possible’ offer of 9 December 1998 was conditional upon:

- the sponsors’ giving up termination rights before full functionality for BA is available and after limited testing of the system in a live environment
- guaranteed payments from the start of National Rollout
- appointment by agreement of an Independent Expert to resolve acceptance disputes quickly…’

p.4.

The authors of the report observed that: ‘The proposals on acceptance testing are still unacceptable to the public sector parties as they stand. But POCL believe that a way through can be
found since, they argue, ICL have accepted the principle that the system must be seen to work in live operation before it is accepted’ p.5.

It was noted that draft Partnership Heads of Agreement had already been agreed, but not signed, between ICL and POCL whilst BA proposed that ICL’s offer should be rejected. It was reported that:

‘The Horizon Programme Director has confirmed that a programme milestone will be missed in December. This slippage to the programme timetable is likely to add further delay, complicated by the Millenium, which will mean lost fraud savings and additional administrative costs to BA’ p.6.

The report attempted to compare ICL’s offer with the fallback option (ie termination), finding ‘The fallback option now looks marginally better value’ whilst conceding the failure to factor in risks surrounding the options and ‘significant margins of error around the modelling’ p.8.

Considering the potential impact of termination on IT and inward investment, the report recognised it would be a ‘major blow’ to ICL, citing Fujitsu’s claim that ‘it could lead to the collapse of ICL’.

‘Failure of the project would mean that ICL made a total loss of £350m in 1998; it would destroy its prospects of flotation in 2000 and might lead Fujitsu to divest itself of the company. Given the economic climate in Japan, Fujitsu’s attitude may well have hardened’.

‘The most recent approach from Mr Naruto, Vice Chairman of Fujitsu, and Chairman of ICL, to our Ambassador in Tokyo, Sir David Wright, suggests that cancellation could have a serious effect on our relations with Fujitsu. Fujitsu has been a major inward investor in the UK, with over £700m invested in the last decade’ p.9.

Regarding the best exit strategy, advice from the Law Officers outlined two options: either for the public sector to serve a three month notice terminating the contracts, or ‘to serve notice making time of the essence’. Their advice drew attention to a number of legal obstacles which, if the public sector were to terminate the contract under a three month notice, might risk the public sectors themselves being held to be in breach of contract and therefore liable for damages to ICL in excess of £200m:
‘firstly the public sector parties right to terminate depends on a particular construction on the contractual documents. Whilst that construction is certainly arguable and may be upheld by a court, there is a considerable risk that it might not be;

secondly there is a considerable risk that the public sector parties may be held to have waived their right to terminate based on the failure to reach contractual milestone in November 1997’ p.10.

Although it was thought that the public sector had a good prospect of showing that the responsibility for Horizon’s delays rested with ICL ‘there are inherent risks in predicting the outcome of litigation before all the evidence is available’.

The Solicitor General’s view was that the first option, though quicker if Ministers determined to terminate the contract, carried greater risk of exposure of the public sector parties to expensive litigation whereas:

‘The second option of serving notice making time of the essence is slower and deprives the public sector parties of the element of control, but it is legally safer. The Solicitor General comments that a time of the essence notice will be seen, correctly, as giving Pathway a final chance to proceed according to contract. Ministers should therefore only embark upon this course if they regard the performance of the existing contract as a satisfactory outcome. If their unequivocal wish is to terminate, the Solicitor believes that it would not be right to make time of the essence.

Under any notice making time of the essence, the performance would be of the existing contract (although in the view of BA/DSS it will be difficult to establish beyond doubt what that contract is) and not of any contract which might have been varied under any discussions between the parties. It is therefore the performance if the existing contract which Ministers need to assess as being a satisfactory outcome’ p.11.

‘Whatever option is pursued, there is always the possibility that ICL will sue the public sector parties for anticipatory breach alleging that the conduct of the public sector parties has made the performance of the contract impossible’.

‘Ministers are therefore invited to decide:

- whether they wish to terminate the contract forthwith, by issuing a 3 month notice, since this is the quickest route to achieve termination; but recognising that this approach involves additional legal hurdles and carries greater risk of litigation;
whether to issue notice that “time is of the essence”, setting a reasonable period of up to 9 months for completion of the operational trial, on the grounds that this is the safest route to termination; and in the expectation that ICL will either be forced to terminate the contract themselves, or will complete the operational live trial on the basis of the existing contract to the deadline. In other words this option gives ICL the opportunity (however likely or unlikely) to complete the contract on the existing terms’.

‘We envisage that the Chief Secretary would write to ICL in parallel, noting that the public sector could not accept ICL’s offer, that discussions around a re-negotiation of the contract had ended and referring to the notice served by the parties’.

The authors of the report expressed a preference for a negotiated settlement whilst outlining the possibility that a route might be found to continue with the project without the BPC but noted: ‘...the PO do not favour this option’ and, since it would require the consent of ICL ‘...it is not, strictly speaking, a choice available to Ministers at this stage’ p.12.

Annex A set out a comparison between the proposals following (i) the Corbett discussions (ii) ICL’s 9 November 1998 offer and (iii) ICL’s 9 December 1998 offer. Each proposed an ‘Option to purchase system on termination’. By December the caveat ‘if it has value’ was added.

With regard to acceptance, Corbett discussions concluded that there should be no more than 10 category B faults. In the November proposal, ICL wanted this figure to be ‘no more than 230’; by December it had moved to ‘no more than 100’ p.14.

A one-page note from the Prime Minister’s Private Secretary, Jeremy Heywood, to No.10 Policy Unit, Geoff Mulgan began:

‘The Prime Minister was grateful for your minute of 9 December’ [Appendix F, document 3, above].

‘The Prime Minister was concerned about your view that the Benefit Payment Card is over engineered and is likely soon to be obsolete. His clear preference would be to avoid cancelling the project, but to go for a variant of your Option 1 and Option 2. We should retain the BPC but seek to ensure that over time it delivers real benefits and provides an effective transition path to a satisfactory long term position. If necessary the Prime Minister thinks it may be sensible to give ICL a financial incentive to improve the BPC in this way’.

A four-page letter from DTI Minister, Ian McCartney, to HM Treasury Chief Secretary, Stephen Byers, outlined the support which he and DTI Secretary of State, Peter Mandelson, gave to the ICL offer of December 1998 for the continuance of the BPC. He argued:

‘...on slippage we agree that ICL’s failure to hit the milestone due on 14 December is disappointing...Whilst we cannot entirely rule out the possibility of further delays to Horizon, we at least have the assurance that it has been extensively and comprehensively audited by independent experts, and shown to be in good shape’ p.2. It is not clear when, or by whom, these assurances were given.

A four-page letter from DSS Secretary of State, Alistair Darling, to HM Treasury Chief Secretary, Stephen Byers, referred to the ‘seeming impasse that we reached in our discussions on Monday evening’. It was copied to: the Prime Minister; DTI Secretary of State, Peter Mandelson; Minister of State for the Cabinet Office, Jack Cunningham; DTI Minister Ian McCartney; and Minister at the Cabinet Office, Lord Falconer. Having laid out the common ground between the opposing positions with regard to developing a Smart Card/ banking facility from the Horizon project, Darling detailed his significant reservations over simultaneously developing the BPC:

‘There are, however, a number of well-rehearsed reasons why I would find it difficult to justify continuing with the BPC element of the project against the backdrop of ICL’s failure to deliver’ p.3.

‘DSS Accounting Officers tell me they will need a formal Direction in order to continue with the Benefit Payment Card element of the project: we understand from NAO that to plead wider Government policy interests is unlikely to provide adequate cover for the Accounting Officers, under Parliamentary scrutiny’. Darling warned of impending DSS Select Committee scrutiny and a NAO VFM inquiry into the Horizon project initiated by the Public Accounts Committee ‘… with the inevitable questioning of the reasons for supporting ICL in the face of its failure’.

Darling found the ICL proposal of 9 December unacceptable ‘against a background of ICL’s failure to deliver’ and questioned their intention to dilute acceptance criteria ‘which would put at risk ensuring that the service provided by the system will work’ p.4.
Appendix F, Document 9: LETTER FROM THE PRIME MINISTER’S POLICY UNIT TO DSS SECRETARY OF STATE 18 December 1998

This two page letter from No.10 Policy Unit, Geoff Mulgan, to DSS Secretary of State, Alistair Darling, sought to resolve Horizon’s current impasse:

‘I share many of your concerns about Horizon, and pressed very hard for the work on alternatives to be done. That showed an alternative route might be feasible. However, the weight of factors militating against cancellation - the effects on ICL, Fujitsu, the Post Office network and government as a whole (not to mention uncertainty about whatever system is used to replace it), mean that it will almost certainly be too high risk to win much support across government. As you say in your letter, we will therefore have to find a way to make Horizon work’  p.1.

Mulgan reported that, since a number of meetings on 14 December, discussions had been around a swift evolution from the BPC into a smart card with more uses, both for banking and government direct.

‘From the government’s point of view this is a much more attractive end point than the original Option 1...The difficult issue is how to get there. It is generally agreed by those close to the negotiation that it will be very difficult to throw in new options at this stage’  p.2.

It was though that, in order to pursue alternatives, an interim agreement had to be reached with ICL before Christmas. This stabilisation would permit the next phase of negotiation:

‘In the New Year we would then open up a period of discussion about how to better align the interests of the three parties, reexamining the technologies, the place of banking and the speed of ACT. We might ask an outsider, and KPMG, to do more work on the detail of fitting the three organisations needs together’.

A one-page letter from Private Secretary to HM Treasury Chief Secretary, Clive Maxwell, to Principal Private Secretary to DSS Secretary of State, Rod Clark, is attached to a four-page outline of the future options for the Horizon project. The letter reported that the HM Treasury Chief Secretary was to consult Ministers the following day: ‘He will then write to the Prime Minister, either noting that Ministers have agreed to proceed along a certain route or that it has not been possible for all of them to reach agreement’.

The attached paper, titled ‘BA/POCL AUTOMATION: A WAY FORWARD’ referred to the exit strategy which the Chief Secretary had asked officials to prepare by 9 December pending the revised offer from ICL/Fujitsu whilst reporting that, in the meantime, ‘The Post Office and ICL have now reached agreement on all of the headline terms of the deal’.

A two-stage strategy was proposed: an initial ‘stabilisation’ phase consisting of an agreement ‘to continue the programme with the Benefit Payment Card, with a firm re-commitment to deliver the project on time by all parties’ followed by a ‘broadening objectives’ stage in which exploration would be undertaken to fulfil the government’s wider aims of welfare reform, of improving access to both basic financial and government services and of maintaining the Post Office network.

The paper concluded: ‘Stage 2 would not present an opportunity to undermine or reopen the commercial fundamentals agreed in Stage 1. If it were to prove impossible to reach agreement, then the project would go ahead on the basis of Stage 1 alone’.

In a four-page letter to HM Treasury Chief Secretary, Stephen Byers, DSS Secretary of State, Alistair Darling, welcomed his proposal for extending the programme’s remit:

‘exploiting the Horizon system in order to support ‘Better Government Initiatives’ and help achieve other important objectives – such as achieving substantial progress towards bank accounts for all – on the Government’s policy agenda’ p.1.

He made it clear, however, that his support did not extend as far as accepting the BPC as a fallback:

‘...I could not sign up to a negotiating strategy which agreed to Option 1. When Ministers last met, we were adamant that the acceptance conditions were just not acceptable; that remains the case.

Your “stabilisation” process is, in fact, complete acceptance of option 1 unamended. And there is as yet no agreed commitment, even in Government, to any variation on it. I remain reluctant to commit us to a ten year contract for a card that no-one – not even ICL – now wants’ p.3.
A two-page letter to the Prime Minister from DTI Minister, Ian McCartney, was critical of the DSS position on the BPC and warned against the delays which such division incurred:

‘If we continue to gratuitously irritate a major inward investor in high-tech industries in the UK in this way, we shall serve only to damage irreparably our own international competitiveness’ p.2.

He argued that ‘The proposal in Stephen Byer’s letter of 21 December is based on a long period of intensive commercial negotiation as well as a thorough technical appraisal’.
Appendix F, Document 13: BRIEFING TO THE PRIME MINISTER FROM NO.10 POLICY UNIT:

‘BA/POCL’ 24 December 1998

A two-page minute from No.10 Policy Unit, Geoff Mulgan, to the Prime Minister was copied to: Principal Private Secretary to the Prime Minister, Jeremy Heywood; Chief of Staff, Jonathan Powell; Head of No.10 Policy Unit, David Miliband; Minister of State at the Cabinet Office, Lord Falconer; and No.10 Policy Unit, Geoffrey Norris. It began:

‘We have come very close to reaching an agreement on the way forward for BA/POCL. But the Ministerial changes yesterday made it impossible to reach final agreement. The attached note from Stephen Byers sets out how we propose to proceed. In line with your instructions, our aim over the last two weeks has been to ensure that the Government continues with ICL/Fujitsu, while also avoiding the danger of being locked into an obsolete technology in the form of the Benefit Payment Card. This has broadly been achieved. It has required considerable compromise on the part of DSS, and some movement from DTI, although the relevant Ministers have not given final agreement yet’ p.1 [emphasis as in original].

The two-stage approach was to entail:

‘...Government will confirm as soon as possible to ICL that it wishes to continue with Horizon within the overall financial parameters that have been agreed. This move should stabilise the situation and restore trust between the main parties which is at a very low level’.

The second stage of negotiations involved two possible Smart Card solutions: ‘either of which would be markedly better than the current project’ p.2.

‘During this second stage, it will be important to keep the overall Governmental interest in sight. This will require that Ministers in the DSS and DTI impose substantial pressure on the BA and POCL respectively to ensure that they play a constructive role in negotiations rather than solely protecting their interests’.

Inserted with this minute is a handwritten note addressed ‘PM’ and signed by Principal Private Secretary to the Prime Minister, Jeremy Heywood. It is stamped ‘FAXED’, a note adding: ‘To PM at Chequers’. It began:

‘Negotiations have reached an impasse on this.'
Geoff [Mulgan, No.10 Policy Unit] and I have discussed it this morning and agree that you should give a ruling that

(1) we should indicate to ICL now that we want to have further discussions with them about how the BPC project can be developed into something more useful; but

(2) if agreement cannot be reached on anything better than the current project, we will agree to stick with this.

ICL, in Geoff’s view, will be keen to develop the project, so we don’t lose any negotiating leverage by making clear now that if all else fails we will stick with the card.

Alistair Darling will object; but the only alternative would be to decide now that we will not agree to the BPC option even if all other options fail. That would lead, we are advised, to the collapse of ICL and damaging litigation and with no certainty that anything better can be put in place.

Are you content to give this clear steer to unlock the current impasse?

If not, the best way forward would be to get Jack Cunningham to chair a meeting in early January with instructions to reach an agreement that keeps ICL on side.

A second copy of Heywood’s communication, above, is filed in the dossier; it is the reply which was faxed back from Chequers shortly before 4pm on 24 December 1998. Beside the request for the Prime Minister’s steer is written ‘Yes’. The PM added:

‘I agree with this. But we should try v. hard to get a proper thing in place for the future i.e. we move to a proper Smart Card ASAP’.
Appendix F, Document 14: LETTER FROM THE CABINET OFFICE TO HM TREASURY: ‘BA/POCL’ 24

December 1998

A two-page letter from Minister of State for the Cabinet Office, Jack Cunningham, to HM Treasury Chief Secretary, Alan Milburn, referred to recent communications between HMT, DTI and DSS. He welcomed ICL’s proposals on how the Horizon project could be extended to offer integrated access to “Better Government” services. Whilst confident that consensus was within reach, Cunningham concluded:

‘I am concerned, however, that the revised note which your Office circulated on 23 December masks an important remaining issue of difference between Departments: whether continuation of the project should be with or without the Benefits Payment Card. Alistair Darling and Ian McCartney have set out the opposing arguments. Whatever their respective merits (and the Treasury paper seems to me to avoid the question of whether ICL would be prepared to continue the project without the Card), it is absolutely clear that we should reach a single, collective decision on this crucial point before responding formally to ICL. To do otherwise would expose us to accusations that our position lacks clarity and cohesion.

I therefore believe that the Ministerial Group should convene early in the New Year to resolve this issue finally. Further delay is in no-one’s interest.

Copies of this letter go to the Prime Minister, Alistair Darling, Stephen Byers, Ian McCartney, Charlie Falconer, Sir Richard Wilson and David Miliband’ p.2.
Appendix F, Document 15: LETTER FROM THE PRIME MINISTER’S PRINCIPAL PRIVATE SECRETARY
TO THE NO.10 POLICY UNIT: ‘BA/POCL’ 6 January 1999

This one-page letter titled ‘BA/POCL’ from the Prime Minister’s Principal Private Secretary, Jeremy Heywood, to No. 10 Policy Unit, Geoff Mulgan, began:

‘The Prime Minister was grateful for your minute of 24 December. The Prime Minister believes that we should proceed as follows:

(i) we should indicate to ICL as soon as possible that we want to have further discussions with them on how the BPC project can be developed, to facilitate the earliest possible move to smart cards.

(ii) but we should also make clear to them that if agreement cannot be reached within a specific time period on a development of the current project along these lines, the Government will stick with the current project’.

