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DEPARTMENT OF TRADE AND INDUSTRY

FOR THE URGENT ATTENTION OF:

Sarah Mullen HMT fax:

Please circulate to HMT officials below:

- Peter Schofield
- Adrian Montague
- Ross Newby
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- ✓ Sarah Graham DSS fax:
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GRO

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**HORIZON : PROGRESS TRACKING GROUP
REPORT TO MINISTERS / PRESENTATIONAL ASPECTS ANNEX**

Sarah and copy recipients,

I attach a revised version of the paper on presentational aspects of Ministers' decisions on the Horizon project which seeks to reflect comments received from copy recipients. It incorporates in particular some changes in relation to issue of notice of termination and notice of time of the essence.

Isabel Anderson

RESTRICTED - POLICY & COMMERCIAL**ANNEX C****HORIZON - PROPOSED PRESENTATIONAL STRATEGY**

1. This note sets out a presentational strategy, broadly agreed at official level within the Horizon working group, for each of a number of possible scenarios which will depend on the decision reached by Ministers on the future of the Horizon project and on ICL's reaction to it. The scenarios covered are:
 - I. Existing contract re-negotiated to continue the project in its entirety.
 - II. Notice of time of the essence issued.
 - III. Negotiated settlement with all parties exiting contracts.
 - IV. Negotiated settlement with ICL providing banking facility instead of benefit payment card.
 - V. Decision by HMG to terminate contracts.
 - VI. Withdrawal by ICL with apparent intention to litigate.

2. As a precursor to termination, POCL/BA will serve ICL with some form of notice of termination. If notice of termination is issued we suggest that this should be accompanied by a Ministerial statement (Scenario V). We suggest that in the case of notice of time of the essence being issued requiring ICL to complete the contract at a given date this should not be accompanied by publicity (although lines to take if news of its use emerges are given - Scenario II).

3. Key concerns in the event of a failure of the project will be to reassure subpostmasters about the future of their businesses, and to reassure benefit recipients that they will continue to be able to collect their benefits at post offices. It will also be important to convey the message to the IT industry and Japanese inward investors that the Government has acted in good faith. If the project continues in its current form, there is also a strong case for putting on the record the Government's support for it given the concerns generated by speculation about its future over the last year.

4. We propose that in all the scenarios listed above except Scenario II an oral statement should be made in the House of Commons by the appropriate Minister. The precise tone of responses will depend partly on the stance adopted by ICL. Draft Ministerial statements are given at Appendix A. Question and Answer briefing is at Appendix B.

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APPENDIX A

DRAFT MINISTERIAL STATEMENTS

SCENARIO I: Existing contract renegotiated to continue the project in its entirety.

Madam Speaker, with permission I should like to make a short statement about the project, known as Horizon, to automate the payment of social security benefits and a range of other services provided at post offices. We have been concerned at the serious delays to this project, undertaken jointly by the Benefits Agency and Post Office Counters Ltd under the Private Finance Initiative and with ICL Pathway as the private sector partner, and we have therefore been monitoring its progress carefully. I am today able to tell the House that we are satisfied that a sound basis for taking the project forward to a satisfactory completion has been found. Under these revised arrangements, all post offices will be automated by autumn 2001. I very much hope that this statement will put an end to recent months of damaging speculation in certain sections of the press about the future of the project, and allow those charged with its implementation to focus their energies on the task in hand without further distraction.

SCENARIO II: RESPONSE TO QUESTIONS ABOUT HMG SERVING NOTICE OF TIME OF THE ESSENCE

The Horizon project, undertaken jointly by the Benefits Agency and Post Office Counters Ltd under the Private Finance Initiative and with ICL Pathway as the private sector partner, has for some time now been in difficulty, suffering extensive delays and cost overruns. The public sector parties have after very careful consideration served notice requiring ICL to complete the project by the end of the notice period.

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The Government remains committed to the objectives of the project, namely :

- the automation of the post office counters network, to match the ambitions we have for it to become a world beating model service; and to ensure
- a simple, fraud-resistant, convenient and cost-effective way of delivering the £billions of taxpayers money we pay out each year in benefit payments.

We remain fully committed both to the maintenance of a nationwide network of post offices - we fully recognise the importance of post offices to the communities they serve - and to ensuring that all those who wish to do so will continue to be able to draw their social security benefits in cash at post offices.

For the time being, there will be no change to the existing arrangements. Benefit customers will continue to be able to collect their benefits in cash at post offices, whilst those who hold a benefit payment card will still be able to use it.

