POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL





ICL Pathway

PA Consulting Group

Review Of BA-POCL Programme

Commercial In Confidence

Prepared by : Peter Copping
Deborah Lees
Hugh Crail
David Rees

Version 3.0
1 October, 1997

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

PA Consulting Group

Review Of BA-POCL Programme

Commercial In Confidence

Authors: Peter Copping
Deborah Lees
Hugh Crail
David Rees

PA Consulting Group
123 Buckingham Palace Road
London SW1W 9SR

Telephone GRO
Facsimile GRO

Version 3.0
01 October 1997

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

DISTRIBUTION OF CONTROLLED COPIES

Controlled Copy N°	Surname	Name	Organisation
1.	Crahan	Peter	BA POCL
2.	McNiven	Bruce	BA POCL
3.	Mathison	Peter	Benefits Agency
4.	McCorkell	George	Benefits Agency
5.	Bennett	John H	ICL Pathway Ltd
6.	Coombs	Mike	ICL Pathway Ltd
7.	Todd	Keith	ICL PLC
8.	Copping	Peter	PA Consulting Group
9.	Lees	Deborah	PA Consulting Group
10.	Rich	Paul	Post Office Counters Ltd
11.	Sweetman	Stuart	Post Office Counters Ltd
12.	Wylie	Alec	Social Security Agency

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

TABLE OF CONTENTS

MANAGEMENT SUMMARY
1. CONTEXT AND PURPOSE OF THIS REVIEW 1–1
2. AIM AND SCALE OF THE BA-POCL PROGRAMME 2–2
3. OBSERVATIONS ON THE CURRENT PROGRAMME 3–3
3.1 BA : CAPS PROGRAMME 3–3
3.2 POCL : HORIZON PROGRAMME 3–5
3.3 PATHWAY 3–9
3.4 PROGRAMME DELIVERY AUTHORITY - PDA 3–13
3.5 ISSUES COMMON ACROSS THE PROGRAMME 3–15
4. PROBABILITY OF FURTHER SLIPPAGE 4–18
4.1 CAUSES OF CURRENT SLIPPAGE 4–18
4.2 SLIPPAGE TO DATE 4–20
4.3 ANALYSIS OF SLIPPAGE 4–21
4.4 IMPACT OF FORECAST SLIPPAGE 4–24
5. ACTION NEEDED TO MINIMISE FURTHER SLIPPAGE 5–26
5.1 PATHWAY 5–26
5.2 CAPS 5–26
5.3 POCL 5–26
5.4 PDA 5–27
6. OPTIONS FOR ADDRESSING RESIDUAL STRATEGIC RISKS 6–28
6.1 RESIDUAL STRATEGIC RISKS 6–28
6.2 ACTION PLAN OUTLINE. 6–30

APPENDIX A Interviewees
APPENDIX B Terms of Reference
APPENDIX C Trends in Programme Milestone Dates

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

MANAGEMENT SUMMARY. . .

PA

MANAGEMENT SUMMARY

M1. CONTEXT FOR THIS REVIEW

The driving force for this Review of the BA/POCL programme has been the consistent and chronic slippage in delivery dates. At the time the Review started, some 12 months into the implementation stage of the Programme, difficulties were being experienced in longer term planning because of slippage of some 13 months in short term plans.

This is putting stress on the viability of each organisation's business case. The resulting low level of confidence in the robustness of planning and resourcing and the background of commercial sensitivity, led management in each of the sponsor organisations and Pathway to commission PA Consulting Group to provide an independent view of the:

- current weaknesses and risks in the Programme
- implications for the Programme future delivery obligations
- options which may be available to assure its delivery capability.

It is in the nature of a review of this sort to focus on the problems and weaknesses which need to be addressed. We wish to record that, despite the problems that the Programme has encountered, there is no doubt that a lot has been achieved by all the teams in the light of very demanding circumstances.

M2. PROGRAMME OBJECTIVES

The BA-POCL Programme is a large and complex programme of change. The overall Programme objectives are to:

- deliver a fraud-free method of paying benefits at post offices;
- develop a system that meets recognised accountancy practices;
- provide, through automation, greater commercial opportunities enabling POCL to improve competitiveness and increase efficiency;
- provide an improved level of service to all customers.

It is a very major business venture for each of the participating organisations - the Benefits Agency (BA), Post Offices Counters (POCL) and Pathway:

- it is directly business critical for Pathway and is an extremely large and strategic investment for ICL and its parent company, Fujitsu.
- it is a major component in the BA's strategy to reduce fraud and improve financial and accounting controls, as well as to reduce costs.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

MANAGEMENT SUMMARY. . .

PA

- for POCL, the Programme, as part of an overall programme of automation, is essential to the creation of a platform for future growth and avoidance of business decline.

In PA's opinion, the Programme is world-class in its ambitions and our observations should be seen in that light.

The Programme entails major changes to BA IT systems and an extensive implementation effort in the Agency's field operations and in their inter-working with the Agency's customers. For POCL, a number of IT systems require development and there needs to be an extensive programme of process change, training and the preparation of some 19,000 post offices. Pathway are required to develop, install and operate a major national infrastructure with complex real-time transactions through the 19,000 post office outlets and, with the support of POCL, to prepare outlets and train counter staff.

M3. FINDINGS

M3.1 Benefits Agency

Overall we have concluded that the plans for what needs to be done by BA are being well thought through. They are robust in terms of the approaches being adopted and the management resources being applied. Good progress is also being made on process changes and policy issues; the same is true of planning for BA field operation activity and the overall migration strategy. There have also been positive moves to rationalise management responsibilities in relation to the Programme Delivery Authority (PDA).

Recognition towards the end of last year of the scale of data and business migration and the need to move towards phased CAPS releases have affected BA cost estimates and, contributed to an increased understanding of the complexity of the overall implementation. This increased understanding led to the change in time scale for the Programme agreed by all parties early this year and which is reflected in Master Plan V3.

The CAPS Programme is currently undertaking a major re-planning exercise. From this, we would expect to see increased time for testing, data migration, re-work, post-release enhancements and associated integration testing. This will increase BA costs and timetable for delivery. Continuation of the tight management control of the Programme, in view of the scale and complexity of the activities to be completed, will be vital and may demand further strengthening of the CAPS programme management office.

M3.2 POCL

POCL has much to do if this Programme is to be successful. The first steps, to implement computer system modifications, are under way and aside from perhaps an over-reliance on the PDA for programme management of this, progress seems to be satisfactory.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

MANAGEMENT SUMMARY. . .

PA

We do have concerns for the future, in three areas:

- there is a need for POCL significantly to boost resources to co-operate with Pathway's roll-out of the infrastructure. Plans are in place to appoint national and regional managers for implementation and some 350 support staff. We do not, however, believe that there is sufficient recognition in POCL of the need to be taking rapid steps to have a robust team in place;
- although work has been done to assess the Service Management Framework required to manage Pathway as a service provider, the resources needed for this are not identified, other than those that currently exist in the PDA . We feel that the scale and difficulty of the service and contract management task is not yet fully understood in POCL;
- in the longer term there is the issue of developing the POCL requirements for EPOSS and the supporting computer applications. We understand there is much still to do here, which will require additional resource.

Despite an apparent focus on planning rather than doing and a general underestimation of the resources required, we do not believe this has contributed in any significant way so far to slippage in the Programme. Clearly there is and will continue to be an impact on POCL costs as the necessary resources are put in place which, together with slippage, must impact the business case.

Our key concern is that the skills required for many of the new senior posts are, in our opinion, not those we would have expected to find as part of POCL core competencies: this is especially true in relation to implementation management and contract and service management. There seems, however, to be no evidence of external recruitment activity or robust plans to create the competence internally.

M3.3 PDA

In the PDA, we find strong desire for continued change, shaped by the recommendations of the Andersen Consulting and French Thornton reports but, progress with implementation is slow. We generally agree with these recommendations, which in essence move the PDA towards a body that has responsibility for:

- assurance of the overall business architecture
- assurance of the technical architecture
- integrating the work plans of each of the sub-programmes
- management of the joint contractual arrangements during delivery

Meanwhile there is evidence of a change management process that requires time which is not always allowed for in the plans and of the PDA getting engaged in aspects that might be better managed directly between one of the sponsors and Pathway.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

MANAGEMENT SUMMARY. . .

PA

The PDA expends considerable effort in trying to broker resolutions of issues with Pathway and between the sponsors. This is made more complex by the inherent difficulty in managing a PFI contract - in getting the balance right between assurance and interference. This is particularly challenging for this Programme where not all the risk - which is business critical to the sponsors - is transferred to the supplier and where there is a natural tension at the boundary of risk transfer as the sponsors and supplier each seek to optimise their positions as to respective roles, rights and obligations.

We believe that the PDA is too large and that it could be reduced to around one quarter of its present size by continuing the process of transferring functions to sponsors and, by removing overhead activity. At the same time there is a need to ensure that the resources assigned to the PDA are the best available and that they are aligned with the revised responsibilities. This should not be confined to the resources available in the sponsor organisations but managed strictly according to competency for the roles.

M3.4 Pathway

At the outset of this procurement, it appeared to Pathway that the development of a service to meet the PFI requirement could be achieved largely through systems integration, and that its role was essentially one of a systems integrator. This is illustrated by the large number of subcontractors to Pathway. In reality, the amount of development work needed was in our opinion, seriously misjudged. As a result, time scales and resource needs were underestimated.

As Pathway and sponsors have worked with the PDA to resolve the detail of the requirement (the contract specifies requirements with the principle of "agreements to agree" being used to work up the detail of the requirements to give legal expression) and also to incorporate change requests into planning, the extent of development needed has become clear. Pathway instituted an internal review early in July 1997 and subsequently began to implement necessary management and organisation changes to reflect an enhanced understanding of the demands of the programme. These changes (including a new management structure, additional resources and application of change control disciplines) are still in the process of being implemented. There continues to be a vital need to tightly manage the sub-contractor network and, in particular, Escher, a small US company who are delivering core functionality to the Pathway solution.

We believe the current status of the Programme is surrounded by considerable contractual ambiguity. Pathway are, in essence, proceeding on an 'own risk' basis to deliver Release 1c with a "known problems register" and its proposal is to address the "known problems" in Release 2. Meanwhile the baseline for Release 2 is being developed. Pathway will only be able to provide firm plans once this Release reaches approved baseline status. Because so much of the contracted-for solution now appears to be in Release 2, we must express serious reservations about Pathway's current plan to be ready for commencement of national roll-out at the end of July 1998. Pathway have recently confirmed to us that it is unlikely that Release 2 will be ready for live trial until late summer or early autumn 1998.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

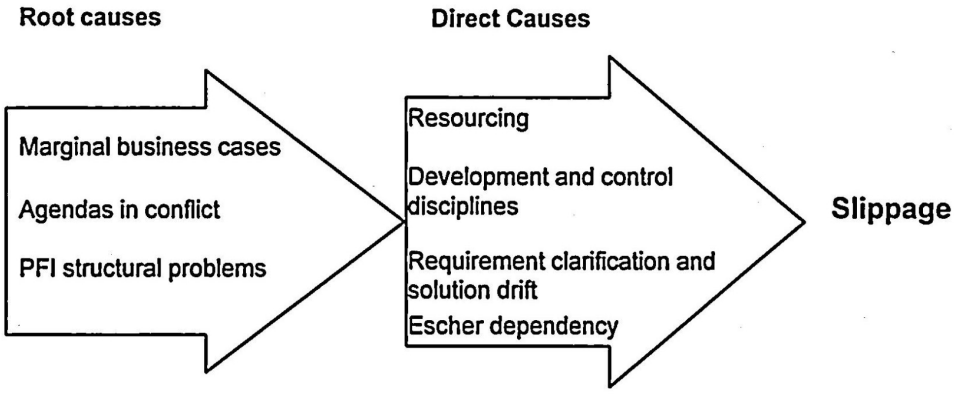
MANAGEMENT SUMMARY. . .

PA

Much of our review at Pathway has focused on the robustness of the technical solution since this has become a significant concern for the sponsors and Pathway. Whilst we have been able to obtain satisfactory answers to all our questions, in particular regarding the way security requirements will be incorporated and on scalability and performance, there must continue to be reservations in all these areas until the final design is baselined and then realised. It is also important to note the dependency for technical success on Escher which is a small, Boston-based software house and the source of the Riposte messaging software which is at the heart of the system.

M4. CAUSES OF CURRENT SLIPPAGE

We believe that there are direct causes of slippage but that these need to be set in the context of a small number of underpinning root causes as illustrated below.



M4.1 Root causes

Marginal business cases.

The business cases of each of the sponsors are marginal and built significantly on the assumption that the required services could be delivered in a relatively short time scale. The original project time scales have not proved realistic so the basic vulnerability of each of the business cases is now fully exposed. This is putting strain on relationships between sponsors and between the sponsors and Pathway

Were this project to be in the planning stage today, PA has no doubt that significant attention would again be given to ensuring the supply of an economic infrastructure for benefit payments and EPOSS. At the margin, where automated transactions at post offices are economically at their most vulnerable, this could mean that alternative approaches to the solution might be more attractive in today's environment.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

MANAGEMENT SUMMARY. . .

PA

Agendas in conflict

The BA is a major customer of POCL and it is inevitable that the different commercial objectives of each organisation make it difficult for them to act in total harmony as joint Programme sponsors. We note this has the following impacts:

- an adversarial approach between senior managers in BA and POCL and tensions at working levels, for example between POGAB and the DSS Account Team in POCL
- there is a tendency to populate the PDA with a balance of representation from BA and POCL, rather than strictly according to required competencies;
- decision-making structures are cumbersome and the people in them do not feel particularly empowered. This is evidenced in the extensive and only partially productive brokering work of PDA staff and the many pre-meetings required to support the PDA Board and Programme Steering Committee (PSC).

Structural problems with the PFI.

The scale of this PFI, its complex supply chain, the conflicting business objectives of the sponsors, the difficulty in assessing who ultimately carries the risk, and the short time scale of the operational part of the contract create an environment of uncertainty and tension. These aspects distract attention from the key objective - to deliver a solution that works, with acceptable levels of risk transfer and returns for both customer and supplier.

M4.2 Direct causes

Resourcing

This is a world class programme measured by any standards.

At the BA, action has already been taken to strengthen the management organisation by, for example, taking back responsibility from the PDA and drafting in appropriately skilled and experienced resources from elsewhere. Pathway has acted swiftly, following their internal review, to make structural changes and to strengthen the management team. At the PDA, the problem has also been recognised and action is being taken to strengthen the calibre of its resources. POCL still has much to do and arguably have yet to recognise that top quality project and service management resource will probably need to be recruited externally.

In our opinion, sponsors, the PDA and Pathway must continue to seek to identify and recruit people of appropriately world-class professional stature into every key position as this programme progresses.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

MANAGEMENT SUMMARY. . .

PA

Development and control disciplines.

Pathway has much still to do to ensure that effective management and change control disciplines are embedded in the combined development and systems integration environment in which they now find themselves. This must be done regardless of the time pressures which exist in the Programme. This is particularly challenging because of the need to embrace key subcontractors in these processes. This applies specifically to Escher on whom Pathway are highly dependant for success.

Requirement clarification and Solution Drift

We believe that a better mechanism is needed than currently is in place to manage the tension between requirements and solutions in the context of a realistic assessment of the business impact. Whilst we understand the constraints which apply within a PFI environment, we have not been convinced that the current arrangements are resulting in a proper assessment of the real business impact of decisions to adhere either to timetable or to requirements specification.

In this Programme there has been no formal rebasing of the Master Plan and associated time scales since March this year to reflect for example, more recent change requests and emerging or existing exclusions to functionality. In our experience, in a programme of this complexity, this implies that too rigid an approach is being adopted at the possible expense of the business cases for all parties. The nature of a PFI contract arguably reduces the scope for pragmatic "trade offs" in development of the solution and this remains a significant risk for the Programme.

The Escher dependency

With the realisation that to deliver this Programme requires a substantial development as well as systems integration effort, the dependency of the solution on Escher (a relatively small North American software company) and the Riposte software takes prominence. Much of the architectural development needed has required Escher to commit to major rework and this is being commissioned by Pathway. This has taken time and effort, thus causing delay.

Escher will continue to be a major risk to the success of this Programme. This risk will be manifest both in terms of delivery of solution and in the ongoing security of the supply chain to Pathway. On the basis that no other remedy is available, its containment will rely on ICL and Pathway's ability to forge mutually beneficial and sustainable relationships with the key people involved in Escher.

POL00028092

M5. IMPACT OF SLIPPAGE

M5.1 On start of national roll-out

We believe this Programme in its present form, and on the basis of slippage to date, will not be ready to start national roll out by the end of July 1998 - the most recent date proposed by Pathway to sponsors.

Although we expect there will be further slippage announced in the BA/CAPS programme from the current re-planning exercise and we believe that POCL are not moving fast enough into implementation mode, these delays are not, in our judgement, on the critical path. It is PA's assessment that the primary driver of time scale slippage will now be Pathway as they come to terms with the scale of what has to be done.

Based on our consideration of the experience of the Programme so far, the results from Release 1c testing which imply unplanned rework is needed, the fact that functionality originally planned in Release 1c is now proposed by Pathway to be delivered in Release 2 and an extrapolation of historical slippage, we do not believe the Programme will be ready for national roll out before January 1999.

M5.2 On national roll-out

We have not seen convincing evidence that the projected roll-out rate of 300 post offices a week is achievable. We believe that a roll-out rate of 150 rising to 250 offices a week is achievable if there are no major delays in getting estate surveys completed to the revised time scale; there is early agreement of major outstanding issues such as the commercial arrangement for communications to customers; the commitment of sub-postmasters to consistent and timely co-operation with roll-out requirements is secured and POCL develop and resource an effective and timely implementation strategy.

A major area of concern relates to the arrangements for Service Management of Pathway. We believe this aspect of the Programme needs to be accelerated to provide a basis for piloting and to undertake this under POCL, not PDA, control and direction.

In summary, we forecast on-going slippage to the key development stages and would not expect the infrastructure to be ready for commencement of national roll-out before January 1999, at the earliest, and for roll-out to be completed over a period of between about 1.5 and 2 years.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

MANAGEMENT SUMMARY. . .

PA

M5.3 On business cases

The further slippage will have a significant effect on the business case for each player:

- extended design and development effort will increase Pathway costs while the "window" for securing a return on investment remains short;
- CAPS Programme costs are likely to increase significantly not only because of the need to extend the period over which the Programme team need to be in place but because there are additional work items which the Programme will need to undertake in the period (and which we believe will emerge from the current re-plan) to increase resilience and contingency. Further delay to card based payments reduces the overall NPV for the BA;
- Horizon Programme costs will increase due to the extended period for the team to be in place and due to the need for additional work associated with implementation and service management provision. Delay in the roll-out not only delays potential revenue streams but is likely to reduce them overall as market opportunities are lost.

We do not have access to detailed information which would enable us to project the overall cost implications for the Programme. However, on the basis of information provided to us in confidence by each party, we would estimate that overall Programme costs (including sponsors and Pathway but not including fraud savings and any loss of future business opportunities for POCL) will increase by between £185m and £250m. We consider that sponsors should undertake an urgent appraisal of the impact on their costs as input to assessment of whether or not to continue with the Programme either as currently planned or in a revised form. Pathway will need to undertake a similar assessment.

M6. RECOMMENDATIONS TO MINIMISE FURTHER SLIPPAGE

Below are recommended actions which focus on improving the delivery capability of the Programme and are set in the context of the need for a new, executive-style PDA, empowered to make decisions on behalf of sponsors and given direction by a PDA board which provides strategic advice and which gets involved to resolve the big issues. Actions are summarised for each of the players in turn.

M6.1 Pathway

i. split business development unambiguously from programme delivery
ii. undertake competency assessment of all key first and second line resources in development programme and commit to rectify where weaknesses against requirement are identified
iii. produce a firm baseline plan for Release 2 to include all contracted for services based on a robust evaluation of all technical design issues and to include application of phase review and other development and design disciplines, to include all subcontractors

POL00028092

iv. be absolutely clear with sponsors and PDA of the effect of further changes on this baseline plan, once agreed

v. produce a formal report for sponsors on the technical issues arising from, for example, consideration of scalability, performance and, the actions planned to mitigate any risks

M6.2 CAPS

i. use the firm baseline from Pathway to validate or modify the recently revised plan

ii. build in contingency and rework as part of the re-planning process

iii. strengthen project management office competencies

M6.3 POCL

i. urgently develop an operational capability that can form a pilot for service management of Pathway for Release 1c

ii. urgently develop an implementation strategy for
   - business process, design testing and implementation
   - readying the post offices
   - postmaster training and awareness
   - training and awareness of other post office staff
   - customer communications

iii. undertake competency assessment of all key managers and commit to action to rectify any deficiencies identified

iv. initiate a feasibility study, with Pathway, to validate achievability of the projected roll-out rate for post offices.

M6.4 PDA

i. expedite moves towards the new structure and function

ii. undertake competency assessment of all key staff and commit to rectify any shortfalls in requirements

iii. reduce size as soon as possible

iv. rationalise change management to make better use of Contract Negotiating Team (CNT) and to expedite resolution

v. rationalise programme control and reporting

M7. RESIDUAL STRATEGIC RISKS TO THE PROGRAMME

If action is taken as recommended along the lines indicated above, we believe that the probability of the Programme delivering against its objectives successfully will be greatly improved, albeit in the extended time scales we have forecast and at increased costs.

However, we believe that four residual strategic risks will remain.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

MANAGEMENT SUMMARY. . .

PA

M7.1 Cost of roll-out to all post offices

A uniform approach has been adopted to both provision of the infrastructure and, the charging regime for transactions across it. There is therefore a real possibility that the true apportionment of costs across high and low volume post offices is not visible in the business cases.

The increasing availability of alternative and possibly lower cost approaches to benefit payment encashment, the time scale slippage and the consequential impact on the business case is causing reservations at the BA about the economic viability of supporting the automation of benefit payment at all Post Offices. We have not, however, seen evidence of robust and cost-effective alternatives which would offer a comparable service to the post office network for areas with a low density of population.

In PA's opinion, unless the justification for benefit payment by cards and other automated transactions through all post offices is reinforced as part of a broader Government context, the ensuing uncertainty about the cost effectiveness of the solution adopted is likely to continue to undermine confidence in the Programme and, relationships between the sponsors. The broader context needs to incorporate both the commercial and social service aspects of the Post Office and the role of payment arrangements in future social welfare policy

M7.2 PFI

The PFI contract implies a transfer of risk which we do not believe is sustainable in practice. Although Pathway bear risks associated with encashment fraud, the dominant risk is associated with resilient delivery of the benefits payments service itself - delivering some £80 billion in payments each year - and of the transaction handling capability of post offices.

Failure of the payments service would be business-critical to the BA and DSS and would carry unacceptable political repercussions. In these, circumstances, we argue that the risk of secure service supply is being carried predominantly by the BA and DSS. In these circumstances, the sponsors cannot afford to take a "hands-off" approach to the delivery and management of the payments service as a PFI contract would normally demand.

M7.3 Joint Sponsorship

The current joint sponsorship arrangements are leading to a lack of clarity in responsibilities and to difficulty and delay in brokering resolutions to problems. This is exacerbated by the significant commercial tensions between the sponsors. In the longer term, we believe that the current arrangements carry the risk that the dominant end-to-end view of the services will remain with Pathway rather than with one of the purchasers. This has significant implications for the effectiveness of management of the service, the contract and the supplier.

M7.4 Dependency on Escher and its people

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

MANAGEMENT SUMMARY. . .

PA

Escher is a small privately-owned North American software house of some 30 people. Its software is critical to the Pathway technical solution. In the original evaluation of the risks associated with a critical dependency on such a small company, we understand that a key factor was the view that the Pathway solution required integration of the Escher product and not a major development effort. In the light of subsequent events, it appears that there is a critical dependency on Escher to design and deliver significant software components for which Escher will continue to own the IPR. We believe that this remains a significant residual risk to the resilience of the Pathway business and technical solution and that ICL need to identify means of assuring sponsors of the security of this source of supply both at the delivery stage and for ongoing support.

M7.5 Our conclusion on strategic risks

Although PA has high level views about how each of these risks might be addressed we have not analysed this in detail since it falls outside the scope of this Review. In any event, we believe that these strategic risks can only be addressed by sponsors and Pathway working together at the most senior level and we have consequently set out an action plan in Section M8 below.

It is PA's considered opinion that solutions to these issues are urgently needed if the Programme is to avoid further major problems and, command the full commitment of all the parties.

Clearly, in view of the scale of the risks, termination of the Programme must be an option. It is PA's opinion, however, that to terminate would create such major difficulties for all parties that alternatives and their implications require a considerably more robust assessment than has been appropriate in this Review.

M8. ACTION PLAN OUTLINE

In view of the seriousness of the residual risks, we suggest that the Programme sponsors and Pathway should take steps jointly:

- to strengthen the Programme's ability to deliver, and
- to evaluate the need and scope for reconstruction of the objectives and scope of the Programme.

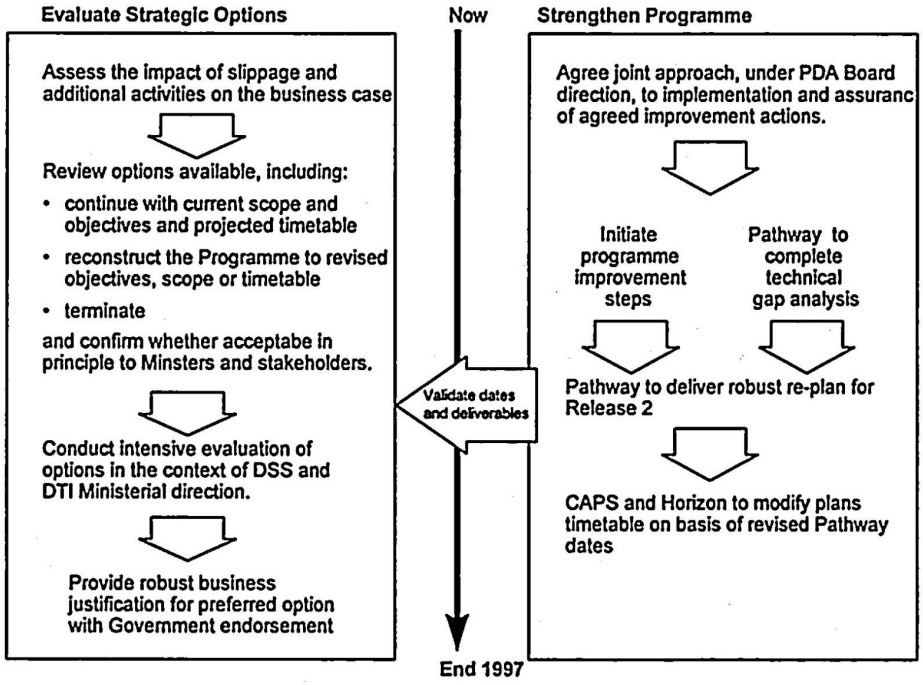
POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

MANAGEMENT SUMMARY. . .

The latter should be with a view either to modifying or reaffirming the objectives in order to ensure robust commitment from the sponsors or to bringing the Programme to a close. The two streams of work should be undertaken in parallel and an illustration of the steps which we would suggest for consideration is as follows.

