



## **HORIZON PROJECT: A SHORT HISTORY**

### **INTRODUCTION**

The BA/POCL scheme for automation of the Post Office network – named after its joint customers, the Benefit Agency and Post Office Counters Ltd – was designed to install computers in the 19,000 Post Offices around the country. This would create a more efficient way of paying benefits and pensions and provide significant fraud savings to the BA, whilst the installation of the technological infrastructure could be used by the Post Office as a platform to develop further services in the longer term.

Therefore the success of the automation project (or “Horizon” as it became known) assumed a great deal of strategic importance for POCL. The fact that the equipment could handle smart cards, magnetic swipe cards and barcodes would be an important factor in retaining current work, particularly with the BA. It was also seen as essential by POCL if the Counter’s network was to develop in the future and become more than a benefit payment outlet and provider of advice on Post Office activities. Horizon could help POCL fulfil its vision of the network as an access point for a variety of official information, as well as a centre for cash deposits and withdrawals on behalf of banks and a wholesale cash distributor.

### **BACKGROUND**

The origins of the Horizon project lie back in 1992, when the Department Social Security/BA introduced a new benefit entitlement claim form that omitted the use of post offices as an outlet to receive benefit. This would effectively have restricted new claimants to the option of payment into their bank accounts, and introduced compulsory Automatic Credit Transfer (ACT). This would help to cut fraud and lead to associated cost savings for Government.

However, a significant proportion of claimants do not have bank accounts or do not wish to have one, and others are effectively excluded by the attitude of high street banks who have little or no interest in providing accounts for those on such low incomes. In addition many claimants of pensions and allowances actually prefer to draw their benefit in cash at a post office. According to the National Federation of Sub Postmasters approximately 70 per cent of claimants who have bank accounts still elect to draw their benefit from post offices.

The fact that such a large proportion of POCL business is accounted for by benefits payment work (about 30 per cent of turnover at the average post office), also meant that this policy of by-passing post offices completely threatened the viability of the Counters network. It was therefore vigorously opposed by the CWU and by the National Federation of Sub Postmasters in particular.

This combination of public and industry opposition led to the claim forms being withdrawn, and the establishment of a full Government review of paper based methods of benefit payment. The subsequent BA/POCL Joint Feasibility Study identified the problems and examined three main options for the future. These were the use of barcodes, magnetic swipe card or more advanced smart card. Of these options the magnetic swipe card was seen as the most effective way forward, and this decision received Ministerial backing from the Conservative administration.

## **PROCUREMENT, TRIALING AND DELIVERY**

The process of procurement then got underway with some 90 companies registering an initial interest in bidding for the work that would be a flagship for the Government's Private Finance Initiative (PFI). By December 1994 there was a shortlist of five, comprising of BT, Cardlink, EDS, IBM and ICL.

After much deliberation under the joint programme consisting of staff from BA and POCL (known as "Bringing Technology to Post Offices and Benefit Payments") the contract was awarded to the consortium led by ICL. This consortium also involved De La Rue, Girobank and the Irish Post Office (An Post) and was awarded the contract under the name Pathway in May 1996 by the then Social Security Secretary, Peter Lilley.

By September 1996 an early version of the magnetic swipe card system was up and running in one post office in the South West, followed by a further nine offices in October 1996. However, it soon became clear that the schedule for nationwide implementation was over ambitious, and that the planning assumptions articulated by Lilley – which would have led to the system being fully in place by the end of 1998 – were unrealistic.

Understanding the systems used by BA and POCL to calculate and pay benefits was clearly a task of great complexity, and it is unclear whether ICL fully appreciated the enormity of the job in hand. It is similarly unclear whether the team of 125 people assigned by the BA to the project shared the vision of what the system should be for, and if they were as enthusiastic about the potential of automation as POCL.

However, for reasons which have not been made entirely clear by any of the parties directly involved there was not a great deal of progress following on from the initial trial, and the decision was made to delay the launch of a wider operational trial, until August 1997. This eventually led to the system being implemented in some 200 offices, but as this trial was not completed by November 1997 (as had been agreed by the parties) a letter of default was sent to ICL. This letter was promptly rejected by the company, as ICL claimed that the authorities/customers had impeded its ability to deliver the trial, and consequently the dates that were agreed were no longer relevant.

The reason for this rejection by ICL was the first implicit evidence that policy makers within the BA were unhappy with the automation project as it had been agreed. In particular there were suggestions that the BA management felt it was steamrolled into the project by the Conservative Government, and that compulsory ACT into bank accounts would still be the preferred option due to the cost savings involved.

## **FURTHER DELAYS AND REVIEWS OF THE PROJECT**

Due to the delays experienced by this project it has been reviewed several times by internal auditors at POCL and BA, as well as by external consultants and the Labour Government.

