

Witness name: ALAN MILBURN

Statement No: 1

Exhibits: WITN0350R9_01/01 to
01/11

Date signed: 25th September 2022

POST OFFICE HORIZON IT INQUIRY

FIRST WITNESS STATEMENT OF ALAN MILBURN

I, Alan Milburn, will say as follows:

1. I make this statement in response to the Rule 9 letter I received from the Post Office Horizon IT Inquiry (“ the Inquiry”) dated 1 June 2022.
2. Introduction
3. I should make clear at the outset that, when I received my Rule 9 letter from the Inquiry, I realised I had virtually no recollection of my involvement with Horizon, which was limited to a period of around nine months and took place more than 20 years ago. I have had to rely on the documents I have seen to piece together the story and answer the Inquiry’ s questions but, inevitably, after that passage of time much detail remains unclear to me. Nonetheless I want to do as much as I can to

assist the Inquiry and to that end I can confirm I have read the documents provided to me from which I have been able to construct a probable narrative of my involvement with Horizon. However I should emphasise that I have not been able to supplement the content of those documents with recollections of my own.

4. The Inquiry has asked that I refer to a number of documents and that my witness statement answers 12 questions concerning my involvement as a government minister with the Horizon project between 1998 and 1999. I will answer those questions as best I can below.

(1) Please set out a brief professional background

4. I was elected as the Member of Parliament for Darlington at the May 1992 General Election.
5. I was appointed Minister of State at the Department of Health in May 1997. On 23 December 1998, following a Cabinet reshuffle, I was appointed as Chief Secretary to Her Majesty's Treasury ("HMT"). I had served in that role for just over nine months, when, on 11 October 1999, I was appointed as Secretary of State for Health. I remained in that role until June 2003 when I resigned from government. I briefly re-joined government when I served as Chancellor of the Duchy of Lancaster between September 2004 and May 2005.
6. I did not stand for re-election in the 2010 General Election and ceased to be an MP in April 2010.

7. I do not recall any further involvement with Horizon during the remainder of my time in Parliament or in my subsequent career.

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

8. My involvement with the Horizon project was in my capacity as Chief Secretary to HMT. The Chief Secretary sits at the centre of government and has a finger in every pie as a consequence of being in charge of public expenditure as a whole. In that role I also had responsibility for public-private partnerships (PPP) and Private Finance Initiative (PFI) contracts. These had been the focus of an HMT Taskforce led by Adrian Montague, which I oversaw as Chief Secretary. My job also required me to play a more informal role of brokering between government departments and trying to get knotty problems sorted. Horizon fell into that category.

9. Although I have no recollection of this taking place, I expect that Horizon would have been one of the issues on which I was briefed by HMT officials shortly after I was appointed, given the size of the contract and the problems it was experiencing. I can also see from the documents that my predecessor as Chief Secretary, Stephen Byers, had been actively involved in brokering negotiations for the restructuring of the contract, very shortly before the reshuffle on 23 December 1998.

Horizon: January-February 1999

(3)(a) Please describe the problems faced by the Horizon project in January 1999

10. I can see from the documents I have read that there were obvious problems with the Horizon project in January 1999. The complexity of the project had been severely under-estimated when the previous government gave the go-ahead for it in the mid-1990s. By the late 1990s, it was years behind schedule, deadlines were still not being met, the benefit payment card (“ BPC”) was outdated technology, there were real questions over the project’s financial sustainability and the relationships between the parties had clearly broken down.

11. I exhibit as WITN0350R9_01/1 a copy of an undated draft letter from Stephen Byers to the Prime Minister presumably prepared in mid-January 1999 (“ Draft letter for the signature of the Secretary of State to the Prime Minister”) [BEIS0000167]. This document shows that, despite the serious problems with the contract, ICL were still expecting new money from the government and to make a financial return, in order to make the deal agreed between ICL and POCL in December 1998 work.

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

12. It seems that there was broad agreement across government about the objectives underpinning the future of Horizon – namely preserving and modernising the Post Office network on the one hand and, on the other hand, achieving greater efficiency and lower levels of fraud for the Benefits Agency whilst optimising value for money

for the taxpayer. From the documents I have read, it seems there was less agreement on how best these objectives could be achieved, given the troubled legacy of the Horizon project.

