

Witness Name: Sir Adrian Montague

Statement No.: WITN0400_01

Exhibits: WITN0400_01/1

Dated: September 2022

POST OFFICE HORIZON IT INQUIRY

1st Witness Statement of Sir Adrian Montague

Statement Signed: 16th September 2022

I, Sir Adrian Montague, will say as follows:

Introduction

1. This statement is provided pursuant to a Rule 9 request dated 1 June 2022, and addresses my involvement with the Horizon Project.

Background

2. My full name is Adrian Alastair Montague.
3. After taking a law degree at Trinity Hall, Cambridge, I joined Linklaters & Paines (now Linklaters) and later became a partner in the firm. I specialised in advising on big projects and their financing, like the Channel Tunnel. In 1993 I moved to Kleinwort Benson Limited as Head of Project Finance, and then became joint Global Head of Project Finance when Kleinwort Benson was acquired by Dresdner Bank.

4. Following the general election in 1997, I was approached by HM Treasury (the “Treasury”) to become the Chief Executive of a new unit (the Treasury Taskforce or the “Taskforce”) the Treasury was establishing to facilitate Private Finance Initiative (“PFI) transactions. I agreed to accept the position and took up my appointment in August 1997.

5. The mission of the Taskforce was to be the focal point across Government for all PFI transactions. It was to advise and assist Departments in preparing, negotiating and financing PFI deals, taking advantage of the skills and experience of a small team drawn from the private sector, initially 8 strong. Although mainly focused on the pre-financial close stages of a procurement, in time the Taskforce was asked to assist in relation to pre-existing procurements in difficulty, like Horizon.

6. The structure of the Taskforce and its positioning in the Treasury was sui generis. The Taskforce took the form of an unlimited company owned by the Treasury; the staff of the Taskforce, including its CEO, were not civil servants but were employees of the unlimited company; we were not tenured but worked under fixed term contracts of two years’ duration; and I had a reporting line direct to the Paymaster General rather than to Treasury officials. The Taskforce was, in effect, superimposed on existing Treasury reporting lines. It had no official locus in policy matters, but constituted a reservoir of project expertise that the Treasury (and other departments) could call on in case of need. My shorthand description of the Taskforce was, therefore, that it was “in, but not of” the Treasury. As I will explain, its status influenced the nature and duration of my role in the Horizon project.

7. Against this background, I will explain my involvement with the Horizon project, and seek to address the specific issues set out in the Rule 9 request. The events in question occurred, of course, a quarter of a century ago. I have no actual memory of what took place at the time. The Inquiry's legal team have, however, provided me with a range of documents to consider, and I base this statement on the recollections triggered by those documents. I will be happy to assist the Inquiry in any other way I can.

The Horizon Project Review Group

8. The Horizon project was a significant early PFI transaction which was entered into before the formation of the Taskforce. I had had no involvement with it before the formation of the Horizon Project Review Group (the "PRG") in March 1998. The Horizon project was already running very late, and Ministers sought an urgent review as the delay was imperilling the savings that were the basis of Horizon's business case.
9. The PRG brought together officials from all concerned Departments in Government - the Treasury, the Department for Trade & Industry (the "DTI") and the Department for Social Security (the "DSS"). At the first meeting of the PRG it was established that its work would break down into two parts: conducting an assessment of the viability and of the potential costs of continuing with the Horizon project; and carrying out contingency planning should it be necessary ultimately to cancel this project. It was decided that the best solution as regards

the first part of PRG's work would be to appoint an assessment board under an independent chair to conduct the assessment. After some discussion, I was subsequently asked to chair the assessment board (known as the Treasury Review Panel or the "Panel").

The Treasury Review Panel

10. The Panel was set up under the auspices of the PRG to conduct an independent assessment of whether the project was technically viable and, if so, how quickly it could be completed and at what cost. The Panel was made up of myself as Chair, and Bill Robins and Alec Wylie (respectively the former head of the Northern Ireland Social Security Agency and former Director General of Communications and Information Services at the MOD). Between us, we made a strong panel: the other two members of the Panel had deep operational expertise of IT systems, whilst I was able to speak to the PFI issues in Horizon.

11. At this point, in the light of subsequent events, it may be helpful to explain how the Panel approached its consideration of the viability of the Horizon project. Horizon was still very far from complete: limited on-the-ground testing of just some of its modules had only just begun; much of its functionality was still under development; and the project had definitely not reached a point where it was possible to undertake acceptance testing of its full functionality, linking the systems of the Benefits Agency ("BA") and of Post Office Counters Limited ("POCL") to its own middleware. So, as it was not possible to test Horizon "for real", our review focussed on whether, at a high level, the project could be

delivered successfully, rather than whether it was operating or indeed could operate in accordance with its contractual specification. Of course, this meant that none of the shortcomings of the Horizon system in operation that came to dog the project in later years was or could have been evident at this stage.

