

Jeremy Heywood

From:
To:
Subject:Geoff Mulgan
12 May 1999 15:56
Jeremy Heywood; David Miliband; Geoffrey Norris
Draft note on Horizon lessons

Any comments? Additions? And who should it go to?

'With the possibility of a deal on Horizon it is important that the government learns lessons to avoid anything like this happening again. Horizon has been a disastrous project from beginning to end. It was misconceived. It has faced continual delays and problems. Over the last year it has taken up huge amounts of ministerial and official time, and delivered in the end a far from optimal solution that may be as expensive as the alternatives and will almost certainly offer less. This note sets out 8 basic lessons.

- 1. Clear leadership:** No project should ever have two departments or agencies jointly in the lead. One should always be clearly in charge, and bearing responsibility, and only one should be in the lead in negotiations with private companies. When projects of this kind face problems any responsibility for fixing them, or reviewing them, should clearly lie with a single minister with a clear reporting line either to the PM or Chancellor.
- 2. Fallbacks:** In the case of any large project of this kind it is essential to prepare serious fallback options. Although No 10 demanded fallback options last autumn, no further fallbacks were subsequently developed. Having rejected the main option, the government has therefore effectively had to sign up to an alternative option on which very little work or serious costing has been done.
- 3. Commercial freedoms:** it will always be hard to give public enterprises true commercial freedom. But it cannot be right for ministers and generalist officials to have to make decisions about extremely complex commercial and technological strategies. At the very least more transparent methods are needed for offering independent advice to ministers on the quality of business plans they are being asked to support. In the case of Horizon, although consultants had been used at various times, at the key moment of decision proper advice was missing.
- 4. IT:** this project has highlighted the absence of any strategic grip on government plans for IT. Throughout, there has been no one within government able or empowered to ensure that Horizon fitted into a properly thought through governmental strategy. As a result despite much reference to 'modernising government', this was always more aspirational than substantive.
- 5. Political decisions:** if ministers cannot reach agreement on a project with public spending implications, it is vital that at an early stage the Prime Minister and Chancellor set the parameters for reaching a decision. The worst possible outcome is for the PM and Chancellor to become involved at the very last moment without having had time to master the issues.

6. **Information:** far better procedures are needed to tie down basic facts. Almost every supposed fact in this project has turned out to be unreliable. Moreover facts have been presented without adequate explanation of their reliability. Part of the role of defining facts may need to be contracted out. There is also a need to draw on the many imaginative visual methods developed within business for explaining complex financial data to boards. Presentation of data in crude NPV and cash flow tables has not helped decision-making.

7. **The Post Office.** Throughout this process the relative lack of competence of the Post Office and their failure to develop a proper business strategy has been a key failing.

8. **Courage.** When a project is clearly failing government needs to be bolder about cutting its losses. There was a clear case for termination 12 months ago, although the Treasury and DTI favoured continuation. In effect inertia led to continuation, since no one at the centre had a sufficiently clear remit or reason to terminate.



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Treasury Chambers, Parliament Street, London, SW1P 3AG

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Principal Private Secretary
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12 May 1999

Dear Jeremy,

BA/POCL

Thank you for your letter of 11 May. This is an update of the position.

2. Ministers have agreed that they should enter into discussions with ICL on the basis that:
 - i. Option B1 is unaffordable and is therefore not on the table;
 - ii. POCL would, subject to agreeing acceptable terms, contract for the supply of the core Horizon automation platform, including the EPOS and OBCS systems. This would take the form of a turnkey supply with on-going maintenance over a period to be agreed - not PFI;

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- iii. Ministers would like POCL to work with ICL to develop their business strategy for network banking and Modern Government services and, in the light of this work, hope that it will be possible to develop a joint venture or similar arrangement between POCL and ICL, incorporating those elements of B1 which have merits and which offer value for money.

The assumption is that this would involve moving to ACT as the main method of payment of benefits (known as compulsory ACT) by 2003, giving POCL sufficient time to install a system to allow the withdrawal of benefits from bank accounts across the counter.

3. I attach a draft letter which was faxed to ICL last night to gauge their reaction to the Ministers' decision. ICL have now met with Treasury officials and the Secretary of State for Trade and Industry. As things currently stand they have neither accepted nor rejected the proposal. We do not yet have Fujitsu's reaction although we have offered the possibility of a video conference.
4. Stephen Byers also met the Post Office today. They want to meet with Treasury officials to discuss details of the proposal.
5. ICL will be filing their accounts with Companies House today making a provision for the Horizon project (ICL have told DTI that this will be for £150m and that there will be an additional £150m when Fujitsu accounts are filed later this month). However these accounts are unlikely to be available publicly for a number of days.

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Without prejudice and subject to contract

Richard Christou Esq
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BA/POCL ("HORIZON") AUTOMATION PROJECT;

I am now in a position to let you know the decision we have taken on how to proceed with this project.

As you know, we have, with your help and support, put a lot of effort into working up Option B1 which we recognise has within it some merits. Unfortunately it has relatively poor value for money, and we have concluded that we cannot justify proceeding with this option.

We would however like to take forward the project. This would be done in two parts:

- (1) POCL would, subject to agreeing acceptable terms, contract for the supply of the core Horizon automation platform, including the EPOS and OBCS systems. This would take the form of a turnkey supply with on-going maintenance over a period to be agreed; not PFI.
- (2) In parallel we would like POCL to work with you to develop their business strategy for network banking and Modern Government services. It is our hope that, in the light of this work, it will be possible to develop a joint venture or similar arrangement between POCL and ICL to give effect to this strategy for mutual benefit, incorporating those elements of B1 which have merits and which offer value for money.

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As a token of our good faith, we are prepared to fund 50% of ICL's continuing audited cash costs involved in (1) above for the next 4 months. The aim would be to agree the contracts for (1) in this timescale.

Naturally, until acceptable terms are signed under (1) above, all parties must reserve their rights with respect to past performance of the Horizon project.

ALAN MILBURN