

**Witness Name:** Sarah Graham

**Statement No.:** WITN0379\_01

**Exhibits:** WITN0379\_01/1 –

WITN0379\_01/11

**Dated:** 11 October 2022

## POST OFFICE HORIZON IT INQUIRY

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### FIRST WITNESS STATEMENT OF SARAH GRAHAM

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I, Dr Sarah Graham, will say as follows:

1. This witness statement is made to assist the Post Office Horizon IT Inquiry (the '**inquiry**') with the matters set out in the Rule 9 Request dated 12 July 2022 (the '**Request**').
2. I am a former Senior Civil Servant, working for 30 years in a range of Whitehall-based roles, including at No.10, and since then undertaking Chair and Board roles in the voluntary sector and also participating in academia. After studying at Edinburgh and Oxford Universities, I joined the Civil Service via their fast stream scheme in 1976, and undertook roles in policy development, business change, planning and implementation, as well as management roles, mostly in social welfare.

3. My last substantive job in Government was as a Director in the then Prime Minister's Strategy Unit (2000-3), recruited to set up its new 'forward strategy' component and where I also led a study on Government Handling of Risk following the BSE crisis. Throughout my time in the Civil Service, I was involved in a number of significant domestic policy innovations including the review of the Benefit Payment Card Project.
  
4. After leaving mainstream Government employment in 2004, I undertook a number of consultancy assignments, including the development of a new management development programme at Cranfield for CEOs from the public, voluntary and private sectors for ACEVO (2004), before joining the Board of a Groundwork Trust (2005-17). In parallel, I was appointed founding Chair of Blue Sky Development and Regeneration (2005-10), a social enterprise set up to employ people coming out of prison. I also completed a Masters' degree followed by a doctorate in the archaeology and history of Ancient Greece. Subsequently I was appointed as a Director of the Ancient World Research Cluster at Wolfson College (2016-2021). I have recently been appointed as a Member of the Independent Monitoring Board for my local prison, HMP Bullingdon.
  
5. From November 1997 - June 1999 I was appointed as Project Head of a special review of benefit payment policy within the then DSS. This review was set up against a background of growing concern about the delays, overspend and viability - both technical and practical - of the £1 billion Horizon/Benefit Payment Card project, which was also the first PFI for an IT project to be attempted.

6. Prior to this appointment, I had not been involved in the Horizon project. From memory, my formal association with the project ended in July 1999.
  
7. I have been asked to explain the problems faced by the cross-departmental Horizon Project Review Group between Spring and Summer 1998. I cannot recall the specifics of the problems during this period but in broad terms, as explained in the referenced papers, there were serious and increasing concerns in DSS and the Benefits Agency that it was running increasingly late, underperforming on the original specification and potentially heading for significant budget overruns. The severe delays in delivering the project in turn were leading to contractual difficulties which needed to be resolved. A major delivery milestone had been missed in November 1997. In order to understand the reasons for the delays, the Benefits Agency and Post Office Counters Ltd had jointly commissioned an independent review by Project Mentors Ltd which pointed clearly to ICL as the source of the failures. There appear also to have been growing concerns about the impact of the delays on other aspects of benefit delivery with which the Card developments were aligned, for example on the Customer Accounting & Payment Strategy (CAPS) system, as expressed by the then Minister of State in his meeting with ICL and others in July 1998 (WITN0379\_01/1, FUJ00075723).
  
8. As I recall the positions of the differing departments was that whilst POCL and the Benefits Agency both held ICL Pathway to be in breach of contract for missing the crucial 'live trial' operational milestone in November 1997, it was the Benefits Agency and the DSS who were leading the concern with the overall deliverability of the project, or at least of its Benefit Payment Card component.

From the DSS/ BA perspective, the Horizon project had been conceived as a stepping stone to moving away from paper-based payments and achieving ACT-based benefit payments to the majority of its beneficiaries, with the significant fraud and administration savings that would bring, as well as promoting social inclusion by encouraging more people to have bank accounts. Paramount, however, in the transition to any new system, was the ability to sustain the reliability of the benefit payment service for recipients, many of whom were among the most vulnerable in our population. Problems with the Benefit Payment Card put these responsibilities at risk.

