

RESTRICTED - POLICY & COMMERCIAL

To:
MR MCCARTNEY

From:
DAVID SIBBICK
DIRECTOR POSTS

GRO

151 Buckingham Palace Road

Tel: **GRO**

Fax:

31 March 1998

ci: President
Mr Scholar
Mr Macdonald
Mr Baker
*Mr Macintyre
*Mr Sklaroff
*Mrs Britton
*Mr Osborne
*Mrs Mayer
*Mr Whitehead
*Ms Anderson
*Mr Corry

CGBPS
CII
COM
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LegalC
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CGBPS1
SpAdv

*1. Mr Leese.
2. Mr B. ... o.r.
He*

* Attachment A only.

**HORIZON: POST OFFICE/BENEFITS AGENCY COUNTERS
AUTOMATION PROJECT**

Issue

1. A progress report on developments with Horizon, the PFI project undertaken jointly by Post Office Counters Ltd (POCL) and the Benefits Agency (BA) with an ICL-led consortium (Pathway) to modernise the payment of pensions and other benefits through the automation of post office counters.

Recommendation

2. To note, particularly the paper at Attachment A which we propose to submit to the Treasury-led interdepartmental working group of officials established to advise Ministers on the future viability of the project.

Timing

3. Routine.

Background

4. My submission of 25 February prior to your meeting the following day with John Roberts and Stuart Sweetman of the Post Office described the problems which are being experienced with the Horizon automation project to modernise the payment of pensions and other benefits through the automation of the post office counters network. The project which is a flagship PFI project worth over £1 billion is based on a series of interlocking contracts between ICL Pathway, the supplier of the equipment and other related services, and POCL/BA. The recent exchanges of Ministerial correspondence are at Attachment B; the President's position is set out at paragraph 6 of her letter dated 3 March to the Prime Minister.

RESTRICTED - POLICY & COMMERCIAL**Interdepartmental Working Group**

5. An interdepartmental working group of officials has been established to consider:

- (i) the future viability, in technical, financial and timing terms, of the project which is currently 2 years behind schedule; and
- (ii) contingency options in the event of failure of the project.

6. The Group chaired by HM Treasury comprises officials from the DSS, Benefits Agency and this Department. Thus far, meetings of the Group have focused on the means by which an assessment of the viability of the project is to be made, and the steps - legal and otherwise - that the Programme Authorities should be taking to pave the way to termination of the contract if the project appears not to be viable, and to protect their position in the inevitable legal actions that would follow.

Assessment of the Project

7. Discussion has centred around whether the assessment should take the form of an independent review undertaken by suitably qualified consultants who will report to a panel of assessors chaired by Adrian Montague, the head of the Treasury PFI team, or whether a legal audit provision in the contract should be employed. In the meantime, work is being carried out to identify individuals who might play a role in the independent review process if that route were to be followed.

Notice to Cure

8. DSS and Benefits Agency favour the early issue of a formal notice to ICL requiring them to remedy their current failure to meet their contractual obligations within 13 weeks. They view this as necessary to protect the position of their Accounting Officer in the event of the project proving to be unviable. However, there is concern within the Group that ICL's reaction to such a step might hamper any independent review of the project. Indeed there is a risk that it might be seen by ICL as a clear prelude to termination, and thereby damage commercial relations between the contracting parties and ICL's commitment to the project, to the point at which termination became self-fulfilling. We will thus be pressing in further discussion of this issue for delaying action on issuing such a notice to ICL.

Contingency Options

9. Against the possibility that the project might prove to be non-viable, the Group is considering contingency options for handling BA work in the absence of Horizon. The Group aims to submit a paper, agreed at least as to the facts of the case, to Ministers within the next 2-3 months. DSS have submitted to the Group a preliminary paper (Attachment C) which proposes on a contingent basis that the option of handling benefit payments through ACT should be pursued more vigorously with a view to 90% of recipients receiving benefits via their bank accounts by 2005 but with an

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(unspecified) arrangement developed so that ACT recipients would be able to withdraw cash from their bank accounts at their local post office. We have serious doubts about whether any such arrangement could offset to any real extent the loss of existing BA benefit payment work. There are questions about whether the projected level of ACT penetration would be achievable in practice, as well as about the costs of dealing with the non-ACT rump.

10. We are submitting to the group the attached preliminary DTI paper which sets out:

(i) the consequences for the post office counters network, ICL and wider Government policy of collapse of the Horizon project but with Benefits Agency payments through POCL remaining substantially at present levels; and,

(ii) separately, either as a result of loss of Horizon or for other reasons, the implications for POCL of a significant loss of BA volume (and therefore revenue).

11. We would be happy to discuss further if that would be helpful, and we will submit further progress reports as the situation develops. In the meantime, we are maintaining close liaison with the Post Office, and have developed other contacts within Whitehall who have an interest in the success of the Horizon project and/or in maintaining the nationwide network of post offices.

GRO

for DAVID SIBBICK