

POB(99)7th
PO99/71 to 86

POST OFFICE BOARD

Minutes of the meeting held at Charingworth Manor, Gloucestershire,
on 20 July 1999

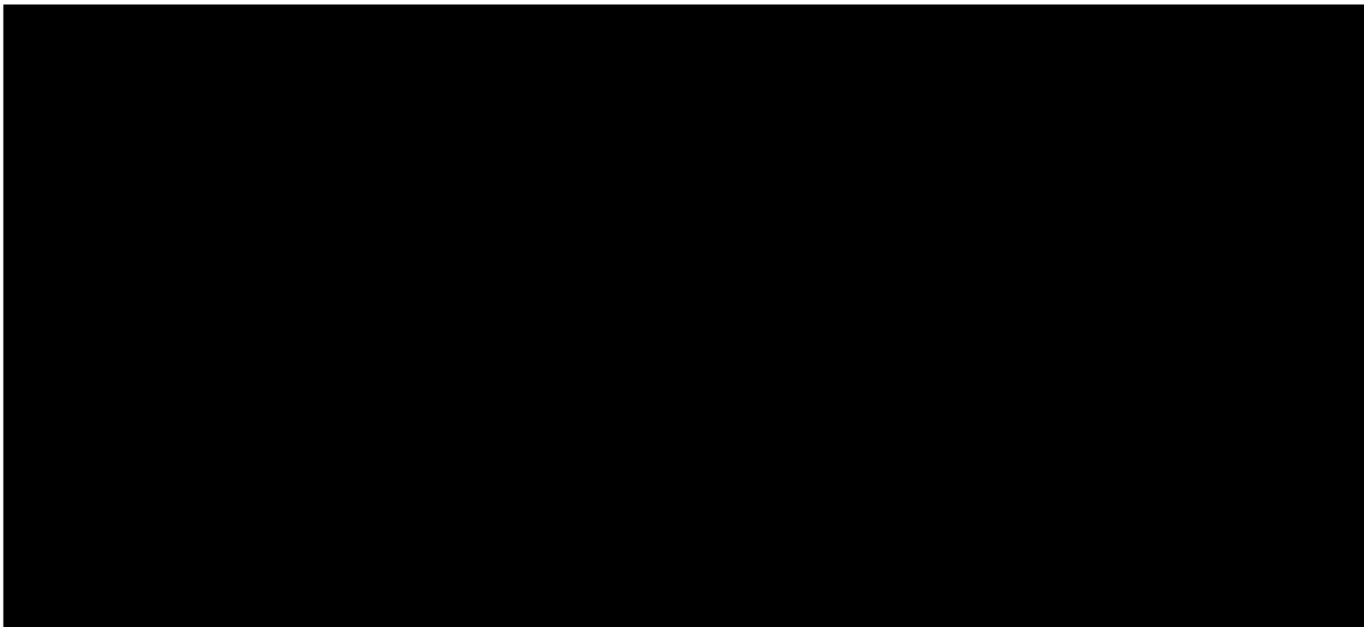
Dr Neville Bain	Chairman
John Roberts	Chief Executive
Richard Close	Managing Director Finance
Jerry Cope	Managing Director Strategy & Personnel
Mike Kinski	Non-Executive Member
Dr John Lloyd	Non-Executive Member
Rosemary Thorne	Non-Executive Member
Richard Adams	Secretary
[REDACTED]	Notes

Richard Dykes, Managing Director Royal Mail
Stuart Sweetman, Managing Director Post Office Counters Limited.
Kevin Williams, Managing Director Parcelforce Worldwide

Others attending:

[REDACTED]
for PO99/77
David Miller, Horizon Programme Director, for PO99/78
& 79

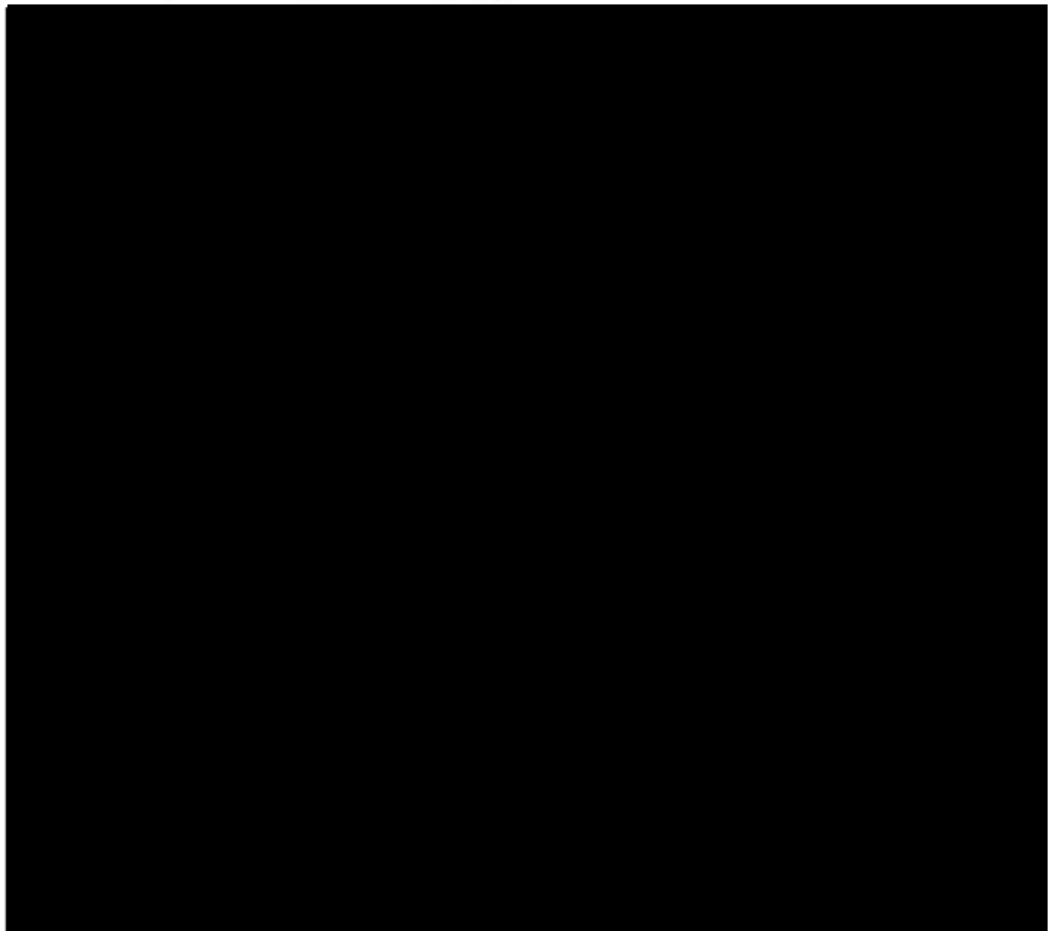
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CHIEF EXECUTIVE'S
REPORT POB(99)45