Outline of Suggested Next Steps



We believe that the evaluation of strategic options will need directly to address the economic, social and political factors which bear both on the future of the post office network and on the delivery of social welfare payments. It is likely therefore to require the active sponsorship of Ministers.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

PA

1. CONTEXT AND PURPOSE OF THIS REVIEW

The driving force for this Review of the BA/POCL programme has been the consistent and chronic slippage in delivery dates. At the time the Review started, some 12 months into the implementation stage of the Programme, difficulties were being experienced in longer term planning because of slippage of some 13 months in short term plans.

This is putting stress on the viability of the business cases within each of the organisations. The resulting low level of confidence in the robustness of planning and resourcing and the background of commercial sensitivity, because this is a PFI project, led management in each of the sponsor organisations and Pathway to agree that an urgent review of the programme was required.

This Review was commissioned from PA Consulting Group to provide an independent view of the:

- current weaknesses and risks in the Programme
- implications for the Programme future delivery obligations
- options which may be available to assure its delivery capability.

The review was completed over the period from 12th August to 19th September 1997 and has involved interviews with key people in each of the organisations involved in the Programme and analysis of extensive documentation relating to the programme. A list of interviewees is included as Appendix A. Our detailed terms of reference are in Appendix B.

It is in the nature of a review of this sort to focus on the problems and weaknesses which need to be addressed. We would like to record our thanks to all those that contributed to this review and in particular note the open approach adopted by all parties to their discussions with us. We also wish to record that, despite the problems that the programme has encountered, there is no doubt that a lot has been achieved by all the teams in the light of very demanding circumstances.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

PA

2. AIM AND SCALE OF THE BA-POCL PROGRAMME

The BA-POCL Programme is a large and complex programme of change. The overall Programme objectives are to:

- deliver a fraud-free method of paying benefits at post offices
- develop a system that meets recognised accountancy practices
- provide, through automation, greater commercial opportunities enabling POCL to improve competitiveness and increase efficiency;
- provide an improved level of service to all customers.

It is a very major business venture for each of the three key players - the Benefits Agency (BA), Post Offices Counters (POCL) and Pathway, and in PA's opinion, is world-class in its ambitions:

- it is directly business critical for Pathway, as the sole basis for the company's existence. It also represents an extremely large and strategic investment for ICL and its parent company - Fujitsu.
- it is a major component in the BA's strategy to reduce fraud and improve financial and accounting controls, as well as to reduce costs.
- for POCL, the Programme, as part of an overall programme of automation, is essential to creation of a platform for future growth and avoidance of business decline.

For the total programme to work, significant amounts of work on BA computer systems need to be completed; at POCL, computer systems also need modification. An extensive programme of process change, employee and sub-postmaster training and customer education is needed to implement card-based benefit payments and various policy issues, at BA in particular, are impacted by the programme. The POCL automation objectives (Horizon) essentially run in parallel with the card benefit programme for the BA although can only be fully exploited once the Pathway infrastructure is fully in place. Pathway are required to develop, install and operate a major national infrastructure with complex real-time transactions through the 19,000 post office outlets and, with the support of POCL, to prepare outlets and train counter staff.

All of these aspects in one way or another either form part of the PFI programme itself or, need to link up appropriately with it.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

PA

3. OBSERVATIONS ON THE CURRENT PROGRAMME

3.1 BA : CAPS PROGRAMME

3.1.1 Overview

The business and IT change entailed by the CAPS Programme is very major and complex.

Key requirements are:

- development of new systems - Card Payment Computer System (CPCS) and Personal Data Computer System (PDCS);
- modifications to the existing IT systems for handling benefits processing;
- clean-up and migration of data from the existing to the new data bases;
- modifications to business procedures and processes;
- training of operational front-line staff across the Agency in the new procedures and processes;
- ensuring that all the above are implemented with a managed and acceptable impact on the Agency's customers.

The scale of the challenge which this represents is increased by the context of major organisational and policy change currently being addressed by the Agency and by the need to secure the active commitment and co-operation of other agencies in the DSS and of Employment Services (ES).

3.1.2 Management and Organisation

The scale of the management challenge presented by the CAPS Programme was highlighted in reports by external consultants earlier this year. In the light of these reports, the BA acted to strengthen the management focus at BA Management Team (BAMT) level, to rationalise the distribution of responsibilities between CAPS and the PDA, and to strengthen the CAPS management team. We recognise the major commitment of resource which the BA have made in this respect and we believe that it is consistent with the scale and nature of the business and technical challenge which CAPS represents.

3.1.3 Resourcing

Since the consultants' reports earlier this year, we understand that steps have been taken to reinforce key competencies in the Programme, where appropriate through the use of external consultants. This appears to us to be consistent with the technical and business complexity of the tasks being tackled by CAPS and with the tight timetable for delivery. This Programme required excellent and experienced technical and management skills to be in place to assure success.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

We noted that, due to a planned staff move in the near future, there may be scope for reinforcing the level of practical experience in the CAPS Programme Management team. We would endorse the views expressed to us by this team that it would be valuable to strengthen this team with robust practical experience of programme control in a complex IT-related programme.

3.1.4 Programme Management Disciplines

Overall, our view is that CAPS programme management is sound and becoming steadily more robust in terms of the processes and disciplines being adopted and the resources being applied. It is clear that considerable progress has been made towards implementing recommendations from the consultancy reports and that progress is continuing.

As indicated above, the CAPS Programme are currently undertaking a re-planning and a re-costing exercise: these has been running in parallel with this Review. We anticipate, from discussion with CAPS representatives that the points we raise in the following section are likely to be reflected in the revised plan.

As a general point, we believe that there would be value in ensuring that formal critical path analysis is added to the current programme management disciplines in order to assist the management team assess the effect of the numerous inter-dependent and uncertain events within the different strands of the Programme.

3.1.5 Specific issues

Data Migration Strategy

There are significant risks associated with the clean-up and migration of data from existing benefits processing systems to the new CAPS systems. The strategy for data migration appears to us to be robust from both technical and implementation viewpoints. Implementation of the strategy is, however, sensitive to assumptions about the projected "fall-out" rate for data. Whilst we understand that the current assumption has been made on the basis of a sound working understanding of the current data, we believe that the assumption remains a source of significant risk until validated. This should be reflected in planning assumptions for contingency both in task sizing and in elapsed time. We understand that a "dry run" is scheduled for November which will enable the assumption to be validated for Child Benefit data.

Integration with the BA IT Programme

The CAPS Programme is having and will continue to have a significant impact on the overall IT programme for the BA. Up to the recent past, the consistent slippage in dates for Pathway releases has made it very difficult to plan effectively in relation to the overall IT programme. The decision to de-couple the CAPS releases from the Pathway releases appears to be feasible and to offer scope to insulate the IT programme from further impact from this uncertainty. Nonetheless, the impact will continue to be major and we have noted the recent steps to ensure firm prioritisation of the CAPS activities

POL00028092

within the IT programme. This will need to continue in order to ensure the timely delivery of CAPS releases and the latter will therefore need to secure continued high priority in relation to planned policy and other changes affecting the benefit IT systems.

Capacity and Resilience

We understand that there is not yet a working capacity model for either transitional or "steady state" running of the operational CAPS systems to support planning and sizing of the batch management and of capacity for handling peaks and troughs in demand. Similarly, there is not yet a robust model for modelling transactions and flows within the end-to-end business and IT systems and for modelling the impact of operational failures and associated recovery arrangements and capacity.

We understand that these issues are to be addressed in the current CAPS re-planning exercise and we would anticipate an impact both on the plans and on sizing and costing for the operational systems.

Implementation in BA Operations

There has been considerable work recently to ensure that an effective network of managers is in place to co-ordinate and manage the implementation of the new systems and associated business processes and to ensure a co-ordinated and consistent approach to communications to staff and customers during the roll-out. Staging of the introduction of customers on to card payment is made more complex by the need to harmonise readiness of individual groups of post offices with data for the associated BA customers on the appropriate benefits. In our experience, multi-variable roll-outs of this sort generate complexity mainly due to the relatively small percentage of exceptions which arise and which need active management as and when they arise. The need for "hands-on" management gradually diminishes as experience with the roll-out increases. We believe that the CAPS Programme plans need to reflect the resourcing implications of the roll-out complexity and to make provision for contingency in relation both to customer communications and to "hands-on" management of events.

3.2 POCL : HORIZON PROGRAMME

3.2.1 Overview

POCL's programme of change will have a fundamental impact on the ways in which the organisation transacts its core business. The BA-POCL dimension of the programme forms part of an automation programme for the whole organisation.

Key requirements within the BA-POCL component of the programme are:

- modification to existing IT systems and development of a new system to provide reference data to the automated counter systems;
- modification to business processes and procedures for a wide range of transactions;

POL00028092

- ensuring that post offices and post masters are in a basic state of readiness for Pathway to undertake installation work;
- building awareness among post masters and counter staff and ensuring that they are available for training by Pathway at the appropriate times;
- preparing and implementing arrangements for managing the contract and the contracted services to be provided by Pathway.

3.2.2 Management and Organisation

We believe that there is inadequate recognition in POCL of the scale and complexity of the programme management task to be undertaken to achieve initial delivery of the service and, following that, of the obligations on POCL to achieve excellent service and contract management capability. Our impression is that POCL management underestimate the extent to which proactive and interventionist management is required to ensure successful delivery and management of a PFI contract of this nature.

As a consequence, we believe that top priority must been given to securing excellent managers to undertake key roles in implementation management and in service and contract management. We are aware that plans are in place to make appointments to the National Implementation Manager (NIM) and Regional Implementation Manager roles but we are concerned that perhaps too little consideration is being given to the competencies and experience required, for the NIM in particular, and to the potential for recruiting externally - either permanently or temporarily - for such a critical role.

Similarly, we believe effective management of the Pathway contract and services will depend crucially on obtaining the right calibre and professional competence in the managers appointed to the key roles. Several interviewees commented that the required skills and experience may be difficult to source from within the Post Office organisation. We believe that POCL needs to give urgent consideration to this need and to means of meeting it through external or, suitably supported, internal appointments.

In the overall management structure, we believe that there is some ambiguity in the programme management responsibilities. There are reporting and tracking arrangements in place between the Horizon Programme and the related IT projects but we felt that there needed to be a clearer definition of interdependency management responsibilities and that the Horizon Programme was relying to an excessive extent on the PDA in this area. We feel that it is important for POCL to have an integrated and comprehensive view of all the BA-POCL delivery activities within their organisation and should not be dependent on the PDA in this respect. This may emerge as an outcome of the current rationalisation of PDA and POCL functions.

3.2.3 Resourcing

As indicated above, we have concerns about the resourcing for key management posts. In addition, we have noted that some 350 support staff will be appointed to assist in the roll-out. This is a fairly recent decision and we believe that is important to follow through

POL00028092

the decision rapidly with action to nominate the individuals, ensure their timely availability and arrange appropriate training and awareness.

3.2.4 Programme Management Disciplines

It appears that the Horizon Programme has appropriate programme control and management processes but we have some reservations about whether they are being applied robustly and effectively. We believe that this situation may be helped through the addition of programme control resource with more direct experience in this field. A firm of external consultants is currently assessing means of strengthening project management in POCL and we would expect this issue to be addressed in that context. We would, however, point to the need to introduce the necessary disciplines as rapidly as possible.

3.2.5 Specific Issues

Roll-out implementation strategy and management

There appears to be some uncertainty concerning the role of POCL in the roll-out of the infrastructure to the post office network. The contractual basis is that the responsibility for roll out is with Pathway and that the obligation of POCL is limited to ensuring co-operation (of counter and other staff) with Pathway. It has become clear that the scale of the POCL commitment must be very substantial in order to ensure an effective implementation and that considerable further investment and management focus will be required to ensure success.

We have not seen evidence of a robust roll-out implementation strategy which reflects the various factors of physical readiness assumptions, co-operation of post masters, handling exceptions, aligning training plans with go-live plans, handling re-work and go-live failures etc. We understand that considerable planning has been undertaken to address components of the implementation but we believe that it is important to move to a robust integrated approach as soon as possible and that the key to achieving this is the appointment of a suitably experienced person as the NIM as soon as possible.

We have not seen convincing evidence of the achievability of the projected roll-out rate for post offices of 300 a week. On the basis of a limited assessment during this Review and of comparable experience elsewhere, we believe that a roll-out rate of 150 rising to 250 should be achievable. We believe that POCL need to work with Pathway to validate the projected roll-out rate.

POL00028092

3. OBSERVATIONS ON THE CURRENT PROGRAMME. . .

PA

Service and contract management

At the start of the national roll-out, the Pathway service will be operationally live and there needs to be strong service management capability in place at that point. We understand that POCL will take the lead on behalf of the sponsors for service management and the associated ongoing contract management in conjunction with Pathway. The PDA is currently defining the service management capability and the transition strategy to migrate current PDA functions into POCL.

We would have expected to see a clearer overall definition of responsibilities and accountabilities for service management at this stage in the Programme. It seems to us that the division of responsibilities between Pathway and POCL is not sufficiently clear and, as we understand the proposals, is likely to create difficulties in the operational service. We also understand that there is some uncertainty between the sponsors about the extent to which contract and service management will fall to POCL as opposed to some joint body. We believe that urgent attention is needed to ensure absolute clarity about the extent and boundaries of transitional and "steady state" operational responsibilities in this area.

We have considered the Framework which has been developed in the PDA, with POCL, which makes a valuable first step towards defining the processes which will need to be in place. These reflect broadly the key activities and functions which we would have expected to see specified, based on comparable situations and organisations elsewhere. These are indicated in Table 1.

Table 1 : Management of a Service Provider - Key Functions and Activities

Contract Management • negotiating & scheduling service delivery within the terms of the contract • ensuring that services delivered reflect BA/POCL needs • monitoring service levels and targets in accordance with contract and SLA • resolving problems between customers and Pathway • advising customers on escalation procedures • manage escalation procedures • contract review management Change Control • co-ordinate proposed change orders from customers that would affect contracted services • impact assessment of proposed change orders • liaison and negotiation with Pathway over change orders	Service Management • review and manage service provided by Pathway • produce management reports on service provided and compliance with SLA • contribute to formulation of new/modified requirements Financial Management • publish and update standard price list of services to BA/POCL customers • authorise payments to Pathway • invoice administration • retain financial records of contracted expenditure Relationship Management • establish and maintain constructive relationship between BA/POCL and Pathway • challenge and seek to improve supplier proposals • assess and report on value for money achieved

POL00028092

Key organisational roles which need to be in place and staffed with highly competent managers with experience in this field, are:

- Service Control Team;
- Contract Manager;
- Change Manager;
- Financial Manager.

In addition, implementation of the required disciplines will be a major challenge for POCL and a significant departure from what appears to be currently understood in POCL as "operations management". Achievement of the necessary competencies and disciplines within the required time-scale is not, in our view, likely to be achieved without a major injection of management focus and effort in this area.

In view of this situation, we recommend that a pilot arrangement for service management is established in POCL for the operation of Pathway Release 1c in order to test and prove arrangements. Absence of a test phase increases the go-live risks significantly and will probably result in later re-work.

3.3 PATHWAY

3.3.1 Management and Organisation

Following the award of the PFI, Pathway was consolidated as a wholly owned subsidiary of ICL with its own board of directors, including an independent chairman and non executive directors from Alliance and Leicester (Girobank) and De La Rue. The Managing Director of Pathway reports directly to the ICL Group Chief Executive.

Obtaining funding for Pathway has been complex process but we are assured that funds are now secure to the extent that ICL currently believe necessary.

Pathway's business falls into essentially three areas:

- delivery of the contracted-for services to the sponsors;
- acquisition of new retail business jointly with POCL;
- development and acquisition of related business opportunities.

and the organisation structure under the MD reflects these commitments and ambitions.

The delivery of the contracted-for services to the sponsors relies on Pathway integrating the activities of nine subcontractors and a range of other ICL businesses, with ICL taking prime responsibility for development and delivery of the services. The core of the system relies on software products from Oracle, Microsoft and Escher. Alliance and Leicester (help desks) and De La Rue (card production and management) together with other ICL businesses provide support to Pathway in operational service.

POL00028092

PA

3.3.2 Background

The process by which the detailed solutions have been designed to meet the requirements has been fraught with difficulties. We understand that the contracts were signed without detailed schedules describing the services required; instead the contracts were based on the principle of "agreements to agree" with later work to be done on the detail of the requirements to give them legal expression. Pathway judged that the agreements necessary could be achieved and delivery satisfied largely through systems integration. Time and resources allowed for development and rework reflected this view.

Working through the agreements to agree, the extent to which the various sub-contractors components and products could not be simply integrated to build the solutions became clear to Pathway. Because of the above, the amount of development work needed was in our opinion seriously misjudged and as a result time scales and resources needed were underestimated. Thus, the need for a considerable amount of development and rework emerged.

Pathway conducted an internal review in July which has been shared with us and which identified these issues and made certain recommendations for corrective action. As we started this review, these were beginning to be put in place. Included were, for example, organisational changes to simplify lines of command and, the appointment of a dedicated programme manager responsible for delivery. Areas of high risk were also identified with the result that much tighter management and controls were put in place, including for key subcontractors like Escher.

With regard to the current status of development, we characterise this as having considerable contractual ambiguity because of time scale slippage and 'solution drift' as requirements have been baselined. A series of non-contractual development releases was agreed earlier this year with Release 1c the current focus of development. Release 1c has been under development whilst its baseline was finalised. As a consequence Pathway has created a 'known problems register'; a list of exclusions to Release 1c, mostly in the security area, for later implementation. The consequence is that Pathway are in essence proceeding on an 'own risk'-basis to deliver Release 1c. Meanwhile the baseline for Release 2 is being developed: Pathway's position is that it is only able to provide a timed implementation plan once Release 2 is baselined. Given that so much of the contracted-for solution now appears to be in Release 2, we must express serious reservations about Pathway's current forward plans to be ready for commencement of national roll-out at end-July 1998.

3.3.3 Resourcing

As already noted, at the outset of this procurement, it appeared to Pathway that the development of a service to meet the PFI requirement could be achieved largely through systems integration. Evidence of this lies in the large number of subcontractors to Pathway. In reality, the amount of development work needed was in our opinion, seriously misjudged and as a result the resources and resource mix needed at Pathway were not fully understood at the time of contract signing.

POL00028092

Pathway headcount has seen significant growth during 1997 to around 230 staff as it has resourced up for delivery of the programme and has reacted to the need for a somewhat different mix of skills than first planned. We have reviewed the HR policies being developed for recruitment, induction and retention and feel they are appropriate for the current situation. Current resourcing is achieved with a mix of own staff and contractors (approximately in the ratio 60/40) and particular attention is being given to the different needs of these two groups with regard to motivation and retention. More resources are needed, particularly in skill areas where there is a general market demand. Meanwhile there is a somewhat uncomfortable dependence on contractors. The HR policy is that permanent staff must be in place in all key positions and we understand Pathway are well on the way to achieving this. In summary, we feel that managing the consequences of a high-pressure environment, attracting and retaining the best people in all the areas targeted, will be a major challenge for Pathway.

Just prior to our Review, Pathway changed its organisation structure to include a programme director. We agree this was a vital and necessary first step towards assigning unambiguous and single point responsibility for delivery of the contracted-for services both from Pathway and from their sub-contractors. During our Review, the programme director was given line responsibility for quality and risk management and systems and customer requirements. There is in our opinion still some minor ambiguity regarding activities which are more to do with Pathway business development but which remain within the responsibility of the programme director: in particular, this applies to customer requirements definition and risk management. There is also the question of the extent to which Pathway's MD now needs to directly control the programme itself, as opposed to directing the business as a whole.

Lastly, given the dependence of Pathway on subcontractors, both companies and individuals, continuing attention will need to be given to maintaining relationships with those who will be key to delivery.

3.3.4 Programme management disciplines

Pathway have much still to do to ensure that effective management and change control disciplines are embedded in the combined development and systems integration environment in which they now find themselves. This must be done regardless of the time pressures which exist in the programme. This is particularly challenging because of the need to embrace key subcontractors in these processes, in particular Escher, on whom Pathway are highly dependant for success. We believe the organisational changes together with an overall strengthening of the management resources must be the primary driver for embedding these disciplines right through the organisation.

3.3.5 Technical issues

Concerns have been expressed to us about the ability of the solution to meet the security requirements, whether it is scaleable to support a 40,000 terminal network and what performance will result. Concern has been increasing with failures in test and by regular requests by Pathway for exclusions to key releases, mainly concerned with security features.

POL00028092

We understand the basis for these requests is, in Pathway's view, that such exclusions have low business impact and if deferred to a later release, will facilitate on-time delivery of the release in hand.

The security issues relate to the requirement for extended verification processes (EVP) and access control (to data centres). With regard to EVP, we understand that the full solution (to include flexible EVP) is required by sponsors in Release 2, meanwhile Release 1c is planned with exclusions against requirements. On access control, Pathway has agreed with the PDA to implement Release 1c without full technical access controls, but with physical and operational controls to counter any remaining security risks. Pathway is discussing with the PDA plans for implementing the full requirement at Release 2, however, we note there is a gap between the requirement of sponsors for flexible EVP in Release 2 and, Pathway's current position, that this will not be provided at that release. We conclude there is much for Pathway to do here to convince sponsors that the required levels of security will be available and that there will be no risks in the plans for Release 2 once finalised.

We have also carefully considered the robustness of the technical architecture since this has become a significant concern for the sponsors. This also has been a major concern at Pathway and, whilst we have been able to obtain satisfactory answers to all our questions, in particular regarding the way scalability will be achieved, there must continue to be reservations here until the final design is fully tested and realised. A key milestone was reached at the end of August when a new release of the Riposte software was received from Escher, capable of handling at least 40,000 terminals. This new software release is currently being stress-tested at ICL and is planned for incorporation in Release 2. We have also enquired about performance expectations. Detailed performance modelling of the overall system is being done and, as might well be expected at this stage of development, there are outstanding, unresolved issues.

3.3.6 The Escher dependency

With the realisation that to deliver this project requires a substantial development as well as systems integration effort, the dependency of the solution on Escher and their Riposte software takes renewed prominence. Much of the architectural development needed has required Escher to commit to major additional work and this is being commissioned by Pathway. This has taken time and effort, thus causing delay.

This risk will be manifest both in terms of delivery of the solution and in the ongoing security of the supply chain to Pathway. On the basis that no other remedy is available, its containment will rely on ICL and Pathway's ability to forge mutually beneficial and sustainable relationships with the key people involved.

3.3.7 Slippage

Based on our consideration of the experience of this programme so far, the results from Release 1c testing which imply unplanned rework is needed, the fact that major parts of the contracted-for functionality is now to be delivered in Release 2 and an extrapolation

POL00028092

of historical slippage, we conclude that the Programme will not be ready to start national roll out before January 1999 at the earliest.

It is PA's assessment that Pathway is on the critical path for the Programme. It is therefore of fundamental importance to the Programme as a whole that Pathway, based on the, yet to be agreed, baseline, take due and proper account of experience and knowledge so far in terms of time scales needed in drawing up plans for Release 2.

3.4 PROGRAMME DELIVERY AUTHORITY - PDA

In the PDA, we found an organisation with a strong desire for continued change, but which seemed to be hampered by its size and lack of empowerment.

The currently defined role of the PDA is a difficult one. It sets out to broker decisions between the sponsors, to assure an optimal end-to-end solution, and to manage the joint contractual relationship with Pathway. Unfortunately, the value of the PDA is questioned by a number of managers within the sub-programmes though there is general acceptance of the need for some central body with responsibilities for co-ordination and management of the joint contracts.

3.4.1 Role

We generally agree with the Andersen Consulting and French Thornton recommendations which seek to move the PDA towards being responsible for:

- assurance of the end-to-end business architecture;
- assurance of the technical architecture;
- integrating the work plans of each sub-programme.

However, the PDA will still face a number of problems:

- the sponsors have different business objectives and would prefer to keep their options open for as long as possible while developing their own programmes of work;
- the PDA is not fully empowered to take decisions itself;
- a number of contractual issues remain to be solved between Pathway and the sponsors;
- the PDA is not in a position to manage the Programme towards economic benefits, since it does not hold an integrated view of the business cases for the Programme.

These factors will, in our view, continue to impede the efforts of the PDA to expedite the Programme, and will make it difficult to recover lost time.

POL00028092

PA

3.4.2 Processes

While the PDA seems to be well in touch with what is going on, this seems to be achieved at the cost of a great deal of meeting time. We identified in excess of 25 forums that meet on a regular basis, and were told that numerous additional ad hoc meetings were held as well. Relatively few of these forums are attended by representatives of all three sub-programmes together.

We also question the need for three top management forums for the Programme - the Programme Steering Committee, the PDA Board, and the PDA Board pre-meeting. This approach would seem to result in inefficiently long lines of communication, particularly in the light of the PDA's role as a broker of decisions between the sponsoring organisations. In our opinion, these factors have contribute to the slow decision making that has been a source of delay on the Programme. For example, we understand that certain change requests have taken more than six months to be resolved.

Perhaps because of the considerable time taken up by meetings, the PDA appears to have experienced difficulty moving from a reactive style of management, to one of active leadership of the Programme. We saw a tendency to uncover issues and problems rather than to actively foresee and prevent their occurrence. For example, we were told that the PDA has only recently turned its attention to contingency planning.

We also found the PDA to be focusing almost exclusively on achieving a high quality outcome, even potentially at the expense of timeliness and cost effectiveness. This is not surprising considering that the achievement of business cases does not form a framework for programme management decision making, except at the very highest level.

3.4.3 Organisation and People

We found an organisational culture that is not conducive to the efficient delivery of such a complex programme. A number of people told us of the unwillingness of many individuals to take personal ownership of results.

Although there are some excellent individuals in the PDA, we were also told that it is difficult to attract the right calibre of staff to work there. In part, this is because of its London office location, but we were also told of morale problems caused by perceived doubts over the future of the PDA, as well as that of the Programme itself.

In this regard, the size of the PDA compounds the problem. At 160 people including 40 contractors, we consider it to be too large for a central role that needs to be particularly agile. We fully support the thrust to pass certain activities back to the sponsoring organisations.

POL00028092

3.4.4 Management of Pathway Contract

A major part of the PDA's current role is to manage the relationship with Pathway.

This task is made more difficult by the fact that the contracts do not, as we understand it, set out how the PDA is to keep appraised of Pathway's progress during the establishment phase. Indeed, we were told that the PDA is not specifically recognised in the contracts.

We were concerned to find all communications with Pathway labelled "without prejudice". The contract seems to be playing an unhealthily significant role in dealings between Pathway and the PDA.

Nevertheless, we found the Core Negotiating Team from Pathway and the PDA to be playing a very useful role in resolving some conflicts. The personal respect that exists between the key individuals involved has resulted in a number of pragmatic win-win solutions.

Their negotiating task is made more difficult, however, by there being no practical contractual baseline for the pricing of change requests. Each has to be negotiated afresh.

3.5 ISSUES COMMON ACROSS THE PROGRAMME

3.5.1 Impact of Chronic Change

A common finding in our investigations during this Review has been the damage caused by consistent slippage since the Initial Go Live position. The damage has not only been in relation to impact on costs, timetable and business cases but also in relation to the ability of managers within the Programme to find a firm baseline and to build credible plans for communication within their parent organisation. The consequent lack of credibility of the Programme's plans in the wider organisations has been cited by several interviewees as one of the key reasons why active co-operation and commitment has been hard to secure in relation to external dependencies.