12. PA Consulting was in due course appointed to conduct the technical aspects of the review on the Panel's behalf. After a kick-off meeting with ICL on 28th May 1998 at which all the members of the Panel were present, PA Consulting held a series of bilateral meetings with ICL Pathway and with BA and POCL. In June PA Consulting delivered its report to the Panel, and its findings were duly reflected in the Panel's final report. In preparing its report, the Panel relied on PA Consulting's advice regarding the viability of the project, and saw no reason to question its conclusions.

13. As the Panel's report makes clear, (document WITN0400_01/1; [POL00028094]) PA Consulting concluded that the project was technically viable (in the sense described above). In arriving at this conclusion, PA Consulting conducted a high-level assessment of: the current status of the programme; the design solution and its fitness for purpose; the timetable for completion; the project's programme management, organisation and structures; and the likely cost of delivery. There were clearly, however, quite substantial issues with the project – for example, the lack of any agreed stable baseline requirement to permit key milestones to be established, the absence of any agreed Acceptance Plan or timescale for acceptance, a failure to agree on the length of Model Office Testing or live trial and the absence of any agreement on the rate of the roll-out. Good practice

would have required important contractual loose ends like this to be fully negotiated and documented at the outset before the Horizon project contracts were signed, but this was an early PFI deal where the procuring authorities seem to have lacked the experience necessary to put in place a tightly defined and comprehensive contractual framework.

14. PA Consulting's views on the viability of the project were also subject to a number of significant qualifications and risk factors. A system of the scale and scope of Horizon, with so many different platforms and products, had in PA Consulting's view no precedent; in view of the size of the system there was a risk that not all of it could be tested in earnest from end-to-end; there was a concern that the system was largely dependent on a third party middleware product called Riposte that lay at the heart of Horizon; and as the project was the biggest of its kind, many of the component parts were being used toward their current limits of scale.

15. Two other contextual factors complicated the Panel's assessment:

- a. The first of these was a very different strategy towards Horizon as between BA and POCL. POCL saw the benefit payment card which Horizon would use as a vehicle for channelling benefit payments to customers as a vital tool to ensure a flow of income from BA and underpin the financial robustness of the Post Office network. In contrast, BA wished to prioritise payment of benefits by automated credit transfer through the banking system, bypassing the Post Office's branch network. This strategic difference of view caused much difficulty between BA and POCL

in seeking to come to an agreed way ahead throughout my time involved with Horizon. One would have hoped that the two public sector parties had been in accord when the contracts were signed with ICL Pathway. I cannot speak to that, but it was not (or no longer) the case at the time of the Panel's involvement.

- b. Relationships between the parties to Horizon had deteriorated significantly. ICL Pathway had failed to meet a contractual project milestone which gave BA/POCL cause to consider withdrawing from Horizon. For its part, ICL Pathway was frustrated by the public sector parties' inability to agree on what it saw as quite minor operational issues, which it attributed to the lack of a common vision between the sponsors and a failure to empower the project office with authority to determine those operational issues. As a result, an adversarial environment had developed between the parties of sufficient rancour to make constructive resolution of the outstanding issues hard to achieve.

16. Accordingly, the Panel effectively treated PA Consulting's conclusions that Horizon was technically viable as a threshold condition to the main burden of its review, which was to identify a framework within which the issues affecting the project's performance could be satisfactorily addressed and the project could be set up for successful, if delayed, completion on a further extended timescale.

17. As a result, the Panel made a series of recommendations, fundamentally focussed on improving the commercial status quo and enhancing the relationships between the contracting parties, with a view of assuring the

deliverability of the project over time – although the Panel foresaw the probability of further, incremental delays before full acceptance of the system could be achieved.

18. In an Annex to its report, the Panel considered in addition what the way forward for Horizon might be. In all six options were identified, and the two options most likely to provide our agreed way forward were discussed in detail – partial restructuring and full restructuring. Termination of the entire Horizon programme was identified as a possibility, but discounted on the grounds that it would set back POCL's automation plans for at least two years (and very possibly more after potential litigation, readvertisement, procurement and implementation were taken into account) with the likely loss of non-Government business in the meantime. Although not of primary concern, ICL Pathway would also suffer significant loss of prospects, reputation and revenue.

19. The full and partial restructuring options were considered in detail in the Annex to the Panel's report. On balance the Panel preferred a full restructuring of the project on the grounds that it would provide better value for money in the longer term. Under this approach, the benefit payment card would go ahead, with card-based payments until POCL was ready to complete for automated credit transfer ("ACT") payments, when BA would go to the open market for ACT-fed payments. In order to assist the parties in the restructuring, the Panel recommended the appointment of a neutral trouble-shooter, mandated by Ministers to pursue the finalisation of an agreed restructuring plan.

