

Witness Name: Sir Ian McCartney

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Exhibits: WITN0337_01/01 –

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POST OFFICE HORIZON IT INQUIRY

FIRST WITNESS STATEMENT OF THE RIGHT HONOURABLE SIR IAN MCCARTNEY

I, Sir Ian McCartney, will say as follows:

1. I make this statement in response to the Inquiry's rule 9 request dated 1 June 2022.
2. At the time of making this statement, I am 71 years old and retired.
3. At the outset, I would like to express my sympathy for the victims of the Horizon scandal. Throughout the procurement and development of the Horizon platform, we were genuinely trying to make things better for sub-postmasters ("SPMs") who were providing valuable public services to their communities, and it is so awful that this debacle has instead led to many of their lives being almost destroyed. They deserved better.
4. I would also like at the outset to declare an interest in respect of my relationship with the Communication Workers Union ("CWU"). When I was developing policies towards the national minimum wage, which involved carrying out a complete review and visiting low-paid workers and companies nationwide, the CWU

assisted with the secretarial support and administration to allow me to carry that out. In that respect, I got to know the senior officials of the union quite closely, some of whom I dealt with in relation to the Horizon project. This was an interest that was declared at the time in question.

5. Finally, the events being discussed took place over 23 years ago. I have answered the Inquiry's questions to the best of my knowledge and ability, but would like to note that (even after having reviewed the documents to which I was referred by the Inquiry) there are some points where I have no memories at all, and some points where I can recall the broad brush of what happened but not the specific details or dates.

Question 1 – Please set out a brief professional background.

6. I was elected as MP for Makerfield at the 1987 General Election. In 1992, the late John Smith (at the time the leader of the Labour Party) appointed me to the shadow front bench, dealing with healthcare issues. Following his death, and the election of Tony Blair to the party leadership, I was appointed as the shadow chief employment spokesperson, with the specific brief of reviewing Labour's then policy on the national minimum wage. By the May 1997 General Election that policy was written, consulted upon, and had a great deal of public support. On 5 May 1997, following that General Election, I was appointed as Minister of State in the Department for Trade and Industry ("DTI"), with a similar portfolio as in opposition.
7. On 28 July 1999, I was appointed as Minister of State for the Cabinet Office. I was given a strange portfolio – in effect, I was given anything that had gone wrong and was asked to sort it out. This included issues such as the Manchester

Commonwealth Games, drugs policy, proceeds of crime, and failures in government IT systems (particularly the inability of government to have enough skills at the procurement stage and then to manage the new systems into being). In this role I was also appointed as a Privy Councillor.

8. On 8 June 2001, following the June 2001 General Election, I was appointed as Pensions Minister at the Department for Work and Pensions ("DWP"), a successor to the Department for Social Security ("DSS"). My responsibilities included introducing the new pension credit (which I saw as similar to the national minimum wage for pensioners) and reviewing the regulatory framework for pensions in the UK. Then, on 4 April 2003, I joined the Cabinet as Minister without Portfolio. On 5th May 2006, I was appointed as Minister for Trade and Foreign Affairs. I left both Cabinet and Government on 27th June 2007 when Gordon Brown became Prime Minister, as this seemed to me a natural break. I retired from Parliament on ill-health grounds when the 2010 General Election was called, and received a knighthood in the dissolution honours list. Following my retirement, I have done voluntary work for Healthwatch in Greater Manchester and most recently the local integrated joint board for Perth & Kinross Council and NHS Scotland.

Question 2 – Please set out the background to your involvement in the Horizon Project

9. As a local MP, not as a Shadow Minister or Minister, for a number of years I and other colleagues, particularly those of us in former mining communities, were debating the closure of post offices in villages. This was coinciding with banks beginning to withdraw from villages as well. Socially and economically, it was a disaster for those communities. By the time we got into Government, I felt well

aware of the underlying problems that were being faced by SPMs at this point in time.

10. I was appointed as Minister of State at DTI during the first weekend of Tony Blair's premiership. On the following Monday, I came down to London and I was given a briefing on my portfolio, which included the entities associated with the Post Office, particularly Post Office Counters Limited ("POCL")¹. I have no recollection of my initial briefing containing any information regarding the problems which this Inquiry is considering, but I must have been made aware of the Horizon project not long afterwards. I remember that shortly after taking office as a Minister I had a telephone conversation with Frank Field, who was Minister of State at DSS, to inform him that I had been made aware about a possible major problem with a project between DTI and DSS. He had also just been made aware about Horizon and the issues that it was facing at the time, and told me how appalled he was by the fact that the project had been going on for some time but that there didn't seem to be any significant documentation at that stage to indicate what the solutions were. After that short conversation, one of us suggested that we should meet to discuss it, at least to be able to assure each other of what we understood.

11. Following that conversation, I asked my private office to contact John Roberts, the Chief Executive of POCL. John Roberts came to see me and informed me of the situation which was that, in shorthand, over half a billion pounds had been spent on the new Horizon system but there was not a single computer in a single post office that was yet able to run the system. It also quickly became clear – and this was something that I had to get to grips with as the Minister – that there were three

¹ The other entities associated with the Post Office were Royal Mail and Parcelforce, though neither are relevant to the issues being considered by the Inquiry.

partners involved, all of whom had a different view of and objectives for the Horizon project. Having such different views amongst key partners was a recipe for disaster. The views of those three partners can be summarised as follows.