The letter was coped to: the Chief of Staff, Jonathan Powell; Head of No.10 Policy Unit, David Miliband; Minister of State at the Cabinet Office, Lord Falconer; No.10 Policy Unit, Geoffrey Norris; and Principal Private Secretary to the Minister of State for the Cabinet Office, David North.
A one-page letter was sent from Jeremy Heywood, Principal Private Secretary to the Prime Minister, to David North, Principal Private Secretary to the Minister for the Cabinet Office. Heywood reiterated the position of the Prime Minister in an attempt to bridge disagreements between Jack Cunningham and Alistair Darling on how to advance negotiations with ICL.

The letter was copied to: Chief of Staff, Jonathan Powell; Head of the No. 10 Policy Unit, David Miliband; No. 10 Policy Unit, Geoffrey Norris and Geoff Mulgan.

‘As we discussed on the phone, given the continuing disagreements about how best to proceed it would be sensible for Ministers to meet next week and try to reach a common view, guided by the Prime Minister’s steer that

- he would like to see the project developed to facilitate the earliest possible move to a smart card

- but if ICL will not agree to this, we should continue on the basis of the current project rather than pull the plug completely’.
Appendix F, Document 17: LETTER FROM THE PRIME MINISTER’S PRINCIPAL PRIVATE SECRETARY TO THE DSS: ‘BA/POCL’ 14 January 1999

A two-page letter from Principal Private Secretary to the Prime Minister, Jeremy Heywood, to Rod Clark, Private Secretary to the DSS Secretary of State, Alistair Darling, set out the Prime Minister’s thinking in advance of a meeting between DSS and DTI Secretaries of State. It began: 'NO FURTHER COPIES SHOULD BE MADE of this letter, and it should be made available ONLY to other Ministers and officials with a STRICT NEED TO KNOW of its contents.' [emphasis as in original]

The Prime Minister believes that:

(i) our key objective should be to develop the Horizon project, by negotiating with ICL the earliest possible move to smart cards. It will be extremely important to get the Post Office to take this negotiation seriously.

(ii) but at the end of the day, if this negotiation does not succeed in improving upon the existing Benefit Payment Card project, it would be better to accept this project than to pull out of the negotiation with ICL completely, with all the damage that could do.

The Prime Minister is not close enough to the negotiations to take a firm view on what precisely should be said to ICL at this stage of the negotiations. But he thinks it may be easier to secure an outcome along the lines we want (ie (i) above) if ICL are told sooner rather than later that the Government is prepared to agree a deal with them that is broadly in line with the financial parameters currently on the table.

The Prime Minister would be grateful if your Secretary of State and the Secretary of State for Trade and Industry could discuss further, with other Ministers and the Policy Unit as necessary, what the Government’s best negotiating strategy might be at this stage, and how best to engage the Post Office constructively in negotiations on an improvement to the BPC project, taking into account points (i) and (ii) above. He would then welcome a note on this, agreed with the Chief Secretary, by close next Wednesday, 20 January.

He thinks it is essential that the Chief Secretary should be in a position to get back to ICL with a positive message before the end of next week’ [emphasis as in original].
I am copying this letter to Antony Phillipson (Department of Trade and Industry), Ros Roughton (HM Treasury), David North (Cabinet Office), Mark Langdale (Lord Falconer’s Office) and to Sebastian Wood (Cabinet Office).
Appendix F, Document 18: LETTER FROM HM TREASURY TO THE DSS: ‘BA/POCL’ 21 January 1999

A three-page letter from Paul Williams, HMT Assistant Private Secretary, to Rod Clark, Personal Secretary to the DSS Secretary of State (Alistair Darling) made reference to the meeting earlier that day between the Secretaries of State for DTI and DSS in the presence of No.10 Policy Unit, Geoff Mulgan, and the Minister of State for the Cabinet Office, Jack Cunningham. It began:

‘I would be grateful if this letter was not circulated, and the contents of paragraph 3.iv not communicated, to the Benefits Agency or the Post Office unless agreed by this office’ [emphasis as in original].

‘At the meeting, it was agreed that:

i. A short letter should be sent immediately to ICL by the Chief Secretary giving the Government’s commitment to Horizon and saying that the Government found ICL’s financial proposals acceptable in principle.

ii. Senior officials from HMT, DTI and DSS would meet ICL next week to make it clear that the Government had:

- £4 billion worth of investment in the project;
- was interested in moving to a generic smartcard based system to support government services and banking, including benefit payments;
- but that this was subject to two key objectives:
  a. to safeguard footfall for the post office network;
  b. whilst achieving a managed migration to benefit payment by ACT
- they would like to know from ICL how this could best be achieved;

iii. If ICL agreed it would be possible to achieve the above two objectives by moving directly to a smartcard, then those negotiations to do so could proceed.

iv. If following discussion with ICL it was agreed that this was not possible, then it was agreed that we would proceed with a contract which involved the benefit payment card, whether or not we moved to a smartcard.
v. That the acceptance criteria for the benefit payment card were currently unacceptable and would have to be resolved before agreeing to iv.

vi. Negotiations on iii. and iv. would be coordinated by a senior official independent of the two departments who would report to the Ministers involved.

The Chief Secretary would minute the Prime Minister outlining the latest position.

I am copying this letter to Jeremy Heywood (PS/Prime Minister), Chris Woolard (PS/Secretary of State for Trade and Industry), Stephen Ward (PS/Minister of State, Cabinet Office) and Geoff Mulgan (No 10 Policy Unit).

A three-page briefing from Chief Secretary to the Treasury, Alan Milburn, to the Prime Minister detailed the recent meeting between: DSS Secretary of State, Alistair Darling; DTI Secretary of State, Stephen Byers; Minister of State at the Cabinet Office, Lord Falconer; and Head of No.10 Policy Unit, David Miliband.

It was agreed, he reported, that:

‘the financial offer made by ICL, before Christmas, is acceptable in principle; - but before signing up to a further agreement, the Government should negotiate with ICL the possibility of moving to a system which would support government services and banking…’ p.1-2.

The government wished to explore options which more suited to its objectives ‘without increasing the amount of public expenditure for the project. These discussions should not be restricted either to preserving the Benefit Payment Card, or removing it. They should simply discover what the options are, and what the best alternative is, as a basis for decision; and

- we would also need to make it clear that the acceptance criteria would need to be acceptable to all parties before heads of agreement could be signed’.

If it transpired in discussion that this proposal was not possible ‘then we would proceed with a contract which involved the Benefit Payment Card, subject to ICL agreeing changes to the acceptance criteria’.

It was agreed that negotiations should be undertaken by Steve Robson, Head of HM Treasury’s Finance, Regulation and Industry Directorate. Milburn advised that, in order to retain an upper hand in negotiations, ICL should not be told that its December offer was in principal acceptable to the Government ‘even though there may be a risk that ICL will take umbrage at our failure to respond formally to their letters of last month setting out their formal offer’ p.3.
A second, faxed, copy of the above paper is included in the dossier. On it, a handwritten note from the Prime Minister’s Principal Private Secretary, Jeremy Heywood, read:

‘PM

There is a real risk that ICL will react badly to this long delayed response to their pre-Christmas offer. But Ministers are agreed that it is worth going back to them for more before firstly telling them that we are prepared to do a deal’.

The response: ‘I have spoken to Al [Alistair Darling] and suggested a meeting with him and CF [Charlie Falconer] on this’.

The meeting occurred three days later, Appendix F, document 22, below.
Appendix F, Document 20: TELEGRAM FROM THE BRITISH AMBASSADOR IN TOKYO FOR THE

A two-page telegram from Sir David Wright, Her Majesty’s Ambassador to Japan in Tokyo, was sent for the attention of: the Cabinet Office; Foreign and Commonwealth Office; DSS; and HM Treasury. Recipients were listed as: the Private Secretary to the DTI Secretary of State, Stephen Byers; Private Secretary of DTI Minister, Ian McCartney; ‘CABINET OFFICE TO PASS TO NO 10 FOR PRIVATE SECRETARY’; Private Secretary of Minister of State at the Foreign Office, Derek Fatchett; Private Secretary to the DSS Secretary of State, Alistair Darling; Chief Executive of the Benefits Agency; and Private Secretary to the HM Treasury Chief Secretary, Alan Milburn.

It began:

‘ICL CHIEF EXECUTIVE CALLS AFTER DISCUSSIONS WITH FUJITSU, DESCRIBES LATTER’S DISMAY, RISK TO ICL’S FLOTATION, AND OF FUJITSU DISENGAGEMENT FROM ICL IF PROJECT HORIZON FAILS. I BELIEVE THE LAST RISK IS REAL.

AT HIS REQUEST, KEITH TODD, CHIEF EXECUTIVE OF ICL, CALLED ON ME ON SATURDAY 23 JANUARY (WITH DON MCGARVA, THE LOCAL ICL REPRESENTATIVE) AFTER TALKS WITH THE FUJITSU PRESIDENT. HE EXPRESSED FUJITSU’S QUOTE COMPLETE DISBELIEF AND LACK OF UNDERSTANDING AT HMG’S DECISION-MAKING PROCESS UNQUOTE. FUJITSU COULD NOT COMPREHEND HOW HMG COULD CONTEMPLATE QUOTE DESTROYING ICL UNQUOTE. IF THE PROJECT FAILED, THE FLOTATION OF ICL WOULD BE UNDERMINED AND FUJITSU WOULD RECONSIDER ALL ITS OPTIONS ON ICL. THIS MIGHT, ACCORDING TO TODD, INCLUDE SALE’:

‘TODD ALSO THOUGHT THAT, AT A TIME OF GENERAL JAPANESE CORPORATE FINANCIAL WEAKNESS (INCLUDING FUJITSU), ICL HAD TO MAKE ITSELF INDEPENDENTLY WEALTHY. THE RECENT RESULTS HAD BEEN GOOD AND THE FUTURE WAS PROMISING. BUT THE DANGER TO ICL’S FUTURE IN REMAINING A SUBSIDIARY OF FUJITSU WAS THAT THEY MAY BE BROKEN UP OR SOLD. HE REPEATED THAT A FAILURE OF PROJECT HORIZON WOULD UNDERMINE FLOTATION AND WOULD RESULT IN 700-900 JOB LOSSES.

I UNDERTOOK TO PASS TODD’S MESSAGE ON TO THOSE CONCERNED IN LONDON.

I OF COURSE REMAINED IN LISTENING MODE FOR TODD’S DESCRIPTION OF THE STATE OF THE PROJECT. I BELIEVE, HOWEVER, THAT HIS ANALYSIS OF FUJITSU’S POSITION IS ACCURATE. I HAVE
RECEIVED ORALLY AND ON PAPER FROM NARUTO [Fujitsu Vice Chairman and ICL Chairman] A CLEAR MESSAGE THAT THE COMPANY DOES NOT UNDERSTAND HMG’S HESITATION. RELATIONS BETWEEN US AND FUJITSU ARE ALREADY DAMAGED. EVEN IF PROJECT HORIZON IS NOW AGREED - AS I VERY MUCH HOPE - WE WILL HAVE REPAIR WORK TO DO. IF NOT, I BELIEVE THE RISK OF FUJITSU DUMPING ICL IS A REAL POSSIBILITY: AND DAMAGE HERE TO THE UK AS AN INVESTMENT LOCATION AND AS A PIONEER OF PFI IS INEVITABLE.

I WILL BE TAKING FRASER, CHIEF EXECUTIVE OF THE INVEST IN BRITAIN BUREAU TO SEE NARUTO, VICE CHAIRMAN OF FUJITSU (AND CHAIRMAN OF ICL) ON 29 JANUARY. IT WOULD CLEARLY BE USEFUL TO HAVE HAD SOME PROGRESS BY THEN. GRATEFUL FOR ANY INSTRUCTIONS BY CLOSE ON 28 JANUARY’.

A one-page briefing note from Principle Private Secretary to the Prime Minister, Jeremy Heywood, to the Private Secretary to HM Treasury Chief Secretary, Paul Williams, referred to the Chief Secretary’s minute of 25 January (Appendix F, document 19, above):

‘The Prime Minister agrees that we should now open negotiations with ICL along the lines recommended in the Chief Secretary’s minute. The Prime Minister believes that it is very important indeed that we secure agreement with ICL on a project that goes beyond the basic Benefit Payment Card (paragraph 2(b)) of the Chief Secretary’s note. He intends to speak to the Chairman of the Post Office direct to reinforce this message. In the meantime he agrees that we should not tell ICL of the agreement set out in the Chief Secretary’s paragraph 2(a)’.

The letter was copied to: the Private Secretary to the DSS Secretary of State, Alistair Darling; Principal Private Secretary to the DTI Secretary of State, Stephen Byers; Principal Private Secretary to the Minister of State at the Cabinet Office, Lord Falconer; Cabinet Office, Sebastian Wood; and No.10 Policy Unit, Geoff Mulgan.

A two-page letter from the Prime Minister’s Principle Private Secretary, Jeremy Heywood, to Private Secretary to the DSS Secretary of State, Rod Clark referred to a meeting over Horizon earlier that day attended by: the Prime Minister; DSS Secretary of State, Alistair Darling; Minister at the Cabinet Office, Lord Falconer; Chief of Staff, Jonathan Powell; and No.10 Policy Unit, Geoff Mulgan. It began:

‘Your Secretary of State said that the Benefit Payment Card (BPC) was essentially obsolete...The DSS could make major savings; but not if it was stuck with a card that everyone basically agreed was no use’ p.1.

‘The BPC effectively amounted to a £4 billion project that was designed to subsidise the Post Office through the back door. The DSS would be paying £500 million a year but would have no control over the project’.

Darling supported the proposals of the Chief Secretary but warned that ICL may ‘only agree to a better project if the Government put more money on the table. Alan Milburn had already made it clear that he could not agree to this. So that would leave us stuck with the BPC’.

‘The Prime Minister asked whether your Secretary of State would be content with a revised project in which the Post Office would start off with the BPC but would then graduate to a smartcard. This was the option that he himself had concluded was probably the best way through, given where we started from.

Your Secretary of State said that this would still be a problem. The BPC was obsolete. We would have no objection to a smartcard if it really worked. But he was against paying a large subsidy from the DSS programme to the Post Office particularly when he had no real control over the project. Fifteen million benefit payments were made each week. There were huge risks involved’ p.2.

‘The Prime Minister said that if we were starting from a blank piece of paper he could see the attractions of dropping the BPC but we were not in this position. So there was a balance of risks. The only real way through that he could see was to try to ensure that we had got some long-term value out of the BPC.’
Lord Falconer agreed - if we dropped the project completely that would cause a major problem with ICL. ICL did seem willing to look seriously at an alternative to the BPC. But we needed to keep the pressure on the Post Office to negotiate a better deal.

The Prime Minister agreed. He thought that he should see Steve Byers and then the Post Office themselves to make it clear that if we could not secure something better than the basic BPC project, he was willing, if necessary, to pull the plug on the whole deal. The Post Office had to be brought to understand that the clear objective was to secure a project that was better than the BPC.”

Only the first page of this telegram has been filed in this dossier, but the contents indicate that it was sent by the British Ambassador to Japan, Sir David Wright. It was sent for the attention of: the Cabinet Office; Foreign and Commonwealth Office; DSS; and HM Treasury. Recipients were listed as: the Private Secretary to the DTI Secretary of State, Stephen Byers; Private Secretary to DTI Minister, Ian McCartney; ‘Cabinet Office to Pass to No 10 for Private Secretary’; Private Secretary to Minister of State at the Foreign Office, Derek Fatchett; Private Secretary to the DSS Secretary of State, Alistair Darling; Chief Executive of the Benefits Agency; and Private Secretary to the HM Treasury Chief Secretary, Alan Milburn.

It was titled ‘SUBJECT: PROJECT HORIZON’ and reported on the meeting, mentioned in his previous telegram (Appendix F, document 20, above):

'I ACCOMPANIED FRASER [Invest in Britain Bureau CE] ON HIS CALL TODAY ON ICL. NARUTO [Fujitsu Vice Chairman and ICL Chairman] ATTENDED WITH OTHER SENIOR EXECUTIVES INVOLVED IN THEIR BUSINESS IN THE UK.

NARUTO BEGAN THE EXCHANGE BY EMPHASISING THE SPECIAL REGARD WHICH FUJITSU HAD FOR BRITAIN. THEY WERE MORE HEAVILY INVOLVED IN BRITAIN THAN, FOR INSTANCE, IN THE US. HE HANDED OVER STATISTICS TO SHOW THIS (EMPLOYEES AT END MARCH 1998: UK 22,830, US 17,374; TOTAL REVENUE OF FUJITSU AFFILIATED COMPANIES IN FY97: UK # 4.1 BILLION, US # 2.3 BILLION). HIS CLEAR INTENTION WAS TO EMPHASISE THE SCALE OF THE BILATERAL RELATIONSHIP. THEIR PLANS WERE TO CONTINUE TO INVEST IN ICL, IN TELECOMMUNICATIONS AND IN SEMI-CO-CONDUCTOR R AND D - ALL IN THE UK.

NARUTO WENT ON TO DEAL WITH THE HORIZON PROJECT IN FAMILIAR TERMS. THEY WERE WAITING FOR A REPLY FROM THE TREASURY. THIS WAS A CRUCIAL STAGE FOR THE FUTURE OF ICL WHICH HAD A CLEAR BRITISH PEDIGREE AND WHICH THEY BELIEVED SHOULD REMAIN BRITAIN’S GLOBAL LEADER IN THE SOFTWARE SECTOR. THEY WERE AIMING AT THE RELISTING OF THE COMPANY ON THE STOCK EXCHANGE ONCE THE CURRENT DIFFICULTIES HAD BEEN RESOLVED.