13. The DSS – as the sponsoring department for the Benefits Agency (“BA”) – clear in their position: the delay to the Horizon project was costing them money hand-over-fist in terms of lost fraud and administrative savings. At that time, welfare benefits were largely paid using a paper-based system which had hardly changed since the days of the ration book. This system was expensive to administer and vulnerable to fraud. From the department’s perspective, and individual claimants’ perspectives, it would have been faster and more effective to move to the payment of benefits by automated credit transfer (“ACT”) rather than through Post Office branches. I exhibit as WITN0350R9_01/2 a copy of a note from Geoff Mulgan (an advisor at No 10 Downing Street), to the Prime Minister (“BA/POCL”) dated 24 February 1999 [HMT0000029]. This document shows that the BPC element of the project did not find much favour with the BA.

14. The DTI – as the sponsoring department for the Post Office – understandably had as its core priority the need to ensure a viable Post Office network. That was important because Post Offices were a community institution relied on by many people, especially vulnerable people. The DTI were concerned that POCL was heavily reliant on government business, especially administration of welfare benefits, and that the loss of that business – resulting in reduced footfall into branches – would decimate the network. Modernising the Post Office

infrastructure through Horizon was regarded as key to POCL' s future sustainability by all stakeholders.

15. HMT were of course concerned with the question of whether there was a way of making this project work in a way that was consistent with value for money for the taxpayer.

(3)(c) How would you describe the government's relationship with ICL and Fujitsu at this time?

16. I do not recall meeting with either ICL or Fujitsu while I was Chief Secretary. It is likely that any interface between HMT and the companies was through Adrian Montague (as head of the HMT PFI Taskforce) or through Steve Robson (Second Permanent Secretary) who had become closely involved with Horizon around this time.

17. Fujitsu were, of course, a significant source of foreign direct investment into the UK at the time, as were other Japanese multinationals like Nissan and Toyota. This would have been a tricky relationship to handle: on the one hand, they were important strategic investors; on the other hand, they had not delivered on the Horizon contract and relations with the public sector parties had broken down acrimoniously.

(3)(d) What did you understand the position of the National Federation of Subpostmasters to be in relation to the future of the Horizon project?

18. I can see that I was written to by the General Secretary of the NFSP on 8 January 1999. I exhibit a copy of that letter as WITN0350R_01/3 [NFSP00000372]. That letter makes clear that the NFSP was supportive of Horizon (including the BPC). I have no recollection of meeting anyone from the NFSP while I was Chief Secretary.

(3)(e) To what extent, if at all, did representations from the National Federation of Subpostmasters influence government policy on the future of Horizon?

19. The NFSP would have been one of a number of important stakeholders and I assume that their strong support for the automation of Sub-Post Offices would have had some influence on government policy on Horizon's future. However I have no recollection of the extent to which they influenced decisions made at that time.

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

20. In preparing this witness statement, I have reviewed a transcript of the evidence I gave to the Trade and Industry Select Committee on 14 July 1999 as well as the Select Committee's Eleventh Report which was published on 14 September 1999. I exhibit a copy of the minutes of my evidence (given alongside my colleagues, Stephen Byers (then Secretary of State for Trade and Industry) and Alastair Darling (then Secretary of State for Social Security)) as WITN0350R9_01/4 and a copy of the Select Committee's Eleventh Report as WITN0350R9_01/5 [WITN03500101 and WITN03500102].

21. In their report, the Select Committee referred to the “ Montague report” which I understand is a reference to a review of Horizon carried out by a panel led by Adrian Montague in July 1998, several months before I was appointed as Chief Secretary. He was in charge of the PFI Taskforce within HM Treasury although I do not believe he was a civil servant. The Montague report confirmed the “ technical viability” of Horizon at that time, which indicates to me that (a) this was an issue that the government was taking seriously at the time and (b) the government had received an assurance that the system was technically viable and robust.