9. It was well understood, however, that for Post Office Counters Ltd the payment of benefits through their offices was a major revenue stream (some £400 million a year, and roughly 30% of their earned income) and the planned transition from this to other sources of revenue was one of the major advantages of the Card for POCL. At the same time, the Horizon project would also provide POCL with the basic platform it needed to provide other revenue-earning automated services, to reduce its dependency on revenue from benefit payments and from direct Government funding. While the Benefit Payment Card was acknowledged by all concerned as a transitional arrangement, it is worth noting that delays in its introduction would not affect the POCL revenue stream adversely while the Benefits Agency's contract with POCL to deliver paper-based benefit payments stayed in force.
10. Thus, there were inherent differences in the priorities and outlooks of the two public sector partners in this increasingly uneasy contractual triangle. At the same time, there was a clear recognition that the ultimate objective must be to

reach an interdepartmental and cross-government view on the best way forward, taking account of the different perspectives and interests of the various agencies involved.

11. I am not a technical expert however I have been asked to explain what I understood about the technical integrity and robustness of Horizon at the time. I was well aware from Benefits Agency colleagues that there were serious concerns about the ability to develop the Benefit Payment Card as originally designed and specified. There were repeated requests for modifications from ICL, for example, to reduce the functionality of the Card and to soften the rigour of the agreed trialling requirements and replacing the 'live' operational trial requirement with a 'model office' one - the very problem that had undermined an earlier Benefits Agency IT programme for the National Insurance Recording System, known as NIRS 2 (WITN0379\_01/2, HMT00000034 paragraph 1.5, point 8).

12. Ministers within the DSS were briefed on the technical and related problems with the Card's development during the period of Spring/Summer 1998.

13. As the DSS lead on reviewing the Horizon Project, in this role I was invited to represent DSS on the cross-departmental Horizon Project Review Group. This meant acting as the Departmental link on information provision for the Group, ensuring relevant parts of the Department were consulted and briefed as necessary about discussions in the Review Group as well as putting forward and explaining the views and interests of the Department as appropriate, including on operational, financial and legal issues.

14. The Review Group was set up at the behest of the Chief Secretary to the Treasury and the other Ministers involved, to bring together the key government departments involved to review the situation with the Horizon Project and advise Ministers on the best way forward. It was composed of officials from the Departments most concerned, chaired by HMT, with the remit to review the technical viability of the Project, to consider the costs and other impacts of cancellation and to explore alternative options to achieve the Project's objectives. The background is clearly set out in its subsequent Report (WITN0379\_01/2, HMT00000034 paragraph 1.1) and explained that, by that time and most pressingly, both the Benefits Agency and Post Office Counters Ltd held ICL Pathway (the company set up to deliver the Horizon Project within ICL) to be in breach of contract for the delays and specifically for missing a key operational target in November 1997. It is important to remember that, while the Review Group were examining the Project's viability, work on it was continuing perforce until such time as a decision could be reached. Such were the risks, the Benefits Agency had had to be issued with a formal Ministerial Direction under Government Accounting Rules in order to continue with the Project until a satisfactory solution could be found.

15. I cannot now recall in specific detail the options identified at this stage for the Horizon Project by the Review Group. I would concur with the options as set out in the Review Group papers (WITN0379\_01/2, HMT00000034 paragraph 4) which were broadly: to continue with the contract as originally conceived, but on a longer timescale and with various new provisions; to terminate the contract altogether; and to find a middle way which would take the Benefit Payment Card

out of the equation but provide provisions for transitioning to the payment of benefits by ACT that would involve POCL (thus securing its anticipated revenue stream) while POCL and ICL would continue with an amended contract to build a platform for banking and other Counter services. The option to cancel the Horizon Project altogether, while the logical course, carried with it a number of problems which would be best avoided, including: potentially messy and lengthy litigation with an uncertain outcome, souring of relations with Fujitsu and possible wider discouragement of inward investment, negative perceptions of the PFI scheme, an adverse effect on POCL revenues and stability at a time it was seeking to become more commercially viable. A way forward with advantages for all parties was an obvious preference.