I RESPONDED TO NARUTO BY CONFIRMING THAT I HAD REPORTED TO YOU THE DETAILS OF TODD’S CONVERSATION WITH ME LAST WEEK. I EXPLAINED THAT THERE WERE A VARIETY OF REASONS FOR DELAY AND ASKED FOR THEIR UNDERSTANDING. I ASSURED NARUTO THAT THE MATTER WAS
BEING DEALT WITH AT THE HIGHEST POSSIBLE LEVEL AND USED THE LINE IN PARAGRAPH 2 OF PS/CHIEF SECRETARY’S LETTER TO ME OF 28 JANUARY.

NARUTO TOOK NOTE. HIS COLLEAGUES EMPHASISED THAT THEIR WISH TO MAKE ICL SUCCESSFUL HAD DRIVEN THEM IN THE DIRECTION OF PFI AND THE HORIZON PROJECT. PROVIDING IMMEDIATE PROBLEMS COULD BE SOLVED THEY SAW NO DIFFICULTIES IN TERMS OF ITS ROLL OUT IN THE UK. FUJITSU WERE KEEN TO SEE THIS THROUGH GIVEN THEIR LONG TERM COMMITMENT TO BRITAIN’.
Appendix F, Document 24: LETTER TO THE PRIME MINISTER FROM NO.10 POLICY UNIT: ‘BA/POCL’

24 February 1999

A three-page cover note from No.10 Policy Unit, Geoff Mulgan, accompanied a joint letter to the Prime Minister from HM Treasury Chief Secretary, Alan Milburn, and Minister at the Cabinet Office, Charles Falconer (Appendix F, Document 25, below). Mulgan’s brief was copied to: the Prime Minister’s Principal Private Secretary, Jeremy Heywood; No.10 Policy Unit Director, David Miliband; Head of the Home Civil Service, Jonathan Powell; No.10 Policy Unit, Geoffrey Norris; and Charlie Falconer. The attached letter updated the Prime Minister on the progress of negotiations to replace the BPC with a ‘more flexible smartcard’. Mulgan outlined how a ‘third option’ was being explored which might replace the BPC and avoid cancelling the entire project reminding:

‘pulling the plug altogether would have a damaging impact on ICL and Fujitsu, destabilise the Post Office, and lead to litigation’ p.1.

The Prime Minister’s approval was being sought for negotiations with ICL to proceed along the lines detailed in the Milburn/Falconer letter. Mulgan offered their proposals his broad support, whilst warning: ‘...KPMG’s very rough estimate is that it will cost more’ and: ‘...the route mapped out is uncertain, and only a further period of detailed negotiation with all the players will clarify how practical it is’ p.2.

Critical to the success of negotiations was the commitment of the Post Office. This would require ‘...a very clear message to the Post Office that the government wants this alternative option to proceed. This could take the form of a phone call from you to Neville Bain [PO Chair], but equally this could be seen as a job for Stephen Byers [DTI Secretary of State].’

Mulgan anticipated that negotiations would proceed ‘smoothly and positively’ once the BPC had been removed from the equation although it was to be kept ‘in play as a fallback’.

The cover note concluded:

‘The key point in all of this is that after a long period when this project was plagued by division, delays and drift, a clear policy direction was set by you in January. Despite continuing uncertainties it remains more promising than the alternatives and now needs to be pursued vigorously to the next stage’ p.3.
A handwritten note from the Prime Minister’s Principal Private Secretary, Jeremy Heywood, on the first page added:

‘PM You wanted to see this again.

This cover note has been slightly revised. I remain more sceptical about the proposed leap into the unknown. But we possibly lose little by giving it another two months’.

An additional handwritten note for the Prime Minister, also from Heywood, continued the debate:

‘PM

Charlie [Minister at the Cabinet Office, Charlie Falconer], Alan Milburn & Geoff M [No.10 Policy Unit, Geoff Mulgan] all want you to agree to an alternative strategy and to tell the Post Office that we are dropping the Benefit Payment Card.

The problem is this:

- the analysis here (Fig A) shows that the Benefit Payment Card offers better value for money

- it is far from clear what you are gaining from this extra cost (and extra risk). It is not clear what extra services could be accessed via this new smart card!

- it cuts right across the Post Office’s commercial strategy, despite the fact that we have just announced we are giving them more commercial freedom.

- it delays any move from paying benefits through order books, by 2 years.

I’m not close to these negotiations. But on the evidence presented here I think we’d be better to stick to the BPC’.

A six-page letter to the Prime Minister from HM Treasury Chief Secretary, Alan Milburn, and Minister of State at the Cabinet Office, Lord Falconer, updated on Horizon, made recommendations for action and sought the Prime Minister’s approval to proceed with negotiations along the lines of their preferred option. Twelve pages of supporting information were attached in Annexes A and B. The letter was titled ‘HORIZON (BA/POCL AUTOMATION)’, its Issue was outlined as: ‘Whether to proceed with an alternative approach to the Horizon project, which has emerged in discussions between Treasury officials and ICL’ p.1.

The letter began:

‘There are potentially greater risks, and possibly additional costs, in pursuing this new approach than if we continued with the Benefit Payment Card (BPC). It would almost certainly mean that the Post Office White Paper would have to be delayed. But on balance, we believe this new approach fits better with the Government’s objectives’.

‘...assuming the price and conditions are agreeable, we are keen to proceed with the new option’.

It was proposed that HM Treasury Steve Robson, along with officials from the DTI and DSS should work with POCL and BA on developing a detailed specification and a negotiating remit. To this end:

‘...it would help with the handling with the Post Office if you were prepared to speak to the Chairman or Chief Executive to let them know of the Government’s decision and make clear the Government’s commitment to the new option’ p.2.

Milburn and Falconer warned: ‘ICL may view the change in the project specification as an opportunity to try to recoup from the public sector a significant proportion of the development costs already sunk in the BPC (perhaps of the order of £250 million), and in addition the costs of the new development work that would be needed to meet the requirements of the new approach as we take forward work on the new approach’ p.3.
They conceded that the new approach may incur more costs and recognised that ‘So far, the specification and costing of this new approach have been carried out solely within the Treasury with the assistance of KPMG. The Benefits Agency and Post Office have not yet been involved’ p.4.

It was noted that the support of DTI Secretary of State, Stephen Byers, was ‘on condition that we can keep the BPC option on the table as a fallback...’

‘The most difficult handling issue involves the Post Office, particularly in the wake of the announcement in December that they would be given greater commercial freedoms. Their Board have already approved the BPC under the contractual terms offered by ICL before Christmas, so they may feel that they are now being overruled on a commercial decision. It will be important to make clear to senior Post Office management that there are Government-wide reasons why this approach is preferable to the BPC, and it would help to reinforce this point if you were able to give this message to the Post Office Chairman or Chief Executive personally. In addition, if the Post Office are to work seriously on this new approach, it would be important to make clear to them that the Government’s firm decision is in favour of the new approach rather than the BPC’.

‘While the detailed negotiations with ICL would have to be taken forward by POCL and BA, we suggest that DSS and DTI officials, under the chairmanship of Steve Robson (HMG), should oversee and direct the process’.

On the publication of the Post Office White Paper: ‘It would play into the hands of ICL’s negotiators if we were to announce our new approach on Horizon before we have reached heads of agreement’.

The letter was copied to: DSS Secretary of State, Alistair Darling; DTI Secretary of State, Stephen Byers; and Head of the Home Civil Service, Sir Richard Wilson.

Supporting information was included in twelve pages of annexes:

Annex A set out the proposal which would drop the BPC and replace it with a Post Office Benefit Account which was to use a Smart Card, following national rollout of the core Horizon system. It was agreed between HM Treasury and ICL that the public sector parties reserved their right with respect to ‘past breaches of contract by ICL Pathway’ p.7.
The advantages and disadvantages of this proposal were considered for all parties. It was noted that for the Post Office the proposal:

‘restricts Post Office to contracting with ICL. The Post Office have previously maintained that if they lost the BPC they would wish to retender’ p.9.

For the Government it was observed that this was ‘not a clear-cut solution, involves further period of negotiation which may take three to six months and might result in failure to reach agreement with ICL’.

‘from a procurement perspective, to cancel a major part of the automation project and re-shape the remainder involves an inevitable risk of legal challenge’ p.10.

Annex A concluded with a summary of the negotiating strategy: until the commercial terms of the new approach had been agreed, it was considered vital to keep open the option of the BPC, and of its cancellation ‘...in order to preserve our leverage on price with ICL’ p.10.

‘This will require a careful negotiating strategy with ICL. They will argue that, as the Government has changed the specification, the Government should pay ICL’s sunk development costs for the BPC. ICL have already said that they would want to split the contract in two, with the Horizon infrastructure, excluding the BPC, rolled out and paid for first, and then a second set of negotiations on the smartcard and the method of paying benefits. This would need to be avoided, since it would leave ICL in the driving seat for negotiations on the smartcard’ p.10-11.

Annex B attempted to compare costs and risks associated with the various options, although it acknowledged

‘there are significant uncertainties attached to the modelling’ not least of which was the impact of unpredictable delays to the programme. Nonetheless, it concluded ‘the modelling suggests that the alternative option 2A is less beneficial to the public sector than continuation with the BPC’ p.14.
A short email exchange began with a message from Chief of Staff, Jonathan Powell, seeking a Ministerial meeting. It was copied to the Prime Minister’s Principal Private Secretary, Jeremy Heywood and to No.10 Policy Unit’s Geoff Mulgan, David Milliband and Geoffrey Norris. Referring to the letter of Milburn and Falconer (Appendix F, document 25 above) Heywood responded:

‘We need to reflect on whether to invite just Charlie [Minister of State at the Cabinet Office, Charlie Falconer] and Alan [Chief Secretary to the Treasury, Alan Milburn], or bring in Steve [DTI Secretary of State, Stephen Byers] and Alistair [DSS Secretary of State, Alistair Darling] too. The problem is that the paper they sent in does not make a strong case from moving away from the BPC.

Option 2a is much more expensive and much riskier. But the gains are not spelled out at all. What are we expecting to get from this smart card? And is it right to completely second guess the PO’s commercial strategy? I think TB [Tony Blair] needs a much more convincing note’.

Mulgan replied: ‘...at this stage it is unlikely that a much more convincing note could be put together, because two of the main players - BA and POCL - are not directly involved in the process. Moreover, until POCL is centrally involved, they are being second guessed on some crucial commercial issues (such as whether to work with only one or two banks, as opposed to providing a service for all of them). This is why it is vital that a quick decision is made to move forward to the next stage involving them’.

Reiterating why a third option was needed Mulgan reported ‘BA remains utterly hostile to the BPC. On the other hand pulling the plug altogether was rejected on the grounds of its uncertain impact on ICL and Fujitsu, destabilisation of the Post Office, and uncertain litigation’.

‘I would prefer a meeting with only Charlie and Alan. Alistair and Stephen will both need to be given the opportunity to register major dissent if they wish to, but a meeting with all four would be in serious danger of degenerating into position-taking, unless the PM is already absolutely sure in his own mind what he wants to achieve’.

‘We are effectively a third of the way through a new phase. There is still considerable uncertainty about where it will end. But what we cannot afford is another period of drift’.
Heywood replied: ‘Ok on handling. But on substance the PM cannot ignore the fact that an independent review has declared your preferred approach to be more expensive and more risky’.

On this basis, Mulgan agreed: ‘OK. I’ll redo the cover note’.
Appendix F, Document 27: LETTER TO THE PRIME MINISTER FROM THE CABINET OFFICE:
‘HORIZON’ 26 February 1999

A two-page letter from Minister at the Cabinet Office, Charlie Falconer, to the Prime Minister, clarified additional considerations raised in his joint letter on the programme’s future (Appendix F, document 25, above):

‘KPMG’s calculations of the net present value of the benefit payment card (BPC) option and the new option show a variance of around £350M in favour of the BPC’ p.1.

‘The figures were based on assumptions which are pretty uncertain’.

‘KPMG’s figures also assume that the BPC project would run to time and budget from now on. Based on the history of this project so far, I have no reason to believe that this would be the case. Indeed the continuing involvement of BA would mean that it would be most unlikely to be the case’.
Appendix F, Document 28: LETTER FROM NO.10 TO HM TREASURY: ‘HORIZON’ 1 March 1999

A two-page letter from the Prime Minister’s Private Secretary, Jeremy Heywood, to the Assistant Private Secretary to the HM Treasury Chief Secretary, Paul Williams, began:

‘The Prime Minister was grateful for the minute submitted jointly by the Chief Secretary and Lord Falconer on 24 February.

The Prime Minister is slightly concerned about the NPV calculations set out in Annex B, together with the greater risks of the proposed new approach (so-called Option 2a). However he recognises that KPMG’s costings are uncertain and the margins of error are quite large. He also agrees that the new approach could offer significant benefits, for example by providing the Post Office with a platform for the provision of electronic government services, something to which the Prime Minister attaches considerable importance.

On balance, the Prime Minister therefore agrees that we should now indicate to ICL that in principle we are very keen to pursue the new approach; and that Treasury, DSS and DTI officials should now agree a detailed specification of the new project and a clear negotiating remit.

The Prime Minister would like to be kept in close touch with the negotiations. Given the inevitable uncertainty at this stage about the full cost and potential upsides of Option 2a, he believes it would be sensible to take stock of where the discussions have got to by the end of April, before finally deciding to go down this route. In the meantime, the Prime Minister agrees that it will be essential to send a clear message to the Post Office that we want them to work seriously on the new approach. Given other diary commitments, there is little immediate prospect of the Prime Minister speaking to the Chairman or Chief Executive of the Post Office himself. He would therefore be grateful if Stephen Byers could speak to them as soon as possible and ensure that they engage constructively. He will then follow this up with a short letter.

I am copying this letter to Tom Scholar (H.M. Treasury), Rod Clark (Department of Social Security), Antony Phillipson (Department of Trade and Industry), Mark Langdale (Cabinet Office) and Sebastian Wood (Cabinet Office)’.
Appendix F, Document 29: LETTER TO THE PRIME MINISTER FROM FUJITSU CHAIRMAN: ‘THE BA/POCL PROJECT’ 7 April 1999

A three-page letter from Fujitsu Chairman, Tadashi Sekizawa, see Appendix C, Document 32. The letter is filed with a brief telegram of April 7 1999 from the British Ambassador in Tokyo, David Wright, to the Prime Minister’s Principal Private Secretary, Jonathan Heywood:

‘You will by now have seen my telegram of 6 April recording the call on me by the Chairman of ICL. Fujitsu have now decided to follow up their approach to me with the attached letter from the Fujitsu Chairman to the Prime Minister in advance of the call on the Prime Minister by Naruto on 12 April.

The letter does not add greatly to what Naruto told me on 12 April [sic]. but it clearly demonstrates the degree of the company’s concern.

I am copying this to P/S Secretary of State for Trade and Industry, Mr Robson, HMT, and Ms Graham, DSS’.

A cover note from No.10 Policy Unit, Geoff Mulgan, is attached to a briefing ‘for handling your meeting on Monday with Mr Naruto, Vice Chairman of Fujitsu and Chairman of ICL. He will be coming with Keith Todd, Chief Executive of ICL, and George Hall, their head of corporate affairs. Steve Robson from the Treasury will also be there. The note has been prepared in agreement of Alan Milburn and Lord Falconer’ p.1.

‘The meeting was originally requested by ICL as a ‘courtesy call’ to talk about Durham and ICL/Fujitsu’s plans for continued expansion in the UK. But the main topic will be Horizon’.

‘Naruto will be seeking your commitment to reach a legally binding agreement by the 23rd April. He will threaten that Fujitsu will pull the plug if this doesn’t happen, and that given the huge commitment that Fujitsu have made to the UK they deserve better treatment. Without an agreement, Fujitsu will have to make a provision for £300m loss in their annual accounts. This would wreck their plans to float ICL’.

‘...it is vital that you do not commit to reaching a legally binding agreement by April 23rd...’ p.2.

‘Your main aim should be to give a strong reassurance that the government is keen to reach an agreement on Horizon and that you acknowledge the efforts that Fujitsu and ICL are making’.

‘To set the right tone of the meeting you might wish to make the following points at the very beginning:

- Your deep appreciation of Fujitsu’s continuing commitment to the UK
- How much you appreciated the efforts to help the workforce in Durham against a background of very tough global pressures
- That you recognise that the UK has virtually all of Fujitsu’s European investments and even more investment than the US
- That Fujitsu’s investment in telecoms in Belfast has been a great example to others in Northern Ireland’.
A handwritten note attached to Mulgan’s cover note is signed Owen (Barder):

‘PM

This is going to be a tricky meeting. Para. 6 of Geoff’s note has some opening remarks, Alan Milburn’s note below a speaking note on the negotiations. I’ve asked Charlie F [Falconer] to come too’.

