

Witness number: WITN0358R9_01

Witness name: STEPHEN BYERS

Statement No: 1

Exhibits: WITN0358R9_01/1-

WITN0358R9_01/23

Date signed: 26 September 2022

POST OFFICE HORIZON IT INQUIRY

FIRST WITNESS STATEMENT OF STEPHEN JOHN BYERS

I, Stephen John Byers, will say as follows:

1. I make this statement in response to the Rule 9 letter I received from the Post Office Horizon IT Inquiry ("the Inquiry") dated 1 June 2022. I welcome this opportunity to contribute to the work of the Inquiry. The treatment of SPMs has been shocking. Lives have been lost; reputations ruined; hopes and aspirations dashed. I would like to offer my sincere regrets for what has occurred and to say sorry for the hurt suffered by those involved. We must do all we can to ensure this never happens again.

Introduction

2. The Inquiry has asked that I refer to a number of documents and that my witness statement answers 12 questions concerning my involvement as a government

minister with the Horizon project between 1998 and 2001. I will answer those questions to the best of my recollection below.

(1) Please set out a brief professional background

3. I was elected as the Member of Parliament for Wallsend, North Tyneside at the May 1992 General Election. The Wallsend constituency was abolished prior to the 1997 General Election. At that election, I was elected as the Member of Parliament for North Tyneside.
4. I joined the government in May 1997, when I was appointed as a Minister of State at the Department for Education and Employment. On 27 July 1998 I was appointed as Chief Secretary to HM Treasury ("HMT"). On 23 December 1998, following the resignation of Peter Mandelson, I was appointed as Secretary of State for Trade and Industry. I served in that role until 8 June 2001, when I was appointed as Secretary of State for Transport, Local Government and the Regions. I resigned from government on 29 May 2002.
5. I did not stand for re-election in the 2010 General Election and ceased to be an MP in April 2010.

(2) Please set out the background to your involvement in the Horizon project

6. As Chief Secretary to the Treasury (between July and December 1998), I had ministerial responsibility for all aspects of public expenditure. In that role I also had

oversight of an HMT PFI Taskforce which was led by Adrian Montague, an investment banker.

7. The Taskforce had been set up on the recommendation of a review in 1997 by Sir Malcolm Bates and its role was to support government departments with PFI (private finance initiative) contracts, which included scrutiny of ongoing projects, particularly those in difficulty. Given the size and scale of the project, and the obviously dysfunctional relationships between the parties involved, Horizon was one of the contracts which the Taskforce came to review.
8. The key responsibility of the Chief Secretary is to achieve value for money in all aspects of public expenditure and facilitating the delivery of the Government's priorities. I thought of my role as Chief Secretary as like being in the middle of a spider's web. With responsibility for public spending, I could bring people together and try to resolve disagreements; sometimes arbitrating between the conflicting objectives of government departments. That was very much my experience with the Horizon project during my time at HMT.
9. As Secretary of State for Trade and Industry (between December 1998 and June 2001), I had overall ministerial responsibility for the Post Office (which was, at the time, a statutory corporation owned by government) and its network of sub-post offices. In addition, I was also responsible for securing foreign direct investment into the UK.

Horizon: July – September 1998

Please consider BEIS0000141, POL00028094, BEIS0000127, BEIS0000284, BEIS0000285, BEIS0000283, POL00028098.

(3)(a) Please describe the problems faced by the Horizon project between July-September 1998

10. When I was appointed as Chief Secretary, the Horizon project was already two years behind schedule. As I recall, there were three main problems: the project was considerably delayed; there had been a major cost overrun (obviously a primary concern for the Chief Secretary); and there were disagreements between the various parties involved – the Department for Social Security (“DSS”) (which was responsible for the Benefits Agency (“BA”)), the Department for Trade and Industry (“DTI”), Post Office Counters Ltd (“POCL”) and ICL Pathway Ltd (“ICL”).

11. Only a few days before I took up the role, on 22 July 1998, Adrian Montague had submitted a report on the state of the Horizon project. I exhibit as WITN0358R9_01/1 a copy of his report, “BA/POCL Automation Programme Review – HM Treasury Independent Panel Report” [POL00028094]. Mr Montague had chaired an independent panel which had been tasked with reporting on whether the project could deliver a fully functioning system, whether the project

timetable was deliverable, the likely costs and arrangements for monitoring and managing project risks.

12. The panel made two recommendations for a possible way forward: a full restructuring of the project; or a partial restructuring. Termination of the project was ruled out, as was continuing the project as planned or simply extending the contract. The panel noted that either of their recommended options would require negotiation between the parties to agree the detail – it also noted that the parties disagreed as to their preferred options.

(3)(b) Was there agreement between government departments as to the future of the Horizon project? If not, what were their respective positions as you recall them?

13. There were significant areas of disagreement between the main government departments involved with Horizon as to its future – but there were some areas of agreement as well.

