**PATHWAY GROUP LIMITED**

**MEETING OF THE BOARD OF DIRECTORS**

**TO BE HELD ON**

**WEDNESDAY 6TH DECEMBER 1995**

**AT**

**AN POST, HEAD OFFICE, O'CONNELL STREET, DUBLIN**

**AT 10.00 A.M.**

POH-492D

**A G E N D A**

| | | |
|---|---|---|
| 1. | Minutes of Meeting 1st November 1995 (Previously circulated) | |
| 2. | Actions Arising | |
| 3. | Managing Director's Report (Attached) | J H Bennett |
| 4. | Finance Director's Report (Tto follow) | A E Oppenheim |
| 5. | Sales Review | J Jones |
| 6. | Programme Status Review | T Austin |
| 7. | Risk Register | J H Bennett |
| 8. | Any other business | |
| 9. | Date of Next Meetings<br>Wednesday, 17th January 1996<br>Wednesday, 21st February 1996<br>both at Feltham at 2.30pm | |

NOTES

1) As previously intimated there will be a dinner kindly hosted by John Hynes on the evening of 5th December. On the morning of 6th December there will be a demonstration 9.00 - 10.00 am for Messrs. Banks and White in particular.

2) The Board Meeting will be followed by a meeting (with working lunch) of representatives of ICL, De la Rue and Girobank 12.30 - 2.00pm, then a presentation by Mr T Reynolds followed by a demonstration arranged by AN POST, 2.00 - 3.00pm then departure for flights back.

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# Pathway

Forest Road, Feltham, Middlesex, TW13 7EJ

# FAX
## Cover Sheet

Date: 1st December 1995

Number of pages including cover sheet: 5

| | |
|---|---|
| To: | R.F. Scott |
| | ICL |
| Phone: | |
| Fax phone: | GRO |
| CC: | |

| | |
|---|---|
| From: | John Bennett |
| | Pathway |
| Phone: | GRO |
| Mobile No: | GRO |
| Fax phone: | GRO |

**REMARKS:** ☐ Urgent ☐ For your review ☐ Reply ASAP ☐ Please comment

**Board Meeting - 6th December '95 - Dublin**

Please see attached Pathway Top 10 Risks for discussion at next week's Board Meeting

Regards,
John

If transmission is interrupted or incomplete, please notify senders as soon as possible.

**Document Title:** PATHWAY TOP 10 RISKS STATUS

**Document Type:** RISK STATUS CHART

**Abstract:** This document is the status of the internal Pathway Top 10 Risks.

**Status:** Issued

**Distribution:** Management Team

**Author:** M H Bennett

**Quality Authority:** M H Bennett
**Signature/Date**

**Comments To:**

**Comments By:**

## 0.1 CONTENT

### 0.1.1 DOCUMENT HISTORY

| Version | Date | Reason |
|---|---|---|
| 1.0 | 17.7.95 | Originated for Board presentation |
| 2.0 | 2.8.95 | Update, Risk Group Meeting |
| 3.0 | 6.9.95 | Update for Board Meeting |
| 4.0 | 18.9.95 | Update following Risk Group Meeting |
| 5.0 | 26.9.95 | Update following Risk Group Meeting |
| 6.0 | 23.10.95 | Update following Risk Group Meeting |
| 7.0 | 20.11.95 | Update following Risk Group Meeting |
| 8.0 | 29.11.95 | Update following Risk Group Meeting |

### 0.1.2 ASSOCIATED DOCUMENTS

| Version | Date | Title | Source |
|---|---|---|---|
| 7.0 | 17.11.95 | Risk Register | Risk/REGV7 |
| | | | |

### 0.1.3 ABBREVIATIONS

| | |
|---|---|
| BA | Benefits Agency |
| BPS | Benefit Payments Service |
| CCIG | Card & Customer Interest Group |
| CMS | Card Management System |
| EPOS | Electronic Point of Sale |
| MIS | Management System |
| PD | Product Description |
| POCL | Post Office Counters Limited |
| SIS | Strategic Infrastructure Service |
| SLA | Service Level Agreement |

