

Company Secret

Minutes of the meeting of the Board of ICL Pathway Limited

Held at 08.00 a.m. on Wednesday 24th November 1999
At 26 Finsbury Square, London, EC2A 1SL

Present:	Sir Michael Butler Mr T K Todd Mr J H Bennett Mr R Christou Mr T Escudier Mr H Kurokawa Mr M Stares	(Chairman) (from item 2)
In attendance:	Mr R F Scott Mr Imanishi Mr Y Sumida	(Secretary)

Apologies were received from: Mr A E Oppenheim

Action by: 1. Minutes of previous meeting

Secretary

The Minutes of the meeting held on 15th September were distributed to the Board during the meeting and will be proposed for confirmation at the next meeting, in February.

2. Managing Director's Report

Mr Bennett amplified his written report and there was a discussion. Points noted:

- a) 1,856 Post Offices had been installed and migrated to the Horizon system. This was a major achievement for ICL Pathway and Mr Bennett and the team were congratulated by the Board. The system was stable and was expected to be so until the re-start of roll-out in January.
- b) Much work was required before the re-start of roll-out, on the supply chain, with the customer and regarding Pathway itself. Improvement plans were requested from several key suppliers including the ICL OSD for the Helpdesk, on KnowledgePool where there was a considerable task next year for training people, from Workplace Technologies Ltd, now taken over by NTL and also on Energis who were supplying to the project, the BT ISDN connections into Post Offices.

Company Secret

Here there was a serious issue (also discussed later in the meeting) where ICL Pathway had been led to believe that only 100 Post Offices did not have ISDN connections in place at the present time whereas it now appeared the actual figure might be as high as 1,500.

Mr Bennett

- c) The planned release date for the next major software upgrade needed on the programme, CSR+, was September 2000 and good progress was being made so far towards this. This was the last major software update covered in the existing contract.
- d) There continued to be political interest in ICL Pathway's activities, with the National Audit Office picking up and discussing issues caused by the cancellation of the Benefit Payment Card by the Benefits Agency. The Public Accounts Committee was expected to investigate further and Mr Bennett might be invited to attend one of their sessions. Sir Michael said we must ensure that the PAC/NAO concentrated at least in part on the fact that the CAPS system could not have produced what was expected of it at the appropriate time in the programme. Otherwise, it might seem easy to blame ICL Pathway for the failure of the Benefits Card element of the project. The joint House of Lords and Commons Parliamentary Committee, PITCOM had had a successful visit to Feltham for a briefing on the project.
- e) Payment was received on 22nd October for the £68m acceptance milestone and the invoice submitted for the £90m implementation milestone.
- f) A major acceptance review was taking place later in the day. There were three big acceptance incidents un-resolved. It seemed likely ICL Pathway's proposed resolution of one of the incidents had already been accepted but two remained open. The principal issue was the potentially unsafe state of operation of reference data within the end-to-end model. Reference data referred to the process by which POCL could change how the software works in the field, for example how the price of a postage stamp could be changed throughout the whole system. However there were many more complex reference data issues across all 3,000 of the POCL offered products and some of the most intractable problems arose when changes made to one product had unintended consequences affecting other products or other elements in the system.

Company Secret

To a large extent POCL appeared to believe that ICL Pathway should identify and deal with all reference data issues whereas ICL Pathway took the view that the POCL was jointly responsible for stabilising the whole reference data situation. We also believed that until the reference data issue had been resolved we should not re-commence roll-out next year. Difficult negotiations were continuing with POCL on this subject and it was also apparent that they were not satisfied with the ICL OSD Helpdesk service (although in part their impression was undoubtedly formed by the load placed on the Helpdesks by reference data issues, for example implementation errors by POCL of modifications to products/systems).

Mr Bennett

There was general agreement with Mr Kurukoawa's view that ICL Pathway and POCL together had to establish rigorous test and authentication procedures to apply to reference data changes. In particular such procedures needed to ensure that POCL did not make changes without understanding the consequences on all of their products. The Board agreed with Mr Christou's approach that we would resist re-start of roll-out in January until POCL made a joint effort with ICL Pathway to resolve the reference data issues.

