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THE POSSIBILITIES ARE INFINITE

Proposal to Post Office Limited

For

Extension of the Horizon Contract

18th September 2002

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1 Management Summary

Post Office is experiencing a major change in its operating and commercial environment. It must transform its cost base, processes and behaviours to meet the challenge. It requires its strategic partners to recognise this customer need and has invited Fujitsu Services to engage in effecting this turnaround.

Fujitsu Services thanks Post Office for the opportunity to submit a proposal for the on-going operation of the counter automation across the UK network.

Following many discussions with Post Office over the past months, it has been readily agreed that if we are to have a mutually beneficial longer-term relationship, then change is a must. Post Office business plans demand radical action to turn the business round and see a return to profitability.

Currently Post Office spend on IS exceeds 23% of revenue. This is against industry yardsticks of 3-7% for retail and 10-16% for banking. While Post Office does not naturally fit neatly into either sector, rather it is more unique, the key point is that current IS costs are too high and more than the business can afford. Hence Post Office has spent a considerable time reviewing its overall cost base and not only taking internal steps to enable cost reduction but exercising each of its suppliers to do likewise.

Fujitsu Services has clearly recognised the need to respond to Post Office requirements. However, there are clearly two ways to address cost imbalance – either take cost out or increase revenue. This proposal aims to address both.

Horizon is now installed across all 17,500 UK post offices. The current service runs very effectively and serves the need of the customer, the postmaster and Post Office and their clients. Many aspects of the service were defined when there was a different purpose for automation: that of securely paying benefit to 19 million benefit customers. The decision in 1999 to move to benefit payment via ACT has changed that and accordingly, many of the stringent aspects of the current service could be deemed to be no longer necessary. The clear challenge has been, therefore, to identify the possible changes to be made, to assess the savings arising from these changes and to estimate the costs and timescales of moving to a new regime for the future.

Equally important, when making these changes is the need to arrive at a service that is more responsive to change. Currently, changes to the existing service are lengthy and expensive due to the need to embed complex processes and to undertake full regression testing. We are aiming through this proposal to arrive at a more flexible platform, capable of change, with reduced operating charges and with clearly defined operational boundaries.

1.1 Post Office requirements

We have identified the following as the key drivers governing change:

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- **Lower operational charges year on year**

  Post Office wish to see a reduction in operating charges year on year from 2002/03 towards a level of spend more commensurate with similar industry types.

- **Flexibility of contract – unbundling**

  A clear requirement has been expressed to see the separate parts of the contract charged for on an individual basis. Currently, there is a single operational service charge for Horizon. Unbundling allows Post Office to see clearly the price paid for individual components of the overall service.

- **Minimum System Integration (SI) commitment**

  Post Office has expressed a clear requirement that they do not wish to contract for a significant Systems Integration element in advance of clear requirements being known. Post Office also wishes to have the flexibility to have other suppliers bid for development business. Fujitsu Services understand this wish and support it.

- **Speedy Implementation of new services**

  Post Office needs to respond to market pressures in a way not seen in the past. This will necessitate a faster response to new market opportunities and the requirement to achieve faster product automation on Horizon.

- **Changed terms and conditions**

  Post Office has signaled an intent to implement changes to levels of liability and to Service Level Agreements if this helps to reduce the overall operational and development cost of Horizon.

1.2 Fujitsu Response

This proposal is our detailed response to the above requirements. Our financial proposal can be summarized as follows:

- A 30% reduction in operating charges over the life of the revised contract
- A clear split between operate and systems support with a breakdown showing the cost for major service elements
- A commitment to a level of investment in re-architecture within the Fujitsu Services domain
- A commitment to a fixed level of support
- No change to the availability fees.

If the current contract were to be extended as is, the expected charges (exc. VAT) over the period to 2010 would amount to £840million.

This revised approach requires an overall investment of £750million but provides the following additional benefits:

- Re-architecture of internal systems to allow lower operational support charges

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- A reduction in the Customer Service headcount while maintaining a high service level
- A reducing core support team from the current level of 150 staff ending up with a core team of 90
- Up front discount of £30million in the first two years
- An allocation of spare Systems Integration capacity of £40million from the fixed support level over the contract term

The summary financial picture is as follows:

FROM JANUARY 2003									
	TOTAL	02/03	03/04	04/05	05/06	06/07	07/08	08/09	'09/10
TOTAL OPERATE	531	117	74	65	60	57	54	53	52
TOTAL SI Commit	141	6	25	24	16	16	16	16	21
NWB to go	6	4	1	0	0	0	0	0	0
Impl. SI & Architecture	13	1	3	7	2	0	0	0	0
Availability fee	88	31	31	27	0	0	0	0	0
DISCOUNT	-30	-15	-15	-10	10	0	0	0	0
TOTAL REV (new pricing)	750	145	119	113	87	73	71	70	73
TOTAL REV (old pricing)	840	159	128	119	90	88	86	85	84
DIFFERENCE	90	14	10	6	3	15	15	16	11
Spare SI capacity available Foc	-40	-2	-7	-7	-5	-5	-5	-5	-5
Note: 2002/03 Operate figure is for full year									

1.3 The Proposal

The structure of this proposal is as follows:

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Section 2: The New Way outlines, at a summary level our approach to a new way of working, proposing new governance structures, outlining the changes to operational service, proposing a fresh approach to end to end systems design and detailing a number of new business opportunities.

Section 3: Programme Plan details our approach to re-architecture and proposes timescales in which change may be affected.

Section 4: Contract Terms details the key assumptions regarding changes to terms and conditions

Section 5: Operational Services details the principal areas within the current services operation within which changes can be effected. Some of these changes over time will come about as a result of re-architecture. Many others arise because of proposed changes to liabilities and SLAs.

Section 6: Systems Integration Services details our approach to development and integration projects in the future. This encompasses the proposal of core services reducing over time and the new concept of spare core resource being available to Post Office for new projects.

Section 7: Financial Summary details the revised financial proposal taking the contract term up to March 2010. It also breaks down the operational costs into work package breakdowns so that a clear price of the constituent services can be seen.

Appendices:

Appendix 1 contains detailed descriptions of the new Landscape processes that are proposed in order to make our on-going relationship more effective.

Appendix 2 contains jointly agreed proposals for new governance groups between Post Office and Fujitsu Services.

1.4 Revenue upside

We have in section 2.5 outlined a number of new opportunities that will create new revenue streams for Post Office. These proposals are not simply related to new products on the Horizon platform but span other areas such as expanded use of the communications network.

In its last proposal, Fujitsu Services proposed a revenue/cost saving sharing approach to new opportunities. Fujitsu Services is supportive of a risk/reward approach being put into place. This provides encouragement to both companies to accelerate process within each company to achieve faster time to market from idea creation to product deployment.

We propose that should we undertake development in pursuit of clear cost savings, then Fujitsu Services are prepared to undertake development at cost in return for a 10% share of the cost savings.

For new product development we propose a similar approach of development at cost, in return for a 5% share of the new business revenues.

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1.5 Next steps

- We propose that we move towards signature of a formal heads of agreement by end October
- We work together to agree a new contract by 31st December
- Post Office grant an Authority to Proceed covering the immediate costs of the agreed steps in this proposal

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2 The New Way

It has been widely recognised by both Post Office and Fujitsu Services that the current way of doing business is ineffective and draws out behaviours from both parties that are not in line with best practice and do not help to get the best out of each other. Rather, they get in the way of speedy, smooth progress. This is in neither company's best interests.

We have both agreed that this must change if we are to have a mutually beneficial future relationship. Fujitsu Services is fully committed to helping Post Office achieve marked reductions in operating expenditure. This proposal focuses on a new approach to delivering IS/IT services with significantly lower cost, higher productivity and speed of delivery.

We are proposing that key changes must be made in the following areas:

- Governance
- End to End Solution
- The Approach to New Opportunities and to Risk and Reward
- The Working Processes between our two companies
- Operational Service
- Commercial Terms and Conditions

2.1 Governance

The joint work previously undertaken highlighted the need for better governance. Governance is defined as the direction, control and measurement of activity towards business goals. Both Post Office and Fujitsu Services support this. Governance starts at the top and works its way down through both organisations.

Key working relationships must also be examined. The best working practices are where there is clear joint working where respective positions are understood and there is a clear goal to work towards. The "Your Guide" programme was a clear example of what can be achieved through this way of working. More recently, there have been more examples of this type of approach with the evaluation of the 16 requirements and separately with the architecture work.

We are proposing that the following groups meet on a regular basis to ensure maximum return from our future relationship. A full description of each group is given in Appendix 2.

- **Board to Board**

  An annual meeting between the boards of both companies to share ideas on future direction and enable direct relationships to be built at board level.

- **Executive Forum**

  This group is principally responsible for defining strategic direction and vision and aligning business objectives and direction. This group must meet regularly to

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maintain momentum and ensure that direction is being given and is consistent with the direction of Post Office business.

- **New Business Forum**

  Responsible for generating and scoping ideas and opportunities to achieve joint business objectives and ensure continuous business improvement. Fujitsu Services proposes that there be significantly greater involvement at the business level than heretofore. Joint scooping of business opportunities can lead to earlier engagement and faster initialisation of an automated solution.

- **Joint Architecture Forum**

  Responsible for requirements analysis, solutions visualisation and migration planning

- **Release Planning Forum**

  Responsible for agreeing high level planning assumptions for future developments of services

- **Projects Board(s)**

  Responsible for individual management of larger projects or specific releases

- **Service Management Forum**

  Responsible for reviewing performance against contracted service levels, resolution of operational issues, release authorisation and ensuring continuous service improvement.

- **Commercial Forum**

  Responsible for the commercial and contractual governance of the business.

2.2 End to End Solution

The principal aims for evolving the Horizon Architecture are:

- Reduction in cost of ownership of the solution (lower operational development and support costs)
- Greater potential for change (supporting rapid introduction of new or changed products)
- Reduction in complexity to reduce development & testing costs
- Minimal disruption in the outlets.

We have examined each area of potential re-engineering of the current architecture. Our proposal is that areas clearly within the Fujitsu Services domain should be tackled straightaway in order to release costs. Fujitsu Services is proposing that the following be addressed within the overall operational costs of the Horizon service:

- Elimination of Dynix systems
- Introduction of ADSL

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- Refocusing of existing data warehouse onto business information reporting
- Relocation of the current data centres
- Updating of counter software platforms to Windows 2000 and, subsequently, to Web Riposte Essential

Areas that lie outside the Fujitsu Services domain (OPTIP, Cash Account) must be reviewed, planned and actioned accordingly following detailed discussions with Post Office. Fujitsu Services continues to believe that major savings are available through end to end re-engineering but this work is clearly dependent on business decisions within Post Office.

2.3 Fujitsu Services Domain changes

Our proposal will necessitate changes in the following areas:

2.3.1 Host Platforms

We propose that the content of the existing Sequent servers will be migrated to more powerful but less expensive servers running under Solaris. These have substantially lower running and support costs, and avoid potential problems caused by the increasing lack of support for Dynix-based third party products.

The Data Warehouse, which at present is used primarily to process SLA calculations, will be re-oriented towards a business support MIS. It will retain the current transaction feed from the Host, but a wide variety of analyses will be provided to support Post Office's business processes. The model for this will be the MIS reports introduced for NBS and DCS.

2.3.2 Counter Hardware enhancements

We have given close attention to the need to undertake a complete technology refresh. On balance, we deem this not to be necessary but cannot rule out the need to increasingly review this over time. However, in order to take advantage of new technologies, e.g. ADSL, there are hardware upgrades envisaged in support of the various initiatives and new business opportunities.

To enable introduction of ADSL, we will need to install a DSL card in the Gateway PC at selected Outlets.

Synchronizing upgrade activities and hence eliminating unnecessary engineering visits can achieve significant savings. The schedule of upgrades will be refined once the Post Office business plan is finalized and understanding of approved new developments is gained.

2.3.3 Data Centre Changes

We are proposing to move from the current dual Data Centre configuration to a single new Data Centre. This will be enabled by modifications to the recently enhanced fail-

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over mechanisms, to ensure a smooth migration with minimal risk. It should be noted that the new Data Centre will retain systems resilience, but disaster standby capability will rely on redeployment of Fujitsu Services test rig configurations to provide the on-line services should a total disaster strike the Data Centre.

2.3.4 Counter Changes

There are two key enhancements to the software environment of the Counters proposed:

- The introduction of new counter applications (based on WebRiposte Essential ™, together with new application components)
- An upgrade to Windows 2000 (or later) to exploit the latest Microsoft workstation technology

These two approaches ensure that we are taking full advantage of the latest technology and overall improving our ability to intercept standard application packages and minimise the cost and time needed to introduce new products.

2.4 Changes outside the Fujitsu Services Domain

There are a number of significant areas of possible change that either exists outside the current Horizon domain or span domains creating unnecessary boundaries. Re-engineering of these systems will lead to significant savings in Post Office's end-to-end processes. For example, the potential saving through eliminating current back end systems on the Post Office side has been estimated at some £40million per annum.

2.4.1 Removal of OpTIP

OpTIP currently receives a full detail of transactions carried out on Horizon, acting as a router of the required information to other internal Post Office systems (e.g. CBDB). By customising the Horizon feeds for the consuming systems and routing these new feeds directly, the majority of OpTIP functionality would no longer be required. The remaining functionality can be provided by other means, facilitating a significant saving by elimination of the whole OpTIP system.

To realise maximum savings, it is suggested that Post Office should immediately initiate a design study to assess the work required within Horizon to enable OpTIP to be eliminated as soon as possible.

2.4.2 Improved processing of Reference Data

There are several systems within Post Office and Fujitsu Services that act as master sources for various items of reference data. The process for changing and evolving reference data is cumbersome and contributes to delays in introduction of new products as well as adding to costs.

It is proposed that a new facility is developed which straddles the Post Office – Fujitsu Services boundary and provides a more efficient, user-friendly and accurate support for creating, validating and approving change to reference data.

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2.4.3 External Links

Current client links from Horizon are top heavy, both in terms of security and SLAs. We are proposing a simpler web based service where the client will 'pull' his data down rather than we 'push' it down as now. This will enable a more cost effective approach to new clients, taking away the need for expensive up front investment in new hardware and network links. Options exist on the precise implementation of this service, mainly around whether use can be made of existing Consignia links or whether it makes more operational and control sense to deliver the service from within the Horizon domain.

2.4.4 Network Banking Engine

Consideration should be given to elimination of the current NBE. Basically, the NBE operates as a switch between the Horizon domain and Link, CAPO and potentially the banks. It is worth considering whether this additional link needs to be in place and whether the current costs can be saved. Again, the decision to have an NBE was made for requirements that no longer exist.

2.4.5 MIS

Currently, there are two MIS developments, one on the Post Office side and one within Fujitsu Services. Each is dependent on the same single source of data. We propose that consideration be given to at least placing the running of these systems within the same domain. Separately, we should examine the true purpose of having two separate MIS systems.

2.4.6 Switching Streamline interface to IP from X25

Streamline, the Merchant Acquirer adopted for the Debit Card service, currently only support X25 communications. However, it is their stated intention to support TCP/IP, which would facilitate the adoption of a cheaper network solution for the Debit Card Service.

2.4.7 Security & Risk Management rationalisation

An urgent review of threats for which Post Office needs to develop counter-measures is required. Based on the outcome, a re-appraisal of Horizon security arrangements should be conducted to determine the levels of security features and associated operational processes that need to be retained. In particular, the amounts of audit, encryption and digital signing of messages needs to be assessed.

2.5 New Opportunities

Post Office is committed to the expansion of its business through the introduction of new products, either with clients or through innovation with suppliers. Fujitsu Services can play a major part in this through working closely with Post Office in formulating future client strategies or by developing and taking to Post Office innovative ideas that

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will generate new revenue streams or cause cost saving through better use of technology.

Fujitsu Services is keen to explore ways of joint risk/reward sharing in relation to the products identified below. This could take the form of Fujitsu Services bearing a proportion of the development cost in exchange for a share of the down stream revenues based, for example, on a charge per transaction.

2.5.1 New Revenue Streams

Examples of new revenue streams are:

- **E Top-ups**

  The on line charging of mobile phones through all post office outlets. Not only does this bring additional revenues to Post Office, it also potentially draws in a much younger customer than is the norm, thus giving the opportunity for other product sales to a new customer base.

  A further approach to this could be to follow the An Post example and offer a top up service through other retail channels outside of the Post Office network. Consideration must also be given to enabling out of hours activity where many of the current Post Office transactions are restricted by only being offered within the post office opening hours.

- **Talexus**

  With British Gas aiming to be the supplier of choice for pre-paid metering, Post Office is in a unique position to take the lion's share of this market as a service provider to British Gas. Fujitsu Services can work with Post Office to maximise the service offered and bring the product to market at a speedy pace.

- **Entitlement Card**

  The Home Office has started the consultation process for entitlement cards in the UK, due for completion 10th January 2003. The scope of the document is wide ranging and covers many aspects of identity and authentication based on a plastic card. The document does not propose any specific solutions but does demonstrate a Government intention to introduce measures to reduce fraud and increase certainty of identity as a service for Government and for industry, probably based on a smart card. Government's own figures suggest a cost of £3Bn for the service; this breaks down into £136m for IT set-up costs, IT infrastructure costs of £363m, additional staff costs of £62m, costs of processing applications of £608m, and the significant additional costs for card production and maintenance. This represents a significant sales opportunity for both Post Office and Fujitsu Services.

  A joint approach to this opportunity brings a combination of technical skills, government contacts and retail reach to this major opportunity.

- **Loyalty Card**

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28 million people per week come into a post office. This gives Post Office a massive opportunity to develop a loyalty programme that will help ensure customer loyalty but also help to increase product sales through better understanding of the customer base, their needs and wants.

Escher already has a loyalty product deployed in other postal authorities, which could be adapted to suit the specific needs of the UK.

2.5.2 Other Revenue Generating Proposals

In addition to the above revenue streams, there are further opportunities for synergistic approaches to exploitation of the nationwide network. Some ideas that have arisen from discussions between Fujitsu Services and Energis that should be explored further are:

- **Home Highway Deployment**

  Currently, whenever a Post Office location changes, a new set of lines is installed. This churn rate has been up to 10% per annum but under the Network Re-invention project beginning next year this churn could rise to 15%.

  It is proposed that instead of deploying the current infrastructure, a Home Highway or Business Highway connection is implemented, still providing access to ISDN, but also providing twin analogue lines at the same price. This would represent cost reductions for Post Office Limited, and (potentially) increased revenues for Fujitsu from the calls traversing the Energis Network.

- **Lottery**

  The ISDN lines installed at UK Post Offices currently have an unused B-channel. As a result, Camelot terminals could be deployed in these locations (possibly by Fujitsu) without any network installation overhead. This could be established in such a way as to utilise the existing well proven Pathway support arrangement.

  Alternatively the ISDN D-channel could be used, although this may be financially less viable as it would require a terminal equipment change or the addition of a router per site.

- **CCTV over IP**

  Traditional PAL/VHS CCTV systems are often proprietary, expensive and difficult to network. CCTV systems are installed in some post offices but could be deployed at more sites if the cost and technology were not prohibitive

  There are a number of inexpensive CCTV cameras available today which output video streams using standard IP and LAN technology. Many of the currently available CCTV via IP systems are wireless compatible and the hardware often retails at prices of the order of £50.