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## 1. TOP 10 RISKS STATUS / ACTIONS

| RISK | RESPONSIBILITY | STATUS / ACTIONS | DATE | BA/POCL RISKS |
|---|---|---|---|---|
| Reaching acceptable SLAs with customer and suppliers | Operations | • Enrich baseline performance manual as SLAs received<br>• Consider back to back SLAs with suppliers<br>• Consider business case implications | Ongoing<br><br>Dec | |
| Running PMS/CMS on NT. | Technical | • Technical sizing experiments completed<br>• Discussed with customer; accepted strategy<br>• Specification developed, under change control<br>• Oracle specialist on board to produce implementation specs<br>• Development begins | Jan | 13,18 |
| Dependency on Escher | Technical | • Improved technical contact, application development expertise.<br>• Strategy to reduce dependency developed<br>• Implementation of strategy. | Dec | 2,7 |
| Distributed system not acceptable:<br>- scalability of Riposte correspondance server<br>- fraud opportunities<br>- not proven | Technical | • Papers submitted and discussed with customer<br>• Modelling to complete<br>• Customer acceptance expected | Mid Dec | 9,34,21,20 |
| BA/POCL attempt to transfer more risk to Pathway than the business model provides for. | Quality & Risk | • Review the requirements<br>• Flex the revised business model | Jan | |
| EPOS; more development required. | Technical | • Demonstrator developed by Escher<br>• Demonstrate solution<br>• EPOS solution Functional spec produced & reviewed with customer<br>• Size implementation and decide route | Dec | 49,1 |

| RISK | RESPONSIBILITY | STATUS / ACTIONS | DATE | BA/POCL RISKS |
|---|---|---|---|---|
| Roll-out plan not acceptable to POCL/BA | Operations | • Discussion with customer, demonstrates capability; site visits arranged<br>• Input plans into requirements catalogue<br>• Roll-out schedules to be negotiated/ agreed | Dec<br><br>Dec<br>? | 18, 37 |
| No CMS solution | Technical | • ACI qualified out<br>• Review of alternatives; Oracle chosen as preferred route<br>• Change control board<br>• As PMS/CMS risk | Wed 25<br><br>Early Dec | 13,15 |
| Transition process not fully defined | Operations | • Develop process model of operational end to end service<br>• Identify road map of major activities necessary to ensure smooth transfer during transition to automation | End Nov<br><br>Jan | |
| MIS; definition and development- unable to invoice or control suppliers or reconcile POCL/BA data<br>- Lack of control of Pathway | Operations | • MIS definition, development plan<br>• Response to supplier ITT<br>• Supplier selection, update level 3 plan | End Nov<br>End Nov<br>Mid Dec | |
| Bottom up plan will not support top down level 1 plan | Programmes | • Complete level 3 plans, timescale, resources, cost<br>• Identify issues | Mid Dec<br><br>Mid Dec | |

**Pathway Group Ltd**

**Managing Directors Report**
**Board Meeting 6th December**

## 1. INTRODUCTION

The last four weeks have seen some marked new changes in the procurement process as drawn up by the BA/POCL Programme. Many of these reflect the high profile strategy we have been adopting and although it's good to see our ideas included, the net effect has not been to pull the timetable forward. Indeed as we stand there is still no formal timetable published.

We have also been through a period of a high intensity of customer meetings based in Feltham, all to do with a better understanding and discussion on the Pathway proposal and in so doing, an opportunity to discuss and handle the customer risk register.

## 2. PROCUREMENT PROCESS

The Programme is now pursuing the approach of issuing and agreeing a Requirements Catalogue with the prospective bidders and using this as a main driver in the ITT. All bidders have a fixed period of time to respond to the requirements such that this, together with the finalised risk register and a series of standard contract clauses can then be used as the baseline material for an ITT to be issued. Although this process removes the pressure on the 90 or so schedules, all of which can be left until a Service Provider selection has been made, it does depend on a negotiating agreement to be reached between the sponsors. There is little sign that this has been yet achieved and as a result there is no definitive timetable for this new procurement to finish. The only positive news is that there will be no ITT before the end of the year. As we stand, progress on the requirements being received and responded is very slow, no clauses have yet been negotiated and the core negotiating team meetings have only made a modest start. In short, although the process is definitely better, is more requirements based and fits better within a PFI framework, there is no sign that it will complete before April/May 1996.