3.5.2 Integrated Implementation Strategy for Roll-out

We are aware that considerable work is being undertaken, in each of the programmes - CAPS, POCL and Pathway - to define the components of the implementation strategy for roll-out of the infrastructure, system and business processes to post offices. We have observed, however, that the end-to-end integration of the strategy is not as far advanced as we would have expected at this stage of the Programme. It appears that this may be largely related to the chronic planning uncertainty indicated above which has undermined drive towards creation of a robust end-to-end picture.

POL00028092

We believe that the roll-out will be relatively complex. It will combine the geographical roll-out of post offices with the BA's customers in the associated areas who will be provided with card payments as the relevant benefit systems are rolled out and as their data becomes available to support card payments. This needs to be underpinned with communications, on a carefully targeted basis, to the customers affected and by appropriate communication and training for the large numbers of BA staff, POCL staff and post masters. Since it is rare for an implementation programme of this sort to proceed closely to plan - unforeseen constraints and issues virtually always arise during the implementation - it will be important to ensure tight and responsive management for the roll-out events.

We understand that there remain a number of key areas where the responsibilities for delivery remain to be finally resolved. Specific examples are the respective responsibilities between POCL and Pathway for undertaking and funding post office readiness work and the lack of a shared view between the BA and Pathway on the handling and funding of communications to customers. We recognise that work is under way to address these issues but believe that the level of uncertainty for a critical dimension of the Programme is a cause for concern at this stage of the Programme.

3.5.3 Business Case Alignment and Robustness

In our view the sponsors' current business cases, which have been shown to us, are over-optimistic. The BA has already recognised this and initiated a fundamental review of their business case and this should be complete at the same time as this Review. The POCL business case has been revised to reflect the additional resources associated with implementation of the roll-out.

The business cases are treated as commercial-in-confidence between the sponsors. As a result, we found each sponsor having reservations about the real drivers in the business justification of the other. This is, in our view, giving rise to considerable tension and lack of shared trust and commitment. It also limits the extent to which the PDA can be mandated to drive towards a clearly articulated and quantified set of business benefits. We would have expected to see a "meta business case" from a Government perspective which articulated the benefits and costs of the Programme and which each organisation would reflect back into their individual business cases.

Of particular concern to the BA is the extent to which the POCL business case will ensure a full commitment to roll-out to all post offices. It is not clear to us, that the POCL business case demonstrates an economic argument for automating all the currently operational post offices. From the BA perspective, (notwithstanding any concerns that now exist about the costs of the Programme), full roll-out is essential both in terms of ensuring appropriate levels of coverage and service to their customers and to avoid running parallel automated and paper-based payment systems which would be cumbersome and uneconomic. These latter points are also of concern of course to POCL.

The business cases of each of the sponsors are marginal and built significantly on the assumption that the required services could be delivered in a relatively short time scale.

POL00028092

The original project time scales have not proved realistic so the basic vulnerability of each of the business cases is now fully exposed. This is putting strain on relationships between sponsors and between the sponsors and Pathway

Were this project to be in the planning stage today, PA has no doubt that significant attention would again be given to ensuring the supply of an economic infrastructure for benefit payments and EPOSS. At the margin, where automated transactions at post offices are economically at their most vulnerable, this could mean that alternative approaches to the solution might be more attractive in today's environment.

3.5.4 Joint Sponsor Commitment

We found very substantial tension and distrust between the sponsor organisations at most levels. This appears to reflect a long history of strained relationships relating to the costs and characteristics of the payment services which POCL have provided to the BA over many years. The BA is a major customer of POCL and it is inevitable that the different commercial objectives of the each organisation make it difficult for them to act in total harmony as joint Programme sponsors. We note this has the following impacts:

- an adversarial approach between senior managers in BA and POCL and tensions at working levels, for example between POGAB and the DSS Account Team in POCL;
- there is a tendency to populate the PDA with a balance of representation from BA and POCL, rather than strictly according to required competencies;
- decision-making structures are cumbersome and the people in them do not feel particularly empowered. This is evidenced in the extensive and only partially productive brokering work of PDA staff and the many pre-meetings required to support the PDA Board and Programme Steering Committee (PSC).

It would be inappropriate for us to take a view on the causes for the tensions but we observe that they appear to have had and continue to have a negative effect on the Programme. Specifically, they result in slower brokering of resolutions to problems or proposed changes and in an unwillingness, in many instances, to "trade off" competing requirements. The resulting pressures make the mandate of the PDA, as a jointly sponsored entity, difficult to sustain. There are too many conflicting agendas.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

PA

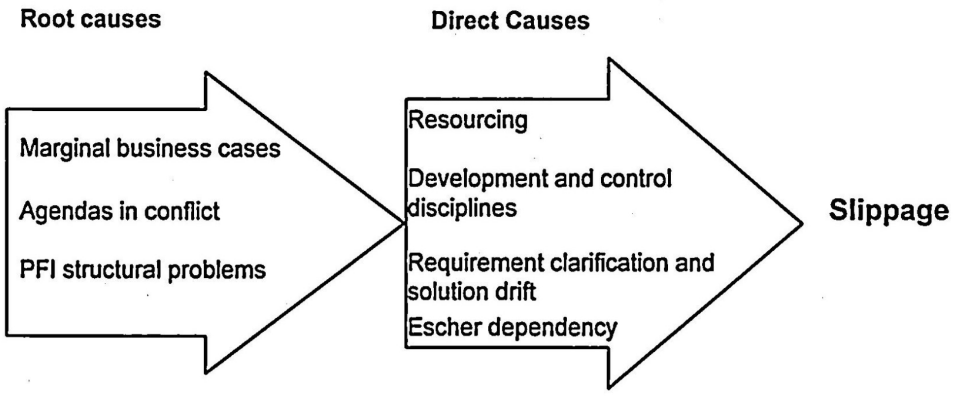
4. PROBABILITY OF FURTHER SLIPPAGE

After good progress at the outset to achieve the Initial Go Live (IGL) to schedule, there has been persistent slippage.

The PDA is currently forecasting national roll-out to start thirteen months late in July 1998, and it is generally accepted on the Programme that further slippage seems highly likely.

4.1 CAUSES OF CURRENT SLIPPAGE

We believe that there are direct causes of slippage but that these need to be set in the context of a small number of underpinning root causes as illustrated below.



4.1.1 Root causes

Marginal business cases.

The business cases of each of the sponsors in their original form are marginal and built significantly on the assumption that the required services could be delivered in a relatively short time scale. Indeed this assumption was reflected in Pathway's proposal and a five-year contract was signed. The original project time scales have not proved realistic so the basic vulnerability of each of the business cases is now fully exposed. This is putting strain on relationships between sponsors and between the sponsors and Pathway

Were this project to be in the planning stage today, PA has no doubt that significant attention would again be given to ensuring the supply of an economic infrastructure for benefit payments and EPOSS. At the margin, where automated transactions at post offices are economically at their most vulnerable, this could mean that alternative future approaches or alternative supplementary sources of funding for post offices might play a stronger role.

POL00028092

PA

Agendas in conflict

The BA is a major customer of POCL and it is inevitable that the different commercial objectives of the each organisation make it difficult for them to act in total harmony as joint Programme sponsors. We note this has the following impacts:

- an adversarial approach between senior managers in BA and POCL and tensions at working levels, for example between POGAB and the DSS Account Team in POCL;
- there is a tendency to populate the PDA with a balance of representation from BA and POCL, rather than strictly according to required competencies;
- decision-making structures are cumbersome and the people in them do not feel particularly empowered. This is evidenced in the extensive and only partially productive brokering work of PDA staff and the many pre-meetings required to support the PDA Board and Programme Steering Committee (PSC).

Structural problems with the PFI.

The scale of this PFI, its complex supply chain, the conflicting business objectives of the sponsors, the difficulty in assessing who ultimately carries the risk, and the short time scale of the operational part of the contract create an environment of uncertainty and tension. These aspects distract attention from the key objective - to deliver a solution that works, with acceptable levels of risk transfer and returns for both customer and supplier.

4.1.2 Direct causes

Resourcing

This is a world class programme measured by any standards.

At the BA, action has already been taken to strengthen the management organisation by, for example, taking back responsibility from the PDA and drafting in appropriately skilled and experienced resources from elsewhere. Pathway has acted swiftly, following their internal review, to make structural changes and to strengthen the management team. At the PDA, the problem has also been recognised and action is being taken to strengthen the calibre of its resources. POCL still has much to do and arguably have yet to recognise that top quality project and service management resource will probably need to be recruited externally.

In our opinion, sponsors, the PDA and Pathway must continue to seek to identify and recruit people of appropriately world-class professional stature into every key position as this programme progresses.

POL00028092

PA

Development and control disciplines.

Pathway has much still to do to ensure that effective management and change control disciplines are embedded in the combined development and systems integration environment in which they now find themselves. This must be done regardless of the time pressures which exist in the Programme. This is particularly challenging because of the need to embrace key subcontractors in these processes. This applies specifically to Escher on whom Pathway are highly dependant for success.

Requirement Clarification and Solution Drift

We believe that a better mechanism is needed than currently is in place to manage the tension between requirements and solutions in the context of a realistic assessment of the business impact. Whilst we understand the constraints which apply within a PFI environment, we have not been convinced that that the current arrangements are resulting a proper assessment of the real business impact of decisions to adhere either to timetable or to requirements specification.

In this Programme there has been no formal concession, either to time scale or functionality since March this year when the master plan was last updated. In our experience, in a programme of this complexity, this implies that too rigid an approach is being adopted at the possible expense of the business cases for all parties. The nature of a PFI contract arguably reduces the scope for pragmatic "trade offs" in development of the solution and this remains a significant risk for the Programme.

The Escher dependency

With the realisation that to deliver this Programme requires a substantial development as well as systems integration effort, the dependency of the solution on Escher (a relatively small North American software company) and the Riposte software takes prominence. Much of the architectural development needed has required Escher to commit to major rework and this is being commissioned by Pathway. This has taken time and effort, thus causing delay.

Escher will continue to be a major risk to the success of this Programme. This risk will be manifest both in terms of delivery of solution and in the ongoing security of the supply chain to Pathway. On the basis that no other remedy is available, its containment will rely on ICL and Pathway's ability to forge mutually beneficial and sustainable relationships with the key people involved in Escher.

4.2 SLIPPAGE TO DATE

The table of milestone dates in Appendix C shows how they have changed as the Programme has developed. There has been a regular re-plan every three or four months, and the latest one is underway now.

POL00028092

This means that there has been no consistent baseline against which to measure and evaluate performance. This in itself, has undermined confidence in plans and commitment to planning disciplines. The current climate in the Programme appears to one where slippage is regarded as an inevitable "fact of life". In such circumstances it tends to become a self-fulfilling prophecy.

Other causes of significant delay have included:

- under-estimation by Pathway of the development tasks and failure to apply appropriately robust planning and control disciplines;
- the experience gained during the initial Go Live preparation which lead to an agreed re-plan early this year which included the release of CAPS software over an extended period through to 1998 rather than having it available for full integration testing on 01 September 1996, as stated in the contract with Pathway;
- the length of time needed to broker agreements and change. As an example, a some change notices remain unresolved several months after being raised;
- the absence of a set of comprehensive end to end technical and business architectures.

4.3 ANALYSIS OF SLIPPAGE

In our estimation, the Roll-Out completion date is likely to be at least 18 months late relative to the original contracted dates. In making this estimate, we have assumed that the work currently being done to improve the Programme's performance continues and that further changes are made in line with this Review.

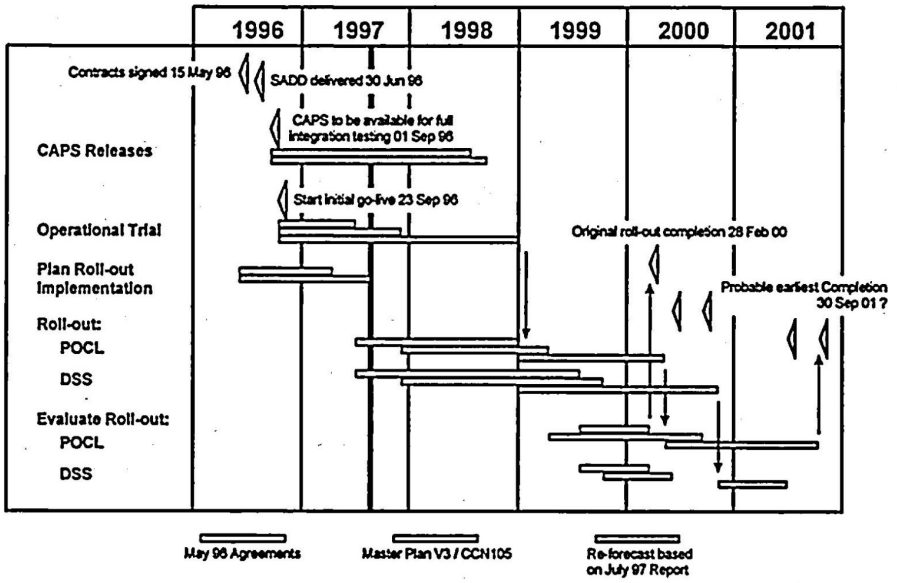
The following chart compares the original contract dates with the currently signed-off Master Plan (v3), together with our forecast, which is based on:

- dates given in the latest PDA monthly report (July 1997);
- an analysis of the movement in forecast dates as the Programme has developed;
- and the logical sequence of events set out in version 3 of the Master Plan.

POL00028092

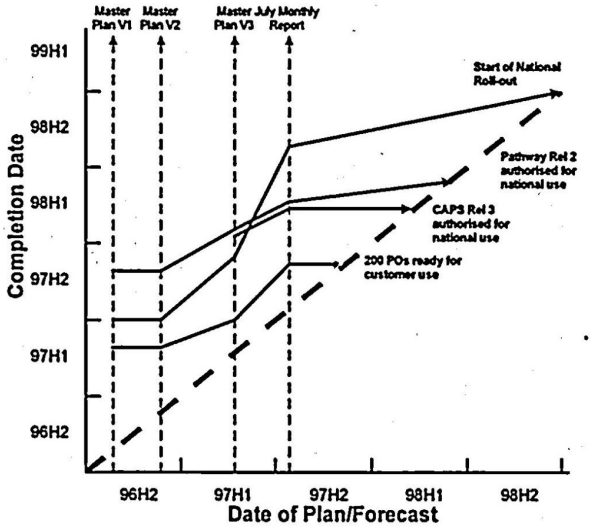
Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

4. PROBABILITY OF FURTHER SLIPPAGE. . .



The chart below (based on the data summarised in Appendix C) shows how the planned and forecast dates for certain key events have slipped over time, and how our projection implies a significant improvement in performance.

The extent of this slippage has been so severe as to indicate a Programme that has been, to a large extent, uncontrollable in the past due to chronic slippage. This is indicated in particular by the date for start of national roll-out, which slipped by 13 months in the 8 months between version 2 of the Master Plan and the July forecast. No effective progress was made during this period - indeed the target ended up further away than before.



POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

4. PROBABILITY OF FURTHER SLIPPAGE. . .

PA

In our experience, an analysis of trends in milestone dates' slippage is an very reliable indicator of projected future performance. The above diagram illustrates that very robust action is needed to bring the slippage to date under control.

The critical path leading to completion of the operational trial and start of national roll-out flows through:

- delivery of Pathway's Release 1c;
- resolution of the requirements for Release 2;
- delivery of Release 2;
- delivery of CAPS releases 2.2 and 3;
- integration of the Pathway and CAPS releases;
- conduct of the live trial;
- evaluation of the trial and completion of any necessary rework.

In our opinion, the current planning forecasts do not allow enough time in particular for the agreement of Pathway's Release 2 requirements or for the live trial, including its evaluation and the inevitable rework that will result. Pathway, towards the end of this Review, now take the view that Release 2 is unlikely to be ready for live trial until late summer or early autumn 1998.

Therefore, we cannot see this chain of activities being completed before the busy 1998 Christmas period, and this means that national roll-out will only be able to start in earnest after mid -January 1999 at the earliest.

In addition, a number of sources of additional work do not appear to have been fully factored into the plans we have seen. These include:

- changes that will arise from the end-to-end integration work;
- rework that will surface as the Pathway and CAPS releases are acceptance tested;
- resolution of the outstanding change requests and agreements to agree;
- the development of detailed solutions, for example to ensure security;
- review, validation and rectification of the national roll-out plans as they are put into practice;
- all of the work necessary to prepare the post offices for automation particularly in the light of Pathway's assertion that only a limited proportion of them are fit for automation.

POL00028092

We assess that these will have a limited impact on slippage, for which the primary driver is availability of the Pathway releases, but will affect the scale and cost of activities to be undertaken.

4.4 IMPACT OF FORECAST SLIPPAGE

4.4.1 On commencement of national roll-out

We believe the Programme in its present form, and on the basis of slippage to date, will not be ready to start national roll out by the end of July 1998 - the most recent date proposed by Pathway to sponsors.

Although we expect there will be further slippage announced in the BA/CAPS programme from the current re-planning exercise and we believe that POCL are not moving fast enough into implementation mode, these delays are not, in our judgement, on the critical path. It is PA's assessment that the primary driver of time scale slippage will now be Pathway as they come to terms with the scale of what has to be done.

Based on our consideration of the experience of this programme so far, the results from Release 1c testing which imply unplanned rework is needed, the fact that major parts of the contracted-for functionality is now to be delivered in Release 2 and an extrapolation of historical slippage, we do not believe the Programme will be ready for national roll out before mid-January 1999 at the earliest.

4.4.2 On national roll-out.

We believe that a roll-out rate for post offices of 150 rising to 250 offices a week is achievable if there are no major delays in getting estate surveys completed to the revised time scale; there is early agreement of major outstanding issues such as the commercial arrangement for communications to customers; the commitment of sub-postmasters to consistent and timely co-operation with roll-out requirements is secured and, POCL develop and resource an effective and timely implementation strategy. A major area of concern relates to the arrangements for Service Management of Pathway. We believe this aspect of the Programme needs to be accelerated to provide a basis for piloting and to undertake this under POCL, not PDA, control and direction.

In summary we forecast on-going slippage to the key development stages and would not expect the infrastructure to be ready for commencement of national roll-out much before the mid-January 1999, at the earliest and for roll-out to be completed over a period of between about 1.5 and 2.5 years.

POL00028092

4.4.3 On business cases.

The further slippage will have a significant effect on the business case for each player:

- extended design and development effort will increase Pathway costs while the "window" for securing a return on investment remains short;
- CAPS Programme costs are likely to increase significantly not only because of the need to extend the period over which the Programme team need to be in place but because there are additional work items which the Programme will need to undertake in the period (and which we believe will emerge from the current re-plan) to increase resilience and contingency. Further delay to card based payments reduces the overall NPV for the BA;
- Horizon Programme costs will increase due to the extended period for the team to be in place and due to the need for additional work associated with implementation and service management provision. Delay in the roll-out not only delays potential revenue streams but is likely to reduce them overall as market opportunities are lost.

We do not have access to detailed information which would enable us to project the overall cost implications for the Programme. However, on the basis of information provided to us in confidence by each party, we would estimate that overall Programme costs (including sponsors and Pathway but not including fraud savings and any loss of future business opportunities for POCL) will increase by between £185m and £250m. We consider that sponsors should undertake an urgent appraisal of the impact on their costs as input to assessment of whether or not to continue with the Programme either as currently planned or in a revised form. Pathway will need to undertake a similar assessment.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

PA

5. ACTION NEEDED TO MINIMISE FURTHER SLIPPAGE

These actions focus on improving the delivery capability of the Programme and are set in the context of the need for a new, executive-style PDA, empowered to make decisions on behalf of sponsors and given direction by a PDA board which provides strategic advice and which gets involved to resolve the big issues. Actions are summarised for each of the players in turn.

5.1 PATHWAY.

I. split business development unambiguously from programme delivery

II. undertake competency assessment of all key first and second line resources in development programme and commit to rectify where weaknesses against requirement are identified

III. produce a firm baseline plan for Release 2 to include all contracted for services based on a robust evaluation of all technical design issues and to include application of phase review and other development and design disciplines, to include all subcontractors

IV. be absolutely clear with sponsors and PDA of the effect of further changes on this baseline plan, once agreed

V. produce formal report for sponsors on the technical issues arising from for example consideration of scalability, performance and, the actions planned to mitigate any risks

5.2 CAPS

I. use firm baseline from Pathway to re-plan

II. build in contingency and rework

III. strengthen project management office competencies

5.3 POCL

I. urgently develop an operational capability that can form a pilot for service management of Pathway for Release 1c;

II. urgently develop an implementation strategy for :

- business process, design testing and implementation
- readying the post offices
- postmaster training and awareness
- training and awareness of other post office staff
- customer communications

III. undertake competency assessment of all key managers and commit to action to rectify any deficiencies identified;

IV. validate, with Pathway, the feasibility of the projected roll-out rate for post offices

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

5. ACTION NEEDED TO MINIMISE FURTHER SLIPPAGE. . .

PA

5.4 PDA

I. expedite moves towards the new structure and function

II. undertake competency assessment of all key staff and commit to rectify any shortfalls in requirements

III. reduce size as soon as possible

IV. rationalise change management to make better use of CNT and to expedite resolution

V. rationalise programme control and reporting

POL00028092

PA

6. OPTIONS FOR ADDRESSING RESIDUAL STRATEGIC RISKS

6.1 RESIDUAL STRATEGIC RISKS

If action is taken as recommended to address the risks listed above, we believe that the probability of the Programme delivering against its objectives successfully will be greatly improved, albeit in the extended time scales we forecast in section 5 and at increased costs.

However, we believe that four residual strategic risks will remain.

6.1.1 Cost of roll-out to all post offices

A uniform approach has been adopted to both provision of the infrastructure and, the charging regime for transactions across it. There is therefore a real possibility that the true apportionment of costs across high and low volume post offices is not visible in the business cases.

The increasing availability of alternative and possibly lower cost approaches to benefit payment encashment, the time scale slippage and the consequential impact on the business case is causing reservations at the BA about the economic viability of supporting the automation of benefit payment at all Post Offices. We have not, however, seen evidence of robust and cost-effective alternatives which would offer a comparable service to the post office network for areas with a low density of population.

In PA's opinion, unless the justification for benefit payment by cards and other automated transactions through all post offices is reinforced as part of a broader Government context, the ensuing uncertainty about the cost effectiveness of the solution adopted is likely to continue to undermine confidence in the Programme and, relationships between the sponsors. The broader context needs to incorporate both the commercial and social service aspects of the Post Office and the role of payment arrangements in future social welfare policy.

6.1.2 PFI

The PFI contract implies a transfer of risk which we do not believe is sustainable in practice. Although Pathway bear risks associated with encashment fraud, the dominant risk is associated with resilient delivery of the benefits payments service itself - delivering some £80 billion in payments each year - and of the transaction handling capability of post offices.

Failure of the payments service would be business-critical to the BA and DSS and would carry unacceptable political repercussions. Given this, we argue that the risk of secure service supply is being carried predominantly by the BA and DSS. In these circumstances, the sponsors cannot afford to take a "hands-off" approach to the delivery and management of the payments service as a PFI contract would normally demand.

POL00028092

PA

6.1.3 Joint Sponsorship

The current joint sponsorship arrangements are leading to a lack of clarity in responsibilities and to difficulty and delay in brokering resolutions to problems. This is exacerbated by the significant commercial tensions between the sponsors. Furthermore, in the longer term, we believe that the current arrangements carry the risk that the dominant end-to-end view of the services will remain with Pathway rather than with one of the purchasers. This has significant implications for the effectiveness of management of the service, the contract and the supplier.

6.1.4 Dependency on Escher and its people

Escher is a small privately-owned North American software house of some 30 people. Its software is critical to the Pathway technical solution. In the original evaluation of the risks associated with a critical dependency on such a small company, we understand that a key factor was the view that the Pathway solution required integration of the Escher product and not a major development effort. In the light of subsequent events, it appears that there is a critical dependency on Escher to design and deliver significant software components for which Escher will continue to own the IPR. We believe that this remains a significant residual risk to the resilience of the Pathway business and technical solution and that ICL need to identify means of assuring sponsors of the security of this source of supply both at the delivery stage and for ongoing support.

6.1.5 Our conclusion on strategic risks

Although PA has high level views about how each of these risks might be addressed we have not analysed this in detail since it falls outside the scope of this Review. In any event, we believe that these strategic risks can only be addressed by sponsors and Pathway working together at the most senior level and we have consequently set out an action plan in Section 6.2 below.

It is PA's considered opinion that solutions to these issues are urgently needed if the Programme is to avoid further major problems and, command the full commitment of all the parties.

Clearly, in the view of the scale of the risks, termination of the Programme must be an option. It is PA's view, however, that to terminate would create such major difficulties for all parties that alternatives and the implications require considerably more robust assessment than has been appropriate in this Review.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

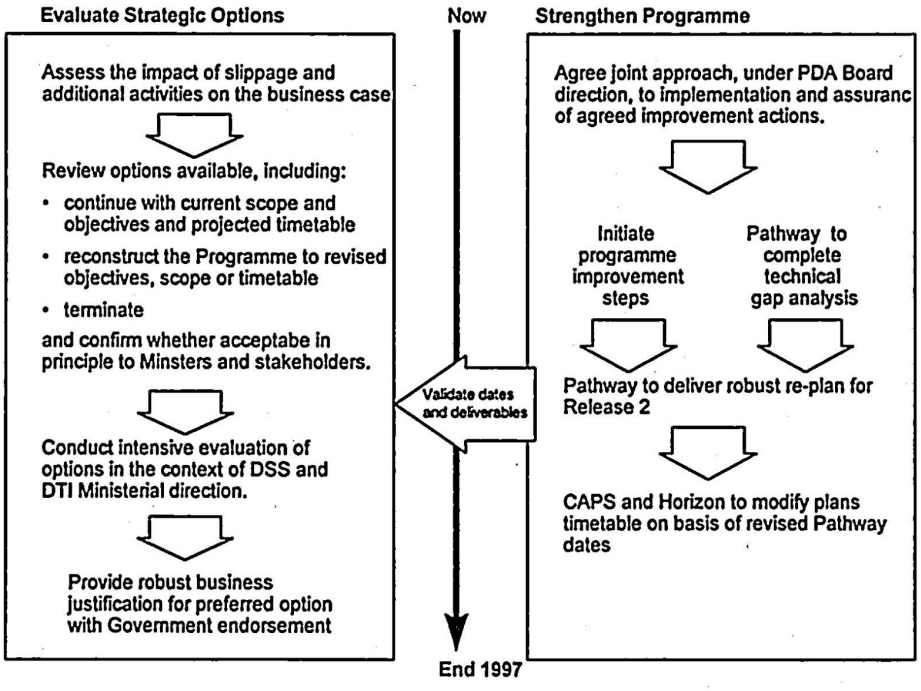
6.2 ACTION PLAN OUTLINE.

In view of the seriousness of the residual risks, we suggest that the Programme sponsors and Pathway should take steps jointly:

- to strengthen the Programme's ability to deliver, and
- to evaluate the need and scope for reconstruction of the objectives and scope of the Programme.

The latter should be with a view either to modifying or reaffirming the objectives in order to ensure robust commitment from the sponsors or to bringing the Programme to a close. The two streams of work should be undertaken in parallel and an illustration of the steps which we would suggest for consideration is as follows.