  The cost of networking has previously prevented a centralised storage model, as have bandwidth requirements. However, the bandwidth to serve CCTV is now of the order of 32-64Kbits/s. In addition, the wider deployment of DSL makes higher speed video more attractive as a security solution.

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Those post offices defined as being at risk of theft or vandalism (or requiring CCTV monitoring for other reasons) could be equipped with CCTV IP devices allowing the stored video to be centrally held in either Fujitsu Services or Energis data centres.

This will reduce the cost base of existing CCTV schemes and permit a wider take up of CCTV solutions.

- **Wireless Post Office**

  In addition to the current estate of circa/about 17,500 post offices, there are approximately 3,500 delivery offices around the UK. Often these are co-resident in the same building, or literally next-door to a post office. Typically, a delivery office is equipped with an ISDN line and one or more analogue phone lines, similar to the post offices themselves. In the future, some post offices may be equipped with a "Your Guide" terminal.

  There may be some opportunity to rationalise the number of phone lines serving these sites and services, generating cost reductions for Post Office and potentially increasing services and revenues for Fujitsu Services and Energis.

  In terms of an enabling technology, today's Wireless LAN solutions can provide a 1Mbit/sdata rate across a range of approximately 100 metres.

  In addition to the above, BT have announced they will deploy a 4000-site radio 'Hot Spot' network, allowing mobile users to log on to the internet using wireless PCMCIA cards in laptops. BT judge that the time is now right to introduce this facility and capability, and that there is a latent market that can be nurtured and tapped.

  These PCMCIA cards are becoming more prevalent as hot-desking workers are equipped with these devices by their employers - the retail price for a private purchase has dropped below the £99 barrier.

  In addition, there has been a growth in the number of wireless devices appearing in the market to take advantage of the '802.11b' wireless standards, such as wireless CCTV cameras.

  By implementing a wireless network where the post office is near the delivery office, the delivery office can share the post office's Horizon communications links, using either the spare 'B'-channel of the ISDN line or a portion of a DSL or IP Select service.

2.6 The Way we work together (Landscape)

Significant impact on costs currently incurred by Post Office and Fujitsu Services can be achieved by streamlining the process of change, new developments, service monitoring and management. At the same time, a more agile process will speed up the introduction of new capabilities and improve Post Office's position with its clients and with Post Masters.

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Post Office introduced the Landscape model as a new approach to managing the development and on-going operation of Horizon. Fujitsu Services supports that approach, albeit with modifications. The proposed process incorporates the new Post Office processes, as documented in the "Landscape Model", and introduces clearly delineated set of roles and responsibilities, which are reflected in the Governance structure.

Appendix 2 contains the more detailed presentation of the process and the responsibilities of the parties.

2.6.1 Agile Process and organisation

In conjunction with Post Office, Fujitsu Services will adopt significantly improved process for planning, defining, designing, delivering and operating the solution. This process blends the requirements of both organisations to conform to their respective corporate policies, whilst maximising co-operation and overall agility to respond to new needs and reduce overall running costs.

The new process combines the clear definition and delineation of roles and responsibilities, which provide the backbone of an clear accountable management structure, with a number of new working practices, which will improve trust, and productivity, across the interface between Post Office and Fujitsu Services.

The principal innovations being proposed are:

- Co-operative working in areas of Planning (incl. New releases), Requirements Analysis, Design and Testing
- Architecture Lab, to facilitate early understanding of requirements and proposed solutions, and joint visibility of technology evaluations
- Common requirements and technical documentation, to eliminate duplication and inconsistencies.

2.6.1.1 Co-operative working

Much closer co-operation is envisaged between the Post Office teams and Fujitsu Services. In particular, requirements analysis and design activities will be bound closer together by both parties being closely involved in each other's activities, by exploitation of the Architecture Lab and by sharing of early documents and joint reviews. This style of working, whilst not changing in any way the responsibilities and ownership of outputs by Post Office or Fujitsu Services, will ensure that any issues are identified early, that the combined knowledge and experience of both organisations is brought to bear early and that a common understanding exists through all stages of development and service delivery.

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2.6.1.2 The Architecture Lab

The Architecture Lab provides an environment for shared exploration of new processes, new application and infrastructure architectures and new technologies and uses of that technology.

The early exploration of the implications of change ensures that dead ends are discovered as early as possible, while the potential available can be visualised before committing to a complete analysis and design. The knowledge obtained in the exploration phase is expected to reduce time to market and visualisation of possible new solutions will help to identify benefits and further opportunities.

The independent nature of the research capability ensures that new opportunities can be explored without impacting committed programmes

2.6.1.3 Shared Design Document Set

There are many outputs (documents) identified in the end-to-end process that pass between the organisations and either form the basis of subsequent developments or confirm that the developments meet requirements. It is proposed that such documents are visible to both organisations during development, not just on completion, to short-circuit any modification and enhancements that otherwise tend to occur late in the production process incurring rework effort.

2.7 Operational Service

Operational service has been identified as a key area for potential savings. Fujitsu Services is justifiably proud of the service quality of the Horizon service. Care must therefore be given to any unilateral approach to simply reduce the service quality by taking costs out. Fujitsu Services, in discussions with Post Office have, however identified a number of areas where alleviation of limited liability and/or some reduction in SLAs will allow costs to be taken out without a major impact on service quality. The following areas have been identified and Section 5 provides the detailed approach in each area:

2.7.1 Help Desk

We are assuming the implementation of SPOC 2 (Single Point of Contact). In addition, we are proposing that the Help Desk service levels is reduced in areas, which we believe will not adversely affect the business of Post Office.

We are also proposing the introduction of the Technical Service Desk (TSD) which will be responsible for the monitoring and control of all calls relating to Network Banking, whatever domain the calls come from.

2.7.2 System Service (Outlets)

Fujitsu Services have identified a number of service changes, which if implemented will allow a reduction in headcount for system service. We have assumed no technical

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refresh. However, we do reserve the right to monitor MTBF figures and if an increase can be shown to be related to the age of the equipment, then we may need to revisit technical refresh.

2.7.3 Service Management

A robust audit of the existing service is proposed to eliminate activities that are either duplicated or of marginal benefit.

2.7.4 Problem Management/Field Service Management

Currently seven field service managers are employed to handle problems arising in post office outlets. This resource is geographically based and we are proposing to replace these resources with a single problem manager who will then liaise with Post Office staff to handle problem situations.

2.7.5 Management Information Service

This service is run from the data warehouse. One of our proposals is the elimination of excessive periodic SLA monitoring and reporting. Some staff is currently employed to monitor SLA performance and report on exceptions. It is proposed that we re-engineer this service finding a more cost- effective way of providing the necessary level of reporting.

2.7.6 Reconciliation Services

A number of reductions in the scope of the reconciliation service are proposed, none of which should have a detrimental effect on Post Office business. The reduction in scope will allow a reduction in the staffing level associated with this service.

2.7.7 Non-Polled Outlet Management

This service proactively monitors the outlet network and manages the restoration of communications. It is an important service that underpins the successful operation of Horizon but our analysis has revealed that detailed changes to the current service and associated SLAs would yield significant savings.

2.7.8 Transaction Benchmarking

This service provides a post-release analysis of transaction response times against defined benchmarks using the PADS methodology. This involves use of specialised video equipment and analysis of video film to provide highly precise measurement.

It is proposed to cease provision of this service and to agree a less resource and time-intensive mode of working.

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2.7.9 Data Centre Operations and Network Management

The current Horizon data centre sites are sited within facilities owned and used by Alliance & Leicester. There is no commitment to provide the facilities beyond the end of 2006. We are recommending that the current twin data centres should be consolidated onto a single secure site with appropriate physical resilience (dual power, communications, fire and flood separation).

In addition to this site move, Fujitsu Services proposes significant further changes through the re-architecting programme to make data centre operations more cost effective.

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3 The Programme

3.1 Introduction

The proposals described in this document are based on a three-pronged approach to evolving the Horizon solution and reducing the associated costs to the business:

- A number of "tactical" developments will be carried out on the existing Horizon (and Post Office) systems to deliver quick cost reductions (i.e. projects that deliver return on investment within a very short time).
- The more strategic changes, involving business process re-engineering and dramatic streamlining of back-office systems and processes, will be tackled by a new development project, which will deliver a counter-to-corporate resource management systems (i.e. including the replacements for the existing CBDB suite).
- Both parties will adopt a streamlined cooperative development process to deliver new capabilities and manage the deployed solution will be adopted to reduce costs and reduce delivery timescales.

The proposed timetable and the individual elements of the programme are described in this section. It is important to note that the timescales, and therefore the financial profile of the proposal, are dependent on achievement of all the key milestones, including the definition and deployment by Post Office of new business processes.

The following sections describe the tactical changes, the target architecture and the approach to evolution of the systems. Technical descriptions are provided at an overview level to impart understanding of the direction adopted and the essence of the changes being proposed. Detailed definitions are expected to emerge from an on-going co-operative process of requirement refinement and solution design, which will run in parallel with commercial negotiations for contract extension.

3.2 Tactical Streamlining of Current Horizon

A number of developments are proposed, which improve the characteristics of Horizon, in terms of cost of ownership and potential for change, with little or no impact on Post Office – these are described below as "Internal Re-Architecting".

There are also tactical opportunities to realise cost savings which do require some change to Post Office Ltd 's operational processes and systems, but which do not alter fundamental business processes – these are described below as "Joint Re-Architecting".

It is proposed that all of these developments be undertaken if full cost-benefit analysis confirms positive return within the currently envisaged lifetime of the components being affected.

The proposed tactical initiatives, which are outlined in the following subsections, are as follows:

- Simplification of central platforms (Internal Re-architecting project)

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- Transmission of AP client data via a central hub (Joint Re-architecting project)
- Exploitation of ADSL (Internal Re-architecting project)
- Switching Streamline interface from X.25 to IP (Internal re-architecting project)
- Removal of OpTIP (Joint Re-architecting project)
- Improved processing of reference data (Joint Re-architecting project)
- Security and risk management rationalisation (Joint study)
- Elimination of the Network Banking Engine (NBE) – (Joint study)

3.2.1 Simplification of Central Platforms

The Host Central Servers form a key part of the current Horizon architecture. There are two servers in each Campus. Each is a Sequent NUMA-Q server with its own local disks and access to a number of Oracle databases stored on the Campus's EMC Disk Array. At any one time, one server (that in Bootle) is running the live service, with the other (in Wigan) acting as a warm standby.

As well as the Host Central Servers, the same platform type is used for the Data Warehouse. Again, there is one Data Warehouse server per Campus, with the principal Oracle database stored on EMC disks. The Wigan server acts as a warm standby in case of failure of the Bootle server or site.

Both servers run under Dynix 4.4.10. Dynix is Sequent's tweaked version of UNIX, and was produced in the days when such tweaks were necessary to produce the maximum throughput in database applications such as Oracle. The choice of Sequent/Dynix and Oracle provided the maximum available performance for RDBMS applications at the time when it was made.

EMC's SRDF facilities are used to replicate data between the two Campuses, so that in the event of server or site fail-over, it is possible to restart the service on the other site with minimal delays

The deployed environment demands that Fujitsu maintain a body of skills for the various technologies. The Dynix equipment and software are increasingly becoming exotic and carry high maintenance and support costs. This is particularly significant when considering the full estate, with testing rigs adding significant numbers of platforms (Note that there are 31 Host servers spread throughout the live and test estates, and 12 Data Warehouse servers, including Sequent SE30 servers that are used in the test rigs).

Three options have been considered:

- Migrate the Host servers to Solaris platforms supplied by Fujitsu Siemens
- Migrate the Host databases to NT platforms
- Migrate the Host databases to SQL Server applications running on NT

The first option is relatively straightforward and over an extended Horizon contract period delivers significant financial benefit.

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Early migration of all the applications to SQL Server carries significant conversion costs and is also judged to carry too high a risk associated with performance, although this may reduce as Microsoft evolve their RDBMS in the next 2-3 years.

It is possible to move all the Host applications to NT servers. Fujitsu Services normal approach to NT (one task per box) would indicate that each application would be moved to a separate server; however Oracle licensing is per box rather than per database, and this would increase license costs. It would also increase the number of servers in the test rigs quite considerably. Further analysis of this option will be carried out, but initial assessment suggests that benefits would be marginal and risks would rise.

Therefore, it is proposed to adopt the first option immediately, and track the evolution of Microsoft software, to determine when conversion from Unix, and perhaps Oracle, will present a clearly beneficial case.

3.2.2 Transmission of AP Client Data via Hub

Currently, APS supports a large number (about 500) of clients. A few of these are supported by direct FTMS links to their sites, but the majority are supported by sending their data to a single client (Girobank) that acts as a "proxy". Consignia already have a mechanism where clients can connect in to pick up information from a Web Service, and initial assessment suggests that this could be exploited. Alternatively it may make sense for Fujitsu Services to operate a web service from which clients pick up their data directly.

3.2.3 Exploitation of ADSL

Currently almost every Post Office outlet has a 64K dial-up ISDN line provided under the Horizon contract and a separate telephone line supplied by the Post Master. For cost reasons, the ISDN service is not permanently connected.

ADSL is a new "broadband internet" technology, which could provide low cost high performance permanently connected communications to a large number of outlets via the existing BT telephone wiring. The standard bandwidth is 288Kbits/s upstream (outlet to data centre) and 576Kbits/s downstream (data centre to outlets).

To use ADSL, the following changes would need to be made at the outlet:

- Install the ADSL line
- Convert the gateway PC to support ADSL

There are two ADSL migration options that could be followed:

- Fujitsu Services to provide a PSTN line in place of the existing ISDN Line.
- The outlet's existing PSTN line to be converted to ADSL and the existing ISDN line discontinued.

Due to BT's technical constraints, the ADSL upgrade could not be affected universally. Outlets that are too far from BT exchanges (or outside BT's target segments for ADSL) will have to remain on ISDN; nevertheless, 50-80% of outlets should benefit. Clearly the

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minority of Post Offices, which are satellite connected (around 250) or mobile outlets (around 200) are not included in the consideration of this opportunity.

The deployment of ADSL, requiring a hardware upgrade at the outlet, should be, as far as possible, coordinated with any other initiatives to deploy new devices to the outlets (i.e. engineering visits), thus minimising deployment costs.

In order to cost this change, the following assumptions were made:

- ADSL tariffs will decline by 6%
- ADSL coverage is 80% of outlet network
- Published domestic tariffs apply

3.2.4 Switching Streamline interface to IP from X25

Streamline, the Merchant Acquirer adopted for the Debit Card system, currently only supports X25 communications. However, it is their stated intention to support TCP/IP, which would facilitate adoption of a cheaper network solution for the Debit Card System. For the purposes of this proposal, it is assumed that this change can be effected during 2005.

3.2.5 Removal of OpTIP

OpTIP currently receives full details of transactions carried out on Horizon, routing the required information to other internal Post Office systems (e.g. CBDB). By customising the Horizon feeds for the consuming systems and routing these new feeds directly to the systems, the majority of OpTIP functionality would no longer be required. The remaining functionality can be provided by other means, facilitating a significant saving by elimination of the whole OpTIP system.

To realise maximum savings, it is suggested that Post Office should immediately initiate a design study to assess the work required within Horizon to enable OpTIP to be eliminated as soon as possible.

3.2.6 Improved Processing of Reference Data

There are several systems within Post Office and Fujitsu Services that act as master sources for various items of reference data. The process for changing and evolving reference data is cumbersome and contributes to delays in introduction of new products as well as adding to costs.

It is proposed that a new facility is developed which straddles the Post Office – Fujitsu Services boundary and provides a more efficient, user-friendly and accurate support for creating, validating and approving change to reference data.

3.2.7 Security and Risk Management Rationalisation

An urgent review of threats for which Post Office needs to develop counter-measures is required. Based on the outcome, a reappraisal of Horizon security arrangements will be

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conducted to determine the levels of security features and associated operational processes that need to be retained. In particular, the amounts of audit, encryption and digital signing of messages will be assessed.

3.2.8 Elimination of the Network Banking Engine (NBE) – study

It is proposed that a review of the case for retention of the NBE is carried out. The possibility of interfacing Horizon directly to Link and to the various banks, which are required to be supported by the NBE, should be seriously evaluated, as significant savings could be realised by such a development. Once Debit Card (and e-Top-Ups) development is completed, Horizon will have the capability to support the interactions required to interface directly with financial institutions. Extending the range of supported end-points is technically straightforward, and the cost of the overall service should be lower than that associated with an independent NBE. Major savings would accrue from:

- Fewer reconciliation points
- Reduced communication costs
- Simpler security
- Reduction in Data Centre requirements
- Simpler process to manage future changes, with fewer parties involved (e.g. developments envisaged for National Savings enhancements would be simplified)

3.3 Target Architecture

3.3.1 Key Concepts and Principles

The principal aims for evolving the Horizon Architecture are:

- Reduction in cost of ownership of the solution (lower operational, development and support costs)
- Greater potential for change (supporting rapid introduction of new or changed products)
- Reduction in complexity to reduce development & testing costs
- Minimal disruption in the outlets

The project will re-use existing Horizon assets to minimise cost and timescales where appropriate. In particular, the project will aim to maximise re-use of expensive items such as:

- Counter hardware
- Data communications network
- Central hardware and data storage

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- Software components (3rd party gateways/interfaces – e.g. NBE link, Streamline link, Client interface, and relevant elements of the application suite – e.g. DRS)
- System management and operational support systems

3.3.2 Architecture

The key principles embodied within the model are:

- Minimisation of reconciliation requirements by optimised data flows and creation of the logical "Single Data Source"
- Auditing implemented at external boundaries
- Elimination of artificial boundaries (e.g. TMS/OpTIP)
- Consolidation of Data Centre facilities

The re-architected solution is based on a "thick client" approach. The "thin client" option was considered and rejected, because it could not deliver autonomous operation of the counter (in case of network disconnection) and would require complete redesign of central systems for on-line working, thus destroying any possibility of reusing past investment in the new solution.

The re-engineered solution will target the conceptual model shown in Figure 1.