The attached four-page note from HM Treasury Chief Secretary, Alan Milburn, was titled ‘HORIZON (BA/POCL): MEETING WITH MR NARUTO’ and was copied to: DSS Secretary of State, Alistair Darling; DTI Secretary of State, Stephen Byers; and Minister of State at the Cabinet Office, Charlie Falconer. It made recommendations for the handling of the forthcoming meeting between the Prime Minister and Naruto; a two-page speaking note was attached at Annex A; Annex B gave a thirteen-page update on the progress of discussions with ICL, BA and POCL. Milburn’s letter began:

‘…officials have successfully developed an alternative approach with ICL, BA and POCL. This would remove the complexity inherent in the existing contract and provide better incentives for the parties to deliver the project successfully. It would also provide a smartcard which would provide the vehicle for developing Modern Government services. Costings have fluctuated greatly in recent days, and remain indicative. Further work is being done to finalise them. However, on latest information the alternative approach would be considerably more expensive than the Benefit Payment Card. You should not therefore give Mr Naruto any assurance as to what the final decision by Ministers is likely to be’ p. 3-4 [emphasis as in original].

‘Following Jeremy Heywood’s letter of 1 March, officials led by Steve Robson (HMT) and involving BA and POCL have been taking forward negotiations with ICL to develop an alternative way forward for the BA/POCL project, given ICL’s failure to perform on the existing contracts’.

‘…there is great uncertainty over the costs. We are in the process of firming up the costs. At the moment, the gap between the Benefit Payment Card Option (Option A) and the preferred alternative (Option B1) is large and almost certainly unaffordable…It is important to recognise that the costings of this option are indicative at this stage, and indeed have been subject to enormous fluctuation over recent days as more detailed work has been undertaken. I will be in a better position to judge likely costs by the middle of next week and will provide you with an updated recommendation then’ p.4-5

‘Fujitsu’s preference would be to move ahead with the alternative option being developed by officials’.
Milburn reiterated points made by Fujitsu Chairman, Tadashi Sekizawa, (Appendix F, document 29, above) regarding the company’s reluctance to make a provision of £300m in the consolidated group accounts, unless a firm decision on the way forward was reached by 23 April. On Fujitsu’s threat to stop work on the project after this date, Milburn noted ‘I judge that this is a real risk, and not simply a threat to force our hand’. Milburn doubted that it would be possible to satisfy Fujitsu’s requirement for legally binding heads of agreement to be signed within this timeframe:

‘I suggest, therefore, that you use your meeting with Mr Naruto to provide him with the reassurance that we are close to a decision. You are of course aware of the sensitivity surrounding our negotiations with ICL, given the public sector’s position that it is ICL who are responsible for the delays of the project, and that we have been exploring alternative options only because ICL have failed to deliver to schedule and are in breach of contract. It will be important that the positive message given to Fujitsu does not weaken the public sector’s negotiating position at this late stage in the process’ p.6.

Annex B outlined the Options in more detail and compared the NPV for different scenarios. It explained that, in the course of exploring an alternative option, two variants had emerged: B1 and B2, both of which entailed the cancellation of the BPC and the introduction of a Smart Card.

Reasons for uncertainties around costings were said to include ‘recent difficulties with testing procedures in the current programme - which in BA’s view may lead to a further delay to Option A of six months’ p.13

‘failure by ICL and POCL to deliver option B1 to the timetable envisaged could delay BA’s move to ACT, delaying administrative savings’.

It recorded that ICL would prefer B1 whilst POCL ‘prefer option A to either of the alternatives (B1 or B2)’ whilst DSS/BA were ‘strongly opposed to option A’ p.14-15.

In summary, the authors of the report recommend, on the advice of PA Consulting and KPMG that ‘the choice should focus on option B1 versus option A. There is of course, also the option of termination’ although no further detail was given regarding the pros and cons of this option, p.16.

With regard to option B1:

‘Transitional funding will need to be structured to incentivise ICL and POCL to deliver option B1 on time’ p.19.
In summary:

‘...the Government will be faced at the end of next week with a difficult decision between continuing with the Benefit Payment Card (option A), moving to the alternative (option B1) or cancellation;

- the Benefit Payment Card (Option A) remains the cheapest way of bringing automation to post office counters. However the Benefits Agency continue to be firmly opposed to it, and the complex tripartite contractual arrangement would remain. There has already been a further three month delay since November, and further delays are a possibility with knock on effects on costs to the public sector’ p. 20.

It was felt that option B1 had the advantage of offering a simpler contractual relationship between POCL and ICL, might provide a vehicle for developing Modern Government services and could be a ‘stepping stone towards the Government’s social exclusion agenda’ by providing simple accounts to benefit recipients, p.21.

The option of termination, followed by sourcing an alternative automation platform for Post Office Counters, was not considered other than to report that: ‘...this is bound to lead to messy litigation with ICL and provide uncertainty for the post office network’.
APPENDIX G

EXTRACTS FROM NATIONAL ARCHIVE DOSSIER PREM 49/1011:

‘10 DOWNING STREET’

FILE TITLE ‘POLICY’

SERIES ‘POST OFFICE, PART 4’

12 APRIL 1999 – 14 MAY 1999


A two-page letter from the Prime Minister’s Principal Private Secretary, Jeremy Heywood, was addressed to HM Treasury Ros Roughton and began:

‘The Prime Minister duly met Mr Naruto this afternoon’ p.1.

ICL CE, Keith Todd, and ICL Director Corporate Affairs, George Hall, attended the meeting:

‘Lord Falconer, Steve Robson, Geoff Mulgan, Jonathan Powell and I were also present’.

Recalling the discussion, Naruto was said to have confirmed ‘ICL were fully committed to supporting the UK Government’.

‘On 23 April the Fujitsu Board would meet to decide whether to support the new project [the Smart Card replacement of the BPC]. He personally looked forward to securing a positive outcome. But he sincerely wished to get a legally binding agreement before the 23 April meeting. Fujitsu was spending £5 - £10m a month on the existing project [BPC]. Nearly £300m had been invested so far. Sums of this magnitude could not simply be ignored’.

‘The project now in prospect [the Smart Card] was fully deliverable. Any assistance the Prime Minister could provide in bringing matters to a successful conclusion would be extremely welcome’.

In response: ‘The Prime Minister said that he too was very keen to make progress over the next 3-4 days. His only concern was to get a viable system agreed that would actually deliver what the Government wanted both now and in the future’ p.1-2.

A two-page letter to Chief Secretary to the Treasury, Alan Milburn, from DTI Secretary of State, Stephen Byers, outlined the Horizon options available in advance of 23 April, by which date Ministers had to make their decision. Byers’ summary was copied to the Prime Minister; to Minister of State at the Cabinet Office, Lord Falconer; and to DSS Secretary of State, Alistair Darling.

Option B was the Smart Card option; doubts over its affordability were being addressed by KPMG. Termination was considered the ‘nuclear option’ whilst Option A, the BPC, was still considered a plausible alternative. Byers concluded:

‘I do not believe there are any other options...of the three options termination would be most damaging to the Government’ p.2.

There was no reference to Horizon’s pared down reconfiguration.

A four-page briefing from HMT Assistant Private Secretary, Jacob Nell, to Rod Clark, Assistant Private Secretary to DSS Secretary of State, summarised the Ministerial meeting which had been convened earlier that day to discuss the way forward for the Horizon project. Attendees included: HM Treasury Chief Secretary, Alan Milburn; DSS Secretary of State, Alistair Darling; DTI Secretary of State, Stephen Byers; Minister of State at the Cabinet Office, Lord Falconer; No.10 Policy Unit Geoff Mulgan and HM Treasury Steve Robson.

Opening the meeting, the Chief Secretary was of the view that the new Smart Card option (B1), estimated to be £700m more costly than the BPC (Option A), was considered ‘higher risk and unaffordable’ p.1.

‘In that case the choice would have been between the two options of going ahead with the benefit payments card and termination. Treasury officials’ view was that, given the track record of delays and difficulties, together now with ICL’s reluctance to consider reverting to the benefit payments card, option A was not viable. This would leave termination as the least worst option’ p.1-2.

He reported that POCL had recently provided new information on how the funding gap might be reduced, if POCL could develop and deliver Modern Government services through the Smart Card. But he observed ‘...there were real question marks over whether POCL’s existing management were capable of delivering these revenues. He therefore proposed a strategy in which new management was brought in from outside the Post Office to run POCL...’.

‘Your Secretary of State raised the issue of the proposed DSS third option which involved fitting out the Post Office with basic IT and improved orderbook security, which offered £80 million savings per annum. This might allow time to come up with a strategy based on new POCL management. Steve Robson said that the IT equipment might not be appropriate for alternative uses, and so the strategy risked buying into a technological option that did not offer value for money ’ p.3.

Concerning the 23 April deadline, it was believed to be ‘politically undesirable to announce termination shortly before elections’. Fujitsu, it was reported, was bound to sign off their annual accounts by that date, and therefore needed to make a firm decision on whether to make provision for Horizon. It was thought that more time would not necessarily enhance the Government’s understanding of the comparative VFM projections:

‘Falconer said that in view of past experience of dramatic movement in the costings, there was little prospect of further work leading to more accurate numbers...’

In summary, the Chief Secretary maintained ‘The presumption was that the choice was between option B1 and termination’. Stephen Byers was to report back on the credibility of reducing the funding gap on the Smart Card but: ‘If, in the light of this work, option B1 proved not to be affordable and deliverable, he reserved the right to recommend termination to the Prime Minister’ p.4.
Ministers were to reconvene in two days to reconsider:

'Ministers would make a final decision on the way forward in the light of the DTI paper on Wednesday evening' [21 April 1999].
A two-page briefing from No. 10 Policy Unit’s Geoff Mulgan, in advance of the watershed Ministerial meeting of 21 April, was sent to: Minister of State at the Cabinet Office, Lord Falconer; and copied to Jeremy Heywood, Principal Private Secretary to the Prime Minister; HM Treasury, Steve Robson; Private Secretary to HM Treasury Chief Secretary, Alan Milburn; and No. 10 Policy Unit, David Miliband. Mulgan’s preference was for Option B1 (the Smart Card) and his desired outcome of the Ministerial meeting the following day was that on 22 April, a letter would be sent to ICL/Fujitsu:

‘committing the government to pursuing the revised smart card-based Horizon’ [option B1] and to ‘set in train a radical overhaul of POCL to introduce new management, and to incentivise them to maximise the returns from Horizon’ p.1.

‘From the perspective of government as a whole, there is agreement that pursuing B1 is the preferable option if it is affordable and deliverable. Neither cancellation, nor continuing with Option A [BPC], is seen as credible either in policy terms or politically’.

ICL, POCL and the CITU had worked together on proposed new government services which might stimulate revenue and reduce the affordability gap of B1 but it was understood that realising such revenues ‘will depend on new personnel and structures in POCL’ p.2.

In conclusion, Mulgan observed:

‘...there is a long way to go before government policy on IT planning and purchasing is a [sic] coherent and dynamic as it should be. If we go ahead with B1, it will be as important to sharpen up the organisation of demand from POCL as it will be to sharpen up POCL’s ability to meet that demand’.
Appendix G, Document 5: ‘BA/POCL AUTOMATION: FINAL HM TREASURY REPORT TO MINISTERS
APRIL 1999’

This eighteen-page HM Treasury report set out the three options for Horizon: Option A (continuing with the BPC); Option B1 (the alternative proposal in which a Smart Card would replace the BPC) or Option 3, termination of the contract. There was as yet no formal B3, or Fourth Option, the scaled-down reconfiguration of Horizon. The report is not dated although a draft version of Friday 16 April 1999 referred to missing NVP calculations which were to be clarified after work scheduled for the coming weekend. The final, much amended version of this draft, below, included the latest NVP calculations and was therefore likely to have been produced between Monday 19 April 1999 and the ‘final’ Ministerial meeting of 21 April 1999 at which a decision on Horizon was to be taken. The lack of figures for the £m NVP impact on the public sector of termination in the draft of 16 April indicates the uncertainty and fluidity of events which underpinned the decision-making process at this critical time.

The Final Report began:

‘Conclusion

Treasury officials are strongly of the view that termination of the contract with ICL in order to pursue an alternative solution offers the only way forward. It offers a clean break; it simplifies the commercial relationship between POCL and ICL should they find something to salvage (if that is a sensible and affordable way forward); it removes BA from the contract and - in the face of likely further delays and difficulties with delivering option A - it offers better value for money. There will be some very difficult presentational issues to be tackled, but HMT/DSS believe these are manageable.

Trying to revert to Option A is not viable. Treasury officials judge that relationships within the project are now too dysfunctional to give Ministers any comfort that the project will be delivered’ p.1.

‘...under all options, there is a clear need to properly incentivise POCL and its management to reduce network cost, sharpen their business strategy and aggressively pursue new business. A radical reform is required’.

Regarding the troubled history of the project:

‘The project is now running three years behind schedule. New deadlines have been set at various times and consistently missed by ICL. BA and POCL attribute the cause of the delays to ICL in all material respects and this has been endorsed by external reviews (including a very recent confidential report which has concluded that the fundamental cause of problems is that ICL have failed throughout the process to analyse and then address POCL and BA’s detailed requirements)’ p.2

Referring to ICL’s ‘last and final’ offer of December 9/18 1998:

‘In the areas of both risk and acceptance testing, the ICL proposals represent a reduction against the terms agreed in the original contracts. The Post Office Chairman wrote to the (then) Secretary of State for Trade and Industry stating that the PO Board endorsed the deal and would bridge the remaining gap between ICL and the public sector from their resources’ p.3.
Ministers, however, ‘were still unhappy with ICL’s offer. Given ICL’s failure to deliver, they sought a solution which might be better matched to suit Government’s wider objectives. After an initial set of discussions between Steve Robson (HMT) and ICL, the Prime Minister agreed (Jeremy Heywood’s letter of 1 March) that the public sector parties – under Steve Robson’s chairmanship – should take forward negotiations with ICL on an alternative option which would allow BA to move to payment of benefit by ACT whilst retaining footfall in Post Offices, and would retain ICL in the partnership’ p.3-4.

The report laid out the alternatives: Option A (accepting ICL’s offer and continuing with the BPC ‘subject to resolution of acceptance testing’); Option B1 (removing the BPC from the project with a view to replacing it with a Smart Card); Option 3 (terminating the contract).

In considering the technical viability of Option A Treasury officials referred to the Montague Report of July 1998:

‘...the report of the independent panel last summer concluded that Option A is technically viable and “future proof”, and should be successfully delivered assuming firm management of the project and commitment and goodwill on all sides. That is probably still the case now (although DSS/BA would disagree). But since the report there have been further problems with testing and plans have slipped. ICL have already missed the first milestone in the timetable agreed in the course of the Corbett negotiations; and BA point to faults that emerged in the latest testing of the Model Office as an indication of further delays of at least six months...’ p.4.

‘BA estimate (although ICL and POCL do not agree) that the latest difficulties could delay roll out by a further 6-7 months’ p.5.

Divergent responses to the technical issues were seen as indicative of already strained relations between the contracting parties:

‘The key issue now is whether Corbett’s recommendations would still be enough, and whether in fact we could see the project through to successful roll out. Treasury officials do not believe they are. The project will not succeed against the background of dysfunctional relationships between the parties’.

Treasury officials were doubtful that ICL could now be persuaded to continue the project under the current contract:

‘To trigger payment, ICL have to satisfy both POCL and BA that the system is performing. Since December, there have been further disagreements. POCL had deferred the final run of testing by 2 months to allow ICL to fix the major problems. BA are not yet satisfied that all problems have yet been identified or resolved: the routine testing has thrown up a number of new faults in the system. ICL and POCL contest this view. ICL have indicated to us that they would now be reluctant to continue to invest in the Benefit Payment Card while the risk remains that POCL and particularly BA would not in the end accept it.

Treasury officials therefore believe there is a very strong risk that, even if Ministers decide in favour of Option A and can persuade BA to accept it, they will not be able to persuade ICL to continue with the project’ p.6.
Option B1, championed by HM Treasury’s Steve Robson, sought to remove the BPC from the project and replace it with a Smart Card which could be used to pay benefits via ACT and ‘form the vehicle for Modern Government services’. This was now, however, considered by Treasury officials to be too costly with a NPV at £700m–£870m lower than Option A:

‘The magnitude of the cost differential between Option B1 and the alternative options is great and considerable uncertainty surrounds the revenues...’ p.9.

and ‘POCL have said that they are unprepared to fund the additional cost. Imposing option B1 on POCL would be unsuccessful as POCL would have no ownership of the project’.

On the basis of this, and the undeliverability of the BPC, Treasury officials could not support continuing with this option, recommending instead termination and a ‘non-ICL solution’:

‘Given the position on Option B1, and the doubts over whether Option A can actually be delivered, Treasury officials believe that termination of the contract with ICL to pursue an alternative strategy is the best way forward for the public sector collectively’ p.10.

‘Under this option, the current Horizon contract would be abandoned. In order to retain footfall at post offices, BA would continue to pay beneficiaries with the paper-based methods until such time as POCL had the capability to offer customers an encashment service at post office counters. Once POCL has this capability in place, then BA would commence a process of migration of beneficiaries to ACT. As a separate and uncoupled effort, POCL would move-up on their longer-term vision to offer simple financial transactions at post office counters as an agent operating on behalf of banks and other financial intermediaries. POCL would undertake a fresh effort to procure an automation platform that could then be better tailored for the capabilities required to offer a valued service to prospective partner banks, which neither Option A nor Option B is optimised to do’.