Mr Christou

- g) The Board noted with concern that BT through ICL Pathway's supplier Energis was apparently only able to supply many less ISDN connections to Post Offices in the UK than ICL Pathway had been led to expect. This presented an issue since we were responsible for connections to Post Offices in accordance with the contract. We would however take legal advice on the responsibilities of BT in this matter but more particularly on the responsibilities of Energis who had led us to believe ISDN coverage was much greater than now appeared. This led on to consideration of alternatives which could be followed in this situation including installation of dedicated land lines (unlikely because of the cost) or satellite connections, some of which could be put in place economically. Mr Bennett would talk more to Camelot about their use of satellite communication with their outlets.

Mr Bennett

Mr Bennett

There had also been further speculation in the media that further numbers of Post Offices would be closed and Sir Michael pointed out it would be desirable if POCL were able to advise ICL Pathway of which ones were affected, so extra cost would not be incurred in

Mr Bennett

Company Secret

communicating with them.

Company Secret**3. Commercial and Financial Directors' Report**

In the absence of Mr Oppenheim who was committed with the customer today, Mr Bennett amplified his written report and there was a discussion. Points noted:

- a) Good progress had been made with re-negotiations with sub-contractors following the cancellation of the Benefit Payment Card.
- b) Mr Bennett said it appeared at present that we would be able to write back around £18m of the large provision taken in the last year's accounts for the cancellation. As regards De La Rue in particular, we would attempt to come to a fair, final determination, acknowledging their efforts on the elements of the project which were cancelled. Mr Bennett explained to the Board the substantial modifications to the business case model. Two versions of the business case had been considered. Option A assumed limited incremental review over the life of the contract, some £15m and an outsourcing/sweat the assets/cost down approach. Option B as is stood assumed much greater success in exploiting Horizon with the Post Office and consequently some £50m of additional revenue (not counting business taken outside Horizon and before possible contract extension). The approach of Option B was to press for more new business under the existing contract, keep the door open for contract extensions particularly around year 2002/3/4 and also press the case for a joint venture or other partnership arrangement to fully exploit our position.

The difficulties of securing significant upside business within the framework of the existing contract arrangements (which had largely been put in place to protect the downside) was noted. The Board accepted the revision so far of the business plan as a good basis for going forward. Points made in the discussion included that the possibility of a contract extension must continually be borne in mind but particularly from 2002 onwards and that we should understand fully the cost drivers and their relationship with revenue. For example after the development of CSR+ (for which ICL Pathway would be paid cost plus 10%) we would carefully consider whether we would undertake further development work and if so how this could be fully recompensed with an appropriate margin. Similarly we

Company Secret

had to ensure that for any additional business and indeed within the existing contract we had the best service delivery model implemented. Mr Todd was also keen to ensure that the new ICL inter-trading rules were fully comprehended in establishing the profit ICL Pathway would make and that full costs including HQ were included in ICL Pathway as a discrete unit.

- c) There was also discussion about the latest developments in “better Government” and other perhaps more promising business possibilities for the Post Office including links to banks. Within the whole context of the importance to ICL of the overall Government relationship and Government business, we were determined to be the Post Office’s partner for IT in the future and our efforts to revise the business plan would continue on this basis, perhaps using Option A as the immediate way forward by way of a base line. Mr Bennett would take members of the Board through the cost drivers of both options. The Board meeting in February would be the focal point for a report on costs and development whereas a subsequent Board meeting, probably July, would consider the full strategic way forward and the modification or replacement of Option B.

Mr Bennett

Mr Bennett

4. Fujitsu Liaison

Mr Kurokawa renewed his previous offers of assistance from Fujitsu with the roll-out.

5. Ms R Lomax

Mr Todd said he had met Ms Lomax, the new Permanent Secretary at the DSS, Miss Anne Bowtell having retired. There had been frank discussions and it seemed that Ms Lomax was favourable to ICL, and continued to want us involved with the DSS.

6. Changes in the Public Finance Initiative

Sir Michael said changes had been made to the PFI system and these were not yet generally known. Mr Christou was seeing Mr S Robson of the Treasury and might establish his views on these.

Mr Christou

Mr Todd referred to advice he had given to the Government in particular that they should stop issuing PFI tenders from individual Government Departments or “Silos” and instead issue them from the centre to apply across all Government operations.

Company Secret

7. “Business Links”/SMEs/Small Business Service

Mr Bennett? ICL was not entering the Small Business/SME marketplace but would consider whether any opportunities might arise for our existing operations from the Business Links programme involving the DTI and regional offices.

8. Date of Next Meeting

23 February
09 May
18 July
29 November