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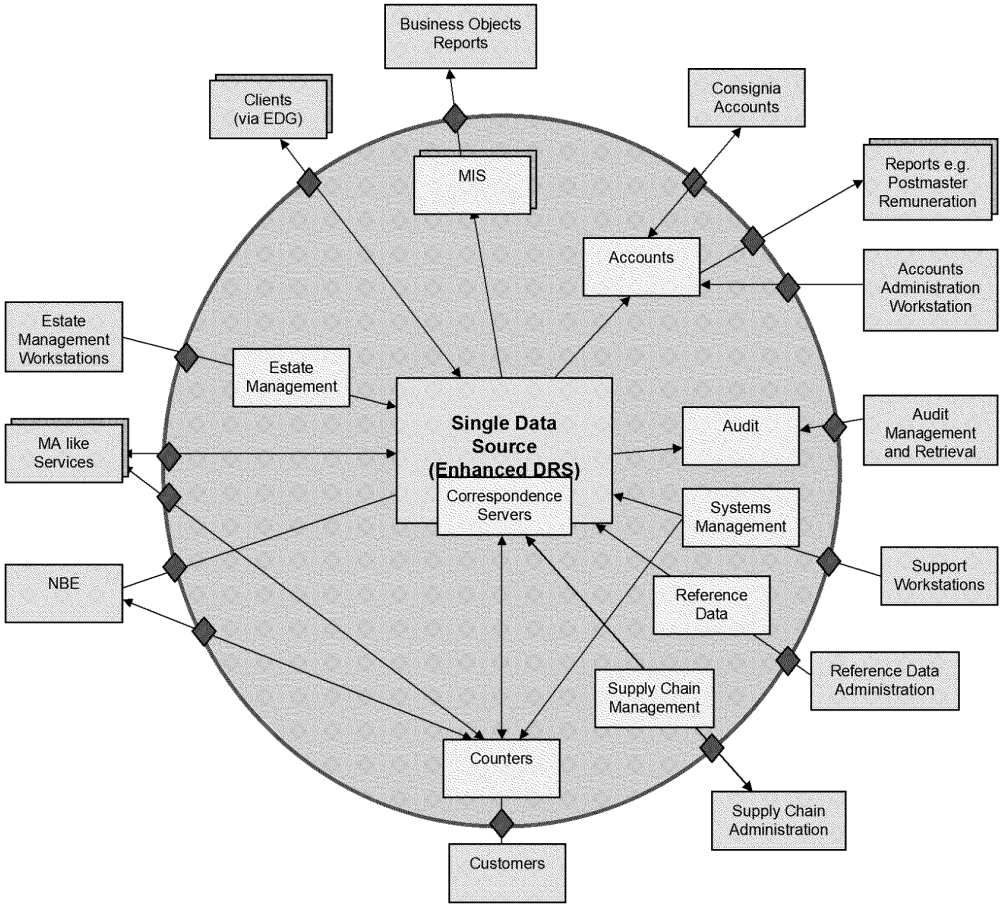

Figure 1 – New Campus Architecture

3.3.3 Components of Solution

- **Accounts**

  The new accounts system will support re-engineered business processes, which incorporate the simplifications in Cash Account and other beneficial practices that have been identified by various past studies.

  Most of the data required for management accounts will be obtained by aggregating the transactions by product and outlet. Mechanisms are required to make any necessary adjustments to transactions (or introduce compensating transactions) as a result of manual processes. Specifically any discrepancy or suspense transactions that are received from the outlets and any reconciliation adjustments identified from the Reconciliation subsystem must be accounted for.

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Settlement with external Clients is also handled via the accounts processes. This will result in further data feeds from the Clients to indicate the details of settlement, which will need to be reconciled with the underlying transactions.

The appropriate summaries will be fed to Consignia's accounting systems when the accounts for a given period are completed.

- **Estate Management**

  Horizon has comprehensive tools and processes to manage the outlet estate and to manage changes to the estate such as opening and closing outlets and changes in the number of counters. Similar facilities exist within the current Back-End systems. The aim will be to produce an integrated system to reduce administrative overhead and delay.

- **Single Data Source**

  The main use of transaction data is as the raw data which is aggregated as required for the other functions being carried out centrally. This includes all remaining reconciliation processing and reversal handling (see below, AP Client handling).

  All transactions will need to be retained at the Data Centre for a period that is sufficient to complete all of the processes associated with the transaction – say 3 months. During this time, the transactions are available for analysis and, in rare cases, for amendment as a result of any central processes, which handle manual input from the outlets.

  Although the intention is to eliminate as much paper as possible from the overall system, it is recognised that it will not be possible to do this completely. Therefore a mechanism is required to capture data from paper and to feed it into the Single Data Store in an appropriate way such that it is fed into the accounts.

  The simplification of the data flows is illustrated in Figure 2. This proposal re-uses already developed capabilities (DRS) to reconcile information from separate data flows. However the reconciliation process is now considerably simplified by eliminating some independent flows that would otherwise require reconciliation. Any errors found by reconciliation will require compensating transactions to be generated within the Accounts process, thus enabling settlement to complete.

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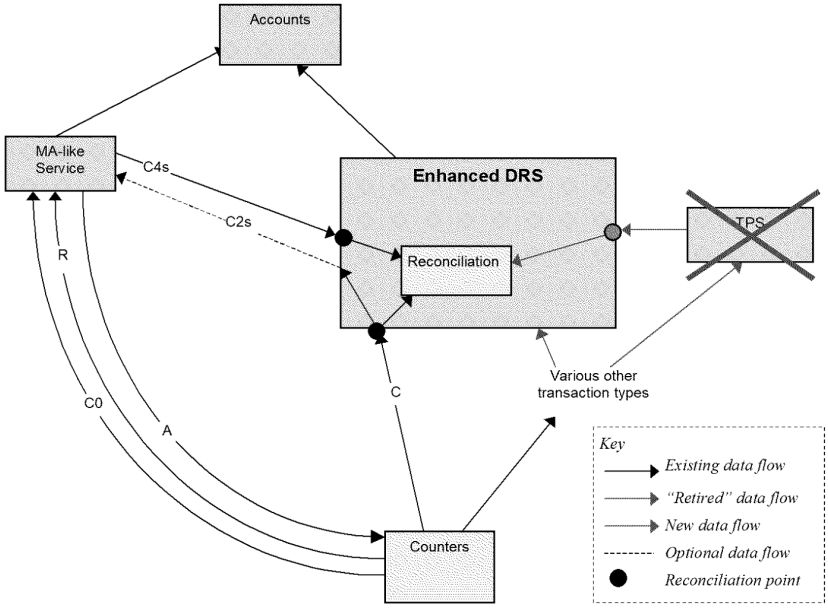

Figure 2 – New Reconciliation Model

Note: the C2 flow is optional (i.e. it is not required for Network Banking and won't exist in E-top ups

- **AP Client Handling**

  For each AP Client, an aggregate is required of those transactions carried out on their behalf.

  Transactions for AP Clients will all be sent via Consignia's EDG, which will be responsible for the transmission of the data to the Clients. A number of service levels could be provided, depending upon the requirements of the Client, for instance:

  - A daily or weekly transmission of transactions delimited by End of Day boundaries with any Reversals "netted out" with the transactions being reversed. This is the only service currently offered.
  - More frequent transmission (e.g. hourly batches of transactions), however in this case the Client would need to accept that transactions would no longer be delimited by End of Day boundaries and there would be some Reversals that could not be "netted out"
  - Periodic (e.g. daily) delivery of transactions with no "netting out" of reversals and no attempt to delineate with business days at the counter.

  The preferred service for adoption would be the last since that requires the least processing by Horizon, but the viability of this solution needs further analysis of Clients' capabilities.

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- **Management Information System (MIS)**

  Horizon transactions are available for analysis by a MIS. Various aggregates will be produced as required to support business and operational analyses, for example volumes of transactions, basket analysis or performance against key SLAs.

  The current Horizon Data Warehouse has, in BI3, been enhanced to provide new functionality and business reports specified by Post Office, and these will be carried forward and re-used with other relevant capabilities. It is proposed that the excessive SLA monitoring, carried forward from the past, will be reviewed against the new contract and significantly simplified. This will reduce costs currently incurred in periodic reporting, as well as reduce future development and testing costs.

  The Horizon Data Warehouse should evolve into the shared repository of transactional information from which variety of MIS reports can be produced. It is proposed that arrangements are made as part of the improved joined-up working to enable Post Office to commission (from Fujitsu Services or specialist companies) new reports based on the warehouse-held data and to jointly plan any evolutionary changes the warehouse needs to undergo.

- **System Management**

  There is a significant investment in System Management facilities and skills, which are fundamental to the successful operation and development of the Horizon service.

  This provides a proven foundation that Fujitsu Services believe will best support the proposed improvements to the Horizon business service. Fujitsu therefore proposes to leverage the existing Post Office investment in Systems Management functionality, skills and process to support the proposed new Horizon service.

  Horizon System Management is responsible for managing the Horizon estate encompassing Post Office outlets, networks and data centres. The System Management Architecture is summarised in the following diagram - Figure 3.

Figure 3. System Management Architecture

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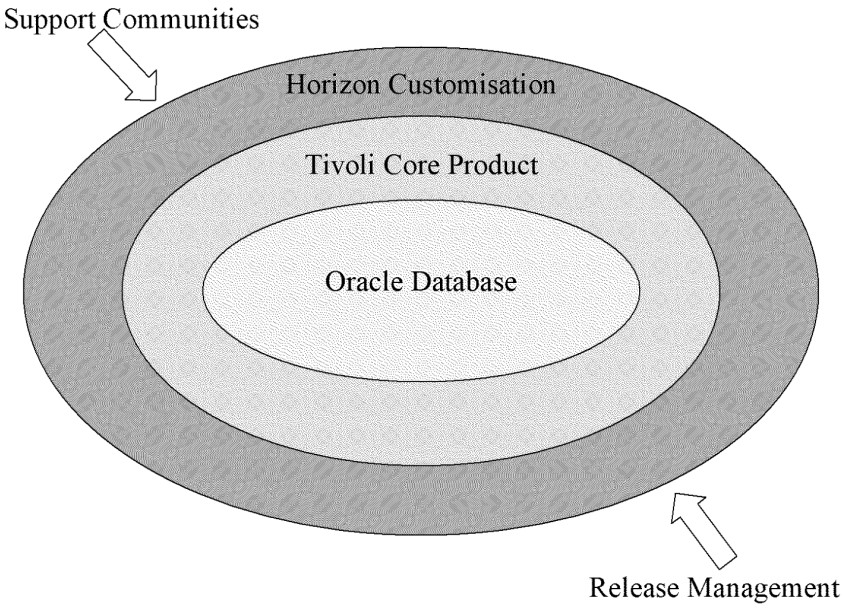

Central to the architecture is an inventory database containing details of the managed estate, boundary network and the campus data centres. In addition, the database holds an archive of all Horizon system events. This central database is based on Oracle technology.

This is surrounded by the generic system management capabilities that support software distribution, event management, distributed monitoring, etc. This layer is implemented using Tivoli technology

Surrounding the Tivoli core architecture layer, a System Management layer has been constructed to accommodate Horizon specific service requirements. In particular, these requirements relate to the unique scale and distribution of the Horizon estate.

Significant investment has been directed towards optimising network communications and outlet monitoring and support costs, principally in the areas of software distribution and close integration with support processes. The flexibility of this Horizon specific layer in the System Management Architecture provides the essential operational support required to introduce the business changes required to deliver Fujitsu Services proposed cost savings.

In summary, the combination of Horizon System Management technology, process and support skills has created a key enabler required to facilitate the business change presented in this proposal

- **Reference Data**

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A re-engineered system for management of reference data will be introduced, which will provide improved validation of changes, workflow for change approvals and centralised management to avoid inconsistencies in data and assure synchronisation of changes across the estate. The resulting system will replace the functionality currently provided by RDMC and RDS, and as a consequence reduce the combined support costs.

- **Counters**

  The existing counter hardware will be updated and reused. The next generation counter application will be built based on Escher's WebRiposte Essential (WRE), to maintain continuity of user interface and to provide autonomous operation in the event of outlet network failure. The data driven nature of Web Riposte Essential will simplify the introduction and change of new functionality. It will use Escher's Asset Manager as the accounting model, thus removing the current tie-in to Cash Accounting, which is a fundamental aspect of the existing EPOSS application. No attempt will be made to aggregate transactions at the counter – all transactions will be passed through to the Data Centre and any summarisation / aggregation will be done there, since this eliminates any need to perform reconciliation of the aggregated data with the raw data and ensures that the raw data is available for other purposes (e.g. Management Information).

  Each counter will maintain details of the business day under which it is trading and include this in every transaction. An End-of-day trailer will be written at each counter to mark the end of counter transactions for that business day.

> *Detailed rules for how this is to operate will need to be defined. However to allow for disconnected counters and to keep processes simple, it is probably necessary to have an EOD marker for each counter rather than each outlet.*

Declarations of Stock Levels will be forced at appropriate intervals, with accounting for any discrepancies arising.

Some transactions will require an on-line interface to a Client (e.g. NBS or DCS). The key principle is that the final transaction written to the message store needs to reflect the outcome as seen by the counter.

> *Intermediate messages (i.e. the [R] and [A] and any [C0] that represent Reversals) could also be sent through Riposte to agents as at present or could be sent directly. The pros and cons of these approaches need further evaluation, however the costs of either are likely to be similar. The benefit of using Riposte is the reuse of existing technology and the fact that these intermediate messages will all be audited.*

- **Supply Chain Management**

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Supply Chain Management is currently provided by the SAPADS and LFS systems. At this stage there is no immediate benefit perceived in substantially changing the way in which this part of the solution operates. However consideration should be given to an "order request" system to replace the current manual process, although this is not included in the current proposal costings.

- **Audit**

  A now, System Activity in the Outlets will be recorded in the message store and so by auditing all messages as they arrive at the Data Centre thus a complete audit trail of what has occurred on the counters will be maintained. In addition all data that is transferred across the system boundary defined in Figure 1 (including manually entered data) is audited.

3.4 Migration To Target Architecture

3.4.1 Overview

Fujitsu Services approach to evolving to the new Horizon architecture is based on simplification of business process and on exploitation of technological advances that have occurred since the original Horizon architecture was implemented. It builds upon Fujitsu's long experience of successful migration through a number of complex business and infrastructure enhancements, including CSR+ and the current BI1, BI2 and BI3 enhancements.

The migration option that is proposed here is, on currently available information, judged to be the best in terms of:

- Resources needed (and hence cost)
- Time to achieve the transformation
- Risk and complexity (i.e. alternative schemes would require more complex transitional arrangements, which introduce further risks)

It is recognised that significant amount of further analysis will need to be carried out with Post Office. Fujitsu Services propose to do this in two stages:

- Qualification – taking place once this proposal is accepted. This will confirm the feasibility of the proposed process from the viewpoint of all stakeholders, and validate all fundamental assumptions made
- Detailed process and programme design

The migration plan is based on the following principles:

- A new suite of central system services will be established, implementing the new business process and simplified data flows
- Parallel running of current and new services (and the associated business processes) during transition

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- Fujitsu Services existing Estate Management processes will be used to migrate outlets to the new services
- When all outlets have been migrated to new services, old services will be decommissioned

The chosen approach recognises the need to maintain business continuity whilst implementing business change. In essence, this approach can be viewed as creation of a new set of central systems, which operate in parallel with the existing systems and over time acquire connection from all the outlets. An enhanced Reference Data service will be developed prior to migration to feed both estates. The main advantage of the proposed migration approach is simplicity and minimisation of links between the old and the new. The main implications, which need to be further analysed, are:

- Multiple Feeds to external systems (e.g. Clients) – ideally during migration the external parties should be able to view Post Office as 2 organisations, linked at the highest levels (e.g. corporate accounts, contracts)

Management of historical transactions – it is proposed that transaction history is not migrated to the evolved outlets or the central systems that support them and therefore, any adjustments to such will be handled on the old systems. This will require processes to be designed, which will operate during the transitional period.

3.4.2 Migration Activities

3.4.2.1 Business Process Analysis and Design

The first step in the migration roadmap is the definition and approval of the business process enhancements that will facilitate significant operational and system streamlining. This activity is on the programme's critical path and its resolution is therefore fundamental to further progress being made towards the realisation of major cost-reductions that Post Office seeks. The output from this work is required to quantify the full impact of the implied Post Office business change and the associated Fujitsu Services development plans.

Whilst the definition and approval of the business process enhancements are clearly the responsibility of Post Office, Fujitsu Services propose to provide support in a number of important areas to assist with early completion of this urgent activity:

- Business process capture workshop facilitation
- Formal business process and information modelling
- Business process design, analysis and performance measurement
- Support for negotiations with third party IT suppliers to establish optimal process and technical integration options, e.g. DVLA, National Savings
- Architecture Lab to investigate process automation options and the feasibility of making greater use of standard product facilities, e.g. reductions in bespoke Post Office requirements, user interface visualisation

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- Business migration planning and support.

3.4.2.2 Evolution of systems in the Data Centre

The complement of systems will evolve, as described in the Target Architecture.

As Counters are migrated to operate within the new business processes, accounting information, management information and aggregate data will be built up in the new system. History will not be migrated from the old systems. The stock management system SAPADS is expected to be retained and hence this will be shared by both new and old Counters. SAPADS may need some enhancements to recognise the existence of two segments of Counters and their association to Accounts Systems.

Other changes will occur as part of the normal maintenance. For example, at BI3, the new DRS database was implemented using Oracle V8i, and the Reference Data RDMC and RDDS databases were upgraded to the same version of Oracle. The migration of the other Host Oracle databases to V8i or later will be carried out in the near future. The Host hardware will be migrated from Sequent to Fujitsu Siemens technology.

3.4.2.3 Reference Data

The Reference Data Systems will be enhanced to generate Reference Data in the forms required by the new and old systems (both for Counter and Data Centre Systems)

3.4.2.4 External Links

For each external link, analysis will be carried out to determine whether it can accept separate feeds to and from the old and new systems. External clients include all AP Clients, the NBE and other on-line clients that will be in place by the time of migration, SAPADS (for stock control) and Consignia's Accounting systems. Where the temporary existence of dual feeds is not possible to arrange, tools will be designed and implemented to merge and split the feeds.

3.4.2.5 Move Outlets to the new simpler counter application

As each outlet is migrated to the new counter application it is switched over to interface to the new Data Centre systems. The minimum of historical data is moved across at the Outlet to support this (the minimum includes at least the starting position in terms of stock levels and opening balance data). Specifically, each Counter at a migrated outlet will start off with a new message store and will no longer have access to reports or data produced prior to the date of migration.

3.4.2.6 Counter Changes

There are two key enhancements to the software environment of the Counters proposed.

- Introduction of New Counter application (based on WebRiposte Essential ™ (WRE), together with Fujitsu-supplied application components)
- Upgrade to Windows 2000 (or later) to exploit latest Microsoft workstation technology

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Investigation of the strengths of WebRiposte Essential is well under way in Fujitsu Services Architecture Lab. Fujitsu's expectation at present is that WebRiposte Essential provides an advantageous future direction for the Horizon Counters, but "out of the box", only caters for a part of the full Post Office requirement. Some applications (such as Network Banking or Debit Card) require additions to the generic WRE, and other new business opportunities that follow the same model (for example e-Top Ups) are also likely to require extensions to the WRE structure. However, through a close cooperation with Escher, extension to the WRE will be implemented to minimise the amount of Post Office specific code that Fujitsu will need to integrate with the standard application.

The WRE assessment is taking place on the standard Counter hardware platform, but using Windows 2000 as the base operating system. Fujitsu Services will explore the options for upgrading the Counter operating system to a more up-to-date software level to gain the functionality and productivity advantages it brings, and implement the findings of this study. The recent introduction of BI2 across the Horizon Outlet estate has demonstrated the ability of the systems management infrastructure to manage a complex Counter upgrade - in this case from NT 4.0 Service Pack 3 to 6a, Internet Explorer 4 to 5.5, and Riposte to WebRiposte. It is expected that the same mechanisms can be used to upgrade the Counters further, to Windows 2000 or Windows XP. The increasing availability of "always on" network access to the Outlets will minimise the cost of distributing a large upgrade such as a major operating system enhancement.