14. The DSS had become very frustrated about the delays to the project, because each year of delay was costing them around £200-300m of savings foregone in terms of administration and fraud costs. They also considered that ICL was in breach of contract as a result of its failure to meet contractual milestones. They were pressing for the abandonment of the Benefit Payment Card (“BPC”) and a move to Automated Credit Transfer (“ACT”) (i.e. payment of social security benefits directly into claimants’ bank accounts) as soon as possible. The BPC used magnetic stripe technology which, even by 1998, was beginning to seem outdated

and the DSS were understandably concerned about being wedded to old technology. They had also only ever seen the BPC as an interim solution until a move to full ACT could be achieved.

15. The DTI were quite wedded to the BPC, largely, I believe, as a result of lobbying by POCL. The DTI believed, with justification, that a move directly to ACT would essentially destroy the Post Office network, because counters were so reliant on income generated from handling benefit payments and the additional transactions generated by that reliable footfall into branches. The DTI felt strongly that Horizon was essential to the future of the Post Office, to modernise its existing processes and to exploit new commercial opportunities in future and so make it less financially dependent on government business.

16. On behalf of HMT, I was obviously concerned that, whatever the future of Horizon, we should achieve value for money. We liked the *idea* of the BCP, because of the substantial cost savings it offered over the paper-based payment system for welfare benefits. However, I personally shared the DSS' concerns about the technology underpinning the BPC. I felt that a magnetic swipe card was not ambitious enough given our push as a government to modernise the public sector using digital technology and it seemed to me that a smartcard platform offered far more potential.

17. There was a consensus within government that there were strong political reasons for sustaining the extensive Post Office network by some form of subsidy. The

question for me was whether that should be provided by payment of welfare benefits through the Post Office or by a more transparent, direct subsidy.

(3)(c) What did you understand about the technical integrity and robustness of Horizon at this time?

18. This was one of the key questions that Adrian Montague's independent panel had been asked to consider. Clearly, we all recognised that the system's technical reliability was the foundation on which everything else would be built. I recall that the Montague report found that, as of the end of July 1998, Horizon was "technically viable" and that the "risk[s] around scalability and robustness ... [were] being well managed by [ICL]". The report also found "good evidence of future proofing at all levels. The basic infrastructure is very robust for the future ..."

19. All of the government departments were agreed that it was essential that Horizon undergo a live testing programme (rather than acceptance on the basis of "laboratory testing", as ICL were pushing for). The DSS in particular had had a bad experience with an IT project which had been accepted in a test environment which had failed when actually rolled-out. Given that the DSS were responsible for the welfare benefits system, which had around 15 million claimants, this was a priority concern for them.

20. Live operational trials of Horizon were originally scheduled for spring 1997, then deferred to November 1997 and then delayed again for around a year (to autumn

1998) due to slippages in the project timetable. As I recall, the BCP did not perform well in those trials.

(3)(d) Please explain why Graham Corbett was instructed to oversee discussions about the future of the Horizon project in September 1998. What was the outcome of those discussions?

21. The appointment of an “independent troubleshooter” was a key recommendation of the Montague report. Having only just been appointed to the role of Chief Secretary, I found this a particularly helpful suggestion as it would give me time to get on top of the project with a comprehensive report on the key players and their respective positions. The contract was in trouble; there was a stalemate between all parties. It needed someone with a fresh pair of eyes and the financial expertise to identify a way forward.

22. Mr Corbett was recommended to me by Mr Montague and another HMT official, Steve Robson. He had been the Chief Financial Officer at Eurotunnel and was, at that time, deputy chairman of the Monopolies and Mergers Commission. He had experience of big projects and the force of character to knock heads together.

23. I appointed him on 17 September 1998 and asked him to report back to me by 16 October 1998. In the end, due to continuing disagreement between the parties, he was unable to meet that deadline. He submitted his report to me on 18 October 1998. I exhibit as WITN0358R9_01/2, a copy of his report (“Benefits Agency/Post Office Counters Automation Project”) [POL00028098].

24. Shortly before the deadline, Mr Corbett had presented a possible compromise to the BA, POCL and ICL. BA and PCOL were prepared to agree along the lines he proposed but ICL were not. One of the major stumbling blocks was that ICL was, at that time, insisting on a (modest) positive return on the contract. Another stumbling block was that, again at that time, Fujitsu (ICL's parent company) were not prepared to provide further financial support for Horizon and were insisting that the public sector bear the risk. Clearly that position was unacceptable from my perspective: it ran totally contrary to PFI principles in which the private sector takes the risk to obtain the benefit.

Negotiations with ICL: November – December 1998

Please consider BEIS0000336, POL00028634, POL00028692, BEIS0000418, BEIS0000404, BEIS0000417, BEIS0000400, HMT00000001, BEIS0000395.

(4)(a) Please describe the proposals put forward by ICL between November and December 1998.