12. The Benefits Agency (“BA”), and DSS who supported them, saw the main purpose of Horizon as being to dramatically reduce the huge administrative costs involved in providing pensions and other benefits. At the time, BA operated a totally paper-based system for paying all types of pensions and benefits. Claimants were issued with benefit books or giro cheques, and could use these to withdraw their pensions or benefits in cash at post offices. Under this system, the BA were POCL’s customer, and had to pay them fees for delivering the service of paying out benefits and pensions. The BA wanted to move to an electronic system to significantly reduce these administrative costs, with the long-term goal of transitioning to paying benefits directly into a benefit claimant’s bank account by Automated Credit Transfer (“ACT”).

13. The BA and DSS also saw this as a way of significantly reducing fraudulent efforts to gain access to the benefits system. Under the paper-based system, such fraud was widespread – for example, in my role as a constituency MP I was aware of a case where a money-lender had been acquiring benefit books from a significant number of poor pensioners, and was claiming the money from the benefit books as repayment for the loans at exorbitant rates of interest which he was able to do with unbelievable ease. Reducing this fraud would mean that money could be diverted away from criminal elements towards legitimate benefit claimants.

14. DTI, where I was a Minister, was the sponsoring department for POCL. It saw the main purpose of Horizon as being to safeguard the long-term future of the Post

Office, which reflected a commitment in the 1997 Labour Manifesto that “*public services and transport services in rural areas must not be allowed to deteriorate. [...] We [are] in favour of a public Post Office providing a comprehensive service*”.

A failure to sustain the Post Office network would have caused issues both for deprived working-class communities in towns and cities where people were already struggling in their daily lives and for rural areas where there were already issues with the Post Office network. DTI, working together with POCL, was looking to avoid this by modernising the way in which the post offices operated.

15. Part of this involved automation and introducing new computer systems which would be technically sound, last for a number of years, and allow SPMs to run other services jointly with their postal services using the same system. This would allow SPMs to supplement their income by offering additional services which were similar to, but different from, their traditional postal and benefits services. An example of this was banking services – there was an opportunity for post offices to take on some of the work that had been carried out by closed bank branches, and to provide a genuine professional alternative for customers whose bank had pulled out of their village or township leaving them with no access to services unless they travelled.

16. Giving post offices the ability to offer these additional services was important, as in the long term they were facing a 30-40% loss of business from the BA as a result of the proposed change to paying benefits by ACT. The loss of this income stream would almost certainly have led to a complete sell-off of all remaining Crown post offices (two thirds of which had already been sold by the previous government) and a massive loss of sub-post-offices, unless something could be found to replace it. In addition, many sub-post-offices were run jointly with other

businesses (such as newsagents), and footfall was important to both these and neighbouring businesses. Where benefits were paid in cash over the counter, some of that cash would be used immediately in the post office or in shops nearby. There were therefore more businesses financially vulnerable than just the Post Office if the Horizon project failed to secure the Post Office's long-term future.

17. ICL were the company with the contract for Horizon, who were a subsidiary in reality to Fujitsu. They had their own agenda, which was essentially to utilise the financial resources of the UK Government to develop a world-leading product which would become profitable (though as Horizon was at that point in its development a PFI scheme they also shared the risks).

18. We were therefore in a situation where the two Government Departments responsible for POCL and the introduction of Horizon didn't have a fundamental overall agreement as to what the main purpose of the project should be. Each Department had legitimate claims for what the project had to do, but each saw their interest as the number one priority and all the others as subsidiary. This meant that there was a 'tug-of war' between them as they each sought to pull the project more towards how they thought it should look - each one wanted changes, and every time there was a change ICL were able to add to the costs. Before you knew it, by the time we got into Government this had been going on for two years under the previous Government, and allowed to get to the stage where no progress was being made. (I say this purely for historical reasons and not to apportion blame – inheriting issues from a previous government happens all the time.)

19. At some point after we took office, after having previously been on a watching brief, the Treasury (“HMT”) became more actively involved in the project. To some extent, what they saw as the main priority depended on who you spoke to. On the one hand, they were in favour of the project continuing and succeeding as it was a huge PFI project which showed that Britain was an advanced nation and could deliver a new technology platform in a game-changing way. On the other hand, they were also attracted to the arguments that the most important thing was to get a handle on the rising administrative costs of the then-current system of benefits and reduce the impact of fraud.
20. There were now three Departments at the centre of Government (and later four, when the Cabinet Office / the Prime Minister’s Office (“No. 10”) got involved) who did not have a coherent approach to an inherited debacle – and it was a debacle. This led to a series of meetings across Whitehall, but every time you would think that you were getting out of the quagmire and seeing a way forward there would be someone else coming into the action with a different point of view.
21. From my perspective, as the Minister with responsibility for the Post Office, my role was to represent the points of view of and problems faced by SPMs and POCL. The latter was a public body that, in my view, could and should have been doing better – a business of its size and complexity should have had a more detailed forward plan about how to modernise and bring into the business technology which was already in existence in one form or another in post offices around the world. To be fair to them, the Horizon project was the vehicle that they were hoping to use to achieve this, but the project had clearly been allowed to slip and slip, and this was leading to a build-up in resentment and a lack of trust between POCL and their main customer, the BA (and DSS). Still, it was critical

that they got new technology that worked and that they were able to develop the way in which public services were delivered. At the time, people no longer expected Government to raise taxes and provide second-class services. We had a serious challenge on our hands to come to a deal or arrangement that was workable, to bring the project to an endgame, and to satisfy HMT and No. 10 that Horizon had a long-term future.

