

Ex 1 n/c 150
In Strictest Confidence

Maple File : BA/POCL = Horizon.

Copy No

96/107

CASG(98)1st
CASG98/1 to 6

COUNTER AUTOMATION STEERING GROUP

26 JANUARY 1998

Present:

John Roberts (Chairman)
Richard Close
Jerry Cope
Dave Miller
Paul Rich
Stuart Sweetman
Scott Childes (notes)

**MINUTES OF
PREVIOUS
MEETING**

CASG98/1

The Committee APPROVED the minutes of its meeting of 22 September 1997

**POLITICAL
SENSITIVITIES**

CASG98/2

The Committee noted that

- (i) John Roberts had recently met with Anne Bowtell, Permanent Secretary at the DSS, (on a 'without prejudice' basis), who had indicated that rather than press for withdrawal from the programme and the introduction of ACT, the main DSS concern was to have a viable, fit for purpose product that could perform to the original specification and be delivered within the current timescale. She also commented that perceived by BA as having been inflexible over contract negotiations and one of her the risk to DSS of the intensive roll-out hitting its targets, especially as POCL accept any financial liability for this

POCL was
historically
concerns was
programme not
had refused to

noted in discussion that

- (ii) previous commercial discussions between all three parties (POCL, BA and ICL Pathway) had been held against the background of a Government committed to Horizon and as this Government's was as yet unclear it was probably sensible to such discussions until the positions of ICL and regard to the future of the programme, were understood. To this end it would be useful for Sweetman to arrange to meet with his counterparts (on a 'without prejudice' basis), from ICL and BA to determine whether their respective future commitment the programme matched POCL's, as in follow-up to John Roberts' recent meeting with Keith Todd,

position
delay
BA, with
clearly
Stuart

to

In Strictest Confidence

In Strictest Confidence

also
Todd

conducted on a 'without prejudice' basis, Keith had indicated ICL's commitment to the programme, but believed commercial matters had to be addressed by BA and POCL

**COUNTERS'
COMMERCIAL &
CONTINGENCY
PLANNING**

CASG98/3

The Committee noted Paul Rich's report and in particular that

had a pre-
below-

meant

- (i) the impact of the programme delay and the three pricing scenarios put forward by ICL on the individual business cases of POCL, ICL and the BA had now been estimated by POCL, in broad scoping terms, to understand their relative positions;
 - (ii) with regard to Counters' own business case the previously reported information to MaPEC, as part of POCL's overall automation programme (September 1997) which assumed rollout in January 1999, risk NPV of £131m, but with very heavy risks the-line. With roll-out delayed until April 1999 this was reduced to £100m. Should ICL's proposal to increase prices by 30% be accepted the NPV reduced to £41m and if POCL accepted a 10% price increase from ICL, a PES subsidy for DSS and a 5 year contract extension, NPV reduced to £68m. A 5% price increase and 5 year contract extension resulted in an NPV of £94m. A full report on the Business case assessment would be prepared for MaPEC in the next two months. The price increase being proposed by ICL would probably not be passed on to BA and in effect this that Counters would be subsidising BA to overcome its PES funding difficulties; #
 - (iii) an assessment of the BA Business case based on both 100% fraud recovery and recovery of only 1 in 5 fraud savings, seemed to show that even in a worst case scenario the BA case would breakeven. An assessment of ICL's Business case was more difficult to model. It had been projected by ICL that an internal rate of return (IRR) of about 15% would be achieved; Counters' calculations showed an IRR of 25% being achieved
- noted in discussion that
- (iv) ICL had already committed approximately £100m on programme and in simple financial terms it would therefore be very damaging for them to withdraw;

the

In Strictest Confidence

In Strictest Confidence

- (v) with regard to commercial issues, planning work had been started in a number of areas, including validation of termination impacts, identification of critical parameters against which to negotiate, identification of candidate positions for each parameter, reviewing the Post Office Board's non-negotiables, and also assessing the impact on other clients contracts, such as Girobank;
- (vi) advice through Post Office legal services and Slaughter and May, had been taken with regard to a number of issues, including protecting Counters' position against unilateral termination by BA of any of the contracts and on the next action that had to be taken with regard to ICL's breach of contract; in particular when written notice had to be served on ICL. Legally this was a judgement issue and one that depended more on commercial and business matters, rather than legal absolute. Given that the breach had occurred prior to the independent review by PA, Members felt it sensible for ICL to be given the opportunity to show that improvements had been made and that future milestones could be achieved. It was recognised that in adopting this approach Counters could be perceived by BA as failing to take the contract breach seriously, which was not the case;
- (vii) preparatory work for any claim from ICL, which could possibly range between £200m and £250m, to be split between Counters and BA, had begun;
- (viii) it had been established that ICL had no legal right to ask for a price increase and/or contract extension, and any commercial discussions had to be set in that context
- (ix) it was important for Counters that the programme continued with a sensible business case and that a clear view of the needs of each party was established. However, it was not in Counters' commercial interests to be the only party that openly declared an interest in maintaining the programme as this could be a poor position in which to progress commercial negotiations with ICL and BA. Although it was recognised not to be in Counters interests financially to orchestrate a solution to the DSS's financial difficulties, it was necessary for both Counters and BA to continue to work together whether it be under Horizon or another automated route. In view of this, opportunities to provide some degree of flexibility, such as reviewing the relative risks

In Strictest Confidence

In Strictest Confidence

around the speed of roll-out to offices, should be considered;

- (x) in the longer term it was important to ensure that the working relationship between all three parties improved as without this difficulties would continue to emerge

**PROGRAMME PLAN
UPDATE****CASG98/4**

The Committee noted the report by Dave Miller and in particular that

- (i) the programme was now focusing upon three key planning dates: October 1998 and the launch of Release 2, January 1999 when live trial commenced, and April 1999 when national rollout was due to commence;
- (ii) other key issues which needed to be addressed included the involvement of 10,000 offices in the installation process in 1998/99, a feasibility study for small offices for "Pathway Light", a reduced form of automation functionality, and the installation of a further 2,000 APTs (not supplied by ICL) in 1998, to protect POCL's bill payment market in the interim. The migration of the PDA into POCL was due to be completed by April 1998 and it was important that this was successfully managed to ensure that all batons were transferred. BA was continuing to load CAPS information on to its new CAPs system which would 'feed' Pathway's payment authorisation system, having already installed personal details relating to 3.5 million child benefit customers. Service management issues in the 205 offices already running the current release were being closely monitored, and integration of the programme into POCL's operational and systems planning was fairly advanced

well

noted in discussion that

- (iii) with the strategic uncertainty and the transitional period of disbanding the PDA, it was important that momentum and enthusiasm from all parties was maintained and that delivery of the programme was kept up and separated from the commercial and contractual negotiations that would have to be held. John Roberts asked to be kept closely informed if POCL perceived lack of programme effort or commitment by either BA or ICL

FUTURE ROLE OF**CASG98/5**

In Strictest Confidence

In Strictest Confidence

CASG

to or

role,

The Committee agreed that existing CASG meeting dates would be maintained, but should urgent issues need to be discussed time would be found prior following POEC or Post Office Board meetings. It was noted that Peter Crahan would be replaced by Dave Miller at CASG meetings, given Dave Miller's new and that Paul Rich or Mena Rego would continue to attend at Stuart Sweetman's discretion, dependent upon agenda items

**DATE OF NEXT
MEETING**

CASG98/6

The Committee noted that the next meeting was scheduled for 27 March at 10.30am.