16. As explained in detail in the papers (succinctly in WITN0379\_01/2, HMT00000034, paragraphs 4.3.3 and 4.34), although termination of the Project would free up the Benefits Agency to secure the significant fraud savings available for the taxpayer by moving straight to an ACT payment system, there were clear risks that the Government and ICL might become involved in lengthy and costly litigation, that business relationships could be severely damaged with Fujitsu and possibly other Japanese inward investors, very important to the UK economy and jobs.

17. The remit of the interdepartmental Review Group was to look specifically at two issues: first, the technical viability of the project, and at what cost over what period; and second, the costs and implications of cancellation, plus alternative options for delivering the project's objectives (WITN0379\_01/2, HMT00000034, paragraph 1.1).

The first of these was dealt with, and taken fully into account, by the the report it had commissioned from the specially constituted Independent Panel. This report formed the basis on which consideration of the possible options, including cancellation, could stand. Thus, Option 1 assumes the Panel's view that, although there were risks endemic in such a large and complex programme, the basic platform was potentially robust albeit only achievable on a much longer timescale (some 3 years later than originally planned) and subject to significant ratcheting up in many areas, primarily in the quality of management and control within ICL Pathway (WITN0379\_01/3, POL00028094 Part II B paragraph 24 et seq. and WITN0379\_01/2, HMT00000034 paragraph 1.2). Having accepted that position, other issues came into play, specifically the costs of cancellation and alternative options, as per the Group's remit. It would appear that POCL's understandable concern about the financial consequences of the potential significant loss of revenue from the Benefits Agency if the Benefit Payment Card did not go ahead, and concerns about its future, also provided an important element in the considerations.

18. Looking again at the Group recommendation to pursue Option 1, the decision seems clearly weighted to the interests of the Post Office and ICL in a way that still seems difficult to understand and could not be readily accepted by the DSS/BA. It appears that the majority of Group members deemed the risks to the Post Office and its future, the possible risk of litigation, the potential impact on inward investment and reputational risk to Government and its PFI policy if the project failed, outweighed the risks of forging forward with the project, despite the evidence of performance to date, and even with so many uncertainties as



acknowledged by the Panel and the even greater impact if it failed anyway. Thus, as explained in the Working Group Report, the DSS - of which I was the representative on the Group - along with HMT did NOT support Option 1 (WITN0379\_01/2, HMT 00000034 paragraph 1.7). The main reasons for this from a DSS perspective were : payments via ACT would now be delivered 3 years later than originally planned; the Card had no life beyond its transitional role, either for BA, POCL or for ICL - thus there would be no opportunity for ICL to recover any sunk costs elsewhere, inevitably increasing the cost to the DSS and Government for a longer development time; in the interim benefit payment recipients would not be helped to banking, as part of the Government's wider modernisation and social inclusion programme. Apart from the higher costs associated with a longer lead time for the project, it would have the knock-on result that DSS would in effect be being asked to bankroll POCL during this extended period and by the same token would hamper wider Government efforts to foster POCL as a commercially viable business. Last but not least, there was an option on the table, Option 2, which provided a better chance of securing at least some of the objectives of all the parties concerned.

19. After the length of time that has passed, it is difficult to recall precisely the timing and evolution of events within specific periods. Having consulted the available papers, however, it seems that by the autumn of 1998 it was accepted across all parties, including ICL, that there needed to be some significant changes in the way forward. This followed the findings reported in the summer of the Inter-Departmental Working Group, the accompanying report it commissioned from an Independent Panel, which had identified three main options as already

described. Subsequent discussions were held in September /October with ICL, POCL and the BA led by a specially appointed independent advisor Graham Corbett, as authorised by Ministers (WITN0379\_01/4, POL00028098), and further analysis of the options by KPMG followed in October (WITN0379\_01/5, POL00028638). At the same time, the problems on the ground were continuing, with compounded delays in delivery, and associated escalating costs. While awaiting a Ministerial decision, the DSS/Benefits Agency were concerned that they were spending up to £40 million on continuing with aligned preparations e.g. for the supporting staff training, new instruction manuals etc, money and staff time which would be wasted if the decision was made to abandon the Card and move straight to an ACT-based solution for paying benefits.