22. My primary responsibility as Chief Secretary was overseeing public expenditure. While Horizon’s technical viability and robustness would have been an issue of concern to HMT, the operational responsibility for ensuring that it worked in practice would have rested more directly with the DTI and DSS. I believe that across government there would have been a concern to ensure that the system was subject to live testing precisely in order to provide assurance that this was the case. It is clear from Alistair Darling's evidence to the Select Committee that previous problems with major IT projects at the DSS had made the Department particularly focussed on this issue (para 154) (WITN0350R9_01/4).

(3)(g) Please explain why Steve Robson was instructed to undertake negotiations with ICL over the future of the Horizon project in February 1999.

23. As I recall, Steve Robson was the Second Permanent Secretary at HMT and therefore a senior official. I assume that he was brought into the negotiations

because it had become obvious that the agreement reached between POCL and ICL in December 1998 would result in an unacceptable increase in cost to the public sector. As I understand from the evidence I and my ministerial colleagues gave to the Select Committee, in July 1998 the government had ruled out making any increase in payments to ICL if and when the contract came to be restructured. Understandably HMT would have been feeling increasingly nervous about the escalating cost of proceeding with the contract in any form.

24. In addition Stephen Byers made it clear in his evidence to the Select Committee (para 161) that there was a broader concern about the deliverability of the BPC (WITN0350R9_01/4). It is therefore likely that Steve Robson was asked to step in to find a sustainable solution that was financially acceptable.

25. I have been provided with a copy of a “ Draft minute for the signature of Mr McCartney to the Secretary of State” which I exhibit as WITN0350R9_01/6[BEIS00000389]. I can see from this document that, on 28 January 1999, the Prime Minister appears to have

“ agreed that a senior Treasury official, Steve Robson, should lead a further approach to ICL to see whether a way forward could be found for the project which better met wider Government objectives”

26. I exhibit as WITN0350R9_01/7 a copy of a joint submission from myself and Charlie Falconer dated 24 February 1999 (at the time, a Cabinet Office minister) (“ Prime Minister – Horizon (BA/POCL Automation)”) [HMT00000014]. The document shows that these discussions led to a proposal to restructure the Horizon

project, although the note acknowledged that it was not without risk and would require more detailed work. The note suggested Steve Robson lead efforts to produce a detailed specification for this new way forward for Horizon.

(3)(h) Please describe and explain the parameters of Mr Robson's negotiating brief.

27. As I understand it from the documents, Mr Robson's primary objective seems to have been to devise a revised version of the project without the BPC. I believe this was probably due to financial concerns about the POCL/ICL agreement of December 1998, ongoing concerns about the deliverability of Horizon, concerns about the BPC technology being outdated and the DSS wanting to move as soon as possible to ACT, which was a far more cost-effective way of administering welfare benefit payments. Mr Robson seems to have led initial discussions with ICL early in 1999, followed by more detailed negotiations after the Prime Minister had approved the outlines of the new approach in early March.

(4)(a) Please explain your assessment of the new proposal which emerged from Mr Robson's negotiations with ICL in February 1999.

28. The new proposal appears to be best summarised in the joint minute to the Prime Minister dated 24 February 1999 (WITN0350R9_01/7).

29. In outline, the new proposal involved:

“ ... dropping the BPC and moving more quickly to payment of benefits by ACT. However, it would also seek to maintain footfall revenue for the

Post Office, since those benefit recipients who currently receive their benefits via order books would have their benefits paid into simple credit-only 'benefit accounts' run by POCL, using the BACS clearing system, and only accessible at post offices via a smartcard.”

30. As that submission records, all of the relevant government departments agreed the principle of this new proposal, which was clearly in its favour. Removing the BA from the contract altogether would appear to have been an opportunity to remove a source of conflict and hopefully improve the working relationship.

31. However, this was a headline agreement and clearly more detail was required on price and conditions. It also appears that there was a lot of uncertainty in the financial calculations and that the new proposal might have made the public sector liable for ICL's sunk costs of developing the BPC (potentially as much as £250m) as well as assuming a greater burden of the fraud risk.

32. In short, it appears that there were many downsides to this new proposal but enough upsides to give it a fighting chance of working.