22. To have abandoned the Horizon project would have been calamitous. There would have been no contract, so we would have had to start from the beginning again. In my view, we would have come across the same problems again, particularly the difference of opinion in Whitehall about what we wanted to achieve. Industry itself would also be fully aware of the difficulties and dangers in engaging in such a project, and I expected that if we went that way the prices for any contract would be even huger than originally expected. There may also have been significant costs from legal actions arising out of the abandonment of Horizon, and in the meantime the country would still be left without a new technology service to help modernise public services and give an opportunity for post offices to deliver a better offering to their customer base, meaning that their future was still at risk.

23. All of this is a long introduction to the background of the issues, but I have only put it this way to highlight the complexities of dealing with an issue that became a crisis not only of government procurement but the potential future of public and private organisations; and it would have been an economic disaster for the Post Office network and SPMs if the Horizon project had collapsed.

Question 3 – Please consider BEIS0000127, BEIS0000128, BEIS0000129, BEIS00000130, BEIS00000131, BEIS00000135, BEIS00000136, BEIS00000137,

BEIS00000138, BEIS00000139, BEIS00000140, BEIS00000141, BEIS00000157, BEIS00000158, BEIS00000159, BEIS00000161, BEIS00000162, BEIS00000174, BEIS00000187, BEIS00000188, BEIS00000189, BEIS00000283, BEIS00000284, BEIS00000318, BEIS00000341, BEIS00000422, BEIS00000431, BEIS00000432.

Question 3a – Please explain the problems faced by the Horizon project between the Spring and Autumn of 1998

24. I have touched on this in the background above, but at this point in time Horizon was the largest PFI project in Europe. It was very complex, and the costs were standing at over half a billion pounds. It had been behind schedule from 1994/1995, and even if it had been on schedule would not by this point have been completed. The problem (and again I say this in a historical not a partisan political way) is that the way that the project was established was bound to lead to serious problems, both in terms of the structure and objectives of the project and how the different parties tried to implement their perspectives.

25. As explained above, each of the Departments involved had a different take on what the project should be, and what the priorities should be. In my view, this highlighted one of the first mistakes with the project: DSS and the BA should have been treated as a *customer*, to ensure what was produced by the Horizon system was compatible with their priorities as a customer of the Post Office who was using it to deliver benefits payments to claimants and not a *partner* in a detailed inter-Departmental project which they didn't ultimately control. As a partner, they were inadvertently incentivised or empowered to pursue a strategy which would put their interests ahead of the other interests by focussing on HMT (and the Government as a whole)'s wish to reduce the costs of managing and developing the pensions

and benefits systems, even to the point where this would lead to the collapse of the project.

26. When we came in as new Ministers in 1997, we all obviously needed to be briefed about the Horizon project, and this was explained to us by our respective Departments. This took some time, as it was only part of our portfolio and needed to be balanced alongside the other priorities in the Department that we had to manage as well. For example, the relevant Minister at DSS was also responsible for reform of the benefit system, and I myself had responsibility for the National Minimum Wage, the Employment Rights Act, and dealing with various European Directives on employment.

27. In light of all this, and given the problems at the time, what was needed was to get to a position where Ministers had a functioning grip of the issues and could work together quickly to identify what the issues were, and whether there were any issues (including any political issues) other than those we had been informed of. We were getting to that stage by the middle of 1998.

28. I believe it was around this time that a committee of senior officials in each of the relevant Departments was formed to start the task of looking at the issues and identifying what the potential options were. The first option was to attempt to hold ICL in breach of the contract. The second option (which the BA and DSS wanted) was to get rid of the card system which had been proposed as part of the new technology system. The third option (which DTI and POCL wanted) was to explore whether we could negotiate a compromise where we agreed between ourselves and ICL exactly what we wanted them to produce, to what timescales, and to what cost to each party (as this was a PFI contract so we wanted the risk to be shared,

though ICL were at this stage very concerned about the risk of losing the contract). This was a complex, difficult situation, and there was a lot of work over these months to try and resolve these issues. I understand that this is where the Montague Report came in. It came out against the BA/DSS proposals of getting rid of the card system and in favour of proceeding with the project, but only if satisfactory terms could be agreed with ICL.

Question 3b – what did you understand about the technical difficulties with Horizon at this time?

29. I wasn't aware of any specific technical issues (other than the broad points about the development and priorities of the system which I will mention below). At the time, technical knowledge and understanding of computer systems in government² was extremely poor. Few people had the knowledge and understanding of procuring and developing systems such as Horizon, and so the civil servants managing the project did not always have the appropriate level of understanding to identify or raise issues.

30. This should be put in the context of the time. The world of banking – and of communications systems generally – was changing, but it was still completely different from the way we do business now with IT and electronic media. In addition, even within private enterprises there was a shortage of individuals with training and experience in quality management of complex IT systems. That doesn't excuse the lack of technical knowledge and experience in government at the time, but does perhaps help to explain it. As set out in paragraphs [71] to [74]

² By "government" in this context I mean both ministers and civil servants – though particularly the latter, as the expectation could not have been that ministers were responsible for interrogating and re-writing the technology, and for personally identifying what was wrong in technical terms with the project.

below, this is something that I later came to address in “Successful IT: Modernising Government in Action” (also known as “the McCartney Report”). I exhibit a copy of that report as WITN0337_01/01 [WITN03370101].