20. While there was broad agreement between the government departments about the issues that needed to be addressed, different solutions were favoured by DTI/POCL and DSS/BA, reflecting their different priorities. It is not for me to suggest what the Post Office interests were, although much of this is explained in the referenced papers. However, it was generally understood that the Post Office was striving to become a more commercially viable business and possibly moving towards a possible flotation (although this was not widely known at the time). DTI were also looking for it to become a more robust business, moving away from dependency on direct Government funding. The Benefits Agency was one of its major and guaranteed sources of income, as explained above, and the Benefit Payment Card provided some continuing security on this front. The Horizon Project more broadly would also provide a platform to deliver potential additional automation services to help POCL

develop its business in other areas. The Benefits Agency on the other hand and the Department of Social Security were primarily motivated by issues around efficiency and accountability before Parliament for the responsible use of taxpayers' money, including securing available fraud savings, and providing a secure and sustainable delivery method of payment to benefit recipients. The paper I sent to the Treasury on 13 November 1898, sets out the DSS position clearly (WITN0379\_01/6, POL00028635 paragraph 3). In our opinion, the deal being offered by ICL did not meet Ministers' original criteria for discussions with them, which had included a requirement to provide overall VFM for the Government (WITN0379\_01/4, POL00028098). It would transfer significant risk to the Government/public sector parties for example by guaranteeing payment to ICL with scant regard to the level of performance, and by demanding significant price increases, payment in advance and acceptance of the project before full trials had been completed. This was not only a major rewrite of the original contract - arguably contravening procurement law - but also changed the original PFI concept. The new overall funding assessment of £600 million over the life of the project would be underwritten in effect by £480 million from public sector sources.

21. There were continuing and increasing concerns about the technical integrity and robustness of Horizon at this time, tacitly shared by ICL and reflected in numerous requests for modifications and delays.
22. Ministers were being kept closely in touch with all the issues including those aspects of the technical development that were affecting the project delays and the various options and proposals being put forward by the different parties.

The work of the HMT Working Group (set up in March 1998 ) had commissioned a technical assessment of the options as well of the overall project. These had been circulated to Ministers.

23. I have been asked to consider whether the technical integrity and robustness of the Horizon Project were adequately addressed in the inter-Departmental discussions about its future. I am not a technical expert and perforce, in respect of these matters, I relied on advice from experts within the Benefits Agency in the same way that I sought and relied on expert legal advice from the Programme lawyer. That said, I do believe the technical aspects of the project lay at the heart of the inter-departmental discussions albeit the wider issues raised by possible changes or even cancellation of the project frequently assumed a dominant position in the discussions that ensued. Indeed, it could be argued that the Benefits Agency's increasing concerns about the technical aspects of the project, as they related to the Benefit Payment Card, were the initial trigger for the wider reconsideration of the project that followed (WITN0379\_01/7, HMT00000045, page 12). It would also be fair to say that at senior departmental and Ministerial levels, the technical issues would be expected to be communicated in no more detail than was needed to support a properly informed discussion on the viability of the different options . At the same time, great care was taken to ensure the technical aspects had indeed been properly considered and did inform discussions. Hence the inter-departmental Working Group commissioned an independent Panel to assess the technical viability of the project and, as options emerged, KPMG were appointed to provide an independent technical assessment, to support discussions which

necessarily and rightly included consideration of the financial consequences and the wider policy considerations in the usual way.

24. In January 1999, it appears from the relevant papers that public sector parties (Post Office Counters Ltd, the Benefits Agency, DTI, DSS and HMT) had agreed to develop options for continuing with Horizon, including options without the Benefit Payment Card. This followed a period of discussions to explore the option of continuing with the project as originally conceived but over a longer timescale, but proposals put forward did not offer either VFM for Government or assurances on deliverability. At the heart of this decision lay the concern on the BA's and DSS's part that the original solution for a Benefit Payment Card proposed by ICL could not be delivered to time, within the agreed budget - or possibly at all: ICL were in breach of contract for their failure to deliver an agreed key operational milestone in November 1997 and, during the discussion period, another key milestone had been missed in December. These arguments and concerns had been set out in a forthright minute from me to HMT (WITN0379\_01/8, POL00028326). It appears however that a basic platform on which the Post Office could begin to build other delivery services was still viable. This led to the development of new options (WITN0379\_01/9, HMT00000025) which would take the BA/DSS out of the contractual equation leaving a simpler arrangement between the Post Office and ICL on the development of Horizon.