33. I believe this new proposal later came to be known as “Option 2A” and, subsequently, “Option B1” although precisely when and how these options evolved are not totally clear to me from the documents.

(4)(b) Please explain why the Prime Minister's endorsement of the new proposal was sought.

34. I expect that the Prime Minister's endorsement was sought because he had already approved Steve Robson's negotiating brief in January 1999 which had resulted in this new proposal. I imagine that the Prime Minister was asked to give a steer in order to resolve the continuing disagreement between government departments and because Horizon was a cross-governmental issue of concern. At the time the government was preparing a White Paper on the future of the Post Office and Japanese foreign direct investment was strategically important to the UK economy.

(4)(c) Please describe the Prime Minister's response to the new proposal.

35. I exhibit a copy of a letter from Jeremy Heywood (then the Prime Minister's Principal Private Secretary) to Paul Williams dated 1 March 1999 as WITN0350R9_01/8 [BEIS00000375].

36. This letter records the Prime Minister's cautious approval of the new proposal in principle, subject to further updates and a two-month stocktake:

“ The Prime Minister is slightly concerned about the NPV calculations set out in Annex B, together with the greater risks of the proposed new approach (so-called Option 2a). However, he recognises that KPMG's costings are uncertain and the margins of error are quite large. He also agrees that the new approach could offer significant benefits, for example by providing the Post Office with a platform for the provision of electronic government services, something to which the Prime Minister attaches considerable importance.”

37. It is clear there were considerable uncertainties which still needed to be resolved before a final decision could be made on the future of Horizon.

Horizon: May 1999

(5)(a) Please describe the options for the future of the Horizon project which were under consideration in early May 1999.

38. I have been provided with a copy of a submission I made to the Prime Minister dated 10 May 1999 (“ Prime Minister Horizon (BA/POCL) Project) [HMT00000024]. I exhibit a copy of this submission as WITN0350R9_01/9. I note that the submission states that I had consulted extensively with Stephen Byers (DTI), Alistair Darling (DSS) and Charlie Falconer (Cabinet Office) in preparing it, which suggests this probably represented an agreed summary of the government’s position on the future of Horizon at this time.

39. It appears from this document that the options under consideration were:

(a) “ Option A” , i.e. continuing with the existing contract. However, my submission notes:

“ continuation with the project (Option A) is no longer viable, in view of ICL’s failure to deliver and the irretrievable breakdown in relations between the parties. This view was effectively

confirmed this week when ICL withdrew their offer of 18 December. It is therefore dead.”

(b) “ Option B1” , i.e. the new proposal described in paragraph 29 above. However, again, my submission notes:

“It is the best option to preserve Post Office footfall in the short term, and the policy value for this cannot be reflected in the figures. It would place the PO in a position to win electronic Government services by having a base of 15 million smartcards. It provides automation of counter services. In this respect it has attractions, but it offers considerably worse value for money in NPV terms than the alternative options.”

The note also explains that ICL were seeking an unconditional agreement and £180 million of government support.

(c) “ Option B3” which would “ involve POCL buying the basic system from ICL but without the benefit payment application and without the creation of special POCL benefit accounts.”

(d) “ Option C” , i.e. termination of the Horizon project. This would require “ [a] new automation system ... bought from a new supplier specifically designed to meet POCL’ s automation and network baking aspirations” .

39. According to my submission it was clear that “ B3 and C offer a better economic return than B1” . My submission also notes that Stephen Byers and Charlie Falconer were strongly in favour of B1, as were POCL. Alastair Darling and myself appear to have been in favour of B3 but open to C (the submission is not entirely clear). It appears that ICL favoured B1.

40. This document suggests I was taking the view that Option B3 was substantially more straightforward than Option B1 and appears to have been more attractive in terms of value for money, although, again, there was a lot of uncertainty in the calculations. As Ministers could not agree one option, however, the Prime Minister was asked for his view.

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

41. Please see paragraph 39 above.

(5)(c) How would you describe the government's relationship with ICL and Fujitsu at this time?

42. It is clear from the documents that this was a tricky relationship for the government to handle. I have already referred to this in paragraphs 16-17 above.