WRE is substantially different from the existing counter application, and requires a substantially different set of message store data. Tools will be developed to migrate relevant information from the current message store (stock levels, closing balances) across to a new message store partition, and these tools will be employed immediately prior to the switch to WRE. This migration can be done on an outlet-by-outlet basis.

3.4.2.7 Counter Hardware enhancements

While Fujitsu Services strategy is to avoid a Counter technical refresh, some hardware upgrades are envisaged in support of the various initiatives and new business opportunities:

- Installation of a ADSL (high speed communications) card in the Gateway PC at outlets where ADSL service is available
- If contactless card support is required, the PIN Pad installation will need to be enhanced
- Peripheral enhancements (e.g. currency exchange boards)

Synchronizing upgrade activities to eliminate unnecessary engineering visits will minimize labour costs. The schedule of upgrades will be refined once the migration plan is finalized. It is anticipated that Network Reinvention will make spare counter PC stock available to facilitate upgrading.

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3.4.1.8 Data Centre Changes

Transition from the current dual-site Data Centre configuration to a single new Data Centre will be enabled by modifications to the recently enhanced fail-over mechanisms, to ensure a smooth migration with minimal risk. The new Data Centre will retain systems resilience, but disaster standby capability. will rely on redeployment of Fujitsu Services test rig configurations to provide the on-line services should a total disaster strike the Data Centre. Working with Energis, Fujitsu will identify economic options for re-establishing communications following disasters. With Post Office, Fujitsu Services will ensure that processes catering for the eventuality of disasters are defined and ready to be invoked.

New and retained Data Centre systems will be deployed on the latest reliable software baselines. Fujitsu Services will seek to simplify the security domain structure used at BI3 by a removal of internal security barriers within the Horizon architecture, and by adoption of more sophisticated domain support made possible by the use of a later operating system version.

3.4.1.9 Host Platforms

Following the tactical refresh of the host platforms, Fujitsu Services will continue to monitor the delivered capabilities of Microsoft enterprise level software (operating systems and RBDMS) and if appropriate and cost effective will migrate the host platforms to the lower cost base.

3.5 New Capabilities

A range of developments to introduce new products or enhancements at the outlets have been identified and are being studied separately. Below are the key items that may form a basis for a programme of enhancement/development that needs to be melded with the developments identified in the preceding sections.

- **London Congestion Charges (LCC)**

  This requirement will be satisfied by a two-part solution. The purchase of travel permits will be supported by a online dialogue to the LCC host, while the payment of Fixed Penalty Notices will be supported by exploitation of the Enhanced AP Service described below.

- **E-Top-Ups (ETU)**

  The Electronic Top-Ups solution will follow the RAC model introduced for Network Banking and will have similar characteristics to the Debit Card system. The counter application will support the ETU customer token and will allow the selection of ETU products from a pick-list. These products will be introduced using the existing Reference Data processes. The counter application will support the Request / Response to the E-Pay Host system. ETU Refunds will be supported within a 10-minute window, and will be another on-line dialogue based on the existing EPOSS reversal process.

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A daily Reconciliation file will be received from E-Pay, the contents of which will be reconciled with the records from the counter.

- **Mails**

  Mails functionality will be provided at the counter by the Escher Mails product

- **MoT Authentication**

  The solution for MOT Validation will be provided as an incremental development on top of the generalised data capture facilities provided by the APS Enhancement solution. The APS counter facility will be enhanced to initiate a look up to the Vehicle Inspectorate web service to check that the identified vehicle has a valid certificate.

- **Automated Payment Service enhancements**

  A generalised enhancement will be made to the AP service to enable reference data driven data capture to take place in addition to the standard data items of token, amount and method of payment. This will enable the AP counter system to capture additional data keyed by the clerk or from a barcode. Support will be provided for address validation using the Post Office preferred PAF facility.

  The additional data will be added to the Client records in a single variable length XML field

- **BFPO automation**

  This requirement will be supported by the implementation of an enhanced version of the current Horizon system, extended to provide network connectivity to BFPO locations and to support multiple time zones where this is needed to resolve business inconsistencies.

- **Bureau de Change**

  New application functionality will be introduced into the Horizon system to support the sale of foreign currency, both on-demand and pre-order. Where present the counter will also drive existing currency rate boards.

- **EMV compliance**

  Fujitsu Services is already working with Post Office to identify the requirements for EMV ("chip & PIN" support) for Debit Card in line with general retail industry timescales. Once the business rules and standards are agreed, Fujitsu Services will work with Post Office to implement the necessary enhancements to the PIN Pad firmware, to the Counter software, and to the Agent processes within the data centres that communicate with Post Office's chosen Merchant Acquirer

- **Facilities to support National Savings & Investments products**

  While the opening of new accounts will be managed by an APS transaction, the operation of the accounts will be performed by exploitation and extension of the existing network banking infrastructure.

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3.6 Horizon Maintenance

The deployed system will be updated, from time to time, to fix identified deficiencies, to modify applications by either code or reference data changes in accordance with change requests raised by Post Office, or to enhance the system for new workload patterns and trends. The maintenance activity will also ensure that deployed technologies (esp. software) are at the optimal product versions, balancing the value of supportability, performance and features with costs of upgrades.

Additionally, there will be requirements to add functionality, to timetables specified by Post Office in Change Control Notes, which will achieve compliance with various regulatory requirements. These are expected to include:

- Welsh Language receipts
- Euro currency

3.7 Roadmap Plan

Earlier this year, a joint "roadmap plan" for Horizon was constructed to summarise the work that was then envisaged. The joint plan grouped activities into Technical Changes, Incremental Business Changes, Transformational Business Changes and Transformational Technical Change, supported by a new Lifecycle Process.

For this proposal Fujitsu Services has used a different structure because it is believed that it will be easier to understand and also because there are different dependencies in different areas.

The enclosed plan (see foldout sheet) has six main groups of activity, which are summarised in Table 1.

Table 1. Summary of Roadmap Plan

Task Group	Contents	Programme Dependencies

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1. Agreement	❑ Pre-contract essentials	Agreement to move forward on the basis of this proposal
2. Horizon Internal Re-Architecting	❑ Dynix elimination ❑ Data warehouse elimination ❑ Data Centre relocation ❑ Physical counter upgrades ❑ Counter software upgrades	a) New contract. b) Re-architecting would be resourced from within the committed core team. c) Post Office agreement to funding costs of additional hardware.
3. End to End Change	❑ OpTIP removal ❑ Reference data rationalisation ❑ BPR related work: ❑ Automation of key client products ❑ New accounting system ❑ New stock processes ❑ Rollout of new E2E processes	a) Commitment from business b) Agreed definition of responsibilities, scope and work to be carried out. c) Agreement to extended scope for Fujitsu Services and to funding for incremental resources and charges for external expenditure.
4. New Horizon Capabilities	❑ New counter product developments driven by business need.	a) Commitment and funding for incremental resources. b) Impact analysis of individual products.
5. Horizon Operational Service Changes	❑ Operational service cost reductions.	a) Agreement to SLA changes via new contract b) Delivery of internal system changes by SI work.
6. Horizon Releases	❑ Planned and foreseen Horizon releases over the next 18 months.	Release Plan to be agreed during detailed planning (pre-contract)

3.8 Governance / Process

Significant reductions in costs currently incurred by Post Office and Fujitsu Services can be achieved by streamlining the processes of change, new developments, and service monitoring and management. At the same time, a more agile process will speed up

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introduction of new capabilities and improve Post Office's position with its clients and with Post Masters.

The proposed process incorporates the new Post Office processes, as documented in the "Landscape Model", and introduces clearly delineated set of roles and responsibilities, which are reflected in the Governance structure.

The process will be strengthened by a set of new working arrangements, which will ensure that potentially protracted activities are executed rapidly whilst improving the understanding between the parties. The key principles being adopted are:

- Elimination of duplication – same documents used by Fujitsu Services and Post Office wherever commercially possible
- Joint working, where this improves understanding and reduces coordination effort e.g. requirements analysis, testing/acceptance
- Architecture laboratory to prototype key elements of new capabilities, evaluate new technologies and visualise requirements
- Improved tooling within Fujitsu (e.g. better modelling within PVCS) to reduce need for paper documents

Appendix 1 contains the more detailed presentation of the process and the responsibilities of the parties.

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4 Contract Approach

4.1 Principles

A number of principles set out in the draft Heads of Agreement and discussed over the past weeks are embedded in this proposal and are reflected in the financial numbers.

In summary, they are:

- Reduced annual charges in return for a simplified and less onerous (more standard) service with commensurate liabilities and risks;
- Improved value for money for extension of term and expansion of scope;
- Reduced absolute fixed cost commitment, with greater flexibility to vary resource levels according to business requirements including affordability;
- Increased transparency through unbundling of charges into separate Operations and SI services and within each service, giving Post Office more control over service quality/price trade offs;
- Smoothing of charges to dilute the effect of availability fees near term (to and beyond March 2005);
- New ways of working together including new governance arrangements;
- A greater degree of risk and reward sharing to incentivise both parties to achieve common goals.

Together, these amount to a significant re-profiling of services which were originally designed to meet different business priorities.

Re-profiling requires a change programme facilitated by a more benign and industry standard contractual environment. This needs to encourage the achievement of successful outcomes rather than militate against all change because even minor failure to achieve onerous contractual criteria can have severe contractual consequences.

4.2 Approach to service delivery

The means by which a significantly cost reduced operational service is to be achieved are addressed in sections 2, 3 and 7.

This section focuses on the contractual and commercial drivers which set the contractual context for many of the things we do today and which need to be adjusted to enable the necessary changes in behaviour and costs.

A number of business, technical and financial assumptions have been made which are dealt with in more detail elsewhere but are summarised here for their commercial implications.

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4.2.1 Structure of services and payments

- Operational and SI services will be treated as separate but linked.
- The Operational service relies on SI for fourth line support (bug fixing), architectural advice on sizing, performance etc. and implementation of service change requirements including simplification and cost reduction. Each service element will be itemised, may be subject to specified workload volume assumptions (eg. maximum number help desk calls, number of terminals) and priced accordingly.
- The SI service comprises three logical activities, the common denominator being a core competence unit of Horizon technical experts unit resourced to cover all the skills requirements of the Horizon solution:
  - Support to Operations (including internal re-architecting);
  - Spare capacity available for new work sponsored by Post Office;
  - Additions to the core competence unit to meet increased demand for additional SI work;

    The first two will be subject to a committed fixed fee. The spare capacity will be specified for each time period, by number of staff by category, and be available to Post Office for as yet uncommitted work at no charge.
  - Implementation of new infrastructure is an additional, occasional SI activity, resourcing of which depends on the task and skills required: typically this will involve project management of SI work, procurement of industry standard components, and their physical installation either by Fujitsu Services or by subcontractors;
  - The original infrastructure investment (the retention of £120m) remains subject to the availability fees: there is a remote possibility that a viable off-balance sheet financing arrangement could be put in place to stretch payments economically beyond 2005, but this is not assumed;
  - Special discounts over the period to March 2005 offset an element of the availability fees and are intended to pump prime the necessary investments into re-architecting and new products;
  - A benefit sharing arrangement is included as a component of reward to recognise the risk and investment involved in the discounted re-architecting work and to incentivise Fujitsu Services to be innovative and pro-active in delivering new added value services (end-to-end re-engineering and new client products).

4.2.2 Outline description of services – key changes

- Fujitsu Services will simplify and update the operational services to reduce costs. The Horizon platform and processes will, with Post Office's agreement, be transitioned over a two year period to meet the simplified service requirements and take advantage of new technology. Cost reductions fall into two categories:

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- Those which can be delivered as soon as new processes and reporting requirements are defined and agreed with Post Office (a time dependency). These have been assumed to be fully in place by July 2003;
- Those which depend on technical or infrastructure change, eg. single data centre, rationalisation of system platforms, implementation of ADSL: these are assumed to become effective progressively according to the draft Roadmap Plan. A pre-estimate of the costs and resources required to achieve this are included in the proposal. The assumption is made that the definition of work and its cost estimates will be completed prior to contract and undertaken on a fixed price basis.

- The intention is that Post Office get best value from the pre-paid SI capacity and that time to market for new services be minimised. A new joint planning process is proposed to manage supply/ demand as part of the new governance arrangements.
- It is assumed that the contract will specify the basis on which Post Office will extend the scope of Horizon with Fujitsu Services into its back office. An outline of the work contemplated is included in the draft Roadmap Plan. It includes replacement of existing back office processes, notably OpTIP and CBDB, the design goal being to feed the main SAP stock management system and a new accounting system directly. There may be linkage (and therefore dependencies) between this activity and the internal re-architecting of platforms to be carried out as part of the Fujitsu Services commitment, for example removal of the cash account and replacement of EPOSS by standard product. Pre-paid spare capacity exists to carry out the essential design work but no incremental cost provisions have been made for completing delivery.

4.2.3 Transition

Planning detailed transition plan requires more work prior to contract. Some of this work can be done by Fujitsu Services alone (in relation to its internal domain) as soon as there is agreement in principle to the approach.

Specifying the BPR activity is a key activity which will require “new style” joint working including the active involvement of the client facing teams. Much will depend on the preparedness of key clients to update the way they do business, the common theme being that to drive out cost they will need to move to token based transactions.

The Roadmap will need to be validated to a reasonable level of detail, with all key dependencies understood. Competing demands for resources and release slots, and any client constraints, could alter the pace and shape of the plan and its related cost estimates.

4.3 Changes to terms and conditions

4.3.1 Summary

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A reduction of certain risks currently transferred to Fujitsu Services, and a dilution of the ultra secure/ resilient service requirements, lie at the heart of the proposal. These drive the technical and service changes which are proposed to reduce cost and time to market.

Proposed changes fall under the following principal headings:

- Pricing, including:
  - Unbundling of services, with individual cost driver based pricing;
  - Risk / reward sharing where Fujitsu Services takes investment risk
- SLAs:
  - Number of SLA measures
  - Severity and absolute nature of certain SLAs (in particular in relation to 100% targets, response times and transaction times)
  - Complexity of SLA and LD measures (eg. transaction times and fallback LDs)
- Consequences of breaching SLAs (in particular, removing the right to terminate for three successive quarters of a missed SLA)
- Easing certain requirements such as:
  - Resilience to catastrophic disaster at a single site (redefine force majeure to include such eventualities);
  - Security within the Horizon domain (accept some degree of risk for certain low impact events);
  - Reconciliation
  - Reporting
  - Documentation
- Enhancing certain Governance arrangements, in particular with respect to:
  - Supply/ demand planning of SI activity (rolling 12 month forecast)
  - End-to-end joint working under Landscape model (as attached)
  - New product initiatives with access to client facing units
- Scaling back certain absolute obligations (implying breach of contract if not achieved) to reasonable endeavours backed by reasonable LDs, and reducing the current high levels of liability to single figures of £ millions
- The notion of "material dependencies" will be written into the contract, whereby Fujitsu Services will more readily receive relief and compensation for costs.

Pricing and SLAs are considered specifically.

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4.3.2 Pricing

Unbundling and individual pricing metrics are envisaged on the following basis:

- **Operations:**

  Help desk: fixed price for capped number of calls based on staffing levels, variable with notice up or down, with relief on SLAs if cap exceeded

  System service (outlets): fixed price per counter position subject to cap on number of site visits per month, variable with notice up or down, with relief on SLAs if cap exceeded

  OBC: no change

  Data centre operations: fixed price, declining assuming single data centre and internal re-architecting, with adjustments for change

  Network: price per outlet, declining assuming progressive ADSL implementation

  Software distribution/ systems mgt.: fixed price, declining assuming SLA change and internal re-architecting, with adjustments for change: caps on distribution and monitoring volumes, variable with notice up or down, with relief on SLAs if cap exceeded

  Product support: fixed price, declining assuming internal re-architecting, with adjustments for change

  Reference data mgt.: fixed price, declining assuming internal re-architecting, with adjustments for change: cap on number of changes per month, variable with notice up or down, with relief on SLAs if cap exceeded

  3rd line support service: fixed price, declining assuming SLA change and internal re architecting

  SLA management/ measurement: ditto

  Service (problem) management: ditto (significant reduction planned reflecting lesser SLAs)

  Client interface mgt./ reconciliation: fixed price, declining assuming SLA change and internal re-architecting, with adjustments for change: caps on numbers of transactions per client per month and exceptions per day, variable with notice up or down, with relief on SLAs if cap exceeded

  Security/ Audit: fixed price, with adjustments for change

- SI (development related): commitment price, for a defined skill set of which a specified proportion of man-hours will be identified by skill type by month as available for Post Office use at no charge (normal manrates to apply above that)
- SI (implementation related): priced at direct cost, open book.

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4.3.3 SLAs and easing of requirements

The proposed changes are set out in the Operational Services section but key themes are as follows:

- Replace absolute 100% achievement obligations with 99.X % targets subject to LDs but not termination;
- Replace Day D with Day J;
- Conform help desk SLAs to the industry norm, reflecting the advent of SPOC 2 and consequent removal of urgent/critical advice and guidance calls;
- Accept a slightly higher degree of variation from target visiting response times for low impact outlets Post Office to designate);
- Accept a slightly higher degree of variation from target transaction times (as the incidence of on-line transactions increases, this reduces the likelihood that a costly memory upgrade will be required);
- Do away with the highly complex measurements which generated the need for a costly data warehouse, notably the recording of transactions by transaction type by outlet by hour by day by month to enable the calculation of fallback LDs and also of transaction volume price adjustments.

4.4 Key assumptions

A number of key assumptions are set out in the various sections.