25. I do not recall the detail of the proposals put forward by ICL around this time. I have seen a copy of a letter dated 18 December 1998 sent to me by Keith Todd, ICL's Chief Executive, but this contains only a very broad overview of those proposals. I exhibit as WITN0358R9_01/3, a copy of that letter [HMT00000001]. I have also seen a copy of a letter sent by Neville Bain, Chairman of the Post Office Board, to Mr Mandelson (Secretary of State for Trade and Industry) dated 11

December 1998, which also contains a summary of some of those proposals. I exhibit as WITN0358R9_01/4, a copy of that letter [BEIS0000404]. That letter states that Fujitsu had finally agreed to guarantee the Horizon project which, in the Post Office's view, "removes a critical risk to the public sector and transforms our view of the project."

26. I do recall that, in light of the findings of the Montague report (back in July 1998), the Horizon Working Group (at that time comprised of officials from HMT, DTI, DSS and the Cabinet Office) had recommended to ministers that, if the project was to proceed, there could be no increase in the level of payments to be made to ICL. As I stated above, ICL were insisting on a positive return on the contract and I recall that their final proposals, submitted in December 1998, would have meant a large increase in charges payable by the BA and POCL.

(4)(b) Was there agreement between government departments as to how the public sector ought to respond to ICL's proposals? If not, what were their respective positions as you recall them?

27. There were a number of areas of disagreement to ICL's proposals between the DSS and the DTI.

28. Mr Mandelson wrote to me on 10 December 1998. I exhibit as WITN0358R9_01/5, a copy of his letter ("BA/POCL Automation Project") [BEIS0000418]. Mr Mandelson stated his strong support for continuing with Horizon and expressing his frustration at the failure to reach a political agreement on the project's future.

29. The Secretary of State for Social Security, Alastair Darling, wrote to me on 11 December 1998. I exhibit a copy of his letter (“BA/POCL Automation Project”) as WITN0358R9_01/06 [BEIS0000417]. Mr Darling’s position was that:

- (a) the government needed to ensure that Fujitsu’s offer of a £600m guarantee for Horizon was legally-enforceable;
- (b) the overall balance of expenditure between the public sector and ICL was unacceptable;
- (c) “acceptance testing” had to be done by a live trial rather than on the basis of a laboratory test;
- (d) ICL were not keeping to the project timetable;
- (e) government was foregoing £800m worth of savings in the benefits administration bill as a result of delays to the project.

30. Ian McCartney (Minister of State at the DTI) wrote to me on 14 December 1998, responding to Mr Darling’s letter. I exhibit a copy of his letter (“BA/POCL Automation Project: Horizon”) as WITN0358R9_01/7 [BEIS0000400]. Mr McCartney’s position was that ICL’s proposals were commercially acceptable and should be agreed:

- (a) the DTI’s understanding was that Fujitsu’s guarantee was legally-enforceable which, if correct, transferred several hundred million pounds of risk from the public sector and onto Fujitsu. This “represents a major concession ... and

removes at a stroke probably the largest single element of unacceptability from the earlier proposals”;

- (b) as well as taking on significant additional risk, ICL had conceded around £80-100m in terms of the NPV deficit;
- (c) ICL had agreed to carry out live trials based on the NR2 software at 300 post office branches;
- (d) while ICL had missed the most recent milestone in the project timetable, the DTI had been assured by ICL of their commitment to the timetable;
- (e) the costs of cancelling Horizon while trying to maintain the post office network at its present size could equal or exceed the £800m in savings that had the project had been intended to provide.

31. As these letters show, although there was disagreement on the detail of ICL's proposals, there was a clear consensus between all government departments that live operational trials of Horizon was essential.

(4)(c) To what extent were the inter-departmental discussions about the future of the Horizon project influenced, at this stage, by:

- i. the financial consequences of terminating the project;*
- ii. wider concerns about foreign investment in the UK economy;*
- iii. issues concerning the technical integrity and robustness of Horizon.*

32. All three of these issues influenced inter-departmental discussions about the future of Horizon at this time.

33. Clearly the financial consequences of any decision made as to the future of Horizon were a crucial consideration. Cancelling the project would have meant writing off hundreds of millions of pounds of public and private investment in a project which (as we had been advised by the Montague report) was technically viable. There was also the risk of protracted and costly litigation with ICL if the project was cancelled.

34. Although wider concerns about foreign investment in the UK economy were not my primary responsibility as Chief Secretary, the DTI had been very clear about their concerns that cancelling Horizon would have major repercussions for the UK's relationship not only with Fujitsu (which was a major inward investor at the time) but also with other Japanese multinational corporations (e.g. Nissan and Toyota, which both operated big car plants in the UK) as well as for the reputation and credibility of PFI contracts more generally.

35. As for the technical integrity and robustness of Horizon, the Montague report in July 1998 had assured us that the project was technically viable and showed good evidence of future-proofing. As I have explained above, proving that in practice was a key concern for the government, hence our insistence on live operational trials as a precondition for acceptance.