31. The only sense in which I remember technical issues (in a broad sense) arising was that every time a proposal was put forward by a Department or ICL, the Government’s technical experts from DTI, DSS and HMT would meet in order to try and identify the potential issues and problems. However, their remit was not just to look at whether the project was technically feasible, but also whether there were financial or other issues with the proposal (such as DSS and BA’s desire to reach a solution which did not involve them as a partner, or ICL’s willingness to deliver the proposal). As alluded to in paragraphs [18] and [20] above, this was frustrating as every time we thought we had reached agreement further issues seemed to arise, and (right up to the very end) you never got any guarantee that you were getting to the point where you could say with certainty that this would be resolved. It was at these moments that you realised how much technical and procurement expertise the government really needed and lacked – and not just for this contract.

Question 3c – was there agreement between Government departments as to the future of Horizon? If not, what were the respective positions as you recall them?

32. I have addressed this in paragraphs [12] to [16] and [19] above.

Question 4 – consider BEIS0000283, BEIS0000284, BEIS0000318.

Question 4a – How would you describe the Government’s relationship with ICL between the Spring and Autumn of 1998?

33. I can't remember the details of the actual meetings that took place at this time, but the vast majority were between officials and technical specialists from ICL. There was an understanding that if the project didn't go ahead and couldn't work properly, everyone would lose out – the taxpayer, SPMs, persons who used and provided services through the Post Office, DSS and the BA (who would lose the opportunity to introduce reforms) and ICL/Fujitsu.

34. In relation to the latter, Fujitsu (as parent company of ICL) wanted to develop a company who, out of the work they did for the British Government, would have an internationally acclaimed product which could in a very short time be seen as a 'go-to system' and reproduced across the globe. If they couldn't find a way of making Horizon work then they would see it as having lost their investment, they wouldn't be able to put ICL onto the marketplace for investment, and given the wider problems with the Japanese and world economy at the time this had the potential to be very damaging for them in terms of their ability to gain customers and investors. This was important to DTI as it would potentially have had an impact on Fujitsu's willingness to invest in the UK (as at the time they were the largest inwards investor from Japan). From my perspective, it was important to try to get a good relationship with ICL/Fujitsu, particularly with their board in Japan, as the truth was that we wouldn't be able to reach a new agreement with ICL for taking forward the project unless the Fujitsu board supported it. I believed that as a Minister I needed to treat them with respect and to try to build a practical relationship built on trust, so that at some point we could get a deal over the line. In Autumn 1998, I went to Japan and had a confidential meeting with their board and the British Ambassador at the time, which was important for helping to get clarity about just how far we could push each other in trying to reach an agreement.

At the same time, we were also talking with colleagues in Government to try to secure agreement between Government as a whole, so that going forward we could set out a single position which we could get ICL/Fujitsu to sign up to. The tone of those meetings was professional, and there was the sense that everyone still wanted a way forward and for there to be an open and effective relationship between the parties.

Question 4b – what are your recollections of the meeting that you had with Keith Todd in the Autumn of 1998?

35. Unfortunately, whilst I have seen a read-out of this meeting (WITN0337_01/02) I do not remember it at all [BEIS0000318].

Question 4c – did your discussions with ICL involve concerns with technical difficulties?

36. We did not discuss technical difficulties with ICL. They set out the business difficulties for them if the project couldn't be made to work – both specifically in relation to Horizon and in relation to their reputation in a very competitive worldwide market. This was more than 20 years ago, when there was the potential for a huge amount of business worldwide for a company that showed it could deliver services (both on behalf of other governments and on its own behalf, selling the Horizon system under licence).

37. As a general point, ICL and Fujitsu were a huge multinational company with scientific and technological expertise. From the beginning of my involvement with the Horizon project, I had the expectation that they had the technical and organisational capacity to get this project right – and indeed I would have thought

that when ICL were originally appointed this was on the basis that the persons who appointed them also had the same expectation.

Question 5 – Please consider BEIS0000141, BEIS0000101, BEIS0000103, BEIS0000177, BEIS0000178, BEIS0000179, BEIS0000180, BEIS0000181, BEIS0000393, BEIS0000394, BEIS0000395, BEIS0000396, BEIS0000400, BEIS0000404, BEIS0000408, BEIS0000413, BEIS0000417, BEIS0000418, BEIS0000419.

Question 5a – Please explain the position in respect of the adoption of Horizon as at November and December 1998.

38. Between November and December 1998 it was quite frenetic. It was a period of continuous meetings of officials, financial advisers and lawyers from all of the different players. The field was crowded, all with legitimate players who had legitimate arguments, but there were significant difficulties in agreeing what exactly was going to be taken forwards.