This scenario was considered to offer enhanced VFM compared with Option B1. Option A appeared to offer the highest VFM although it was acknowledged ‘these figures take no account of the delivery problem with Option A’.

Treasury officials warned:

‘The more time that elapses before the public sector exercises its right to terminate for ICL’s breach the more likely it is that the public sector’s case in litigation is weakened and therefore this option should not be deferred indefinitely’.

Under this scenario, a cancellation payment of £150m to ICL was assumed.

Treasury officials contemplated the possibility of a re-configured Horizon platform being salvaged by the Post Office:

‘It may well prove possible to salvage the Horizon automation platform for POCL (without benefit payment capability) as part of the settlement negotiations with ICL stemming from termination of the contract’ p.11.
But they warned that: ‘for the public sector to have any prospect of paying a fair and reasonable price for any such infrastructure, it would be necessary first to invoke the contractual right of the public sector to terminate for breach. In the absence of termination, an attempt to negotiate a procurement of those elements of the Horizon project that are valuable to POCL will flounder due to ICL’s expectations of being compensated for the total costs it has incurred to develop the infrastructure’...

Officials noted that: ‘POCL have no real incentive to pursue an alternative approach making use of the Horizon infrastructure (whether some form of Option B1 or an alternative) until Option A is firmly off the table’.

‘Treasury officials recommend that the best way forward would be to make a clean break and allow the contracts with ICL to be terminated, in order to pursue a strategy that better met the needs of the public sector at a reasonable cost’ [emphasis as in original] p.11.

Treasury officials went on to detail the grounds for each party opposing termination, citing it would ‘badly damage ICL’s reputation both here and in export markets’ potentially even leading to its collapse. It ‘would be seen in Tokyo as a major breach of faith by the UK Government’ and represent a ‘devastating blow’ to the commercial prospects of sub-postmasters: ‘The value of post office franchises would plummet, and replacement franchises would simply not be available. The effects of these unplanned closures on the integrity of the network as a whole can only be guessed at this stage, but could be serious’ p.12.

‘The Post Office remain firmly of the view that despite the difficulties referred to earlier in this report, Option A remains their preferred way forward’.

The assessment of POCL management was unequivocal:

‘Treasury officials believe strongly that we should place little confidence in the existing management of POCL to successfully achieve any of the options outlined above, including the adoption of an effective strategy and new IT project following termination. All would require radical reform to the management of POCL. What we would have in mind would involve:

- bringing in new management from outside of the Post Office. They would be paid according to their success in growing the POCL business. We would need to look at the scope for strengthening POCL as a separate entity, with autonomy from the Post Office board;

- creating strong incentives for change within POCL in order to protect the taxpayer - through restructuring of the funding of POCL to provide incentives to deliver network banking and electronic government services successfully.

This would represent radical reform. But we judge that this is the only way that any way forward could be made to work’ p.13. [emphasis as in original].

Under the heading: ‘The Way Forward – termination of ICL contract and pursuing an alternative solution’ the report went on to outline the necessary steps should Ministers decide on a ‘non-ICL solution’ either by serving notice or, more preferably, via a negotiated settlement or: ‘to seek to reach a
negotiated settlement, possibly involving salvaging some elements of the project (but this would be for POCL to negotiate with ICL).”

It cited advice from the Law Officers which had been given to the Treasury Solicitor regarding an exit strategy and three month notice period should Ministers decide unequivocally to terminate the existing contract.

Treasury officials then gave advice as to the presentation of Ministers’ chosen outcome. In the event of a delay in serving notice to allow a negotiated settlement to be reached:

‘...it would be important not to say publicly that the public sector parties have terminated the contracts, as the form of public statement to be made about the reasons for cancellation of the project will be a valuable bargaining chip in settlement negotiations with ICL’ p.15.

‘The handling of an announcement will in part depend on the reaction of ICL and Fujitsu to the news that continuation options are unacceptable. If ICL are prepared to seek a negotiated settlement then part of our negotiating leverage will be how termination is presented publicly. If, however, they intend to litigate, then the Government will have no alternative but to make it clear that termination was due to failures on the part of ICL to deliver to time or budget...’.

Annex B to this report outlined possible elements of a negotiated settlement. These included to ‘procure the components of the Horizon [sic] that are valued by POCL as an automation platform for their core products...’ p.18
A draft version of the Final Report was faxed on 16 April 1999. Some figures in its NVP calculations were left blank or quantified as £X million, uncertainty which could in part be attributed to the reluctance of POCL to cooperate. Considering the costing of Option B1 the draft report noted:

‘However, up until now, POCL have refused to include in their business analysis the potential revenues which might flow from smartcard-based services. Late on Friday, spurred on perhaps by the knowledge that the option of termination was coming back into play, POCL started to share with us their views on this potential revenue stream for the first time’ p.4-5

A three-page letter from DTI Secretary of State, Stephen Byers, to Chancellor of the Exchequer, Gordon Brown, accompanied the draft White Paper (Appendix G, document 8, below) with a view to colleagues’ consideration prior to a mid-May publication. A copy of the letter and draft White Paper were sent to the Prime Minister and to the Head of the Home Civil Service, Sir Richard Wilson.

The letter cited ‘two important areas which need further development’ of which the first was ‘the future of the network of post office counters, which is linked to the development of the Horizon automation project (on which your officials are leading discussions about the possible reformulation of the project), and so the criteria for judging the future size and shape of the counters network’ p.2.
A Draft White Paper titled ‘POST OFFICE REFORM’ made a variety of proposals. Reforms included a restructuring of Post Office’s balance sheet to re-allocate the large funds, Post Office’s former ‘surpluses’ which had accumulated at HM Treasury:

‘The Post Office balance sheet currently shows over £1.8 billion invested in gilt-edged stock or deposited with the NLF [National Loans Fund]. Much of this represents the accumulation of previous EFL surpluses. The Post Office does not have access to these surpluses (since they are, in effect, accumulated dividends which cannot be paid over to the Exchequer since the relevant legislation does not require the Post Office to do so), but it benefits from the interest payable, estimated to be £107 million in 1998/99. To place the Post Office on a more commercial footing, and one where it can be better bench-marked against its competitors, the balance sheet needs to be restructured. It is therefore proposed that the Post Office should cease to hold, and have access to interest from, the present level of accumulated EFL surpluses’ p.6/8
A five-page letter to the Prime Minister, from HM Treasury Chief Secretary, Alan Milburn, reported on the meeting between himself: DSS Secretary of State, Alistair Darling; DTI Secretary of State, Stephen Byers; and Minister of State at the Cabinet Office, Charlie Falconer the previous evening.

Milburn began with a reminder that the Fujitsu Board was meeting the following day, 23 April, to decide on the future of Horizon. Milburn explained the large affordability gap in the alternative option (B1, the Smart Card) meant it would be impossible to give Fujitsu the assurances the company sought and reported that a handling strategy had therefore been prepared in the event of Fujitsu deciding to ‘walk away’.

Milburn reported that, in assessing the options at the meeting:

‘We agreed that option A (the Benefits Payments Card or BPC option) was unviable in view of ICL’s failure to deliver and the breakdown in relations between the parties. Although option A currently looks like the cheapest option it is already three years delayed, and every six months additional delay adds a further £100 million to the costs. In addition, ICL appear increasingly disinclined to cooperate on option A’ p.1.

Option A was considered undeliverable. Option B1 (the Smart Card) was deemed ‘currently unaffordable with a net present value (NPV) estimated at £870 million more than option A’ and the Post Office could not give any financial commitment toward bridging this gap through generating higher revenue or reducing costs. It was thought that the Post Office may make progress on this but that the work could take a further 2-3 weeks. In an attempt to keep Fujitsu ‘on board’ Byers was instructed by Milburn and Falconer to offer ICL two concessions; a ‘cast iron guarantee’ that the Government would arrive at its final decision before 12 May 1999, the legally binding deadline by which ICL had to file its accounts with Companies House; and ‘an offer to contribute towards ICL’s ongoing costs of continuing the project pending a final decision by Ministers’ p.3.

In the event of Fujitsu rejecting this proposal, Milburn advised that the public sector parties should ‘respond robustly’, not least to protect their legal position. To this end, Millburn attached ‘a complete list of ICL/Fujitsu’s failures to meet their contractual obligations on the Horizon project’ p.3 (Appendix G, document 10, below).

Milburn’s briefing concluded with an assessment of the impacts of termination. It was thought that job losses could be absorbed given ICL ‘are on course to sign a 10 year contract with Customs and Excise worth some £50 million a year around the end of May’ p.4. It estimated that ICL could expect to receive £150m toward development costs of the project to date as part of a negotiated settlement. In considering Option C and a fallback option, no reference was made to the possibility of POCL retaining a part of the Horizon infrastructure.

With regard to the termination option, the Chief Secretary to the Treasury was unequivocal: ‘Charlie, Stephen, Alistair and myself are all in agreement that this is the best way forward’ p.5. The
briefing was copied to: the Head of the Home Civil Service, Sir Richard Wilson; No.10 Policy Unit, Geoff Mulgan; DSS Secretary of State, Alistair Darling; DTI Secretary of State, Stephen Byers, and Minister of State at the Cabinet Office, Charlie Falconer.

A copy of the title page of this document bears a handwritten note from the Prime Ministers’ Principle Private Secretary, Jeremy Heywood. Addressed to GM/GN it asked:

‘Option C seems to leave open a considerable risk that the P.O. network will shrink by more than I thought was a key objective. Is there an agreed “Option C” spec?’
APPENDIX G, Document 10: ‘ICL PATHWAY: LIST OF FAILURES’ SENT TO THE PRIME MINISTER 22 April 1999

This document was attached to the letter to the Prime Minister from the Chief Secretary, Alan Milburn (Appendix G, document 9, above). It is referred to in Milburn’s briefing and is here quoted in full:

Under the title ‘ICL PATHWAY: LIST OF FAILURES’

‘Independent reviews of the Horizon project by external IT experts have all concluded (most recently this week) that ICL Pathway have failed and are failing to meet good industry practice in taking this project forward, both in their software development work and in their management of the process.

To date, in the development stages of the project:

- all planned release dates have been missed - including the key contractual milestone for completion of the operational trial for which ICL Pathway were placed in breach in November 1997.
- on current working plans, updated as recently as September 1998, the first milestone thereafter - Model Office Testing - was delayed by 2 months.
- every release has been subject to reductions in the originally planned functionality.
- and even when each release has gone live, there have been faults and problems which have resulted in the need for Pathway to reimburse DSS
- in the current trials the known problems have risen from 46 in November 1998 to 139 at the end of March 1999; and currently 146 have not been resolved
- nearly 16 million people should by now be paid by the benefit payment card. In fact, only 30,000+ people are currently being paid by the benefit payment card - for one benefit only
- roll out of the system to 19,000 post offices should have been completed at the end of 1998. But only limited functionality is available currently in 204 post offices.
- delays to the programme have already cost the Government over £200m in savings they would otherwise have expected to make’
APPENDIX G, Documents 11: FURTHER ATTACHMENTS TO HMT CHIEF SECRETARY’S BRIEFING TO THE PRIME MINISTER 22 April 1999

Between two copies of Appendix G, document 12, below, are inserted further documents which were faxed from HM Treasury to No.10 shortly before 7.30pm on the evening of 22 April. Faxed pages 1-6 (of 16) are missing. Pages 7-8 addressed ICL assertions that sponsors were responsible for delays to the project. A one-page ICL PATHWAY: LIST OF FAILURES is numbered 9 and is quoted in full above (Appendix G, document 10). Pages 10-12 constitute a three-page briefing titled ‘Line to take: ONLY IF FUJITSU/ICL WITHDRAW’ and 13-16 is a four-page briefing titled ‘Q&A: ONLY IF ICL/FUJITSU DECIDE TO WITHDRAW’. It would appear that these are the documents referred to in Milburn’s briefing of 22 April and sent to the Prime Minister (‘I attach draft lines to take, including a complete list of ICL/Fujitsu's failures to meet their contractual obligations on the Horizon project’) and are of interest in that they depart markedly from the arguments presented by the Government to Parliament and the press in May 1999 regarding the reasons for the reconfiguration of Horizon.

‘...ICL have failed to deliver, and have been in breach of contract since 1997. They have asked the Benefits Agency and the Post Office for more time and more money, and have consistently failed to meet deadlines’ p.10.

‘The Horizon project is worth over £1 billion of Government/tax payer's money; has the potential to affect the 15 million people who currently collect their benefit payments at Post Offices; the 28 million who use the network of 19,000 Post Offices; and the subpostmasters who [sic] livelihoods are involved. It is crucially important that the system works’ p.11 [emphasis as in original].

‘It soon became apparent that ICL had overstretched themselves: they underestimated the technical requirements and despite backing from Fujitsu did not have sufficient financial cover’ p.11.

‘...far from improving their performance there have been further delays and missed milestones...’ p.11.

‘On current plans, it may be completed three years late at the end of 2001; but the problems with current testing make even this look unlikely’ p.11.

‘ICL did not have to sign the original contracts. They took on the project willingly, in the hope of substantial profit. Government and the taxpayer should not be expected to bail them out, if they have made an error of judgement’ p.12.

The Q&A addressed hypothetical questions in the event of ICL/Fujitsu withdrawing from Horizon, maintaining the Government would ‘support the Post Office in seeking an alternative supplier for an automation platform’ p.14.

‘ICL were placed in breach of contract in 1997 and since then have consistently failed to meet deadlines. Whole series of independent reports which confirm that fault lies at ICL's feet’ p.15.

‘Fujitsu is one of the largest overseas investors in the UK. Government has made it clear at the highest levels how much this investment is valued’ p.16.
‘The issues here are not about Japanese investment in the UK. There are a wide range of factors which have led to the UK being Europe’s number one investment location for Japanese companies with over 40% of Japanese investment here’ p.16.
APPENDIX G, Document 12: BRIEFING TO THE PRIME MINISTER FROM HM TREASURY CHIEF SECRETARY ‘BA/POCL’ 23 April 1999

This three-page briefing update, faxed to the Prime Minister from HM Treasury Chief Secretary, Alan Milburn, at 6.17pm, was copied to: DSS Secretary of State, Alistair Darling; DTI Secretary of State, Stephen Byers; Minister of State at the Cabinet Office, Charlie Falconer; Head of the Home Civil Service, Sir Richard Wilson; and the No.10 Policy Unit, Geoff Mulgan and Geoffrey Norris. It began:

‘The Fujitsu Board met this morning. They have decided not to walk away from the contract at this stage. This is on the basis that we would write to ICL giving an assurance to take a decision by 10 May; and that we would provide a contribution towards their (audited) cash costs over this period. Fujitsu has included a provision of £300mn in its accounts to reflect the sums they have so far spent on the project, but have stood down the planned announcement of their results to analysts in Japan. The provision can only be removed if legally binding heads of agreement are reached on a way forward by 10 May. We must now pursue urgently with all the parties the large affordability gap associated with Option B1’ p.1.

The contribution towards ICL’s interim development costs, capped at £8m, was intended to protect the Government’s legal position. Milburn proposed that, whilst working with the Post Office to close the affordability gap on Option B1, a fall back position was to be ‘explored’ with DTI and the DSS. He concluded:

‘We will need to be in a position by the end of next week to begin making a final decision about whether the affordability gap on Option B1 can be closed. I will report back with further advice on the basis of this further work in advance of the 10 May deadline’ p.3.

A total of three copies of this briefing are filed in dossier PREM 49/1011. One bears a handwritten note on the first page signed by Jeremy Heywood, Principal Private Secretary to the Prime Minister. It read:

‘PM- by fax

A good outcome. Steve Robson’s view is that we may need to sack the POCL management and get in some good new blood if we are to bridge the affordability gap because this depends on POCL fully exploiting the commercial potential of the Smart Card. It goes without saying that Treasury officials would also strongly favour advising POCL to enter into a PPP with a private partner to deliver this. But they advise that changing POCL’s leadership structure is still off the rep[ort]’.
APPENDIX G, Document 13: LETTER TO HM TREASURY FROM THE DTI SECRETARY OF STATE:

‘BA/POCL’

A one-page letter to HM Treasury Chief Secretary, Alan Milburn, to DTI Secretary of State, Stephen Byers, is dated 5 April but the contents suggest it is more likely to date from 5 May, the date on which it was faxed. Byers urged for agreement on the B1 Smart Card Option concluding:

‘I therefore strongly recommend that we proceed on the basis of Option B and we spend the next 48 hours putting together a financial package acceptable to all parties to bridge the funding gap. We should aim to give the Post Office Board 36 hours to approve the final package’.

Faxed with his letter was a three-page financial analysis of the ‘Post Office package’ to support the case for Option B1. The authors of the report calculated that the funding gap between this and Option A could be reduced ‘...by allowing the Post Office to retain the £1 monopoly until April 2003 (worth £30m 00/01, £60m 01/02 and £100m in 02/03) and to retain the interest from gilts until March 2006 (worth £107m per year). The Post Office and ICL have been in intensive talks and now believe they can revise upwards their estimates of profits from Government Direct under option B by a total of £160 m compared with option A’ p.1

At this stage there was no mention of HM Treasury gilts themselves being used to fund a deal. Agreeing in principal to B1, the Post Office was willing ‘to stand behind the remaining £1.7 billion of expenditure if certain guarantees would be available on the level of government funding available’.

It was noted that ICL were ‘already carrying £300m of debt from Option A’ p.3.