The following is a non-exhaustive list of commercially significant examples:

1. Contract extended to March 2010;
2. Post Office back office is in scope, firm plans to be included in the extended contract (N.B. the draft Roadmap assumes this but the indicative financial numbers exclude any firm financial commitment);
3. Relaxation and amendment of terms and conditions as set out above will be broadly acceptable;
4. SPOC 2, single data centre, and relaxation of contract requirements will happen as envisaged;
5. No universal technology refresh of counter equipment is assumed but central systems are partially refreshed to support the updating of software platforms: Windows 2000 is downloaded to replace NT in the outlets and ADSL cards are installed selectively (but additional memory is not);
6. ADSL coverage will enable 50% of outlets rising to 80% by mid-2006 of (by then the re-invented number of outlets) to be implemented, at single machine tariff;
7. Network re-invention down to 13,500 outlets is completed by March 2007, with 37,500 counter positions installed (the surplus to be available for spares at no cost to Fujitsu Services);

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8. If the Mean Time Between Failures (MTBF) increases by more than 20%, Fujitsu Services may call upon the Post Office to reduce the associated SLAs reasonably and if the MTBF increases by more than 30% to call upon the Post Office to finance a full technology refresh (Fujitsu Services to use all reasonable endeavours to maintain the equipment within such limits for the duration of the extended contract);

9. Data warehouse can be dropped if there is no requirement for a "new" MIS system (to be confirmed within six months);

10. No resilience for single data centre and single help desk is acceptable (Fujitsu Services to use all reasonable endeavours to mitigate impacts on that basis);

11. Extended contract signed in December 2002 and agreed "new SLA regime" changes implemented by July 2003: progressive implementation of internal re-architecting (both platform and infrastructure) completed by March 2005;

12. Core SI headcount (committed, pre-paid) starts at 150 and comes down to 90 after completion of re-architecting work. This critically assumes simplification of processes and systems boundaries and replacement of bespoke software by standard products. This in turn depends on internal re-architecting (which is under Fujitsu Services control) and also the adoption by Post Office of standard accounting methods and logical system boundaries (which is not under Fujitsu Services control);

13. 50% of each skill group is available to Post Office for SI work at no charge (otherwise payable at current man rates);

14. Previously agreed future Network Banking discount arrangements for the period April 2005 to March 2007 are replaced by this proposal and will fall away;

15. Fujitsu Services funds the development SI work for internal re-architecting out of its SI Support allocation, and Post Office funds the physical implementation (eg. roll out of ADSL or single data centre) at cost (a pre-estimate of which is included within the financial forecast);

16. Post Office funds end-to-end re-engineering changes and new products (over and above the use of pre-paid SI capacity) at standard manrates for SI (reflecting the need to augment the core SI team with high cost freelancers) but at cost for the physical implementation;

17. The Landscape model is agreed in the form attached to this proposal;

18. Otherwise, no material change is required to the management of subcontractors;

19. Where programme dependencies are declared as "material dependencies", Fujitsu Services will get relief and compensation if those dependencies are not met;

20. Rights of termination for breach will be limited to material and repeated events (as opposed to the trivial or one-off) but LDs will be retained against the simplified SLA regime to keep Fujitsu Services incentivised to maintain standards of service;

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21. "Open book" will be as required for a particular purpose such as agreement to a change request or to cost recovery of re-architecting but Post Office will not have a general right of access;

22. Exit arrangements will be more demanding and costly than under the current contract (in line with the draft Heads of Agreement);

23. Special discounts and benefit share arrangements will be acceptable as below.

4.5 Special discounts and benefit share

4.5.1 Special discounts are proposed as follows:

- 2002/03: £15m
- 2003/04: £15m
- 2004/05: £10m
- 2005/06: negative £10m (being a clawback of £10m)

In each case, the discount (or clawback) will be effected by a credit note (or invoice) raised on 31 March payable with 30 day payment terms.

4.5.2 Benefit share arrangements are proposed as follows:

- Share of business benefit from back office re-engineering: 10%
- Commission on new products as a percentage of the client fee: 5%

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5 Operational Service

5.1 Introduction

Post Office has requested that the Operational Service provided under the Horizon contract should be unbundled from the Systems Integration (SI) Service and that the associated cost levels should be reduced. This section describes specific proposals for achieving these aims.

The current Operational Service has been designed to meet rigorous SLA requirements with associated thresholds set for remedy payments and / or contract termination review.

Each service component has been reviewed and price reduction opportunities have been identified that result from:

- Reductions in level of service and / or elimination of the service
- Re-architecture initiatives resulting in simpler and cheaper to deliver services
- Year-on year efficiency savings through the life of the contract

Each service component is looked at in the following section.

The collective impact of these changes is to provide a significant reduction in the ongoing total Operational Service costs with a small reduction in some SLAs.

5.2 Key Assumptions

It is assumed in this proposal that:

- Fujitsu Services will continue to be the prime Service Manager (SM) for Horizon.
- Operational Service will continue to be charged for as a fixed fee with some optional, separately chargeable catalogue elements. It is not necessary to unbundle charging for individual operational service elements.
- A limited set of SLAs will continue to be monitored in the new contract and remedies continue to be paid. However, as there will be a reduction in proactive management of some aspects of the operational service, there will need to be a reduction in some SLAs. Termination Review Thresholds will, accordingly, be moderated and may only be applied where significant material damage to Post Office business results through Fujitsu Services persistent neglect of remedial action.
- 24x7 support will continue to be provided in areas where there remains an operational requirement.
- Operational Services will need to retain the capacity to implement and support new Horizon capabilities provided by the SI Service e.g. management and implementation of new releases.
- The data centres will move from the current sites at Bootle and Wigan into single Fujitsu Services Data Centre but with similar system resilience features within the one location.
- The current counter estate will be supported to 2010 without a full technical refresh. However if the reliability of any part of the solution decreases significantly, or spares

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are unavailable, a separately chargeable replacement programme will be undertaken. There is an assumption that there will be release of counter equipment from the Network Reinvention Programme to increase the current stock of spares to a sufficient level to last until the end of the extended contract period.

- Initially, 8,000 counter gateway systems will be upgraded to support ADSL. This number is expected to rise to 80% of outlets by 2006, based on assumed BT ADSL coverage.
- There will be a complete assessment of Service Management activities Fujitsu Services and Post Office. Duplicated functions or activities with marginal benefit will be eliminated.
- Single Point of Contact Phase 2 (SPOC-2) and the Fujitsu Services Technical Support Desk for Network Banking Domains will be implemented.
- The requirement for operating an ISO17799 compliant service remains.

5.3 Achieving Cost Reductions

The Operational Service comprises the following component services:

Table 2. Operational Service Components

Infrastructure Management	Operations & Support	Security Management	Service Introduction
Help Desk System Service (outlets) Outlet Business Change * Service Management Problem Management Field Service Management Management Information Service Reconciliation Services Transaction Benchmarking Non-polled Outlet Management	Data Centre Operations Systems Management 3rd Line Software Support Reference Data Service	20 different services, supplied from a common resource base. *	Support for introduction of new releases and ongoing fixes*

Note: * = no immediate change proposed.

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Specific proposals for changes to individual service components are described in the following sub-sections.

Note that the "service descriptions" given here are at a summary level designed to convey the essence of the service and the proposed changes. Comprehensive service descriptions would be produced and agreed as part of the contract renegotiation activities.

The Operational Service is comprised of the following component services:

5.3.1 Help Desk

The Horizon Help Desk takes calls from Post Office users in outlets and back office departments regarding problems with the Horizon service, logs them and routes them to the appropriate unit if required. It is currently a premium service that provides:

- Advice and guidance about system use and technical support
- 24hour x 7days cover (except Xmas day), with a skeleton service between 20:00 and 08:00.
- Rapid telephone response (95% calls answered within 20 seconds).
- Less than 1% calls abandoned.
- Resilience by operation from two sites.

It is proposed to reduce the Help Desk service levels:

- No advice and guidance calls (these calls will be taken by the Post Office Help Desk) - only a technical support (fault reporting and resource coordination) service will be provided.
- Monday-Friday cover 08.00-18.30 only and no Saturday cover
- Answerphone outside service hours.
- Longer telephone response (80% of calls answered within 30 seconds)
- Less than 5% calls abandoned
- Operation from a single site.

The effect of these changes, combined with the implementation of SPOC2 and the implementation of the Technical Service Desk, will reduce help Desk calls This will be dependent upon the effectiveness of the NBSC with regard to resolution of calls. In addition there will be further annual reductions through ongoing efficiency savings.

5.3.2 System Service (Outlets)

Fujitsu Services will maintain the estate until 2010. The service will contain the following key elements:

- Hours of cover reduced from 08.30-20.00 to 09.00-18.30.
- No Saturday cover

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- Call to fix SLAs as agreed in CCN851e (Rectification Plan) will remain. However there will be no data retrieval activity in support of the data delivery SLAs
- Upgrade of nominated counter gateways systems to ADSL communications
- Increase of existing spares holding
- Increase engineer visits
- One portable appliance testing (PAT) exercise
- Ongoing efficiency savings

Any significant increase in MTBF for any part of the counter configuration or inability to source appropriate spares may result in an additional replacement programme that will be priced separately.

5.3.3 Outlet Business Change

This is a separately chargeable service for engineer visits to perform outlet moves and modifications. No service changes are proposed in this area.

5.3.4 Service Management

The Service Management service includes they day-to day activities associated with the management of the service. These include the following activities

- 24 hour duty management
- Resolving day-to-day service issues
- Attendance at operational forums with Post Office
- SLA management
- Problem management (see below)
- Business Continuity
- Supplier management
- Service Introduction
- Impacting and planning of change requests

Cost reductions will be achieved in this area by a robust audit of the current Service Management joint framework agreed between Post Office and Fujitsu Services and the elimination of activities that are either duplicated or bring only marginal benefit. Areas that will contribute to savings are:

- Problem management (see below)
- Analysis of individual incidents confined to those that materially affect business performance
- Avoidance of protracted SLA conformance negotiations

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- Reduced frequency of operational forums and reporting
- Reduced customer complaint and SVR processes
- Elimination of duplicated effort between Post Office and Fujitsu Services
- Elimination of 'micro-management' by Post Office

5.3.5 Problem Management/Field Service Management

Fujitsu Services currently provides a team of seven field service managers with geographical responsibility for approximately 2,500 outlets each. The Fujitsu Services staff are responsible for handling situations such as:

- Investigating and managing resolution of exceptional volumes of incidents experienced by individual post office branches.
- Investigating and gathering information on problems that occur across more than Post Office outlets.
- Acting as an on-site Project Manager for complex OBC changes to marshal resources and reduce risk. (e.g. recently at Henley and Trafalgar Square outlets)
- Following up issues of counter non-compliance. Most importantly, equipment and electrical supply Health and Safety issues that expose Fujitsu Services to a risk of negligence claims and litigation.
- Investigating Post Office outlet complaints.
- Investigating "environmental" issues
- To investigate issues where the financial integrity of the Horizon system has been put in doubt by end-user claims of lost transactions, lost stock or cash account misbalance.
- Monitoring post office branches that have recently experienced multiple incidents and problems.

It is proposed to withdraw this service and replace it with a single Fujitsu Services Problem Manager who will liase with Post Office central staff following ITIL service management processes. Now that Horizon is well established, responsibility for field liaison should become a Post Office responsibility.

The shared problem management database will continue to be updated by the Fujitsu Services Problem Manager but pro-active problem management by Fujitsu Services at postmaster level will cease.

There will be a reduction in scope and frequency of joint problem management forums and a more practical definition of what constitutes a problem.

5.3.6 Management Information Service

This service monitors service levels achieved by the Horizon system and supporting operational services and checks whether SLAs have been met. Exceptions are reported

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on and managed. The service partially depends on a costly data warehouse system, which is updated daily with details of every single Horizon counter transaction.

As part of the re-architecting it is proposed to replace this data warehouse with a more cost-effective solution.

Fujitsu Services proposes to reduce the level of resources applied to the management and operation of this service. The only impact anticipated on the service to Post Office is with respect to ad hoc queries. These can be extremely time-consuming to process.

It is proposed to limit such queries to five per week, and where queries are repeated, they would be subject to the change request process. The Operational Level Agreement (OLA) for ad-hoc query response within 5 working days will be withdrawn.

5.3.7 Reconciliation Services

This service monitors the financial integrity of Horizon and manages any incidents arising. It covers EPOSS, APS, Network Banking and Debit Card functions.

It is envisaged that new business developments will expand the workload of the service.

It is proposed to reduce the size of the reconciliation team by making the following reductions in the scope of service provided:

- Monthly reconciliation review book withdrawn
- Fujitsu representation at monthly reconciliation reviews withdrawn
- Resolution of reconciliation 'ad-hoc' requests for transaction data in excess of 35 days old withdrawn
- 5 day reconciliation exception handling SLA withdrawn.

Service levels would be as follows:

- NWB 'Customer Critical' exceptions resolved within an average time of 8 hours or less
- All other exceptions resolved as soon as possible using 'Reasonable Endeavours'.

5.3.8 Non-Polled Outlet Management

This service is concerned with handling outlet-polling failures, which are generally caused by ISDN line failures. The service proactively monitors the outlet network and manages the restoration of communications. It is an important service that underpins the successful operation of Horizon but analysis has revealed that detailed changes to the current service and associated SLAs would yield significant savings. Note that Fujitsu Services is dependent on telecommunication suppliers for the rectification of ISDN line faults and cannot pass on service penalties incurred as a result of their shortcomings.

The following service changes are proposed:

- Current DFD and LFS SLAs withdrawn and replaced with SLAs below
- Laptop data retrieval facility withdrawn

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- No remedies to apply in respect of SLA non-conformance
- Fujitsu daily 'Non polled' report to PO withdrawn.

New SLAs are proposed as follows:

Table 3. Non-Polling SLAs

SLA	*Level*
DFD Inbound	Day B: 95%, Day C: 96%, Day D: 97%, Day J: 100%
DFD Outbound	Day B: 95%, Day C: 96%, Day D: 97%, Day J: 100%
LFS Inbound	P/Orders Day A: 94%, Day B: 96% Advice Notes Day C: 96%
LFS Outbound	Pouch Rec'd Day A: 95%, Day B: 96% Pouch Delivered Day A: 95%, Day B: 96% Cash on hand Day A: 96% Stamps Day C: 95%, Day C 23.59: 96% Inventory Day C: 95%, Day C 23.59: 96%

5.3.9 Transaction Benchmarking

This service provides a post-release analysis of transaction response times against defined benchmarks using the PADS methodology. This involves use of specialised video equipment and laborious analysis of video film to provide highly accurate measurement.

The service is normally carried out following changes to system menus.

It is proposed to cease provision of this service. It is felt that it adds no real value and should be replaced by a simpler approach to transaction times, e.g. measurements using transaction generation tools that form part of counter testing. It is proposed that any targets will be based on system times (as with NWB) and not on end-to-end times.

5.3.10 Data Centre Operations and Network Management

The service covers the provision of the twin Horizon data centres and runs the operational schedule to ensure that stringent SLA's are achieved.

The service runs servers at two data centres - 150 servers in total, as well as a further 60 platforms on AP Client sites and other remote locations across the UK. It also covers

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test rigs within Fujitsu Services development units. The Horizon data communications network is also part of this service.

The current Horizon data centre sites are within facilities owned and used by Alliance & Leicester (A&L). There is no commitment to provide the facilities beyond the end of 2006. Various options for data centres have been discussed in a joint working group and the outcome was a recommendation that the current twin data centres should be consolidated onto a single secure site with appropriate physical resilience (dual power, communications, fire and flood separation) so that the likelihood of a problem affecting both systems is extremely remote.

Overall these changes will reduce running costs for data communications and 3rd party support and maintenance charges. They will also enable Fujitsu Services to reduce the manpower required to run the service. However there will also a substantial one-off cost for relocation from A&L to the Fujitsu Services site with a period of parallel running. Initial plans suggest a 12-month implementation timetable, a study is required to look into the move programme in more detail and determine whether this timetable can be improved.

5.3.11 Software Distribution and Systems Management

The operation of the Systems Management Centre (SMC) is integral to the operation of the entire operational service. It is involved in the monitoring and management of all aspects of the system i.e. event management of the data centre and counter estate, software distribution, Outlet Business Change, Network Management etc.

Cost reductions have been factored into this service through the reduction of pro-active management of non-polled activities and by ongoing efficiency savings

5.3.12 3rd Line Software Support

This service comprises the initial investigation of incidents from the outlets and the operational estate and the production of workarounds in a timely manner.

Although the number of incidents resulting from a major release will normally cause a temporary rise in the number of incidents handled, ongoing cost savings are assumed in this area to reflect the increased stability of the solution and overall efficiency savings.

5.3.13 Reference Data Service

In joint working earlier this year, the desirability of rationalising Reference Data systems was agreed. Targeted improvements would reduce manpower costs of running the Reference Data Service:

- Automate the Message Broadcast service so no manual effort required by Fujitsu Services
- Automate the end-to-end process (including activities in Post Office) for outlet data, such that validation and verification is not required.
- Design, develop and implement a front-end validation process for incoming data.

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- Improve the usability of the AP Workstation
- Combine testing, which is currently undertaken separately by Post Office and Fujitsu Services.

It is believed a reduction can be made in the costs of running this service. However this will only be possible in close collaboration with the Post Office in the above areas.

5.3.14 Security Management

The Security Management Service ensures that the integrity, availability and confidentiality of information used within the various Horizon Services and the support environment is maintained and compliant with legal and contractual obligations. This service currently covers more than 20 difference services from a dedicated team.

To illustrate the breadth of this service, examples of the activities undertaken are as follows:

- Compliance management
- Cryptographic key management
- DPA compliance
- Security event management
- System access management
- Horizon Pass system
- Anti-virus
- Security Audits
- Risk Assessment
- Prosecution support

Changes to these services will be driven by changes to the Horizon security architecture and these in turn must be driven by changes in the security requirement, derived from the threat analysis, Post Office security policies and Fujitsu Services contractual liabilities.

Potential savings will be identified following further studies within the re-architecture programme.

5.3.15 Release Introduction

This service comprises all elements of planning and managing all changes to the live estate. It includes:

- Definition of Major Release strategy
- Production and management of project plans
- Management of all software release activity
- Liaison with Post Office

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Release Introduction is driven by changes to Horizon and by the ongoing maintenance of the service. This change management function will continue with the evolution of the system. However ongoing efficiency savings are assumed.

5.4 Service Volumes

The following volumetric assumptions have been made in the preparation of this proposal.

Table 4. Service Volumetrics

Infrastructure Management	*Volumetrics*
Help Desk	Up to 13,000 calls per month
System Service (outlets)	Up to 4,000 calls per month requiring engineer visit
Reconciliation Services	100 exceptions per day
Management Information Services	Up to 5 queries per week
Operations Service	250,000,000 transactions to TIP per month 32,000,000 transactions to AP clients per month 56,000,000 transactions to DWP per month 800,000 Stops received from DWP per month 260,000 Planned Orders per month 96,000 Pouch Receipt Confirmations per month
Systems Management and Software Distribution	Monitoring 50,000 events a week from 200 servers and 39,400 counter systems on 17,400 sites (reducing to 37,500 counters on 13,500 sites) Distributing 40 software packages to 200 servers per month Distributing 18 software packages per month
Reference Data Service	200 reference data changes per month.

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6 SI and Applications Service

6.1 Introduction

Post Office have requested that the SI capability provided under the Horizon contract should be unbundled from the Operational Service and that SI cost levels should be reduced. Post Office also envisage that future Horizon applications might be procured directly from other suppliers and integrated with Horizon by Fujitsu Services. This section describes the basis on which Fujitsu Services proposes to approach these requirements.

The primary cost driver for the Horizon SI Service is the core team of skilled human resources. The secondary drivers are the costs for the infrastructure (space, hardware, software, and communications) that is needed to create and test software before it can be used in the live environment.

Fujitsu Services believes that it is essential to retain a capable and motivated expert Horizon core team to provide the capability to respond to business requirements. Horizon consists of a range of platforms and applications and so a wide range of technical skills is now required for support and development. As with any large IT system, new staff typically need several months of training and supervisory support before they can be fully effective. A reasonable balance therefore needs to be struck between the cost of maintaining a given level of capability to respond to business requirements and the additional costs and reduced responsiveness associated with scaling SI capability to meet each individual business change requirement.

However, there is scope to reduce these core team costs progressively through re-architecting to reduce the variety of technical platforms and associated skills used in Horizon. Further reductions in SI costs should flow from improved governance and reduced process overhead.