39. However, by the end of the year, there was a far greater understanding across Whitehall of what each of the parties wanted as a priority and why. It was also becoming clear that, whilst some people wanted to close the project down and walk away, this wouldn't be a consequence-free option. As well as the political consequences (from breaching the manifesto commitment to safeguard the future of the Post Office and maintain the Post Office network), it was likely that there would be an impact on inward investment into the UK, and there were concerns that ICL would be able to successfully bring a court case to recover the costs they had incurred so far. It would also mean that, against the context of campaigns for the Government to save the Post Office, we wouldn't be able to help SPMs with

the difficulties described at paragraph [16] above. There would therefore be huge losses, and other really serious consequences, if the project was allowed to collapse. It took a while to persuade the other parties of this, but we in DTI were convinced that the project had to remain viable, and not to be implemented in a way that would lead to the Post Office collapsing or to SPMs being unable to carry on with their businesses.

Question 5b – what did you understand of technical difficulties at this time?

40. As set out at paragraphs [29] to [31] above I wasn't aware of any specific technical issues or difficulties with Horizon at this time, and have no recollection of technical issues arising more generally outside the context set out in paragraph [31].

Question 5c – was there agreement between Government departments as to the future of Horizon? If not, what were the respective positions as you recall them?

41. The Departments' positions at this point were the same as those described in paragraphs [12] to [16] and [19] above.

Question 5d – Please set out elsewhere in your statement any further meetings with ICL that you recall and the extent of discussion regarding technical difficulties.

42. I do not recall any other meetings with ICL during this time – though as explained at paragraph [36] above, if there were any such meetings we would not have discussed technical issues.

Question 6 – Please consider BEIS0000166, BEIS0000167, BEIS0000204, BEIS0000218, BEIS0000358, BEIS0000359, BEIS0000360, BEIS0000361, BEIS0000362, BEIS0000363, BEIS0000364, BEIS0000365, BEIS0000366,

**BEIS0000367, BEIS0000368, BEIS0000369, BEIS0000371, BEIS0000373,
BEIS0000375, BEIS0000376, BEIS0000377, BEIS0000378, BEIS0000379,
BEIS0000380, BEIS0000381, BEIS0000382, BEIS0000388, BEIS0000389,
BEIS0000390, BEIS0000391, BEIS0000392, BEIS0000393, BEIS0000386,
BEIS0000384, BEIS0000385, BEIS0000383, BEIS0000441, POL00028606.**

Question 6a – Please explain the position in respect of the adoption of Horizon between January and April 1999.

43. The period between January and April 1999 continued to be frantic, though over time we slowly moved out of the period where there was no Ministerial consensus. Around this time, HMT (taking from their point of view a logical position that they needed to get a grip on the finances) started holding meetings directly with ICL. Neither I nor DTI officials were invited to these meetings, but I understood them to be scoping meetings to establish – from ICL’s perspective – how far we could go without collapsing the programme, and what the consequences would be (both for ICL and for Post Office businesses) if we agreed a package that didn’t deliver everything that was originally proposed but nevertheless delivered enough in the long term that, combined with Government support in the short-term, post offices could maintain a sufficient level of footfall and encourage banks and other services to work with them.

44. It was during this period that we got an intervention from No. 10. For context, the Prime Minister at the time (Tony Blair) had a strong interest in modernising the delivery of public services across government – not just the Post Office, but all Departments and Bodies that dealt with the public on a daily basis. He was also very much committed to promoting inwards investment, and the role it could play

in changing and improving the national infrastructure. Finally, he clearly understood the issues relating to the importance of having a viable Post Office network from his role as a constituency MP representing a former mining constituency made up of large and small townships. In this particular case, he wanted to concentrate everyone's minds on coming up with a solution that everyone could buy into and take the project forward. This included a steer that we shouldn't be looking to cancel the project – this decision to take cancellation off the table was an important moment.

45. However, even following this intervention we still didn't have a consensus. Various ideas and options were floating around, with options worked up over a number of weeks (or in some cases over the weekend) which then caused the parties to split into different camps. From this point, the BA and DSS invariably supported HMT, particularly if the endgame was to close down the project, as they wanted to be on good terms with HMT for the project that they needed to move to paying benefits by ACT. In DTI we weren't moving from our position, which was that we required a project that would bring about automation in the Post Office, and that would make a major investment in the business to ensure that there was a greater prospect that the public could use post office counters to do a lot more of their business with Government.

46. I cannot recall the detail of the various options that were proposed at this stage, but a lot of work was done by all of the parties in looking at all aspects of them. Towards the end of the period, we got to the point where there were a few proposals, which had bits of good in them but also significant problems. HMT, POCL and ICL all brought in City firms to help them analyse the costs of each proposal, and to report on what could be done to alleviate these. The problem with

this was that the analysis couldn't be accurate as it was all based on assumptions, and there was no way to test it as there wasn't yet a fully-functioning market of services delivered through post offices. We were therefore very much in a position of trying to get an agreement on the basis of these calculations, and hoping that they weren't too far out, but also trying to recognise that as the system developed and improved, this could lead to a greater income for the Post Office than had been accounted for in the calculations. These arguments continued through to the end of this period.

Question 6b – what did you understand of technical difficulties at this time?

47. As set out at paragraphs [29] to [31] above I wasn't aware of any specific technical issues or difficulties with Horizon at this time, and have no recollection of technical issues arising more generally outside the context set out in paragraph [31].

Question 6c – was there agreement between Government departments as to the future of Horizon? If not, what were the respective positions as you recall them?

48. The Departments' motivations remained those as described in paragraphs [12] to [16] and [19] above. However, there was a better realisation at some point that we were moving closer towards common agreement and a position which would be sustainable in the longer term.

