

ORIGINS OF A DISASTER

The Role Of Her Majesty's Government In Shaping Horizon And The Post Office 1998-2000

The Government's claim that Horizon is an operational issue of an Arm's-Length Body is a convenient deflection from the project's origins and of the shaping forces which set Horizon on its trajectory of disaster from the very beginning. The Government conceived Project Horizon in 1993, 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. Horizon was a programme of national significance designed by the Government to modernise a vital strand of the UK's infrastructure; it was to handle not only £56 billion of benefits per annum, but also to assist Government Departments, Local Government and regulated industries in which the Government had an interest: Telecoms, Water, Electricity and Gas. As such Ministers had access to numerous reports which informed them of the programme's difficulties and technical problems along the way. One such report, HM Treasury's Montague Report of July 1998, flagged up a host of unresolved issues which included Horizon's '*problems with EPOSS*' and '*Issues with reference data*'.¹

It is well-documented that the Post Office's Legacy Horizon was a reconfigured version of a disastrously flawed parent project, the Benefits Payment Card. The impression given by three Secretaries of State to a Parliamentary Select Committee in July 1999 was that, once the BPC was thought to be irredeemably faulty by autumn 1998, all efforts were then focused on the reconfiguration into the Horizon project as we know it. But their evidence was far from complete. In late 1998 the Prime Minister, Tony Blair, who had been warned of the system's instability, was asked to decide the future of Horizon. The No.10 Policy Unit had advised on cancelling the BPC and the Law Officers had given a clear view on how the public sector might terminate the project. Blair's steer, however, paid no heed. Driven by an overriding objective of protecting the interests of ICL, he ruled that the BPC must be kept as a fallback option whilst negotiations were undertaken to explore extending, not reducing, Horizon's functionality. The Prime Minister wanted to develop Horizon into a Smart Card project, with or without the BPC. Four months later the proposal was shelved; at £800 million more than original project, HM Treasury deemed it too costly. An impatient ICL/Fujitsu withdrew its contractual offer on the BPC and by early May 1999 the Government found itself in checkmate; both its favoured option for Horizon and its only fall back option were dead.

The 'Fourth Option', that of a radically scaled down version of Horizon, was considered formally for the first time in an HM Treasury Report of 5 May 1999, less than a week before ICL/Fujitsu's final deadline for the Government to decide on Horizon's future. Unable to reach consensus, Ministers

¹ Appendix A (document 1) p.230

once again called upon the Prime Minister for his guidance. Driven by wider political agendas which included the protection of Japanese inward investment in UK plc, Blair ruled that the Post Office must purchase a salvaged version of Horizon. Insufficient work had been done to determine the viability of this option and the Post Office itself was adamantly opposed to the idea. Right up until the day before the Prime Minister's decision, the Post Office were vociferous; they wished to terminate Horizon and start afresh with a new supplier. In any event, they argued they would need months to assess his chosen solution:

*'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.'*²

Without the Post Office having determined a clear strategy on which banking applications it wanted, or on what technologies and standards these were to be based, it could not immediately determine if the reconfigured Horizon and its Riposte architecture was suitable; as Montague's panel had warned, it was not centred around On-Line Transaction Processing.

When Blair made his decision on 11 May 1999, ICL's position on a scaled-down reconfiguration of Horizon was unknown. In the six-day window between the proposal being formally listed as an option, and Blair's decision, no-one could have guaranteed either its suitability for the Post Office's commercial objectives or its integrity.

The flawed EPOS system which Blair insisted POCL purchase, had never been trialled in the field; the DSS refused permission for the Live Trial of the NR2 software release (of which EPOS was the major new part) on 10 May 1999 following four failed Model Office test runs.

Blair had received multiple communications regarding Horizon's chequered history. In April 1999, and before deciding on the project's future, he was presented with a list of ICL failures which began: *'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.'*³

Yet still he insisted something must be salvaged from the wreckage. This is how the decision to reconfigure Horizon was conceived and executed; it was botched together in unseemly haste under pressure of a final deadline imposed by an increasingly irate ICL/Fujitsu. It was hewn from a project in which the No.10 Policy Unit conceded *'nearly all the facts presented to ministers turned out to be*

² Appendix G (document 27) p.553

³ Appendix G (document 10) p.530

unreliable'.⁴ It was a sub-optimal remnant, salvaged from a fatally flawed prototype and never the preferred option of any party, least of all the Post Office or ICL.

This is how, at the behest of the Prime Minister, Horizon's 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.

In the period of grace between the May 1999 agreement and the codified contract being signed on 28 July 1999, there was ample opportunity for the Government to monitor the recurring problems of the reconfigured Horizon which were clearly visible at Post Office Board level. Having forced the Post Office to reach Heads of Agreement on the deal, Ministers could not have failed to notice the Board's refusal to sign the contract with ICL. At every critical juncture of the system after its reconfiguration; the signing of the ICL contract in July 1999, the decision on System Acceptance in September 1999 and the authorisation of rollout in January 2000, Ministers were in close dialogue with the Post Office. The Postal Minister even chaired the Horizon Working Group at this time. 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 precisely that. Decisions of such national consequence could not be left to the Post Office alone; it was feared that an estimated 9,000 branches faced closure if the project did not go ahead and the Government could simply not allow half of the network to be lost if the PO Board opted to abandon Horizon in its entirety. Until ACT was fully in place, the Post Office network was the only channel through which the Government could pay benefits to the majority of vulnerable claimants, and BA warned of serious problems for the national delivery of benefits in the event of its '*uncontrolled collapse*'.⁵