An eleven page report faxed from HM Treasury shortly before 5pm on 5 May 1999 made formal provision, for the first time, for a fourth option. ‘Option B3’ was now identified as ‘a fallback option with a view to salvaging an automation platform for POCL, at a reasonable price - which might emerge from a settlement discussion with ICL’ p.1.

On the BPC project, HM Treasury now reported ‘option A looks undeliverable - ICL have now formerly withdrawn their offer of 18 December, and are only prepared to reconsider this option if acceptance risk is removed from ICL and ICL is allowed to recover all of its investment in the project together with a fair and reasonable return’.

The Treasury considered projected revenues from Option B1, the Smart Card Option, to be ‘highly speculative’ and therefore recommended a fallback option (either in the form of cancellation or reconfiguration). It recognised that option B3 ‘is unattractive at present to ICL and to POCL whilst option B1 is on the table, and they are not prepared to seriously consider it’ p.2.

HM Treasury reported that its advisers had undertaken further work on refining financial modelling since the revised May 10 deadline was agreed, whilst noting that ‘all of the VFM modelling is subject to significant uncertainties’ p.3.

It summarised that, with regards to Option A, continuation of the BPC: ‘...taken at face value this option appears to be the best value for money in NPV terms. But the analysis in our previous report, which was accepted by Ministers, concluded that there are significant risks around the deliverability of this option given yet further delays to the project caused by ICL’s failure to deliver; the near breakdown of relations between the parties, and the unwillingness of ICL to continue with this option.

Furthermore, ICL have now formerly withdrawn their offer’ p.4.

Treasury officials rejected option B1 on grounds of the uncertainty of the projected savings and fears that the Exchequer and/or taxpayer would be left to plug the significant affordability gap if these failed to materialise: ‘We therefore conclude this option cannot be justified on value for money grounds’ p.6.

The Treasury were therefore ‘looking again at whether there is a way forward that allows the public sector to pursue an alternative strategy that offers something to ICL/Fujitsu, sufficient for them not to walk away from the project’.

Option B3 (reconfiguration) would involve ‘a payment to ICL for rolling out of the basic Horizon infrastructure’.

‘This option was considered in our previous report as a possible outcome of discussions around a settlement to terminate the contracts, and was suggested as a possible way forward to avoid termination by Alistair Darling in his letter to Charlie Falconer of 21 April’ p.7.

Treasury officials reported that, at that stage, they were concerned that ICL would not regard this as a commercial proposition but that now, ‘against a backdrop of termination’ may consider it more favourably. Moreover:
'The Post Office were adamantly opposed. POCL continue to argue that they do not want to proceed with a wounded supplier; and that if the benefit payment card or POCL benefit accounts were scrapped then it would be more sensible to procure a new infrastructure. But if option A and option B1 are off the table then POCL may reconsider this position.

However, it was reported that:

‘DTI do not agree with the Treasury’s conclusion’ p.8, having argued that there would be little commercial incentive for ICL in agreeing to such a ‘greatly diminished’ role and that a resulting loss of confidence in the network may precipitate branch closures. ‘...against a background where ICL now agree with the Treasury’s analysis that Option A is fatally wounded as a result of long standing and continuing dysfunctional relationships, DTI believe that the only way forward for Ministers within the deadline of May 10 is a decision in favour of Option B1’ p.9 [the Smart Card].

Concluding, Treasury officials noted ‘...the largest single role of Post Office Counters is as a delivery channel for public sector services of one sort or another. If the Government wishes the network to continue in something approaching its present day density and configuration, it will have in one guise or another to contribute significantly to the network’s overall funding requirements’ p.10.
APPENDIX G, Document 15: BRIEFING TO NO.10 FROM HM TREASURY CHIEF SECRETARY:
‘BA/POCL’ 6 May 1999

A four-page document faxed to No.10 (recipient unspecified) from HM Treasury Chief Secretary, Alan Milburn, at 4.30pm on 6 May 1999 set out the determining issues for Ministers to consider, namely; which option offered the best value for money (identified as B3, reconfiguration); how the preferred option (B1, the Smart Card) might be afforded and ‘how might we direct the incentives so as to ensure that the preferred option is delivered?’ p.1.

There is a two-line redaction under the heading ‘Funding Gap’; it is unclear when this was applied to the document.

This report considered a range of possibilities for funding Option B1, the Smart Card and reducing the affordability gap. Proposals included relaxing the dividend payable from the Post Office to the Treasury or delaying by three years the reduction of the Post Office monopoly from £1 to 50p. The briefing also considered how the Post Office might be incentivised to deliver revenues from Modern Government and network banking which would be sufficient to reduce the affordability gap of Option B1. Officials proposed that this could be achieved if Post Office assets, rather than the Exchequer, were used to back the revenues: ‘POCL’s performance at delivering these revenues would be reviewed by the Treasury each year as part of the discussion on the strategic plan and a decision on which assets to sell if necessary would be taken at that time’ p.2-3.

A three-page document from Chief Secretary to the Treasury, Alan Milburn, forewarned the Prime Minister that he was to receive a minute later that day (Appendix G, document 17, below):

‘It will record a split view between the Treasury and DSS on one side and DTI/Post Office and Charlie Falconer on the other.

The Horizon project has failed. It is three years late. DSS and the Post Office are in dispute over its progress as they have been for most of its life. Critically, ICL have withdrawn their offer to continue with it’ p.1.

‘You need to know that the Post Office want B1 [the Smart Card] but are only prepared to contribute £37m to help plug the additional costs shown above. This makes it unaffordable’ p.2.

‘The choice is stark. Given the other public spending pressures and need to maintain firm control over the public finances, do we put a lot of public money into a project with relatively poor economics, or do we spend it in line with our political priorities e.g. health and education?’.

‘All this points clearly to backing B3 if ICL and POCL can come to a sensible deal - both at present say they do not want B3 [reconfiguration]. If they cannot, we must terminate. The prospect of termination may change their minds on B3. We will need to present the decision with care but we can make it plain that it was ICL, not us who withdrew from the present project, and we remain committed to automation of the post offices.

Gordon [Chancellor Gordon Brown] shares these views’ p.3.
A nine-page document addressed to the Prime Minister was sent from HM Chief Secretary, Alan Milburn, to update him on the current Horizon position having consulted extensively with Stephen Byers, Alistair Darling and Charlie Falconer (DTI Secretary of State, DSS Secretary of State and Minister at the Cabinet Office respectively). Milburn reported that although the deadline for their decision had moved from 10 to 11 May, Ministers had been unable to reach an agreement.

‘Stephen Byers and Charlie Falconer both prefer Option B1. Alistair Darling and Alan Milburn favour Option B3 if POCL and ICL can reach a sensible deal. If they cannot they would prefer Option C - terminating the contract with ICL and allowing POCL to procure a new system that met their commercial requirements in the light of termination’ p.1.

Option A, the BPC, was considered no longer viable, in view of ICL’s failure to deliver and the irretrievable breakdown in relations between the parties. This view was effectively confirmed earlier this week when ICL withdrew their offer of 18 December. It is therefore dead p.2.

Three options remained; B1 (the Smart Card), B3 (reconfiguration), or C (cancellation). Under Option B3, POCL would buy the basic system from ICL but without the benefit payment application and without the creation of special POCL benefit accounts p.3.

‘POCL reject option B3 at the moment and ICL have indicated that it is likely to be expensive. POCL would prefer termination and to obtain a new system better suited to their needs. In order to make progress on B3 we would have to rule option B1 off the table and make plain that termination was the only alternative. However, when this was done over the weekend, POCL still preferred termination. It is unlikely we could force POCL to do B3’.

Under Option C, the Horizon contract would be terminated and POCL would start afresh. A new automation system would be bought from a new supplier specifically designed to meet POCL’s automation and network banking aspirations…’ p.4.

‘All of the options - given that none involve the benefit payment card - will need to be presented very carefully, given the expectation amongst subpostmasters that Horizon (i.e. Option A) would secure their future’ p.6.

‘The Post Office favour B1. They have said that they are not interested in B3 and would prefer termination (Option C)’.

‘The Post Office prefer Option B1 but are not prepared to contribute more than £37 million to the additional cash costs shown above’ p.6.

In summarising the various positions of Ministers it was noted that Milburn and Darling had a number of doubts regarding B1:

‘They are concerned that ICL’s failure to deliver the Benefit Payment Card on time does not bode well for delivery of a new and complex system (in contrast B3 would be buying that part of the system that is ready to roll out and is relatively simple)’ p.7-8.
‘We have been unable to agree on an option’ p.8.

‘Option B3 provides an automated platform for POCL to develop its business in the future, is clearly more affordable than B1, but is currently opposed by the Post Office and possibly by ICL’ p.8.

‘Option C would provide POCL with a made-to-measure automation system, is more affordable than Option B1, but would mean the end of ICL’s involvement in the contracts and could have more presentational difficulties’.

‘We would be grateful for your views’ p.9.

Authored by No.10 Policy Unit, Geoff Mulgan, this six-page briefing began:

‘There is now an impasse over how to proceed in relation to the Horizon project, with a clear divide between Lord Falconer and Stephen Byers who favour proceeding with a smart card system and Alan Milburn and Alistair Darling who favour either a radically scaled down version of Horizon or termination. A decision has to be made by tomorrow morning. The attached notes from Alan Milburn sets out the positions. This note attempts to give you a steer’.

Mulgan reminded the Prime Minister of the policy objectives for the project:

‘- to protect the Post Office network
- to protect ICL and our relationship with Fujitsu
- to protect the Treasury public spending interest
- to achieve a quick move to ACT
- to achieve modernising government objectives’ p.1.

‘The Treasury was tasked in December with developing an alternative to the Benefit Payment card, but within the same overall costing envelope. Instead the new proposal that has arisen from negotiations has turned out significantly more expensive’ p.2.

‘Short-term, cancellation is the most expensive option, mainly because of the likely need to pay off ICL so as to avoid litigation’.

‘-while the costs and benefits of B1 depend on whether the flow of new ‘modernising government’ spending actually materialises, on the capacity of POCL to use the technology well, and on the project not running into further delays, the estimated costs of the other options are even less certain – and could be significant underestimates’ p.3.

In considering the additional costs of implementing Option B1, Treasury officials, backed by the DSS strongly argue against throwing good money after bad. They therefore favour B3 as the least worse option [scaled-down reconfiguration]. This is preferable to the government compared to cancellation, mainly because it avoids having to pay off ICL. On paper it looks attractive, as a lower risk, lower reward option.

However the Post Office board are adamant that they would prefer cancellation. It would therefore be necessary either to give them a direction or to offer a big financial incentive, probably £100m’.

A table summarising the pros and cons of each option suggested ‘tactics’. For the option of a scaled down Horizon the tactic identified was: ‘Might need Byers to direct Post Office Board; might in practice lead to C’ p.4.
Mulgan’s preference was for Option B1 whilst acknowledging the ‘need to twist GB [Gordon Brown] arm to get HMT agreement’. If the funding gap for this could not be agreed by persuading the Post Office to contribute a further £100m towards B1, No.10 Policy Unit recommended B3 over cancellation, and for the Post Office to be persuaded ‘either with a direction or some financial sweeteners to encourage them to accept B3 (in our view a direction to impose B3 would alienate the board and directly contradict the government’s promise to give them greater commercial freedom). We would probably then know within a few weeks whether B3 was viable’.

‘There is a separate, but important issue, about whether Post Office liberalisation should be delayed to help fund any of these options. Delay would contribute an extra £190m in the first three years. The Treasury will want to use this as an incentive for the Post Office to accept B3. There are strong policy grounds for rejecting this, but it will be hard for No 10 to block unless we can point to an alternative funding source’ p.5.

Mulgan was clear that: ‘If B3 [reconfiguration] or cancellation was agreed, it would be necessary to explain that the Benefit Payment Card had failed, that ICL had failed to meet its deadlines, that the costs had escalated out of control…’ p.6.

‘What to do next?’: the Prime Minister was invited to make a decision ‘on the basis of the admittedly imperfect information at hand’; or to convene a Ministerial meeting; or to delegate the decision.

In this two-page letter to the Prime Minister’s Principal Private Secretary, Jeremy Heywood, from DTI Private Secretary, Christopher Woolard, reference is made to the communication sent to the Prime Minister from HM Treasury Chief Secretary (Appendix G, document 16 or 17, above). It confirmed that the DTI Secretary of State, Stephen Byers, was firmly supportive of Option B1, adding that Byers had been in discussion with the Post Office that afternoon:

‘As a result of those discussions, my Secretary of State would be willing to sign a direction to the Post Office to take on the costs of funding the financing deal mentioned at paragraph 9 of the CST’s paper. This would amount to a cost of approximately £160 million over years 5-10 of the project [Option B1].

Although I understand the Post Office could never agree to these terms on a commercial basis, they would accept such a direction which they would have time to plan for’ p.1.

‘If the Treasury were to decide that they would rather fund the years in the Horizon contract which require particularly high funding direct from the public accounts rather than by borrowing from ICL, my Secretary of State would be willing to sign a direction to the Post Office to contribute the additional £160m to the Exchequer’ p.2.

‘My Secretary of State would be grateful if this note could drawn [sic] to the Prime Minister’s attention alongside the CTS’s paper’.

A one-page note from Stephen Ward, Assistant Private Secretary to Minister of State at the Cabinet Office, Lord Falconer, to the Prime Minister’s Principal Private Secretary, Jeremy Heywood, reported that with regard to Option B1, the Smart Card: ‘...if HMT so wished, Post Office would be willing to contribute £160m directly to the contract’.

He added: ‘This development must mean that the Post Office cannot now be viewed as not adequately supporting option B’ and that Lord Falconer hoped this would now allow HM Treasury and the DSS to support the Smart Card option.
APPENDIX G, Document 21: EMAIL TO THE PRIME MINISTER'S PRINCIPAL PRIVATE SECRETARY
FROM SARAH MULLEN: 'B1 V B3 REPLY' 11 May 1999

An email was sent from Sarah Mullen to the Prime Minister’s Principal Private Secretary shortly before 11am on 11 May 1999 in which she attempted to compare the VFM of each option. Mullen countered the arguments which had been forwarded by Lord Falconer who supported B1. She quoted a reference he had made to the possibility of a Ministerial direction to the Post Office:

‘Directing the PO to pursue Option B3 would be a severe blow for a future PPP, since it would be regarded as an uncommercial future for POCL. Would also adversely affect value of POCL to a private partner. C [cancellation] would not involve a direction’ p.2.

The extracts below indicate the level of complexity in making VFM comparisons on the morning of Fujitsu’s deadline for the Government to reach a decision on Horizon:

‘Timing of ACT does affect VFM figures. Cases presented are what we regard as reasonable and do-able, on basis of advice from our independent advisors KPMG; and on the basis that POCL and BA co-operate to manage the move to ACT.

Even if move to ACT was delayed, this would still show option B3 and C as better VFM.

e.g. we have modelled an variation [sic] of option B3 which assumes no marketing of ACT before 2003. This reduces the NPV by £160m NPV – but this is still better VFM than option B1 by £245m NPV.

likewise our worst case modelling of option C (which assumed movement to ACT over three years from 2001/2) shows that delay to ACT of two years to 2003/4 worsens the VFM by £215m NPV. But this is still better VFM than option B1 £140m NPV’.

‘We have included an additional £104m NPV against option B1 on the basis of POCL’s estimate of what B1 might offer relative to A in winning Modern Government business. This was only after we pressed them very hard, so must be a question of how far they believe it.

modelling of option B3 and option C do not include any revenues from Modern Government (or conversely the cost of a Smart Card)’.
In this letter to Dan Monnery, Office of HM Treasury, the Prime Minister’s Principal Private Secretary, Jeremy Heywood, acknowledged receipt of the Chief Secretary’s minute of 10 May and continued:

‘The Prime Minister has now discussed this with the Chancellor, who set out in more detail the Treasury’s concerns about signing up today to Option B1. The Chancellor said that this would be something of a leap in the dark. For example, it was not clear what discussions had taken place with the banks on the viability of this option; what demand there would be for the new smart card; or how willing benefit recipients who already had bank accounts would be to use the proposed POCL bank accounts. We needed more time to bottom these issues out. It would be wrong to commit the Government now to an option that would cost £400 million more over the CSR2 period than the best alternative. This would simply divert resources away from the Government’s key priorities in the next CSR.

Against this background, the only sensible course of action would be to buy more time to consider all the options in much more depth. The most rational option would probably be termination. But given where we were starting from with ICL, it would probably be best to commit now to Option B3 [continuation of Horizon without the BPC] and agree to do further intensive work on Option B1 over the next three months. He therefore proposed that Steve Robson (HMT) should write to ICL this evening along the lines of the attached draft.

The Prime Minister said that he had not had time to look into all the options in detail. Starting with a clean sheet, it was doubtful whether we would want to devote substantial new resources to a project that appeared to be designed largely to prop up the Post Office network. However, we were not starting from a clean sheet. He was content for the Chancellor to go over his concerns in more detail with Lord Falconer and other interested parties, to try to fund an agreed way forward. Any solution should meet three key political requirements:

(i) we do not want a huge political row, with the Post Office or the Sub-Postmasters’ lobby claiming that the entire rural network had been put in danger by the Government;

(ii) we should not put ICL’s whole future at risk; and

(iii) it would be important to ensure that the Government has a fully defensible position vis-a-vis the PAC.