SCENARIO III: Negotiated settlement with all parties exiting the contract

SCENARIO V: Decision by HMG to terminate contracts

SCENARIO VI: Withdrawal by ICL

Madam Speaker, with permission I should like to make a statement about the project, known as Horizon, to automate the payment of social security benefits and a range of other services provided at post offices. The House will be aware that the project, undertaken jointly by the Benefits Agency and Post Office Counters Ltd under the Private Finance Initiative and with ICL Pathway as the private sector partner, has for some time now been in difficulty, suffering extensive delays and cost overruns. Despite the best efforts of the public sector, it has unfortunately not been possible to establish an acceptable basis for continuing with the project [which will now be discontinued] [and ICL have advised us of their intention to withdraw].

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The Government wishes at this time to reaffirm that we remain fully committed both to the maintenance of a nationwide network of post offices - we fully recognise the importance of post offices to the communities they serve - and to ensuring that all those who wish to do so will continue to be able to draw their social security benefits in cash at post offices.

We also remain committed to the objectives of the project, namely :

- the automation of the post office counters network, to match the ambitions we have for it to become a world beating model service; and to ensure
- a simple, fraud-resistant, convenient and cost-effective way of delivering the £billions of taxpayers money we pay out each year in benefit payments.

Post Office Counters will now need to consider urgently the options for securing a replacement for Horizon. For the time being, however, there will be no change to the existing arrangements. Benefit customers will continue to be able to collect their benefits in cash at post offices, whilst those who hold a benefit payment card will still be able to use it.

optional additional

Because of the delays to the project, we have had to draw up some contingency plans. These have included exploring the potential to seize new opportunities to support our ambitions for the Post Office as it moves to a new, commercially competitive future and for a wider delivery service for benefit payments.

So, in addition to being fully automated, the Government would like to see post offices offering on-line banking services in association with commercial banks extending the banking facilities already available at post offices.

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Increasing number of benefit customers are choosing to have their benefits paid into bank accounts. We would like them to have the choice of collecting their cash at post offices. We will work with the banks to provide everyone with a bank account if they do not already have one. Post offices are convenient for most people, and people in general, not just benefit recipients, will I am sure welcome the development of automated banking facilities at post offices.

SCENARIO IV: Negotiated settlement - with ICL providing a banking facility instead of a benefit payment card (when reached).

Madam Speaker, with permission I should like to make a short statement about the project, known as Horizon, to automate the payment of social security benefits and a range of other services provided at post offices. Against the background of serious delays to the project, which is being undertaken jointly by the Benefits Agency and Post Office Counters Ltd under the Private Finance Initiative and with ICL Pathway as the private sector partner, we have been reviewing with the contracting parties the future direction of Horizon.

In the light of developments in technology and the market place, and the continuing trend amongst benefit recipients to elect to have their benefits paid into bank accounts - which represents a cost effective and fraud-resistant method of paying benefits - we have decided not to proceed with the benefit payment card proposed by the previous Government. Instead, the Horizon platform will be adapted so that all post offices will be equipped to offer automated current account banking facilities on behalf of the commercial banks. This will mean that eventually, all benefits can be paid into people's bank accounts, but people who wish to do so will still be able to draw their benefits in cash at a post office, but with the added benefits of much greater flexibility and with access to a wide range of banking facilities. What is more, we will work with the banks to help everyone get a bank account, if they do not already have one.

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The terms of the contract with ICL Pathway have therefore been renegotiated to reflect this change of direction.

People in general, not just benefit recipients, will I am sure welcome the development of automated banking facilities at post offices. For subpostmasters, this change will open up the prospects of a wide range of new business stemming from the development of our policies on universal banking, and the potential for offering a Single Government Account signalled by the Prime Minister at the Labour Party Conference to bring together in a simpler way the many transactions Government has with each individual citizen.

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APPENDIX B

LINES TO TAKE IF EITHER ICL OR HMG DECIDE TO TERMINATE HORIZON PROJECT

IF ICL TERMINATES

GOVERNMENT'S VIEWS ON ICL PULLING OUT OF HORIZON PROJECT?

- Regret that ICL has felt unable to continue with the project despite the public sector parties' best efforts to agree revised terms with them.

WHAT WENT WRONG? (IF ICL TERMINATES)

- This large and complex IT project became subject to extensive delays and cost-overruns, and the contracting parties were unable to agree an acceptable commercial basis for continuing with it.

IF GOVERNMENT TERMINATES

WHY HAS GOVERNMENT CANCELLED THE HORIZON PROJECT?

- Despite the public sector's best efforts it has unfortunately not proved possible to reach agreement with ICL on commercial terms for continuing with the project.

IS IT TRUE THAT THERE HAVE BEEN NEGOTIATIONS BETWEEN THE PARTIES WHICH HAVE BROKEN DOWN?

- This is commercially confidential information upon which I cannot comment.

WAY FORWARD NOW?