43. I can also see from the documents that the government had told ICL that a decision on the future of Horizon would be made by 23 April 1999, which roughly coincides

with the two-month stocktake requested by the Prime Minister in March (see paragraph 36 above). However, it appears that that deadline was missed and that ICL were persuaded to hold on until 10 May 1999, by which time a final decision would be made. It appears from my note to the Prime Minister of 10th May 1999 (WITN0350R9_01/9) [HMT0000024] that there was added urgency to reach a decision because ICL had to file annual accounts imminently and was concerned that it might need to make a provision in them to take account of decisions about Horizon.

44. It appears from a note of an internal ICL meeting (“ Notes on discussion on the Pathway project (outside of the ICL PLC Board and Committee meetings)” dated 13 May 1999 that they had been given a draft letter from me on 11 May 1999 informing them that the government had decided to proceed with Option B3 [FUJ00003599]. I exhibit a copy of these notes as WITN0350R9_01/10. I assume that this decision was made by the Prime Minister following my submission to him on 10 May 1999 (see paragraphs 37-40 above).

45. It is probably fair to say that these notes record a crisis meeting at ICL after they were told that B3 was the government’s preferred option. It appears from this document that there were still significant obstacles to overcome with ICL before a binding agreement could be reached, particularly on ICL’s sunk costs on the BPC.

46. I have also been provided with a copy of an undated submission to the Prime Minister (“ BA/POCL – Update for the Prime Minister) [HMT00000030]. I exhibit a copy of this submission as WITN0350R9_01/11. I assume that this was submission was made at some point shortly after 11 May 1999, when ICL were

told that the government had chosen Option B3, because it records negotiations with ICL to agree a way forward based on B3.

47. I note that the submission describes the negotiations as having been highly problematic and that “ [a]t the moment, there seems no alternative to termination.” Having said that, the submission does go on to note that “ at the moment, discussions with ICL have not broken down, and we must avoid saying anything now that precipitates such a breakdown.” It suggests that Stephen Byers and I were due to meet Keith Todd (the Chief Executive of ICL) although I have no recollection of that meeting taking place.

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

- (a) *the financial consequences of terminating the project;*
- (b) *wider concerns about foreign investment in the UK economy;*
- (c) *issues concerning the technical integrity and robustness of Horizon.*

48. It appears that discussions within government were influenced by all three considerations.

49. The financial consequences of terminating Horizon would have been significant. As well as writing off hundreds of millions of pounds already invested in the project, it would have been a real setback for POCL, further delaying automation of the network which was essential to securing its financial future. We had been warned by the NFSP that an investment of £1 billion by sub-post masters in the Post Office

network was at risk if Horizon were to be cancelled (see paragraphs 17-18 above). There would also have been the risk of complex and lengthy litigation with ICL if the contract was terminated. These seem to have been the primary concerns about going down the termination route.

50. Cancelling the project would also have been a setback for the reputation of PFI, which was a flagship policy for the government at the time. Additionally as the draft note from Stephen Byers to the Prime Minister (WITN0350R9_01/1) (BEIS 0000167) and from Geoff Mulgan to the PM (WITN0350R9_01/2) [HMT0000029] both indicate, there were concerns that it could have damaged relations with Fujitsu and the prospect of Japanese and other sources of foreign direct investment in the UK.

51. Ensuring that the system had technical integrity and was robust was also clearly an important issue. Having read the evidence I and my ministerial colleagues gave to the Trade and Industry Select (see paragraphs 20-21 above), it is clear that live trials were something that the government was insisting on prior to acceptance of the system. In his evidence, Mr Darling mentioned problems with an earlier IT contract (the National Insurance Recording System (NIRS2)) which had been awarded under the previous government and was not been properly tested in the field before being rolled out. He was determined not to repeat those mistakes with Horizon. Mr Byers also referred to live trials of the system in 1997 which had, apparently, not been successful. I also note the Select Committee's view in its report that, in September 1999 when the phased rollout of Horizon was underway, "it is generally agreed that the system as installed works well and is popular with claimants and operators alike."