The Chancellor said that he would discuss the way forward with Lord Falconer and report back to the Prime Minister.

I am copying this letter to Tom Scholar (H.M. Treasury), Antony Phillipson (Department of Trade and Industry), Rod Clark (Department of Social Security), Mark Langdale and Sebastian Wood (Cabinet Office).
Attached to this letter was a draft letter to be sent from HMT’s Steve Robson to ICL Director of Corporate Affairs, Richard Christou (See Appendix C, document 39).

This two page letter from HM Treasury Chief Secretary, Alan Milburn, to ICL Director, Commercial and Legal Affairs, Richard Christou began:

‘I am now in a position to let you know the decision we have taken on how to proceed with this project’ p.1.

Option B1 was rejected on the grounds of being ‘relatively poor value for money’ but it was proposed that: ‘(1) POCL would, subject to agreeing acceptable terms, contract for the supply of the core Horizon automation platform, including the EPOS and OBCS systems. This would take the form of a turnkey supply with on-going maintenance over a period to be agreed; not PFI’.

A second phase was proposed which would develop network banking and Modern Government services incorporating elements of B1.

‘As a token of our good faith, we are prepared to fund 50% of ICL’s continuing audited cash costs involved in (1) above for the next four months. The aim would be to agree the contracts for (1) in this timescale.

Naturally, until acceptable terms are signed under (1) above, all parties must reserve their rights with respect to past performance of the Horizon project’ p.2.
A three page letter from the HM Treasury Chief Secretary's Assistant Private Secretary, Dan Monnery, to the Prime Minister’s Principal Private Secretary, Jeremy Heywood offered an update of the Horizon position. To it was attached the draft letter (Appendix G, document 23, above) ‘...which was faxed to ICL last night to gauge their reaction to the Ministers’ decision. ICL have now met with Treasury officials and the Secretary of State for Trade and Industry’ p.2.

‘Stephen Byers also met the Post Office today. They want to meet with Treasury officials to discuss details of the proposal’.
A brief handwritten note from the Prime Minister’s Principal Private Secretary, Jeremy Heywood, was addressed to Jonathan (possibly Jonathan Powell, Downing St Chief of Staff) and read: ‘The latest state of play Fujitsu want to see the PM tomorrow. I will seek advice on whether this is sensible’.

A two-page letter from ICL CE Keith Todd to DTI Secretary of State, Stephen Byers, referred to their meeting the previous day. Todd acknowledged the Government’s decision to abandon the Smart Card option (B1) with regret:

‘I cannot pretend that I am not disappointed that you were unable to proceed with Option B1’ p.1.

‘However, I am not prepared to be party to a living lie. I cannot pretend any longer that it is “business as usual” with regard to this project; not least to the one thousand or so people in ICL, and our subcontractors, who have been working flat out to deliver Horizon.

Therefore, I am setting out a timetable with the intention of resolving this once and for all. I have discussed this with Steve Robson at the Treasury, but it is important that Ministers give him the support and authority necessary to reach a conclusion in the time-scale’.

‘Richard Christou (ICL) and Stuart Sweetman (POCL) are meeting today to work out a joint ICL/PO position.

Richard Christou and I are meeting Steve Robson later today to consider the terms of a legally binding Heads of Agreement to settle the current and future financial conditions which must be in place by Friday (tomorrow).

I am seeking a meeting with the Prime Minister tomorrow so that the Chairman and Vice-Chairman of Fujitsu can confirm the arrangements for proceeding with the revised project and for them to understand at first hand the rationale behind the Government’s decision to scrap the Payment Card. I think it would be appropriate if you and Mr Robson could also be at this meeting’ p.2.

‘If negotiations are not successful within this time-frame, then the activity related to the Payment Card aspect of Horizon should cease to avoid further wasted costs for all parties, and the taxpayer...’.

‘I trust that you and your colleagues will ensure that Steve Robson is fully empowered to work with ICL to find a solution in the time-scale’.

‘...it seems to me that the Government has known for months that the project – in particular the future use of the Payment Card – was going to be changed. We, meanwhile, were left to rack up heavy
costs in Pathway (some £50 million since I wrote to you as Chief Secretary on December 18 1998) and a heavy further investment in senior management opportunity costs across the ICL Group. It is now time to bring matters to a conclusion’.

This seven-page briefing was faxed to No.10 from HM Treasury on the evening of 14 May 1999. Three pages are missing from the dossier. It began:

‘Summary: The price of ICL’s offer is considerably higher than we assumed in our modelling of B3, with the payments very heavily front-loaded. The NPV of the offer is considerably worse than termination. In addition, we are concerned at some contractual issues. We have prepared a counter offer which would involve scaling back the NPV for ICL, transferring risk back to ICL and introducing more conditionality to allow further scrutiny of the contracts.

The Offer:

The offer from ICL takes the form of a draft letter for a Government Minister to send to them, enclosing documentation of what the deal means in contractual terms by reference to the earlier contracts for the benefit payment card and the heads of agreement for B1. Signing the letter as it stands would represent an unconditional commitment.

Is the deal worth doing:

If Ministers do this deal, their decision will be scrutinised very carefully by outside commentators and by the NAO. The key questions that Ministers need to consider are: does it make commercial sense for POCL? Is the contract satisfactory? And is the price reasonable?

Does it make commercial sense for POCL?

For POCL, the key commercial issue is the funding gap, which for them is around £1.2 - 1.3 billion NPV compared to Option A (though much of this is accounted for by reduced payments from DSS). This funding gap dwarfs all other commercial issues for POCL. It is similar for termination.

POCL believe that the hardware and software is probably sub-optimal as the platform for providing network banking and Modern Government services, but would need several months’ work to have a clear view. They are therefore unable to take a view on whether the Horizon hardware and software is preferable to the system they might procure following termination.
**Is the contract satisfactory?**

ICL are insisting that this contract, involving the commitment of many hundreds of £millions for five years ahead, be signed within 24 hours of having been handed it to us (yesterday evening). We strongly advise that any agreement be made conditional on agreeing detailed contractual terms over (say) the next three months. This would give reasonable time for proper scrutiny of what are complicated documents. It would avoid a situation in which we have an unconditional commitment to proceed when unforeseen and unreasonable requirements might be demanded by ICL in drawing up detailed contracts.

There are a number of contractual issues which in any case are not satisfactory. ICL have attempted to shift a number of risks from them back onto the public sector, for example, under this proposal, payments for the hardware would not be dependent on it performing satisfactorily. We will need to ensure that any counter offer (see recommendation below) addresses these points’ p.1-2.

In evaluating the VFM of ICL’s offer, it was compared both against cancellation and against the ‘reasonable price’ expected for this option under modelling:

‘...compared to our modelled B3, the offer is £320 million worse in NPV terms’ p.2.

‘Compared to termination, the offer again looks poor value for money’ p.3.

In comparing this with the potential costs of termination, it was acknowledged that the outcome of litigation was uncertain: ‘If ICL successfully claim that the public sector parties have terminated the contracts for their own convenience, the liability on them could be as much as £330m. At the other extreme BA and POCL could recover damages for ICL’s breach up to £200 million. It is likely that the public sector parties would be liable for some damages and the best assumption for present modelling is a damages liability of £150 million’.

On this basis it was argued that ‘termination, followed by purchase by POCL of a comparable off the shelf automation/network banking technology, and a move to ACT from 2003, has an NPV some £200 million better than the ICL offer’.

In concluding, the authors of the report ‘...would not recommend signing the current contract without some changes to the terms and with sufficient conditionality to allow proper scrutiny in the coming months.’
We also do not believe the current offer represents value for money, compared with what we regarded as a reasonable price for B3, or compared with termination’ p.3-4.

A counter offer was being prepared which would improve the NPV for the public sector by £270m and spread costs more evenly over the life of the contract but conceded ‘We think it unlikely this would be acceptable to ICL. We might want to fall back a little from this position (particularly on the NPV) in negotiation. But the bottom line should be no worse than the NPV for termination - it would be hard to defend a deal which represents worse value for money than what the public sector could achieve by going elsewhere’ p.4.

It was recommended that, in order to comply with all of the Prime Minister’s ‘political requirements’ as set out in Jeremy Haywood’s letter of 11 May (Appendix G, document 22, above) a counter offer should be made to ICL. The Prime Minister’s political aims were reiterated in Annex B as jeopardising neither the rural network nor ICL’s future and maintaining a position for the Government which was fully defensible vis a vis the PAC.

A three-page letter from Derek Hodgson, CWU General Secretary, to the Prime Minister began:

‘I am taking the unusual step of writing to you about Post Office Counters Ltd. I am extremely concerned with the direction in which the Government appears to be going (or not going) on the issue of counter automation’ p.1.

Citing a ‘well-informed’ leak of news of the BPC cancellation featured in the Independent on 11 May, Hodgson’s understanding was that his favoured Smart Card Option, B1, was to be replaced by B3. Hodgson was vociferously opposed:

‘I do not believe that B3 forms the basis of an acceptable solution and, indeed, would lead to inferior counter automation, a clear loss of business and Government Agency work to POCL, a net profit loss of probably around £1.6bn over 10 years, a destruction of confidence in the industry, a contraction of the counter network and, as a result, dissatisfaction by the public with the service provided.

My understanding is that the Post Office is faced with an option which says either “negotiate a solution around B3” or “pull out of the Horizon project completely”’ p.2.

Hodgson maintains that neither course would be acceptable to the Post Office. Pulling out entirely would risk the closure of up to 50% of the network as a result of which ‘...the public would not receive the provisions and services promised by the Government...’.

He concluded:

‘...because I know you have shown a personal interest in this matter, I seek your intervention to reconcile the differences between the various ministerial departments and ensure that the only sensible and viable option for the Government, Post Office, the PFI investors and the public is the Smart Card option and this should be adopted and introduced as a matter of urgency.

I cannot recall a previous occasion when I or any of my predecessors have written to a Prime Minister seeking intervention in an industrial matter but the situation is that serious and the political implications are that great I trust you will accept this letter in the spirit intended and respond to it positively’ p.3.
APPENDIX H

EXTRACTS FROM NATIONAL ARCHIVE DOSSIER PREM 49/1012:

‘10 DOWNING STREET’

FILE TITLE ‘POLICY’

SERIES ‘POST OFFICE, PART 5’

17 MAY 1999 – 27 JULY 1999

APPENDIX H, Document 1: MINUTE TO THE PRIME MINISTER FROM NO.10 POLICY UNIT:

‘HORIZON: BA/POCL’ 20 May 1999

A three-page summary of lessons from the Horizon project was sent from No.10 Policy Unit’s Geoff Mulgan to the Prime Minister on 20 May 1999. It was copied to: the Principal Private Secretary to the Prime Minister, Jeremy Heywood; No.10 Policy Unit, David Miliband and Geoffrey Norris; Minister at the Cabinet Office, Lord Falconer; Head of the Home Civil Service, Sir Richard Wilson and Chief of Staff, Jonathan Powell. Appendix H, document 3, below, confirmed the Prime Minister’s receipt of Mulgan’s final version, here quoted in full:

‘PRIME MINISTER

HORIZON: BA/POCL

1. This note sets out some lessons from the Horizon project.
2. By most criteria Horizon has been a fairly disastrous project. It:
   - was misconceived from the start
   - has faced continual delays and problems
   - has over the last year taken up huge amounts of ministerial and official time
   - has delivered in the end a far from optimal solution.
3. How can similar problems be avoided in the future?
4. **Identifying timebombs.** Horizon was one of the timebombs which should have been identified soon after the election. There may be a need for regular audits, from the centre, to identify projects or policies that are running into serious problems, particularly ones that cut across departments.

5. **Clear leadership:** Horizon suffered continually from arguments between the two agencies (BA and POCL) and three departments (DTS, DSS and latterly HMT) involved in it. In the future no project should ever have two departments or agencies jointly in the lead. One should always be clearly in charge, and bearing responsibility, and only one should be in the lead in negotiations with private companies. Moreover, when projects of this kind face problems, any responsibility for fixing them, or reviewing them, should clearly lie with a single minister.

6. **Fallbacks:** In the case of any large project of this kind it is essential to prepare serious fallback options. Although, following No 10 prompting, some work on fallbacks was done last autumn, no further fallbacks were subsequently developed. Having rejected the main ‘B1’ option, the government was therefore pushed into negotiations over an alternative option on which very little detailed work or costing has been done.

7. **Commercial freedoms:** it will always be hard to give public enterprises true commercial freedom. But it cannot be right for ministers and generalist officials and advisors to have to make decisions about extremely complicated commercial and technological strategies. More transparent methods are needed for offering independent advice to ministers on the quality of business plans they are asked to support. In the case of Horizon, although consultants were used at various times, at key moments of decision proper advice was missing.

8. **IT:** the project has highlighted the absence of any strategic grip on government plans for IT. Throughout, there has been no-one within government able, or empowered, to ensure that Horizon fitted into a properly thought-through government-wide strategy. As a result despite much reference to links to ‘modernising government’, this has in practice been more a matter of aspiration than substance.

9. **Clear buy-in:** the Benefits Agency was never convinced that Horizon was in their long term interest. With some projects this might have been surmountable. But complex software projects require the full commitment of all partners to succeed. As a rule no complex IT project should ever proceed when one of the main parties involved is not fully committed.
10. **Political decisions:** ministers were repeatedly confronted with highly technical information and advice, often reflecting departmental interests, which resulted in them being bogged down in detail. Officials attempted to second guess what ministers, including the Prime Minister and Chancellor, ‘really’ wanted. More time should have been spent by ministers at the highest level, and at an earlier stage, to clarify the main strategic objectives, priorities and trade-offs.

11. **Information:** nearly all the facts presented to ministers turned out to be unreliable. Moreover data was presented in ways that were difficult for ministers to understand. Part of the role of tying down financial and other forecasts may need to be more formally contracted out, with clearer responsibility for accuracy. There is also a need to draw on the many visual and other methods developed within business for explaining complex financial data to boards.

12. **The law.** The process over the last year has not been helped by conflicting legal advice from lawyers representing the various public sector parties. Treasury Solicitors have been wary of giving clearcut advice. This problem may be insurmountable, but it would be worth considering if current processes for giving ministers legal advice are adequate.

13. **The Post Office.** Throughout this process the relative lack of competence of the Post Office and their failure to develop a proper business strategy has been a key failing.

14. **Courage.** Perhaps the most important lesson is a more general one: namely that when a project is clearly failing government needs to be bolder about cutting its losses, and tougher in its negotiating stance. There was a clear case for termination 12 months ago, although the Treasury and DTI favoured continuation. In effect, inertia led to continuation, since no-one at the centre had a sufficiently clear remit or reason to terminate. Throughout this period ICL assumed that the government would not have the courage to terminate. Only at the last minute, when they believed that cancellation was a real possibility, did they make real concessions. As a result the Post Office slipped a year in its automation strategy, and large sums of money were wasted both by government and by ICL.

15 **Other lessons.** There will certainly be other lessons which would repay investigation. You might consider asking Sir Richard Wilson to oversee the preparation of a more considered assessment of the lessons learned from Horizon, with recommendations as to how similar mistakes can be avoided in the future’ p.1-3 [emphasis as in original].
A handwritten note to the Prime Minister from his Principal Private Secretary, Jeremy Heywood, is attached to the above minute. It concluded:

‘The main conclusion I draw from this is that the Post Office should be turned into a PPP as soon as politically possible. Gov. ministers are in a terrible position to decide multi million £ IT projects like this; and the Post Office management have shown themselves to be completely inept. We should ask Richard Wilson to do an urgent review of the lessons’.

A two-page draft of the above minute, headed ‘Draft note on Horizon lessons’ and dated 12 May 1999 is filed in dossier PREM 49/1011. Amendments had been subsequently made to the following statements:

‘Horizon has been a disastrous project from beginning to end’ p.1.

‘Over the last year it has taken up huge amounts of ministerial and official time, and delivered in the end a far from optimal solution that may be as expensive as the alternatives and will almost certainly offer less’

‘Almost every supposed fact in this project has turned out to be unreliable’ p.2.

Under Political decisions the following was omitted from the final draft:

‘if ministers cannot reach agreement on a project with public spending implications, it is vital that at an early stage the Prime Minister and Chancellor set the parameters for reaching a decision. The worst possible outcome is for the PM and Chancellor to become involved at the very last moment without having had time to master the issues’ p.1.
A second, three-page appeal from CWU General Secretary, Derek Hodgson, to the Prime Minister, Tony Blair, followed his letter of 14 May (Appendix G, document 28, above) and was made in response to ‘most disturbing developments’. During a meeting with the Chancellor, Gordon Brown, and HM Treasury Chief Secretary, Alan Milburn, Hodgson claimed to have been given assurance ‘that there is no conflict between the various Departments on the need to agree a viable automation project for POCL’ p.1.

But he noted that meetings with Milburn, Darling, Byers, Falconer, Robson and ICL had been taking place without Post Office representation:

‘These meetings have culminated in an option entitled B3 being adopted and apparently the Post Office being required to bear the cost. In my view, and no doubt that of the Post Office, this is a most unacceptable option and it would lead to the Post Office quickly becoming loss making and it will clearly endanger the Counter Network.

This is frankly astonishing. Even more disturbing is that, if my understanding is correct, in order to compel the Post Office to implement an agreement of which it was not a part and which it believed was commercially unacceptable, the Secretary of State for Trade and Industry seriously considered using a “direction” under the terms of Section 11 of the Post Office Act 1969’ p.2.