36. The obvious factor that is missing from this question is the impact on the Post Office network and the communities they served. The Post Office network was one of the largest (if not the biggest) retail networks in Europe and many –

especially those in rural areas – operated at a significant loss to POCL. Protecting and maintaining that network was a key consideration for the government; automation of the network was essential to safeguarding its long-term future. If Horizon had been cancelled, it would have been necessary to develop a similar programme – but that would have taken several more years and cost even more money. Furthermore, without Horizon, the DSS would have been able to move much sooner to full ACT payment of benefits, which would have been disastrous for the Post Office network, risking the loss of a significant number of branches.

(4)(d) Please describe how you responded to ICL's proposals.

37. ICL put forward their final proposals in a letter dated 9 December 1998. I have not seen a copy of that letter and am unaware of whether a copy survives. Those proposals were outlined in the letter sent to me by Keith Todd (ICL Chief Executive) on 18 December 1998 which I referred to at para 25 above [HMT00000001].

38. I believe that I may not have formally responded to the second letter because, shortly after it was received, I left HMT following my appointment as Secretary of State for Trade and Industry on 23 December 1998.

39. I have seen reference (in BEIS0000395 and POL00028606 respectively) to letters I sent while still in post as Chief Secretary on 21 and 23 December 1998. I have no recollection of these letters (and am unsure whether copies survive) but assume that I was trying to broker a final agreement between the government departments in light of ICL's final proposals. I exhibit as WITN0358R9_01/8, a copy of a draft

letter to the Prime Minister and the Minister for the Cabinet Office (at that time, Lord Falconer) ("Draft letter for the Signature of the Secretary of State to the Prime Minister/Minister for the Cabinet Office) which I suppose would have been prepared by DTI officials for Mr Mandelson shortly before he resigned as Secretary of State [BEIS0000395]. It does not appear to have been sent but it appears to summarise (at least from a DTI perspective) my response to ICL's proposals.

40. I do recall that I was unable to broker a final agreement within government by the time I was moved to DTI and, as this draft letter shows, we recognised that a decision of the Prime Minister would be required to break the deadlock.

Late December 1998

Please consider BEIS0000280.

(5)(a) Please explain the change in your ministerial position which occurred in late December 1998.

41. On 23 December 1998, Mr Mandelson resigned as Secretary of State for Trade and Industry. The Prime Minister appointed me to replace Mr Mandelson as Secretary of State and appointed Alan Milburn as Chief Secretary to HMT.

(5)(b) How (if at all) did this change affect your attitude towards the future of the Horizon project?

42. My overall attitude towards the project remained the same but clearly my responsibility within government had changed: I now had to have the interests of the Post Office network, and inward investment into the UK, at the centre of my concerns.

43. As I mentioned in para 16 above, my personal view was that the BPC was not the best solution. I could see its weaknesses in technological terms and it seemed to me that its selection (over the smartcard option) was a missed opportunity to preserve the long term future of the Post Office network, which needed an automation programme that would continue to work well for decades. As I have already mentioned, this was not the view of DTI when I joined and I recall having to stand up to lobbying from POCL who wanted to preserve it in the revised contract.

Horizon: January – May 1999

Please consider POL00028606, HMT00000015, HMT00000017, BEIS0000383, HMT00000014, BEIS0000375, BEIS0000381, HMT00000011, BEIS0000370, POL00028627, BEIS0000361, BEIS0000362, BEIS0000363, BEIS0000204, BEIS0000441, POL00028622, HMT00000022, HMT00000024, POL00028615, POL00038847, POL00028612, POL00028609, POL00028611, HMT00000028, HMT00000030.

(6)(a) Please describe the problems faced by the Horizon project between January and May 1999.

44. The problems faced by Horizon at this time were the same as those for the period July-December 1998: delay, cost overruns and a dysfunctional working relationship between the contracting parties. 1998 had ended without the government making a final decision on the future of Horizon and that political uncertainty was also becoming a problem for the project.

45. An alternative approach to Horizon emerged from HMT and the Cabinet Office in early January 1999. I believe the Cabinet Office became involved in order to try and secure agreement within government as to a way forward; I do not recall them being particularly involved with Horizon while I was Chief Secretary.

46. I exhibit as WITN0358R9_01/9, a submission to my successor as Chief Secretary, Alan Milburn, dated 3 February 1999 ("BA/POCL: An alternative approach") [HMT00000015]. In summary, the alternative approach was to abandon the BPC, remove the DSS/BA as a party to the contract and to develop new front-end banking services for POCL. I believe I probably spoke with Mr Milburn around this time to indicate to him my support in principle because, as I have already mentioned, I had my doubts about the BPC.

47. On 24 February 1999, Mr Milburn and Lord Falconer made a joint submission to the Prime Minister seeking his agreement to this alternative approach (which came to be known as "Option 2a" and, later, "Option B1"). I exhibit as WITN0358R9_01/10, a copy of that submission ("Horizon (BA/POCL Automation)") [HMT00000014]. The proposal involved abandoning the BPC and instead

developing new, basic Post Office bank accounts for the payment of benefits to those claimants who did not already receive their benefits by ACT. It would also see the BA move more quickly to payment of benefits by ACT.