25. Against this backdrop, while there was agreement on seeking ways to continue with the basic platform that Horizon could supply, there were different views on

the weight to be attached to different aspects of a new plan. I do not recall the specific details of the different positions but as already explained, the Benefits Agency and the Department for Social Security were driven primarily by maintaining security of payments to their beneficiaries, by a concern to ensure the 'deal' with ICL did not put at undue risk taxpayers' money for which they were directly accountable or to further delay plans to move to ACT payment methods (which had always been envisaged as part of the Horizon project), with its objectives of securing substantial fraud savings, cutting administration costs and promoting social inclusion. Post Office Counters Ltd naturally favoured options which secured continuity of its revenue stream from the Benefits Agency for benefit payments (thought to be about 30% of its revenue income) as well as a solution which would provide a springboard for other possible commercial revenue-creating ventures.

26. It is difficult to disentangle the different elements and issues that informed the inter-departmental discussions on the future of Horizon. The financial consequences of any decision must always be important where taxpayers' money is concerned and where there are issues of responsible stewardship. In this case, there were also issues about possible effects on inner investment in the UK economy, on the commercial viability of Post Office Counters Ltd, on the Government's wider policy aims for modernisation of public service delivery. But at the heart of the decision, and what had triggered the discussion in the first place, was both the reliability and deliverability of the Benefit Payment Card element of the project.

27. I do not now recall the specific terms on which the Benefits Payment Card was cancelled. The legalities were complex, involving 3 different contracts. As required by the terms of the original Horizon project contracts, the cancellation of the Card was agreed by both Post Office Counters Ltd and the Benefits Agency. The effect in contractual terms was to simplify and clarify the contracting arrangement significantly, leaving POCL and ICL as the two parties to the contract, and with the Benefits Agency as a customer of POCL. As I understand it, the Benefits Agency agreed with POCL that they would, however, continue to use the Post Office for the payment of benefit to those beneficiaries who at that time did not have a bank account, with the intention of moving to direct ACT payments wherever possible by an agreed date. This would allow POCL to plan for the reduction in its revenue flow from the Benefits Agency business with time to build up alternative sources of revenue - it hoped, as a major provider of other government services.

28. The decision to cancel the Benefit Payment Card was for three main and interlinked reasons. First, due to the significant and continuing delays and ICL reluctance to accept the delivery terms agreed (for example arguing to change acceptance criteria), doubts were emerging about whether it would ever be delivered as planned - and thus by definition, it would not provide the reliable stepping-stone to the payment of benefits by ACT that had always been envisioned. Second, to go on spending money on this uncertain project would put significant amounts of taxpayers' money at risk, would in effect compensate ICL for its sunk costs when it had failed to deliver, and was thus also not consistent with the treatment of other PFI projects. Finally, there were alternative options available which could support Post Office Counters Ltd while

it moved from the degree of dependence it had on Benefits Agency revenue to a more secure long-term footing. Cancellation of the Card provided the opportunity for the Benefits Agency to move as planned to ACT payments as soon as practicable and to develop an alternative interim payment solution.

29. It was concerns about the technical viability of the Benefit Payment Card (as opposed to the Horizon platform as such) that had triggered the initial DSS concerns about the Horizon project as originally conceived. As time moved on, and in the course of these year-long discussions, it is fair to say these concerns increased. While clearly there were other issues that needed to be considered – the overall cost, the effect on beneficiaries as well as POCL, the reputation of the PFI initiative, inward investment to the UK, the legal implications – from the BA perspective the continuing technical problems, delays and overspend were the spur to finding an alternative solution.