The Horizon Working Group

20. Once the Panel's report was in final form, officials consulted Ministers to establish their views on the way forward. The late Graham Corbett was identified as a possible trouble-shooter, and in July 1998 a Horizon Working Group ("HWG") (in reality, a continuation of the previous Horizon Project Review Group with a slightly different membership) prepared and submitted to Ministers its own report into Horizon and its recommendations on the way forward.
21. HWG's report was a substantial piece of work, running to 58 pages. The report presented the two restructuring options contained in the Panel's report, but also dealt at length with the pros and cons of terminating the Horizon Project entirely.
22. Officials were unable to suggest a way forward that commanded the support of all public sector counterparties. The Working Group, apart from the DSS and the Treasury Social Security teams, recommended that, in line with the Panel's option 1, ICL Pathway should be given time to continue with the project and, if ICL Pathway agreed to the terms, a trouble-shooter should be appointed to work with the parties to implement the measures proposed by the Panel. If ICL Pathway could not accept the terms or there was no successful outcome to the negotiations, Ministers should sanction the public sector parties withdrawing from the contracts on grounds of ICL Pathway's non-performance. DSS recommended a similar approach but based on option 2. The Treasury Social Security Team preferred option 3 (termination). Whichever option was chosen, Ministers were asked to give an early steer.

23. In discussion with Ministers, option 1 was identified as the Government's preferred way ahead. In September Graham Corbett was appointed to the role of trouble-shooter and, in an intensive period of work over 4 weeks, explored the opportunity to strike a restructuring deal in accordance with the mandate given to him by Ministers. To his chagrin, he was unable to bring the parties to agreement, as he reported to the Chief Secretary on 18 October 1998.
24. Notwithstanding the failure of Graham Corbett's initiative, further exchanges between the public sector counterparties and ICL Pathway followed, culminating in an inter-Ministerial meeting on 16 November to review the latest proposal from ICL Pathway. Although that proposal was regarded as unsatisfactory, sufficient progress was made to justify allowing ICL Pathway a final opportunity to come forward with an acceptable offer. The paper provided to me by the Inquiry's legal team indicate that I was to be appointed a facilitator for this process.
25. The papers also indicate that the further period of negotiation failed to produce acceptable results. In the New Year of 1999, Steve Robson, the Treasury's Second Permanent Secretary, was tasked with exploring a new way forward with ICL Pathway. The new approach involving a direct move to ACT and the abandonment of the benefit payment card was supported by senior Treasury Ministers and was later referred to the Prime Minister for his support. There followed meetings with ICL Pathway and the public sector counterparties to try to secure their agreement to the revised approach. As part of this approach, in March 1999 I happened to be in Tokyo on other Government business and, according to the papers provided to me by the Inquiry's legal team, I was due to see Fujitsu, ICL's parent company, and a speaking brief for that meeting was

provided to me. I am afraid I cannot recall whether the meeting took place, or if it did, what occurred during the meeting.

My involvement with the Horizon Project

26. There had been a long history of interaction between ICL Pathway and the public sector counterparties before the meeting of the PRG in March 1988 when it was decided to convene an independent assessment board. Those interactions had not involved the Taskforce. I did not find that surprising. Horizon antedated the Taskforce's formation so it could not have been consulted in the negotiation of the contracts, and oversight of pre-existing contracts was not generally a matter for the Taskforce when things were going well.

27. Things changed, of course, with the formation of the Panel, and I was very heavily involved for the duration of its assessment and for some time afterwards. But, as I mentioned in paragraph 6, the Taskforce did not necessarily have any locus in the established pattern of dealing between the Treasury and other Government departments and, once the Panel's assessment had been delivered, the momentum in considering the policy options and advising Ministers was taken up again by officials without any active participation by the Taskforce. So, I was not involved with the preparation of the HWG report in July 1998, and took no part in the ensuing discussions with Ministers. I formed part of the HWG from September 1998 onwards but as a contributing member rather than as Chair or its driving force, and I was not involved with Graham Corbett's mission as trouble-shooter.

28. Late 1998, according to the papers, I was asked to facilitate the last-ditch discussions with ICL Pathway, but I regret to say that I do not recall what passed between me and the other interested parties in that connection.

29. In the New Year 1999, the baton passed to Steve Robson who took forward negotiations with ICL Pathway. Although I continued to receive copies of some papers, it was more for information and out of courtesy given my previous role. A more substantive involvement would anyway have been difficult, as the negotiations then took a very different course from that recommended by the Panel that I chaired. I ceased to have any contact with Horizon in the Spring of 1999 as my term of employment with the Treasury was anyway coming to an end.

30. I will be very pleased to assist the Inquiry by elaborating on these answers if that would be helpful.

I believe the contents of this statement to be true.

Signed:

GRO

Dated:

16th September 2022

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<u>No</u>	<u>Exhibit Number</u>	<u>Document</u> <u>Description</u>	<u>Control</u> <u>Number</u>	<u>URN</u>
1	WITN0400_01/1	Report of BA/POCL Automation Programme Review HM Treasury Independent Panel		POL00028094