48. I also exhibit as WITN0358R9_01/11, a copy of a letter dated 1 March 1999 (“Horizon”) from Jeremy Heywood (the Prime Minister’s Principal Private Secretary) confirming the Prime Minister’s agreement to the alternative approach and asking me to lead on negotiations with POCL [BEIS0000375].

49. POCL were not an easy partner to deal with. In my view, they did not recognise the commercial opportunities presented by Horizon and were more concerned with the loss of income from the BA rather than focussing on what would guarantee the future of the Post Office network. They also felt let down by ICL and that the private sector partner identified for them by the government was not delivering.

50. By April 1999, it had become clear that “Option B1” would be substantially more expensive than “Option A” (i.e. proceeding with existing project framework, including the BPC). On 16 April 1999, David Sibbick (Director of Posts, DTI) submitted a briefing to me on the state of play of the negotiations and warned that HMT officials – alarmed about the cost of Option B1 and pessimistic about the parties being able to work together and deliver Option A – were considering recommending cancellation of the project. I exhibit as WITN0358R9_01/12, a copy of that submission (“BA/POCL Automation Project: Horizon: Report to Ministers”) [BEIS0000362] and its annex (“Horizon: Draft report to ministers”) [BEIS0000363]. From my perspective, at this stage, cancellation was not a realistic option, less than two months after the Prime Minister had given his agreement in principle to

restructure rather than terminate the project – and when HMT had been one of the departments who recommended that approach.

51. Towards the end of April 1999, HMT officials proposed a third option, which came to be known as “Option B3”, in which POCL would simply buy the automation platform from ICL, meaning that both the BPC and the proposed Post Office bank accounts would be dropped from the project. Eventually, after further negotiation, Option B3 formed the basis for restructuring the Horizon contract, which was agreed in May 1999.

(6)(b) Was there agreement between government departments as to the future of the Horizon project? If not, what were their respective positions as you recall them?

52. As I recall, the Prime Minister’s approval of the alternative approach largely resolved the main areas of disagreement between the DSS and the DTI. In addition, as I have already mentioned, my views on the merits of the BPC aligned with those of the DSS.

53. I have been provided with a copy of a submission to Mr Milburn (Chief Secretary to HMT) dated 5 May 1999 (“BA/POCL”), which I exhibit as WITN0358R9_01/13 [HMT00000022]. This document shows that there remained disagreement between government departments over the detail of how to restructure the project.

54. I also exhibit as WITN0358R9_01/14 a submission to the Prime Minister dated 10 May 1999 (“Horizon (BA/POCL Project)”) [HMT00000024]. This document appears to represent an agreed summary of the different departments’ positions and

records my (and Lord Falconer's) preference for Option B1 and the preference of Mr Darling (DSS) and Mr Milburn (HMT) for Option B3.

55. I can see from this document that my preference for Option B1 was on the basis that it was the best option for preserving footfall to Post Office branches, as well as allowing the Post Office – with the benefit of 15 million account-holders – to win new government business, reducing the risk of branch closures. I can also see that Option B1 was opposed by HMT on the understandable grounds that it represented worse value for money than the alternative options, as well as B3 being a much simpler system for ICL to deliver (bearing in mind the earlier delays to the project).

56. The end of that submission recorded that departments had been unable to agree on the final option and therefore the Prime Minister's views were sought to break the deadlock. I exhibit as WITN0358R9_01/15 a copy of a submission from Steve Robson to Mr Milburn dated 20 May 1999 ("POCL/BA") which suggests that (on 11 May 1999) the Prime Minister had provided three "*key political requirements*" for any final deal [HMT00000028]. This appears to have been taken as an endorsement of Option B3 because I can see from this document that HMT officials had been negotiating with ICL based on Option B3.

(6)(c) *What did you understand about the technical integrity and robustness of Horizon at this time?*

57. We were aware that moving from the BPC to smartcard would involve different technology to that initially envisaged when the contract was first agreed. I have

already mentioned the importance that all government departments attached to live operational testing and ensuring that the new product would work in real life. However, we were also aware that the system developed by ICL was already capable of using smartcards.¹

(6)(d) To what extent were the inter-departmental discussions about the future of the Horizon project influenced, at this stage, by:

- i. the financial consequences of terminating the project;*
- ii. wider concerns about foreign investment in the UK economy;*
- iii. issues concerning the technical integrity and robustness of Horizon.*

58. In answer to this question, I can only repeat what I have already said above in paras 32-36. All three of these issues – as well as the preservation of the Post Office network – were key considerations in our discussions within government at the time.

(6)(e) Please explain why continuation of the Horizon project was considered by the government to be preferable to termination in May 1999.