30. My formal involvement in these issues ended in the summer of 1999, from memory in July.

31. I have been asked whether I feel that the Government effectively scrutinised the technical integrity and robustness of Horizon during its negotiations with ICL about the future of the project. I was not personally party to the negotiations. However, questions of the technical viability and deliverability of the Benefit Payment Card element were crucial, so far as the Benefits Agency was concerned and arguably had been the catalyst for all that followed. Throughout the subsequent discussions and negotiations, and the various alternative options that then emerged, the technological aspects were core, from the initial



report commissioned jointly by BA and POCL from Project Mentors Ltd on progress with the Benefit Payment Card, through the Independent Panel's report for the Inter-Departmental Working Group, to the KPMG report on the developing options, there was a concern, rightly, to address and understand the underlying technical issues. That said, it can be seen that whilst these issues were discussed at the highest level, for example in a meeting between the DSS Minister of State and the Chief Executive of ICL in July 1998, subsequent correspondence between the Vice Chairman of Fujitsu and the British Ambassador to Japan (WITN0379\_01/10, BEIS0000336) placed more emphasis on the importance to them of earning profit from the Project. The DSS/ BA focus had always been on the Benefit Payment Card, so with its withdrawal from the Horizon project and the removal of the Benefits Agency as a party to the contract, concerns became refocussed. From the papers available (WITN0379\_01/11, POL00028647), it seems DSS and the Benefits Agency were content with the agreements being drawn up between ICL and POCL and their remaining concerns turned on the proposed financial controls and overall expense.

32. From what I can recall and the information made available to me, I have no other matters that I consider would assist the Chair.

**Statement of Truth**

I believe the content of this statement to be true.

Signed:

**GRO**

Dated: 11 October 2022

**Index to first witness statement of Dr Sarah Graham**

<b><u>No.</u></b>	<b><u>Exhibit Number</u></b>	<b><u>Document Description</u></b>	<b><u>Control Number</u></b>	<b><u>URN</u></b>
1.	WITN0379_01/1	Diary note of meeting with Frank Field, 17 July 1998	POINQ0085332F	FUJ00075723
2.	WITN0379_01/2	Review of BA/POCL Automation Project – Working Group Report, July 1998	VIS00007799	HMT00000034
3.	WITN0379_01/3	BA/POCL Automation Programme Review – HM Treasury Independent Panel – Report, July 1998	POL-0024576	POL00028094
4.	WITN0379_01/4	Summary and Report to Chief Secretary by Independent Advisor, Graham Corbett on Horizon Project, 16 Oct 1998	POL-0024580	POL00028098
5.	WITN0379_01/5	Letter from Chris Nicholson, KPMG, to Horizon Working Group Members, attaching 'HM Treasury, BA/POCL Automation Project: Analysis of Fall-Back Recommendations', 16 Oct 1998 (draft)	POL-0025120	POL00028638
6.	WITN0379_01/6	Fax and paper from Sarah Graham, DSS, to HM Treasury, DTI, CITU, No.10, Post Office, BA and Bird & Bird (Horizon Working Group Members) re 'Towards an Inter-Ministerial	POL-0025117	POL00028635

		Decision'.13 November 1998		
7.	WITN0379_01/7	Review of the Benefits Agency/Post Office Counters Automation Project, Note for Ministerial Meeting, 22 June 1998	VIS00007810	HMT00000045
8.	WITN0379_01/8	Letter from Sarah Graham of DSS to Peter Schofield, HMT, re BA/POCL Automation Project: Towards an Inter- Ministerial Decision, 11 December 1998	POL-0024808	POL00028326
9.	WITN0379_01/9	Ministerial Submission from Peter Schofield to Chief Secretary re- BA/POCL: Minute to the Prime Minister	VIS00007790	HMT00000025
10.	WITN0379_01/10	Note of meeting between Mr Naruto and Ambassador, December 1998	BEIS0000316	BEIS0000336
11.	WITN0379_01/11	Fax from Sarah Graham, PFD Special Project, to Alan Mawdsley, HMT, re Revised Counter-Offer to ICL for HMG, 17 May 1999	POL-0025129	POL00028647