

WITHOUT PREJUDICE

ACCEPTANCE PROCEDURE

*To be read in conjunction with the Pathway Acceptance Paper
dated 9 November 1998.*

Acceptance of NR2 is measured by the successful completion of the 24 Acceptance Specifications, with no other criteria.

This means:

- a) Acceptance Specifications must all be signed off by 18th December 1998.
- b) Once signed off an Acceptance Specification cannot be reopened.
- c) Nothing outside the Acceptance Specifications has any relevance in deciding whether Acceptance has been achieved.

The Acceptance Tests relevant to each Acceptance Specification are being carried out progressively from 11 October 1998. As each Acceptance Test is carried out, issues will be raised and dealt with so that they are resolved quickly, and not left to be dealt with at the end, when all of the Acceptance Tests have been carried out. Acceptance of the whole system will occur when all of the 24 Acceptance Tests have been successfully carried out (with no more Acceptance Incidents than the number agreed), and Acceptance is final and cannot be reopened afterwards (i.e. in relation to NR2+ functionality). ✓

Acceptance is therefore not dependent upon the completion of Live Trial. It may occur before completion of Live Trial. Completion of Operational Trial means achievement of Acceptance and completion of Live Trial. ✓

National Rollout commences on completion of Operational Trial. The plan is that Operational Trial will be completed in July 1999.

On completion of Acceptance of NR2, the Authorities relinquish their rights of termination related to Acceptance.

For this purpose we must define NR2 as follows:

Automated Payment Service (APS)
Electronic Point of Sale Service (EPOSS)
Order Book Control Service (OBCS)
Payment Authorisation Service (PAS)
Card Management Service (CMS)
Benefit Encashment Service (BES)
POCL Infrastructure Service.

WITHOUT PREJUDICE

NB: The Acceptance Specifications for PAS and BES contains tests for multi-benefit functionality which will be undertaken as part of the Acceptance of NR2. Therefore BES and PAS would be accepted for ALL benefit payments, not just Child Benefit.

NR2 does not contain On-Line Enquires (OLE) or Soft Extended Verification Process (Soft EVP).

OLE is covered by CCN 124 which was signed on 21st August 1997, and, subject to timely agreement on the CAPS 3.5 Interface Specification (Change Request C92 received on 9 November 1998), will be delivered as an increment to NR2 by end March 1999. OLE will be tested jointly with CAPS on delivery, released when the tests have been successfully completed and then put into service by mid September 1999. OLE cannot be tested and put into service any earlier as it has to interface with CAPS Release 3.5, targeted for release into joint testing by the end of March 1999. Although it would be possible to start multi-benefit roll out without OLE (ICL have offered additional help desk facilities to assist in this), and noting that OLE was not included in the original Related Agreements, it is fair to say that without OLE multi-benefit rollout in any significant quantity could not be supported.

Soft EVP is not part of NR2. It is the subject of an Agreement to Agree. ICL submitted CCN243 on 20th April 1998 to introduce a contractual base-line for design and development of the Soft EVP facility.

As part of the "Corbett Review", PA Consulting produced with the parties a programme plan in which the date for delivery of Soft EVP was predicated on signature of CCN243 by the Authorities by 30th October 1998. To date this has not occurred.

*We don't
agree.*

Soft EVP is desirable for multi-benefit payments, but not essential. Its main use is to enable DSS to target fraud on a variable basis.

Currently a version of EVP ("Release 1c EVP") is in service as part of Release 1c in 204 Post offices and works successfully. No incidents of fraud have so far been detected. Release 1c EVP (updated and improved) is part of NR2 and will be subject to Acceptance as part of Acceptance of NR2.

Soft EVP (if CCN243 had been signed on the due date) would have been delivered as part of NR2+. It would have been put into service with the rest of the functionality in NR2+, after joint testing with the Authorities, upon completion of the release authorisation process.

NR2+ consists of:

- a) modifications and enhancements to existing NR2 functionality
- b) Soft EVP (if CCN243 is signed in time for development to be completed)
- c) the use of smart cards for Automated Payments
- d) support of Public Switched Telephone Network connected post offices.

WITHOUT PREJUDICE

There is no Acceptance for NR2+ in the same way as NR2 because the consequence of any particular facility in NR2+ not passing through the release authorisation process is that it will simply not be put into service (unless and until it passes) and NR2 functionality will continue to be used uninterrupted.

Guarantee Payments

If we look at the Related Agreements, they refer to Release 1 and Release 2 (Schedule A07 of the Authorities Agreement).

Release 1 is defined as the release of the software to be tested in the Operational Trial period. NR2 (as it is now called) equates to Release 1, and this has been agreed in correspondence between the parties (see attached ICL letter dated 12 November 1997 and PDA reply dated 22 January 1998). For all practical purposes Release 2 equates to NR2+.

NR2 does not contain OLE or Soft EVP as these are dealt with separately as shown above. NR2 does however contain two additional DSS facilities included at the request of the Authorities namely emergency payments and stop notices (on-line CAPS) and temporary tokens.

For these reasons Acceptance and Live Trial of NR2 will complete Operational Trial for the purposes of the Related Agreements. Thus, the guarantee payments should run from the completion of Operational Trial (Authorities Agreements, Schedule A06 para. 10.2 for POCL and para. 16.2 for DSS).

There is no concept in the Related Agreements of a separate live trial for multi-benefits. The Authorities have sought previously in correspondence to impose this as a condition for agreeing the programme of testing NR2. ICL is working to the possibility of a separate live trial on a without prejudice basis, but has not accepted this proposal formally, because of the commercial implications (see attached letters, in particular Horizon's letter of 23 July 1998 and ICL's letter of 18th September 1998).

ICL's position is that NR2 delivers multi-benefit payment functionality and that it should be compensated for the reduction in transaction volumes caused because BA requires further testing (not contemplated in the Related Agreements) before it is happy to roll them out.

Conclusion on Acceptance Procedure and Guarantees

Given the above, ICL's position can be summarised as follows:

1. Acceptance of NR2 and completion of Live Trial of NR2 constitutes completion of Operational Trial for the purposes of the Related Agreements.
2. Acceptance of NR2 means the Authorities will relinquish their termination rights related to Acceptance.

WITHOUT PREJUDICE

3. OLE, Soft EVP and each facility in NR2+ will be jointly tested and each item will be put into service when the relevant tests for it have been successfully completed through the release authorisation process.
4. Guarantee payments by POCL and BA to commence as stated in the Related Agreements i.e. on completion of Operational Trial.

] Acceptance
+ live trial]Multi-tenant unit
have been cured.

Acceptance Incidents

To be considered in more detail by technical working party. } 10 < 20.

Release Authorisation

ICL accepts the Horizon position, provided that Acceptance of NR2 is carried out in the manner described above, and that release authorisation has no application in the process of Acceptance.

Appointment of Expert

ICL continues to propose Peter Copping of PA Consulting. ICL is content to accept his decision as final and binding on the issues as set out in ICL's proposal of 9th November 1998.

|| NO
binding.

ICL would observe that the Related Agreements do provide for binding expert determination so that the Authorities could agree to this on a blanket basis, if they were so minded, without any significant change to the Related Agreements. The only alternative to such expert determination would be litigation (which in the event would actually largely turn on technical expert evidence in any event) and such litigation would benefit none of the parties. Even if the resulting dispute did not cause cancellation of the Related Agreements there would certainly be a lengthy delay in determining the issue. ICL is the party which would stand to lose most in these circumstances, given the huge investment it is being asked to make, and its essential requirement to start and keep revenues flowing to service the interest on debt, let alone repay any of the principal sum.

Pat Kelsey
Head of Procurement Team, BA/POCL
Third Floor,
Terminal House,
52 Grosvenor Gardens,
London SW1W 0AB



12th November 1997

Dear Pat,

Contractual distinction between Old Releases 1 and 2, and New Releases 2
and 2 Plus

The PDA Board has asked ICL Pathway to define the precise relationship of New Release 2 to the releases contemplated in the Agreements.

We discussed this matter recently at CNT and I believe agreed that the following position applies.

In terms of contractual status, New Release 2 = Old Release 1.

The inclusion of on-line CAPS and temporary token facilities (pulled forward from Old Release 2, hence the "New 2" designation) means that it is no longer necessary to show proof of concept capability of these features as required by CCN105 as condition precedent for Acceptance and roll out on Release 1e.

An alternative designation could have been "Release 1f". We agreed that at this stage it was better to stay with current parlance than to change designations solely to align terms more closely with the contract.

Old Release 2 (which swept up those Requirements not included in Old Release 1, eg. CAPS on-line facilities, AP Smart) is now matched by "New Release 2 Plus".
Examples of carry forward features to be included in New Release 2 Plus are now Soft EVP, AP Smart and certain security features.

ICL Pathway Ltd
Firestone Road
Feltham
Middx TW13 7EJ

Tel: **GRO**
Fax:

ICL Pathway Ltd
Registered in England no 3011561
Registered Office
1 High Street
Putney
London SW15 1SW

The designation "2 Plus" again anticipates more content than that contracted for. With DSS requirements substantially fulfilled, more content now means additional POCL functionality. These can be "Future Basic" products (eg. EFTPOS), additional products (eg. Logistics Feeder System) and/or re-engineered products (eg. National Savings). All these examples are currently being progressed under the Business Requirements Definition process. Their inclusion is subject to timely sign off by CCN.

The above is, as ever, subject to any agreement to the contrary under Release Contents Definition principles. Reasons could be to bring any higher priority features forward or to enable an earlier New Release 2 Plus delivery than would otherwise be possible.

ICL

I would be grateful for your confirmation that this does indeed accord with your interpretation.

Yours sincerely,

GRO

Tony Oppenheim

cc. Peter Crahan
John Bennett
Mike Coombs

benefits
ha
agency**GRO**Benefits Agency and
Post Office Counters Ltd
Third Floor
Terminal House
52 Grosvenor Gardens
London SW1W 0ABtelephone **GRO** (switchboard)
facsimile (direct line)Direct Fax **GRO**Tony Oppenheim
ICL Pathway Ltd
Forest Road
Feltham
Middlesex
TW13 7EJ

22 January, 1998

Dear Tony,

Contractual Distinction between Release names

Thank you for your letter received 16 December (dated 12 November?). I agree the broad thrust of the naming conventions you suggest, but we need to ensure that there is no ambiguity in this.