59. As I have already mentioned, the Prime Minister had given his approval for proceeding with a revised version of the Horizon project in March 1999. As the submission to the Prime Minister had noted (HMT00000014), there were significant risks involved in proceeding with either Option A or Option B1. He had endorsed

¹ Montague report (POL00028094), paragraph 38

a restructuring of the contract which gave continuation of Horizon a strong political impetus.

60. By proceeding with Horizon, we were securing the desperately-needed automation of the Post Office network and therefore its financial viability in the long term. From my perspective, the case for abandoning the BPC had become overwhelming: not only was it at risk of obsolescence, the delays to the project meant that in any event it would have a shorter and shorter shelf-life as an interim measure before the DSS could move to full ACT. Overall, and taking a long term view, we considered that proceeding with Horizon represented best value for money.

61. Cancelling the project at this stage would have resulted in huge losses, not only to ICL and the public sector parties, but also to SPMs who would have lost a significant chunk of the goodwill value in their businesses. I was regularly advised throughout this time that the collective value of the SPMs' investment in the Post Office network was in the region of £1bn. Additionally, as I have already set out above, we were also concerned about the foreign investment repercussions and damage to the credibility of PFI. It was also highly likely that cancellation would have resulted in complex litigation.

(6)(f) Please explain how the inter-departmental negotiations over the future of the Horizon project concluded.

62. Following negotiations throughout April and May 1999, heads of agreement were signed by the DSS, the Post Office Board and ICL on 24 May 1999. As I have

referred to above, by this time, the revised approach agreed in March (Option B1) had been superseded by Option B3.

63. I have not been provided with a copy of the heads of agreement but, as an indication of what was agreed, I exhibit:

- (a) as WITN0358R9_01/16, a press release (“Government confirms future of Horizon project”) issued by the DTI on 24 May 1999 [WITN03530101];
- (b) as WITN0358R9_01/17, a DTI press office briefing on the announcement (“Q&A Brief BA/POCL”) [BEIS0000438]; and
- (c) as WITN0358R9_01/18, a letter I sent to all Members of Parliament informing them of the agreement on 27 May 1999 (“Post Office Automation”) [NFSP00000012].

64. Ultimately, the Post Office had to accept that our position as a government – and the DTI’s position as its sponsoring department – was that the project should proceed on these terms, and they did. The final detailed agreement was signed at the end of July 1999. I have not seen a copy of that agreement.

The position of the National Federation of Subpostmasters

Please consider NFSP00000315, NFSP00000012 and NFSP00000104.

(7)(a) What did you understand the position of the National Federation of Subpostmasters (“NFSP”) to be in relation to the adoption of Horizon?

65. My recollection is that the NFSP were broadly supportive of the adoption of Horizon. I recall giving evidence to the Trade and Industry Select Committee in July 1999 about the agreement that was reached in May 1999. I note that in the Select Committee's Eleventh Report, issued on 14 September 1999, the Committee stated:

“Delays apart, it is generally agreed that the system as installed works well and is popular with claimants and operators alike. The General Secretary of the NFSP told us ‘There was absolutely no resistance from sub-postmasters and very little from customers. It was warmly received by the customers’, an impression confirmed by the NFSP's National President, a sub-postmistress in one of the trial areas in the North-East.”

66. I exhibit as WITN0358R9_01/19 a copy of the Select Committee's Eleventh Report [WITN03580102].

67. I also note that in a memorandum submitted by the NFSP to the Select Committee, they emphasised the “importance of automation to the future of the network” and that they recognised the “need to provide a modern, secure payment system which is cost effective, robust and fully accounted.” They stated their opposition to the abandoning of the BPC and therefore to the revised version of the contract agreed in May 1999, arguing that the loss of the exclusive arrangement with the BA would be “disastrous” for the network. However, the memorandum also noted that

“The system has already been installed in over 250 post offices ... with all services fully automated. ... On the systems side, our understanding is that the system has been moved successfully through the final stages of testing prior to addition of the remaining offices to make up the balance of 300 taking part in the formal live trial. The training courses, go-live arrangements and support arrangements both at offices and via the helplines were ready to ensure a successful trial prior to national roll out.”

68.I exhibit as WITN0358R9_01/20 a copy of the NFSP’s memorandum (“Memorandum submitted by the National Federation of Sub-Postmasters”) [WITN03580103]

69.I do remember giving a speech to the NFSP’s 2001 annual conference in North Wales and taking part in a Q&A session. I do not remember the precise content of the speech or the Q&A session but I do recall my impression that the session was positive about Horizon and I do not recall any problems or concerns being raised about the system’s reliability or integrity.

(7)(b) To what extent, if at all, did representations from the NFSP influence government policy on the future of Horizon?

70.The NFSP were a key stakeholder. I recall that the DTI established a new Horizon Working Group, which met for the first time on 8 June 1999. The group was chaired by Ian McCartney (Minister of State) and included senior leadership from POCL,

the NFSP and the CWU. I exhibit as WITN0358R9_01/21 a copy of the group's terms of reference ("Horizon Working Group: Proposed Terms of Reference") [BEIS0000351]. I also exhibit as WITN0358R9_01/22 a copy of a briefing to Mr McCartney ahead of the group's first meeting ("Horizon Working Group: First meeting Tuesday 8 June 1999 – Steering Brief") [BEIS0000345].

