

Post Office Limited – Strictly Confidential

POLB (12)9th

POST OFFICE LIMITED
(Company no. 2154540)

**Extract from minutes of a Board meeting held on 19th September 2012
at 148 Old Street, London EC1V 9HQ**

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director (items 12/88-12/93)
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive
Chris Day	Chief Financial Officer

In attendance:

Alwen Lyons	Company Secretary
Sue Barton	Strategy Director (item 12/89 only)
Charles Colquhoun (CC)	Head of Corporate Finance (items 12/94 and 12/95 only)
Susan Crichton	HR and Corporate Services Director (item 12/91 only)
Nick Kennett	Financial Services Director (item 12/90 only)
Ken Potter	Pensions Consultant (item 12/91 only)
Nick Farhi	OC&C Strategy Consultants (item 12/89 only)
Vivek Madan	OC&C Strategy Consultants (item 12/89 only)

POLB 12/97

ITEMS FOR NOTING

- (c) The paper on Horizon Evolution was noted

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POST OFFICE LTD BOARD

Noting Paper

Horizon Evolution Update

1. Purpose

The purpose of this paper is to update the Board on:

- 1.1 the current state of the Horizon Counter system and underlying Fujitsu HNG-x¹ contract;
- 1.2 the review that was conducted with Fujitsu earlier this year and the work we are continuing to undertake to ensure we minimise risk and cost to the business through transition planning;
- 1.3 the approach being taken to identify the options for the provision of Post Office counter's services for 2015 and beyond.

2. Background

- 2.1 The Fujitsu HNG-X contract terminates at 31st March 2015.
- 2.2 The current Horizon system has fundamentally changed little since it was originally designed in 1995.
- 2.3 Many of the components of the current HNG-x service will have reached end of life by March 2015.
- 2.4 Fujitsu have estimated the cost of extending the service life to 2020 would be circa £70m of investment during 2012-15, with on-going operational costs similar to today's charges.
- 2.5 The Post Office business requires moving to a more flexible counter service than can currently be provided through the current or proposed Horizon counter application. Currently adding new facilities and changing existing ones is slow and expensive when compared with industry norms.
- 2.6 To compete successfully in the commercial marketplace, our future business strategy recognised the need for improved speed to market and cost efficiencies.
- 2.7 Under Public Procurement Law, Post Office is required to competitively tender the full scope of the existing HNG-x contract.
- 2.8 In May 2012 Fujitsu approached Post Office requesting the opportunity to engage and bring to the table a compelling proposition for the future provision of counter services through to 2020.

¹ **HNG-x**: The contractual means through which Fujitsu provide the Horizon counter system and other IT services (e.g. finance and management information systems, etc.) to Post Office.

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2.9 Through June and July 2012, Fujitsu and Post Office Information Technology and Change (IT&C) worked together on an in-depth study into the opportunities for renewing and extending the current HNG-x contract for up to five years. The outcome of this investigation was reported to the Executive Committee of Post Office Limited during July, fully explored and declined based on a number of criteria including:

2.9.1 legal advice based on Public Procurement Law

2.9.2 insufficient value for money over the strategic term

2.9.3 lacking the flexibility required by our business

2.9.4 it did not provide a compelling future vision of how to satisfy the business need, focussing largely on a significant technology refresh during 2012-15.

2.10 Post Office are moving to a new IT Supply Chain model providing increased flexibility, speed to market and improved cost savings.

2.11 Under the new IT Supply Chain the capabilities provided through the current monolithic HNG-x contract will be provided through our Tower² suppliers.

2.12 Fujitsu have the opportunity to competitively win work under the new IT Supply chain model.

3 Strategic Landscape

3.1 There will never be a good time to migrate to a new counter solution.

3.2 All solutions will require significant business activity and investment.

3.3 Any future counter capability will be likely to have a minimum expected lifetime of ten operational years following its introduction, equating to an end of life circa 2025. This is based on industry norms for e-POS³ longevity.

3.4 Post Office will need to negotiate an extension to the existing Fujitsu HNG-x contract of circa 12 and 18 months to ensure we continue to provide the stable business platform demanded by:

3.4.1 Successful completion of the current Network and Crown Transformation plans over the 2012-15 period.

3.4.2 Separation: with many supporting systems provided under the RMG CSC contract with the majority of transition activities taking place in 2013-15

3.4.3 Embarking on the 2015-2020 strategic period with clarity on our strategic intent through to 2020, ensuring alignment with the business.

