

RESTRICTED - POLICY & COMMERCIAL

GENERAL BACKGROUND (CONT'D)

1. In 1993, in a bid to cut the costs of delivering social security benefits, DSS came forward with a proposal to require benefit recipients to accept payments by automated credit transfer into bank accounts (ACT). Because income from the Benefits Agency (BA) represents more than one-third of Post Office Counters Ltd (POCL)'s income, the DSS proposal would have led to a massive collapse of the nationwide network of post offices. There were also other problems with the proposal, such as how and at what cost the sizeable rump of "unbankable" recipients would be dealt with. The proposal leaked, and a major public campaign, led by the National Federation of Subpostmasters, caused the Government to give assurances that benefit recipients would continue to have the option of draw their benefits at post offices.
2. Out of this grew the Horizon project. It gives the Benefits Agency a modern, fraud resistant means of paying social security benefits, with a magnetic strip plastic swipe card replacing the traditional payment books and girocheques; and it gives POCL an automated platform, with on-line terminals at 40,000 counter positions in more than 19,000 post offices, to retain existing clients and to develop new business opportunities, as well as to modernise its own processes. This £1 billion project was undertaken under the Private Finance Initiative, with ICL Pathway as the private sector partner.
3. The project, one of the largest and most complex iT projects ever, is now running some 2 years behind schedule. Under pressure from DSS Ministers, concerned at the fraud savings foregone, the Government earlier this year asked DTI and DSS officials under Treasury leadership to review the project. The Horizon Working Group in turn commissioned an Expert Panel, under the chairmanship of Adrian Montague, to report on the project's technical viability.
4. The resulting report was put to Ministers on 22 July. It concluded that the project was technically viable, and likely to be both robust and acceptably "future proof". It suggested that there might be some nine months further delay to the project. It suggested 3 main families of options: first to continue with the project provided satisfactory terms can be negotiated with ICL (probably the most we can offer ICL within EU procurement law is to extend the payback period by two years); second to continue with the Horizon infrastructure but without the payment card; and third to cancel the project. Under all three options POCL would develop "front end" banking facilities to enable account holders of some or all of the commercial banks to access their accounts for basic transactions at post offices. This facility would use either the Horizon infrastructure or alternative technology depending on the option.

RESTRICTED - POLICY & COMMERCIAL
