

Rt Hon Ian McCartney MP
Minister of State

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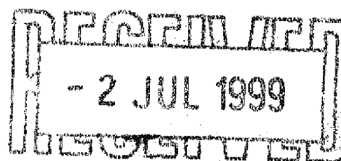


for Horizon working group meeting.

7 July 3pm.

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HORIZON WORKING GROUP

REPORT BY THE POST OFFICE ON PO/ICL NEGOTIATIONS

(Item 2 on agenda of the third meeting - 7 July 1999)

1. TIMESCALE FOR NATIONAL ROLLOUT

The Contract and National Rollout

The Letter Of Agreement sets a date of 1 March 2001 for the completion of NRO for the Core System Release (CSR). This is based on the automation of an estimated 18573 post offices. The achievement of milestones on rollout trigger very significant contractual payments to ICL. ICL Pathway and POCL may also be subject to damages if they are at fault in causing delays to the NRO plan.

A completion of NRO in March 2001 is also of significant operational significance to POCL as it would allow the organisation to enter the 2001/2002 financial year with a full back office accounting system which cannot be switched on until all post offices have been automated.

The Revised National Rollout (NRO) Plan

The plan that formed the basis of the Letter of Agreement was less than robust and not jointly agreed. A revised plan now being jointly tabled by the ICL and POCL programme teams. The commercial implications of this plan are still being finalised but the overall shape is clear. The plan has the following key features:

- A progressive ramp-up of offices from the start date of 23rd August 1999 through to the end of November 1999, reaching a maximum of approximately 200 offices per week
- A sustained rollout of approximately 300 offices per week throughout 2000
- The completion of the 'tail' of offices (up to about 2000 offices) in the first months of 2001
- There will be breaks in rollout of 5 to 6 weeks over the Christmas periods.

The plan aims to complete 99% of offices by March 2001. There may be some offices outstanding at the agreed formal end of rollout due to such practical issues as temporary closures, the need for further internal modifications, and transfer of ownership of post offices. These offices, and new offices added after the completion date, will then be handled under ongoing business change procedures. Both POCL and ICL Pathway are committed to the delivery of the NRO plan and will formalise this commitment in the new contract. Both organisations will allocate the required resources to achieve this date and will act promptly to remove any obstacles to delivery.

Training/Support

The current Live Trial is revealing a number of important lessons which are being addressed for NRO. Improvements in training, procedures and software which will give greater confidence in the service provided and support the achievement of the NRO plan are being introduced. These are geared to reducing/curing the earlier problems of Wednesday cash balances that have been highlighted in the trial offices.

There will be a process of continuous improvement to processes and procedures as lessons are learned in the wider rollout. For example the period up to Christmas 1999 will be used to test the current assumptions on the number of offices that will go live each week and the impact on the support services, notably the Pathway and POCL Help Desks. Appropriate action can then be taken to maintain and where necessary refine the rollout plan during 2000.

Rollout and Quality of Service

The key management challenge in NRO is to achieve completion of the NRO plan to schedule without detrimental impact to business performance or the quality of service provided to customers and clients. These demands have to be balanced. It will therefore be essential that all parties act swiftly to resolve such impacts as and when they occur. This is likely to require the continued support of Government and the unions as well as action by POCL and ICL Pathway.

In this context it is important to recognise the impact of the totality of change as NRO proceeds. The main risk is not in the physical preparation and migration of the individual

offices during each week of NRO. Both ICL Pathway and POCL can provide the logistics and resources to implement 300 offices per week. Rather it is the cumulative impact of moving from the current experience of 300 live offices to a new automated environment of 18500 offices. This will throw up fresh challenges and demands on the organisation and its people. It will also demand a sustained high quality of service from ICL Pathway and the flexibility to provide solutions to issues as they arise.

Conclusion

POCL and ICL Pathway have prepared detailed plans for the completion of NRO by March 2001, and are making the necessary commitment of resources to achieve this date. The plan is supported by regular reviews which will ensure lessons are learned and progress is kept on track.

2. ICL SPARE CAPACITY

There has been a full exchange of correspondence with ICL on the legal aspects of this issue with POCL arguing to get commitments to provide capacity for future developments into the contract. However on the basis of the agreement signed on 24 May POCL lawyers advise that ICL are legally correct in refusing to incorporate capacity in the full legal agreement. ICL are clearly not prepared to move from this position. Provided the full description of the physical inventory and system is supplied under the revised contract and that work now underway between POCL and ICL (outside of the contract and under a non-disclosure agreement) defines capacity, POCL will be in a position to calculate and argue logically with ICL about the use and pricing of spare capacity. This is not the same as having both items written into the contract document but looks like the best POCL can do under the circumstances.

3. ACCEPTANCE TESTS

Contractually ICL need to have fewer than 20 medium incidents and no high incidents in order for the system to pass Acceptance and claim £68m. At the moment there are 15 medium category incidents and 2 highs. We anticipate 6 more mediums emerging but work is also going on to clear or reduce all incidents. We cannot predict whether the key acceptance hurdles will be met but it is our intention to behave robustly but fairly and only

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to apply pressure where there are genuine acceptance incidents. We will report again at the July 7 meeting when a clearer prognosis will be available.

A REPORT BY THE POST OFFICE ON PO/BA NEGOTIATIONS
(Item 4 on agenda of third meeting - 7 July 1999)

A letter is being sent to Mr McCartney - as requested at the last committee meeting - so that he can seek to broker agreement on the way forward on negotiations with Ministerial colleagues. This will be tabled at the meeting for discussion.