Ministers convened their own meeting on Horizon on 21 July 1999, the same day they met representatives from the Post Office. A Post Office Monthly Performance Report of the same month referred to the automation of POCL as being '*subject to Government decision*'.⁶

When in August 1999 Horizon failed to achieve its Acceptance criteria due to significant technical issues, the Post Office alerted the DTI Select Committee to the presence of Horizon's '*out-standing faults*'.⁷ The Department had to make a formal response to the report which recorded this

⁴ Appendix H (document 1) p.557

⁵ Appendix B (document 15) p.280

⁶ Appendix D (document 37) p.418

⁷ '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 out-standing 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

information. The Committee was concerned and requested that the DTI keep it updated on progress. The Department complied: it informed the Committee that Horizon's Acceptance had occurred in September. It did not disclose, however, that the system had initially failed to reach Acceptance for the second time in September, or that recurring outstanding faults which included system stability and accounting integrity meant that Acceptance had proceeded on a **conditional** basis only.

Uncertainty over whether Horizon had achieved Acceptance criteria still hung over the project when in January 2000 the Postal Minister attended a Post Office Board meeting. Board Paper POB 007x, which was discussed in his presence, gave a clear indication of the technical difficulties which had been encountered since reconfiguration and which cast doubt over the recommencement of Horizon's rollout. The paper cited:

'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'.⁸

The Board Paper was unequivocal; no decision had been made on the resumption of rollout because *'further monitoring and discussion is required on helpdesk and accounting integrity issues'*.

The reconfigured Horizon, presented by Ministers in May 1999 as a pristine, state-of-the-art triumph, was in fact the product of a last-ditch, fourth-choice deal in which the Government knowingly accepted a sub-optimal system; it knew Horizon had **always** been subject to accounting integrity issues, both before and after reconfiguration. But too much was riding on Horizon's much-delayed rollout; 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.

Once the Prime Minister had made his decision in May 1999, there were to be no more doubts voiced about the system, no more delays or dissent. Inconvenient truths pertaining to its integrity had to be worked around and airbrushed from view. Indeed, the favourable light in which the Government was to present the reconfiguration was one of the few bargaining chips it held for negotiations with ICL/Fujitsu. With the exception of a brief glimpse into the system's failings which slipped out under cover of parliamentary privilege in 1999, 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 their

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

⁸ Appendix D (document 50) p.433

successors closed ranks in a united front of denial and evasion which was to hold fast during twenty years of torment.

One day before the Horizon contract was signed, the Youth Justice and Criminal Evidence Act was passed, on July 27 1999. It determined that: *'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'*.⁹

All that was left for Horizon's perfect storm was for the Government to divest itself of any responsibility of 'operational' oversight. Within a year the Post Office's corporate structure had been radically redefined to accommodate new commercial freedoms and an Arm's-Length status. The seismic shift was engineered by HM Treasury, the Ministry which had enjoyed the clearest line of sight into Horizon's heart of darkness and into the weakness of the Post Office leadership. It was a move which even Blair's Principal Private Secretary foresaw was 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'.¹⁰

In 2000 the Government who had overseen the disastrous origins of the Horizon project now laid the flawed foundations for its corporate guardianship. The Post Office's restructure was as ill-conceived as the reconfiguration. Under the pretext of 'operational independence', a logic to which it clung to the bitter end, the Shareholder refused to acknowledge that gross operational failure could in itself pose an existential threat. The Government 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 one swipe, the value of BEIS's ordinary shares in Post Office Limited fell from £256 million in March 2019 to less than the value of a second class stamp.

It was a foreseeable disaster. In June 2000 the Chairman of what was by then Consignia, had written to the Minister seeking clarity on the relationship between the Government shareholder and the Board. The reply, which he received ten months later, was considered both inadequate and unacceptable: *'...leaving Consignia without an agreed governance framework in place in respect of its dealing with the shareholder'*.¹¹

⁹ Youth Justice and Criminal Evidence Act 1999 <<https://www.legislation.gov.uk/ukpga/1999/23/section/60>> accessed 16 May 2022

¹⁰ Appendix E (document 8) p.457

¹¹ Appendix D (document 58) p.444

By the following year, the Chairman was 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'*.¹²

And there the matter lay, in all its contradiction and obscurity until, in March 2020, the Government deigned to deliver a Post Office Shareholder Relationship Framework, some twenty years too late. In the intervening years, the spectre of an unparalleled and invincible corporate absolutism had asserted itself through the fault lines of the company's Arm's-Length governance structure. Behind the facade of its public-spirited purpose and its royal association, the Post Office's alter ego was given the freedom to 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.

The Shareholder's inertia in addressing the root causes of Horizon issues has yet to be examined. The Shareholder's failure to avert an existential threat to the Post Office before it had materialised has yet to be explained. But given the role the Government played in Horizon's genesis, and given its knowledge of severe technical and operational problems 1998-2000, it would appear to have displayed a breathtaking abnegation of responsibility for two decades.

It was, after all, the Shareholder which forced an IT timebomb onto an unwilling Post Office. It trusted Horizon, which was known by the Shareholder to be subject to issues of data integrity, to a corporate leadership which was known to be belligerent and inept. The Shareholder subsequently granted that leadership Arm's-Length autonomy and proceeded to untether all stays of operational control under a nebulous corporate structure which was wholly unsuited to an enterprise of such weighty social purpose.

Having laid down the preconditions for the greatest miscarriage of justice in British legal history, the Government Shareholder then retreated, choosing to disregard any challenge to the narrative of Horizon's robustness which it had so carefully helped to construct.

'The real heart of it is the system itself'.¹³

¹² Appendix D (document 59) p.445

¹³ Appendix F (document 3) p.468