Outline of Suggested Next Steps



We believe that the evaluation of strategic options will need directly to address the economic, social and political factors which bear both on the future of the post office network and on the delivery of social welfare payments. It is likely therefore to require the active sponsorship of Ministers.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

APPENDIX A: INTERVIEWEES

Organisation	Contact	Organisation	Contact
PDA	Peter Crahan	POCL	Stuart Sweetman
	Pat Kelsey		Paul Rich
	Bruce McNiven		Mena Rego
	Keith Downer		Tim O'Leary
	John Meagher		Tim Brown
			David Smith
BA/CAPS	Peter Mathison	Pathway	John Bennett
	George McCorkell		Tony Oppenheim
	Vince Gaskell		David Groom
	John Delamore		Martyn Bennett
	Val Curran		Stephen Muchow
	Indra Morris		Mike Coombs
	Alexis Cleveland		Terry Austin
	Parry Jenkins (AC)		Barry Vaughan
	David Riggs		Graeme King
			Liam Foley
			John Dicks
			John Hunt
			Dave Hollingsworth
PDA Board	Alec Wylie	ICL	Keith Todd

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

APPENDIX B: TERMS OF REFERENCE

Terms of Reference

REVIEW OF BA-POCL PROGRAMME

Context for the Review

Management in each of the stakeholder organisations has agreed that a review of the delivery plans and resourcing of the BA-POCL Programme is required to underpin future stakeholder discussions with Ministers and at the main Boards of ICL/Fujitsu and POCL. In particular:

- the Programme has suffered consistently from chronic slippage and is undertaking its third major re-planning exercise. The re-plan is up to July 1998 and longer term planning is "on hold" until the next year's plan is more robust,

and

- as a result of the slippage, there has been some tension in the commercial and contractual relations with Pathway and the contracts have been subject to rigorous assessment and review in the recent past.

There is, therefore, a low level of confidence in the robustness of current plans and resourcing and there is a background of commercial sensitivity because this is a PFI project.

There is very active ongoing work and the review is timed to begin at or just after completion of detailed plans for CONGO Release 4. Longer term plans are still under development.

Scope

The scope of the review is to include all the supplier and sponsor domains - DSS, POCL and Pathway - as well as the PDA. Within these domains, the review will address any relevant management and technical areas which bear on the ability of the Programme to meet its **end-to end** delivery obligations.

Requirement

The review should give the sponsors and Pathway:

- a robust assessment of the Programme's future delivery capability
- specification of the changes needed in order to provide assurance of the Programme's ability to deliver - accepting that this may entail changes to timetable, resourcing and management arrangements.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To . : Mr Bruce McNiven @ BA POCL

This will, in due course, underpin submissions by the relevant parties to their respective Boards and to Ministers to secure their ongoing commitment to the Programme.

In undertaking the review, it is important to ensure that we:

- do not re-open debate on the overall business rationale for the Programme;
- focus on future capability to deliver, not past problems;
- look at commercial, managerial and technical aspects in an integrated way;
- establish clear priorities for the review (looking at everything in detail would be both uneconomic and disruptive);
- take care not to interrupt ongoing work while conducting the review.

Overall, the review must be rapid - a first draft is required on September 5th - and reflect the strategic importance of the programme to each of the sponsors and to Pathway.

Specific requirements are that we should:

- review, for each organisation in the supplier and sponsor community, and across the whole Programme:
  - arrangements for change management and control;
  - delivery plans;
  - progress reporting and information flows;
  - escalation arrangements and associated decision-making (including commercial negotiations);
  - the management structure and the match of competencies to the allocated scope of work;
  - resourcing levels in the light of programme and project management best practice.
- identify and assess any weaknesses in the delivery capability of the Programme, including risks in relation to:
  - managing delivery of the PFI services;
  - supplier management;
  - linkages between the various parts of the Programme;
  - management and resourcing, including planning of service and contract management.

<u>Deliverables from the Review</u>

The Review should initially deliver an appraisal of any weaknesses and risks in the Programme's delivery capability.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

The subsequent deliverable should be a draft of the final report which will assess the options available to address the risks and weaknesses and give our recommendations on the actions which should be taken. The draft will be delivered to Alec Wylie by 5th September for distribution to the DSS, POCL and Pathway representatives.

The final report will be completed by 19th September. In view of the rapid timetable for the Review a "presentation style" report will be acceptable.

The findings and recommendations will be presented to the PSC on 24th September.

POL00028092

Restricted - Senior Management Policy
Copy number : 2.
To : Mr Bruce McNiven @ BA POCL

APPENDIX C: TRENDS IN PROGRAMME MILESTONE DATES

Description	MPlan V1 13-Aug-96 Ref	Date	MPlan V2 13-Nov-96 Ref	Date	MPlan V3 08-Apr-97 Ref	Date	Latest 31-Jul-97 F/C Date
Group A - Initial Go Live							
1 PO automated for ChB by card	SM1	Sep-96	A1	Sep-96	A1	Sep-96	23-Sep-96
10 POs automated for ChB by card	SM2	Oct-96	A2	Oct-96	A2	Oct-96	21-Oct-96
Group B - Pathway Infrastructure & Releases							
Bootle & Wigan operational	SM24	Dec-96	G1	Dec-96	B1	Mar-97	07-Mar-97
Rel 1(b) OBCS authorised for use					B2	Apr-97	02-May-97
Rel 1(c) BPS authorised for use					B3	Jun-97	13-Oct-97
Rel 1(e) EPOSS/APS authorised for use					B4	Sep-97	30-Mar-98
Rel 1(e) authorised for national roll-out					B5	Nov-97	30-Mar-98
Rel 2 authorised for national use	SM25	Oct-97	G2	Oct-97	B6	Jan-98	31-Mar-98
Rel 3 authorised for national use	SM26	Apr-98	G3	Apr-98	B7	Apr-98	31-Jul-98
Rel 4 authorised for national use	SM27	Oct-98	G4	Oct-98	B8	Oct-98	31-Oct-98
Group C - CAPS Releases							
CAPS Rel 2 authorised for use					C1	Mar-97	31-Mar-97
CAPS Rel 2.1 authorised for use					C2	May-97	02-Jun-97
CAPS Rel 2.2 authorised for use					C3	Jul-97	03-Nov-97
CAPS Rel 3 authorised for use					C4	Jan-98	30-Mar-98
CAPS Rel 4 authorised for use					C5	Jul-98	31-Jul-98
Group D - POCL Feeder Systems							
Reference data system ready for E2E testing					D1	Mar-97	10-Mar-97
HAPS system ready for E2E testing					D2	Mar-97	27-Mar-97
TIP Phase 3 ready for E2E testing			F1	Mar-97	D3	Mar-97	27-Mar-97
Full TIP system operational	SM15	Jun-97					
POCL feeder systems authorised for live trial					D4	Sep-97	08-Sep-97
Group E - Live Trial Roll-out							
Start of roll-out to up to 190 PO + IGL Pos	SM3	Mar-97	B1	Mar-97	E1	Apr-97	02-May-97
200 POs ready for customer use	SM4	Apr-97	B2	Apr-97	E2	Jun-97	13-Oct-97
Start of live trial evaluation period					E3	Sep-97	31-Jul-98
Live trial evaluation complete & accepted					E4	Nov-97	21-Nov-97
Start of roll-out to 1450 POs with limited functionality					E5	Jul-97	28-Jul-97
Secodary stream POs migrated to full system					E6	Jan-98	31-Jan-98
Group F - National Roll-out							
Start of national R/O to POs & BA offices on mainland	SM5	Jun-97	C1	Jun-97	F1	Nov-97	31-Jul-98
Instln of POs in large conurbations ready for customer use			C2	tbd	F2	TBA	TBA
Installation of PO (4+ counters) ready for customer use			C3	tbd	F3	TBA	TBA
Start of roll-out to existing ECCO/ALPS within M25			C4	tbd	F4	TBA	TBA
Existing ECCO/ALPS within M25 ready for customer use			C5	tbd	F5	TBA	TBA
All POs & BA dist offices ready for customer use	SM9	Nov-98	C99	Nov-98	F6	TBA	TBA
Group G - Northern Ireland							
Start of Roll-out in Northern Ireland	SM10	Jul-97	D1	Aug-97	G1	TBA	TBA
All POs & SSA local offices ready for customer use	SM11	Sep-97	D2	Sep-97	G2	TBA	TBA
Group H - BA Benefit Migration							
Payment of ChB by normal renewal cycle (NRC)	SM16	Jan-97	E1	Jan-97	H1	May-97	13-Oct-97
Payment of IS/PSCS/Incap benefits by NRC	SM17,20	Oct-97	E2,5	Oct-97	H2	Jan-98	20-Jan-98
Payment of JSA/FamC/DWA/ETU by NRC	SM18,20	Oct-97	E3,5	Oct-97	H3	Apr-98	30-Apr-98
Payment of AA/DLA/Social Fund by NRC	SM19,21	Jan-98	E4,6	Jan-98	H4	Jul-98	31-Jul-98
Payment of War Pension/IIDB/ICA by NRC	SM21	Jan-98	E6,7	Feb-98	H5	Nov-98	30-Nov-98
All benefits can be paid by card at mainland POs	SM23	May-99	E99	May-99	H6	May-99	31-May-99
Group I - SSA Benefit Migration							
Payment of income support by NRC in NI	SM14	Jan-98	D6	Jan-98	I1	Jan-98	Jan-98
Payment of PSCS/Incap/JSA/FamC/DWA/ETU by NRC	SM12-14	Jan-98	D3-6	Jan-98	I2	Apr-98	Apr-98
Payment of Child Benefit by NRC	SM14	Jan-98	D7	Jan-98	I3	Jun-98	Jun-98

POL00028092

Creating Business Advantage

PA Consulting Group is a leading management, information and technology consultancy, operating worldwide from around 50 offices in over 20 countries. For clients, PA is distinguished as a consultancy that focuses on *creating*, rather than just *proposing*, change, using skills that combine deep experience of sectors and industries with an innovative, insight-driven approach. PA's outstanding implementation track record is achieved through the integration of process, people and technology capabilities using multinational, interdisciplinary teams that work worldwide with client organisations in industry, commerce and government.

Established over 50 years ago, PA draws on the knowledge and expertise of over 2,000 employees, whose skills span a wider range of capability than any other major consulting firm. Our consultancy services –Strategy, Improving Performance, IT, Technology, Human Resources, Change Management– are helping our clients transform their businesses to achieve significant increases in value, profitability and effectiveness. We are proud that our clients say: "***PA makes it happen***".

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Limited

POST OFFICE

benefits ba agency

ICL Pathway

PA Consulting Group

Review Of BA-POCL Programme

Commercial In Confidence

Prepared by : Peter Copping
Deborah Lees
Hugh Crail
David Rees

Version 3.0
1 October, 1997

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

PA Consulting Group

Review Of BA-POCL Programme

Commercial In Confidence

Authors: Peter Copping
Deborah Lees
Hugh Crail
David Rees

PA Consulting Group
123 Buckingham Palace Road
London SW1W 9SR

Telephone GRO
Facsimile

Version 3.0
01 October 1997

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

DISTRIBUTION OF CONTROLLED COPIES

Controlled Copy N°	Surname	Name	Organisation
1.	Crahan	Peter	BA POCL
2.	McNiven	Bruce	BA POCL
3.	Mathison	Peter	Benefits Agency
4.	McCorkell	George	Benefits Agency
5.	Bennett	John H	ICL Pathway Ltd
6.	Coombs	Mike	ICL Pathway Ltd
7.	Todd	Keith	ICL PLC
8.	Copping	Peter	PA Consulting Group
9.	Lees	Deborah	PA Consulting Group
10.	Rich	Paul	Post Office Counters Ltd
11.	Sweetman	Stuart	Post Office Counters Ltd
12.	Wylie	Alec	Social Security Agency

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

TABLE OF CONTENTS

MANAGEMENT SUMMARY
1. CONTEXT AND PURPOSE OF THIS REVIEW 1–1
2. AIM AND SCALE OF THE BA-POCL PROGRAMME 2–2
3. OBSERVATIONS ON THE CURRENT PROGRAMME 3–3
3.1 BA : CAPS PROGRAMME 3–3
3.2 POCL : HORIZON PROGRAMME 3–5
3.3 PATHWAY....3–9
3.4 PROGRAMME DELIVERY AUTHORITY - PDA 3–13
3.5 ISSUES COMMON ACROSS THE PROGRAMME 3–15
4. PROBABILITY OF FURTHER SLIPPAGE 4–18
4.1 CAUSES OF CURRENT SLIPPAGE....4–18
4.2 SLIPPAGE TO DATE 4–20
4.3 ANALYSIS OF SLIPPAGE 4–21
4.4 IMPACT OF FORECAST SLIPPAGE 4–24
5. ACTION NEEDED TO MINIMISE FURTHER SLIPPAGE 5–26
5.1 PATHWAY....5–26
5.2 CAPS 5–26
5.3 POCL 5–26
5.4 PDA....5–27
6. OPTIONS FOR ADDRESSING RESIDUAL STRATEGIC RISKS 6–28
6.1 RESIDUAL STRATEGIC RISKS....6–28
6.2 ACTION PLAN OUTLINE. 6–30

APPENDIX A Interviewees
APPENDIX B Terms of Reference
APPENDIX C Trends in Programme Milestone Dates

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

MANAGEMENT SUMMARY. . .

PA

MANAGEMENT SUMMARY

M1. CONTEXT FOR THIS REVIEW

The driving force for this Review of the BA/POCL programme has been the consistent and chronic slippage in delivery dates. At the time the Review started, some 12 months into the implementation stage of the Programme, difficulties were being experienced in longer term planning because of slippage of some 13 months in short term plans.

This is putting stress on the viability of each organisation's business case. The resulting low level of confidence in the robustness of planning and resourcing and the background of commercial sensitivity, led management in each of the sponsor organisations and Pathway to commission PA Consulting Group to provide an independent view of the:

- current weaknesses and risks in the Programme
- implications for the Programme future delivery obligations
- options which may be available to assure its delivery capability.

It is in the nature of a review of this sort to focus on the problems and weaknesses which need to be addressed. We wish to record that, despite the problems that the Programme has encountered, there is no doubt that a lot has been achieved by all the teams in the light of very demanding circumstances.

M2. PROGRAMME OBJECTIVES

The BA-POCL Programme is a large and complex programme of change. The overall Programme objectives are to:

- deliver a fraud-free method of paying benefits at post offices;
- develop a system that meets recognised accountancy practices;
- provide, through automation, greater commercial opportunities enabling POCL to improve competitiveness and increase efficiency;
- provide an improved level of service to all customers.

It is a very major business venture for each of the participating organisations - the Benefits Agency (BA), Post Offices Counters (POCL) and Pathway:

- it is directly business critical for Pathway and is an extremely large and strategic investment for ICL and its parent company, Fujitsu..
- it is a major component in the BA's strategy to reduce fraud and improve financial and accounting controls, as well as to reduce costs.

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

MANAGEMENT SUMMARY. . .

PA

- for POCL, the Programme, as part of an overall programme of automation, is essential to the creation of a platform for future growth and avoidance of business decline.

In PA's opinion, the Programme is world-class in its ambitions and our observations should be seen in that light.

The Programme entails major changes to BA IT systems and an extensive implementation effort in the Agency's field operations and in their inter-working with the Agency's customers. For POCL, a number of IT systems require development and there needs to be an extensive programme of process change, training and the preparation of some 19,000 post offices. Pathway are required to develop, install and operate a major national infrastructure with complex real-time transactions through the 19,000 post office outlets and, with the support of POCL, to prepare outlets and train counter staff.

M3. FINDINGS

M3.1 Benefits Agency

Overall we have concluded that the plans for what needs to be done by BA are being well thought through. They are robust in terms of the approaches being adopted and the management resources being applied. Good progress is also being made on process changes and policy issues; the same is true of planning for BA field operation activity and the overall migration strategy. There have also been positive moves to rationalise management responsibilities in relation to the Programme Delivery Authority (PDA).

Recognition towards the end of last year of the scale of data and business migration and the need to move towards phased CAPS releases have affected BA cost estimates and, contributed to an increased understanding of the complexity of the overall implementation. This increased understanding led to the change in time scale for the Programme agreed by all parties early this year and which is reflected in Master Plan V3.

The CAPS Programme is currently undertaking a major re-planning exercise. From this, we would expect to see increased time for testing, data migration, re-work, post-release enhancements and associated integration testing. This will increase BA costs and timetable for delivery. Continuation of the tight management control of the Programme, in view of the scale and complexity of the activities to be completed, will be vital and may demand further strengthening of the CAPS programme management office.

M3.2 POCL

POCL has much to do if this Programme is to be successful. The first steps, to implement computer system modifications, are under way and aside from perhaps an over-reliance on the PDA for programme management of this, progress seems to be satisfactory.

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

MANAGEMENT SUMMARY. . .

PA

We do have concerns for the future, in three areas:

- there is a need for POCL significantly to boost resources to co-operate with Pathway's roll-out of the infrastructure. Plans are in place to appoint national and regional managers for implementation and some 350 support staff. We do not, however, believe that there is sufficient recognition in POCL of the need to be taking rapid steps to have a robust team in place;
- although work has been done to assess the Service Management Framework required to manage Pathway as a service provider, the resources needed for this are not identified, other than those that currently exist in the PDA . We feel that the scale and difficulty of the service and contract management task is not yet fully understood in POCL;
- in the longer term there is the issue of developing the POCL requirements for EPOSS and the supporting computer applications. We understand there is much still to do here, which will require additional resource.

Despite an apparent focus on planning rather than doing and a general underestimation of the resources required, we do not believe this has contributed in any significant way so far to slippage in the Programme. Clearly there is and will continue to be an impact on POCL costs as the necessary resources are put in place which, together with slippage, must impact the business case.

Our key concern is that the skills required for many of the new senior posts are, in our opinion, not those we would have expected to find as part of POCL core competencies: this is especially true in relation to implementation management and contract and service management. There seems, however, to be no evidence of external recruitment activity or robust plans to create the competence internally.

M3.3 PDA

In the PDA, we find strong desire for continued change, shaped by the recommendations of the Andersen Consulting and French Thornton reports but, progress with implementation is slow. We generally agree with these recommendations, which in essence move the PDA towards a body that has responsibility for:

- assurance of the overall business architecture
- assurance of the technical architecture
- integrating the work plans of each of the sub-programmes
- management of the joint contractual arrangements during delivery

Meanwhile there is evidence of a change management process that requires time which is not always allowed for in the plans and of the PDA getting engaged in aspects that might be better managed directly between one of the sponsors and Pathway.

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

MANAGEMENT SUMMARY. . .

PA

The PDA expends considerable effort in trying to broker resolutions of issues with Pathway and between the sponsors. This is made more complex by the inherent difficulty in managing a PFI contract - in getting the balance right between assurance and interference. This is particularly challenging for this Programme where not all the risk - which is business critical to the sponsors - is transferred to the supplier and where there is a natural tension at the boundary of risk transfer as the sponsors and supplier each seek to optimise their positions as to respective roles, rights and obligations.

We believe that the PDA is too large and that it could be reduced to around one quarter of its present size by continuing the process of transferring functions to sponsors and, by removing overhead activity. At the same time there is a need to ensure that the resources assigned to the PDA are the best available and that they are aligned with the revised responsibilities. This should not be confined to the resources available in the sponsor organisations but managed strictly according to competency for the roles.

M3.4 Pathway

At the outset of this procurement, it appeared to Pathway that the development of a service to meet the PFI requirement could be achieved largely through systems integration, and that its role was essentially one of a systems integrator. This is illustrated by the large number of subcontractors to Pathway. In reality, the amount of development work needed was in our opinion, seriously misjudged. As a result, time scales and resource needs were underestimated.

As Pathway and sponsors have worked with the PDA to resolve the detail of the requirement (the contract specifies requirements with the principle of "agreements to agree" being used to work up the detail of the requirements to give legal expression) and also to incorporate change requests into planning, the extent of development needed has become clear. Pathway instituted an internal review early in July 1997 and subsequently began to implement necessary management and organisation changes to reflect an enhanced understanding of the demands of the programme. These changes (including a new management structure, additional resources and application of change control disciplines) are still in the process of being implemented. There continues to be a vital need to tightly manage the sub-contractor network and, in particular, Escher, a small US company who are delivering core functionality to the Pathway solution.

We believe the current status of the Programme is surrounded by considerable contractual ambiguity. Pathway are, in essence, proceeding on an 'own risk' basis to deliver Release 1c with a "known problems register" and its proposal is to address the "known problems" in Release 2. Meanwhile the baseline for Release 2 is being developed. Pathway will only be able to provide firm plans once this Release reaches approved baseline status. Because so much of the contracted-for solution now appears to be in Release 2, we must express serious reservations about Pathway's current plan to be ready for commencement of national roll-out at the end of July 1998. Pathway have recently confirmed to us that it is unlikely that Release 2 will be ready for live trial until late summer or early autumn 1998.

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

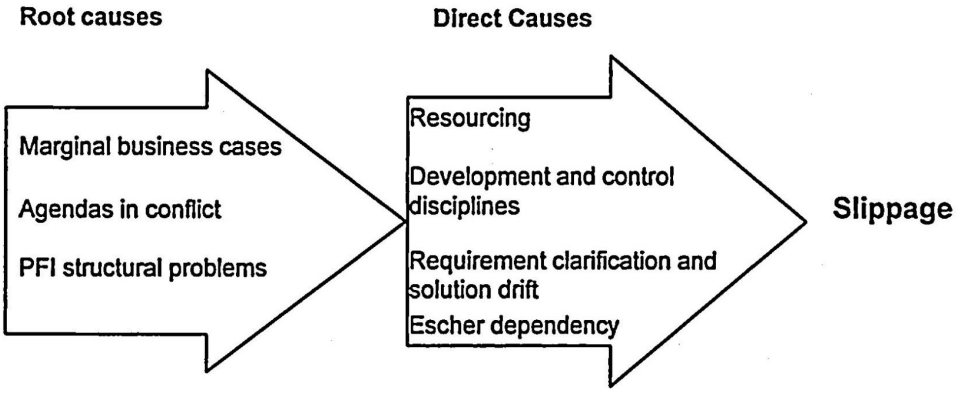
MANAGEMENT SUMMARY. . .

PA

Much of our review at Pathway has focused on the robustness of the technical solution since this has become a significant concern for the sponsors and Pathway. Whilst we have been able to obtain satisfactory answers to all our questions, in particular regarding the way security requirements will be incorporated and on scalability and performance, there must continue to be reservations in all these areas until the final design is baselined and then realised. It is also important to note the dependency for technical success on Escher which is a small, Boston-based software house and the source of the Riposte messaging software which is at the heart of the system.

M4. CAUSES OF CURRENT SLIPPAGE

We believe that there are direct causes of slippage but that these need to be set in the context of a small number of underpinning root causes as illustrated below.



M4.1 Root causes

Marginal business cases.

The business cases of each of the sponsors are marginal and built significantly on the assumption that the required services could be delivered in a relatively short time scale. The original project time scales have not proved realistic so the basic vulnerability of each of the business cases is now fully exposed. This is putting strain on relationships between sponsors and between the sponsors and Pathway

Were this project to be in the planning stage today, PA has no doubt that significant attention would again be given to ensuring the supply of an economic infrastructure for benefit payments and EPOSS. At the margin, where automated transactions at post offices are economically at their most vulnerable, this could mean that alternative approaches to the solution might be more attractive in today's environment.

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

MANAGEMENT SUMMARY. . .

PA

Agendas in conflict

The BA is a major customer of POCL and it is inevitable that the different commercial objectives of each organisation make it difficult for them to act in total harmony as joint Programme sponsors. We note this has the following impacts:

- an adversarial approach between senior managers in BA and POCL and tensions at working levels, for example between POGAB and the DSS Account Team in POCL
- there is a tendency to populate the PDA with a balance of representation from BA and POCL, rather than strictly according to required competencies;
- decision-making structures are cumbersome and the people in them do not feel particularly empowered. This is evidenced in the extensive and only partially productive brokering work of PDA staff and the many pre-meetings required to support the PDA Board and Programme Steering Committee (PSC).

Structural problems with the PFI.

The scale of this PFI, its complex supply chain, the conflicting business objectives of the sponsors, the difficulty in assessing who ultimately carries the risk, and the short time scale of the operational part of the contract create an environment of uncertainty and tension. These aspects distract attention from the key objective - to deliver a solution that works, with acceptable levels of risk transfer and returns for both customer and supplier.

M4.2 Direct causes

Resourcing

This is a world class programme measured by any standards.

At the BA, action has already been taken to strengthen the management organisation by, for example, taking back responsibility from the PDA and drafting in appropriately skilled and experienced resources from elsewhere. Pathway has acted swiftly, following their internal review, to make structural changes and to strengthen the management team. At the PDA, the problem has also been recognised and action is being taken to strengthen the calibre of its resources. POCL still has much to do and arguably have yet to recognise that top quality project and service management resource will probably need to be recruited externally.

In our opinion, sponsors, the PDA and Pathway must continue to seek to identify and recruit people of appropriately world-class professional stature into every key position as this programme progresses.

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

MANAGEMENT SUMMARY. . .

PA

Development and control disciplines.

Pathway has much still to do to ensure that effective management and change control disciplines are embedded in the combined development and systems integration environment in which they now find themselves. This must be done regardless of the time pressures which exist in the Programme. This is particularly challenging because of the need to embrace key subcontractors in these processes. This applies specifically to Escher on whom Pathway are highly dependant for success.

Requirement clarification and Solution Drift

We believe that a better mechanism is needed than currently is in place to manage the tension between requirements and solutions in the context of a realistic assessment of the business impact. Whilst we understand the constraints which apply within a PFI environment, we have not been convinced that the current arrangements are resulting in a proper assessment of the real business impact of decisions to adhere either to timetable or to requirements specification.

In this Programme there has been no formal rebasing of the Master Plan and associated time scales since March this year to reflect for example, more recent change requests and emerging or existing exclusions to functionality. In our experience, in a programme of this complexity, this implies that too rigid an approach is being adopted at the possible expense of the business cases for all parties. The nature of a PFI contract arguably reduces the scope for pragmatic "trade offs" in development of the solution and this remains a significant risk for the Programme.

The Escher dependency

With the realisation that to deliver this Programme requires a substantial development as well as systems integration effort, the dependency of the solution on Escher (a relatively small North American software company) and the Riposte software takes prominence. Much of the architectural development needed has required Escher to commit to major rework and this is being commissioned by Pathway. This has taken time and effort, thus causing delay.

Escher will continue to be a major risk to the success of this Programme. This risk will be manifest both in terms of delivery of solution and in the ongoing security of the supply chain to Pathway. On the basis that no other remedy is available, its containment will rely on ICL and Pathway's ability to forge mutually beneficial and sustainable relationships with the key people involved in Escher.

POL00028092

M5. IMPACT OF SLIPPAGE

M5.1 On start of national roll-out

We believe this Programme in its present form, and on the basis of slippage to date, will not be ready to start national roll out by the end of July 1998 - the most recent date proposed by Pathway to sponsors.

Although we expect there will be further slippage announced in the BA/CAPS programme from the current re-planning exercise and we believe that POCL are not moving fast enough into implementation mode, these delays are not, in our judgement, on the critical path. It is PA's assessment that the primary driver of time scale slippage will now be Pathway as they come to terms with the scale of what has to be done.

Based on our consideration of the experience of the Programme so far, the results from Release 1c testing which imply unplanned rework is needed, the fact that functionality originally planned in Release 1c is now proposed by Pathway to be delivered in Release 2 and an extrapolation of historical slippage, we do not believe the Programme will be ready for national roll out before January 1999.