- The Government remains fully committed to the objectives of the Horizon project to provide:
 - the automation of the post office counters network, to match the ambitions we have for it to become a world beating model service; and
 - a simple fraud-resistant way of delivering the £billions of taxpayers' money we pay out each year in benefit payments

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- But the plans we inherited from our predecessors are not now the best way to achieve these objectives, given the delays that have now occurred in the project they devised.
- We believe there is now a better way forward, available to meet the ambitions this Government has to handle its dealings with people in a modern, convenient and streamlined way.
- In particular, we want to look to solutions for the future.
- Our vision for the future is that :
 - every post office will be automated, and will offer on-line banking services in association with the commercial banks as well its current range of services;
 - people will have their benefits paid into bank accounts and will be able to collect their benefits in cash from post offices/shops /banks and a number of other outlets whichever is the most convenient;
 - they will be able to do this because of the banking facilities that the Post Office will install on its counters; and because we will work with the banks to provide everyone with a bank account, if they do not already have one.
- We will be achieving this massive change, moving us away from an antiquated system of paying benefits which has been around since the 1940s, by building a partnership with the banks, the commercial world, the Post Office, Government and people.
- This approach will open up the prospects of the kind of Single Government Account signalled by the Prime Minister at the Labour Party Conference, to bring together in a simpler way the many transactions Government has with each individual citizen.

EFFECT ON POST OFFICES ?

- Post Office Counters will now need to consider urgently the options for securing a replacement for Horizon, incorporating banking facilities but in the meantime it will be business as usual for post offices up and down the country.
- The Government remains fully committed to the maintenance of a nationwide network of post offices providing good local access.

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- Fully recognise importance of post offices to communities they serve and recognise the especially valuable role played by post offices in rural communities.

IMMEDIATE CONSEQUENCES FOR BENEFIT CUSTOMERS?

- Those customers who presently use payment card will see no interruption of their payments.
- Vast majority of 18 million benefit customers will be unaffected.

COMPULSORY ACT?

- DSS will take steps to ensure that it gets the secure, convenient and cost effective method of paying benefits which its customers need. This can be best achieved by expanding the payment of benefits direct to bank accounts.
- Benefit recipients are increasingly opting to receive their benefits through their bank accounts, but the Government will ensure that all benefit recipients who wish to do so can continue to collect their benefits in cash at post offices, by working with the Post Office and banks to install suitable banking facilities.

REPLACEMENT FOR HORIZON?

- Government remains committed to offering benefit customers a convenient, fraud-resistant and cost effective method of benefits payment and automation of the post office counters network.
- Government accepts it is important to future of Post Office Counters that network has modern, automated on-line platform for handling present and future business.
- Disappointing to lose Horizon, but Post Office Counters will now need to quickly consider alternative options which will help it to provide the services which its clients and customers want.

RURAL NETWORK

- The Government recognises the particularly significant role post offices play in rural communities, both in providing people with easy access to their benefit payments and because of the close interdependence of the post office and the village shop.

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- Management of the network is the responsibility of Post Office management who seek to ensure that services continue to be provided where possible. However, when a subpostmaster resigns or retires it is unfortunately not always possible to recruit a replacement.
- However, the Post Office must also be sensitive to changes in shopping habits and demographic trends.
- When the Post Office are unable to retain a full time facility in such areas they will seek to establish a part-time facility where possible.

POST OFFICE REVIEW?

- We recently announced a package of measures which will provide real commercial freedom within the public sector for the Post Office.
- Post Office Counters has already for some time been seeking to extend its product range into a number of new areas, which has proved popular with customers. We welcome this. Important that they continue to develop in ways which will help underpin the network.

IS THIS ANOTHER PFI FAILURE?

- No. The Private Finance Initiative will continue to provide successful basis for public/private sector partnerships.
- Risks transferred under PFI to the private sector must not come back to public sector.

WHAT DOES FAILURE MEAN FOR ICL'S PLANNED FLOTATION/ITS FUTURE?

- Decisions concerning the future of ICL are a matter for ICL and its parent company, Fujitsu.

WHAT ARE IMPLICATIONS FOR INWARD INVESTMENT BY ICL'S PARENT COMPANY, FUJITSU?

- Each project needs to be considered on its own merits. The Government greatly values Fujitsu's investment in the UK.

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**IS TERMINATION OF THE PROJECT A REACTION TO FUJITSU
CLOSING ITS SEMI CONDUCTOR PLANT IN THE NORTH EAST?**

- There is absolutely no connection whatsoever between these two events. The Government continues to work closely with Fujitsu to try to find a buyer for the Newton Aycliffe semi-conductor plant.

**THIS TERMINATION SURELY INDICATES THAT THE GOVERNMENT
HAS NO FAITH IN ICL'S CAPABILITY IN RELATION TO PFI
PROJECTS. HOW DOES THAT SQUARE WITH THE RECENT AWARD
OF A MAJOR PFI CONTRACT BY THE DTI TO A CONSORTIUM LED
BY ICL?**

- Termination of the Horizon project reflects simply the fact that the commercial difficulties encountered on that particular project could not be resolved to the satisfaction of all parties. There is no read-across to the DTI contract whatsoever.