

POLB(11)33

POST OFFICE LTD BOARD

Technology Update - Tactical and Strategic Relationship with Fujitsu

Fujitsu Horizon Online Contract Renewal in 2015

1. Purpose

The purpose of this paper is to:

- 1.1 Outline the services being provided by the Fujitsu Contract for our branch counter service, Horizon Online.
- 1.2 Outline the approach being taken to the renewal of the Contract with Fujitsu.
- 1.3 Outline through appendix A the issues regarding the recent PIN Pad failure

2. Background

- 2.1 Fujitsu provides a fully managed service to support the Horizon Online system. This includes: help desk to triage calls from the branches, support for the hardware installed in branch, support for the branch network, hosting the application (with the associated systems and security management of the data centre) and support and development for the Horizon Online application.
- 2.2 In 2006 Post Office launched *Forward Five2Eleven* a 5 year programme to generate additional income and reduce operating costs. The most significant reduction to operating costs was delivered by Horizon Next Generation (HNGX), which has achieved a benefit of over £50 million p.a. and reduced the running cost of Horizon Online in 2010/11 to approximately £50 million.
- 2.3 In addition to the running costs, Post Office spends over £10 million p.a. on developments to Horizon Online. To support the planned Network Transformation programme, significant development will be required to ensure that new network models can be supported within Horizon and to further reduce the ongoing cost base.

An outline of POL's Technology is provided in appendix B and will be referred to in the Board meeting.

3. Activities/Current Situation

- 3.1 To deliver further reductions in supplier costs Post Office is developing a Supplier Framework. The Supplier Framework will allow Post Office to reduce costs by contracting with a reduced number of suppliers to run key capabilities (service integration, application support, hosting, networking, engineering services etc.) and obtain competitive prices from a panel of preferred suppliers who will compete for transformational activities. Being able to procure from a panel of suppliers will reduce the speed to market for the new propositions required to support Network Transformation.
- 3.2 Leading up to the termination of the Horizon contract in 2015, the Supplier Framework will be used to procure supplier services for the Post Office including, where appropriate, the services currently being provided by Fujitsu. However, Post Office needs to balance the competitive benefits the framework could deliver against the live service risk of transferring these capabilities to other suppliers. For example, it is unlikely Post Office would seek to replace Horizon Online due to its bespoke nature and the direct risk to the Network Transformation programme such a change would create.

- 3.3 Fujitsu has started a dialogue with Post Office to explore extending its contract until 2020, their proposal included delivery of cost savings and support for the activities required for Network Transformation. Due to Public Procurement Law it is not possible to extend the full contract beyond 2015. However, given the nature of the Horizon application (which is bespoke to Post Office) it may be possible to extend some of the services in the current contract beyond 2015. A Voluntary Ex-Ante Transparency (VEAT) notice provides a mechanism for this extension. Post Office needs to ensure none of the elements defined in the VEAT notice could be delivered by another supplier and POL is currently working with Fujitsu to determine an appropriate scope for the VEAT notice. Anything not covered by the VEAT notice will be tendered through the Supplier Framework.
- 3.4 In addition, Post Office does not own all of the Intellectual Property for Horizon Online. A contract renewal provides the opportunity to rectify this and remove any grey areas of ownership. This will be supported by activities to remove the remaining proprietary elements of Horizon Online and move to a fully open solution. An open solution will deliver further cost reductions, support the Network Transformation by providing access to key functionality and allow Post Office to (in future) competitively tender the delivery of these services.

4. Risks/Mitigation

- 4.1 There is a risk that Fujitsu would contest the ownership of the Intellectual Property for key aspects of Horizon Online. A negotiated renewal provides an opportunity to mitigate this risk by establishing Post Office ownership.
- 4.2 There is a risk that the VEAT notice will be contested. The VEAT notice is the start of a process and not a commitment to renew the Fujitsu Contract. The likelihood of any contest will be reduced by ensuring there is sufficient content in the Supplier Framework to be commercially attractive to other suppliers.