## 3. TOP LEVEL MEETINGS

The meetings with Steve Robson with Treasury and Richard Dykes of POCL both went very well and the messages and information we took were well listened to and in some cases acted upon. As a result, Treasury do understand the need for them to make a contribution to the business case of their two sponsors in order for early fraud savings to be of value. In addition ESNS has now been formally accepted as a requirement for a day 1 service and this is very much as we were proposing. An active discussion with POCL about the bill payment market place could help defer the investment in further APT devices. The only down side is that this has caused some serious concerns within the programme team that Pathway is making a nuisance of itself and now that we have got our key messages established we are standing back and getting on with the jobs in hand.

**4. POCL PARTNERSHIP DISCUSSIONS**

After a long break we had a useful half day workshop with POCL Business Managers on how Pathway would contribute to their development programmes. This was an encouraging positive session and it is quite clear that once the procurement activity is complete there is a mountain of work both sides can and want to do to develop good business products, their marketing, their successful implementation. Feedback from the session has also been positive and we are now looking at some follow-up actions which can still run alongside the procurement work. There remains however the concern about providing commercially sensitive information, to three bidders, two of whom are going to be deeply disappointed.

**5. POCL TWINNING ARRANGEMENTS**

These have worked out if anything better than expected and our post office region based in Swindon with whom we are "twinned" has proved enormously helpful in showing us around their network of Post Offices introducing us to staff both in branch offices and sub-post offices and generally allowing us to use their user base as a focus group for our developments. We have so far had several groups of ten to twelve sub-postmasters visit us in Feltham to give us the benefit of their thoughts and to show a high degree of enthusiasm for the systems we are proposing.

**6. PATHWAY SUPPLIERS**

A lot of work has been done over the last month to follow up the ITT's we have issued and particular attention has gone on the choice of hardware infrastructure on the desk and after a head to competition with Compaq we have chosen Fujitsu ICL for the main PC processors on a better total cost of ownership model. We have however reserved the right to return to cost at ITT time. Similar discussions are under way with ICL Sorbus for maintenance and Girobank for Help Desk and Operational Services. Both of these have more discussion to go. Following a particularly difficult period with BT, due to highly competitive proposals from Energis, we are now evaluating a much more innovative approach from BT which holds out good prospects for us.

On the application development side, we have been able to move the argument fairly quickly away from our problems with ACI and CMS and are now looking towards a major development partnership with Oracle UK to take development responsibility for both PMS and CMS and to do this using more PFI principles than conventional procurement activities. Oracle are enthusiastic to do this and we need to tie this down into a commercial framework before we can go final on this approach. However as we speak, the design teams from Pathway and Oracle are working closely on the functional specification for these critical systems. For counter applications we shall use as far as possible proven systems which can be tailored for BA/POCL and these will of course come from the An Post implementation set. The major new requirement here is for EPOS/Operational support services and on this we are currently in active debate as to how we can get this developed without a dependency on Escher but safely in terms of on time delivery. This is proving quite a challenge and a final decision is not yet made.

## 7. COMPETITION

There is little doubt that IBM have made major strides forward over the last few weeks and have certainly done so to Benefits Agency by putting forward an end-to-end solution which is based upon proven components from some of their customers in South Africa and one which they claim will deliver the lowest cost delivery. Cardlink UK have not apparently moved their case forward much this last month, we must therefore consider our most serious threat to come from the IBM grouping.

## 8. RISKS

After a somewhat slow start the prospects of the risks being reduced have now picked up speed and we should get quite a group cleared within the next week or so. However of deep concern is the fact that many outstanding risks are not collecting around our dependency on Escher and this is something which is occupying the whole of the management team. Progress with Oracle for back end systems will clearly help, but we must develop a much more robust self sufficiency for counter applications. The Programme wants to know how Pathway intends to handle our dependency on Risposte middleware itself and its future development direction. We have early ideas here but they are not yet fully developed.