3.5 Post Office will migrate services from HNG-x to our new contractual environment as early as it is prudent to do so, enabling us to reduce the overall scope, risks and costs of any extension period.

² **Towers:** Elements of our new IT supply chain which will provide and run operational IT services for the business. These currently include Towers for: a) Data Centres, b) Network, c) Workplace, d) Applications and Infrastructure.

³ **e-POS:** Electronic Point of Service, a system able to provide sales and service capabilities to meet customer needs.

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- 3.6 We are currently working to establish the precise nature of the terms and scope of the extension required including the scale of the overall costing.

4. Activities/Current Situation

- 4.1 To reduce the risk to the business transformation programme we are working with Fujitsu to package a programme of work to manage all of the activities' and changes required to the Horizon counter application over the 2012-15 term.
- 4.2 Included within this programme of work, for the existing Horizon application, are the following update activities:
- 4.2.1 **Extended Hours:** providing support for extended branch opening hours, with the added benefit of improving our operational capabilities through reducing the duration of the overnight batch run.
- 4.2.2 **Channel Integration:** enabling other suppliers to access the capabilities of the Horizon counter system, providing industry standard interfaces for a range of key capabilities. This will enhance flexibility, speed to market and start to reduce the bespoke nature of the current Horizon system.
- 4.2.3 **Improved IPR⁴ Position:** By undertaking new developments we reduce the IPR vested in Fujitsu, as under the terms and conditions of the HNG-x contract new capabilities belong to Post Office.
- 4.3 We are continuing to shape this package of work to ensure where possible the activities ease any future transition away from the HNG-x contract. An example is Channel Integration which makes the current system more open and flexible.
- 4.4 A risk and resilience review has been undertaken giving rise to a programme of planned improvement activities. This is the subject of a separate paper made to this Board.
- 4.5 The findings from the risk and resilience review are being input to the procurement activities being undertaken to secure our Frameworks and Towers. This will ensure that we procure (subject to cost benefit analysis) solutions which are able to deliver availability in line with our future business needs.

5. Options

- 5.1 Over this financial year we have explored the full range of potential options within the Post Office and with our suppliers.
- 5.2 In response to the procurement activities Information Technology & Change (IT&C) are continuing to consider a number of options for progressing the evolution of the Horizon counter application.
- 5.3 There is no ideal option which satisfactorily meets all of the aspirations of Post Office in terms of time, cost and business capabilities for the 2012-15 strategic period and beyond.

⁴ **IPR:** Intellectual Property Rights.

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- 5.4 We continue to assess available options as part of our strategic planning for activities for 2012-15 and 2015-20. As we progress our thinking we will consider new options which might become apparent to ensure we select the most best available solution.

6. Progress Update

- 6.1 We are adopting a phased approach to providing the capabilities required by the business over the strategic term and beyond.
- 6.2 Our approach will enable Post Office:
- 6.2.1 to secure the 2012-15 network and business transformation
 - 6.2.2 to transition the counter and other "front line" services safely to a new capability beyond 2015.
 - 6.2.3 to minimise the duration of an extension to HNG-x for the provision of Horizon counter services, reducing risk and cost.
- 6.3 We are adopting an incremental plan based on clear manageable steps which will intimately engage and involve all areas of the business. Our intent is to ensure:
- 6.3.1 our process and decisions are clearly demonstrable to business owners
 - 6.3.2 we can be guided by the knowledge, skill and understanding of our Directorate's key personnel
 - 6.3.3 our plans are independently reviewed by industry specialists
 - 6.3.3 our plans are consistent with and take account of our strategic plans for the 2012-15 and 2015-20 terms.

7. Recommendation

The Board is asked to note:

- 7.1 The actions being taken to secure continued and successful counter service provision:
- 7.1.1 over the 2012-15 business transformation, through a package of agreed work with Fujitsu and the Post Office business
 - 7.1.2 as a flexible and responsive platform for the next strategic term 2015-2020.
- 7.2 We are working with Fujitsu to establish the details of an extension beyond March 2015 for a period of circa 12-18 months. This is in advance of the formal contract termination notification date of October 2013. We will formally update the Board on progress during Q4 of the 2012-13 financial year.
- 7.3 We expect to understand more fully the details and structure of the proposed extension by the end of 2012.

Lesley Sewell
September 2012