Question 7 – Please consider BEIS0000190, BEIS0000231, BEIS0000239, BEIS0000241, BEIS0000250, BEIS0000275, BEIS0000342, BEIS0000343, BEIS0000345, BEIS0000346, BEIS0000347, BEIS0000348, BEIS0000352, BEIS0000353, BEIS0000354, BEIS0000355, BEIS0000357, BEIS0000439, BEIS0000440.

Question 7a – Please explain the position in respect of the adoption of Horizon between May to July 1999.

49. Shortly before the major Government reshuffle in late July 1999 (when I moved from DTI to join the Cabinet Office), we got to a position where we were able to reach agreement – compromises had been made, but they did not damage the Post Office's long-term ability to provide the services that it wanted to, did not damage the BA's ability to carry out their activities, and still showed through ICL that the UK was in a position to successfully complete big IT infrastructure projects. I cannot remember the exact details of the final agreement that was reached, and have not seen details of this in any of the documents I was referred to by the Inquiry, but I think that the key features included a reconfigured programme to ensure that Horizon could be rolled out by 2001, dropping the benefit payment card, and establishing front-end banking facilities in post offices by 2003.

50. Around this time, I also set up a working group to provide an opportunity for key players to work directly with Ministers, in order to help co-ordinate finalising and implementing the agreement. In particular, I thought it was important that SPMs (via the NFSP) and trade unions (via the CWU and the Communication Managers Association (now Unite)) were engaged and involved in the working group, so that they could explain what was actually happening on the ground, and help us to ensure that what had been agreed was being implemented. The working group also had a role in carrying out a 'future work' programme, looking at the ways in which the Horizon project could be maximised, both in terms of delivery and securing other business partners for post offices to work with (such as banks). I chaired four meetings of the working group before I was moved from DTI to the

Cabinet Office, and I understand that they were welcomed by the parties involved who played their full part in the meetings.

Question 7b – what did you understand of technical difficulties at this time?

51. As set out at paragraphs [29] to [31] above I wasn't aware of any specific technical issues or difficulties with Horizon at this time, and have no recollection of technical issues arising more generally outside the context set out in paragraph [31].

Question 7c – was there agreement between Government departments as to the future of Horizon? If not, what were the respective positions as you recall them?

52. As explained at paragraph [49] above, by the end of July 1999 broad agreement had been reached about the future of the Horizon project. There were I think still some points on which the agreement had to be finalised – in particular about the financial framework for the transition to paying benefits by ACT, where there was still disagreement behind the scenes between the BA (who were desperate to cut costs as soon as possible) and POCL/DTI (who wanted to ensure that the changeover happened in a smooth way that didn't lead to a breakdown of the national Post Office network). However we were in a much better place than we had been at the start of the year.

Question 8 – Please consider BEIS0000278, BEIS0000313, BEIS0000314, BEIS0000315, BEIS0000331, BEIS0000334, BEIS0000336, BEIS0000337 in addition to those already identified.

Question 8a – to what extent did the financial impact of not proceeding with Horizon play a role in its adoption?

53. As I have explained at paragraph [39] above, the financial impact of not proceeding with the Horizon project would have been huge, and we in DTI (later supported by No. 10) felt that this meant it was not a viable option.

Question 8b – to what extent did wider concerns of international affairs and the economy play a part in the adoption of Horizon?

54. As I have explained at paragraphs [39] and [44] above, the implications for inwards investment and the knock-on impact from the financial impacts (and damage to the Post Office network) on the economy were factors taken into account by DTI and No. 10, and supported our conclusion that cancellation of the project was not a viable option.

Question 8c – what were your views on the adoption of Horizon and the proposed timeframes?

55. Once everybody was signed up to the compromise proposals, it was critical that ICL and POCL came up with a timetable to ensure that through the course of 2001, 2002 and 2003 the system was introduced and services went onto it in an effective way. The agreements between the BA and POCL about funding for the paper-based system of delivering benefits payments only went up to 2003 – there would be a negotiation for what would happen from 2004 onwards, and there was an expectation that the Horizon system would be fully operational before then so that there could be an effective negotiation about how the BA could use it as a customer. Given all the angst that everyone had gone through to get the project from the point of collapse to the stage where we could honestly say that it would be completed, and the genuine support for the final deal from the centre of government, it was important to ensure that ICL and POCL now applied some

discipline to the project and didn't miss this window – especially when they still had a lot of work to do to build and test the system and install it and train staff to operate it in over 19,000 post offices across the UK.

56. Alongside that, there were political imperatives for agreeing such a timescale and there was pressure on the time available for doing so. There was an existing political commitment to publish a White Paper on the future of the Post Office by the end of Summer/Autumn 1999. However, we clearly couldn't publish such a White Paper until we had clarity about the future of the Horizon project (including the timetable for its adoption). As explained in paragraph [49] above, we got to this stage, and were subsequently able to launch the White Paper, before I left DTI for the Cabinet Office.

57. Whilst I can't remember the details of the timescales that were ultimately agreed, I think that they were pretty pressurised given the huge amount of work needed to get the system up and running. Whilst I imagine that some of them may have been 'moveable' in the sense that if things got a few weeks behind on an issue it could have been possible to make that time up, they wouldn't be able to catch up on months and months of delay. We had been faced with such a build-up of delays when we first came into the project in 1997, which at the time had caused a genuine lack of trust between the parties. However, when you spoke to each of the parties individually they were wanting to work with each other, and at the time I left DTI I didn't have any concerns about the timetable (though I think that the final timetable might not have been agreed until after this point).