6.2 Key Assumptions

It is assumed in this proposal that:

- Fujitsu Services will continue to be the prime System Integrator (SI) for Horizon. There will be a substantial programme of Horizon SI and implementation activity over the next few years driven by Post Office business change and this means that Fujitsu Services must retain a substantial SI capability. This capability is expected to be below today's peak caused by the Network Banking programme, but at a level that is dependent on the volume of SI work required.
- The SI capability already spans Horizon infrastructure, Horizon applications, integration/testing and 4th line support for the live operational service. This proposal extends the Service boundaries into Post Office Back Office systems to support radical business change and also to deliver IS cost reductions. This change will create new projects with new skill requirements.

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- The scale and therefore cost of the current SI operation can be reduced by:
  - Re-architecting Horizon and Back Office systems to remove internal system boundaries and unnecessary complexity
  - Reducing the complexity of requirements by improving dialogue at the commissioning stage
  - Reducing service demands
  - Reducing contract liabilities
  - Simplifying processes for commissioning and carrying out work.
- Post Office prefers transparency of pricing and is willing to share some SI risk. Therefore, SI work will be carried out predominantly on a T&M basis at agreed man-rates with delivery milestones against prior estimates.
- Post Office wish to have some degree of commercial separation of SI from Operational Services but in practice there is a critical dependency on Operational Services for implementation of new system releases. Therefore SI and Operational Services should continue to operate in a seamless fashion in the same way that they do now, co-ordinated by Fujitsu Services project managers.

6.3 Achieving Cost Reduction

The minimum resource level that is currently required to sustain the SI Service is in the region of 150 heads. This is a subset of the current team, which is larger because of peak demands caused by Network Banking. The SI Service core team comprises:

- Programme and project management
- Architecture & design
- SI, development, testing and support
- Quality Assurance
- Configuration Management.
- The approximate constitution of this team is shown in Table 5

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Table 5. Unit Resourcing for SI

Unit	Headcount
Prog. Dir./Dev. Dir.	10
Programme Office	12
Business Consultants	3
ASD	12
APDU	39
IPDU	45
PTU	29
Total	150

Our long-term goal is to reduce the level of resource to a core team of approximately 90 heads.

- **Managing the Skills Base**

  Fujitsu Services proposes to reduce the size of the core team from its present level by reducing the range of technical skills required.

  As an example of this process, through the re-architecting programme, Fujitsu Services will replace central Sequent Dynix servers with the latest generation of high performance standard Unix servers. Thus specialist Dynix skills will no longer be required in the core team, expensive test servers can be retired and greater potential for sharing development and testing resources across different activities will then exist.

  Another example is security: the current solution has an extremely high level of security which was originally built in to enable electronic DSS payment authorisations to be stored safely at branch level. These measures require highly specialised skills to maintain. A re-appraisal of the security threats that Post Office require to protect against is expected to result in a significant reduction in the complexity of the Horizon requirement which provides the potential for further reductions in costs of maintaining the service and introducing new business changes.

  Current architecture work aims to identify similar technology/skills dependencies to be identified and tackled. In time, it will be possible to simplify teams and reduce infrastructure requirements.

- **Managing Utilisation**

  Where staff needs to be redeployed or assigned to specific projects, Fujitsu Services has a resource management system that operates across the company. However, where practical, the preferred and most cost-effective approach will usually be to maintain workflow for a skilled core team.

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Consequences of Under-Utilisation	*Consequences of Over-Utilisation*
❑ Staff lose motivation ❑ Best people and key skills may be lost ❑ Insufficient financial recoveries are made - in the long term man-rates may have to rise to compensate	❑ Costs rise due to overtime and / or use of temporary contract staff ❑ Staff become overstretched ❑ IT infrastructure causes bottlenecks ❑ Quality may suffer

- **Use of Third Party Applications**

  Fujitsu Services has no objection to the use of third party applications in principal. Our current responsibilities for the operational service and SLAs mean that we need to control application providers through sub-contracts. It is hoped that re-architecting can reduce the level of bespoke programming in Horizon and increase the use of standard product.

  If significant parts of the current architecture can be replaced by third party applications then this would enable us to reduce the size of the core team.

6.4 Charging for SI Services

In principal there are a number of approaches that could be combined to provide incentives to maximise utilisation of the core SI team:

- Unbundling the commitment to funding SI and application development work makes the expenditure highly visible
- Lower effective man-rates for larger scale/longer term commitments
- Rebates or lower man-rates where normal utilisation levels are exceeded through additional work over long periods.
- **SI Core Team**

  Under the current contractual arrangements, the core team is funded through the ongoing service charges.

  It is proposed that there should be an explicit monthly charge for the services of the SI core team and associated infrastructure, including an agreed level of out-of-hours cover and overtime working.

  In future, the charge for this team will reduce in line with reductions in headcount and infrastructure costs.

  Fujitsu Services and Post Office will work jointly to maintain a prioritised flow of work for this team.

  Actual effort will be monitored by Fujitsu Services through timesheet reporting.

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- **Additional Resources outside SI Core Team**

  By agreement, it is likely to be necessary to deploy additional resources to meet particular business requirements. These might be:

  - Urgent enhancements when all core resources are already working on committed projects
  - Large-scale projects exceeding the capability of the core team
  - Projects requiring specialised skills and/or facilities.

  Under the current contractual arrangements, any such additional resources are incrementally chargeable via agreed work packages. Agreed man-rates may be discounted for large work packages in negotiation.

  It is proposed to replace this by an agreed scale of discounts according to the scale and period of commitment.

  By definition, resources in this category are likely to be sourced from elsewhere in the company or outside and therefore the degree of commitment and the lead time given will be important in determining both price and delivery dates.

- **Risk**

  Under T&M arrangements, there must be prior agreement on how to handle cost overruns. Fujitsu Services proposes that projects could be categorised according to the level of risk so that little or no overrun would be chargeable on low risk projects (so called "capped" T&M). Permissible overrun would be agreed in advance as a declared project contingency.

  Our detailed knowledge of Horizon should mean that most Horizon work should be in the low risk category. Work on client interfaces and in the Back Office may be in a higher risk category. Work on such projects is best managed by progressive commitment of funding to project stages to minimise exposure to risk.

  The increased emphasis on joint working to establish work package requirement specification, as detailed in the lifecycle process described in this proposal, has been designed to improve estimating accuracy and directly contribute to a reduction in business risk.

6.5 SI Service Management

A new Service Management regime and process is proposed to manage the SI Service and associated charges. The purpose of this is to manage:

- Size of the core team
- Additional resource commitment to projects
- Financial commitment and ongoing service charges

It is envisaged that a rolling resource forecast would be created and reviewed monthly. This would detail resource allocation to major areas of work. The scope of the forecast

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would be at least 12 months ahead. Confidence in the forecast would improve over time. There would be significant benefits for both organisations:

- Eases budget setting
- Ensures the right skills are available when needed
- Improved planning process should shorten lead times
- A clear method of prioritising work would exist

Work priorities need to be kept under review. Naturally there will be a desire to cover work packages from the pre-paid core team but the need to maintain progress on cost-saving work must also be kept at the forefront.

6.6 Resource Forecasts

The measures described in this proposal will enable a reduction in the size of the Core Team once re-architecting has been completed and migration to the new solution has completed. However, it is believed that the greatest demand for SI resources will be during the next two financial years. In this period there is a need to re-engineer business processes, replace Back Office systems, reduce Horizon's internal complexity, and launch new retail products.

Therefore two illustrative forecasts are presented here: a minimum commitment and an initial recommendation of the investment required to achieve additional savings as outlined in Section 3.

6.6.1 Minimum Commitment

The minimum commitment is only sufficient for internal Horizon changes.

Figure 3 illustrates the declining minimum commitment over time and shows spare capacity in this team over and above basic support which is available for SI work.

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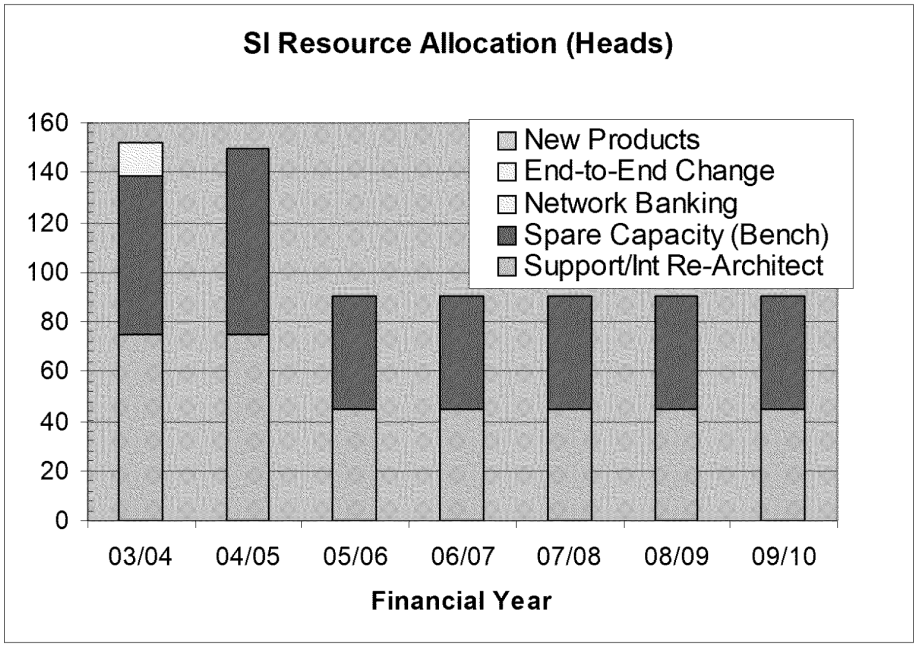
Figure 3. SI Resource Allocation – no Projects



6.6.2 Proposed Resource Forecast

This forecast is indicative of the level of commitment that will be needed to deliver the programme of work outlined in this proposal.

Figure 4 illustrates how the workload could be divided over four main areas of activity:

- New product development through the lifetime of the contract
- End-to-End change, mainly over the first two years
- Network Banking (declining rapidly after April)
- Horizon support and internal re-architecting activities.

This focus is based on assumptions in our pricing model and is aligned with timescales in the Roadmap Plan. It assumes that after a two-year period of significant changes to Horizon, the focus is on new product and support work.

In the intervening period, there is a need for further investment, which is above the level of minimum commitment

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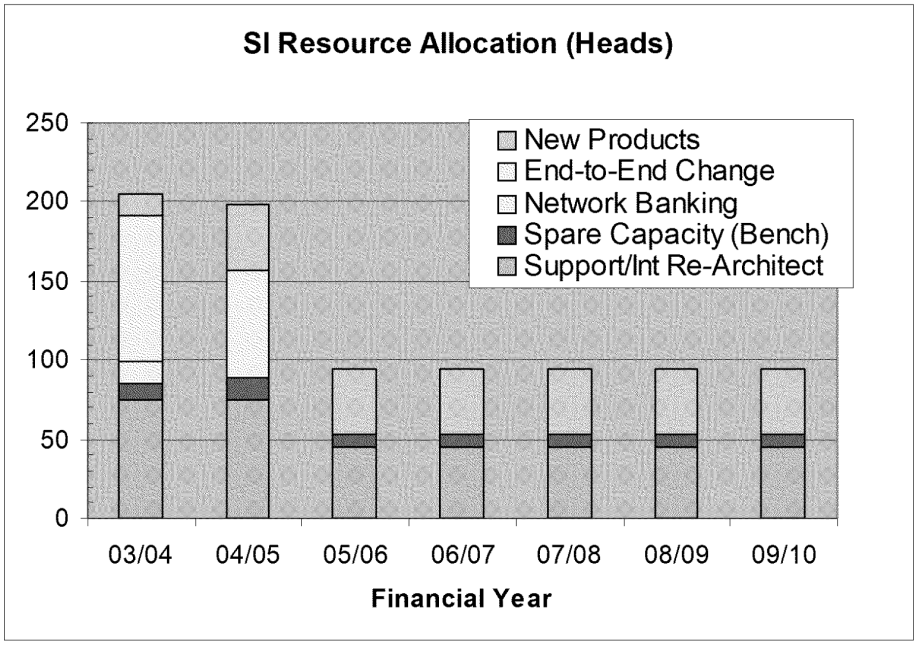
Figure 4. SI Resource Allocation - with Projects



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7 Financial Summary

7.1 Introduction

A few key points should be noted:

- Notwithstanding much detailed assessment work, the figures remain indicative at this stage: they will require more joint working and feedback to validate the assumptions before they can be firmed up as hard contractual commitments;
- All numbers are expressed in £ millions in 2002/03 money before inflation: efficiency savings are however assumed year on year, and are identified separately;
- All numbers exclude VAT;
- Network Banking operating charges are embedded in Core Operations charges, principally network charges.
- The tables which follow identify by element of service the estimated commitment required from Post Office for the Core service: this includes Network Banking. Maintenance of the current estate is assumed to 2010.
- The charges include provision for internal re-architecting of the Horizon software platforms and selective upgrades to produce cost savings. They also include an element of pre-paid SI resources available for Post Office sponsored work, free of charge. This allowance is identified.
- Provision is not made for the incremental work which will be required over and above this allowance to complete delivery of, in particular, end-to-end BPR of Post Office back office systems and new products. Estimates have been made separately of probable ranges of incremental cost based on the draft Roadmap. These are available for discussion but are not included here.

7.2 Operations charges

	Total	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10
Help desk	**26**	1	4	4	4	4	3	3	3
System service - counters	**96**	3	13	13	13	13	13	13	13
OBC	**11**	0	2	2	2	2	1	1	1
Data centre operations	**66**	3	11	10	8	8	8	9	9
Network	**143**	7	29	23	21	18	16	15	14
Software distribution/ systems mgt.	**58**	2	8	7	8	8	8	8	9
Product support	**21**	1	3	3	3	3	3	3	3
Reference data mgt.	**4**	0	1	1	1	1	1	1	1
3rd line support service	**11**	0	2	2	1	1	1	1	2
SLA management/ measurement	**4**	0	1	1	0	0	0	0	1
Service (problem) management	**4**	0	1	0	0	0	0	0	1
Client interface mgt./ reconciliation	**4**	0	1	1	1	1	1	1	1
Security/ Audit	**3**	0	0	1	0	0	0	0	0
Inflation	**0**	0	0	0	0	0	0	0	0
Efficiency	**-20**	0	0	-1	-2	-3	-4	-5	-6
CCNs	**5**	3	0	0	0	0	0	0	0
Current pricing to Dec 2002	**62**	62							
Total Operate	**497**	**83**	**74**	**65**	**60**	**57**	**54**	**53**	**52**

7.3 Infrastructure charges (availability fee)

	Total	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10
First Availability fee	**41**	15	15	11	0	0	0	0	0
Second Availability fee	**48**	16	16	16	0	0	0	0	0
Third availability fee - tech refresh lease	**0**	0	0	0	0	0	0	0	0
	89	31	31	27	0	0	0	0	0

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7.4 SI charges

	Total	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10
SI - Minimum Commitment									
Support	**94**	4	16	15	11	11	11	11	14
Committed capacity	**47**	2	9	8	5	5	5	5	7
Inflation	**0**	0	0	0	0	0	0	0	0
Total SI Commitment	**141**	6	25	24	16	16	16	16	21
SI - Implementation of infrastructure & architecture changes	**13**	1	3	7	2	0	0	0	0

Pre-paid SI capacity available to Post Office	**-40**	-2	-7	-7	-5	-5	-5	-5	-5

7.5 Special discount and other charges/ credits

	Total	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10
Additional work									
Network Banking	**40**	38	2	0	0	0	0	0	0
Add scope (back office)	**1**	1	0	0	0	0	0	0	0
New Products	**1**	1	0	0	0	0	0	0	0
Utilisat'n of pre-paid capacity	**-2**	-1	-1						
Total Additions	**40**	39	1	0	0	0	0	0	0
Discount/profit share for scope extension	**-30**	**-15**	**-15**	**-10**	**10**	**0**	**0**	**0**	**0**
Benefit share									
Net Total Core Commitment after discount	**750**	**145**	**119**	**113**	**87**	**73**	**71**	**70**	**73**

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Appendix 1 – Lifecycle Process

8.1 Introduction

Post Office and Fujitsu Services have jointly concluded that significant reductions in the current level of Horizon costs are dependent upon a major streamlining of existing lifecycle processes governing the procurement, implementation and operation of Horizon and associated business change.

This section presents Fujitsu Services' proposal for the new streamlined lifecycle process that is specifically focused on the areas of inter-working between Post Office and Fujitsu Services. This Lifecycle Process proposal is directly derived from work conducted with Post Office in the Working Together Initiative. In particular, the Lifecycle Process incorporates the new Post Office processes and terminology described in the "Landscape Model" documents, the contents of which have been shared with Fujitsu Services.

The results of this joint initiative have been the identification of a more agile process that will:

- Reduce procurement costs through the rapid identification of opportunities that cannot be supported by viable business cases
- Improve value for money and time to market for Horizon business solutions through reduced use of bespoke developments, and improved exploitation of existing Horizon assets
- Reduce rework and hence business risk associated with Horizon implementation costs and timescale estimates through introduction of improved requirements definition and qualification techniques
- Remove duplicated documentation, activities and system components through the joint adoption, by Post Office and Fujitsu Services, of a policy to single source information and functionality wherever commercially practical
- Remove implementation and operational service costs that are not supported by business related objectives through improved joint analysis and qualification of Horizon requirements
- Increase the number of opportunities identified by Fujitsu Services that will result in cost reductions and service performance improvement as a result of service performance analysis and exploitation of new technology developments.

The "Landscape Model" identifies the process steps associated with managing the impact of business change within the Post Office IS environment. This proposal develops the Landscape work further to present the sequencing of these process steps through identification of their relationship with the main process inputs and outputs. In addition, the proposal makes a clear distinction between the responsibility for performing a process step and the practise of joint working by Post Office and Fujitsu Services on activities associated with the process.

To assist with the analysis and definition of the Lifecycle Process, a formal process model has been developed. Output produced from this model is used to help describe the process in the remainder of this appendix. Responsibility for each process step is

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attributed to either Post Office or Fujitsu Services, following the practise adopted in the Landscape documentation.

For clarity of presentation in the process diagrams, process steps together with the information/business objects that are the responsibility of Post Office are shown without shading whilst those which are Fujitsu Services' responsibility are shaded grey. A brief description of the construction of the process model and its components is provided in the final section of this appendix.

In the first instance, the top-level Lifecycle Process is introduced. Subsequently, further levels of detail are shown for the Post Office Opportunity Qualification and Fujitsu Services Work Package Delivery processes. Finally, to underline its relationship to the contract and central role in defining the scope of supplier obligations governing acceptance, performance monitoring, functionality, etc., an expansion of the Work Package Requirement Specification business object is also presented. In each case, a diagram produced as output from the process model is presented first followed by a narrative description of the workings of the associated parts of the Lifecycle process.

In line with the terminology used in the Post Office Landscape Process documentation, the term Work Package has been used to represent the individual items of work that Post Office will contract with a supplier to meet business requirements.

