

IN STRICTEST CONFIDENCE

POLB04(82)

POL/P/03260

## POST OFFICE LTD BUSINESS CASE

### Horizon “Next Generation” – to New Contract

#### Executive Summary

##### 1. Purpose of Paper

The purpose of this paper is to seek authority to spend £2.973m including VAT, to undertake the next stages of work in order to obtain a firm price quotation from Fujitsu. In addition, legal resources need to be engaged to support the negotiation of an amended contract between Post Office and Fujitsu to build, implement and operate Horizon “Next Generation”.

##### 2. Decisions required by the Post Office Ltd Board

The Post Office Ltd Board is asked to agree/note:

- i) The creation of a delegated authority subcommittee, comprising David X Smith, Peter Corbett and David Mills,
- ii) Total expenditure of this element of work is £2.973m inc VAT,
- iii) There being no material alterations to the business case, and
- iv) Group Investment concurrence has yet to be formal obtained.

#### Background

3. A feasibility study into the migration of Horizon to a new Business / Systems model (described as the “Next Generation”) has proven the approach to be both technically and financially feasible. The Gartner Group (a leading IT benchmarking company) has independently assured the technical approach and is currently assessing the solution to ensure that it represents value for money.

##### 4. Current Horizon

Horizon is expensive to run. The system is large and complex and therefore slow and costly to change to meet the needs of the business.

As the system gets older hardware components will fail more frequently. The reliability of the service to the branches will deteriorate over time. This will result in increased maintenance costs combined with deteriorating service levels or will require an expensive replacement of the hardware, with no improvement in capability.

The current design of Horizon inhibits some of the changes that the business wants to introduce (e.g. a segmented estate).

##### 5. Objectives for New Horizon Contract

- The new system will be designed to meet the needs of the changing business.
- The time to market for major developments is reduced by as much as 50%.
- Achieve savings of at least 25% of total cost ownership.

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**Investment overview**6. What is the investment?

Funding of £2.973m inc VAT is required between 1<sup>st</sup> November 2004 and 31<sup>st</sup> March 2005 in order to reach the point at which a new Horizon can be signed.

External technical and legal services will assist the Post Office team in defining requirements, systems design work and constructing an amended contract with Fujitsu. The external technical resources will be systems analysts/designers who are required to meet the shortfall in internal staff. The cost will be approximately £1k per man-day, with a total cost of £1.5m inc VAT.

In addition, a payment of £588k would be committed to Fujitsu towards their anticipated design costs of £1.8 million; the remainder of this cost would only become payable if Post Office decides to proceed with the proposed development.

	<b>£k incl VAT (2004/5)</b>
External IT Resources (net of recoverable VAT)	1,500
External Legal Resources (is this VAT @17.5%?)	800
Calthorpe House office accommodation	25
Staff T & S	60
Part-funding of design work by Fujitsu	588
<b>Total</b>	<b>2,973</b>

The Post Office team will engage extensively with representatives from the business; in particular Operations, Sales and Marketing, Finance.

7. Why do it?

Horizon NG significantly reduces the cost of IT. Compared to a “do nothing” baseline (no branch hardware refresh and consequent increasing maintenance costs), Horizon Next Generation is estimated to deliver ongoing cash savings of £25m+ over the life of the proposed extended contract to 2015.

Developing and implementing a new Horizon system (circa £110m) will ensure that the service to branches does not deteriorate. The new hardware introduced (e.g. processor units, printers) will also provide a greater capability that the business can exploit.

The new solution will be more responsive to the rapidly evolving business. It will be quicker and cheaper to change and the design of the system will support the business's longer-term plans.

8. Why do it now?

The current Fujitsu contract expires in 2010. To put a new contract in place requires us to start preparing an ITT in January 2005. Starting early increases the number of options we have and improves our bargaining position.

9. Why do it this way?

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Replacing Horizon through a negotiated deal accelerates the implementation of the new system and importantly delivers benefits 2 years earlier. It avoids the cost of a competitive procurement and removes the risk of migrating to a new supplier.

On the basis of information currently available, proceeding with Fujitsu for Horizon Next Generation provides value for money for Post Office.

The Requirements work proposed for the next phase would be a prerequisite for Post Office to "go to market" should it become necessary.

10. How do we get there?

Milestone	Date
Gartner value for money review complete	mid Oct 04
Non-binding Heads of Agreement complete	end Oct 04
Scope baseline (FCD) complete	end Nov 04
Full requirements (CD) complete	end Feb 05
Full design (DP) complete	end Feb 05
Fujitsu Quotation received	end Feb 05
New contract complete	end Mar 05

**Financials**

11. P&L impact:

	2004/5	2005/6	2006/7	2007/8	2008/9
Revenue					
Costs	(2,973k)	0	0	0	0
Contribution	(2,973k)	0	0	0	0
Plan Contribution	(2,973k)	0	0	0	0
Variance from plan	0	0	0	0	0

The total costs in this financial year have been included in the 5 year strategic plan numbers.

12. Costs:

	£k
Capital Expenditure	0
Non-recurring Revenue expenditure	2,973
Recurring costs	0
Recurring benefits	0

The costs above are only for this phase. All costs associated with future phases will be incorporated into any future business case.

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**Risks**

13. For Next Phase Only

<u>Risk</u>	<u>Probability</u>
(a) Agreement not able to be reached on new Contract	Low
(b) Next phase work overruns – new contract not able to be reached by March 05.	Medium

**Concurrences**

14. Concurrences gathered in support of this case:

Type of concurrence	Name and title of signatory	Date	Conditions of concurrence (where applicable)
Finance	Peter Corbett		
Group CIO	David Burden		

**Other considerations/ project benefits**

15. It is intended to submit an “in principle” business case for Horizon Next Generation development, implementation and operation, to the Post Office Board’s February 2005 meeting. This will seek approval for future stages of the project on the basis that the final contract in March 2005 will be within the limits proposed by the “in principle” business case.
16. Please note that the amended contract with Fujitsu will lock in the benefits.

**Recommendation**

17. The Post Office Ltd Board is asked to agree/note:
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  - ii) Total expenditure of this element of work is £2.973m inc VAT,
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**David X Smith**  
September 2004