- CCN105 set out the position that Release 1 was that set of functionality that was to be tested in the Live Trial - at that time Release 1e.
- CCN105 only recognised Release 2 in terms of demonstrating the on-line functionality and support of multiple benefits during the Live Trial period (ready for CAPS 3), and in modifying the acceptance criteria provisions to recognise that while a high severity deficiency could now occur in Release 2, it would contribute to the "10 fault threshold" rather than be grounds for termination in its own right.

Hence I agree that "New Release 2" is broadly equivalent to the old Release 1, but obtaining acceptance through live operations rather than by a demonstration.

"New Release 2 plus" however is something of an amalgam - including elements of the original requirements for which we would wish to retain our existing acceptance provisions (i.e. the 10 high or medium faults), but may also include elements of POCL requirements beyond those originally contracted for. This may require some redrafting of the acceptance schedules when the new release structure is adopted through Change Control, and I would suggest that there may be a need to distinguish original and new requirements in the release contents definition for "New Release 2 plus".

Yours sincerely

GROPat Kelsey
Head of PDA Contracts
BA/POCL ProgrammeAn Executive Agency of
the Department of Social Security

C:\DATA\DATA\LETTERS\PATKEL\KELZ.DOC

Post Office Counters Ltd Registered in England
No 2154540 Registered Office Drury House
1-16 Blackfriars Road London SE1 9UA

*** TOTAL PAGE.02 ***

RECEIVED TIME29. OCT. 17:10

03/12 '98 THU 17:47 FAX

GRO

ICL PATHWAY

002



Third Floor, Terminal House, 52 Grosvenor Gardens, London, SW1W 0AB

Tel:

GRO

Fax:

GRO

Mr Mike Coombs
ICL Pathway
Forest Road
Feltham
Middx
TW13 7EJ

23 July 1998

Horizon Replan

Further to our meeting of last week, please find enclosed a copy of the paper outlining a basis for the Horizon replan. I believe that the paper puts forward a clear and viable approach to taking forward the Programme which benefits all parties.

In the paper you will see that we have tried to address aspects related to both the delivery plan as well to present an overall approach to acceptance. I would welcome your reaction to the paper at your earliest convenience, but would be grateful for a written response by the 31 July 1998. If you require longer to consider the paper, you may choose to split your response between the two parts and at least let us have your reaction to the delivery plan by the above date, so that preparations to mobilise replan activity can start as soon as possible. I would hope that you could then respond to the acceptance aspect by say the 5 August 1998.

My thanks for your co-operation in establishing a positive way forward and I trust this will enable us to make solid progress in the coming months.

Yours sincerely

Dave Miller
Horizon Programme Director

03/12 '98 THU 17:48 FAX

GRO

ICL PATHWAY

003

Benefits Agency

Post Office Counters Ltd

Without Prejudice and Subject to Contract

HORIZON PROGRAMME

REPLAN SUMMARY

23 July 1998

The replan set out in this document is proposed at a time when the final outcome of ministerial consideration of the Treasury-led Review of the Horizon Project is not yet known. It must be emphasised, therefore, that this document is without prejudice to the parties. It is subject to contract and not intended to affect existing contractual obligations or create new contractual obligations unless and until agreed by the parties in accordance with the Change Control Procedures. In particular, the Sponsors wish to make clear that their support for this replan should not be deemed or construed to commit them to any particular position in relation to the Treasury-led Review (or ministerial consideration of it) or to preclude them from taking any particular course of action as a result of the Treasury-led Review (or ministerial consideration of it).

03/12 '98 THU 17:49 FAX

GRO

ICL PATHWAY

003

Horizon Replan - Without Prejudice and Subject to Contract

Contents

1. MANAGEMENT SUMMARY	4
2. INTRODUCTION	10
3. THE REPLAN APPROACH AND RATIONALE	11
4. PROPOSED ACCEPTANCE APPROACH	13
5. STAGE 1 - POCL SERVICES AND CHILD BENEFIT	16
6. STAGE 2 - MULTI-BENEFIT SERVICES	20

Horizon Replan - Without Prejudice and Subject to Contract

1. Management Summary

1.1 Introduction

This document sets out the proposed replan for the delivery of the Horizon Programme on behalf of both Sponsors (POCL and Benefits Agency). It specifically covers the ICL Pathway delivery of:

- the new POCL infrastructure and services (including BES, EPOSS, and APS) together with card payment facilities on behalf of the Benefits Agency (PAS and CMS) - these are referred to collectively as the 'NR2' release
- supplementary facilities which are necessary to complete the contracted requirements and enable a network-wide rollout (the 'NR2+' release).

It also addresses the required interfaces with the Benefits Agency systems through an agreed plan with their CAPS Programme.

The focus of the replan has been on the approach and the timetable for the delivery and implementation of the new services.

1.2 Benefits of Proposed Approach

The Horizon Programme Office proposes a fresh approach in this replan which will to a significant extent 'decouple' the Horizon and CAPS activities. In principle this will provide a two stage approach whereby the rollout of POCL infrastructure and services will commence initially with Child Benefit card payments only, followed in the second stage by the rollout of the card payment service for multiple benefits. By separating the two aspects of rollout (i.e the 'rollout of post offices' from the 'rollout of benefit card payments'), this approach will give the management within the Sponsoring organisations more flexibility to manage their individual responsibilities while minimising constraints upon each other.

In summary therefore the decouple approach will:

- reduce the complexity of the joint management and integration of activities
- provide the earliest achievable date for Pathway to rollout services to the POCL offices, with an estimated date of 5th July 1999.
- support the CAPS work programme for integration of the Feeder Benefit Systems
- build on the proven experience of Child Benefit card payments, and follow this by the rapid rollout of the 'multi-benefit' service as soon as it is proven
- enable a staged acceptance of the Pathway service, with contractual acceptance, to include the delivery of NR2+, in February 2000.

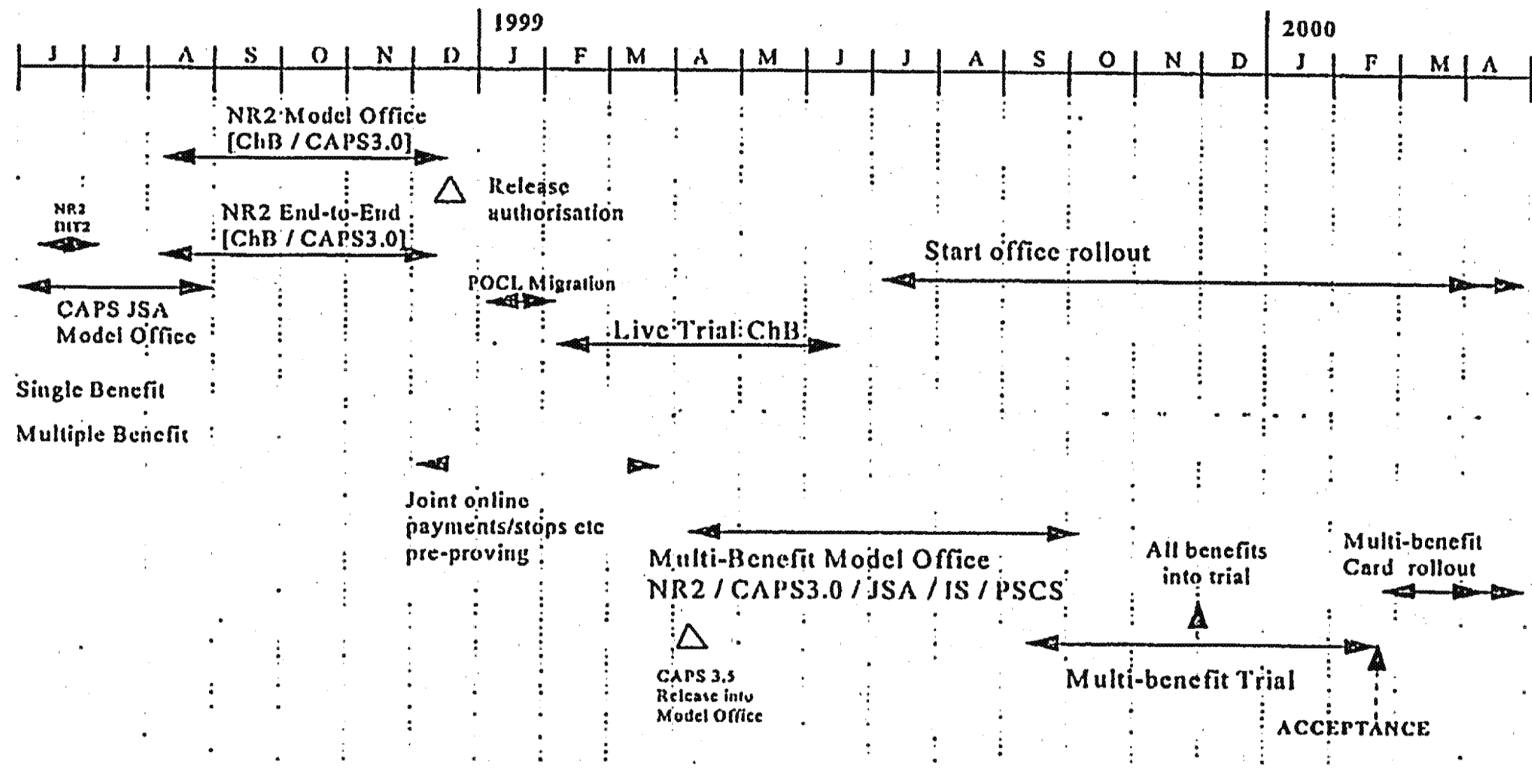
03/12 '98 THU 17:51 FAX

GRO

ICL PATHWAY

007

Horizon Programme Re-Plan



1.3 Plan Summary

The overall replan is divided into two overlapping main stages:

- POCL Services/Child Benefit
- Multi-benefit Stage (to include JSA, IS and Pensions)

The dates provided are based on the Sponsor's current best view but will be subject to the agreement of detailed plans.