71. There was a recognition that with Horizon we were breaking new ground and that, during the roll-out phase of the programme, it was essential to have direct feedback from those on the frontline about how it was working. For that reason, NFSP membership of the Horizon Working Group was vital.

72. As the terms of reference make clear, one of the tasks of the Horizon Working Group was to "oversee, to contribute actively to, and to facilitate solutions where problems arise, the completion of the development phases of the Horizon project, and in particular the smooth and timely roll-out of the system to all offices within the post office network ..." The fact that the group was chaired by the Minister of State is, in my opinion, a good sign that we were concerned about the integrity and robustness of Horizon.

The position of the Communication Workers Union

Please consider BEIS0000200, BEIS0000201.

(8)(a) *What did you understand the position of the Communication Workers Union ("CWU") to be in relation to the adoption of Horizon?*

73. My recollection is that the CWU were broadly supportive of Horizon. I refer to the memorandum submitted by the CWU to the Trade and Industry Select Committee which described the agreement reached in May 1999 as

“a welcome move [which is] significant in that it provides a vehicle for the continuation of the Horizon project. It appears that the project had reached the stage where the [only] alternative was termination, which would be the worst scenario for our members and our members’ jobs, as well as the public who would be faced with a large-scale reduction in the Post Office network in general.”

74. I exhibit as WITN0358R9_01/23 a copy of the memorandum (“Memorandum submitted by CMA and CWU”) [WITN03580104].

(8)(b) To what extent, if at all, did representations from the CWU influence government policy on the future of Horizon?

75. The CWU were also a key stakeholder and were a member of the Horizon Working Group which I referred to in para 70 above.

(9) At what point did you cease to be involved in matters relating to the Horizon system? What was your understanding of the technical issues at that stage?

76. My responsibility for the Post Office and Horizon came to an end when I was appointed as Secretary of State for Transport, Local Government and the Regions in June 2001.

77. In September 1999, the Trade and Industry Select Committee had observed that the roll-out was going well. I have not been provided with any documents post-dating October 1999 and, to the best of my recollection, I do not recall any significant concerns about technical issues with Horizon being raised through the Horizon Working Group or otherwise (including by POCL, ICL or colleagues in Parliament) during the remainder of my time as Secretary of State.

(10) Do you feel that you were properly informed of issues concerning the technical integrity and robustness of Horizon during the period of your involvement? If not, why not?

78. I do think that I was properly informed about the issues concerning the technical integrity and robustness of Horizon at the time. The government was aware of its fundamental importance to the project, which was why Adrian Montague had been asked to report on its technical viability in July 1998, and why we pushed hard for live operational trials as a precondition for acceptance. The evidence provided to the Trade and Industry Select Committee was that that process was going well. I have already mentioned that I do not recall significant problems about Horizon being raised through the Horizon Working Group.

79. In addition, there were a number of mechanisms for raising concerns in Parliament, through questions, adjournment debates or select committees as well as face-to-face encounters with my parliamentary colleagues. During my time in Parliament, I always found these to be a good early warning system but, as I have already said, I do not recall any concerns about the technical integrity or robustness of Horizon being raised through those channels during my time as Secretary of State.

80. In the absence of any concerns being raised with me through these channels, I would have expected day-to-day problems with the system to have been resolved by ICL and POCL, as the two remaining parties to the contract.

(11) Looking back, do you feel that the Government effectively scrutinised the technical integrity and robustness of Horizon during its negotiations with ICL about the future of the project?

81. It was clear that Horizon was a complex project. Its technical integrity and robustness were key factors that underpinned the whole project. To ensure effective scrutiny of these issues we insisted on live operational trials and had in place through the Horizon Working Group a mechanism to monitor the roll out and flag up to Ministers any problems that might emerge.

(12) Are there any other matters that you consider will assist the Chair?

82. Looking at the sequence of events that have led to the setting up of the Inquiry, I would like to make some observations about the relationship between government ministers and their civil servants.

83. Ministers are “here today gone tomorrow” politicians. It is unusual for a Minister to stay in the same position for any length of time. In my own case, I held three different Cabinet posts in the space of a little less than four years. On the other hand, some civil servants can remain responsible for the same area of policy for a significant length of time. As a result they can feel personal ownership of a particular policy. There is also the danger that over time they can develop an overly close relationship with external bodies or agencies that they are required to work with.

84. In this context it is vital that the respective responsibilities of government ministers and their civil service officials is made clear and understood by all. To put it bluntly: it should always be the case that officials advise and ministers decide. It is the job of ministers to question, challenge and when necessary disagree with the advice being offered by their officials. This can be difficult. A strong working relationship often develops between a minister and officials. There can be a sense of loyalty to each other, especially when under attack from outside the department. However, it is essential that ministers put their duty to Parliament and the public ahead of the views held within their department.