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

52. I do not recall any of the discussions during this period but I presume that continuation was preferred over termination because a viable alternative (B3) had been identified. B3 delivered automation of the Post Office network and, I assume, that benefit outweighed the risks of termination in terms of its financial cost and yet further delay in securing automation of the network.

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

53. The detail of the agreement finally reached in May 1999 is not mentioned in the documents supplied to me by the Inquiry. However, I can see from the Select Committee's report that an agreement was eventually reached to restructure the contract essentially based on Option B3.

Horizon: October 1999

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

54. I have been given no documents beyond May 1999 and have no recollection of my involvement with Horizon after then. However, I note that in the evidence I gave

to the Select Committee on 14 July 1999 (WITN0350R9_01/4) I made reference to the fact that “ negotiations are still taking place, even as we speak – it will be finished I hope by the end of this week – between ICL and the Post Office.” I do not think I was involved in further negotiations over the detail of the restructured contract after May 1999, however, and I ceased to have any further involvement with Horizon when I moved to the Department of Health in October 1999.

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

55. Without recollection of the events, it is difficult to answer this question but Horizon’s technical integrity and robustness seems to have been a concern for government overall. The Montague report (which was an HMT initiative) had been asked to address the project’s technical viability and provided an assurance to ministers that it was technically viable. I can also see that a phased rollout of the system, crucially involving live trials, was also a key priority for the government.

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

56. I do not have much more to add to my answer to question (10) above. It is clear that this was a major IT project, the complexity of which had been substantially under-estimated when the contract was let in the mid-1990s under the previous

administration. It is possible that, at the time, the government lacked experience of these types of projects as well as the in-house expertise to robustly challenge ICL on the technical side of things but I have seen no evidence to that effect.

57. From what I have seen it does appear to me that the government was taking the technical integrity and robustness of Horizon seriously and it does not appear from the documents that any serious concerns with Horizon's integrity and robustness were identified during the early phases of the rollout when the system was being trialled. As the Select Committee noted at the time, it appeared that the system was working well.

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

58. I wish to express my sympathy for the sub-postmasters and their families who were subject to a dreadful miscarriage of justice. I hope this Inquiry uncovers what went wrong, holds individuals to account and ensures that the appropriate lessons are learned. I am pleased to be able to contribute to that process and hope that my evidence is of some assistance to the Inquiry.

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

Signed

GRO

Dated 25th September 2022

INDEX OF EXHIBITS

No.	Exhibit	Description	Provider' s control number	URN
1	WITN0350R9_01/1	Undated draft letter for the signature of the Secretary of State to the Prime Minister	BEIS0000147	BEIS0000167
2	WITN0350R9_01/2	Note dated 24 February 1999 from Geoff Mulgan to the Prime Minister	VIS00007794	HMT00000029
3	WITN0350R9_01/3	Letter dated 8 January 1999 from Colin Baker to Alan Milburn	VIS00008820	NFSP0000037 2
4	WITN0350R9_01/4	Transcript of evidence given to Trade and Industry Select Committee on 14 July 1999	WITN03500101	WITN0350010 1
5	WITN0350R9_01/5	Trade and Industry Select Committee Eleventh Report dated 14 September 1999	WITN03500102	WITN0350010 2
6	WITN0350R9_01/6	Undated draft minute from Ian McCartney to Stephen Byers	BEIS0000369	BEIS0000389
7	WITN0350R9_01/7	Joint submission dated 24 February 1999 from Alan Milburn and Charlie Falconer to the Prime Minister	VIS00007779	HMT00000014

8	WITN0358R9_01/8	Letter dated 1 March 1999 from Jeremy Heywood to Paul Williams	BEIS0000355	BEIS0000375
9	WITN0358R9_01/9	Submission dated 10 May 1999 from Alan Milburn to the Prime Minister	VIS00007789	HMT00000024
10	WITN0358R9_01/10	Notes dated 13 May 1999 on discussion on the Pathway project (outside of the ICL PLC Board and Committee meetings)	POINQ0009768F	FUJ00003599
11	WITN0358R9_01/11	Undated update to the Prime Minister	VIS00007795	HMT00000030