M5.2 On national roll-out

We have not seen convincing evidence that the projected roll-out rate of 300 post offices a week is achievable. We believe that a roll-out rate of 150 rising to 250 offices a week is achievable if there are no major delays in getting estate surveys completed to the revised time scale; there is early agreement of major outstanding issues such as the commercial arrangement for communications to customers; the commitment of sub-postmasters to consistent and timely co-operation with roll-out requirements is secured and POCL develop and resource an effective and timely implementation strategy.

A major area of concern relates to the arrangements for Service Management of Pathway. We believe this aspect of the Programme needs to be accelerated to provide a basis for piloting and to undertake this under POCL, not PDA, control and direction.

In summary, we forecast on-going slippage to the key development stages and would not expect the infrastructure to be ready for commencement of national roll-out before January 1999, at the earliest, and for roll-out to be completed over a period of between about 1.5 and 2 years.

POL00028092

M5.3 On business cases

The further slippage will have a significant effect on the business case for each player:

- extended design and development effort will increase Pathway costs while the "window" for securing a return on investment remains short;
- CAPS Programme costs are likely to increase significantly not only because of the need to extend the period over which the Programme team need to be in place but because there are additional work items which the Programme will need to undertake in the period (and which we believe will emerge from the current re-plan) to increase resilience and contingency. Further delay to card based payments reduces the overall NPV for the BA;
- Horizon Programme costs will increase due to the extended period for the team to be in place and due to the need for additional work associated with implementation and service management provision. Delay in the roll-out not only delays potential revenue streams but is likely to reduce them overall as market opportunities are lost.

We do not have access to detailed information which would enable us to project the overall cost implications for the Programme. However, on the basis of information provided to us in confidence by each party, we would estimate that overall Programme costs (including sponsors and Pathway but not including fraud savings and any loss of future business opportunities for POCL) will increase by between £185m and £250m. We consider that sponsors should undertake an urgent appraisal of the impact on their costs as input to assessment of whether or not to continue with the Programme either as currently planned or in a revised form. Pathway will need to undertake a similar assessment.

M6. RECOMMENDATIONS TO MINIMISE FURTHER SLIPPAGE

Below are recommended actions which focus on improving the delivery capability of the Programme and are set in the context of the need for a new, executive-style PDA, empowered to make decisions on behalf of sponsors and given direction by a PDA board which provides strategic advice and which gets involved to resolve the big issues. Actions are summarised for each of the players in turn.

M6.1 Pathway

i. split business development unambiguously from programme delivery
ii. undertake competency assessment of all key first and second line resources in development programme and commit to rectify where weaknesses against requirement are identified
iii. produce a firm baseline plan for Release 2 to include all contracted for services based on a robust evaluation of all technical design issues and to include application of phase review and other development and design disciplines, to include all subcontractors

POL00028092

iv. be absolutely clear with sponsors and PDA of the effect of further changes on this baseline plan, once agreed

v. produce a formal report for sponsors on the technical issues arising from, for example, consideration of scalability, performance and, the actions planned to mitigate any risks

M6.2 CAPS

i. use the firm baseline from Pathway to validate or modify the recently revised plan

ii. build in contingency and rework as part of the re-planning process

iii. strengthen project management office competencies

M6.3 POCL

i. urgently develop an operational capability that can form a pilot for service management of Pathway for Release 1c

ii. urgently develop an implementation strategy for

- business process, design testing and implementation
- readying the post offices
- postmaster training and awareness
- training and awareness of other post office staff
- customer communications

iii. undertake competency assessment of all key managers and commit to action to rectify any deficiencies identified

iv. initiate a feasibility study, with Pathway, to validate achievability of the projected roll-out rate for post offices.

M6.4 PDA

i. expedite moves towards the new structure and function

ii. undertake competency assessment of all key staff and commit to rectify any shortfalls in requirements

iii. reduce size as soon as possible

iv. rationalise change management to make better use of Contract Negotiating Team (CNT) and to expedite resolution

v. rationalise programme control and reporting

M7. RESIDUAL STRATEGIC RISKS TO THE PROGRAMME

If action is taken as recommended along the lines indicated above, we believe that the probability of the Programme delivering against its objectives successfully will be greatly improved, albeit in the extended time scales we have forecast and at increased costs.

However, we believe that four residual strategic risks will remain.

POL00028092

M7.1 Cost of roll-out to all post offices

A uniform approach has been adopted to both provision of the infrastructure and, the charging regime for transactions across it. There is therefore a real possibility that the true apportionment of costs across high and low volume post offices is not visible in the business cases.

The increasing availability of alternative and possibly lower cost approaches to benefit payment encashment, the time scale slippage and the consequential impact on the business case is causing reservations at the BA about the economic viability of supporting the automation of benefit payment at all Post Offices. We have not, however, seen evidence of robust and cost-effective alternatives which would offer a comparable service to the post office network for areas with a low density of population.

In PA's opinion, unless the justification for benefit payment by cards and other automated transactions through all post offices is reinforced as part of a broader Government context, the ensuing uncertainty about the cost effectiveness of the solution adopted is likely to continue to undermine confidence in the Programme and, relationships between the sponsors. The broader context needs to incorporate both the commercial and social service aspects of the Post Office and the role of payment arrangements in future social welfare policy

M7.2 PFI

The PFI contract implies a transfer of risk which we do not believe is sustainable in practice. Although Pathway bear risks associated with encashment fraud, the dominant risk is associated with resilient delivery of the benefits payments service itself - delivering some £80 billion in payments each year - and of the transaction handling capability of post offices.

Failure of the payments service would be business-critical to the BA and DSS and would carry unacceptable political repercussions. In these, circumstances, we argue that the risk of secure service supply is being carried predominantly by the BA and DSS. In these circumstances, the sponsors cannot afford to take a "hands-off" approach to the delivery and management of the payments service as a PFI contract would normally demand.

M7.3 Joint Sponsorship

The current joint sponsorship arrangements are leading to a lack of clarity in responsibilities and to difficulty and delay in brokering resolutions to problems. This is exacerbated by the significant commercial tensions between the sponsors. In the longer term, we believe that the current arrangements carry the risk that the dominant end-to-end view of the services will remain with Pathway rather than with one of the purchasers. This has significant implications for the effectiveness of management of the service, the contract and the supplier.

M7.4 Dependency on Escher and its people

POL00028092

MANAGEMENT SUMMARY. . .

Escher is a small privately-owned North American software house of some 30 people. Its software is critical to the Pathway technical solution. In the original evaluation of the risks associated with a critical dependency on such a small company, we understand that a key factor was the view that the Pathway solution required integration of the Escher product and not a major development effort. In the light of subsequent events, it appears that there is a critical dependency on Escher to design and deliver significant software components for which Escher will continue to own the IPR. We believe that this remains a significant residual risk to the resilience of the Pathway business and technical solution and that ICL need to identify means of assuring sponsors of the security of this source of supply both at the delivery stage and for ongoing support.

M7.5 Our conclusion on strategic risks

Although PA has high level views about how each of these risks might be addressed we have not analysed this in detail since it falls outside the scope of this Review. In any event, we believe that these strategic risks can only be addressed by sponsors and Pathway working together at the most senior level and we have consequently set out an action plan in Section M8 below.

It is PA's considered opinion that solutions to these issues are urgently needed if the Programme is to avoid further major problems and, command the full commitment of all the parties.

Clearly, in view of the scale of the risks, termination of the Programme must be an option. It is PA's opinion, however, that to terminate would create such major difficulties for all parties that alternatives and their implications require a considerably more robust assessment than has been appropriate in this Review.

M8. ACTION PLAN OUTLINE

In view of the seriousness of the residual risks, we suggest that the Programme sponsors and Pathway should take steps jointly:

- to strengthen the Programme's ability to deliver, and
- to evaluate the need and scope for reconstruction of the objectives and scope of the Programme.

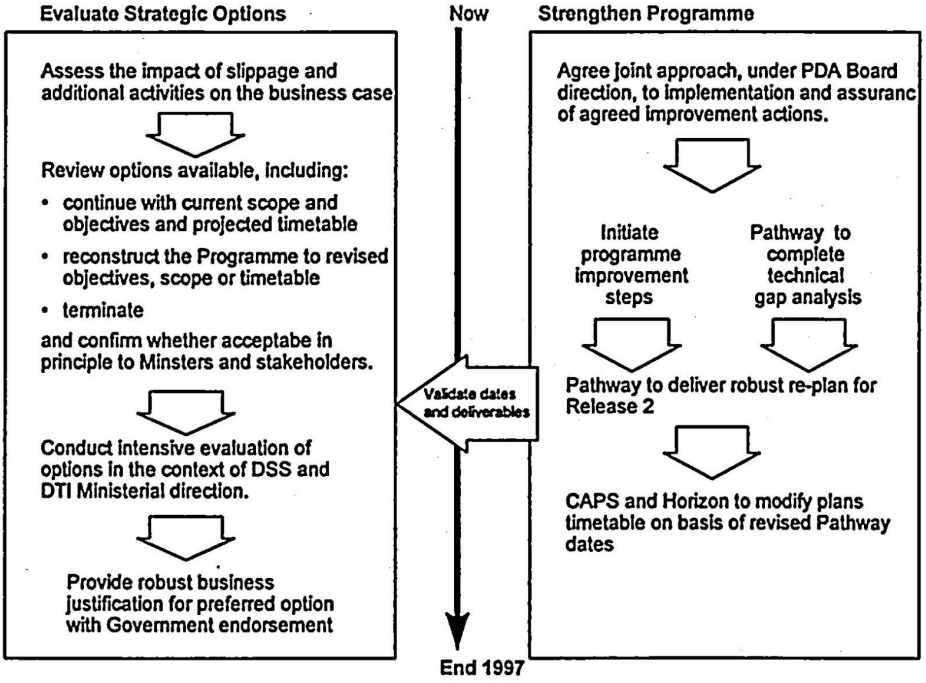
POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

MANAGEMENT SUMMARY. . .

The latter should be with a view either to modifying or reaffirming the objectives in order to ensure robust commitment from the sponsors or to bringing the Programme to a close. The two streams of work should be undertaken in parallel and an illustration of the steps which we would suggest for consideration is as follows.

Outline of Suggested Next Steps



We believe that the evaluation of strategic options will need directly to address the economic, social and political factors which bear both on the future of the post office network and on the delivery of social welfare payments. It is likely therefore to require the active sponsorship of Ministers.

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

PA

1. CONTEXT AND PURPOSE OF THIS REVIEW

The driving force for this Review of the BA/POCL programme has been the consistent and chronic slippage in delivery dates. At the time the Review started, some 12 months into the implementation stage of the Programme, difficulties were being experienced in longer term planning because of slippage of some 13 months in short term plans.

This is putting stress on the viability of the business cases within each of the organisations. The resulting low level of confidence in the robustness of planning and resourcing and the background of commercial sensitivity, because this is a PFI project, led management in each of the sponsor organisations and Pathway to agree that an urgent review of the programme was required.

This Review was commissioned from PA Consulting Group to provide an independent view of the:

- current weaknesses and risks in the Programme
- implications for the Programme future delivery obligations
- options which may be available to assure its delivery capability.

The review was completed over the period from 12th August to 19th September 1997 and has involved interviews with key people in each of the organisations involved in the Programme and analysis of extensive documentation relating to the programme. A list of interviewees is included as Appendix A. Our detailed terms of reference are in Appendix B.

It is in the nature of a review of this sort to focus on the problems and weaknesses which need to be addressed. We would like to record our thanks to all those that contributed to this review and in particular note the open approach adopted by all parties to their discussions with us. We also wish to record that, despite the problems that the programme has encountered, there is no doubt that a lot has been achieved by all the teams in the light of very demanding circumstances.

POL00028092

PA

2. AIM AND SCALE OF THE BA-POCL PROGRAMME

The BA-POCL Programme is a large and complex programme of change. The overall Programme objectives are to:

- deliver a fraud-free method of paying benefits at post offices
- develop a system that meets recognised accountancy practices
- provide, through automation, greater commercial opportunities enabling POCL to improve competitiveness and increase efficiency;
- provide an improved level of service to all customers.

It is a very major business venture for each of the three key players - the Benefits Agency (BA), Post Offices Counters (POCL) and Pathway, and in PA's opinion, is world-class in its ambitions:

- it is directly business critical for Pathway, as the sole basis for the company's existence. It also represents an extremely large and strategic investment for ICL and its parent company - Fujitsu.
- it is a major component in the BA's strategy to reduce fraud and improve financial and accounting controls, as well as to reduce costs.
- for POCL, the Programme, as part of an overall programme of automation, is essential to creation of a platform for future growth and avoidance of business decline.

For the total programme to work, significant amounts of work on BA computer systems need to be completed; at POCL, computer systems also need modification. An extensive programme of process change, employee and sub-postmaster training and customer education is needed to implement card-based benefit payments and various policy issues, at BA in particular, are impacted by the programme. The POCL automation objectives (Horizon) essentially run in parallel with the card benefit programme for the BA although can only be fully exploited once the Pathway infrastructure is fully in place. Pathway are required to develop, install and operate a major national infrastructure with complex real-time transactions through the 19,000 post office outlets and, with the support of POCL, to prepare outlets and train counter staff.

All of these aspects in one way or another either form part of the PFI programme itself or, need to link up appropriately with it.

POL00028092

PA

3. OBSERVATIONS ON THE CURRENT PROGRAMME

3.1 BA : CAPS PROGRAMME

3.1.1 Overview

The business and IT change entailed by the CAPS Programme is very major and complex.

Key requirements are:

- development of new systems - Card Payment Computer System (CPCS) and Personal Data Computer System (PDCS);
- modifications to the existing IT systems for handling benefits processing;
- clean-up and migration of data from the existing to the new data bases;
- modifications to business procedures and processes;
- training of operational front-line staff across the Agency in the new procedures and processes;
- ensuring that all the above are implemented with a managed and acceptable impact on the Agency's customers.

The scale of the challenge which this represents is increased by the context of major organisational and policy change currently being addressed by the Agency and by the need to secure the active commitment and co-operation of other agencies in the DSS and of Employment Services (ES).

3.1.2 Management and Organisation

The scale of the management challenge presented by the CAPS Programme was highlighted in reports by external consultants earlier this year. In the light of these reports, the BA acted to strengthen the management focus at BA Management Team (BAMT) level, to rationalise the distribution of responsibilities between CAPS and the PDA, and to strengthen the CAPS management team. We recognise the major commitment of resource which the BA have made in this respect and we believe that it is consistent with the scale and nature of the business and technical challenge which CAPS represents.

3.1.3 Resourcing

Since the consultants' reports earlier this year, we understand that steps have been taken to reinforce key competencies in the Programme, where appropriate through the use of external consultants. This appears to us to be consistent with the technical and business complexity of the tasks being tackled by CAPS and with the tight timetable for delivery. This Programme required excellent and experienced technical and management skills to be in place to assure success.

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

We noted that, due to a planned staff move in the near future, there may be scope for reinforcing the level of practical experience in the CAPS Programme Management team. We would endorse the views expressed to us by this team that it would be valuable to strengthen this team with robust practical experience of programme control in a complex IT-related programme.

3.1.4 Programme Management Disciplines

Overall, our view is that CAPS programme management is sound and becoming steadily more robust in terms of the processes and disciplines being adopted and the resources being applied. It is clear that considerable progress has been made towards implementing recommendations from the consultancy reports and that progress is continuing.

As indicated above, the CAPS Programme are currently undertaking a re-planning and a re-costing exercise: these has been running in parallel with this Review. We anticipate, from discussion with CAPS representatives that the points we raise in the following section are likely to be reflected in the revised plan.

As a general point, we believe that there would be value in ensuring that formal critical path analysis is added to the current programme management disciplines in order to assist the management team assess the effect of the numerous inter-dependent and uncertain events within the different strands of the Programme.

3.1.5 Specific issues

Data Migration Strategy

There are significant risks associated with the clean-up and migration of data from existing benefits processing systems to the new CAPS systems. The strategy for data migration appears to us to be robust from both technical and implementation viewpoints. Implementation of the strategy is, however, sensitive to assumptions about the projected "fall-out" rate for data. Whilst we understand that the current assumption has been made on the basis of a sound working understanding of the current data, we believe that the assumption remains a source of significant risk until validated. This should be reflected in planning assumptions for contingency both in task sizing and in elapsed time. We understand that a "dry run" is scheduled for November which will enable the assumption to be validated for Child Benefit data.

Integration with the BA IT Programme

The CAPS Programme is having and will continue to have a significant impact on the overall IT programme for the BA. Up to the recent past, the consistent slippage in dates for Pathway releases has made it very difficult to plan effectively in relation to the overall IT programme. The decision to de-couple the CAPS releases from the Pathway releases appears to be feasible and to offer scope to insulate the IT programme from further impact from this uncertainty. Nonetheless, the impact will continue to be major and we have noted the recent steps to ensure firm prioritisation of the CAPS activities

POL00028092

within the IT programme. This will need to continue in order to ensure the timely delivery of CAPS releases and the latter will therefore need to secure continued high priority in relation to planned policy and other changes affecting the benefit IT systems.

Capacity and Resilience

We understand that there is not yet a working capacity model for either transitional or "steady state" running of the operational CAPS systems to support planning and sizing of the batch management and of capacity for handling peaks and troughs in demand. Similarly, there is not yet a robust model for modelling transactions and flows within the end-to-end business and IT systems and for modelling the impact of operational failures and associated recovery arrangements and capacity.

We understand that these issues are to be addressed in the current CAPS re-planning exercise and we would anticipate an impact both on the plans and on sizing and costing for the operational systems.

Implementation in BA Operations

There has been considerable work recently to ensure that an effective network of managers is in place to co-ordinate and manage the implementation of the new systems and associated business processes and to ensure a co-ordinated and consistent approach to communications to staff and customers during the roll-out. Staging of the introduction of customers on to card payment is made more complex by the need to harmonise readiness of individual groups of post offices with data for the associated BA customers on the appropriate benefits. In our experience, multi-variable roll-outs of this sort generate complexity mainly due to the relatively small percentage of exceptions which arise and which need active management as and when they arise. The need for "hands-on" management gradually diminishes as experience with the roll-out increases. We believe that the CAPS Programme plans need to reflect the resourcing implications of the roll-out complexity and to make provision for contingency in relation both to customer communications and to "hands-on" management of events.

3.2 POCL : HORIZON PROGRAMME

3.2.1 Overview

POCL's programme of change will have a fundamental impact on the ways in which the organisation transacts its core business. The BA-POCL dimension of the programme forms part of an automation programme for the whole organisation.

Key requirements within the BA-POCL component of the programme are:

- modification to existing IT systems and development of a new system to provide reference data to the automated counter systems;
- modification to business processes and procedures for a wide range of transactions;

POL00028092

- ensuring that post offices and post masters are in a basic state of readiness for Pathway to undertake installation work;
- building awareness among post masters and counter staff and ensuring that they are available for training by Pathway at the appropriate times;
- preparing and implementing arrangements for managing the contract and the contracted services to be provided by Pathway.

3.2.2 Management and Organisation

We believe that there is inadequate recognition in POCL of the scale and complexity of the programme management task to be undertaken to achieve initial delivery of the service and, following that, of the obligations on POCL to achieve excellent service and contract management capability. Our impression is that POCL management underestimate the extent to which proactive and interventionist management is required to ensure successful delivery and management of a PFI contract of this nature.

As a consequence, we believe that top priority must been given to securing excellent managers to undertake key roles in implementation management and in service and contract management. We are aware that plans are in place to make appointments to the National Implementation Manager (NIM) and Regional Implementation Manager roles but we are concerned that perhaps too little consideration is being given to the competencies and experience required, for the NIM in particular, and to the potential for recruiting externally - either permanently or temporarily - for such a critical role.

Similarly, we believe effective management of the Pathway contract and services will depend crucially on obtaining the right calibre and professional competence in the managers appointed to the key roles. Several interviewees commented that the required skills and experience may be difficult to source from within the Post Office organisation. We believe that POCL needs to give urgent consideration to this need and to means of meeting it through external or, suitably supported, internal appointments.

In the overall management structure, we believe that there is some ambiguity in the programme management responsibilities. There are reporting and tracking arrangements in place between the Horizon Programme and the related IT projects but we felt that there needed to be a clearer definition of interdependency management responsibilities and that the Horizon Programme was relying to an excessive extent on the PDA in this area. We feel that it is important for POCL to have an integrated and comprehensive view of all the BA-POCL delivery activities within their organisation and should not be dependent on the PDA in this respect. This may emerge as an outcome of the current rationalisation of PDA and POCL functions.

3.2.3 Resourcing

As indicated above, we have concerns about the resourcing for key management posts. In addition, we have noted that some 350 support staff will be appointed to assist in the roll-out. This is a fairly recent decision and we believe that is important to follow through

POL00028092

the decision rapidly with action to nominate the individuals, ensure their timely availability and arrange appropriate training and awareness.

3.2.4 Programme Management Disciplines

It appears that the Horizon Programme has appropriate programme control and management processes but we have some reservations about whether they are being applied robustly and effectively. We believe that this situation may be helped through the addition of programme control resource with more direct experience in this field. A firm of external consultants is currently assessing means of strengthening project management in POCL and we would expect this issue to be addressed in that context. We would, however, point to the need to introduce the necessary disciplines as rapidly as possible.

3.2.5 Specific Issues

Roll-out implementation strategy and management

There appears to be some uncertainty concerning the role of POCL in the roll-out of the infrastructure to the post office network. The contractual basis is that the responsibility for roll out is with Pathway and that the obligation of POCL is limited to ensuring co-operation (of counter and other staff) with Pathway. It has become clear that the scale of the POCL commitment must be very substantial in order to ensure an effective implementation and that considerable further investment and management focus will be required to ensure success.

We have not seen evidence of a robust roll-out implementation strategy which reflects the various factors of physical readiness assumptions, co-operation of post masters, handling exceptions, aligning training plans with go-live plans, handling re-work and go-live failures etc. We understand that considerable planning has been undertaken to address components of the implementation but we believe that it is important to move to a robust integrated approach as soon as possible and that the key to achieving this is the appointment of a suitably experienced person as the NIM as soon as possible.

We have not seen convincing evidence of the achievability of the projected roll-out rate for post offices of 300 a week. On the basis of a limited assessment during this Review and of comparable experience elsewhere, we believe that a roll-out rate of 150 rising to 250 should be achievable. We believe that POCL need to work with Pathway to validate the projected roll-out rate.

POL00028092

3. OBSERVATIONS ON THE CURRENT PROGRAMME. . .

PA

Service and contract management

At the start of the national roll-out, the Pathway service will be operationally live and there needs to be strong service management capability in place at that point. We understand that POCL will take the lead on behalf of the sponsors for service management and the associated ongoing contract management in conjunction with Pathway. The PDA is currently defining the service management capability and the transition strategy to migrate current PDA functions into POCL.

We would have expected to see a clearer overall definition of responsibilities and accountabilities for service management at this stage in the Programme. It seems to us that the division of responsibilities between Pathway and POCL is not sufficiently clear and, as we understand the proposals, is likely to create difficulties in the operational service. We also understand that there is some uncertainty between the sponsors about the extent to which contract and service management will fall to POCL as opposed to some joint body. We believe that urgent attention is needed to ensure absolute clarity about the extent and boundaries of transitional and "steady state" operational responsibilities in this area.

We have considered the Framework which has been developed in the PDA, with POCL, which makes a valuable first step towards defining the processes which will need to be in place. These reflect broadly the key activities and functions which we would have expected to see specified, based on comparable situations and organisations elsewhere. These are indicated in Table 1.

Table 1 : Management of a Service Provider - Key Functions and Activities

Contract Management • negotiating & scheduling service delivery within the terms of the contract • ensuring that services delivered reflect BA/POCL needs • monitoring service levels and targets in accordance with contract and SLA • resolving problems between customers and Pathway • advising customers on escalation procedures • manage escalation procedures • contract review management Change Control • co-ordinate proposed change orders from customers that would affect contracted services • impact assessment of proposed change orders • liaison and negotiation with Pathway over change orders	Service Management • review and manage service provided by Pathway • produce management reports on service provided and compliance with SLA • contribute to formulation of new/modified requirements Financial Management • publish and update standard price list of services to BA/POCL customers • authorise payments to Pathway • invoice administration • retain financial records of contracted expenditure Relationship Management • establish and maintain constructive relationship between BA/POCL and Pathway • challenge and seek to improve supplier proposals • assess and report on value for money achieved

POL00028092

Key organisational roles which need to be in place and staffed with highly competent managers with experience in this field, are:

- Service Control Team;
- Contract Manager;
- Change Manager;
- Financial Manager.

In addition, implementation of the required disciplines will be a major challenge for POCL and a significant departure from what appears to be currently understood in POCL as "operations management". Achievement of the necessary competencies and disciplines within the required time-scale is not, in our view, likely to be achieved without a major injection of management focus and effort in this area.

In view of this situation, we recommend that a pilot arrangement for service management is established in POCL for the operation of Pathway Release 1c in order to test and prove arrangements. Absence of a test phase increases the go-live risks significantly and will probably result in later re-work.

3.3 PATHWAY

3.3.1 Management and Organisation

Following the award of the PFI, Pathway was consolidated as a wholly owned subsidiary of ICL with its own board of directors, including an independent chairman and non executive directors from Alliance and Leicester (Girobank) and De La Rue. The Managing Director of Pathway reports directly to the ICL Group Chief Executive.

Obtaining funding for Pathway has been complex process but we are assured that funds are now secure to the extent that ICL currently believe necessary.

Pathway's business falls into essentially three areas:

- delivery of the contracted-for services to the sponsors;
- acquisition of new retail business jointly with POCL;
- development and acquisition of related business opportunities.

and the organisation structure under the MD reflects these commitments and ambitions.

The delivery of the contracted-for services to the sponsors relies on Pathway integrating the activities of nine subcontractors and a range of other ICL businesses, with ICL taking prime responsibility for development and delivery of the services. The core of the system relies on software products from Oracle, Microsoft and Escher. Alliance and Leicester (help desks) and De La Rue (card production and management) together with other ICL businesses provide support to Pathway in operational service.

POL00028092

3.3.2 Background

The process by which the detailed solutions have been designed to meet the requirements has been fraught with difficulties. We understand that the contracts were signed without detailed schedules describing the services required; instead the contracts were based on the principle of "agreements to agree" with later work to be done on the detail of the requirements to give them legal expression. Pathway judged that the agreements necessary could be achieved and delivery satisfied largely through systems integration. Time and resources allowed for development and rework reflected this view.

Working through the agreements to agree, the extent to which the various sub-contractors components and products could not be simply integrated to build the solutions became clear to Pathway. Because of the above, the amount of development work needed was in our opinion seriously misjudged and as a result time scales and resources needed were underestimated. Thus, the need for a considerable amount of development and rework emerged.

Pathway conducted an internal review in July which has been shared with us and which identified these issues and made certain recommendations for corrective action. As we started this review, these were beginning to be put in place. Included were, for example, organisational changes to simplify lines of command and, the appointment of a dedicated programme manager responsible for delivery. Areas of high risk were also identified with the result that much tighter management and controls were put in place, including for key subcontractors like Escher.