‘I urge you most seriously to intervene and ensure that all the Department Ministers and Charles Falconer - plus relevant Treasury officials such as Stephen Robson - progress the automation project in an open and transparent manner with full involvement and participation by the Post Office. Equally I would invite you to insist to all concerned that any agreed outcome is commercially acceptable to the Board of the Post Office, all the non-executive directors of which have been appointed by your Government.

As you know, the sums of money involved in the Horizon project are considerable and any suggestion that the Post Office itself should have to find some £1.6 billion over the next 10 years is not consistent with the business producing a viable strategic plan. Equally the political risks attendant on this issue are enormous: Horizon is the largest case of the Private Finance Initiative and a failure to agree a way forward would be deeply damaging to the Government. Up to half of the 19,000 offices of
Post Office Counters would be at risk of closure from any failure to provide an appropriate electronic platform’.

Hodgson proposed a meeting between the Prime Minister and himself during the forthcoming Labour Party NEC meeting.

A one-page briefing from the Prime Minister’s Principal Private Secretary, Jeremy Heywood, to the Head of the Home Civil Service, Sir Richard Wilson, was copied to: the Minister at the Cabinet Office, Lord Falconer; Chief of Staff, Jonathan Powell; and No.10 Policy Unit, David Miliband, Geoffrey Norris and Geoff Mulgan.

Under the heading ‘HORIZON: BA/POCL’

‘The Prime Minister has seen Geoff Mulgan’s minute of 20 May. The Prime Minister agrees that it would be extremely helpful if you could prepare a full assessment of the lessons to be learned from this project, together with recommendations as to how we can avoid similar problems in the future.

Separately, he would welcome advice on Geoff Mulgan’s suggestion that one of the key problems here has been the failure of the Post Office to develop a proper business strategy. Does this raise serious questions about the strategy agreed in December?’.
APPENDIX H, Document 4: LETTER FROM DTI SECRETARY OF STATE TO ALL MEMBERS OF PARLIAMENT: ‘POST OFFICE AUTOMATION’ 27 May 1999

Addressed to all Members of Parliament this two-page letter from the DTI Secretary of State, Stephen Byers, gave an update on the status of the Horizon project:

‘I am pleased to say that we have now found a positive way of moving forward on automation. As a result of this, for the first time ever, post offices will have an up to date automation platform, helping them to provide a better service for their customers and representing a major investment in the future of the nationwide network of Post Offices. The target set for achieving the computerisation of the entire network of Post Offices, is by the end of 2001. This is a realistic target that we believe can be met. The introduction of this technology will give the Post Office network a leading position in the modernising Government agenda which aims to make Government closer to the people, not least through the use of newer technologies’ p.1.

‘We shall be involving the National Federation of Sub-Postmasters closely in this initiative’ p.2.
In this four-page letter to the Chancellor Gordon Brown, DTI Secretary of State, Stephen Byers, reiterated proposals for his imminent Post Office White Paper, emphasising the need for the continuation of the current level of Government business with the Post Office, until it had developed alternative revenue streams on the back of future banking technologies. This would include Government Direct work after the loss of Benefits Agency business in 2003. Without firm commitment from the Chancellor, he argued, there could be no guarantee that the network could be sustained at its current level, leading to irreversible shrinkage:

‘...the substantial investment that the public sector will be making in this automated platform to modernise the network will be undermined if business is unnecessarily lost from the network before new business can be brought on board, generated on the back of the automated platform’ p.3.

He left the Chancellor in no doubt as to the urgency of securing POCL's automation or of the DTI's intentions to actualise the Horizon deal:

‘...without the platform it is quite clear that they will not survive. I can assure you that my Department will now be using its best endeavours to facilitate the agreement to a full, workable and effective contract between the Post Office and ICL’.

An updated draft of the relevant chapter of the White Paper ‘...revised to take account of this week's announcement on Horizon’ was attached to Byer’s letter which was copied to the Prime Minister, Tony Blair, and Head of the Home Civil Service, Sir Richard Wilson.

A two-page letter from Paul Britton of the Economic and Domestic Secretariat to the Prime Minister’s Principal Private Secretary, Jeremy Heywood, responded to the proposals of DTI Secretary of State (Appendix H, document 5, above) regarding the delayed ‘untying’ of Government Departments from the Post Office as their default delivery channel. He argued that, whilst both HM Treasury, the DSS and DETR (Department of the Environment, Transport and the Regions) were content for this uncoupling to be delayed until April 2003 in order for the Post Office to exploit Horizon and attract new revenue streams, wider Government objectives would be impacted:

‘Within the Cabinet Office I have spoken to David Cooke in CITU who will give Jack Cunningham advice on the implications for the modernising government agenda, particularly the target for electronic government. I think that there is a good chance that Cunningham will argue that delaying untying beyond end - 2001, when the Post Office should have its IT platform in place, is unnecessary and will frustrate attempts to deliver electronically a raft of important Government services’ p.2.
A two-page letter from Jeremy Heywood, Principal Private Secretary to the Prime Minister, to Chris Woolard, Private Secretary to DTI Secretary of State, Stephen Byers, referred to a meeting earlier that evening between the Prime Minister and CWU General Secretary, Derek Hodgson. He recorded that Hodgson supported turning the Post Office into an IPOC, rather than a plc, along the lines proposed by Peter Mandelson in December 1998. He warned that:

‘...if the Government now went straight for the plc model, this would be very damaging’ p.1.

‘Summing up, Derek Hodgson said that he did not want a fight with the Government. But if the proposals in the White Paper were not changed he would have to campaign against them; and there was a real risk of a return to the industrial relations anarchy of a few years ago’ p.2.

Heywood's letter was copied to Tom Scholar at HM Treasury and Sebastian Wood at the Cabinet Office.
A three-page letter from HM Treasury Chief Secretary, Alan Milburn, to DTI Minister, Ian Mc Cartney, argued that extending arrangements whereby Government Departments and Agencies were ‘tied in’ to POCL contracts did not incentivise the Post Office to seek efficiencies or to win new business. In conclusion he remarked:

‘I hope that you and Alistair Darling will be able to make sure that BA and POCL are discussing in good faith, and are making every effort to reach agreement before the 16 July deadline with ICL’ p.3.
A four-page letter from the Prime Minister to the CWU General Secretary, Derek Hodgson, responded to Hodgson’s concerns over proposals in the Draft White Paper to change the Post Office’s status to plc:

‘The intention is to replace the current – unclear – legal structure of the Post Office with one more appropriate for a modern, forward looking business. The Post Office as a corporation is currently governed by legislation which is either unique to it or specific to nationalised industries. This legislation, which interweaves the regulatory and ownership powers of the Government, provides for intervention in the business that is not consistent with our aim of bringing much greater clarity and transparency to the respective roles of the Government, Post Office and Regulator’ p.1.
13 July 2021

Dear Alan,

I am currently researching aspects of the Post Office Horizon system as part of my support for my ex-Sub Postmaster, Chirag Sidhpura, who was accused of theft after a £57k ‘shortfall’ was uncovered at his branch in Farncombe, Surrey in 2017.

I am interested to learn more about the activities of the Horizon Working Group which you chaired from July 1999.

Please can you advise for how long this Working Group was active, for how long were you its Chair and what were its Terms of Reference? I have been unable to track down minutes of the Working Group at the National Archives, Postal Museum, or via FOI requests to POL, BEIS and HMT which cover the period that the Working Group oversaw the rollout of Horizon (scheduled for July 1999 but subject to repeated delay).

Post Office Board Minutes and Papers from 1999-2000 recently disclosed at the Court of Appeal indicate significant technical issues which delayed the acceptance and rollout of Horizon at this time.

I am most interested to know what was known of these delays, and their causes, by the Horizon Working Group.

Many Thanks,

Yours sincerely,

Eleanor Shaikh
13 July 2021

Dear Eleanor,

Thanks for your email. So far as I recall the Horizon Working Group had been set up by my predecessor, Ian McCartney, to explore what opportunities for new business the computerisation of this vast network provided.

Ian had placed a moratorium on Crown Office closures or any further down-grading of sub-offices while the Government explored the possibilities of attracting fresh footfall.

For the previous twenty years the network had diminished by around ten thousand (from 25,000 post offices to 15,000). This was because whereas once the Post Office had been the only place where you could buy a stamp, post a parcel or collect your pension this was no longer the case. For pensioners in particular, there were alternatives to queuing every Thursday to draw the state pension in person. Until the early 80’s there was no facility to have the pension paid into bank accounts. The change was good for pensioners but a disaster for sub-postmasters whose business relied to a huge extent on that work. (Most pensioners would spend some of the cash they’d just collected in the shop, so it was of double benefit to the sub-postmaster or mistress.)

Many pensioners still wanted to collect their money in cash but for government this was expensive and bureaucratic because of the pension books that had to be provided with a slip torn out and presented every week. There was also a big problem with fraudulent pension and benefit books. With computerisation the hope was that a card containing a microchip would be a cost effective way of continuing to pay the pension at the Post Office.

As for new work, I believe there was a report produced in Downing Street (by the Foresight team?) setting out fresh opportunities. The principle one was allowing all banking transactions to be conducted through the Post Office regardless of who one banked with. Another was the provision of a basic Post Office account which couldn’t be overdrawn, designed to encourage the so-called unbanked (i.e. the very poor) to gain the advantages of having a bank account.

There was another big idea which was for Post Offices to be a Government General Practitioner. This would attract people who wanted to transact government business over the internet but didn’t have access (remember this was over twenty years ago when computers and lap-tops were not so ubiquitous) to be able to do this via their local Post Office.
So the Horizon Working Group had nothing to do with the actual roll out of Horizon (which was the responsibility of the Post Office) and everything to do with encouraging government departments to work together to try to take advantage of computerisation to prevent the continued decline of the network of post offices that were so treasured by local communities particularly in rural areas.

Hope this helps.

Best Wishes,

Alan Johnson

13 July 2021

Dear Alan,

Thank you very much indeed for your prompt and full reply.

It is clear from what you say that the Working Group which you chaired was very different from its predecessor, the inter-departmental group referred to by the NAO as being tasked with assessing whether the project was technically viable; the original Horizon Working Group was party to information regarding the system’s technical issues via the July 1998 Montague Report.

However, according to the Government Response of November 1999 to the DTI Committee Eleventh Report, your Working Group which had been established by Ian McCartney as part of the agreement signed by the Post Office on 24 May 1999, functioned to ‘monitor and oversee the successful implementation of the project’.

Whilst the rollout of Horizon may, as you say, have been the responsibility of the Post Office it is difficult to believe that your Working Group was unaware of the delays in acceptance and rollout of Horizon, bearing in mind that your strategic overview was entirely dependent on it fully functioning at the earliest possible opportunity.

Rollout was originally scheduled to take place on 24th August 1999 following acceptance of Horizon on 18th August 1999. But acceptance was deferred until 24th September due to three high priority acceptance incidents and the POCL Board noted on 14 September that rectification of two incidents relating to system stability and the quality of accounting data, was not expected before December.
According to POCL Board Minutes of 11 January 2000, acceptance criteria had still not been met and Horizon’s rollout had been rescheduled for 24th January 2000.

If the remit of your Working Group was, as you say, ‘to take advantage of computerisation’ in order to preserve the network, then it needed to know when that computerisation was arriving. All the more so, given the extraordinary delays to the project to date and the technical failures associated with the Benefits Payment Card.

May I just clarify, are you saying that the Horizon Working Group of which you were Chairman was not aware of these delays and did not seek explanation for their cause?

Access to minutes as well as the Terms of Reference of this Working Group would be most useful. Where might they be found?

Yours sincerely

Eleanor Shaikh

13 July 2021

Dear Eleanor,

I can’t recall much about that working group let alone any technical problems being referred to ministers, which would have been strange given that any day to day involvement with running the Post Office (which at that time included Royal Mail and Parcelforce) ceased when it left the Civil Service to become a public corporation in 1969.

As I’ve said, there was a cross government commitment to finding work that a computerised network could bring to ensure the network remained viable in a changing world.

In respect of the minutes I suggest you ask the Department for Business, Energy and Industrial Strategy which retains most of the responsibilities of the old DTI.

Good Luck,

Alan Johnson
14 July 2021

Dear Alan,

Thank you once again for your swift response.

Whilst I appreciate the Government’s official line on Post Office’s ‘operational independence’ after 1969, this overlooks the significant role HMG played in the genesis of the Horizon Project.

This was a Government-initiated project, procured jointly by BA and POCL and throughout its development Ministers were informed of technical difficulties which dogged the project eg via the July 1998 Montague Report. The July 1999 oral evidence session of of the DTI Committee records that the Chief Secretary to the Treasury, the Secretary of State for DTI and the Secretary of State for DSS, were ALL aware of significant failings of the BPC which were apparent right up to April 7th 1999 when the Release Authorisation Board met and BA withheld permission to proceed to Live Trial. The failed BPC was, until May 1999, an integral part of the Horizon project.

This undermines your argument that it would ‘strange’ for Ministers to be aware of technical problems. By May 1999 the Government had pledged around £500 [m] toward the re-vamped project and it would indeed be strange for it NOT to have sought cast iron assurance of the system’s fitness for purpose, at least on VFM grounds.

My question returns to one of timing.

The IT system on which HMG’s entire strategic plan for POCL depended was due to rollout on 23rd August 1999. Critical high level incidents meant this was deferred until 15 November. The DTI Committee were informed of this delay on 27 August 1999. But the roll-out was later suspended and such issues remained unresolved until at least January 2000 when they were judged by the POCL Board to still compromise Horizon’s ability to achieve acceptance criteria.

It is simply untenable to suppose that the Horizon Working Group and the Post Office Minister were unaware of these significant delays. You yourself confirmed your ongoing dialogue with the Post Office Board at this very time:

‘My right hon. Friend and I maintain an ongoing dialogue with the Post Office Board on the development of the Horizon project including the use of smart card technology’.

Thank you for your suggestion to approach BEIS for the Working Group Minutes. Neither the department, POCL, HMT, the National Archives nor the Postal Museum have copies of them. It strikes me as interesting that no party appears to have retained these, or other such documents, which relate to the delays and viability of such an expensive and critical national asset.

Yours sincerely,

Eleanor Shaikh

There was no further communication from Alan Johnson
RELEVANT GOVERNMENT APPOINTMENTS

Prime Ministers

Tony Blair, May 1997-June 2007
Gordon Brown, June 2007-May 2010

Chancellors of the Exchequer

Gordon Brown, May 1997-June 2007
Alistair Darling, June 2007-May 2010

First Secretaries of State

John Prescott, June 2001-June 2007
Peter Mandelson, June 2009-May 2010

Chief Secretaries to the Treasury

Alistair Darling, May 1997-July 1998
Alan Milburn, December 1998-October 1999
Andrew Smith, October 1999-May 2002

Permanent Secretaries to the Treasury

Terry Burns, 1991-1998
Andrew Turnbull, 1998-2002
HM Paymaster Generals (HM Treasury)


Dawn Primarolo, January 1999-June 2007

Ministers of State for the Cabinet Office (and Chancellors of the Duchy of Lancaster)

David Clark, May 1997-July 1998

Jack Cunningham July 1998-October 1999

Ian McCartney July 1999-June 2001


Alan Milburn, September 2004-May 2005

Ministers of State at the Cabinet Office


Ministers without Portfolio at the Cabinet Office

Peter Mandelson, 1997-July 1998

Ian McCartney, April 2003-May 2006

Secretaries of the Cabinet Office and Heads of the Home Civil Service

Lord Butler 1988-1998

Richard Wilson, January 1998-2002

Andrew Turnbull, September 2002-March 2005

Department of Trade and Industry (Restructured as Department for Business, Enterprise and Regulatory Reform (BERR) in June 2007; Department for Business, Innovation and Skills (BIS) in 2009 and Department for Business, Energy and Industrial Strategy (BEIS) from July 2016)
Secretaries of State
Peter Mandelson, July 1998-December 1998
Stephen Byers, December 1998-June 2001
Alistair Darling, May 2006-June 2007
Peter Mandelson, October 2008- May 2010

Ministers of State for Competitiveness
Ian McCartney, May 1997-July1999
Alan Johnson, July 1999-June 2001
Douglas Alexander, June 2001-May 2002

Ministers of State
Douglas Alexander, September 2004-May 2005
Ian McCartney, May 2006-June 2007

Permanent Secretaries
Michael Scholar, 1996-2001

Department of Social Security (Restructured as Department for Work and Pensions in 2001)

Secretaries of State
Peter Lilley, April 1992-May 1997
Alistair Darling, July 1998-May 2002
Andrew Smith, May 2002-September 2004
Alan Johnson, September 2004-May 2005
Minister of State
Ian McCartney, June 2001-April 2003

Ministers for Welfare Reform, DSS
Frank Field, May 1997-July 1998

Permanent Secretaries
Ann Botwell, 1995-1999
Rachel Lomax, 1999-2002

Benefits Agency (executive agency of Department of Social Security)

Chief Executive
Peter Mathison, 1995-2000

Comptroller and Auditor-General
Sir John Bourn, 1988-2008

Solicitor Generals
Harriet Harman June 2001-May 2005

Minister of State for Justice
Harriet Harman, May 2005-June 2007