Question 9 – To what extent do you consider that your responses to the above impacted on focus on the technical abilities/robustness of Horizon prior to agreement with ICL?

58. For the avoidance of doubt, I do not think that it would be right to suggest that the parties were focussing more on getting Horizon up and running as soon as possible than ensuring that it was technically robust and fit for purpose – and if there had been anybody of that state of mind it would have been an extremely bad call. Whilst I have explained that the Horizon project was critically important for the UK in financial, economic and investment terms, and that there had been a genuine effort to rescue the project because of the potential benefits to Government, POCL, SPMs and the millions of people who used the Post Office, those benefits could only be realised if the system was fit for purpose and worked successfully.

59. I was not personally a technical expert and did not try to pass myself off as one. However, as a Minister, although I was not directly involved in identifying technical issues myself I did rely on the advice of the technical experts and advisers employed by and within Government. I had an expectation that the piloting and testing of the system would have been done in a way that identified the issues, whether small or significantly large, and that these would be reported and then engineered out of the system so that when it went live it worked properly. I also had an expectation that, if there were technical issues which weren't being resolved, I would have been informed so that I could have a telephone conversation or meeting with the relevant parties to press for these to be resolved. This was one of the reasons why I felt that setting up the working group was important – having representatives from POCL, trade unions and SPMs gave us

an opportunity to get genuine real-time input about how the project was progressing and to address any issues that arose.

60. However, as set out at paragraphs [29] to [31] at the time the level of technical skills and understanding about procuring and developing IT systems in government was poor, and in hindsight I would have liked us to get to the position where officials had greater experience to be able to anticipate and help identify or resolve these sorts of issues. As set out in paragraphs [71] to [74] below, this is something that I later came to address in the McCartney Report. At the same time, as noted at paragraph [37] above, there was also the reasonable expectation that ICL/Fujitsu, as the multinational company with the expertise in this area, were up to the job and could get the technical side of things right.

Question 10 – Please consider BEIS0000349, BEIS0000350, BEIS0000347, NFSP00000064, NFSP000000172, NFSP00000200, NFSP00000203, NFSP000000226.

What do you recall of the NFSP's position (and that of any other relevant stakeholders) insofar as any concerns about the technical abilities/robustness of Horizon to have been prior to its roll out?

61. I recall that the NFSP and (in particular) the BA wanted to make sure that there was a robust programme for testing the new system, and that the results of this would be open to the other parties. Eventually this was resolved with POCL and ICL agreeing to provide them with the test results (which I think may have happened just before or just after I left DTI for the Cabinet Office).

62. It is worth noting as context for this that a previous system which had been introduced and was being operated in the London area had had quite significant failings, and there had been a behind-the-scenes argument between the BA and POCL about that system, with each blaming the other for its failure. That probably coloured people's views, and they wanted clarity to ensure that the system would work, and that where problems arose the technical backup facilities were all fit for purpose. From that perspective, quite rightly the NFSP and BA thought that POCL should have certainty that the testing that took place was successful. I recall that in the end a few hundred tests were carried out across the network in particular geographic areas before the system was rolled out. However, I do not know what the outcome of those tests was and have not seen anything in the documents to which I have been referred which sets this out.

Question 11 – Please consider BEIS0000236.

Question 11a – what understanding did you have of the technical issues referred to at paragraph 5 of this submission?

63. Unfortunately, whilst I have no doubt that I received this submission at the time, I have no memories of it and cannot recall what specific technical issues are being referred to here.

64. As I have explained above, I had an expectation that, if there were technical issues which weren't being resolved, I would have been informed, as trying to resolve them would have been imperative. I cannot recall any specific occasions on which this was done, but I have confidence that the officials advising me would have done so, and that if I had received such a submission I would have taken steps to try and support reaching a resolution.

Question 11b – what understanding did you have of any continued technical issues at that stage?

65. As set out at paragraphs [29] to [31] above I wasn't aware of any specific technical issues or difficulties with Horizon at this time, and have no recollection of technical issues arising more generally outside the context set out in paragraph [31].

Question 12 – 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?

66. To the best of my knowledge I had no more dealings with Horizon after leaving DTI and becoming Minister for Cabinet Office on 28 July 1999. I have already explained that my role in Cabinet Office was essentially to sort out anything that had gone wrong, but I cannot recall the issues relating to Horizon coming up in that context. I also had no involvement in Horizon when I was Pensions Minister at DWP. Finally, whilst I did deal with issues relating to post office closures and the like in my capacity as a constituency MP, I cannot recall any issues relating to Horizon coming up in that context.

Question 13 – What, if any, impact do you consider the appointment of Alan Johnson MP had on any issues you have identified?

67. I do not know what impact the appointment of Alan Johnson had on the project.

Question 14 – Did you have any concerns about the Horizon system after this period in office? If so, please set these out and how they were addressed?

