

New Year Report

Commercial overview of Large Projects

Introduction

- We start the new year with some serious challenges to tackle very quickly and effectively if we are to meet vital near term objectives
- My rankings of impact if we do not succeed in these objectives by end March are:
 - Libra – new deal collapses
 - Pathway – Network Banking aborted, ICL blamed, no increase in scope of work, and no extension of term (decision taken to re-compete)
 - HMCE – loss making contract without a contracted piece of e-business action
 - Home Office – retrenched to OA service only
- My ratings of risk (probability of failure) are more difficult to call, but I would put them all at far too high for comfort as of now (perhaps circa 50% for all of them).

Summary conclusions and recommendations

- The following are part fact, part assertions. In the interests of brevity, I have not listed my reasons for arriving at these but be assured I have not done so lightly.
- Happy to discuss.

Libra

- Realistically, I reckon we are tracking at least two weeks behind where we need to be for end Feb agreement and still falling further behind.
- I have changed gear and started the New Year in bad guy mode. Have discussed and agreed with Robert Carr and Richard Plume the need to do this. Andy (not yet back so not discussed) may find it more difficult because it means a more authoritative style than that I had adopted since his appointment. Unless you tell me otherwise, I intend doing what I did up to MoU - driving the team from here to the tape.
- Richard Plume is now on board and will definitely make a big difference. He understands the need to push back, to communicate and manage down, to create detailed delivery plans and to manage against them. To date, that experience has been glaringly absent from this project from its inception.
- As you rightly pointed out, Libra has been too accommodating to low level customer pressure for requirements creep. The reason is partly absent middle management controls/communication/instruction/support, partly the open collegiate style with the LCD and partly being exposed to multiple MCCs before we have established a firm party line.
- Richard Plume notwithstanding, Libra still desperately needs a Development Manager, a Requirements Manager (with contractual bent), and a Head of Design. Mike Tordoff will go for VR and increasingly is not carrying the load. Tony Drahota is in constant overload and could fall over without more support. The customer has brought in more people – good – but they are sapping our top people dry as they get up to speed.

- On the numbers, we have identified a tally of £80m plus to add to the MoU £283m total. [In part, this increases fixes the network and performance risks which have crystallised since MoU on the back of changes sought by the customer, so we should not protest too hard that this is the customer's fault for gilding the lily.] But the customer is genuinely worried (and I suspect rightly so) that they will be able to sell this to HM Treasury.
- The current quality of service re. large file opening on OA is not operationally acceptable with bandwidth less than 2mb. The VA Financial Model has provision for upgrading all main lines to 2 mb. We need to order them **now** to secure MCC confidence (= demand for Libra) that we are serious about addressing shortcomings and that we are not hiding behind the contract (correcting the wrong Excel files for performance tests does not change the actual performance). Andy wants to wait, even though the cost exposure pre-VA is less than £100k. I think he's wrong.
- We still have some serious technical issues to overcome.
- Overall, finely balanced.

Pathway

- The Pathway / Post Office relationship has collapsed following our failure to set customer expectations on Network Banking or to read the customer's business objectives or problems correctly.
- There is real and immediate danger (next two weeks) of acting in piecemeal fashion and in a strategic vacuum. You need to get more involved in the immediate decision making and to re-establish a viable customer relationship.
- Liam Foley would not thank me for saying this, but he has been sidelined by Steve Muchow. Steve thinks he has a relationship with Alan Barrie. He has not. He is a first rate CS guy – not a relationship manager. Right now, with the Post Office in trouble, they need Pathway to show vision and leadership – solutions. Instead, we come across as reactionary, slow in everything we do, difficult to deal with, risk averse and expensive. Ask them and I suspect they will tell you exactly that. They liked Peter Graham because he made promises (empty ones) and had not yet been found out. You are personally associated with a hardening of stance and the above. [Ask Liam or Pete Jeram.]
- It is possible that the Post Office could stop Network Banking and blame ICL. We would be a convenient scapegoat for their not having a viable business case. It would also tie in with PAC criticism of the way DSS and Consignia are going about the Universal Bank. That would be the second time ICL would be blamed for failure to secure automation of payments to the needy and for frustrating the Government agenda... Far fetched maybe, but possible. [This would make the Home Office issues look like small beer.]
- On the other hand, the project P&L is struck after inter-co margins, after interest, and after LPD HQ costs and generous contingencies. Cost run-rates have fallen well below plan during 2001, yet the project P&L has not been revised to reflect actual cost run-rates for a year – when we still had to secure the second retention fee and clear the SLA issues (in particular Day D). I believe PBT margin should now be showing nearer 20% than 14%. Cash generation is one of cash cow, at a guess some £40m ahead of the 1999 Codified Agreement plan. [Neil H has the actual numbers.] Just worth a mention – if you were to regard the DSS walk away as a separate contract failure, this would look like a highly profitable

account. One that is worth preserving, taking some trouble over and not taking for granted.

- Finally, Network Banking will, if it gets the go-ahead, re-use many of the people already paid for under the base contract. Yet the “stand-alone” P&L did not reflect these utilisation gains – all assumed to go to the base even though it is Network Banking which sweats the assets. I am not suggesting we just drop our prices for nothing in return, but there is room for manoeuvre if we get something worthwhile (eg. first refusal at POL outsourcing) in return. My concern is that no-one is thinking laterally or strategically.

Sirius

- Progress is being made. David appears to have had a good meeting with Linda L before Christmas. Richard Jones (PwC) is trying to get us both in to see Margaret Aldred.
- I am putting Jon Clempner together with PwC (Graham Ward) to combine Jon’s post-OGC proposals with PwC’s separate thinking along similar lines, to create a joint Strategic Framework initiative which we can present to the customer as the basis for the future relationship. This will be supported by the proposed revisions to the SBA service definitions and processes which have been developed by putting the ICL PMs together with the PwC people to harness lessons learned from CCFP etc.. These will extend into end to end governance proposals (sensitively expressed to include revisions to the various customer forums and processes). I am pushing all of this and am cautiously optimistic. [We need to make quick headway both to keep PwC on board and to stop the customer treating us as a mere platform provider – the two go together.]
- A joint Commercial away day is being scheduled to attack the running sores and propose linked solutions. I will lead in David’s absence.
- I am confident that Ann W is making progress – I need to catch up with her.
- I have a meeting with Mike Fitzpatrick on ERP financing (FF) tomorrow.
- However, ERP is not yet settled (am reviewing this week – holding letter sent before Christmas re. SAP letter to Blunkett), Case-Working has apparently been mis-read by us (feedback from customer tomorrow on that), and no news on CCFP.
- Will send you a further update on this next week.

HMCE

- The worry is how firm will their commitment be to placing e-business work with us by year end? Without a significant piece of new business, the project P&L will still be in negative territory.

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