1.3.1 Stage 1 - POCL Services/Child Benefit

This stage results in the commencement of rollout of the POCL infrastructure and services in July 1999 together with the support of Child Benefit payments in every office as it goes live on Horizon. The main steps in this stage are as follows:

Pathway delivery of NR2 into Model Office	3 rd August 1998
Model Office testing	10 th August to 18 th December 1998
Start joint Model Office testing with CAPS	From 7 th September 1998
End-to-End testing	10 th August to 18 th December 1998
Start Migration of the 204 '1c' offices to NR2	4 th January 1999
	(contingency 18 th January 1999)
Start POCL Live Trial (child benefit)	8 th February 1999
	(contingency 22 nd February 1999)
Acceptance process complete for Stage 1	19 th June 1999
	(contingency 2 nd July 1999)
Start POCL/Child Benefit rollout	From 5 th July 1999

Given the scale and scope of the processes which need to be proven in Model Office and End-to-End testing the plan seeks to provide a 'contingency window' at the end of these stages. If they complete satisfactorily by 18th December, with Release Authorisation by Christmas, then the Migration step can proceed on 4th January. However a contingency provision is made for testing to continue until 11th January if necessary, with Release Authorisation by 15th January. This would result in Migration starting on 18th January. The POCL Live Trial, which follows 5 weeks after the start of migration, is scheduled to start therefore on 8th February, or 22nd February if the contingency is required. A decision on whether this contingency window is needed will be made by the end of October 1998 when the rate of progress on testing will be clear.

The Live Trial is scheduled for 17 weeks finishing on 19th June 1999. A 2 week contingency period is provided before roll starts on 5th July 1999. If neither the testing contingency nor the POCL Live Trial contingency are required then rollout could commence at the earlier date of 7th June 1999. A decision on this earlier start for POCL office rollout will need to be taken on or about 1st April 1999. This date will allow sufficient evidence to be assessed from the Live Trial while giving at least 8

Horizon Replan - Without Prejudice and Subject to Contract

weeks to manage the lead in to the post office rollout. The Benefits Agency card rollout could be brought forward to the 7th June 1999 only if notice is given by the end of October 1998. Otherwise the planned date for card rollout will remain as the 5th July 1999.

On the other hand unforeseen problems, whether of a business or technical nature, could be found in the Trial (which is the reason for undertaking it). There is inevitably some uncertainty as to how long it may take to resolve such problems and therefore the 5th July could slip. Through careful monitoring and timely action the Programme will however strive to ensure the rollout does commence by 5th July 1999.

Section 5 explains this stage in more detail.

1.3.2 Stage 2 - Multi-Benefit Stage

The Multi-benefit service will run on the same NR2 software platform as the Child Benefit release but will utilise the more complex processing associated with, for example, urgent stops and payments. It will also require integration with the three additional Feeder Benefit Systems for JSA, IS and Pensions.

The Multi-benefit stage therefore begins with a 'Pre-proving' activity prior to entry to the full Model Office environment in order to give initial confidence that these transaction types can be correctly processed. This work will commence towards the end of this year from 1st December.

The main steps in Stage 2 are as follows:

Pre-proving phase	December 1998 to March 1999
Joint Model Office	12 th April to 1 st October 1999
Multi-benefit Trial starts	13 th September 1999
All benefits into Trial	By end November 1999
Full acceptance of NR2	February 2000
Multi-benefit card rollout starts	From 28 th February 2000

By February 2000 several thousand offices will already have been rolled out from Stage 1 and there will be an existing base to which cards can be deployed. Card deployment for JSA, IS and Pensions can therefore take place as quickly as practical to their offices, subject to maintenance of an acceptable level of service and then follow the continuous office rollout.

The Related Agreements with Pathway also includes delivery of the NR2+ software release. This will provide additional functionality to support a network wide deployment (notably On-Line Enquiries and Soft EVP - Extended Verification Procedures) as well as additional POCL services such as AP Smart. The final design of NR2+ functionality is currently being completed which will be followed by a formal development plan to be agreed by all parties. Based on discussions to date with Pathway, the Sponsors believe that it is reasonable to expect that NR2+ could be

Horizon Replan - Without Prejudice and Subject to Contract

delivered into joint sponsor acceptance testing from 1st October 1999. This would be advantageous in that the acceptance processes for Multi-benefit and NR2+ could be run concurrently to complete in February 2000. Confirmed NR2+ development and testing and deployment dates do however need to be established by more detailed planning and with the agreement of all parties.

Section 6 explains this stage in more detail.

1.4 Proposed Acceptance Approach

The proposed approach to acceptance is described below in terms of the scope and constraints for acceptance at each stage. The conditions for acceptance at each stage are described in more detail in Section 4.

Step 1 - Following Successful Live Trial of NR2 POCL Services and Child Benefit Card Payments

- Approval to rollout POCL infrastructure and NR2 services to an unlimited number of offices;
- Agreement to deploy Child Benefit cards to all rolled out offices as quickly as possible;
- Agreement to rollout OBCS to all offices where there is a confirmed business case.

The following constraints on acceptance will apply :

- No income guarantees payable at this stage;
- Acceptance related termination rights withheld until multi-benefit system proven in Live Trial.

Step 2 - Following Successful Live Trial of NR2 POCL Services with Multi-benefit Card Payments

- Contractual acceptance of NR2 - a staged acceptance with final acceptance to come with the delivery of NR2+;
- Acceptance related termination rights foregone (acceptance now irrevocable for NR2 - but service level and other termination rights obviously apply) ;
- Continuation of rollout of POCL infrastructure and Child Benefit;
- Rollout of a second benefit to up to 4000 offices as quickly as possible;
- Two further benefits introduced into live environment.

Income guarantees will still not apply at this Step.

Step 3 - Following Successful Model Office Test Of NR2+.

- Final acceptance achieved of NR2/NR2+;
- Caveats removed on benefit rollout;

05/12 95 THU 17:54 FAX

GRO

ICL PATHWAY

G11

Horizon Replan - Without Prejudice and Subject to Contract

- All benefits rolled out to all offices as quickly as possible.

It should be noted that while the acceptance process logically falls into the above three steps, it is desirable that the Multi-Benefit capability and NR2+ be delivered for acceptance at the same time in February 2000. This would result in Steps 2 and 3 being combined in practise with a simplification of the overall process and the constraints on Step 2 being of less significance.

Horizon Replan - Without Prejudice and Subject to Contract

2. Introduction

This document sets out the proposed replan for the delivery of the Horizon Programme on behalf of both Sponsors (POCL and Benefits Agency). It specifically covers the ICL Pathway delivery of:

- the new POCL infrastructure and services (including BES, EPOSS, and APS) together with card payment facilities on behalf of the Benefits Agency (PAS and CMS) - these are referred to collectively as the 'NR2' release
- supplementary facilities which are necessary to complete the contracted requirements and to enable a network-wide rollout - referred to as the 'NR2+' release

The replan activity was initiated by the Sponsors in conjunction with Pathway in April 1998. The replan has been conducted under the new management arrangements for the Programme which replaced the PDA from 1st April, and has been led by the Horizon Programme Director and the Release Management Team.

The focus of the replan has been on the approach and the timetable for the delivery and implementation of the new services. It has also considered the broad implications that will arise for the contractual acceptance of the ICL Pathway services. The replan work has not however entered into contractual renegotiations at this stage, nor has it addressed any changes to the contracts. All parties agreed that the primary objective of the replan activity was to produce a realistic and sustainable plan for delivery against which contractual and commercial terms could then be renegotiated as appropriate.

Horizon Replan - Without Prejudice and Subject to Contract

3. The Replan Approach and Rationale

By early April 1998 it was clear that the ICL Pathway plan (version 3) to deliver NR2 by October 1998 was no longer sustainable. Initial work on the replan sought to establish a number of tactical options which would allow the anticipated slippage to be accommodated with minimum impact to the overall Horizon schedule and the CAPS delivery plan. As work proceeded however it became clear that the tight coupling of the Horizon and CAPS Programmes was creating difficulties in agreeing detailed plans, for example in such areas as Model Office testing. While sharing similar objectives for these tests, the Programmes had different expectations and drivers for their duration. They also faced different pressures to align their plans with the broader objectives and activities in their separate businesses.

In addition the replan noted that the Treasury Review had projected a delivery date of January 2000, but that this was based on a continuation of the past experience of the Programme in attempting to manage both the highly complex and integrated technical deliverables and the differing commercial interests within the PFI contracts.

Key factors for the Benefits Agency and CAPS were that the replan reflected their experience of testing, and that there was a supportable schedule for the integration of their Feeder Benefit Systems with CAPS, and the follow on rollout of card payments. These factors pointed to an estimated acceptance date for the Pathway services of January 2000 with both POCL office rollout and card payment rollout starting subsequent to this date.

For POCL there was a business pressure to initiate the rollout of the new automated platform to its offices from the earliest realistic date in order to support not only the requirements of the Benefits Agency but also those of other clients, as well as enabling them to exploit new business opportunities.

While not addressing commercial issues per se, the replan work takes into account the commercial assumptions within the PFI contracts by allowing rollout to commence as soon as the Pathway solution has been proven.

In recognition of the above factors, the Horizon Programme proposed an alternative approach which will to a significant extent 'decouple' the Horizon and CAPS activities within the joint programme. In principle this will provide a two stage approach. Stage 1 provides the rollout of POCL infrastructure and services with the support of Child Benefit card payments only, followed in Stage 2 by the rollout of the card payment service for multiple benefits. The decouple strategy will create a more manageable testing approach, divided between a 'Horizon-led' single benefit stage and a 'CAPS-led' multi-benefit stage. By separating the two aspects of rollout i.e. the 'rollout of post offices' from the 'rollout of benefit card payments', this approach will give the management within the Sponsoring organisations more flexibility to manage their individual responsibilities without constraining each other.

03/12 '88 THU 17:57 FAX

GRO

ICL PATHWAY

014

Horizon Replan - Without Prejudice and Subject to Contract

In summary therefore the decoupled approach will:

- reduce the complexity of joint management and integration of activities.
- provide the earliest achievable date for Pathway to rollout services to the POCL offices, with an estimated date of 5th July 1999.
- support the CAPS work programme for the integration of the Feeder Benefit Systems.
- build on the proven experience of Child Benefit card payments, to be followed by the rapid rollout of the 'multi-benefit' service as soon as it is proven.
- enable a staged acceptance of the Pathway service with final acceptance, including the delivery of NR2+, in February 2000.

Horizon Replan - Without Prejudice and Subject to Contract

4. Proposed Acceptance Approach

The replan now envisages a further split of the NR2 services into two releases. The first supports the rollout of POCL services and a benefits payments service dealing only with child benefit card payments. The second release supports a multi-benefit (e.g. JSA, IS, Pensions) card payments service. The NR2 releases must still be followed by the NR2+ release, although as explained in Section 1 it is proposed that this should be delivered at the same time as the NR2 multi-benefit release.

Nevertheless for the purposes of setting out a clear acceptance process for the replan a three step procedure is set out below in order to correlate with the three identified releases.

The proposed approach to acceptance is described below in terms of the conditions, scope and constraints for acceptance at each stage.