5. Recommendations

The POL Board is asked to:

- 5.1 Note the actions being taken to progress the Supplier Framework and renewal of the Fujitsu contract for critical services.

Mike Young
Chief Operating Officer
September 2011

Appendix A to POLB(11)33

POST OFFICE LTD BOARD

Appendix A - PIN Pad failure on 27 July 2011

1. Purpose

The purpose of this paper is to:

- 1.1 Explain what caused the PIN pad failure.
- 1.2 Inform the Board of the actions being taken.

2. Background

- 2.1 On 27 July a planned change was made to the Santander banking service to introduce five new banking types on Horizon for new business. Horizon is used to serve customers at every Post Office counter position. The required change involved an amendment to our core data which follows a business as usual process.
- 2.2 When creating the change, Fujitsu encountered a technical fault which truncated the file. This is extremely unusual; we make over 300 changes per month and this is the first instance of its type. Nevertheless this should have been detected before the data containing the change was released. So far Fujitsu have been unable to replicate this fault in testing.
- 2.3 A failure in the agreed processes by both Fujitsu and Post Office personnel contributed to the incomplete set of data being released undetected on the evening of 26 July.
- 2.4 The outcome was the PIN Pads, across the entire Post Office branch estate, were unable to perform Banking functions between 08:00 – 14:30 on 27 July. All customer chip and PIN banking transactions were unsuccessful, including Post Office Card Account, online Banking and debit and credit card method of payments in Branch.
- 2.5 Horizon was not affected. Other methods of payment (e.g. cash, cheque, postal orders etc.) were also unaffected. Customers wanting to withdraw cash from their bank accounts or Post Office Card Account were advised to use a Post Office ATM.
- 2.6 The incident received wide media coverage including the BBC news website and some daily newspapers.
- 2.7 Due to clear and effective communications, only one formal complaint was received.
- 2.8 Post Office major incident procedures were invoked. These were effective with one major exception; the briefing of Group Executives who it was assumed would be briefed by Group External Communications. In previous major incidents this was the established process. However, updates to the Group Business Continuity Policy had changed the responsibilities in this area which hadn't been reflected in the Post Office processes.

3. Activities/Current Situation

- 3.1 Fujitsu have been unable to replicate the technical fault. Therefore additional manual checks have been put in place for changes of this nature.
- 3.2 Post Office and Fujitsu have commenced a joint review of the end to end process for data changes of this nature, from which service improvements will be identified and implemented. The review will, amongst other things, address the joint ownership within the process and seek to formalise single accountability, how the work is transferred between the parties and potential automation to test the changes.
- 3.3 The monitoring and alerting of the Horizon estate will be enhanced following a review of the technical options.
- 3.4 A review of the testing regime has been conducted and changes are being made in accordance with the findings.
- 3.5 Increased visibility of the forward schedule for medium and complex data changes has been implemented. Post Office Change Control now reviews these operational changes and ensures stakeholder signoff.
- 3.6 Options are being investigated to protect the whole estate from being impacted by a single change. Solutions may include piloting data at a small number of branches prior to distributing it to the entire estate.
- 3.7 Commercial discussions with Fujitsu about damages have been opened but not yet concluded.
- 3.8 A full review of the Post Office major incident procedures, in line with Royal Mail policies is taking place. Following the review the major incident procedures will be revised and tested.

4. Next steps

- 4.1 The tactical changes which have been introduced to ensure we have enhanced controls around this level of change include:
 - peer checking where we have manual input;
 - introduction of a system check to ensure data files are not truncated;
 - review of all current processes and controls, introducing additional checkpoints where appropriate.
- 4.2 A strategic review is currently underway which includes a full assessment of testing coverage, the use of automation where appropriate and life cycle. This action is due for completion at the end of October and will confirm the scope, plan and potential impact on resourcing.

5. Recommendations

The POL Board is asked to:

- 5.1 Note the actions taken to remove the risks within the current processes.
- 5.2 Note the actions being taken to ensure a more effective management of major incidents.

Mike Young
Chief Operating Officer
September 2011