Following Post Office review and feedback on this proposal, work will proceed on the detailed definition of the process steps and business objects associated with joint working that are described in summary form below.

8.2 Process Principles

Prior to describing the proposed process, it is important to recognise that a number of key principles have been adopted in the design of the Lifecycle and Landscape processes, namely:

- Elimination of duplication – the same documents are to be used by Fujitsu Services and Post Office wherever commercially possible providing a single source of information
- Clear responsibilities - one and only one party has responsibility for each step in the lifecycle process, i.e. Post Office or Fujitsu Services
- Joint working, where this improves understanding and reduces co-ordination effort, e.g. requirements analysis, testing/acceptance
- The cost of performing the activities and creating the outputs associated with individual process steps are the responsibility of the process owner (as defined by Landscape), unless prevailing contract terms determine otherwise
- Architecture laboratory to prototype key elements of new capabilities, evaluate new technologies and visualise requirements
- Clear scope for systems integration responsibilities

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Post Office is responsible for the integration of individual Work Package outputs and the performance of the resulting integrated business system in situations where the Post Office Conceptual Design activity has determined that a business requirement is to be addressed by more than one Work Package

Fujitsu Services has responsibility for integration activities within a Work Package and the contracted level of performance of the resulting integrated Work Package in situations where the Fujitsu Work Package Design activity has determined that the Work Package solution will involve more than one component supplier

- Clear scope for design responsibilities

Products and environment constraints identified by Post Office Architectures are defined in the Work Package Requirement Specification

Selection of products used in the construction of a Work Package, other than those pre-defined by Post Office in the Requirement Specification, are the responsibility of the Supplier.

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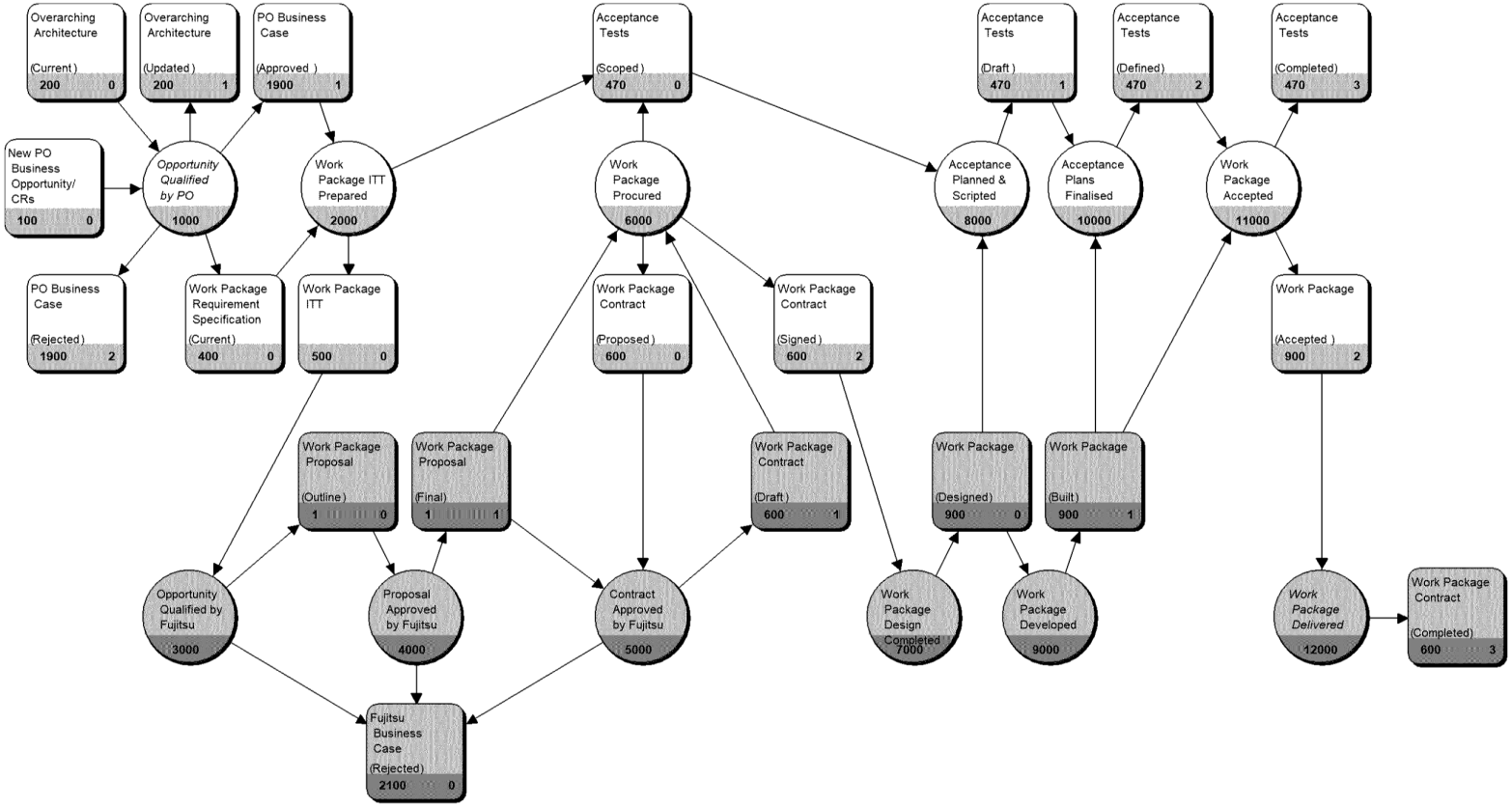
8.3 Top-Level Process



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The top-level process provides an end-to-end view of the activities that take place in the contracting lifecycle. The lifecycle starts when the Post Office business first identifies a new business opportunity and ends on completion of the business solution Work Package supply contracts. The process focuses on the key lifecycle activities at which Post Office and Fujitsu Services processes interact. The process highlights the respective responsibilities of the two organisations for each step in the lifecycle process together with the associated information flows.

During the execution of a process step, it may be beneficial to consider feedback to previous process steps to review decisions that have previously been made. In cases where this feedback results in changes to previously established process outputs, it is imperative that the process is re-started at the point of revision to ensure that outcomes that were previously established are re-validated to take into account the new circumstances. The main areas where feedback is to be encouraged have been explicitly represented in the process model.

Similarly, at each process step it may be necessary to halt the process. The main areas where the process may halt have been explicitly represented in the process model, e.g. a rejected business case.

The process model presented is generic in that it has been designed to accommodate Post Office business requirements and work packages of varying levels of complexity. However, the amount of work involved in each process step will depend upon a number of factors including the complexity of the work package and the extent to which existing information can be re-used. A change control on an existing contract will therefore need to go through the same process steps as for a work package requiring a new contract. However, in this instance the process steps should not be onerous.

8.3.1 Post Office Opportunity Qualification

Following identification of a new Post Office business opportunity, the opportunity is first assessed and qualified by an internal Post Office business qualification review process. Significant opportunities for improved working practices used during this process step have been identified which will help the Post Office complete the qualification more rapidly and cost effectively. This process step has therefore been expanded in the process model to define the improved qualification process. The expanded process step is separately described in a subsequent section within this appendix.

On completion of the qualification process, the Post Office business case will have been approved or rejected. If approved, the Post Office Architectures Team will have made any necessary changes to the overarching architecture to accommodate the new business requirement. They will also have identified the requirements for the work packages that need to be procured to provide a business solution that meets the Post Office business requirement.

An opportunity that might result in a Change Request (CR) to an existing contract would also be the subject of the qualification review process.

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The Post Office is responsible for the execution of this process and the production of the resulting outputs.

8.3.2 Work Package ITT Preparation

Subject to Post Office business case approval being granted, preparations will proceed for the procurement of the Work Packages that Post Office Architectures have identified as being required to build the business solution. Fundamental to this procurement activity will be the Work Package Requirement Specification that Post Office Architectures have been responsible for producing during the qualification process step. Because of its importance throughout the lifecycle process, an expansion of the Work Package Requirement Specification business object has been separately described in a subsequent section within this appendix. In particular, it should be noted, that the requirement specification defines the scope of the work package acceptance and performance/SLA measurement obligations. The Work Package Requirement Specification is carried forward into the procurement documentation (e.g. ITT, CR) and subsequently into any resulting contract.

The Post Office is responsible for the execution of this process and the production of the resulting outputs.

8.3.3 Fujitsu Services Business Approval Review

On receipt of details of a new Post Office requirement, Fujitsu Services business governance processes mandate certain activities that need to take place to help ensure corporate conformance and quality of proposals and contracting activities conducted with customers.

Initially, a qualification of the Post Office opportunity will be completed which will take into account any existing contractual obligations. Checks will be made at this stage that:

- The Work Package Requirement Specification provides sufficient information to prepare a solution proposal
- Fujitsu Services has the capability and available resources to deliver a realistically priced solution on the required timescales
- The estimated Fujitsu Services investment required to complete the procurement is compatible with the value of the business opportunity.

The process improvements proposed for Fujitsu Services participation in the initial Post Office qualification activity have been designed to minimise the chances of procurement halting at this stage.

Following successful qualification of the opportunity, Fujitsu Services will prepare a document detailing how it proposes to meet the Post Office Requirement. Prior to submission to the Post Office, the proposal is subjected to a formal Fujitsu Services Business Approval Review to ensure conformance with corporate business policies and procedures. If the Fujitsu Services proposal is accepted by Post Office procurement process (see below), the next step is to establish the contract terms. Prior to final

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agreement of contract terms, they will be presented to a formal Fujitsu Services Contract Approval Review to ensure conformance with corporate business policies and procedures

Dependent upon the level of business risk involved, Fujitsu Services directors will participate in these review processes.

Fujitsu Services is responsible for the execution of this process and the production of the resulting outputs.

8.3.4 Post Office Work Package Procurement

On receipt and review of Fujitsu Services' proposal to meet the Post Office Work Package requirement, Post Office will decide whether to accept the proposed solution. The process has been designed so that the steps taken in the preparation of the business case during the qualification processes will seek to remove nugatory procurement activity and costs at the earliest possible stage in the lifecycle process. If the decision is taken to proceed to contract, the terms will either be negotiated or derived from an existing contract in situations where the requirement represents a contract change control.

The contract includes the final form of the Work Package Requirement Specification, which provides the definitive baseline for the solution design and the scope of Post Office acceptance activity. From this point on in the lifecycle process, the Work Package Requirement Specification is managed under contract change control procedures.

Post Office is responsible for the execution of this process and the production of the resulting outputs.

8.3.5 Fujitsu Services Work Package Design

The Fujitsu Services Work Package Design process will commence once the contract is signed with the Post Office. The objective of the design process is to define in detail how Fujitsu will satisfy the requirements detailed in the Work Package Requirement Specification embodied in the contract. The design will identify the main solution components in sufficient detail to enable the high level design of those components to proceed during the following Work Package Development process step.

With a consistently derived requirement baseline, the design work will be able to re-use and build on the outputs produced by the opportunity qualification and proposal preparation activities. The Work Package Design output from this process will be provided to Post Office to help with the preparation and planning of the Work Package acceptance activities. Feed back from Post Office regarding the design support of the requirement will be constructive during this process step.

The Work Package Requirement Specification will be subjected to considerable scrutiny during this process. The process will therefore require effective joint working to address areas of the requirement that need clarification, subject to the disciplines of the change control process.

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Fujitsu Services is responsible for the execution of this process and the production of the resulting outputs.

8.3.6 Fujitsu Services Work Package Development

The availability of the Work Package Design will enable the development of the work package components to proceed. This will include any work package components that are concerned with satisfying deployment and operational aspects of the requirement. The development process covers high level design, low level design, build and integration through to system test of the complete work package solution. On completion of the development process, the work package will be ready to commence the acceptance activities that have been defined in the requirement specification.

The output from the development process will be used by Post Office to help finalise their preparations for work package acceptance.

Fujitsu Services is responsible for the execution of this process and the production of the resulting outputs.

8.3.7 Acceptance of Work Package by Post Office

The initial step in this process commence with the definition of the scope of the acceptance requirement as contained in the Work Package Requirement Specification. This scooping information will be used by Fujitsu Services to make appropriate provisions for acceptance activities and their associated costs in their solution proposal. It will also be used to inform the work package design activity to ensure that appropriate measures are provided for in the solution to support the acceptance requirements.

Further steps in the acceptance process will use outputs from the work package design and build processes to refine the detail of any preparations required to conduct work package acceptance.

The output from the work package build process is a work package solution that is ready to use as input to remaining acceptance activities. It is recognised that in some situations, acceptance will largely be based on observation and verification of the results produced from Fujitsu Services system tests. Wherever practical, the process encourages avoidance of separate acceptance tests that largely duplicate the results produced by the system testing processes. The opportunity to avoid duplicating testing activities thus reducing costs and implementation timescales, occurs when the scoping of the acceptance tests is determined for inclusion in the Work Package Requirement Specification.

On completion of the acceptance process, a formal record of the outcome is produced and the work package solution is accepted by Post Office as being ready for delivery into live operation.

Post Office is responsible for the execution of this process and the production of the resulting outputs.

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8.3.8 Work Package Delivery

On completion of the work package acceptance, the delivery process fulfils the deployment and operational obligations detailed in the requirement specification. An expansion of this process is described in a subsequent section to this appendix.

On completion of the delivery process, Fujitsu Services will have discharged its obligations under the contract and the contract will have been completed.

Fujitsu Services is responsible for the execution of this process and the production of the resulting outputs.

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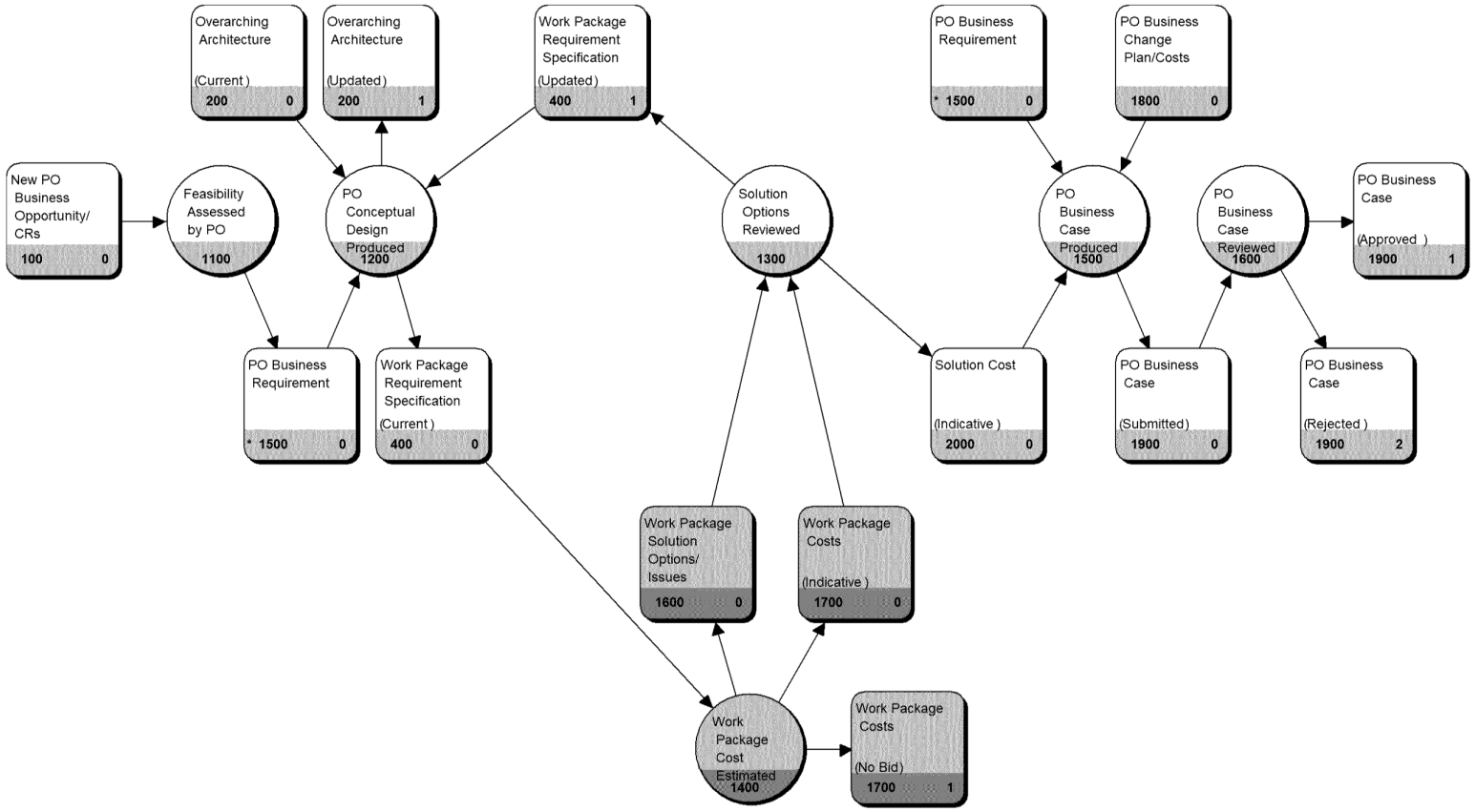
8.4 Post Office Qualification Process



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This section explains in more detail the activities that take place within Post Office Opportunity Qualification process, which was described above in the context of the top-level lifecycle process. The process has been designed to include important improvements to the way in which Fujitsu Services supports the Post Office in the identification of effective solutions to their business requirements and for which the supporting business cases demonstrate that value for money can be achieved.

8.4.1 Post Office Feasibility, Conceptual Design and Solution Review Processes

The Landscape Process identifies an initial process step during which the feasibility of new business opportunities are qualified and a supporting Post Office Business Requirement specification is produced. The resulting business requirement is used by the Post Office Architecture Team to produce a Conceptual Design. This design will take into account the existing Post Office Business Architecture together with the associated policies and principles. The output from this design activity will be the initial specification of the Work Package Requirements from which the proposed business solution will be constructed. In situations where the need for more than one work package is identified, Post Office will be assuming responsibility for the integration of the individual work packages.

The Work Package Requirement Specifications produced by this process will be supplied to Fujitsu Services so that indicative costs can be obtained, thus assisting with the construction of the Post Office business case for the requirement. The process has been designed to accommodate improved feed-back from Fujitsu Services that will:

- Be effective in identifying solutions that provide Post Office with optimum value for money
- Help eliminate nugatory procurement costs through rapid identification of requirements that are unlikely to result in a viable supporting business case.

The Conceptual Design process will therefore also take as input proposed revisions to Work Package Requirement Specifications resulting from Fujitsu Services feedback on solution options and outstanding requirement definition issues. As a result of this feedback, the Conceptual Design process may find it beneficial to revise the design and re-draft the Work Package Requirement Specifications.

To make effective use of the feedback that has been designed into the process and avoid introducing unnecessarily extended timescales, it is important that close inter-working between Post Office and Fujitsu Services takes place at the earliest stage in the process. The relationship must be such that working level information can be readily exchanged between the parties prior to a detailed specification being finalised. This will minimise the need for significant rework and increase the opportunities to identify optimal solutions.