4.1 Acceptance Step 1 - After Live Trial of NR2 POCL Services and Child Benefit Card Payments

Conditions for acceptance:

- Release authorisation given for NR2 POCL Services and for Child Benefit card payments only;
- Proof of concept of mobile configurations
- Successful Live Trial of Child Benefit;
- Agreed measures of progress on multi-benefit testing and on development of NR2+ functionality.

Scope of acceptance:

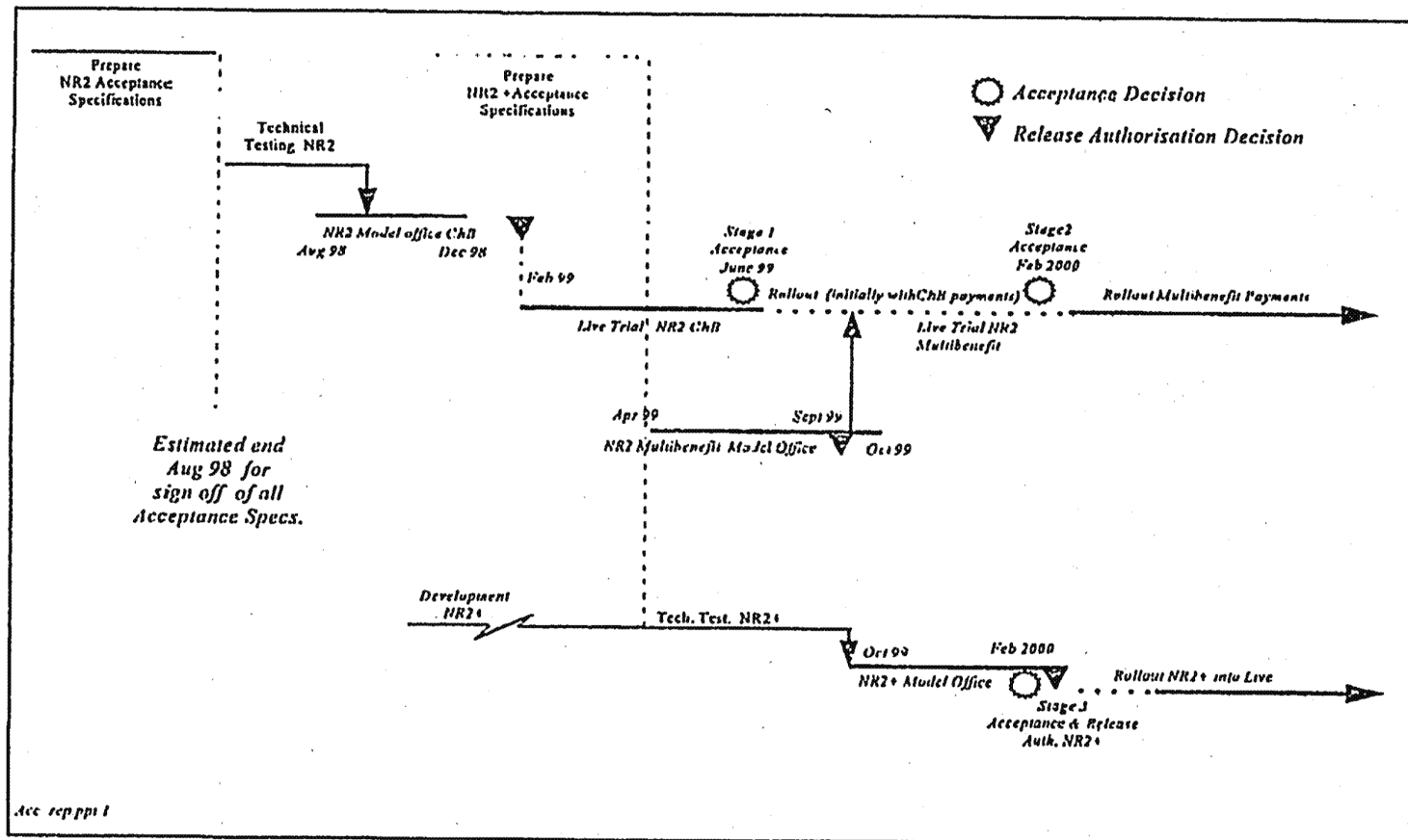
- Approval to rollout POCL infrastructure and NR2 services to an unlimited number of offices;
- Agreement to deploy Child Benefit cards to all rollout offices as quickly as possible;
- Agreement to rollout OBCS to all offices where there is a confirmed business case.

Constraints on acceptance:

- No income guarantees payable at this stage;
- Acceptance related termination rights withheld until multi-benefit system proven in Live Trial.

03/12 '98 THU 17:58 FAX [] GRO ICL PATHWAY 2016

Acceptance In The Context Of The Replan



4.2 Acceptance Step 2 - After Live Trial of NR2 POCL Services and Multi-benefit Card Payments

Conditions for acceptance:

- Release authorisation of NR2 for multibenefits;
- Successful Live Trial of multibenefits;
- Acceptance of the approach to fallback transactions for Carded Casual Agents;
- Proof of Concept of NR2+ and an agreed timetable for its delivery.

Scope of acceptance:

- Contractual acceptance of NR2 - a staged acceptance with final acceptance to come with the delivery of NR2+;
- Acceptance related termination rights foregone (acceptance now irrevocable for NR2);
- Continuation of rollout of POCL infrastructure and Child Benefit;
- Rollout of a second benefit to up to 4000 offices as quickly as possible;
- Two further benefits successfully introduced into live environment.

Constraints on acceptance:

- Income guarantees will not apply.

4.3 Acceptance Step 3 - After Model Office Test Of NR2+.

Conditions for acceptance:

- NR2+ delivered with all contracted functionality;
- NR2+ proven in Model Office (Live Trial not required);
- Release authorisation of NR2+.

Scope of acceptance:

- Final acceptance achieved;
- Caveats removed on benefit rollout;
- All benefits rolled out to all offices as quickly as possible.

Constraints on acceptance:

- None.

The rollout of cards as quickly as possible must obviously not compromise the integrity of the Benefits Agency's service to customers. The anticipated rate of rollout will be agreed within the appropriate commercial forums .

There are items which are contractual requirements beyond NR2 and NR2+ such as mobile configurations, and broadcast and messaging services, which are beyond the acceptance process described above and the scope of this replan.

Horizon Replan - Without Prejudice and Subject to Contract

5. Stage 1 - POCL Services and Child Benefit

This Section sets out a more detailed description of the activities and dates in Stage 1 of the replan. It covers:

- CAPS JSA Personal Details (PDr) Model Office
- Horizon NR2 Model Office with Child Benefit
- Joint NR2 Model Office with Child Benefit
- End-to-End Testing
- Release Authorisation
- Migration
- POCL Live Trial
- Acceptance of NR2 Child Benefit
- POCL Rollout

5.1 CAPS JSA PDr Model Office (8th June to 21st August 1998)

As previously agreed under the replan, the CAPS Model Office for JSA commenced on schedule on 8th June 1998, supported by the required functionality from the Horizon environment. This Model Office will enable the loading of personal details for JSA to the CAPS database but will not test card payments. It is planned to complete this Model Office on Friday 21st August. However CAPS wish to provide a two week contingency period at the end for targetted testing of any outstanding faults. The Benefits Agency have therefore requested that a Joint NR2 Model Office with Horizon should not start before 7th September to allow this work to complete unhindered. It will also give them time to finalise the detailed test plans for this critical phase.

5.2 Horizon NR2 Model Office/Child Benefit (10th August to 4th September 1998)

The Pathway and Horizon schedules have been based on starting the NR2 Model Office on 10th August 1998. To move to the proposed date of 7th September to align with CAPS would therefore mean a delay of 4 weeks. Pathway and Horizon therefore plan to run a first 'pre-proving' cycle between 10th August and 4th September without CAPS direct involvement. This will allow POCL functionality to be tested but using existing sets of Child Benefit data to simulate the CAPS interface.

5.3 Joint NR2 Model Office with Child Benefit (7th September to 18th December 1998)

The joint Model Office with CAPS involvement will start on 7th September. Although a joint approach, Horizon will lead in the management of this Model Office as it is primarily supporting their requirements. They will therefore determine such activities as restarts and cycle resets. Given the first 'pre-proving' cycle it may be that only two more full six week cycles will be required:

Cycle 2 - 7th September to 16th October

Cycle 3 - 19th October to 27th November

Horizon Replan - Without Prejudice and Subject to Contract

Contingency cycle - 30th November to 18th December
Release authorisation will be arranged for before Christmas 1998.

However if a full fourth cycle is required a contingency period is provided for until 11th January with release authorisation by 15th January 1999.

5.4 End-to-End Testing (10th August to 18th December 1998)

In parallel to Model Office another set of specific tests will be run in what is termed the 'End-to-End' environment. These tests cover special cases such as variable cash account periods, temporary and permanent office closures, and types of system failure. Horizon will manage two cycles for this activity which is primarily concerned with POCL processes:

Cycle 1 - 10th August to 31st October

Cycle 2 - 2nd November to 18th December.

It should be noted that additional testing activities will be taking place during this period, although the primary focus will be on Model Office and End-to-End. For example Pathway will be finalising some technical and security tests and Horizon will be undertaking some preparatory tests of the Reference Data which will be used in the live environment.

5.5 Release Authorisation (target 18th December 1998, contingency 15th January 1999)

Following successful completion of Model office and End-to-End a Release Authorisation process is required to endorse the service for use in the live environment. A number of preparatory steps will be taken as the testing phase comes to an end. If, as discussed above, the Model Office can be successfully completed in the first three cycles then the date for Release Authorisation to be completed will be before Christmas 1998. If a fourth cycle is required then Release Authorisation will take place in the week commencing 11th January 1999.

It must be noted that this release authorisation date assumes that the necessary acceptance tests have also been completed within the proposed timescale (where these are over and above what will have been demonstrated in Model Office and End-to-End Testing).

5.6 Migration (4th January to 5th February 1999, contingency 18th January to 19th February)

This phase is concerned with the migration of the existing live 204 post offices running Release 1c to the new NR2 software. Based on the rate of progress in the testing phases a decision will be made by the end of October as to whether this will start on 4th or 18th January 1999. The Migration phase will involve the following activities:

Horizon Replan - Without Prejudice and Subject to Contract

- Initial pilot week in 6 offices
- Migration of the remaining offices over 2 weeks
- 'Data centre migration' to link the offices to the new 'host' NR2 software enabling full 'go-live' (weekend of 30th/31st January or 13th/14th February)

The Migration plan allows a week after the 'data centre' migration weekend to ensure the service is stable before starting to add the additional offices for the Live Trial.

