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Michio Naito
Vice Chairman

Sir David Wright KCMG LVO
Her Britannic Majesty's Ambassador
British Embassy Tokyo
No.1 Ichibancho, Chiyoda-Ku
Tokyo 102-8381
Japan

4th December 1998

Dear Sir David

BA/POCL AUTOMATION PROJECT

Known as the Horizon project, this is one of the largest and most complex IT projects in Europe. It is also one of the earliest attempts to use PFI for a large and complex Information Technology project. It was awarded to ICL in May 1996.

Horizon is designed to automate the payment of DSS benefits via an IT network that links up the Benefits Agency (which provides the payment authorisation) and the national network of some 19000 post offices which pay out the benefits in cash to those eligible to receive them (about 20 million people, in total). The intention is to improve the quality of service while reducing the cost of administration and virtually eliminating encashment fraud. The Horizon IT network will also enable the Post Office to modernise its counter services.

The project is running two years behind schedule and is heavily over budget. Because this is a PFI project, the risk is being borne by ICL. However, ICL is in dispute with the project's sponsors. In ICL's view, the sponsors were responsible for the many changes made to the project's technical specifications thus causing the bulk of the delays and the additional costs which have ensued.

From the start, this project was not treated properly as a PFI by the two sponsors. A Project Delivery Authority (PDA) of more than 150 officials drawn from the two sponsoring



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Government Agencies was established whose sole task was to oversee every aspect of the project. But the PDA had no authority to act without seeking prior permission from the sponsors, thus adding to the delays and costs of the project.

Following complaints by ICL about the unnecessarily bureaucratic nature of the PDA, it was abolished in the Autumn of 1997. But the project had already fallen behind schedule. These problems were compounded by the inability of the DSS to supply us with the data which we needed to ensure that the right benefits were being paid to the right people at the right time. The original timescale for the implementation of Horizon was based on the agreement of the Benefits Agency to provide us with all of this data in September 1997. It later emerged that their programme to produce this data was running four to five years late and that instead of supplying us with all of the data to enable us to create the necessary databases for Horizon, we would only be given the data in phases. This has added significantly to our delays and costs.

To date, ICL - supported by Fujitsu - has spent over £ 200 million. The system is up and running in some 200 post offices. The cost of rolling out the complete system will involve ICL and Fujitsu in raising a further £ 600 million. But the commercial terms will need to be revised to ensure that ICL can raise the necessary funding and, in due course, have some expectation of recouping the money it has invested (and will continue to invest, assuming that the project goes forward). Negotiations have been taking place for some months to try and find a way forward.

At ICL's request, Treasury Minister Robinson set up a review panel in February, 1998 and this reported constructively in mid-July. Five months later the Benefits Agency is still obstructing a reasonable settlement. Meanwhile ICL has been investing £ 10 million a month. Now Treasury Minister Byers is accusing ICL of being in default and of making unreasonable commercial demands.

We now know that the Benefits Agency has always been a reluctant partner in this project; we believe that many of the problems we have encountered have their roots in the Benefits Agency's wish to find another way of distributing benefits eg via banking channels, in spite of the Government's decision to continue payments in cash via the post office network. This has added to the general uncertainties surrounding the project, and casts doubt on the

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willingness of the public sector partners to negotiate with us in good faith.

There has been an exchange of letters between the Chief Secretary to the Treasury and Keith Todd, CEO of ICL. Ministers have set a deadline - 9 December - by which time they wish to see progress on finding a resolution. But it is clear that they still see ICL at fault and thus the party which must carry the bulk of the financial burden.

Fujitsu has been kept fully informed of the unhappy developments in this case. Fujitsu will continue to support Keith Todd and his management team. Fujitsu has already informed DTI officials of this. Furthermore, Fujitsu will continue to support ICL in good, well founded PFI contracts such as the DTI ELGAR project. But ICL and Fujitsu will now be much more careful about PFI in future, given the developments in Horizon.

So far as the Horizon Project itself is concerned, Fujitsu are willing to support a reasonable commercial solution. But Fujitsu will not provide or underwrite another £ 600m of costs without a valid commercial case for doing so. No management could justify such a decision to its shareholders - as must surely be obvious to all.

yours ever

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Michio Naruto
Vice Chairman
Fujitsu Limited