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In order to remove cost and business risk from the later stages in the end-to-end process and increase the level of certainty associated with implementation cost and timescale estimates, it is expected that a greater proportion of work will be performed on activities concerned with establishing a more complete understanding of requirements than has previously been the case. In particular, a greater level of detail will be required in the final version of the Work Package Requirement Specification upon which Post Office business case is constructed.

When the review of the work package solution options has been completed and any resulting changes to the design and work package requirements have been finalised, an indicative cost for the overall business solution will have been determined for use in constructing the business case. These costs will include any provision for system integration activities for which Post Office has responsibility.

Post Office is responsible for the execution of this process and the production of the resulting outputs.

8.4.2 Indicative Work Package Cost Estimates

The Work Package Requirement Specification will be used by Fujitsu Services to establish an outline solution approach and derive indicative implementation costs. Where there is sufficient detail specified in the requirement, it will be possible to provide an indicative cost estimate to help construct the business case.

It may be the case that a number of different approaches exist that meet the requirement or variations of the requirement that Fujitsu Services have identified as being beneficial for Post Office to consider. It is therefore possible that this process provides, as an output, feedback on these options and issues. Fujitsu Services propose the use of an Architecture Lab to support this feedback activity which is an important innovation to help inform Post Office decision making in identifying solutions that deliver optimal value for money and to quantify and mitigate the business risk associated with complex technical and business change. The Architecture Lab concept is described in more detail elsewhere in this document.

In extreme situations, it may not be possible for Fujitsu Services to propose a practical solution that meets Post Office requirements. In such cases a no bid response will be provided.

Fujitsu Services is responsible for the execution of this process and the production of the resulting outputs.

8.4.3 Post Office Business Case Preparation and Review

Using the indicative cost of the business solution (designed by Post Office Architectures) as input together with the estimated costs of the implied business change required to implement the solution (prepared by the sponsoring Post Office business), the process will establish the overall cost of meeting the business requirement. This overall cost,

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combined with the benefits identified by the Post Office business, will be used to construct the Post Office Business Case.

The results of the Business Case review process will determine whether the requirement is to be progressed further. If there isn't a positive outcome to this process, it is possible that the proposed solution design may need to be re-visited to determine whether a more cost effective option exists. To help reduce the costs and resource wastage associated with the preparation of unsuccessful business cases, the proposed Work Package Requirement Specification includes information regarding the business benefits that the proposed Post Office investment is expected to deliver. This information will assist the Fujitsu designer in identifying solutions that represent value for money relative to the expected level of benefit to the Post Office. It will also help Fujitsu Services identify, at the earliest opportunity, situations where a value for money solution may not be practical which will help to reduce Post Office and Fujitsu Services procurement costs.

Post Office is responsible for the execution of this process and for the production of the resulting outputs.

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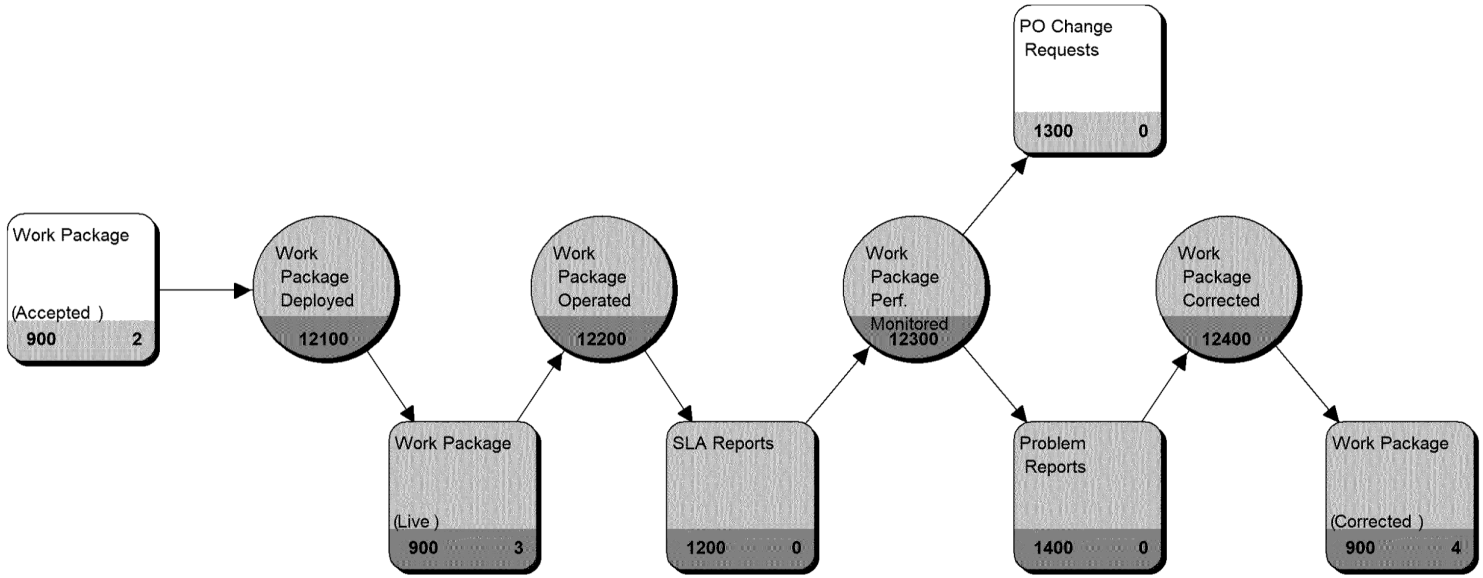
8.5 Work Package Delivered Process



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Following Post Office acceptance of the work package solution, Fujitsu will proceed to deploy the resulting solution within the Post Office estate and operate the live service as detailed by the contract. The Work Package Requirement Specification will have identified the SLA reports that are required to be produced to monitor live service performance.

The process of monitoring live service performance may identify areas in which the work package is non-conformant to the requirement specification. In such cases, Fujitsu Services will investigate the problems to identify and apply the necessary corrective action. The service monitoring process may also identify potential changes to the Work Package Requirement Specification that Post Office might elect to consider under contract change control. In this case, the opportunity associated with the change will be input to the very beginning of the lifecycle process to assess its feasibility, etc.

Fujitsu Services is responsible for the execution of this process and the production of the resulting outputs (with the exception of Change Requests).

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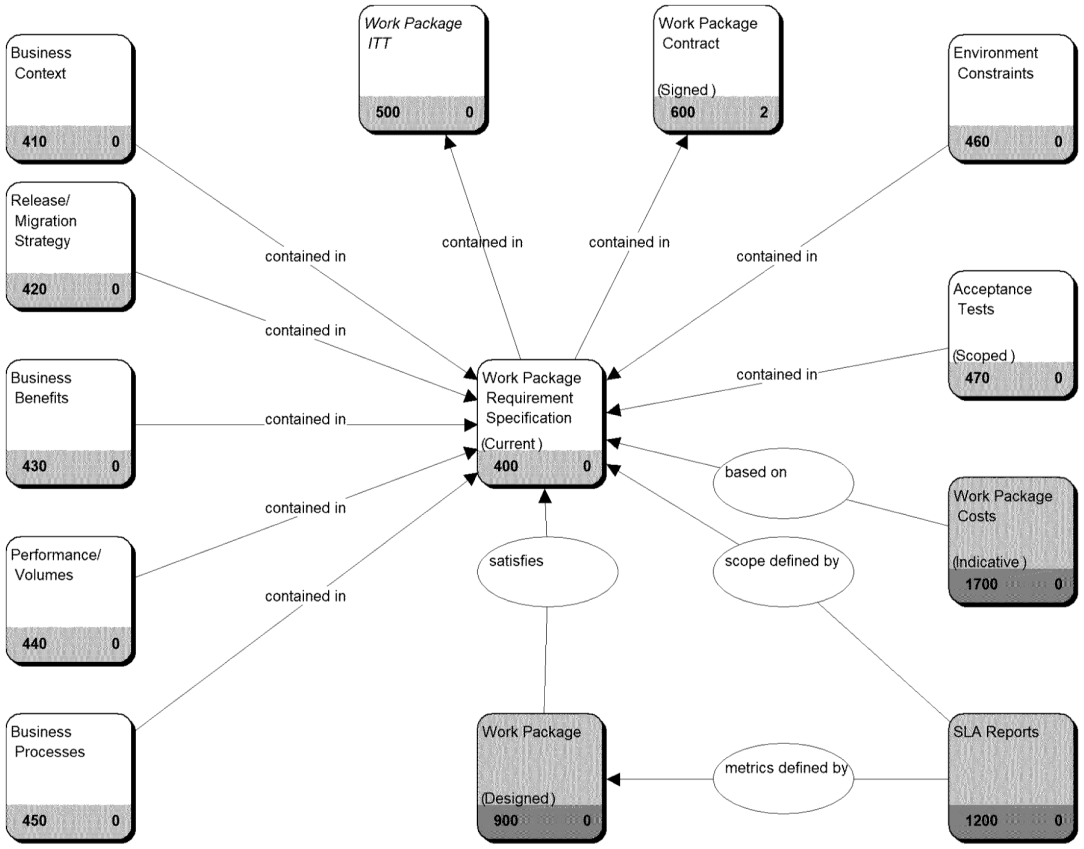
8.6 Work Package Requirement Specification Relationships



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The Work Package Requirement Specification is of fundamental importance to all stages of the lifecycle process. The scope of the specification has deliberately been broadened from that used in the current contract. The purpose of the change is to improve Fujitsu Services' understanding of the business change that the work package is required to support. This improved understanding will enable Fujitsu Services to support Post Office with improved qualification of business opportunities, reductions in unsuccessful procurement activities, improved cost and implementation planning estimates, reduced business risk and an increased probability that the target business benefits will be realised.

The Work Package Requirement Specification has a dual role. Firstly, it has to clearly convey to Fujitsu Services what Post Office requires the work package to contribute to the construction of its overall business solution. Secondly, it has to provide sufficient level of detail to enable a solution design to be produced that can demonstrably support the requirement and to scope the method by which acceptance of the solution will be established. To reflect its importance to the lifecycle process, the Work Package Requirement Specification is embodied in the contract and maintained under contract change control throughout the contract lifecycle.

In summary, key components of the proposed Work Package Requirement Specification that haven't been described elsewhere in this appendix include:

8.6.1 Business Processes

The business processes definition establishes the scope of the business activities that the work package is required to support in combination with the business objects (e.g. information and resources) that these activities use and produce/change. It is important that the business process definitions characterise the work that the business is required to perform and do not attempt to anticipate the solution. This approach will provide the Fujitsu designer with the scope to propose optimal solutions.

8.6.2 Environment Constraints

This aspect of the requirement defines the constraints within which the Fujitsu designer is required to work when producing the solution design. These constraints may for example be regulatory, third party interfaces, security requirements or elements dictated by the Post Office Ltd IS/IT environment/strategy. The requirement constraints imposed on the solution scope the level of business risk that Fujitsu can assume. Conversely, with respect to IS/IT constraints, it also determines the level of business risk associated with the solution that Post Office Ltd has implicitly elected to assume.

8.6.3 Business Context

The business context explains the business rationale behind the requirement. For example, it will inform the designer whether the requirement is for a pilot or a fully-fledged operational solution. It will also indicate whether further related requirements

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are anticipated, in which case it might be necessary to cater for their future inclusion in the proposed solution design,

8.6.4 Release/Migration Strategy

This section provides information regarding the proposed intention for the introduction of the business change that will include the work package solution. This will help inform the designer regarding facilities that will be required to support service introduction and migration.

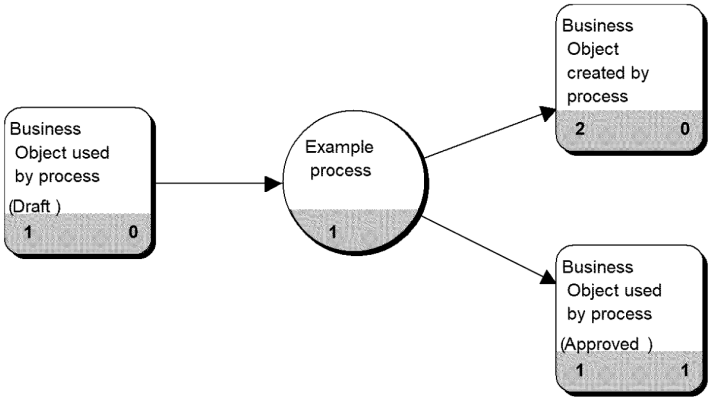
8.7 Process Model Construction

Process steps are represented as circular symbols on the model. Each process has a unique numeric identifier and a short text description. The completion of a process requires certain input conditions and results in the creation or change to a measurable output.

Inputs and outputs to a process are referred to as business objects and are represented by square symbols on the model. Each business object has a unique numeric identifier (left hand bottom corner), a numeric state (right hand bottom corner) and a short text description. Where appropriate, an optional short text description of the business object state is shown encased in parenthesis, e.g. (Draft).

The relationships between business objects and processes are illustrated on the model by connecting arrows. An arrow pointing from a business object to a process indicates that it is used as an input to that process. Conversely, an arrow pointing from a process to a business object indicates that the business object is created or its state is changed by the process. The information flow and inter-dependencies between individual processes within the model are explicitly shown through their relationship with the business objects that are inputs to a process or are created/changed by a process.

The example illustrated below shows a process that, on completion, changes the state of a business object from “draft” to “approved” and also creates a new business object. By inference, the process cannot complete until the draft business object is available.



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The process model can be viewed at various levels of complexity. At the highest level, the lifecycle process is represented as a number of individual processes that are inter-linked through their relationships with key business objects. Where appropriate, each process can be expanded further to show a greater level of detail. Thus, a process shown in the top-level of the model can be expanded to show the internal process steps together with more detail of the related business objects. This sequence can be repeated several times until sufficient definition has been captured for the purpose in hand. When a process has been expanded in the model, the text description is italicised in the circular process symbol.

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Appendix 2 - Governance

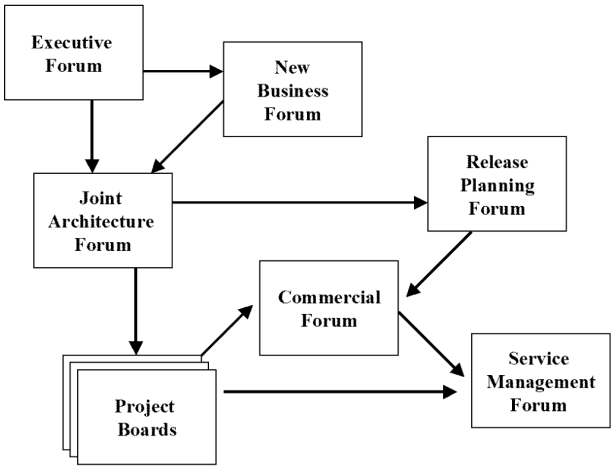
9.1 Introduction

It has been jointly proposed that a new level of governance be implemented to ensure the success of a new contract. The following structure has been proposed. While some of the detail needs to be discussed and agreed, Fujitsu Services is supportive of these groups being set up and equipped with the necessary authority to act to achieve the roles as set out below.

9.2 Proposed Groups

There are 7 proposed groups

- Executive Forum
- New Business Forum
- Joint Architecture Forum
- Release Planning Forum
- Projects Board(s)
- Service Management Forum
- Commercial Forum



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Executive Forum	
Responsibilities	❑ Defining strategic direction and vision ❑ Aligning business objectives and direction ❑ Scorecards – agreeing what components will be measured, and setting targets ❑ Agree key messages for joint Post Office and Fujitsu Services communications plan ❑ Define Relationship Development direction – ensuring ability to deliver scorecard action plan and to address any issues arising ❑ Recognition – agreeing recommendations for Recognition. [this is key to encourage the behaviours recognised as vital to ensuring a more effective working relationship, as recommended by the Relationships strand] ❑ Agree joint incentivisation targets for projects & services.
Membership – Post Office	To be agreed
Membership – Fujitsu Services	To be agreed
Frequency	Quarterly
Other Comments	Chairmanship of this forum should alternate between Post Office and Fujitsu Services e.g. Post Office chair one meeting, then Fujitsu Services chair the next.

New Business Forum	
Responsibilities	❑ Generating and scoping ideas and opportunities to achieve joint business objectives and ensure continuous business improvement ❑ Activity will focus in four key areas: products, processes, architecture, projects ❑ Activity will address the end to end business process
Membership – Post Office	To be agreed
Membership – Fujitsu Services	To be agreed

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Frequency	Monthly
Other Comments	The purpose of this group is to ensure that objectives set by the Executive Forum are addressed and implemented as appropriate across both businesses; and to ensure continuous improvement is a conscious activity in both businesses

Joint Architecture Forum	
Responsibilities	❑ Requirements Analysis ❑ Solutions Visualisation ❑ Migration Planning ❑ Acceptance ❑ Benefits Realisation Monitoring (ensuring what was done achieved the benefits forecast, and if not, why)
Membership – Post Office	Chief Architect Nominees from other functional roles as required
Membership – Fujitsu Services	Chief Architect Nominees from other functional roles as required
Frequency	Monthly
Other Comments	None

Release Planning Forum	
Responsibilities	❑ Communication of service development plans – PO Ltd and Fujitsu Services ❑ Agree high level planning assumptions for future developments of services ❑ Initiate, monitor and ensure progress on development of service definitions and terms and conditions for additions to the contracted services ❑ Approve additions to contracted services (that will then be formally introduced by CCN) ❑ Prioritise releases in terms of schedule and contents, in

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	❑ accordance with strategic direction and objectives set by Executive Forum, and in accordance with any operational constraints (Note – final decision for Releases to go live will be made by Service Management Board)
Membership – Post Office	Programme Integration Director Technical Architecture Business Architecture IS Services Manager Business Sponsors (as appropriate) Commercial Manager
Membership – Fujitsu Services	Programme Director Director Business Development Director Commercial and Finance Development Director
Frequency	Monthly
Other Comments	None

Project Board(s)	
Responsibilities	❑ Project Management and Governance as per PRINCE 2 standard practice, For example: ❑ Review and resolution of operational issues arising in design, development and testing ❑ Review progress and performance against plan
Membership – Post Office	Project Manager Nominees from Design Authority, Business Change and Commercial Manager to attend as required
Membership – Fujitsu Services	Programme Manager Nominees from relevant functional areas, as required
Frequency	
Other Comments	These will take place as required, for specific projects initiated through the life of the contract. There will be one board for each major project

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Service Management Forum	
Responsibilities	❑ Review performance against contracted service levels ❑ Resolve operational issues arising from non-conformance to contracted service levels ❑ Release Authorisation – review readiness and agree Releases into live operation ❑ Ensure continuous improvement in the ongoing/steady state/business as usual Service Management environment
Membership – Post Office	Head of Business Service Management Service Operations Manager Programme Integration Director Other nominees as required
Membership – Fujitsu Services	Customer Services Director Release Manager Other nominees as required
Frequency	Monthly
Other Comments	None

Commercial Forum	
Responsibilities	Membership – Fujitsu Services
Membership – Post Office	Frequency
Membership – Fujitsu Services	Other Comments
Frequency	Monthly
Other Comments	This board is concerned with contract management and administration rather than fundamental contract renegotiation