The plan also needs to show the date for the second data centre to be switched on for operational services. It is proposed that this is scheduled for the weekend of 13th/14th February, or 27th/28th February 1999 if migration does not start until 18th January. It should be noted that the second data centre is not required to start or to support the volumes in the POCL Live Trial. This date is therefore not on the 'critical path' for the start of Live Trial as it would only be required in the unlikely event of a major physical disaster at the first centre. A gap of two weekends is allowed between the data centre migration weekend and the weekend when the second data centre is brought on stream.

5.7 POCL Live Trial (February to June 1999)

The POCL Live Trial is intended to prove the full operation of the Pathway services and the POCL and Benefits Agency processes in the live environment. The start date will be either 8th or 22nd February 1999. The Child Benefit card payments for these new offices will be scheduled to start from 22nd February.

The POCL Live Trial comprises the following main steps:

Take-on of an additional 100 offices	- 3 weeks
'Core' observation period	- 6 weeks
Completion of reconciliation cycles for each week	- 4 weeks
Report production and 'acceptance decision'	- 4 weeks

The Stage 1 'acceptance decision' will be confined to NR2 running POCL services with the child benefit card payments services. See Section 4.

The 'core' observation covers office processes, staff and customer reaction, and weekly accounting processes. The length of the reconciliation processes between POCL and its clients means that up to 6 weeks may be necessary after each weekly cash account period to ensure that all significant checks have been carried out. It is not expected to be necessary however to monitor the completion of this activity for all 6 weeks of the 'core' observation period, as sufficient evidence of the Pathway/Horizon processing is available earlier in the cycle. The reconciliation phase is therefore set at 4 weeks. This results in a 17 week elapsed period. This will give an acceptance date of the 19th June 1999. A 2 week contingency period is provided before the planned national rollout date of 5th July 1999. If neither the testing contingency nor the POCL Live Trial contingency are required then rollout could commence at the earlier date of 7th June 1999. A decision on this earlier start for POCL office rollout will need to be

03/12 '99 THU 15:03 FAX

GRO

ICL PATHWAY

021

Horizon Replan - Without Prejudice and Subject to Contract

taken on or about 1st April 1999. This date will allow sufficient evidence to be assessed from the Live Trial while giving at least 8 weeks to manage the lead in to the post office rollout. The Benefits Agency card rollout could be brought forward to the 7th June 1999 only if notice is given by the end of October 1998. Otherwise the planned date for card rollout will remain as the 5th July 1999.

5.8 POCL National Rollout (Target date 5th July 1999)

The target date in the replan for start of National Rollout is 5th July 1999. Child benefit card rollout to offices is also planned to commence from 5th July. It is expected that the card rollout will 'catch up' with installed offices by the end of July and from August 1999 Child Benefit cards will match the POCL rollout, subject to normal order book renewal cycles.

The current contracts propose a rapid ramp up of office rollout in the first month followed by a sustainable 'beat rate' of 300 offices per week. Further evidence will be required from the Live Trial to give more assurance that this rate is sustainable by all the parties concerned. Firm dates for training and take-on will normally need to be given to post offices 12 weeks before their 'go-live' date, although the office 'installation' work can be carried out relatively flexibly in advance of these dates.

Active management will therefore be required of the schedules for offices in the early stages of rollout until the pattern of successful deployment is established and the optimum 'beat rate' is proven. Given a start date of 5th July 1999, and allowing for the Christmas period, a beat rate of 300 would result in up to 6000 offices being installed by the end of the year, while a beat rate of 200 would give up to 4000 offices.

Horizon Replan - Without Prejudice and Subject to Contract

6. Stage 2 - Multi-Benefit Services

This Section sets out a more detailed description of the activities and dates in Stage 2 of the replan. It covers:

- Pre-proving of multi-benefit transactions
- Joint NR2 Model Office for Multi-Benefit
- Multi-benefit Trial
- Acceptance of NR2 Multi-Benefit
- Card Rollout
- Delivery of NR2+

6.1 Pre-Proving of Multi-Benefit Transactions (December 1998 to March 1999)

Between December 1998 and March 1999 Horizon and CAPS will undertake some initial testing of the more complex transactions which are not normally required for Child Benefit payments but are essential for other benefits, namely JSA, IS and Pensions. Urgent stops and payments are examples of these transactions. This testing will need to take place in an environment which can be run independently of the Child Benefit Model Office which will be taking place during part of this period. This testing can be conducted in a more flexible way than under a formal Model Office, with less rigid cycle definitions, but will nevertheless provide a necessary degree of confidence in the multi-benefit capabilities of NR2 prior to entry to joint Model Office.

6.2 Joint NR2 Multi-Benefit Model Office (12th April 1999 to 1st October 1999)

This Model Office will comprise four cycles of six weeks (based on a 17 day logical model and a ratio of one logical to two physical days). The cycle start dates are therefore:

Cycle 1 - 12th April 1999

Cycle 2 - 31st May 1999

Cycle 3 - 12th July 1999

Cycle 4 - 23rd August 1999

The Model Office will include all four of the major benefits, which is the main reason for providing four cycles in order to allow phasing of their introduction.

It is proposed to start this Model Office in April 1999 as this will allow the latest releases of JSA, IS and Pensions to be used, as all of these will planned upgrades in the period up to the end of March 1999. The CAPS 3.5 performance release will also be available for use within Model Office by the beginning of April; prior to going live in May/June 1999.

It should also be noted that if there is a slippage in Stage 1 testing with Child Benefit this will not impact Stage 2 pre-proving or the Model Office unless it extends beyond 12th April 1999.

Horizon Replan - Without Prejudice and Subject to Contract

6.3 Multi-Benefit Trial (September 1999 to February 2000)

The Multi-benefit Trial will start with JSA in September 1999 followed by a phased introduction of IS and Pensions. The exact dates for bringing these into the Trial requires to be confirmed with the Feeder Benefit Systems, but the aim is to have them all running live in the Trial by the end of November 1999. For planning purposes the proposed dates at this stage are:

JSA - 13th September 1999

IS - 8th November 1999

Pensions - 29th November 1999

6.4 Acceptance of NR2 Multi-Benefit (February 2000)

Following successful completion of the Multi-benefit Trial the acceptance decision is planned to take place in February 2000. The terms of this acceptance are covered in Section 4.

6.5 Card Rollout (from February 2000)

A card rollout from February will provide time for the necessary training activity to start after Christmas 1999 and give the required six week lead-in time prior to card payments going live. Given that several thousand post offices will be installed by this date there can be a rapid rollout of cards for all the live benefits from this date, with the only constraints being the rate of card production and the need to maintain an acceptable level of service to Benefits Agency customers.

6.6 Release NR2+

The contents of this Release have been agreed in principle, although a number of detailed issues and requirements are currently in the process of being resolved. A baselined development plan will be produced once this work is complete. This plan will need to take account of the overall approach set out in the replan and the impact this will have on Pathway resources in 1999. The Sponsors believe however, based on previous discussions with Pathway, that a delivery date for NR2+ into joint Sponsor acceptance testing of 1st October 1999 is a reasonable target at this stage. Acceptance could then be achieved in February 2000. The replan therefore proposes these dates, while recognising that confirmation will be required from detailed planning and with the agreement of all parties.

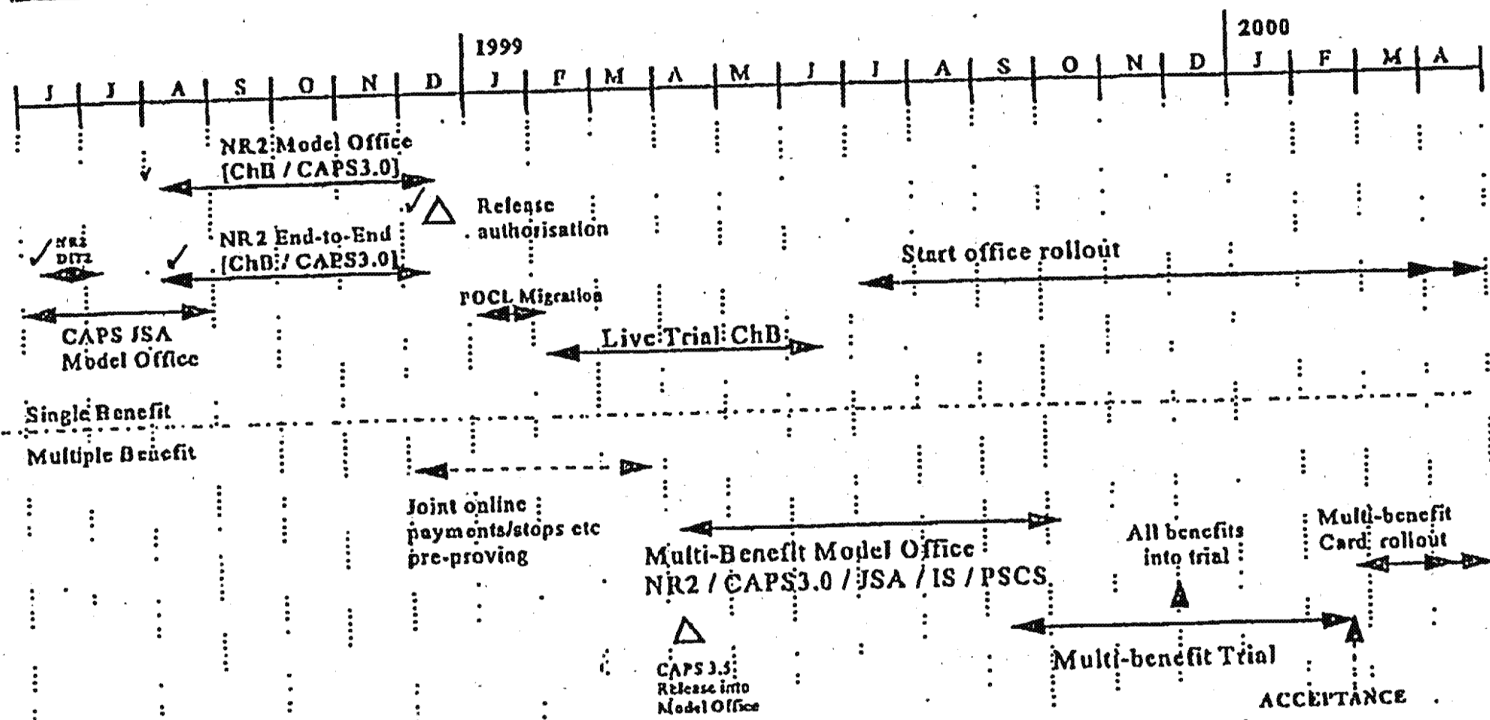
03/12 '98 THU 15:05 FAX

GRO

ICL PATHWAY

0021

Horizon Programme Re-Plan



GRO

002
17 3 7C31st July 1998

Mr David Miller
Programme Director
POCL
King Edward Building
King Edward Street
London
EC1A 1AA



Dear Dave,

HORIZON REPLAN

Thank you for your letter of 23rd July and the attached paper "Horizon Programme Replan Summary". First may I say that ICL Pathway welcomes the paper with its approach to establishing a Horizon programme where interdependencies between POCL, BA and ICL Pathway are realigned to enable the earliest possible start to National Rollout, and we also appreciate the work undertaken by you and your team in enabling such a joint POCL/BA paper to be produced.