68. I did not have any further concerns about Horizon after leaving my role as Minister of State at DTI to become Minister of State at the Cabinet Office. At that stage, my

focus shifted to my new Ministerial responsibilities. Whilst I did take with me an understanding of how bad the issues were with government procurement, which I looked at in the McCartney Review, I didn't have any further dealing with issues relating to Horizon – and, if anything, I was relieved that we had at last reached an agreement, and that SPMs would at last (at least in theory) have the technology to help their businesses survive.

Question 15 – Do you feel that you were properly informed of technical issues relating to Horizon during your period of involvement? If not, why not?

69. As set out at paragraphs [29] to [31] above, during my period of involvement with the Horizon project the level of technical skills and understanding about procuring and developing IT systems in government was poor. I never felt that the people in DTI who I was working with and who were briefing me were anything other than industrious, open and transparent, and they were keeping me as aware of the issues as they could. However, it would have helped them if they had had access to IT specialists and procurement experts to help them manage the process and identify and resolve any such issues.

Question 16 – Looking back, do you feel that the Government effectively scrutinised the procurement, pilot, and roll-out of Horizon?

70. The problem that we faced when we took office in 1997 was that we had inherited a legally-binding PFI project introduced by the previous government where progress had been stalled for two years (which again I say purely for historical reasons and not to apportion blame). We faced a difficult task to try to change that project in such a way that would ensure the successful development and implementation of the system. Given that starting point, I think that the final

agreement for the Horizon arrangements was the best that we could have reached at the time. I have no doubt that there are some issues where, with the benefit of hindsight, we might have wanted to deal with them differently when trying to reach a common agreement with the other parties about the best way forward, and or where we might have reached a better outcome if there had been more technical expertise in government. However, from my perspective, myself and my colleagues were committed to doing the right thing by people, particularly POCL staff and SPMs by trying to give them every chance to modernise their systems and ensure that they had a future.

Question 17 – Please explain the purpose of the Review of Major Government IT Projects and the background to your report Successful IT: Modernising Government in Action. What relevance to you feel that this report has to the issues which are being investigated by the Post Office Horizon IT Inquiry?

71. Shortly after I became Minister of State at the Cabinet Office, when I was learning what the Department did and how it operated, I learned that someone was preparing a paper on this topic. This was around the time that we were appointing a 'czar' to completely reinvigorate the Government's attempt to provide services in a modern way, and around the time that it was suggested some services should be provided online – which would benefit taxpayers by allowing services to be provided more cheaply and easily. However, we had to find a way of properly managing the capital to do that.

72. This led to a discussion I had with the then Cabinet Secretary about the need to establish a properly functioning labour market within the civil service for people with IT skills. At the time, promotions within the civil service were based on years

of service, so you had people who didn't know how to turn a computer on leading on IT issues – and we were getting taken to the cleaners in negotiations with software companies. My view was that we as Government should be providing advice and setting out a regulatory framework to ensure that the companies we did business with were honest, transparent, and worked to an approved plan. I was also concerned with sub-contracting – particularly where we asked companies to bid for the work, drew up a shortlist of four to five companies, and then saw the work sub-contracted to companies that you had excluded from the shortlist and the people that you didn't want involved were now part of the group that you had to deal with. In light of this, I started looking in more detail at procurement work, and taking part in early negotiations to make it clear we weren't going to be exploited.

73. This led to me getting involved in what became known as the McCartney Report – though it was by no means all my work, and I was very lucky in the people who were advising me (including in particular an excellent official seconded from the South Australian Government who was an expert in the provision, development and rollout of electronic services in Government). The report wasn't produced with any particular agenda – there was a recognition that there was a genuine issue here, and the hope that if we talked it through and got some expertise round the table we could produce recommendations that would help improve things.

74. I think that the report is directly relevant to the issues being considered by the Inquiry at this phase. Horizon was not the only government IT project that had encountered issues at the time (though it was the largest), and as I explained in the foreword we wanted to learn from these issues as we went on to deliver IT improvements across the board of public services. I endorse the contents and

recommendations of that report, and respectfully encourage the Inquiry to read it in full (particularly those parts of the report which directly draw on learning from the Horizon project³).

Question 18 – Are there any other matters that you consider will assist the Chair?

75. I can't think of anything else that will assist the Chair.

³ As can be seen at Annex H (pp 106-107), there are three occasions on which the McCartney Report directly refers to the Horizon project as evidence. These are

- Endnote 8 on p12 (which relates to the recommendation that each change programme be accompanied by a business case reflecting all of the business change to be delivered);
- Endnote 11 on p15 (which relates to the recommendation that each change programme should have a single, named Senior Responsible Officer who is responsible for ensuring that the programme meets its overall objectives and delivers its projected benefits); and
- Endnote 41 on p44 (which relates to the recommendation that before contracts are signed suppliers must have produced a realistic plan for how they will deliver the outcomes sought (including timescales, resources and technology), and that these plans are kept under review throughout the development stages of the project).

I believe the content of this statement to be true.

Signed:

GRO

Date:

27-09-2022

Index to First Witness Statement of Sir Ian McCartney

<u>No.</u>	<u>Exhibit Number</u>	<u>Document Description</u>	<u>Control Number</u>	<u>URN</u>
1	WITN0337_01/1	Successful IT: Modernising Government in Action	WITN03370101	WITN03370101
2	WITN0337_01/2	Letter from Christopher Woolard to Mr Macintyre re: meeting with Mr Todd (ICL)	BEIS0000298	BEIS0000318