- **In September 1997** PA Consulting carried out a strategic review on behalf of the DSS/BA, POCL and ICL. This concluded that the programme was technically feasible, but would take longer and cost more than had been expected. It is understood that the report did state specifically that the complexity of the project had been underestimated by ICL, but that overall it was better to continue rather than to terminate.
- **In December 1997** ICL requested new commercial terms to compensate it for the delays to the project. This request was rejected by BA and POCL, but it did not stop ICL lobbying to further its case. It is likely that as a consequence of ICL asking for significantly more money as part of these new terms, the attention of central Government became increasingly focussed on the delay and the escalating cost of the project.
- **In April 1998** this led to the launch of a review of the whole programme initiated by HM Treasury (HMT), and the commissioning of an independent panel of experts to make recommendations by July 1998. The findings of the HMT review were similar to that of previous reviews in that it found that because of the complexity of the project there were likely to be further delays and cost implications for the parties involved, but overall the scheme was considered to be viable.
- **By September 1998** the independent report was considered along with other evidence gathered through a working party chaired by HMT, and led to three main options being under consideration. These options were to:
  - continue as planned with the magnetic benefit payment card,
  - continue without the payment card, or
  - terminate the programme completely.
- **By December 1998**, an agreement appeared to have been made which could facilitate a way forward which would be acceptable to all parties. Graham Corbett of the Monopolies and Mergers Commission, an independent advisor appointed by HMT, recommended an extension of the contracts between the parties given the delays already experienced. ICL and the Post Office were also asked to develop a Public/Private Partnership agreement which would allow ICL to accept a loss on the £180 million they had invested in the payment card technology to date. This arrangement would also have allowed the Post Office to pick up the increased prices to ensure that the payment card remained part of the programme.



## RECENT DEVELOPMENTS

- **On 24 May 1999** the Government made an announcement which was the culmination of a series of different options which were being considered by the parties. It confirmed that the Horizon project would go ahead with the necessary infrastructure rolled out at the rate of 300 offices a week by January 2000, and be completed by March/April 2001. However the project would continue *without* the magnetic benefit payment card element.

The Department of Trade and Industry claimed that due to the delays the magnetic swipe card was “now an outdated concept”, and that banks and other businesses were instead moving toward the use of next generation smart card technology. In the interim period the Horizon system would provide fraud savings (of around £100m a year) by the reading of barcodes on order books.

In a worrying development for POCL, the Government also announced plans to move toward compulsory payment of benefits through ACT for all new claimants by 2003 - although it stated that claimants who wish to continue to collect their benefit from the post office will be able to do so.

The Post Office and ICL are now attempting to negotiate a full agreement and a new contract by the end of July 1999, which will deliver these objectives.

- **On 28 May 1999** the DTI Minister of State Ian McCartney announced the formation of a new working group under the auspices of his department, which will involve the Post Office and (for the first time) representative organisations from the postal industry including the CWU, the Communication Managers Association (CMA) and the National Federation of Sub-Postmasters. The responsibility of this group is to monitor the progress of negotiations and work closely with those involved in delivering a modernised nation-wide network of post offices.

The CWU look forward to working with all the interested parties, and believe that such a working group is long overdue opportunity for us to draw on our knowledge and understanding of the industry and participate directly in developing solutions to the problems encountered by Horizon. Provided that all parties are committed to the success of the project a favourable final outcome should be within reach.

## THE REASONS FOR THE DELAY

Either directly or indirectly it would appear that all parties to the contract have contributed to the problems and delay in the delivering the Horizon project.

- The previous **Government** must share a good deal of responsibility for the delay. In its rush to be seen to be tackling fraud the Conservative administration was happy to initiate the launch of a system without fully understanding both the technological capability of the system and the cost involved to both the Post Office and Government Agencies.
- The long-term objective of the **Benefits Agency**, as mentioned previously, remains to provide benefits by means of ACT. Therefore suggestions have been made that the BA have not been committed to the Horizon project, and failed to ensure that its existing technology was compatible with the magnetic card or smart card planned for use under the project.
- **ICL** appears to have had problems with the technology it developed. The magnetic swipe card system it attempted to introduce was modelled on the one used by the Irish Post Office (An Post) and is an efficient way of paying benefits and reducing benefit fraud. However, we gather that there have been major problems in transferring this type of system to a much bigger network and “scaling up” the technology for the UK, despite the fact that ICL have made a total investment of around £200 million in the project.
- **Post Office Counters Ltd** has been keen to ensure that any new technology is not only suitable for the purpose it was originally designed for, but that it will be compatible with its future business vision. POCL’s objective has been to ensure that it has 100% confidence in the system before it is rolled out and appeared to accept some delay in order to be certain that the system is fit for purpose. It would be far better for to encounter some delay if the system can be adapted, by the use of software modules, to perform new business in the future.

## **THE FUTURE OF HORIZON**

Following the considerable delays the Government's announcements on the future of Horizon in May 1999 were extremely significant. The statements not only provide a vehicle for the continuation of the project, but represent a long overdue opportunity for representatives of workers in the industry to be involved in moving the project forward.

Most importantly it would appear that the Horizon project had reached the stage where the only alternative future was termination. This would be the worst scenario for Post Office employees and their jobs, and would mean the public would be faced with a large-scale reduction in the Post Office Network.

Instead the challenge for all parties is to continue to develop and successfully implement a system that will secure the future of the business, and ensure there is a basis on which to expand. If the Government really wants to prevent fraud and fulfil the vision of a successful, modern and expanding Post Office in the future, then there was no way it could afford to cancel Horizon.

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