With regard to your requests for responses by certain dates, please take this letter and what follows as an initial ICL Pathway reaction to the Programmatic content of the paper. Having reviewed the paper it is evident that it raises many questions of fundamental importance to both ICL Pathway and the successful implementation of the proposal. I am on leave Monday and Tuesday next week, on my return, I will phone you to discuss how best we take this forward.

On the commercial/acceptance aspects of the paper ICL Pathway's position is that it is neither appropriate or possible to resolve these in isolation from the outcome of the ministerial consideration of the Treasury-led Review of the Horizon Project. In addition they introduce changes to the contract, and specifically CCN 105, that will need introduction via the formal Change Request process. As a result you will appreciate that at this time we are unable to state when ICL Pathway will be able to formally respond in full.

However, we have the following preliminary observations as to commercial implications, each of which is likely to be an issue:

ICL Pathway Ltd
Forest Road
Feltham
Middx TW13 7EJ

Tel: **GRO**
Fax:

ICL Pathway Ltd
Registered in England no 3011561
Registered Office
26 Finsbury Square
London EC2A 1DS

GRO

1. Delayed irrevocable Acceptance from NR2 to the point at which multibenefits are proved in live trial: note that the delay to testing multibenefits is not due to ICL Pathway.
2. The prominence given to Release Authorisation or 'Pre-proving': these are not catered for in the Agreements and appear to duplicate and overlap with Acceptance.
3. The proposed deferral of Acceptance also defers the point at which the guarantees begin to apply. It is not clear whether it is intended that the guarantees which would apply after the multibenefit live trial would be as currently in the Agreement.
4. The proposed duration of live trial is greater than that in either Schedule B07 of the Authorities Agreement or that agreed under CCN105: this is a matter for change control.
5. The insertion of various contingency periods into the plan, extending timescales.
6. The status of the 4000 offices is unclear - is it still proposed that this be some kind of roll out limit?
7. The notion of OBCS offices where there is a confirmed business case is a new one: the Authorities have confirmed that they want OBCS in all offices except those in Northern Ireland.
8. CCN105 is clear that the roll out rate post Acceptance remains 300 a week: any reduction is a matter for change control and not simply subject to an 'assurance' assessment.

ICL

Our initial response to the Programmatic content of the paper is as follows:

1. We support the decoupling of the BA plan for CAPS from POCL and ICL Pathway's plan for Model Office Testing leading to National Rollout because of the impact of delay on National Rollout of the current CAPS Plan for introducing multiple benefits and their associated requirements for ongoing Model Office testing.
2. Given that the Single Benefit Model Office begins as a POCL/ICL Pathway Model Office and that its shape as currently defined (ie length of cycles) was influenced by the now redundant requirement to align to CAPS Multi-benefit plans we wish to enter (as a matter of urgency) a dialogue with you as the optimum shape of Model Office testing to support our joint preparation for a Child Benefit Live Trial early in 1999.
3. We support the approach of identifying a contingent date for the start of National Rollout (5th July in your paper) and an earlier date (7th June in your paper) where contingency can be unlocked if progress is sustained as we both intend it to be. However we believe the following is outstanding between us:

GRO

- a) Agreement on the approach and timescales for pre-Live Trial migration.
- b) An understanding of your criteria for Live Trial, how success will be measured and the specific activities you will be undertaking so the necessary metrics can be obtained.
- c) An agreement on how the work being undertaken by our teams on the overlay of National Rollout preparation on Live Trial should be taken forward and reflected in the proposed plan. Plus agreement and inclusion of the resultant ramp up profile to 300 outlets per week.

Completion of these will enable validation of the above dates taken from your plan plus the ability to reach agreement on the dates that result.

ICL

4. On the Multi benefit section of the Plan we are supportive of the approach but we have many questions and areas where we need a greater understanding before we can assess the impact upon ICL Pathway.

- a) The content and conduct of the pre-proving
- b) The nature and implications on ICL Pathway of the Multi-Benefit Model Office
- c) The nature and implications on the operation of the live service of the Multi-Benefit Trial.
- d) An understanding of the rationale that leads to the start of Multi-Benefit card rollout in February 2000 when the plan would appear to enable an early start.

I hope the above covers your needs for early feedback. On my return on Wednesday I'll contact you to discuss the above and mobilisation of activity of activity to progress the plan.

Yours sincerely,

GRO

Mike Coombs
Programme Director

GRO

** TOTAL PAGE 01 **



Third Floor, Terminal House, 52 Grosvenor Gardens, London, SW1W 0AB

Tel: GRO

Fax: GRO

Mr Mike Coombs
ICL Pathway
Forest Road
Feltham
Middx
TW13 7EJ

5 August 1998

Dear Mike

Horizon Replan

Thanks for your reply of 31st July to the "Horizon Programme Replan Summary". I have asked Andrew Simpkins to co-ordinate and prepare a response on behalf of the Sponsors to the points you have raised. We plan to have this with you by 14th August 1998.

I would be grateful if you would confirm in writing by return that ICL Pathway are now working to the approach and dates set out in the Replan Summary, while we continue refinement of the plan and agree a way forward on the commercial and acceptance issues.

I would like to reach a position with you by Wednesday 19th August (prior to the next Horizon and CAPS Board Meetings) whereby ICL Pathway document their agreement to the Replan, with the specific commercial and acceptance issues which this raises itemised for further negotiation. I recognise that we will have to take account of the ministerial consideration of the Treasury-led Review as well, but this will put us in the position of having an agreed and recommended programme plan on which we would wish to proceed to detailed negotiations.

Yours sincerely

GRO

Dave Miller
Horizon Programme Director

c.c. Peter Crahan

GRO

06th August 1998

Mr David Miller
Programme Director
POCL
King Edward Building
King Edward Street
London
EC1A 1AA



Dear Dave

HORIZON REPLAN

Responding to your letter of 5th August I wish to confirm that ICL Pathway are working to the approach and dates, as set out in your Replan Summary

As you are aware ICL Pathway has continually sought ways of achieving the earliest start to National Rollout of both the OPS infrastructure and combination of cards and benefits. We welcome the principle of decoupling the multi-benefit activity from National Rollout. However, as a result, whilst accepting the dates contained within the Replan Summary are a dramatic improvement over those identified by the Treasury Review, we view them as the latest dates we collectively should be working to. This is obviously subject to sustained progress on the programme and points two to four on Programmatic content in my letter to you of 31st July 1998.

We will seek meetings with you and your staff to resolve the programmatic points raised in my letter such that we are able to document our agreement to the Plan and the dates it contained by 19th August as you have requested.

ICL Pathway Ltd
Forest Road
Feltham
Middx TW13 7EJ
Tel
Fax **GRO**

ICL Pathway Ltd
Registered in England no 3011261
Registered Office
26 Finabury Square
London EC2A 1DS

GRO

We agree that the specific commercial and acceptance issues should be clearly identified in readiness for further negotiation. We have now agreed to discuss these further at our commercial meeting on the 14th August.

Yours sincerely,

GRO

Mike Coombs
Programme Director

ICL

c.c. Mr J.H. Bennett, ICL Pathway
Mr A.E. Oppenheim, ICL Pathway

GRO



Third Floor, Terminal House, 52 Grosvenor Gardens, London, SW1W 0AB

Tel: GRO Fax: GRO

Mr Mike Coombs
ICL Pathway
Forest Road
Feltham
Middx
TW13 7EJ

17 August 1998

Dear Mike

Horizon Replan

Following your letter of 31st July I enclose a reply to the points you raised regarding the Replan proposals. I look forward to your response by Wednesday of this week so that we can move forward on the basis of an agreed programme plan.

Yours sincerely

GRO

Dave Miller
Horizon Programme Director

c.c. Peter Crahan

GRO

ad Subject to Contract

HORIZON REPLAN**RESPONSE TO ICL PATHWAY LETTER OF 31ST JULY 1998****A. General Points**

The Sponsors wish to make clear that the approach they have proposed in the Replan takes into account Pathway's previous track record, for example in terms of failure to meet planned dates, and in particular the 5th October 1998 software delivery date for Nile Release 2.0. despite all milestones having been hit or on target for delivery of components from CAPS. Therefore the plan incorporates timescales, contingency and checkpoints which provide a reasonable assurance that such failures will not re-occur. Our response to a number of your points needs to be taken in this context.

We do not consider it reasonable to delay progress on all commercial/acceptance issues until the outcome of the Treasury-led Review. The outcome is likely to propose a way forward at a high level which would not be expected to affect the detailed commercial and programme points raised in your letter, unless the recommendation is for a more radical change which would require a more fundamental review of the programme. All parties are legally committed to continue work in accordance with the Related Agreements (as amended).

This document is without prejudice to the parties. It is subject to contract and not intended to affect existing contractual obligations or create new contractual obligations unless and until agreed by the parties in accordance with the Change Control Procedures.

B. Commercial and Acceptance Points**1. Irrevocable acceptance and multi-benefits**

A consequence of the Replan is that the acceptance of NR2 is now split over two stages, Child Benefit and Multi-benefit. It is only at the completion of the Multi-benefit Trial that the Sponsors are in a position of confidence that the contracted solution is acceptable for roll-out of all card payment types. It is therefore not reasonable for irrevocable acceptance to take place before this point, and it is inappropriate to describe this as a 'delay'.