85. This begs the question of how, in practice, can this important principle be embedded in the thinking of ministers? In the period leading up to the 1997 General Election those of us who held shadow ministerial positions attended a number of residential seminars to prepare us for government and taking on

ministerial roles. This training was kept confidential as its existence would be interpreted as taking the outcome of the election for granted.

86. Personally I found these seminars of great value. In particular, a point that was made forcibly on many occasions was about ministerial accountability to Parliament and the necessity of not just accepting the advice given by civil servants but always to be challenging, questioning and prepared to disagree and overrule civil servants when necessary.

87. If such training is seen as being of merit, then it could easily be incorporated into existing arrangements. There is a convention that as we get towards the end of a Parliament, and the General Election approaches, the Prime Minister authorises pre-election contact between the main Opposition parties and the civil service. I believe this normally happens around six months before the election is held. I know from personal experience that, before the General Election in June 2001, the Prime Minister gave the go ahead on 1 January 2001 for discussions to start. Perhaps this period could also be used to provide potential Ministers with training about their role and in particular their respective responsibilities and relationship with their Departmental civil servants.

88. In conclusion I would like to re-iterate that I am deeply sorry for the wrong that SPMs and their loved ones have suffered. I hope that this Inquiry will enable lessons to be learned, people to be held to account, recommendations made and action taken to ensure that something like this can never happen again. I hope this statement helps the Inquiry in its work and stand ready to give any further assistance that the Inquiry requires.

I believe the facts stated in this witness statement are true.

Signed.

GRO

Dated: 26 September 2022

INDEX OF EXHIBITS

No.	Exhibit	Description	Provider's control number	URN
1	WITN0358R9_01/1	BA/POCL Automation Programme Review – HM Treasury Independent Panel Report (Montague report)	POL-0024576	POL00028094
2	WITN0358R9_01/2	Benefits Agency/Post Office Counters Automation Project (Corbett report)	POL-0024580	POL00028098
3	WITN0358R9_01/3	Letter dated 18 December 1998 from Keith Todd to Stephen Byers	VIS00007766	HMT00000001
4	WITN0358R9_01/4	Letter dated 11 December 1998 from Neville Bain to Peter Mandelson	BEIS0000384	BEIS0000404
5	WITN0358R9_01/5	Letter dated 10 December 1998 from Peter Mandelson to Stephen Byers	BEIS0000398	BEIS0000418
6	WITN0358R9_01/6	Letter dated 11 December 1998 from Alistair Darling to Stephen Byers	BEIS0000397	BEIS0000417
7	WITN0358R9_01/7	Letter dated 14 December 1998 from Ian McCartney to Stephen Byers	BEIS0000380	BEIS0000400
8	WITN0358R9_01/8	Undated draft letter from the Secretary of State for Trade and Industry to the Prime Minister	BEIS0000375	BEIS0000395
9	WITN0358R9_01/9	Submission dated 3 February 1999 to Alan Milburn	VIS00007780	HMT00000015
10	WITN0358R9_01/10	Submission dated 24 February 1999	VIS00007779	HMT00000014

		from Alan Milburn and Lord Falconer to the Prime Minister		
11	WITN0358R9_01/11	Letter dated 1 March 1999 from the Prime Minister's Principal Private Secretary	BEIS0000355	BEIS0000375
12	WITN0358R9_01/12	Submission (including annex) dated 16 April 1999 to Stephen Byers	BEIS0000342 BEIS0000343	BEIS0000362 BEIS0000363
13	WITN0358R9_01/13	Submission dated 5 May 1999 to Alan Milburn	VIS00007787	HMT00000022
14	WITN0358R9_01/14	Submission dated 10 May 1999 to the Prime Minister	VIS00007789	HMT00000024
15	WITN0358R9_01/15	Submission dated 20 May 1999 to Alan Milburn	VIS00007793	HMT00000028
16	WITN0358R9_01/16	DTI press release dated 24 May 1999	WITN03580101	WITN03580101
17	WITN0358R9_01/17	Undated DTI press briefing	BEIS0000418	BEIS0000438
18	WITN0358R9_01/18	Letter dated 27 May 1999 from Stephen Byers to all MPs	VIS00007460	NFSP00000012
19	WITN0358R9_01/19	Trade and Industry Select Committee Eleventh Report dated 14 September 1999	WITN03580102	WITN03580102
20	WITN0358R9_01/20	Memorandum submitted to the Trade and Industry Select Committee by the NFSP	WITN03580103	WITN03580103
21	WITN0358R9_01/21	Proposed terms of reference of the Horizon Working Group	BEIS0000331	BEIS0000351
22	WITN0358R9_01/22	Briefing for Ian McCartney for Horizon Working Group meeting 8 June 1999	BEIS0000325	BEIS0000345

23	WITN0358R9_01/23	Memorandum submitted to the Trade and Industry Select Committee by the CWU	WITN03580104	WITN03580104
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