## 9. PATHWAY PROGRAMME PLANS

A new version of the programme plan has been recently issued but many of the dates have had to be based on our own best guess. Filling in the details of work packages has not been easy particularly where control over dependencies is fragile.

## 10. BID BUDGETS

It is extremely difficult to see how a service provider can be selected before April/May 1996 and therefore work has been done to minimise the bid activity costs to those which are absolutely necessary. Nevertheless, we need to budget for two full quarters of spend before we can count on a clean decision.

**11. STRATEGIC QUALITY MODEL**

Although we have been heavily preoccupied in reactive and responsive procurement based activities, we have taken timeout to take first look at how Pathway might conform to the EFQM quality model and we have conducted our first self assessment on the nine elements. There are quite a few lessons for all of us to learn from this and we do need to do make background progress on these areas whilst not losing sight of the critical demands of the procurement process. In particular good work spent here on being clear on our critical business processes will almost certainly pay dividends as we move from procurement to implementation.

**John H. Bennett**
**<u>Managing Director</u>**

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Pathway **M E M O**

To: Pathway Board

From: Tony Oppenheim
FEL 01

Tel: GRO
ITD: GRO
Mobile: GRO

Date: 29th November 1995

**Finance Director's report - November 1995**

Highlights

Good:
* Slimmed down process previewed - but not confirmed
* Real progress made on the ground - understanding and risks
* PFI only approach confirmed
* Political imperatives of PFI and fraud savings hightened
* Treasury now understand the need to pump prime - but they not yet committing themselves to helping the business case
* ESNS functionality to be included in requirements
* Selection criteria include regard to fraud savings and to ease of use
* Favourable "partnership" session with POCL - but concerns expressed over Pathway / Girobank conflict (bill payments)
* Selection of Pathway suppliers making good progress
* Oracle decision in principle to engage on PMS/CMS

Not so good:
* Timescale slippage still occurring despite deferral of work
* No clauses thus far, no CNT negotiating sessions
* BA and POCL have yet to agree a joint negotiating position
* BA/POCL business case identified as very sensitive to price
* IBM catching up - in some respects now judged to be ahead
* Requirements catalogue still smacks of traditional procurement
* Business case no better than a month ago
* Lack of depth highlighted in parts of our solution
* Some critical risk areas proving intractable
* Intensive customer sessions have sapped resource
* Need for more bid moneys confirmed
* Morale

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Timescales and Process

The Procurement team has acknowledged that, practically (but still not officially), there is now no chance of achieving ITT by Christmas.

The Procurement team has proposed a replan of process to the supplier community and to the sponsors (BA/POCL). As far as we can tell, that replan is likely to proceed and goes as follows:

- abandon Schedules for the time being
- replace functional requirements with a requirements catalogue
- replace service descriptions with a service catalogue
- charging structure to be set by the Procurement authorities (not by each supplier)
- concentrate on main drivers now, leave details until later
- draft (agree?) all main "clauses" (terms and conditions)
- go for early ITT and Tender
- qualify the prices against the business cases
- hold "clarification sessions" with all three suppliers
- simultaneous selection and "award" against that level of documentation
- fill in the details post award (in parallel with trialling)

There is no official timetable to go with this process, and neither has the process been confirmed.

Logically, based on customer declared elapse times and without any contingency, the timetable would follow the following profile:

| | |
|---|---|
| - ITT issued: | late January |
| - Tender submitted: | late February |
| - Selection and award: | end April |

The two month period from Tender to Award reflects previous intentions based on a fully defined ITT baseline. No additional time has been allowed for "clarification sessions" or for POCL and BA to finalise their bilateral commercial arrangements in light of Tender inputs.

A May or June decision remains most likely.

Customer Negotiations

There have been two CNT sessions in the last month. One dealt with the revised process, the other with draft charging structure. Neither involved any negotiation.