With regard to the current status of development, we characterise this as having considerable contractual ambiguity because of time scale slippage and 'solution drift' as requirements have been baselined. A series of non-contractual development releases was agreed earlier this year with Release 1c the current focus of development. Release 1c has been under development whilst its baseline was finalised. As a consequence Pathway has created a 'known problems register'; a list of exclusions to Release 1c, mostly in the security area, for later implementation. The consequence is that Pathway are in essence proceeding on an 'own risk'-basis to deliver Release 1c. Meanwhile the baseline for Release 2 is being developed: Pathway's position is that it is only able to provide a timed implementation plan once Release 2 is baselined. Given that so much of the contracted-for solution now appears to be in Release 2, we must express serious reservations about Pathway's current forward plans to be ready for commencement of national roll-out at end-July 1998.

3.3.3 Resourcing

As already noted, at the outset of this procurement, it appeared to Pathway that the development of a service to meet the PFI requirement could be achieved largely through systems integration. Evidence of this lies in the large number of subcontractors to Pathway. In reality, the amount of development work needed was in our opinion, seriously misjudged and as a result the resources and resource mix needed at Pathway were not fully understood at the time of contract signing.

POL00028092

of historical slippage, we conclude that the Programme will not be ready to start national roll out before January 1999 at the earliest.

It is PA's assessment that Pathway is on the critical path for the Programme. It is therefore of fundamental importance to the Programme as a whole that Pathway, based on the, yet to be agreed, baseline, take due and proper account of experience and knowledge so far in terms of time scales needed in drawing up plans for Release 2.

3.4 PROGRAMME DELIVERY AUTHORITY - PDA

In the PDA, we found an organisation with a strong desire for continued change, but which seemed to be hampered by its size and lack of empowerment.

The currently defined role of the PDA is a difficult one. It sets out to broker decisions between the sponsors, to assure an optimal end-to-end solution, and to manage the joint contractual relationship with Pathway. Unfortunately, the value of the PDA is questioned by a number of managers within the sub-programmes though there is general acceptance of the need for some central body with responsibilities for co-ordination and management of the joint contracts.

3.4.1 Role

We generally agree with the Andersen Consulting and French Thornton recommendations which seek to move the PDA towards being responsible for:

- assurance of the end-to-end business architecture;
- assurance of the technical architecture;
- integrating the work plans of each sub-programme.

However, the PDA will still face a number of problems:

- the sponsors have different business objectives and would prefer to keep their options open for as long as possible while developing their own programmes of work;
- the PDA is not fully empowered to take decisions itself;
- a number of contractual issues remain to be solved between Pathway and the sponsors;
- the PDA is not in a position to manage the Programme towards economic benefits, since it does not hold an integrated view of the business cases for the Programme.

These factors will, in our view, continue to impede the efforts of the PDA to expedite the Programme, and will make it difficult to recover lost time.

POL00028092

3.4.2 Processes

While the PDA seems to be well in touch with what is going on, this seems to be achieved at the cost of a great deal of meeting time. We identified in excess of 25 forums that meet on a regular basis, and were told that numerous additional ad hoc meetings were held as well. Relatively few of these forums are attended by representatives of all three sub-programmes together.

We also question the need for three top management forums for the Programme - the Programme Steering Committee, the PDA Board, and the PDA Board pre-meeting. This approach would seem to result in inefficiently long lines of communication, particularly in the light of the PDA's role as a broker of decisions between the sponsoring organisations. In our opinion, these factors have contribute to the slow decision making that has been a source of delay on the Programme. For example, we understand that certain change requests have taken more than six months to be resolved.

Perhaps because of the considerable time taken up by meetings, the PDA appears to have experienced difficulty moving from a reactive style of management, to one of active leadership of the Programme. We saw a tendency to uncover issues and problems rather than to actively foresee and prevent their occurrence. For example, we were told that the PDA has only recently turned its attention to contingency planning.

We also found the PDA to be focusing almost exclusively on achieving a high quality outcome, even potentially at the expense of timeliness and cost effectiveness. This is not surprising considering that the achievement of business cases does not form a framework for programme management decision making, except at the very highest level.

3.4.3 Organisation and People

We found an organisational culture that is not conducive to the efficient delivery of such a complex programme. A number of people told us of the unwillingness of many individuals to take personal ownership of results.

Although there are some excellent individuals in the PDA, we were also told that it is difficult to attract the right calibre of staff to work there. In part, this is because of its London office location, but we were also told of morale problems caused by perceived doubts over the future of the PDA, as well as that of the Programme itself.

In this regard, the size of the PDA compounds the problem. At 160 people including 40 contractors, we consider it to be too large for a central role that needs to be particularly agile. We fully support the thrust to pass certain activities back to the sponsoring organisations.

POL00028092

3.4.4 Management of Pathway Contract

A major part of the PDA's current role is to manage the relationship with Pathway.

This task is made more difficult by the fact that the contracts do not, as we understand it, set out how the PDA is to keep appraised of Pathway's progress during the establishment phase. Indeed, we were told that the PDA is not specifically recognised in the contracts.

We were concerned to find all communications with Pathway labelled "without prejudice". The contract seems to be playing an unhealthily significant role in dealings between Pathway and the PDA.

Nevertheless, we found the Core Negotiating Team from Pathway and the PDA to be playing a very useful role in resolving some conflicts. The personal respect that exists between the key individuals involved has resulted in a number of pragmatic win-win solutions.

Their negotiating task is made more difficult, however, by there being no practical contractual baseline for the pricing of change requests. Each has to be negotiated afresh.

3.5 ISSUES COMMON ACROSS THE PROGRAMME

3.5.1 Impact of Chronic Change

A common finding in our investigations during this Review has been the damage caused by consistent slippage since the Initial Go Live position. The damage has not only been in relation to impact on costs, timetable and business cases but also in relation to the ability of managers within the Programme to find a firm baseline and to build credible plans for communication within their parent organisation. The consequent lack of credibility of the Programme's plans in the wider organisations has been cited by several interviewees as one of the key reasons why active co-operation and commitment has been hard to secure in relation to external dependencies.

3.5.2 Integrated Implementation Strategy for Roll-out

We are aware that considerable work is being undertaken, in each of the programmes - CAPS, POCL and Pathway - to define the components of the implementation strategy for roll-out of the infrastructure, system and business processes to post offices. We have observed, however, that the end-to-end integration of the strategy is not as far advanced as we would have expected at this stage of the Programme. It appears that this may be largely related to the chronic planning uncertainty indicated above which has undermined drive towards creation of a robust end-to-end picture.

POL00028092

We believe that the roll-out will be relatively complex. It will combine the geographical roll-out of post offices with the BA's customers in the associated areas who will be provided with card payments as the relevant benefit systems are rolled out and as their data becomes available to support card payments. This needs to be underpinned with communications, on a carefully targeted basis, to the customers affected and by appropriate communication and training for the large numbers of BA staff, POCL staff and post masters. Since it is rare for an implementation programme of this sort to proceed closely to plan - unforeseen constraints and issues virtually always arise during the implementation - it will be important to ensure tight and responsive management for the roll-out events.

We understand that there remain a number of key areas where the responsibilities for delivery remain to be finally resolved. Specific examples are the respective responsibilities between POCL and Pathway for undertaking and funding post office readiness work and the lack of a shared view between the BA and Pathway on the handling and funding of communications to customers. We recognise that work is under way to address these issues but believe that the level of uncertainty for a critical dimension of the Programme is a cause for concern at this stage of the Programme.

3.5.3 Business Case Alignment and Robustness

In our view the sponsors' current business cases, which have been shown to us, are over-optimistic. The BA has already recognised this and initiated a fundamental review of their business case and this should be complete at the same time as this Review. The POCL business case has been revised to reflect the additional resources associated with implementation of the roll-out.

The business cases are treated as commercial-in-confidence between the sponsors. As a result, we found each sponsor having reservations about the real drivers in the business justification of the other. This is, in our view, giving rise to considerable tension and lack of shared trust and commitment. It also limits the extent to which the PDA can be mandated to drive towards a clearly articulated and quantified set of business benefits. We would have expected to see a "meta business case" from a Government perspective which articulated the benefits and costs of the Programme and which each organisation would reflect back into their individual business cases.

Of particular concern to the BA is the extent to which the POCL business case will ensure a full commitment to roll-out to all post offices. It is not clear to us, that the POCL business case demonstrates an economic argument for automating all the currently operational post offices. From the BA perspective, (notwithstanding any concerns that now exist about the costs of the Programme), full roll-out is essential both in terms of ensuring appropriate levels of coverage and service to their customers and to avoid running parallel automated and paper-based payment systems which would be cumbersome and uneconomic. These latter points are also of concern of course to POCL.

The business cases of each of the sponsors are marginal and built significantly on the assumption that the required services could be delivered in a relatively short time scale.

POL00028092

The original project time scales have not proved realistic so the basic vulnerability of each of the business cases is now fully exposed. This is putting strain on relationships between sponsors and between the sponsors and Pathway

Were this project to be in the planning stage today, PA has no doubt that significant attention would again be given to ensuring the supply of an economic infrastructure for benefit payments and EPOSS. At the margin, where automated transactions at post offices are economically at their most vulnerable, this could mean that alternative approaches to the solution might be more attractive in today's environment.

3.5.4 Joint Sponsor Commitment

We found very substantial tension and distrust between the sponsor organisations at most levels. This appears to reflect a long history of strained relationships relating to the costs and characteristics of the payment services which POCL have provided to the BA over many years. The BA is a major customer of POCL and it is inevitable that the different commercial objectives of the each organisation make it difficult for them to act in total harmony as joint Programme sponsors. We note this has the following impacts:

- an adversarial approach between senior managers in BA and POCL and tensions at working levels, for example between POGAB and the DSS Account Team in POCL;
- there is a tendency to populate the PDA with a balance of representation from BA and POCL, rather than strictly according to required competencies;
- decision-making structures are cumbersome and the people in them do not feel particularly empowered. This is evidenced in the extensive and only partially productive brokering work of PDA staff and the many pre-meetings required to support the PDA Board and Programme Steering Committee (PSC).

It would be inappropriate for us to take a view on the causes for the tensions but we observe that they appear to have had and continue to have a negative effect on the Programme. Specifically, they result in slower brokering of resolutions to problems or proposed changes and in an unwillingness, in many instances, to "trade off" competing requirements. The resulting pressures make the mandate of the PDA, as a jointly sponsored entity, difficult to sustain. There are too many conflicting agendas.

POL00028092

PA

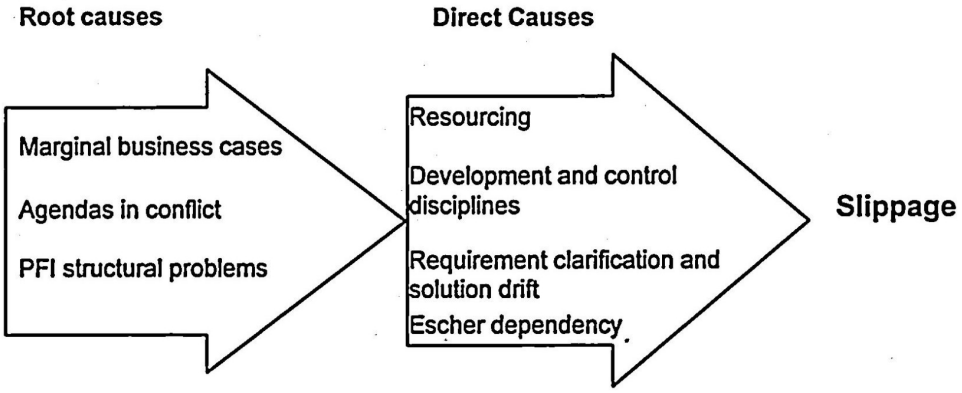
4. PROBABILITY OF FURTHER SLIPPAGE

After good progress at the outset to achieve the Initial Go Live (IGL) to schedule, there has been persistent slippage.

The PDA is currently forecasting national roll-out to start thirteen months late in July 1998, and it is generally accepted on the Programme that further slippage seems highly likely.

4.1 CAUSES OF CURRENT SLIPPAGE

We believe that there are direct causes of slippage but that these need to be set in the context of a small number of underpinning root causes as illustrated below.



4.1.1 Root causes

Marginal business cases.

The business cases of each of the sponsors in their original form are marginal and built significantly on the assumption that the required services could be delivered in a relatively short time scale. Indeed this assumption was reflected in Pathway's proposal and a five-year contract was signed. The original project time scales have not proved realistic so the basic vulnerability of each of the business cases is now fully exposed. This is putting strain on relationships between sponsors and between the sponsors and Pathway

Were this project to be in the planning stage today, PA has no doubt that significant attention would again be given to ensuring the supply of an economic infrastructure for benefit payments and EPOSS. At the margin, where automated transactions at post offices are economically at their most vulnerable, this could mean that alternative future approaches or alternative supplementary sources of funding for post offices might play a stronger role.

POL00028092

Agendas in conflict

The BA is a major customer of POCL and it is inevitable that the different commercial objectives of the each organisation make it difficult for them to act in total harmony as joint Programme sponsors. We note this has the following impacts:

- an adversarial approach between senior managers in BA and POCL and tensions at working levels, for example between POGAB and the DSS Account Team in POCL;
- there is a tendency to populate the PDA with a balance of representation from BA and POCL, rather than strictly according to required competencies;
- decision-making structures are cumbersome and the people in them do not feel particularly empowered. This is evidenced in the extensive and only partially productive brokering work of PDA staff and the many pre-meetings required to support the PDA Board and Programme Steering Committee (PSC).

Structural problems with the PFI.

The scale of this PFI, its complex supply chain, the conflicting business objectives of the sponsors, the difficulty in assessing who ultimately carries the risk, and the short time scale of the operational part of the contract create an environment of uncertainty and tension. These aspects distract attention from the key objective - to deliver a solution that works, with acceptable levels of risk transfer and returns for both customer and supplier.

4.1.2 Direct causes

Resourcing

This is a world class programme measured by any standards.

At the BA, action has already been taken to strengthen the management organisation by, for example, taking back responsibility from the PDA and drafting in appropriately skilled and experienced resources from elsewhere. Pathway has acted swiftly, following their internal review, to make structural changes and to strengthen the management team. At the PDA, the problem has also been recognised and action is being taken to strengthen the calibre of its resources. POCL still has much to do and arguably have yet to recognise that top quality project and service management resource will probably need to be recruited externally.

In our opinion, sponsors, the PDA and Pathway must continue to seek to identify and recruit people of appropriately world-class professional stature into every key position as this programme progresses.

POL00028092

Development and control disciplines.

Pathway has much still to do to ensure that effective management and change control disciplines are embedded in the combined development and systems integration environment in which they now find themselves. This must be done regardless of the time pressures which exist in the Programme. This is particularly challenging because of the need to embrace key subcontractors in these processes. This applies specifically to Escher on whom Pathway are highly dependant for success.

Requirement Clarification and Solution Drift

We believe that a better mechanism is needed than currently is in place to manage the tension between requirements and solutions in the context of a realistic assessment of the business impact. Whilst we understand the constraints which apply within a PFI environment, we have not been convinced that that the current arrangements are resulting a proper assessment of the real business impact of decisions to adhere either to timetable or to requirements specification.

In this Programme there has been no formal concession, either to time scale or functionality since March this year when the master plan was last updated. In our experience, in a programme of this complexity, this implies that too rigid an approach is being adopted at the possible expense of the business cases for all parties. The nature of a PFI contract arguably reduces the scope for pragmatic "trade offs" in development of the solution and this remains a significant risk for the Programme.

The Escher dependency

With the realisation that to deliver this Programme requires a substantial development as well as systems integration effort, the dependency of the solution on Escher (a relatively small North American software company) and the Riposte software takes prominence. Much of the architectural development needed has required Escher to commit to major rework and this is being commissioned by Pathway. This has taken time and effort, thus causing delay.

Escher will continue to be a major risk to the success of this Programme. This risk will be manifest both in terms of delivery of solution and in the ongoing security of the supply chain to Pathway. On the basis that no other remedy is available, its containment will rely on ICL and Pathway's ability to forge mutually beneficial and sustainable relationships with the key people involved in Escher.

4.2 SLIPPAGE TO DATE

The table of milestone dates in Appendix C shows how they have changed as the Programme has developed. There has been a regular re-plan every three or four months, and the latest one is underway now.

POL00028092

This means that there has been no consistent baseline against which to measure and evaluate performance. This in itself, has undermined confidence in plans and commitment to planning disciplines. The current climate in the Programme appears to one where slippage is regarded as an inevitable "fact of life". In such circumstances it tends to become a self-fulfilling prophecy.

Other causes of significant delay have included:

- under-estimation by Pathway of the development tasks and failure to apply appropriately robust planning and control disciplines;
- the experience gained during the initial Go Live preparation which lead to an agreed re-plan early this year which included the release of CAPS software over an extended period through to 1998 rather than having it available for full integration testing on 01 September 1996, as stated in the contract with Pathway;
- the length of time needed to broker agreements and change. As an example, a some change notices remain unresolved several months after being raised;
- the absence of a set of comprehensive end to end technical and business architectures.

4.3 ANALYSIS OF SLIPPAGE

In our estimation, the Roll-Out completion date is likely to be at least 18 months late relative to the original contracted dates. In making this estimate, we have assumed that the work currently being done to improve the Programme's performance continues and that further changes are made in line with this Review.

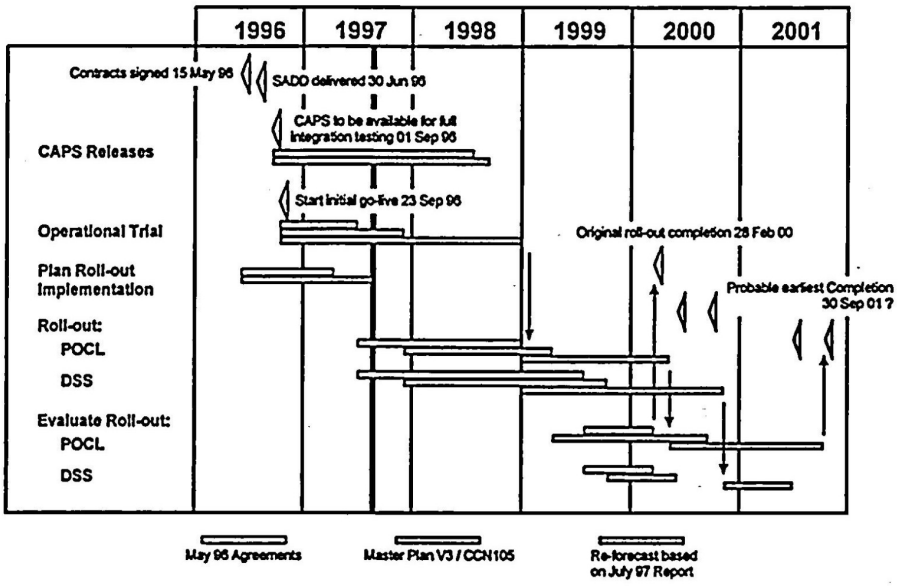
The following chart compares the original contract dates with the currently signed-off Master Plan (v3), together with our forecast, which is based on:

- dates given in the latest PDA monthly report (July 1997);
- an analysis of the movement in forecast dates as the Programme has developed;
- and the logical sequence of events set out in version 3 of the Master Plan.

POL00028092

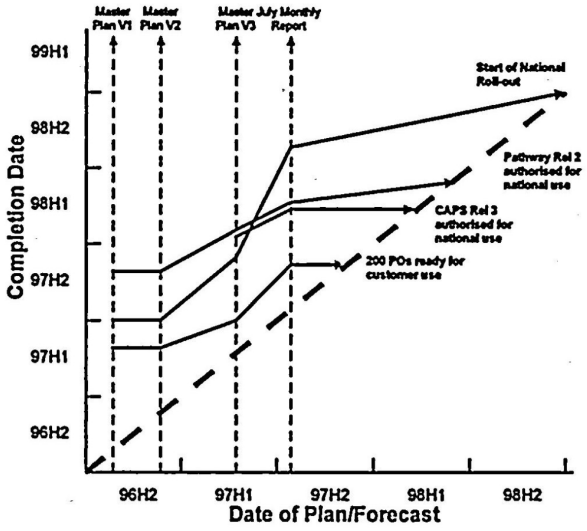
Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

4. PROBABILITY OF FURTHER SLIPPAGE. . .



The chart below (based on the data summarised in Appendix C) shows how the planned and forecast dates for certain key events have slipped over time, and how our projection implies a significant improvement in performance.

The extent of this slippage has been so severe as to indicate a Programme that has been, to a large extent, uncontrollable in the past due to chronic slippage. This is indicated in particular by the date for start of national roll-out, which slipped by 13 months in the 8 months between version 2 of the Master Plan and the July forecast. No effective progress was made during this period - indeed the target ended up further away than before.



POL00028092

4. PROBABILITY OF FURTHER SLIPPAGE. . .

PA

In our experience, an analysis of trends in milestone dates' slippage is an very reliable indicator of projected future performance. The above diagram illustrates that very robust action is needed to bring the slippage to date under control.

The critical path leading to completion of the operational trial and start of national roll-out flows through:

- delivery of Pathway's Release 1c;
- resolution of the requirements for Release 2;
- delivery of Release 2;
- delivery of CAPS releases 2.2 and 3;
- integration of the Pathway and CAPS releases;
- conduct of the live trial;
- evaluation of the trial and completion of any necessary rework.

In our opinion, the current planning forecasts do not allow enough time in particular for the agreement of Pathway's Release 2 requirements or for the live trial, including its evaluation and the inevitable rework that will result. Pathway, towards the end of this Review, now take the view that Release 2 is unlikely to be ready for live trial until late summer or early autumn 1998.

Therefore, we cannot see this chain of activities being completed before the busy 1998 Christmas period, and this means that national roll-out will only be able to start in earnest after mid -January 1999 at the earliest.

In addition, a number of sources of additional work do not appear to have been fully factored into the plans we have seen. These include:

- changes that will arise from the end-to-end integration work;
- rework that will surface as the Pathway and CAPS releases are acceptance tested;
- resolution of the outstanding change requests and agreements to agree;
- the development of detailed solutions, for example to ensure security;
- review, validation and rectification of the national roll-out plans as they are put into practice;
- all of the work necessary to prepare the post offices for automation particularly in the light of Pathway's assertion that only a limited proportion of them are fit for automation.

POL00028092

We assess that these will have a limited impact on slippage, for which the primary driver is availability of the Pathway releases, but will affect the scale and cost of activities to be undertaken.

4.4 IMPACT OF FORECAST SLIPPAGE

4.4.1 On commencement of national roll-out

We believe the Programme in its present form, and on the basis of slippage to date, will not be ready to start national roll out by the end of July 1998 - the most recent date proposed by Pathway to sponsors.

Although we expect there will be further slippage announced in the BA/CAPS programme from the current re-planning exercise and we believe that POCL are not moving fast enough into implementation mode, these delays are not, in our judgement, on the critical path. It is PA's assessment that the primary driver of time scale slippage will now be Pathway as they come to terms with the scale of what has to be done.

Based on our consideration of the experience of this programme so far, the results from Release 1c testing which imply unplanned rework is needed, the fact that major parts of the contracted-for functionality is now to be delivered in Release 2 and an extrapolation of historical slippage, we do not believe the Programme will be ready for national roll out before mid-January 1999 at the earliest.

4.4.2 On national roll-out.

We believe that a roll-out rate for post offices of 150 rising to 250 offices a week is achievable if there are no major delays in getting estate surveys completed to the revised time scale; there is early agreement of major outstanding issues such as the commercial arrangement for communications to customers; the commitment of sub-postmasters to consistent and timely co-operation with roll-out requirements is secured and, POCL develop and resource an effective and timely implementation strategy. A major area of concern relates to the arrangements for Service Management of Pathway. We believe this aspect of the Programme needs to be accelerated to provide a basis for piloting and to undertake this under POCL, not PDA, control and direction.

In summary we forecast on-going slippage to the key development stages and would not expect the infrastructure to be ready for commencement of national roll-out much before the mid-January 1999, at the earliest and for roll-out to be completed over a period of between about 1.5 and 2.5 years.

POL00028092

PA

4.4.3 On business cases.

The further slippage will have a significant effect on the business case for each player:

- extended design and development effort will increase Pathway costs while the "window" for securing a return on investment remains short;
- CAPS Programme costs are likely to increase significantly not only because of the need to extend the period over which the Programme team need to be in place but because there are additional work items which the Programme will need to undertake in the period (and which we believe will emerge from the current re-plan) to increase resilience and contingency. Further delay to card based payments reduces the overall NPV for the BA;
- Horizon Programme costs will increase due to the extended period for the team to be in place and due to the need for additional work associated with implementation and service management provision. Delay in the roll-out not only delays potential revenue streams but is likely to reduce them overall as market opportunities are lost.

We do not have access to detailed information which would enable us to project the overall cost implications for the Programme. However, on the basis of information provided to us in confidence by each party, we would estimate that overall Programme costs (including sponsors and Pathway but not including fraud savings and any loss of future business opportunities for POCL) will increase by between £185m and £250m. We consider that sponsors should undertake an urgent appraisal of the impact on their costs as input to assessment of whether or not to continue with the Programme either as currently planned or in a revised form. Pathway will need to undertake a similar assessment.

POL00028092

PA

5. ACTION NEEDED TO MINIMISE FURTHER SLIPPAGE

These actions focus on improving the delivery capability of the Programme and are set in the context of the need for a new, executive-style PDA, empowered to make decisions on behalf of sponsors and given direction by a PDA board which provides strategic advice and which gets involved to resolve the big issues. Actions are summarised for each of the players in turn.

5.1 PATHWAY.

I. split business development unambiguously from programme delivery

II. undertake competency assessment of all key first and second line resources in development programme and commit to rectify where weaknesses against requirement are identified

III. produce a firm baseline plan for Release 2 to include all contracted for services based on a robust evaluation of all technical design issues and to include application of phase review and other development and design disciplines, to include all subcontractors

IV. be absolutely clear with sponsors and PDA of the effect of further changes on this baseline plan, once agreed

V. produce formal report for sponsors on the technical issues arising from for example consideration of scalability, performance and, the actions planned to mitigate any risks

5.2 CAPS

I. use firm baseline from Pathway to re-plan

II. build in contingency and rework

III. strengthen project management office competencies

5.3 POCL

I. urgently develop an operational capability that can form a pilot for service management of Pathway for Release 1c;

II. urgently develop an implementation strategy for :

- business process, design testing and implementation
- readying the post offices
- postmaster training and awareness
- training and awareness of other post office staff
- customer communications

III. undertake competency assessment of all key managers and commit to action to rectify any deficiencies identified;

IV. validate, with Pathway, the feasibility of the projected roll-out rate for post offices

POL00028092

PA

5.4 PDA

I. expedite moves towards the new structure and function

II. undertake competency assessment of all key staff and commit to rectify any shortfalls in requirements

III. reduce size as soon as possible

IV. rationalise change management to make better use of CNT and to expedite resolution

V. rationalise programme control and reporting

POL00028092

PA

6. OPTIONS FOR ADDRESSING RESIDUAL STRATEGIC RISKS

6.1 RESIDUAL STRATEGIC RISKS

If action is taken as recommended to address the risks listed above, we believe that the probability of the Programme delivering against its objectives successfully will be greatly improved, albeit in the extended time scales we forecast in section 5 and at increased costs.

However, we believe that four residual strategic risks will remain.

6.1.1 Cost of roll-out to all post offices

A uniform approach has been adopted to both provision of the infrastructure and, the charging regime for transactions across it. There is therefore a real possibility that the true apportionment of costs across high and low volume post offices is not visible in the business cases.