Indeed the current contractual position on staged acceptance is that full acceptance is not achieved until the 'second' (NR2+) release of contractual functionality has been accepted. POCL and DSS agreed changes to the contract in the previous replan that removed the possibility of failed acceptance because of a single, high severity, fault in the 'second' (NR2+) release, but the right to refuse acceptance of the whole service, and not just the additional functions in the second phase, because of 10 medium or high severity faults was retained. Thus, under the present contract, irrevocable acceptance need not be given

GRO d Subject to Contract

until satisfactory delivery of NR2+. The position taken in the Replan is a concession to this contractual position.

Therefore, assuming POCL rollout is proceeding satisfactorily with Child Benefit, and that multi-benefit is proven in a Live Trial, and that the NR2+ facilities have adequate proof of concept and an agreed timetable for delivery (i.e. a confident expectation of delivery in the near future) then the Sponsors would be willing to give up termination rights for failure of acceptance at this point.

If, as the Replan proposes, acceptance of Multi-benefits and NR2+ is combined at the same time then the issues around the 'second' release and acceptance stage will be minimised.

With regard to your assertion that Pathway are not responsible for the delay in testing multi-benefits, as we noted above, the approach in the Replan takes into account our experience on delivery to date. The Replan has not sought to introduce "delays", but to set out an overall restructuring of activities that will give confidence that the Programme can deliver in accordance with contractual obligations to the benefit of all parties.

2. Release Authorisation and Pre-proving

The Replan is not seeking to give any additional prominence to Release Authorisation. It has been part of the custom and practice within the Programme that a formal Release Authorisation is necessary before major new software can be released from Model Office into the live environment. In addition Requirement 476 covers the rights of the Authorities to be involved in Release Authorisation separate from Acceptance. Release Authorisation is required in order to:

- (1) ensure that software put into live operation is fit for purpose and will not expose POCL or DSS to unacceptable financial or performance risks; and
- (2) confirm that all necessary systems, processes and resources are in place, not just those in the Pathway domain.

Pathway have been involved fully in this process to date and we would anticipate this continuing for future releases.

Release Authorisation is therefore separate from the acceptance decision, which is required to ensure that Pathway's services are capable of meeting all contractual obligations, and that the Authorities can safely give up their rights to immediate termination if Pathway prove incapable of delivering services with this capability.

'Pre-proving' has been used as a term to identify the potential for running selected multi-benefit transaction tests, prior to formal entry into the multi-benefit Model Office cycles, in order to give all parties some advanced experience of, and confidence in, their performance. This is seen as assisting the transition from the single-benefit to multi-benefit testing stage, reduces the risks of the latter and gives a higher guarantee of achieving the dates for the subsequent Model Office. It is therefore presented as an opportunity for improvement in the testing strategy not as a duplication or overlap within the acceptance process.

GRO and Subject to Contract**3. Income Guarantees**

The existing arrangements see income guarantees applying following delivery of full functionality (NR2+) and this condition will not change under the replan i.e. when a fully functional NR2+ has been delivered income guarantees will begin to apply. Clearly, we will need to agree the deployment rate for multi-benefit functionality in post offices and the implications for income guarantees.

4. Live Trial Duration

The Live Trial duration has been based on an assessment of past experience and the latest estimates of the activities that will be required. (The Replan has similarly had to take account of the increased estimates required for System Testing).

Sponsors understand that all aspects of the Replan will ultimately be subject to change control, and do not see Live Trial duration as an issue for this in isolation.

It may be helpful to clarify that the Sponsors now see 'Live Trial' as comprising two phases - the first being the POCL Child Benefit Live Trial and the second the Multi-benefit Live Trial.

5. Contingency Periods

We do not believe that the contingency periods identified in the Replan will have to result in extended timescales or cause irrevocable delays. What they do provide to a degree is for the overall plan to be maintained even if progress is not exactly on target for planned dates, and this approach is fully supported by our experience to date.

6. Limit of 4000 Offices

As stated previously, Sponsors are prepared to offer a concession to authorise roll-out of NR2 multi-benefit in advance of the full contracted functionality becoming available. However in the absence of all the contracted functionality, for example in such areas as Soft EVP and online enquiries, the Sponsors are only prepared to provide this alleviation for live operation of multi-benefits in a maximum of 4000 offices.

There are potentially other factors that will need addressing if there is a protracted period before NR2+ becomes available. For example, the more offices that are rolled out without the AP smartcard products, the greater will be the costs for retraining, and provision and removal of temporary APTs.

Note however that this 4000 limit does not apply to the roll-out of the POCL infrastructure and child benefit card payments.

7. OBCS

GRO and Subject to Contract

Your comments are noted but the Sponsors may wish to make a further response on this point.

8. Roll-out Rate

The Replan does not propose a reduction in the roll-out rate. While the Sponsors will work with Pathway to deliver the contracted rate, we will need to have assurance of it being delivered in practice. POCL and DSS (and we assume Pathway as well) would obviously not find it acceptable to continue with plans based on 300 per week that consistently failed and caused additional cost and disruption. The Replan therefore acknowledges that detailed planning and management of the roll-out is a continuing activity within the Programme.

C. Programme Issues**1. National Rollout Dates**

The Sponsors wish to totally refute the inference that any delay in testing multi-benefits is due to the CAPS Programme. As noted above under General Points the Replan has been caused by, and has taken into account, Pathway's track record of delivery to date.

2. Single Benefit Model Office

Discussions are in-hand with you regarding the shape of this Model Office.

3. Migration, Live Trial and National Rollout

We have now had a meeting with you where we explained in some more detail the reasoning in the Replan proposal behind the duration of migration and the POCL Live Trial and the criteria that will need to be measured and satisfied. We also covered the overlay of National Rollout preparation on the POCL Live Trial, and the roll out rate in the context of the remarks already made in section B8 above.

4. Multi-Benefit Plan

Thank you for confirming that you support the Multi-Benefit section of the Replan. Given the questions you have in this area we would propose a meeting of our respective planning groups to address them in detail at a convenient time. We understand that it would be helpful to you if we clarify at this stage the following key planning assumptions:

- both the pre-proving and Model Office phases we would see being run in a similar environment to that which is currently being provided for End-to-End testing at the Horizon end (e.g. links to TIP)
- the environment could be provided at Feltham rather than Borough, and with POCL providing operators

GRO

Subject to Contract

- there would not be a need to run separate Model Office and End-to-End testing during this phase but there would be a need to prove POCL accounting reconciliation
- CAPS 3.5 could be implemented without changes to NR2, but will require integration with NR2+ when delivered
- the multi-benefit Live Trial would be run in the live environment but with availability controlled by the issue of appropriate cards not by software within NR2
- a similar number and configuration of offices would be used as for the POCL Child Benefit Trial
- the Sponsors cannot see any technical reasons at this stage why the Multi-benefit Trial and its associated card rollout would impose constraints on the continuing rollout of POCL offices.

03/12 '98 THU 15:16 FAX

GRO

ICL PATHWAY PROG. DIR.

001

-E JTB.

19th August 1998

314

Mr David Miller
Programme Director
POCL
King Edward Building
King Edward Street
London
EC1A 1AA

ICL

Dear Dave

HORIZON REPLAN

I am unable to respond in full to your letter and attachment of the 17th August as requested by close of play today. This is due to the predominantly contractual and commercial nature of the attachment on which we are seeking legal advice before responding.

However, there are areas on Programme Issues on which we are able to respond. These responses are given below using the numbering system from your attachment.

C.2. Single Benefit Model Office :-

The letter from Andrew Simpkins, dated 19th August, concludes our discussions on the shape of Model Office. Although we still need to review the detail, the approach of four cycles of Model Office and three of End-To-End both targeted to complete 18th December is the plan I can confirm ICL Pathway will be working to. I also note the inclusion of a contingency period, in line with our discussions, up to the 11th January 1999.

C.3. Migration, Live Trial and National Rollout

I am able to confirm that ICL Pathway will work to your latest Migration Plan ie:

- a) A four week period to migrate existing 1c Post Offices and establish the Bootle Data Centre.
- b) A week to check the establishment of the link to TIP prior to the introduction of the additional 100 offices

ICL Pathway Ltd
Forest Road
Feltham
Middlesex TW13 7EJ
Tel
Fax

GRO

mjbc/D4iAug.98

1

ICL Pathway Ltd
Registered in England no 3041261
Registered Office
20 Fradley Square
London EC2A 1DS

03/12 '98 THU 15:17 FAX

GRO

ICL PATHWAY PROG. DIR.

002

- c) A two week period for the introduction of the additional 100 offices with Migration to Dual Data Centre operation at the end of the first week.

For ICL Pathway to commit to the detail of the plans we have discussed in other areas we need further discussion on:-

- a) The use of information gathered during migration in evaluating Live Trial and hence the formal start date of Live Trial.
- b) The criteria used to assess the activity streams you are proposing for Live Trial
- c) The trigger point, length of preparation process and ramp up management for National Rollout.

ICL

C.4. Multi Benefit Plan

The answers given to our questions were helpful in enabling us to prepare for the meeting you propose. I hereby invite Andrew Simpkins to arrange such a meeting at your earliest convenience.

I trust that you will find this letter helpful in assisting the Programme to continue to make progress.

Yours sincerely,

GRO

Mike Coombs
Programme Director

David Miller, Esq.
Horizon Project Director
BA & POCL
King Edward Building
King Edward Street
London EC1A 1AA

18th September 1998

Dear Dave,



Without Prejudice

This is in response to your letter of 17th August to Mike Coombs regarding the Replan, and deals with the contractual matters raised. Mike has dealt with program related items under separate cover.

We were surprised and disappointed at the aggressive tone of the letter and by the number of gratuitous and unjustified allegations of fault on the part of ICL Pathway. You will understand that, much as we wish to concentrate on moving the programme forward on a joint working basis with yourselves, we cannot let these assertions go unanswered.

As a "general point" (with reference to your section A), we do not accept that we have a "track record" of failure to meet planned dates in a context where the other parties have "hit" or been "on target" with respect to their own obligations. No such context has ever existed for ICL Pathway. In the case of CAPS, the number of releases continues to grow, and each time that happens, essential functionality and performance targets are deferred to later releases. This delay in turn has a knock on impact on the timing of benefit migration to cards, a matter which is specifically subject to Change Control by virtue of the Authorities' own Requirement 974. The "track record" is in fact that these changes have been done unilaterally and without regard to the additional work, lost time and lost income which are the inevitable impacts on ICL Pathway. Schedule B7 sets out as a programme dependency just one date for CAPS availability to enable full function testing of the end to end system. That date is 1 September 1996. At this point, accordingly, the Authorities are about two full years off "target", with further significant delays apparent from plans declared by them.