As reported elsewhere, the first partnership meeting has been held and a follow-up is planned.

In addition, also not a negotiation as such, we have held two meetings with Charterhouse on Pathway funding. They have expressed

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concern as to the adequacy of the equity base plus limited recourse finance to support this procurement. It is clear that the level of equity on the table from the other two competitors is significantly higher. Discussions ranged over acceptance, termination in breach at various stages, step in and step out rights, and the need for a bilateral agreement between the banks and the procurement authorities. Our innovative PFI funding package is likely to be viewed as riskier than a more traditional package, and such risk will be weighed against the lower cost. We have pressed for separation of SIS and BPS acceptance, particularly under a fast track roll-out, and there is at least an acknowledgement of the issue. Progress has been made, but there is a long way to go if contingent liabilities are to be contained to reasonable limits in all possible (even if unlikely) scenarios.

Funding

Credit Suisse and Toronto Dominion have put forward a joint lead arranger mandate for signature. Subject to two points requiring clarification, requested, this will be tabled for agreement by the Board.

It should be noted that the change in PMS/CMS supply strategy (separating the design and build responsibility from the operating responsibility) will make it more difficult to pass risk down. That will result in greater risk staying within Pathway itself. The banks have signalled that, to the extent that pass down is no longer possible, they will be looking to the shareholders for completion guarantees. I can see no way round this position, hence am working to limit the exposure (as above).

Supplier pricing and selection

The following suppliers have been selected after due process:

- FJ-ICL Systems for PC's
- Compaq for correspondence servers
- Excel for distribution and installation

We await revised inputs from Girobank and ICL Sorbus on PMS/CMS help desks and customer services respectively.

BT have offered to "front" Energis (or any other low cost supplier of long distance ISDN services) for a premium of circa 10%. We are weighing the benefit of reduced risk against the higher cost. Both offers represent significant savings over BT's original quote.

Significant gaps remain:

- PMS and CMS production version development
- MIS development
- EPOS, stock control and cash account development

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Overall, costs are still too high and a number of suppliers have been told that they will have to do better.

## Risk register

Of most concern:

- PMS/CMS redevelopment/enhancement (from Postdraft base)
- EPOS etc. as a product in the timescales
- continuing dependency on Escher
- lack of operational outsourcing track record

## Market opportunity beyond POCL/BA

A number of countries have been identified as worthy of consideration based on the following criteria:

- English speaking (at least from the standpoint of sales, consultancy, negotiation and project management)
- UK influence/orientation
- size
- ICL capability on the ground

These are:

- Hong Kong, Malaysia
- Australia
- South Africa, Zimbabwe, Tanzania, Kenya
- India, Sri Lanka, Pakistan
- USA, Jamaica

Realisation of such opportunities, would in part depend on arriving at appropriate arrangements with An Post, Escher and probably POCL.

## Business Case

At time of writing, this is still being worked on to reflect a large number of detailed changes. These reflect:

- changes to requirements (as provided by the customer)
- changes to services as a result
- changes to supply components (design or demand driven)
- new volumetric data from POCL/BA
- the proposed charging structure (per CNT input)
- supplier tenders and follow-up changes

The summary position is that the capital requirement is significantly higher than it was at time of Proposal but that operational costs are somewhat lower.

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Several areas of targeted cost reduction have been identified and could make a worthwhile difference. The business case will assume a level of task in place of contingency and will anticipate a degree of success. Opportunities range from design changes through changes to the way the service is carried out, to straightforward price negotiation (as above).

If time permits, it would be worth discussing price levels at the meeting, both relative to competition and to POCL/BA's own business cases. A realistic view of pricing is likely to reduce planned revenues as compared with Proposal Board Business Case.

The business case does not currently reflect the opportunity for follow-on sales or the possibility of a "buying club/wholesaling" operation to serve sub-postmasters over the planned infrastructure.

<u>Pathway staff terms and conditions - planning for award</u>

We still need to progress the Deed of Participation item with respect to pensions, but this is not time critical - yet.

Tony Oppenheim