The increasing availability of alternative and possibly lower cost approaches to benefit payment encashment, the time scale slippage and the consequential impact on the business case is causing reservations at the BA about the economic viability of supporting the automation of benefit payment at all Post Offices. We have not, however, seen evidence of robust and cost-effective alternatives which would offer a comparable service to the post office network for areas with a low density of population.

In PA's opinion, unless the justification for benefit payment by cards and other automated transactions through all post offices is reinforced as part of a broader Government context, the ensuing uncertainty about the cost effectiveness of the solution adopted is likely to continue to undermine confidence in the Programme and, relationships between the sponsors. The broader context needs to incorporate both the commercial and social service aspects of the Post Office and the role of payment arrangements in future social welfare policy.

6.1.2 PFI

The PFI contract implies a transfer of risk which we do not believe is sustainable in practice. Although Pathway bear risks associated with encashment fraud, the dominant risk is associated with resilient delivery of the benefits payments service itself - delivering some £80 billion in payments each year - and of the transaction handling capability of post offices.

Failure of the payments service would be business-critical to the BA and DSS and would carry unacceptable political repercussions. Given this, we argue that the risk of secure service supply is being carried predominantly by the BA and DSS. In these circumstances, the sponsors cannot afford to take a "hands-off" approach to the delivery and management of the payments service as a PFI contract would normally demand.

POL00028092

6.1.3 Joint Sponsorship

The current joint sponsorship arrangements are leading to a lack of clarity in responsibilities and to difficulty and delay in brokering resolutions to problems. This is exacerbated by the significant commercial tensions between the sponsors. Furthermore, in the longer term, we believe that the current arrangements carry the risk that the dominant end-to-end view of the services will remain with Pathway rather than with one of the purchasers. This has significant implications for the effectiveness of management of the service, the contract and the supplier.

6.1.4 Dependency on Escher and its people

Escher is a small privately-owned North American software house of some 30 people. Its software is critical to the Pathway technical solution. In the original evaluation of the risks associated with a critical dependency on such a small company, we understand that a key factor was the view that the Pathway solution required integration of the Escher product and not a major development effort. In the light of subsequent events, it appears that there is a critical dependency on Escher to design and deliver significant software components for which Escher will continue to own the IPR. We believe that this remains a significant residual risk to the resilience of the Pathway business and technical solution and that ICL need to identify means of assuring sponsors of the security of this source of supply both at the delivery stage and for ongoing support.

6.1.5 Our conclusion on strategic risks

Although PA has high level views about how each of these risks might be addressed we have not analysed this in detail since it falls outside the scope of this Review. In any event, we believe that these strategic risks can only be addressed by sponsors and Pathway working together at the most senior level and we have consequently set out an action plan in Section 6.2 below.

It is PA's considered opinion that solutions to these issues are urgently needed if the Programme is to avoid further major problems and, command the full commitment of all the parties.

Clearly, in the view of the scale of the risks, termination of the Programme must be an option. It is PA's view, however, that to terminate would create such major difficulties for all parties that alternatives and the implications require considerably more robust assessment than has been appropriate in this Review.

POL00028092

PA

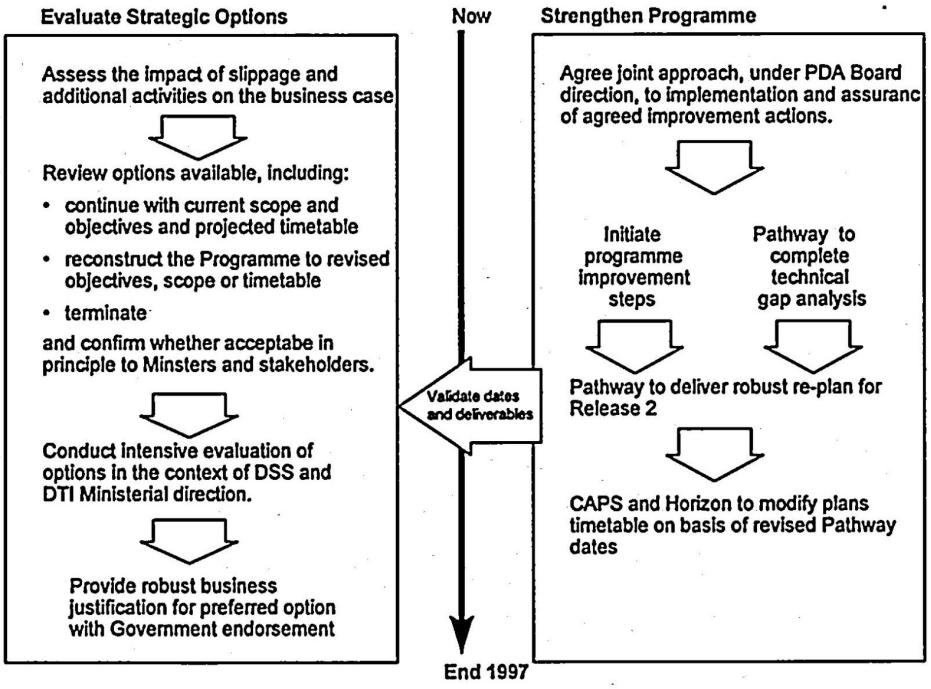
6.2 ACTION PLAN OUTLINE.

In view of the seriousness of the residual risks, we suggest that the Programme sponsors and Pathway should take steps jointly:

- to strengthen the Programme's ability to deliver, and
- to evaluate the need and scope for reconstruction of the objectives and scope of the Programme.

The latter should be with a view either to modifying or reaffirming the objectives in order to ensure robust commitment from the sponsors or to bringing the Programme to a close. The two streams of work should be undertaken in parallel and an illustration of the steps which we would suggest for consideration is as follows.

Outline of Suggested Next Steps



We believe that the evaluation of strategic options will need directly to address the economic, social and political factors which bear both on the future of the post office network and on the delivery of social welfare payments. It is likely therefore to require the active sponsorship of Ministers.

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

APPENDIX A: INTERVIEWEES

Organisation	Contact	Organisation	Contact
PDA	Peter Crahan	POCL	Stuart Sweetman
	Pat Kelsey		Paul Rich
	Bruce McNiven		Mena Rego
	Keith Downer		Tim O'Leary
	John Meagher		Tim Brown
			David Smith
BA/CAPS	Peter Mathison	Pathway	John Bennett
	George McCorkell		Tony Oppenheim
	Vince Gaskell		David Groom
	John Delamore		Martyn Bennett
	Val Curran		Stephen Muchow
	Indra Morris		Mike Coombs
	Alexis Cleveland		Terry Austin
	Parry Jenkins (AC)		Barry Vaughan
	David Riggs		Graeme King
			Liam Foley
			John Dicks
			John Hunt
			Dave Hollingsworth
PDA Board	Alec Wylie	ICL	Keith Todd

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

APPENDIX B: TERMS OF REFERENCE

Terms of Reference

REVIEW OF BA-POCL PROGRAMME

Context for the Review

Management in each of the stakeholder organisations has agreed that a review of the delivery plans and resourcing of the BA-POCL Programme is required to underpin future stakeholder discussions with Ministers and at the main Boards of ICL/Fujitsu and POCL. In particular:

- the Programme has suffered consistently from chronic slippage and is undertaking its third major re-planning exercise. The re-plan is up to July 1998 and longer term planning is "on hold" until the next year's plan is more robust,

and

- as a result of the slippage, there has been some tension in the commercial and contractual relations with Pathway and the contracts have been subject to rigorous assessment and review in the recent past.

There is, therefore, a low level of confidence in the robustness of current plans and resourcing and there is a background of commercial sensitivity because this is a PFI project.

There is very active ongoing work and the review is timed to begin at or just after completion of detailed plans for CONGO Release 4. Longer term plans are still under development.

Scope

The scope of the review is to include all the supplier and sponsor domains - DSS, POCL and Pathway - as well as the PDA. Within these domains, the review will address any relevant management and technical areas which bear on the ability of the Programme to meet its **end-to end** delivery obligations.

Requirement

The review should give the sponsors and Pathway:

- a robust assessment of the Programme's future delivery capability
- specification of the changes needed in order to provide assurance of the Programme's ability to deliver - accepting that this may entail changes to timetable, resourcing and management arrangements.

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

This will, in due course, underpin submissions by the relevant parties to their respective Boards and to Ministers to secure their ongoing commitment to the Programme.

In undertaking the review, it is important to ensure that we:

- do not re-open debate on the overall business rationale for the Programme;
- focus on future capability to deliver, not past problems;
- look at commercial, managerial and technical aspects in an integrated way;
- establish clear priorities for the review (looking at everything in detail would be both uneconomic and disruptive);
- take care not to interrupt ongoing work while conducting the review.

Overall, the review must be rapid - a first draft is required on September 5th - and reflect the strategic importance of the programme to each of the sponsors and to Pathway.

Specific requirements are that we should:

- review, for each organisation in the supplier and sponsor community, and across the whole Programme:
  - arrangements for change management and control;
  - delivery plans;
  - progress reporting and information flows;
  - escalation arrangements and associated decision-making (including commercial negotiations);
  - the management structure and the match of competencies to the allocated scope of work;
  - resourcing levels in the light of programme and project management best practice.
- identify and assess any weaknesses in the delivery capability of the Programme, including risks in relation to:
  - managing delivery of the PFI services;
  - supplier management;
  - linkages between the various parts of the Programme;
  - management and resourcing, including planning of service and contract management.

<u>Deliverables from the Review</u>

The Review should initially deliver an appraisal of any weaknesses and risks in the Programme's delivery capability.

POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

The subsequent deliverable should be a draft of the final report which will assess the options available to address the risks and weaknesses and give our recommendations on the actions which should be taken. The draft will be delivered to Alec Wylie by 5th September for distribution to the DSS, POCL and Pathway representatives.

The final report will be completed by 19th September. In view of the rapid timetable for the Review a "presentation style" report will be acceptable.

The findings and recommendations will be presented to the PSC on 24th September.

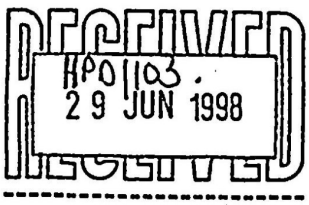
POL00028092

Restricted - Senior Management Policy
Copy number : 10.
To : Mr Paul Rich @ Post Office Counters Ltd

APPENDIX C: TRENDS IN PROGRAMME MILESTONE DATES

Description	MPlan V1 13-Aug-96 Ref	MPlan V1 13-Aug-96 Date	MPlan V2 13-Nov-96 Ref	MPlan V2 13-Nov-96 Date	MPlan V3 08-Apr-97 Ref	MPlan V3 08-Apr-97 Date	Latest 31-Jul-97 F/C Date
Group A - Initial Go Live							
1 PO automated for ChB by card	SM1	Sep-96	A1	Sep-96	A1	Sep-96	23-Sep-96
10 POs automated for ChB by card	SM2	Oct-96	A2	Oct-96	A2	Oct-96	21-Oct-96
Group B - Pathway Infrastructure & Releases							
Bootle & Wigan operational	SM24	Dec-96	G1	Dec-96	B1	Mar-97	07-Mar-97
Rel 1(b) OBCS authorised for use					B2	Apr-97	02-May-97
Rel 1(c) BPS authorised for use					B3	Jun-97	13-Oct-97
Rel 1(e) EPOSS/APS authorised for use					B4	Sep-97	30-Mar-98
Rel 1(e) authorised for national roll-out					B5	Nov-97	30-Mar-98
Rel 2 authorised for national use	SM25	Oct-97	G2	Oct-97	B6	Jan-98	31-Mar-98
Rel 3 authorised for national use	SM26	Apr-98	G3	Apr-98	B7	Apr-98	31-Jul-98
Rel 4 authorised for national use	SM27	Oct-98	G4	Oct-98	B8	Oct-98	31-Oct-98
Group C - CAPS Releases							
CAPS Rel 2 authorised for use					C1	Mar-97	31-Mar-97
CAPS Rel 2.1 authorised for use					C2	May-97	02-Jun-97
CAPS Rel 2.2 authorised for use					C3	Jul-97	03-Nov-97
CAPS Rel 3 authorised for use					C4	Jan-98	30-Mar-98
CAPS Rel 4 authorised for use					C5	Jul-98	31-Jul-98
Group D - POCL Feeder Systems							
Reference data system ready for E2E testing					D1	Mar-97	10-Mar-97
HAPS system ready for E2E testing					D2	Mar-97	27-Mar-97
TIP Phase 3 ready for E2E testing			F1	Mar-97	D3	Mar-97	27-Mar-97
Full TIP system operational	SM15	Jun-97					
POCL feeder systems authorised for live trial					D4	Sep-97	08-Sep-97
Group E - Live Trial Roll-out							
Start of roll-out to up to 190 PO + IGL Pos	SM3	Mar-97	B1	Mar-97	E1	Apr-97	02-May-97
200 POs ready for customer use	SM4	Apr-97	B2	Apr-97	E2	Jun-97	13-Oct-97
Start of live trial evaluation period					E3	Sep-97	31-Jul-98
Live trial evaluation complete & accepted					E4	Nov-97	21-Nov-97
Start of roll-out to 1450 POs with limited functionality					E5	Jul-97	28-Jul-97
Secodary stream POs migrated to full system					E6	Jan-98	31-Jan-98
Group F - National Roll-out							
Start of national R/O to POs & BA offices on mainland	SM5	Jun-97	C1	Jun-97	F1	Nov-97	31-Jul-98
Instln of POs in large conurbations ready for customer use			C2	tbd	F2	TBA	TBA
Installation of PO (4+ counters) ready for customer use			C3	tbd	F3	TBA	TBA
Start of roll-out to existing ECCO/ALPS within M25			C4	tbd	F4	TBA	TBA
Existing ECCO/ALPS within M25 ready for customer use			C5	tbd	F5	TBA	TBA
All POs & BA dist offices ready for customer use	SM9	Nov-98	C99	Nov-98	F6	TBA	TBA
Group G - Northern Ireland							
Start of Roll-out in Northern Ireland	SM10	Jul-97	D1	Aug-97	G1	TBA	TBA
All POs & SSA local offices ready for customer use	SM11	Sep-97	D2	Sep-97	G2	TBA	TBA
Group H - BA Benefit Migration							
Payment of ChB by normal renewal cycle (NRC)	SM16	Jan-97	E1	Jan-97	H1	May-97	13-Oct-97
Payment of IS/PSCS/Incap benefits by NRC	SM17,20	Oct-97	E2,5	Oct-97	H2	Jan-98	20-Jan-98
Payment of JSA/FamC/DWA/ETU by NRC	SM18,20	Oct-97	E3,5	Oct-97	H3	Apr-98	30-Apr-98
Payment of AA/DLA/Social Fund by NRC	SM19,21	Jan-98	E4,6	Jan-98	H4	Jul-98	31-Jul-98
Payment of War Pension/IIDB/ICA by NRC	SM21	Jan-98	E6,7	Feb-98	H5	Nov-98	30-Nov-98
All benefits can be paid by card at mainland POs	SM23	May-99	E99	May-99	H6	May-99	31-May-99
Group I - SSA Benefit Migration							
Payment of income support by NRC in NI	SM14	Jan-98	D6	Jan-98	I1	Jan-98	Jan-98
Payment of PSCS/Incap/JSA/FamC/DWA/ETU by NRC	SM12-14	Jan-98	D3-6	Jan-98	I2	Apr-98	Apr-98
Payment of Child Benefit by NRC	SM14	Jan-98	D7	Jan-98	I3	Jun-98	Jun-98

POL00028092



Post Office Counters Ltd

Outline of the proposed end state and transition project for the support of automated services.

29 June 1998

POL00028092

Post Office Counters Ltd

Outline of the proposed end state and transition project for the support of automated services.

29 June 1998

Client Confidential

© PA Consulting Group

Prepared for: D Miller, Horizon Programme Director
Prepared by: Graham Beck
Richard Harrison

PA Consulting Group
123 Buckingham Palace Road
London SW1W 9SR

Tel: GRO
Fax:
www.pa-consulting.com

Version 1.0

POL00028092

TABLE OF CONTENTS

1. Changing To Meet The Developing Needs Of An Automated Business

1.1 The Impact Of Automation On The Business
1.2 Conclusion
1.3 Summary

2. Achieving The Desired End State.

2.1 Scope Of Change
2.2 Commercial Relationship With Icl Pathway
2.3 Desired End State
2.4 Developing Service Management For An Automated Pocl
2.5 Business Support
2.6 Aligning With The Current Horizon Programme

3. Service Management Transition Project

3.1 Delivering The Service Management End State
3.2 Project Management Structure
3.3 Project Costing, Resources And Timescales
3.4 Options For Devolving Year 1 Spend To Year Two.
3.5 Factors Likely To Affect The Project Costs
3.6 Outline Cost Projection (Indicative Cost Only)

POL00028092

1. CHANGING TO MEET THE DEVELOPING NEEDS OF AN AUTOMATED BUSINESS

POCL have recognised the need to make appropriate changes to their operations and organisation to accommodate and manage the implementation and operation of automated services.

This paper describes and defines the proposed changes POCL need to undertake and the rationale for doing so. It identifies the target "end state" the business should seek to establish, supported by the transition plan to achieve this.

The recommendations made conform to principles and best practice methodology developed to successfully manage automated services and the environment they reside within.

Unless POCL changes its business to meet the demands placed upon it by automation it will fail to gain the benefits and value from its investment. The key risk to POCL's business is that without change automation will jeopardise its ability to deliver the quality and performance of service demanded by its customers and clients.

The suggested end-state describes a solution to position the POCL Organisation to manage itself as an automated business. It will provide the means for supporting its staff and Outlets to make optimum use of the automated services.

To minimise the risk of automation the achievement of the 'end-state' requires a substantial change in the way POCL organises and operates its business.

1.1 THE IMPACT OF AUTOMATION ON THE BUSINESS

1. Immediacy
2. Scaleability
3. Diversity within the current operational environment
4. Lack of operational disciplines
5. Non-conformance
6. Operational ownership and accountability

Issue - 1. Immediacy

Automation of POCL's Outlets and associated operations is to be progressively undertaken via the implementation of various systems over the next three years. This will introduce an immediacy and visibility hitherto unknown which in turn generates a need for comparable support.

A simple example of this being the inability of a sub-postmaster to serve a customer due to the "failure or malfunction", (whether real or perceived), of the automated system. Any time taken to deal with the "incident" by the proposed support channels potentially translates into longer waiting times and customer dissatisfaction.

POL00028092

PA

Issue 2. Scaleability

The Outlets currently face a variety of support services sourced from seven disparate regional Helplines and an array of other organisations. This situation will be compounded by the introduction of automation, adding a further array of organisations to contact. It is unrealistic to expect sub-postmasters to make action determination decisions in an increasingly complex working environment in order to select the appropriate support service to satisfy their need.

The likelihood is that sub-postmasters will not perform such diagnostics and refer to the last source of helpful support experienced. In a worst case scenario this would lead to a chain effect throughout the various support services until the appropriate area became engaged on the incident. Again the impact and visibility to the customer will be evident as well as to the sub-postmaster and eventually the RNM.

It is therefore imperative that the nature and style of support service provided to the Outlets is changed to meet the breadth and speed of response the emerging business environment demands.

Issue 3. Diversity within the current operational environment

Automation is successful when deployed and used in accordance with prescriptive disciplines. The introduction of automation into a business environment that operates without such disciplines is likely to generate significant management, support, and education issues within the business.

The manifestation of such issues will be a poor and totally inconsistent level of service offered to the customer; this in turn will undoubtedly have a negative impact on relationships with existing clients. The potential exposure to "bad press" is also heightened as POCL will come under even greater scrutiny due to the introduction of automation.

Issue 4. Lack of operational disciplines

Undisciplined working routines will result in rework of issues and duplication of effort. Automation requires common and understood processes to be operated ensuring responsive and accurate resolution of business incidents.

Classic Service Management disciplines such as Incident, Problem, Change and Configuration Management need to be adopted and embedded within the day to day operation of the business. Although considered onerous, experience has shown that they provide the appropriate framework and accountability to successfully manage and control an automated business environment.

The use of such disciplines reflects the prescriptive practice POCL management will need to adopt in its management of an automated 'Network'. Automation will both reject and immediately highlight occurrences of non-conformance which will require resolution within timescales previously indicated.

POL00028092

PA

Issue 5. Non - conformance

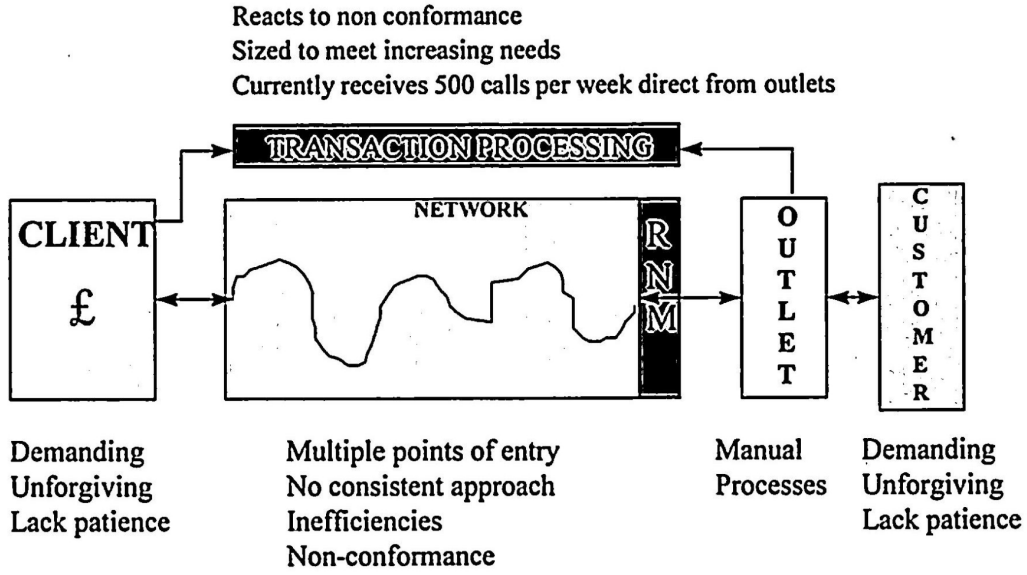
In order to diminish the potential for non-conformance it is important that automated services are deployed with simple work instructions of clarity and precision. The current monitoring and reporting mechanisms provide poor quality information, in an inconsistent and untimely fashion as to be of little value in terms of providing input to the management process.

Education of the Outlet based staff should emphasise the necessity of following the work instructions. Reinforcement of the required approach will come from dynamic resolution of non-conformance incidents or from trend analysis undertaken as a standard Service Management process.

Issue 6. Operational Ownership and Accountability

Using Horizon as an example, it is apparent that the existing organisational arrangements serve to deploy automation and develop the basic disciplines to manage it. The need to prepare for and accommodate automation to deliver business as usual has not been recognised prior to the development work undertaken by Service Management.

The business is poorly placed in terms of timescales and expertise to make the changes necessary to support the automated environment operationally.



POL00028092

PA

1.2 CONCLUSION

POCL is not in a state of readiness to discharge its responsibilities within the automated environment. Unless it changes its current support arrangements, the organisation by which it provides the support, the process against which it operates and the skills and capabilities of its organisation it will fail to achieve the benefits afforded to it by automation.

The risks of not changing, to meet the demands of automation, are that POCL will not be able to:

- discharge its responsibilities within Horizon with the required levels of quality and performance
- leverage the benefits of Horizon and more importantly the Automation Programme
- deliver the expected level of improved efficiency and effectiveness in the outlets
- realise the value of the knowledge about the business contained within a range of disparate databases

The retail performance of the outlets is likely to be adversely affected in the long term. Inhibiting commercial growth through the outlet and jeopardising new commercial initiatives.

Failing to change will stretch the current POCL infrastructure to breaking point and will absorb increasing levels of resource to address the negative impact of automation on the business. This will in time begin to severely compromise the delivery of products and services, thereby damaging POCL's credibility to compete in the marketplace.

POL00028092

PA

Recommendations

The following recommendations will address the issues identified if applied as a cohesive package of measures to change the operational mode of the business at a pace to support the timescales of the Horizon programme.

Issues - Immediacy and Scaleability

The business should consolidate its support for Outlets into one logically integrated unit in order to simplify and co-ordinate the multiplicity of current and planned support organisations required to provide business support.

The scope and scale of this undertaking is extremely significant to POCL as it provides the fundamental basis for dealing with the impact of automation. The scope, establishment and running costs, and operational characteristics for the proposed solution are outlined separately in subsequent Sections of this document.

Issues - Diversity within the current operational environment.
Lack of operational disciplines.

If POCL continue with their current Regional organisation structure a conscious change has to be adopted with regard to significantly reducing the licence and scope allowed in the deployment of operational services.

In the case of automation, such scope should be zero. A totally prescriptive deployment policy should be developed and deployed from the centre. This of course should be achieved with Regional involvement but NOT via Regional interpretation.

The ongoing opportunity for the business will be that of continuous refinement, to which all strands of the organisation should contribute through the recognised disciplines of Service Management. This capability and approach to continuous improvement will assist in managing any risk associated with all future automation activities.

Service Management should become an integral part of POCL's "operational" function. The adoption and deployment of its range of management disciplines are the recognised basis for creating the appropriate business environment for automation to succeed.

This will result in a prescriptive, highly controlled environment which is currently alien to POCL as it will introduce invasive disciplines on current working methods across the business. The temptation to pay "lip service" to such an approach is understandably appealing; however the price to be paid for taking the "easy" option is not worth considering.

Issue - Non - conformance

POL00028092

PA

If POCL successfully adopt and deploy the previously stated recommendations, significant in-roads will be made to this long standing issue. Automation itself will be a driver to conformance, as it simply will not work in most instances of poor practice. Those incidents that do escape normal automation type controls will need to be logged as incidents using an integrated management system that is a fundamental part of the technical infrastructure of Business Support.

It is proposed to deploy such a system across the relevant parts of the business in order to operate Incident and Problem Management in timescales appropriate to the needs of automation. The system will also provide the bulk of the management information required to determine performance achievement, pre-emptive corrective action and validation of supplier performance.

The outline of establishment, deployment and running costs can be found in Section 3.6.

Issue - Operational Ownership and Accountability

Given the implications of some of the previous recommendations, POCL has to determine, within the context of other organisational considerations, where and by whom is this particular issue to be addressed.

In the meantime Service Management are undertaking tactical measures in conjunction with Network Operations to address gaps and weaknesses in the existing arrangements surrounding the support of the 204 pilot Outlets using the Horizon Service.

The scope and nature of this initiative is documented in a separate paper.

POL00028092

PA

1.3 SUMMARY

In order to minimise the negative impact of automation on POCL business operations it will be necessary for POCL to change its current operational support arrangements. Delivering a more prescriptive, conformant, measured, resilient and accountable service in support of automation.

The change will need to address the scope of support provided, the way in which it organises itself to deliver the support, the framework of processes against which it manages its service and the skills and capabilities of its people and support tools.

It is strongly recommended that POCL initiate a change programme to address the current limitations within the operational organisation as indicated within this document. The project will deliver a set of disciplines derived from the current Horizon Service Management Framework and will develop a suitable organisational structure. This will deliver a desired 'end-state' which will position POCL to successfully manage its automated services.

1.3.1 Pace and Degree of Change

The fundamental point at issue is the current lack of preparedness within POCL to deal with the impact of automation and its implications on "business as usual."