The Ministerial Review process continues to take its course. We expect that a significant revision of the commercial framework will be needed to reach a satisfactory commercial accommodation between the parties. In the meantime, we continue to hold that we should seek to address only those commercial issues which have a direct and immediate bearing on moving the programme forward.

ICL Pathway Ltd
Forest Road
Feltham
Middx TW13 7H
Tel
Fax

GRO

ICL Pathway Ltd
Registered in England
No. 02040000
VAT No. 248 456 789

03/12 '38 THU 18:07 FAX

GRO

ICL PATHWAY

026

Turning to your designated "Commercial and Acceptance Points", we would comment as follows:

1. Irrevocable acceptance and multi-benefits

Your letter presents the Replan as a given, which necessarily has certain "consequences". On the contrary, as your disclaimers clearly state, the Replan is a proposal which requires both endorsement at the programme level and agreement as to the commercial implications. For the reasons stated above, we see the latter as 'on hold' pending clear guidelines from the Ministerial Review.

The Replan proposes significant shifts in the risk profile which would damage ICL Pathway and which therefore will need to be addressed in any renegotiation of terms.

The first relates to the delayed introduction of multi-benefits by the DSS. Multi-benefits were always to have been CAPS enabled from Day One. ICL Pathway's NR2 contains multi-benefit functionality today, as indeed does Release 1c. The architecture makes it indifferent to payment types, which are a matter for CAPS and the DSS feeder systems. In addition, and at DSS's request, ICL Pathway brought forward on-line DSS functionality and temporary tokens from Release 2 (both Drop Down and CCN105 had these facilities in Release 2) into New Release 2 (hence its new designation). This was to provide the supporting services the DSS represented to us were necessary for JSA and IS in particular (DSS' two top priorities for multi-benefit) - a new requirement relative to Drop Down and CCN105 versions of the contract (both of which had these facilities coming on stream in the second release). Introducing these facilities in the first release cost us time, money and risk. The only DSS requirements not included in NR2 are on-line enquiries and "Soft EVP". On-line enquiries are not supported by the current version of CAPS. The interface specification for the future CAPS release which will support on-line enquiries was submitted to us as a Change Request only within the last month. We have had to reject it in its current form because it seeks to introduce new requirements for which adequate definition is absent. Meanwhile, we have agreed to deal with DSS enquiries via the help desk - at ICL Pathway's expense. If volumes threaten to overwhelm the help desk, we have agreed to introduce on-line enquiries as an increment on NR2. As to Soft EVP, CCN243 has been with the Authorities for approval since 20th April and remains unapproved today. We have made it clear repeatedly at CNT and elsewhere that the Authorities' failure to agree CCN243 is delaying New Release 2+. The Authorities stance that they must have Soft EVP by a deadline of their choosing is utterly unreasonable under these circumstances. We consider that the Authorities are in breach of Schedule C5 (Change Control) clause 2.2 for unreasonably withholding or delaying their agreement to this CCN.

Whatever the reason for DSS now wishing to defer the introduction of multi-benefits, it is not down to ICL Pathway. Yet the effects are (i) to introduce an additional strand of testing work (and therefore cost), (ii) to deprive ICL Pathway of income (iii) to defer the point at which DSS wish to determine whether it accepts the NR2 system. That point is now delayed until some six months after roll out has begun, thereby greatly increasing ICL Pathway's cash exposure to failed Acceptance.

You characterise NR2 Acceptance as being essentially meaningless. We disagree. NR2 Acceptance matters because software accepted at NR2 (equating to the first contractual release) cannot be rejected subsequently, and because any faults accepted at NR2 Acceptance do not then count towards the Acceptance threshold of NR2+ (equating to the second contractual release). Under the Drop Down and CCN105 baselines, some 80% of contracted functionality would have been tested and accepted at the first contractual release. This would have left an "allowance" of 10 high/medium severity faults at the second release to cover 20% of the functionality, with reasonable cure periods allowed. This position has held true since Drop Down; when the regime for split Acceptance releases was introduced in recognition of the fact that the large number of agreements to agree and unfulfilled Contracting Authority Responsibilities made it wholly impractical to introduce 100% of functionality in a single release (at least, not without delaying it indefinitely). Bringing forward on-line CAPS and temporary tokens into NR2 increased the functionality to nearer 90%, and, with the allowance of high/medium severity faults still set at 10, reduced the overall Acceptance risk accordingly. Dropping not only on-line CAPS and Temporary Tokens but also multi-benefits from NR2 Acceptance, as your proposal suggests, would reduce the value of pre-rollout Acceptance to no more than 70% of total functionality. To deny us the opportunity to secure a more complete Acceptance, when an additional 20% of functionality is in the product and will have been tested exhaustively (including end to end testing with the DSS), is unreasonable.

With respect to your final paragraph, we reject the inference that ICL Pathway has been solely responsible for project delays. We will not, therefore, accept that, if the DSS is unready, it should be entitled to delay multi-benefit testing on this pretext.

2. Release Authorisation and Pre-proving

We have discussed this item and agreed provisionally that it should not be a barrier to progress. This is based on your assurances that you are not in fact proposing to add to our existing contractual commitments. Two points should be made to ensure no misunderstanding of our position.

Requirement 476 talks in specific terms of releases "*which are to be distributed to and subsequently activated within any of the Services*". The Services do not come into effect before Acceptance. Requirement 476 also

states that *"the implementation of any release shall not cause any significant disruption to Users... [and] shall not disrupt the normal working environment of Users"*. This only makes sense in the context of upgrades to an existing service. It follows that Requirement 476 can only be taken to apply to releases of software after the conclusion of Operational Trial. It does not justify a second "Release Authorisation" hurdle for contractual releases which are subject to Acceptance.

The Authorities are not reliant solely on Acceptance to ensure their performance interests are met. The contract's three sets of complementary safeguards, taken together, represent powerful levers on the contractor.

- Acceptance tests exist to confirm compliance with functional and facility requirements prior to release;
- Termination review conditions under the Service Definitions limit the latitude for operational performance variations;
- Remedies are triggered under the Service Definitions for lesser variations in operational performance.

To go beyond these would represent "double jeopardy". Such double jeopardy was not agreed during the original or Drop Down contract negotiations (nor during CCN105 discussions) and we have no reason to change our position now. Neither do we believe that you should feel the need to do so given the safeguards you already have.

The "custom and practice [of Release Authorisation] within the Programme" to which you refer may have been appropriate for the interim releases we have had to date, and we may have agreed to it for that purpose, but that does not make it a contractual requirement. For a Release Authorisation process to be introduced into the contract (under change control sponsored by the Authorities), the relationship between Release Authorisation and Acceptance would need to be reconciled such as to remove the double jeopardy.

3. Income Guarantees

The guarantee structure is set out clearly in Schedule A06. Guarantees are and always have been tied to rollout of the physical infrastructure, without any caveat or qualification. This follows the conclusion of Operational Trial and the commencement of Roll Out (defined term). The guarantee structure did not change at Drop Down when the split contractual release concept was first introduced. CCN 105 did not hint at any change in this regard, and certainly none has been agreed. Guarantees remain tied to physical rollout.

The logic for guarantees during Rollout was, I believe, never in dispute. Under PFI, Rollout places the heaviest burden on the contractor's financial resources and it is therefore reasonable that the contractor can count on a committed minimum level of income to offset against those cash demands. The argument

that the contractor's costs will be reduced because of lower start up activity does not work. The fact that one of the Authorities may not be ready does not significantly reduce operational costs during the start up period. The additional costs of testing, rework to align with additional CAPS releases, lost card production utilisation, phased customer education and potentially re-training inevitably will add to the aggregate cost.

4. Live Trial Duration

While, again, we take issue with your characterisation of the extended duration as a reflection of the Authorities' "past experience", we remain willing to discuss a request for testing beyond that required by the Related Agreements.

We understand that the Authorities have assessed the elapsed time requirement to carry out the activities they now wish to carry out during Live Trial. We recall similar discussions prior to CCN105. The conclusion is clearly that the desired process will take longer than contemplated in the contract currently. That is a proposed change to the schedule which stands on its own. We do not expect a separate change request but the impact will need to be counted as part of the whole.

We note the "clarification" that not only do the Authorities wish to have an extended initial Live Trial, but that they in effect wish to have two Live Trials spanning a period of a year. The first equates approximately to a "POCL Live Trial", success at which qualifies us to commit the large scale Rollout moneys without any meaningful commitment or Acceptance by the DSS. The second, as above, is reserved for DSS functionality deferred at DSS' request. The "DSS Live Trial" only completes six months after POCL's, and six months after commitment to Rollout. The adverse impacts on ICL Pathway are significant and we again reject the proposition that the Authorities have any right to demand them.

We would point out that the milestone tables in the Authorities' Schedule B7 effectively set a maximum duration for Acceptance testing in general and the Authorities' testing in particular within the framework of the current contract length.

5. Contingency Periods

Mike has covered this point in his separate letter. We do not take issue with the need to have contingency within the plan. Our concern centred on reaching agreement on how it could be utilised. You have provided clarification on this point, and we are content with that.

It is unclear whether "our experience" (last sentence) is intended to collectively include ICL Pathway or whether, on the contrary, you were referring to the

03/12 '98 THU 15:12 FAX

GRO

ICL PATHWAY

030

Authorities in their dealings with ICL Pathway as a supplier. If the latter, we again utterly reject the innuendo that we are solely to blame for the delays.

6. Limit of 4000 Offices

As stated previously, we can find no contractual basis for the Authorities' seeking to limit rollout following Acceptance of the first release, nor for 'Release Authorisation' in this context.

We find it perverse that the DSS should seek to apply a cap to benefit rollout because of the lack of certain facilities (on-line enquiries and Soft EVP) when the specification of those facilities depends on change control agreement which has been delayed by the Authorities. In the absence of formally agreed CCNs, we will not accept the development risks associated with Soft EVP and on-line enquiries.

However, providing the proposed 4000 limit applies only to the multi-benefit component of DSS card rollout, and does not apply to post office rollout, it should be possible to deal with it as part of an overall commercial settlement.

7. OBCS

The position as we understand it is that you are seeking confirmation that DSS intend to follow through with OBCS in all outlets except those in Northern Ireland, as currently contracted for.

8. Roll-out Rate

As noted in Mike's letter, we are content with your clarification. Thank you.

Under "Programme Issues", I have already elaborated on why we consider the DSS to be to blame for the delays to multi-benefits. Other points have generally been dealt with by Mike's letter and by subsequent programme level interaction, with some real progress being made.

Yours sincerely,

Tony Oppenheim

GRO