PO99/75

- (i) Select Committee. Since the previous meeting The Post Office had made two appearances before the Trade & Industry Select Committee on Horizon and on the White Paper. Both had gone well, the Committee appearing to be supportive of The Post Office position. The unprecedented appearance of three cabinet Ministers (DTI, Treasury and Social Security) at the hearing on Horizon had been uneventful with each Minister presenting a consistent position.



IMPLICATION ON THE
POST OFFICE OF
THE 24 MAY 1999
HORIZON
AGREEMENT
POB(99)47

- (i) The Board had considered the Horizon contract in detail

at its 'Awayday' discussion on 19 July. In particular the discussion had identified four work streams to be progressed:

- Influencing the timing of ACT
- Getting the most out of Horizon
- Reviewing channel strategy across The Post Office
- Defining options for the counters network, including subsidy issues

An action plan to progress these issues with milestone reporting to the Executive Board would be undertaken.

(ii) The Board had to decide by 31 July 1999 whether it wanted to terminate or sign the revised contract with ICL for the automation of post offices. Key elements of the new contract were:

- Electronic Point of Sale functionality, automated payments, local feeder systems and Order Book Control Systems (OBCS);
- additional functionality, such as Network Banking and Government Gateway to be added at an extra cost of £120m;
- system rollout by March 2001;
- the contract to terminate on 31 March 2005.

In addition the following payments would have to be made:

- Capital of £480m to be paid, less a 25% retention, over the next two years (retention to be paid over subsequent four years);
- a payment of £68m to be made on acceptance;
- following rollout, operating payments of £95m a year to be made;
- operating costs of 61% fixed, 32% variable with number of outlets and 7% variable with volume;
- unrecovered VAT costs borne by POCL; and

Termination for convenience would result in payments in the order of £450m, but if the system failed acceptance, no payments would be made.

(iv) Ministers were meeting on 21 July to discuss Horizon and it would be important to ensure that The Post Office's

Minister, Ian McCartney was fully aware of the Board's concerns. This would best be communicated through a letter from the Chief Executive.

- (v)
 - System roll-out was scheduled for 23 August 1999 with acceptance needed by 18 August. There were three categories of acceptance each with a threshold which would determine whether or not rollout could proceed: high, medium and low.

One incident within the high category, or more than 20 incidents within the medium category, would result in the system not being accepted. Currently there were 270 incidents of which 1 was high and 29 were medium. Of greatest concern was the inadequate training of employees although a new package had been produced and work on the other incidents was underway. At this stage it was expected that there would be no reason for not accepting the system by 18 August.

It was noted that

- (vi) Excluding the concerns over training, David Miller considered the system robust and fit for service.
- (vii) A number of sub-postmasters were experiencing difficulties operating the system and in particular with balancing. To help overcome this and in addition to the new training package, additional resource (300 managers) had been allocated to 'hand hold' staff as offices came on line. This was a considerable but necessary investment to ensure the human/technology interface worked correctly. It was likely that a small number of sub-postmasters would continue to experience difficulties.
- (viii) ICL's ability to develop the system over time was an important issue and the Board was reassured that they had demonstrated an ability to do this in other projects e.g. the An Post package.
- (ix) Given that ICL's own future was uncertain POCL had arranged for Fujitsu to provide a written guarantee on future support.
- (x) Roll-out to offices would be suspended for a 4-6 week period over Christmas 1999 at which point a review of the process would be conducted.
- (xi) The contract provided for 39,750 counter positions to be automated with up to a 35% price variation on annual

operating costs.

- (xii) Members were concerned that a number of technical issues remained unresolved and that the BA contract position was still unclear. These were two critical issues and needed to be progressed further before the Board would be content for the contract with ICL to be signed. An update on the negotiating position with BA would be provided to Members who were content that the final decision on whether or not to sign the contract be remitted to the Chairman and Chief Executive.

Agreed that

- (xiii) The decision to sign the revised contract with ICL would be remitted to the Chairman and Chief Executive.
- (xiv) Interim funding of £11.03m could continue until the formal MaPEC meeting in September.
- (xv) Work should continue on the work streams set out in paragraph (i) above.

BOARD
EFFECTIVENESS

A concern over matters reserved to the Board had been based on Government's handling of Horizon and the role of the Board in developing a commercial way forward.