Horizon as the 'First Past the Fence' is driving a **pace of change** which limits the options available to POCL to address the issues described in this document.

Implementation of Horizon is assumed to commence in June 1999, delivering automated outlets at a 'beat rate' of 200/300 per week - potentially doubling the number of live outlets by the Friday of that first week of implementation. There will be a greater issue as Crown Offices are brought online, with Horizon, each increasing considerably the baseline number of automated counter position over a short space of time.

The anticipated **degree of change** suggests that within 18 months of commencing implementation there will be 19000 live automated outlets and 40000 live automated counter positions - each delivering Automated Payment Services, Automated Stock and Cash distribution and an array of other automated services.

To minimise impact upon the POCL business a minimum of 70% of the desired end-state, described in the remainder of this document, must be achieved before live implementation **commences.** The timing of Horizon effectively limits the options open to POCL to address the potential negative impact of automation on its business.

POL00028092

PA

2. *ACHIEVING THE DESIRED END STATE.*

The objective for POCL is to achieve an operational end state capable of proactively managing the quality and performance of the POCL service supply chain. Supporting the receipt of products at the client interface and distributing them through appropriate channels into the outlet infrastructure with minimum disruption to the customer and the client.

The organisation will provide a single front end to a Business Support group responsible for the receipt and resolution of failures affecting POCL automated services and the provision of advice and guidance relating to POCL products and services.

The solution proposed is complimentary to the current initiative within POCL to move its customer call management to SSL. This paper assumes that the transfer of customer calls to SSL will take place.

It will be necessary to transition the current POCL organisation towards the desired end state as a discrete project owned within POCL Network Services. This transition will be managed through a project structure drawing upon the expert knowledge currently invested in Horizon Service Management. The transition will position POCL to manage and reduce the risks of failures and disruption in the service.

To ensure the transition meets the requirements to deliver a solution in line with the pace driven by Horizon it will be necessary to ensure the availability of skilled and experienced resource. POCL will need to ensure the release of these skills from within the business or Post Office Group. The lack of appropriate skilled resource will jeopardise the transition project and inhibit the achievement of the desired end-state to manage the risk of automation.

2.1 SCOPE OF CHANGE

Current arrangements for supporting an automated POCL have been developed and aligned to the commercial arrangements with ICL Pathway under a PFI agreement. Whilst this arrangement will continue for the foreseeable future it does not address all the requirements for POCL to support an automated business. POCL are also not organised to manage the ICL Pathway service let alone deliver to meet its own business needs.

Automation will fundamentally change the operations of POCL. It will force the business to adopt a new organisational structure, new methods of working, new skills and competencies and a heightened level of conformance throughout the business. These changes will be positive, enhancing the commercial viability of the business and positioning it as a 21st Century retail business.

2.2 COMMERCIAL RELATIONSHIP WITH ICL PATHWAY

Under the current agreed PFI arrangements with ICL Pathway they will provide their own Service Management operation for the delivery of a managed service. This includes a scaleable single point of contact for the provision of Horizon Systems Technical Support to the outlets. The proposed end-state solution does not detract from the PFI arrangement and therefore does not expose POCL to a potential transfer of risk. The end-state solution addresses wider support issues for the Outlets, many of

POL00028092

which are related to automation but do not fall within the contracted remit of ICL Pathway.

Service Management process and technology integration between the ICL Pathway service and the POCL Business Support service will be necessary. Ensuring the flow of management information between the two organisations to support the POCL/Pathway supplier relationship and the transfer of service information.

The Service Management transition project will consider the provision of a technical solution to provide contact through a single telephone number for any Outlet requirement. It is not the intention to receive Horizon System technical calls within the Business Support organisation prior to their delivery to the Pathway Horizon System Help Desk (HSH). Provision will be made to seamlessly transfer a call which has been placed with the wrong support area e.g. HSH rather than POCL Business Support. The frequency with which these non conformance's occur will be monitored and remedial action taken to reduce the volume.

Business Support will provide a single point of contact for all non-Horizon automated services. The current arrangements for IT support from POITS will continue where it is appropriate to do so.

2.3 DESIRED END STATE

The end state will comprise two components -

- Service Management Framework
- Business Support group

The end-state will deliver a capability to meet the future needs of an automated POCL

2.3.1 Benefit Of Delivering The End-State

- Improved service levels, fewer service interruptions, improved reputation, and efficient support through focused, disciplined effort.
- Increases stability and reliability of automated services, and readiness of users and providers for service changes.
- Reducing corrective and recovery work thereby improving conformance within the "back-end" business process.
- Positions the organisation and capability set of the business to accommodate new commercial opportunities and aligns it to the strategic direction of the business.
- Provides a solution scaleable to support all current (Hybrid platforms) and future (Horizon, SAPADS) automation activities
- Delivers the capability to manage third party suppliers e.g. ICL Pathway

POL00028092

PA

- Positions POCL well to source more successfully the delivery of non-core services from other organisations where appropriate to do so

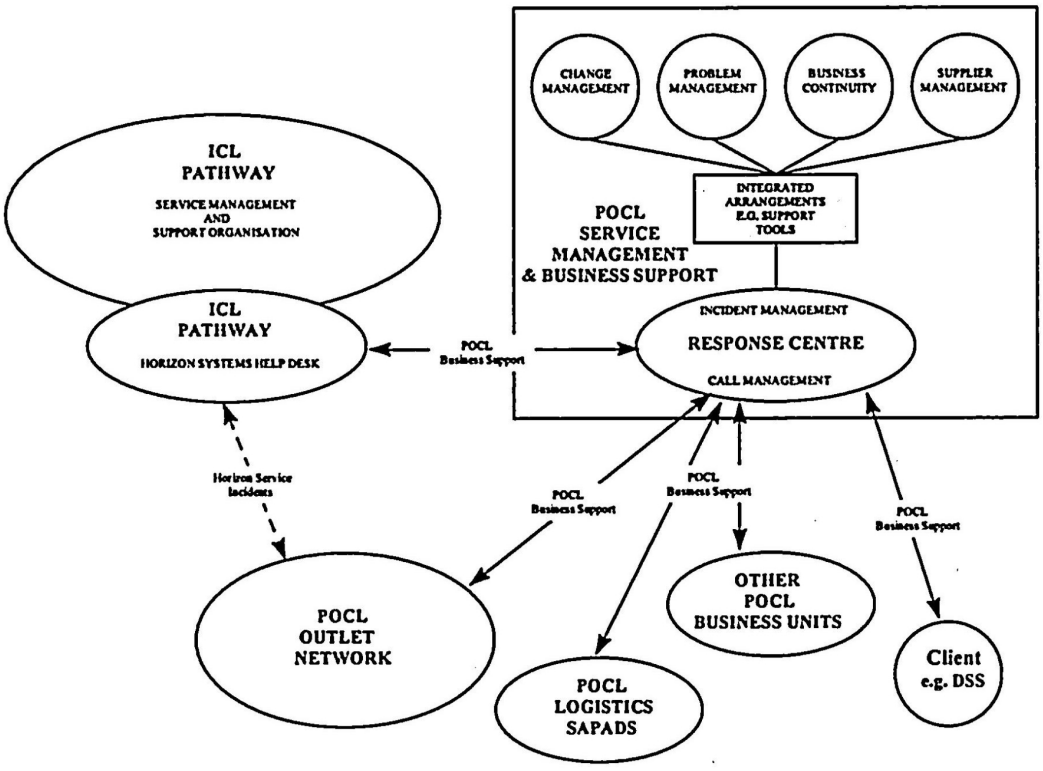
POL00028092

PA

2.3.2 Critical Success Factors

POCL will:

- successfully manage the relationships with its suppliers, managing their performance and quality of service through an effective framework of service management disciplines and functions
- Be capable of effectively managing non third party related automation incidents through to resolution
- Manage changes to the environment without impacting on the automated services
- Reduce numbers of problems affecting POCL as a direct result of automation



Conceptual diagram of the relationships between POCL Service Management, Suppliers e.g. ICL Pathway, clients e.g. DSS and other service providers and internal customers.

POL00028092

PA

2.4 DEVELOPING SERVICE MANAGEMENT FOR AN AUTOMATED POCL

The Service Management Framework will initially consist of seven disciplines.

> Call Management, Incident Management, Problem Management, Change Management, Configuration Management, Supplier Management, Business Continuity.

Each of these disciplines will need to be developed in line with the four dimensions of change.

> SUPPORT - To define the scope of the support provided by POCL to support its implementation of automated services
>
> ORGANISATION - To define the necessary roles, jobs and organisation to meet business objectives. To recruit and deploy staff as necessary within this agreed structure ensuring the organisation is appropriately resourced. To define strategy and policy in support of an automated business
>
> PROCESS - To define what POCL will do to meet the needs of Automation. To define how it will discharge its responsibilities. To define common and integrated processes.
>
> SKILLS/CAPABILITIES - To establish the future skills and competencies requirements and identify any gaps with current capability. Giving managers time to address the skill and competency shortage or oversupply in their areas. To deliver common and integrated support tools.

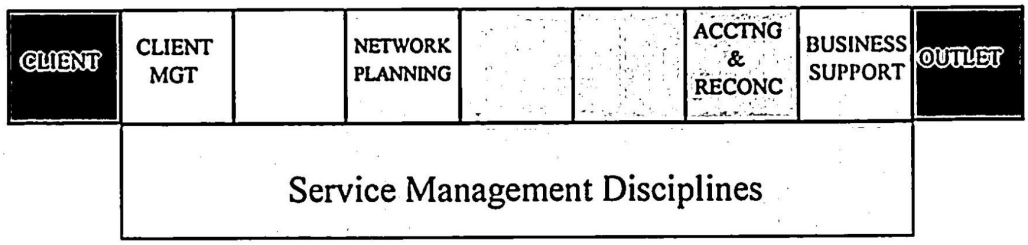
As an example:

The Service Management discipline of Call Management will deliver a single point of contact in **support** of automated POCL outlets. Service Management will be **organised** to set guidelines and standards for Call management. Network services will **organise** to deliver the single point of contact through the Regional Helpline organisation. The Call Management discipline **processes** will be documented to define what constitutes Call Management and how it will be deployed within POCL. The process of Call management will require **skilled and capable** resources supported by common and **integrated tools** to carry it out.

POL00028092

PA

Service Management and an Automated Supply Chain



Service Management defines the scope of the service, the organisation delivering that service, the standard processes to be adhered to and, the skills and capabilities of the staff to deliver to the agreed levels of service performance and quality. Business Support is defined solely by Service Management and therefore becomes accountable to a Service Management functional area.

2.4.1 Service Management Framework

The objective of a Service Management Framework is to establish mechanisms:

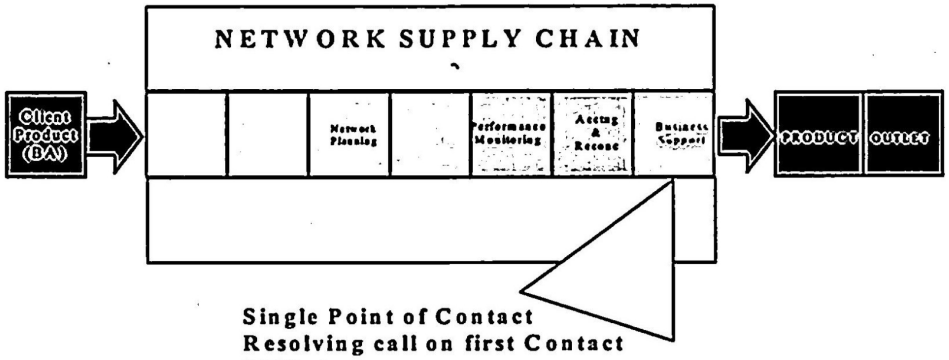
- To control service delivery by responding in a timely fashion to incidents and problems, and reducing the risks to live automated services from changes.
- To plan the development and testing of changes to a service so that they are integrated into regular releases
- To ensure that users, operators and support staff are resourced, trained and prepared for each new release
- To establish and manage the relationships between POCL and its suppliers of automated services

POL00028092

PA

2.5 BUSINESS SUPPORT

The successful delivery of automation into POCL outlets will be dependent on the successful deployment of a first line support organisation.



Single Point of Contact
Resolving call on first Contact
Skilled resource
Intuitive
Innovative use of appropriate technology
Single repository of business support and service information
Proactive

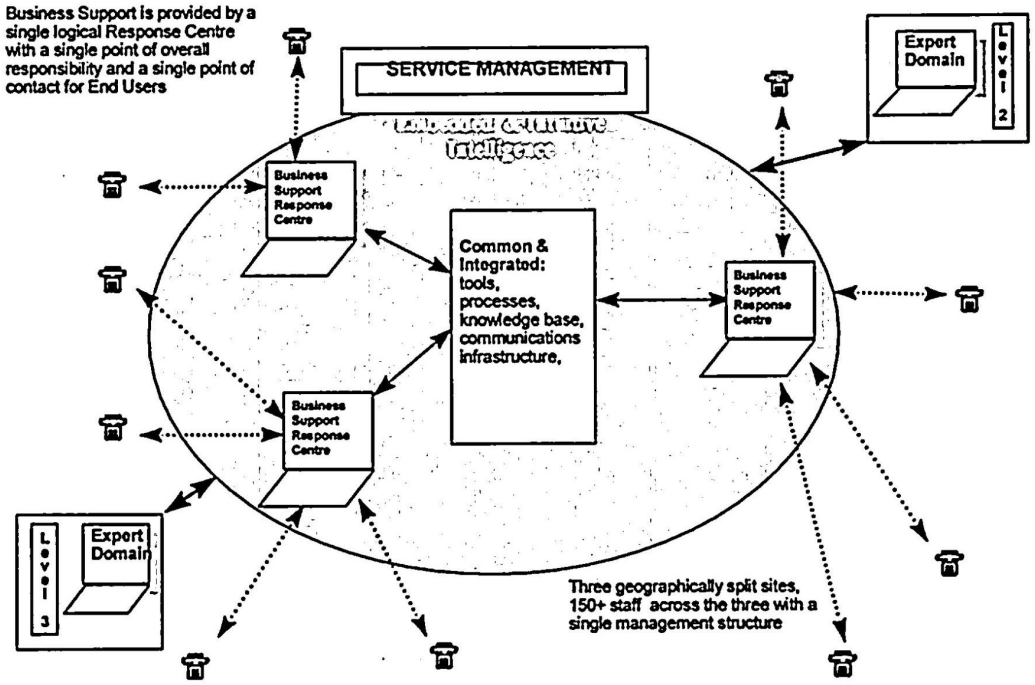
The organisation will provide, via a single point of contact, support to automated outlets on any subject appropriate to POCL. The objective will include, over time, the resolution of 70% or more incidents on initial contact with the outlet.

The organisation will consist of a structure of an estimated 150 full time equivalent staff including a shallow management structure. The organisation will be distributed across a minimum of two geographically split sites, logically integrated through common technologies and processes.

POL00028092

PA

The first line support group will be backed up by second and third level expert domains including POCL business centres e.g. Transaction Processing and external suppliers such as ICL Pathway (where a POCL automation incident has been placed for investigation with the Response Centre). These organisations will be integrated by the same common technologies and processes.



Entry into the Business Support Response Centre will be via a single telephone number. Investigations will take place into establishing the best arrangements and technologies to manage the call and direct them to the appropriate destination.

The Response Centre will receive calls relating to an automated business including:

- Business Advice & Guidance e.g. Reconciliation, Bank Holiday Payments
- Product Advice & Guidance: Postal Orders, Insurance, Stamps, Cash and Stock
- Business contacts: Contacting RNM, other POCL support groups
- Technical Advice & Guidance: How do I calibrate the scales?
- Non Conformance: POCL/Pathway/DSS have not followed the procedure.
- Requests: Stock and Cash

POL00028092

The 'end-state' assumes that all external customer calls will be supported by SSL and ICL Pathway (Payment Card Help Line) This includes calls from Outlets to the ICL Pathway Helpline on behalf of an external customer.

In addition to receiving calls the response centre will actively deliver information relating to the products and services provided by POCL and the status of automated services to the end users (e.g. Outlets).

A detailed call matrix defining what calls would be acceptable for receipt by the Business Support Response Centre will be developed as part of the Service Management Transition Project.

2.6 ALIGNING WITH THE CURRENT HORIZON PROGRAMME

It is essential that the transition to the 'end-state' is aligned with the current Horizon programme specifically in respect of timescales and key deliverables. The Service Management Transition project will effectively determine POCL's ability to absorb and manage the impact of the Horizon implementation. Correspondingly Horizon will provide the vehicle for assuring the suitability and acceptability of the 'end-state'.

To ensure the necessary alignment is achieved is recommended that both a Project Board and Steering Group is established with membership for both including key members of the Horizon Programme. It is recommended that the Steering Group is chaired by the Horizon Programme Director (David Miller) and attendance includes the POCL Automation Manager (David Smith), the National Service Manager, ICL Pathway Service Manager, GM Logistics and GM Transaction Processing and the Service Management Transition Project Manager.

The Service Management Transition Project Manager will also sit on the Horizon Programme Board to ensure continuity and conformance across the two projects.

Alignment will also be achieved through the integration of the work of the Horizon Service Management Team into the Transition Project.

POL00028092

PA

2.6.1 Benefits To POCL Derived From Establishing A Business Support Function

- A national service which is perceived by the customers as a locally provided support service
- delivering a support service driven by customer and business needs, within timescales that reflect the immediacy and visibility of automated operations.
- providing a support service which would be the customers first choice
- successfully resolving increasing numbers of calls on first contact
- accountable for delivering a seamless end-end support service for the increasingly complex POCL Supply Chain
- resolving service issues before they impact upon the outlet or the business
- position POCL to manage the risks of automation
- maintaining a support service which is not impacted upon by increasing volumes
- utilising appropriate tools and technology to improve quality and performance across all automated services
- establishing accountability, with the appropriate management information and control to enable both pro-active and corrective action to be taken to optimise service
- enhanced client management and responsiveness of the service.

POL00028092

PA

3. SERVICE MANAGEMENT TRANSITION PROJECT

The project is required to start at the beginning of August 1998 and will run until the third quarter of 1999.

The project will be managed by a single project manager reporting into an executive project board and supported through a project office.

The project will be managed outside of the Horizon Programme as a discrete activity within Network Services.

The project will deliver, over a twelve month period, a series of solutions to deliver the new organisation, required processes, establish the scope of support, and define the skills/capabilities for POCL operations. The transition will achieve 70% of the desired end state prior to June 1, 1999.

3.1 DELIVERING THE SERVICE MANAGEMENT END STATE

3.1.1 Objective

- To implement a framework of Service Management disciplines within POCL to minimise the risk to the business resulting from the deployment of automated services.

  Transferring POCL from the current profligate arrangement of Helplines and Help Desk (more than ten) operating a diverse range of tools and processes.

- To plan the transition for POCL and support it in its deployment of automated services

  Abandoning the current piecemeal approach to addressing the impact of automation.

3.2 PROJECT MANAGEMENT STRUCTURE

The Service Management Framework will need to be developed under strict project management controls and standards to ensure that the necessary changes become embedded within the organisation.

Key tasks within the project will include:

1. Planned communication activities both within POCL and externally to Outlets, clients and suppliers.

2. The project will establish a baseline of the current automated service, including performance measures and management information

3. The seven Service Management disciplines will be developed and implemented across all organisations involved in supporting automated services within POCL. Where appropriate these will be integrated with other involved third parties. Two of the key disciplines, Change and Configuration Management will have a wider impact within the business.

POL00028092

PA

4. A key factor in delivering effective Service Management is the provision of an Integrated Tool Set accessible to all support organisations.

5. The project will build on the current work being carried out within the POCL/Horizon Service Management Function.

6. Current emphasis within POCL has been placed on documenting the processes. Key deliverables from this project will go beyond this and will provide in addition to the documentation.

   - Metrics and measurements: service delivery targets, key performance indicators and service levels, mechanisms for service reporting and service reviews leading to continuous improvement activities and the provision of the appropriate breadth and depth of management information

   - Organisation design & structure: specifying levels of accountability and ownership, clearly defined role & responsibility, Job Descriptions, Sourcing and Resourcing plans.

   - Processes will be defined to include: assigning process ownership, process definitions and procedures Definition of training, education and awareness activities for POCL operating staff

   - Mechanisms for attracting and selecting staff, selection and deployment of contractors, identification of current skill requirements & skills sets, forecasting future skills and competency requirements; defining skills shortages

   - The project will develop and implement appropriate tools & technologies and define non technical environment requirements.

POL00028092

PA

3.3 PROJECT COSTING, RESOURCES AND TIMESCALES

To continue the current development and implementation of the Service Management Framework and to develop and implement the Business Support Response Centre organisation it is estimated that a (Year 1) cost provision of £11,325K should be budgeted for during the second half of 1998. Within this total £9,525K is incremental to the established Service Management budget for 1998/99.

The costs include (Capital & Revenue)

3.3.1 Project Management (Revenue)

Provision of a Project Manager, Project Office Manager and Project Office Analyst (Part Time) for a period of thirteen months. Responsible for the development and management of the Service Management Transition Project

3.3.2 Service Management Framework (Revenue)

Development resource to design and develop Service Management disciplines for an automated POCL. First year costs include developing: Call, Incident, Problem, Change, Supplier and Configuration Management and Business Continuity.

3.3.3 Service Management (Capital)

Provision of Service Management Support tools (Desktop devices and communications equipment) for use by the POCL Service Management central function (Non Response Centre staff).

3.3.4 Business Support Response Centre (Revenue)

Expert resource to design, develop and implement the POCL Business Support Response Centre (Indicative Cost).

Expert resource to develop and implement the Response Centre Support Tools (Indicative Cost).

Procurement of Response Centre Support software licences (Indicative Cost)

3.3.5 Business Support Response Centre (Capital)

Response Centre IT and Telecommunications equipment for use in receiving, logging and managing calls into and out of the Response Centre. (Assumed on the basis of £23K per Response Centre Agent for an estimated 146 staff)

3.3.6 Staff Recruitment and Relocation (Revenue)

Staff costs for recruiting new skilled staff to operate and manage the Response Centre. Costs also include a provision for relocation of staff to Response Centre locations.

(Assumed on the basis of £18K per Response Centre Agent)

POL00028092

PA

3.3.7 Staff Training (Revenue)

Staff training costs for Response Centre staff. (Assumed to be £3K per Response Centre agent).

3.3.8 Accommodation (Capital)

Costs associated with refurbishment of existing POCL office space, including cabling, furniture, power and lighting. (Indicative Cost)

3.3.9 Transition Support (Revenue)

Resource costs for migrating current arrangements for supporting automation to the desired 'End-state', including: Communications Planning, Service Review and Baseline, Piloting the transfer of Regional Liaison Managers to Regional Helplines and implementing required organisational changes within POCL. Audit of current technical and non technical environment.

3.3.10 Operating costs (Revenue)

Costs for day to day operation of the Service Management functions and the Response Centre. (First year: Maximum 3 months)

Maintenance and support costs for Support Tools, IT and Communications (Maintenance assumed to be 15% of capital purchase cost. First Year: Maximum 3 months)

A budget cost of £12,667K (Revenue £10,157K and Capital £2,510K) should be planed for in 1999/2000

Year 1 cost includes £7,775K revenue and £3,550K capital.

The project will require an estimated 13-15 man years effort to complete all essential work over the project timeframe of twelve to eighteen months.

3.4 OPTIONS FOR DEVOLVING YEAR 1 SPEND TO YEAR TWO.

Option 1 - Deliver the Service Management Transition to the desired 'end-state' in line with current Horizon timescales. This will budgetary provision as outlined above in Section 3.3. This remains a high risk option with only nine months elapsed time before implementation commences.

Option 2 - Delay national roll-out of Horizon Automated Systems by a minimum of six months. This will allow the transfer of spend on all capital items and a further £2 million of revenue spend to 1999/00. This is the least risk option.

Option3 - The highest risk option will be to focus all development activity to a single Regional Helpline - gearing them to handle the take on of all work generated by the first 3-6 months of Horizon live traffic (June - Dec '99). This would require at a minimum the transfer of all Regional Liaison staff to work within the Regional Helpline environment. This is not considered as a viable option because of the inherent risk and the unknown capability of the current Regional Helpline. This would allow the greatest transfer of costs into 1999/00.

POL00028092

PA

3.5 FACTORS LIKELY TO AFFECT THE PROJECT COSTS

1. Sourcing decisions for providing the Response Centre
2. Technologies chosen to deliver the solution
3. Actual volume and type of calls generated by the automation of POCL
4. Impact of the increased functionality of Horizon
5. Quality of training given to outlets prior to and after receiving automated systems
6. Availability of appropriately skilled resources within POCL
7. Final agreed design of the Business Support solution
8. Redeployment or other costs associated with the dislocation of staff have not been included
9. Costs of providing systems for second and third level support groups have not been included
10. Human Resource costs to manage personnel issues
11. Costs of any Systems Integration between POCL Business Support and ICL Pathway.
12. Resource costs for developing local work instructions and procedures
13. Capital depreciation of Service Management Support Tools
14. It is assumed that the current POCL technical infrastructure is capable of supporting the overlay of the service management tools
15. It is assumed that flexible staffing arrangements can be used, i.e. part time workers to handle peak activity in the Response Centre.

POL00028092

3.6 OUTLINE COST PROJECTION (INDICATIVE COST ONLY)

BUSINESS SUPPORT	*Potential Incremental Budget £K* *(indicative figures)*				Areas of Opportunity for POCL to mitigate costs
A Establish Business Support	1998/99		1999/00		
	Cap	Rev	Cap	Rev	
Planning, Design & Impl		200		100	Potential use of POIT Research Group
Software Procurement		2000 → Remedy?			
Software Customisation		1000		1000	Potential use of POIT Development Group
IT & Comms Infrastructure	1950		1410		
Staff Recruitment & Relocation		1200		1200	POCL staff re-deployment (Regional Help Desks, etc.)
Staff Training		200		250	
Accommodation	1000		1000		- Utilisation of POCL accommodation portfolio
Project Management		480		223	
Transition Support		535		140	
Operating Costs		960		5444	POCL staff re-deployment

↘ pa. cost ongoing.

POL00028092

[redacted]

PA

BUSINESS SUPPORT TOTAL	**2950**	**6575**	**2410**	**8357**

POL00028092

PA

SERVICE MANAGEMENT Identified Budget

	1998/99		1999/00	
	Cap	Rev	Cap	Rev
B Apportioned Budget				
Operating	**100**	**300**	**100**	**800**
Development	500	900		1000
TOTAL	600	1200	100	1800
Aggregate Costs (A + B)	**3550**	**7775**	**2100**	**10159**

POL00028092

PA Consulting Group is a leading management, information and technology consultancy, operating worldwide from around 50 offices in over 20 countries. For clients, PA is distinguished as a consultancy that focuses on *creating*, rather than just *proposing*, change, using skills that combine deep experience of sectors and industries with an innovative, insight-driven approach. PA's outstanding implementation track record is achieved through the integration of process, people and technology capabilities using multinational, interdisciplinary teams that work worldwide with client organisations in industry, commerce and government.

Established over 50 years ago, PA draws on the knowledge and expertise of some 2,500 employees, whose skills span a wider range of capability than any other major consulting firm. Our consultancy services – Strategy, Performance Improvement, IT, Technology, Human Resources, Recruitment, Programme and Project Management – are helping our clients transform their businesses to achieve significant increases in value, profitability and effectiveness.

We are proud that our clients say ***"PA makes it happen"***.